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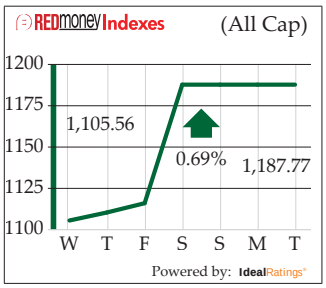


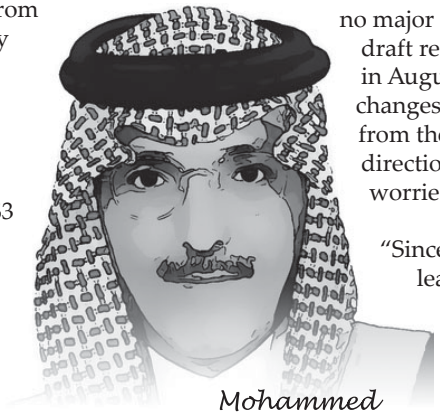
COVER STORY

13th May 2015 (*Volume 12 Issue 19*)

Saudi Arabia: A flood or a trickle?

Following the announcement from the Saudi Capital Markets Authority (CMA) confirming access to the Saudi stock market for qualified foreign investors from June 2015, all eyes are on the OPEC nation as domestic competition heats up and foreign participants scramble to prepare for the pounce. But with rigorous restrictions in place and lingering concerns over transparency and accountability, will the 15th June bring a bang or a whimper for one of the world's biggest Islamic equity markets? LAUREN MCAUGHTRY explores.

On the 4th May the CMA announced the Draft Rules for Qualified Foreign Financial Institutions Investment in Listed Shares, allowing large international institutions to enter the US$568 billion Saudi market. The rules will be effective from the 1st June with qualified institutions allowed to invest in listed shares from the 15th June. Previously restricted to access through equity swaps and exchange-traded funds, investors with a minimum of US$5 billion in assets (or US$3 billion at the discretion of the CMA) will be able to directly access Tadawul, although total ownership is restricted to no more than 10% of market value. Individual investors can own no more than 5% of a single listed company while total foreign ownership cannot exceed 20%.


Mohammed

State reshuffle

The death of the late king and the subsequent reshuffle in the Saudi cabinet caused some concern regarding the options for opening up Tadawul — hence the announcement last week came as some relief to the watching world. The first quarter of 2015 saw the replacement of Muqrin Abdul Aziz with Prince Mohammed Nayef as the crown prince; the removal of giant energy conglomerate Aramco from oil ministry control; the replacement of the Supreme Petroleum Council with the Supreme Economic Council; and a host of further state reshuffles — including the appointment of Mohammed Al-Jadaan as the head of the CMA on the 30th January. And while investors were expecting no major changes from the draft regulations announced in August 2014, the drastic changes and clear departure from the former policy direction had the markets worried.

"Since the change of leadership, the CMA had been silent about the implementation of the regulations, leading many to speculate that the foreign investment program would be delayed or canceled," confirmed King & Spalding. "The announcement… is reassuring to investors."

Exciting times

The Saudi stock market capitalization is approaching US$570 billion and bigger than all the other GCC stock markets put together, trading an average of US$2.4 billion per day across 162 listed companies. Its benchmark index, the Tadawul All Share Index (TASI) was one of the best performers in the region last year, and in 2015 is already up 16.92% year to date. A hugely liquid market, the country has little need of inward investment or short-term capital, with the move focused on opening up its growth prospects to foreign investors rather than seeking liquidity for itself.

"Without a doubt, the QFI program marks a historic moment for Saudi Arabia's capital markets," said Michael Orzano, the director of global equity indices at S&P Dow Jones. "Anticipation surrounding the opening of the Saudi market to foreigners has buoyed the country's equity market over the past few years despite a steep swoon in the second half of 2014 driven by the plunge in oil prices." As of the 30th April, the S&P Saudi Arabia BMI gained an annualized 11.3% over the past three years, widely outperforming the 2.4% return of the

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DEALS

Special Power Vehicle announces redemption on Islamic medium-term notes program

Indonesia to sell sovereign Sukuk next week; targets IDR2 trillion (US$154 million)

Mydin Mohamed Holdings revises terms of Sukuk program; extends availability period

Egypt expects to issue Sukuk at the beginning of the 2015/2016 fiscal year; sends draft law for **IDB**'s perusal

NEWS

Meezan Bank to provide Islamic financing schemes under the Prime Minister's Youth Business Loans program

BankIslami receives regulatory approval for merger with **KASB Bank**

Kazakhstani president signs Islamic finance amendments

ISFIN partners with Macau law firm to explore Islamic investment opportunities

Pakistan's external liquidity position is strengthening, says Moody's

Amanah Ethical seeks to offer interest-free mortgages to Muslims

Myanmar Tower Company secures Islamic financing; first Islamic cross-border transaction in the country

90 North Real Estate Partners and **Sidra Capital** acquire Sheffield's largest retail park on behalf of Button Property UK

Gatehouse Bank provides GBP17.92 million (US$27.56 million) in financing to **SEDCO Capital** for the purchase of Blakelands Industrial Estate

IDB denies **Bloomberg**'s statement on the bank demanding Egypt to pay its overdue debts

Sukuk market registers 7% growth in the first quarter amid challenging market environment

Middle Eastern equity indexes surge upwards as Saudi Arabia prepares to open market in June

Al Baraka declares US$32.8 million cash dividends to shareholders for the year 2014

Saudi Automotive Services secures SAR550.94 million (US$146.87 million) Islamic financing facility from **Banque Saudi Fransi**

Global Investment House submits application to relist its shares on the **Kuwait Stock Exchange**

Kuwaiti **Capital Markets Authority** to separate the settlement of trades from its central depository and to launch bank for cash settlement

National Bank of Oman seeks to acquire **United Finance Company**

Al Salam Bank-Bahrain sees slight drop in first quarter profit to BHD3.91 million (US$10.3 million)

EIIB-Rasmala to invest US$1 billion in broad mix of property deals

QInvest wraps up first quarter with 57% growth in net profit

Jordan Islamic Bank to continue growth momentum by focusing on SME financing this year

Abu Dhabi Islamic Bank rounds up first quarter with higher net profit

Finance House sees Islamic financing income soar in the first quarter

TAKAFUL

Takaful Insurance Company commences operations in Puntland

Etiqa Insurance & Takaful eyes Indonesian and Filipino market

RATINGS

RAM upgrades outlook on Tranches A2, A3 and A4 of **Menara ABS**'s RM1 billion (US$281.59 million) Sukuk Ijarah to stable

Grand Sepadu's proposed Sukuk Murabahah receives 'AA-IS' rating

Solid and stable growth support Bangladesh's 'Ba3' credit rating

Islamic International Rating Agency accords **aafaq Islamic Finance** national scale ratings of 'A-/A2'

RAM upgrades Thailand's outlook to stable from negative; country well placed among ASEAN peers

MOVES

Fatima Qasima becomes **Aseel Islamic Finance**'s new CEO

Malaysian central bank appoints **Mohd Adhari Belal Din** as assistant governor and seconds **Marzunisham Omar** to the **IMF**

Allen & Overy announces 33 counsel promotions across 15 global offices

National Takaful Company's CEO resigns

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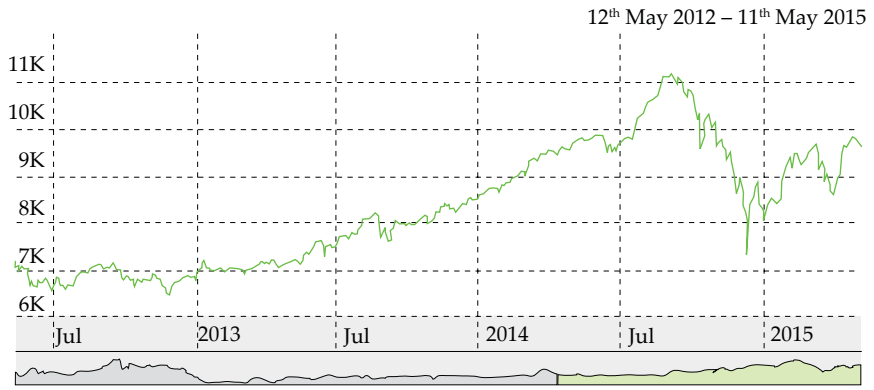
S&P Emerging BMI and even besting the 10.8% return of the S&P 500.

"The investment climate remains healthy despite the drop in oil prices. We have not seen any slowdown in the pace of government spending. The bonus salaries given to government employees and Saudi nationals helps [sic] support spending in the near term and the foreign reserves remain robust," said Omar Bassel, the head of asset management at MASIC, speaking to IFN. "The first quarter has been strong and the second quarter (so far) has been even stronger when measured by the performance of the Saudi Tadawul Index."

Figure 1: Tadawul All Share Index, 12th May 2012 – 12th May 2015



Source: Tadawul

> ***"Many players that want access have already entered through other means, and while they will be keen to obtain more direct access, it may not materially change the level of funds entering the Kingdom"***

Abdullah Alawi, the head of research for Aljazira Capital, Saudi Arabia's biggest brokerage firm, spoke exclusively to IFN about the upcoming changes. "All brokerage houses and investment service companies in Saudi Arabia are very interested in the upcoming event of opening the market to foreign investments," he commented. "Saying this, we also believe that a lot of foreign investors have already been studying Saudi equities since the first announcement last year, and I think many of them have already chosen which sectors and companies they want to invest in." One of the core attractions of Saudi equities, especially in sectors such as petrochemicals or banking, is that these sectors are heavily subsidized by the government — whether it's cheap funding, cheap labor, cheap energy, lack of taxation — so margins are high in these sectors. "Any foreign investor would love to jump in on these stocks, and make a respectable return," noted Abdullah.

Hopes and fears

According to Al-Jadaan, the Kingdom has a number of core objectives for opening up the market at this time — not least of which is Saudi Arabia's ambition to become an integral part of the global financial market. The CMA is keen to develop the local Saudi capital market, which should see a boost from the entry of specialized and sophisticated foreign investors to the domestic sector as well as encouraging institutional involvement and reducing erratic price volatility in a stock market that is currently dominated by retail investors.

The entry of qualified investors will also encourage market efficiency and transparency, disclosure, and governance according to Al-Jadaan — as well as providing a higher quality of investor information, research and relations and more accurate value assessments. Foreign investors currently hold less than 1% of the market capitalization on the exchange, but the announcement has unsurprisingly spurred significant international interest. According to Abdullatif Al-Othman, the governor of the Saudi Arabian General Investment Authority, total FDI in the Kingdom reached US$208 billion in 2014, while government spending on projects exceeded US$300 billion. Three hundred and fifty project licenses were issued in Saudi Arabia last year with a value of around SAR25 billion (US$6.6 billion) — a 66% increase in terms of volume.

And the market is broadening, with significant opportunities not just in the energy and petrochemical sector but in booming consumer sectors such as retail, banking, telecommunications and healthcare. Saudi GDP has doubled since 2006 and is expected to double again by 2020: with a young population, favorable demographics and massive infrastructure investment and diversification plans pushing up returns across multiple sectors. "This long-anticipated announcement comes to the market at a critical time, as investors increasingly look to the Kingdom for opportunities across a number of sectors," said King & Spalding.

Growing sophistication

"The benefits of opening the market, from our point of view, is [sic] that we would have more sophisticated investors entering — and this will bring in more sophisticated coverage, will pressure local companies to increase their disclosure practices, to hire more professional investor relations divisions, and to adopt more strategic policies and strategies

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in the management of their companies," explained Abdullah. "We also believe that with the advent of new sophisticated investors, Tadawul and CMA will also be encouraged to develop the investment vehicles available to investors. So instead of having buy-only equity investments, we will see more sophisticated debt securities, which I believe will be mostly Shariah compliant. We will see more volume of Sukuk trading; and perhaps we might introduce our version of derivatives or short-selling or other vehicles and structured products that we see in the more developed markets at the moment."

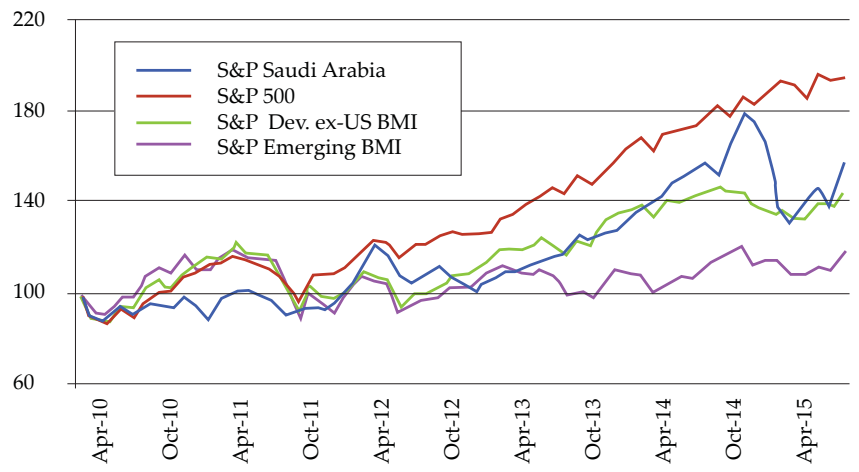
The CMA is also keen to use the new rules to encourage its Sukuk markets. Adel Al-Ghamdi, CEO of Tadawul, commented last week that Saudi Arabia's debt capital market still needed improvement, while the CMA's Al-Jadaan has confirmed plans are afoot to streamline the structuring process for Sukuk — the domestic market for which is still relatively young, dominated by private placements and inhibited by low lending rates and dominant bank financing deals.

Figure 2: Comparative total returns as of 30th April

	S&P Saudi Arabia	S&P 500	S*P Dev. ex-US BMI	S&P Emerging BMI
YTD	19.3%	1.9%	9.1%	9.3%
1-Year	2.4%	13.0%	2.3%	10.2%
3-Year	11.3%	10.8%	5.2%	2.4%
5-Year	9.4%	14.3%	7.8%	3.4%

Source: S&P Dow Jones Indices. Calculations are based on total return index levels in US$. Returns over one year annualized

Figure 3: Comparative performance (April 2010 – April 2015)



Source: S&P Dow Jones Indices. Calculation are based on total return index levels in US$

Oil dependence

A key focus of the new investment approach is also, inevitably, to reduce Saudi Arabia's reliance on oil and diversify into new economic areas. With over 90% of government income still derived from oil and gas revenues and the high volatility in crude oil prices playing havoc with the budget, the situation is urgent. Citi has predicted a 3.3% growth contraction for Saudi Arabia this year, along with a US$130 billion budget deficit if the government fails to cut public spending. The 48% plummet in prices may not have had an immediately catastrophic effect on the Kingdom's finances but there is no denying its long-term impact. In a market dominated by retail investment, TASI was also hit by the fall as investors sold off securities to free up cash, or exited amid concerns that the lower prices would result in public spending cuts and profit warnings.

As oil prices stabilize the situation has calmed down, and an expansionary fiscal policy along with the recent reshuffles and no visible reduction in government spending (indeed, public sector employees all received bonuses this year) have seen the stock market surge back up to former heights as the oil price volatility is priced in.

"We project that oil prices would trade at around US$65 per barrel as an average for this year, and US$70 for 2016," said Abdullah. "Based on the current situation, we believe that oil is gaining strength again. It might not come back to US$100 per barrel soon, but it will be in a comfortable zone for GCC countries including Saudi Arabia. So we are not worried about the price of oil, at least for this year — the government is still keen on continuing its expansion programs, especially in infrastructure, education and healthcare, which keeps these sectors healthy."

One option that could be stimulated by the current situation, however, is the introduction of increased levels of taxation — as the drop in oil prices, the increase in population and the rise of unemployment all alarmed GCC governments and spur them to be more prudent with their finances. "We've seen vast expansion in expenditure in the GCC over the last five years," commented Abdullah. "Now we have a moment of truth, when people realize that high oil prices are hard to sustain in the longer term, especially with the rise of alternative energy solutions, etc." The fact that currently GCC governments, especially in Saudi Arabia and the UAE, are keeping their expenditure high in vital sectors such as infrastructure, suggests some indications towards making this expenditure more effective by gradually introducing taxation in order to balance their public finances. "It's not official and it's not going to be an easy development, but we do see signs of that direction," he confirmed.

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Diversification urge

However, a long-term strategy for economic diversification remains imperative — and not just to move the country away from oil dependence. "The biggest challenge for Saudi Arabia is its high dependency on oil, and all the fluctuations this brings," commented Abdullah.

"Lower oil prices will result in large government deficits," agreed Omar. "At this time, the Saudi government has sufficient foreign reserves to fund deficits for many years. [However], investors may address lower oil prices by diversifying into asset classes uncorrelated with oil prices." The state also intends to invest US$130 billion over the coming years in major infrastructure projects in the fields of infrastructure, healthcare and education.

The government's commitment to economic diversification and infrastructure development, domestic spending and job creation is certainly likely to see consumer sectors steadily increase in value. Saudi Arabia is very attractive for investors in retail, healthcare, education (and to a certain extent in petrochemicals and banking, which are more mature sectors). When it comes to high consumption sectors such as these, they have a high value. Combined with a very young population, consumption is both high and growing. Revenues are therefore also on a steady growth path in these sectors. Investors with a longer-term horizon could therefore see substantial gains, even if listed equities in those sectors today might be trading at slightly higher than fair value.

In addition, another substantial risk is rising unemployment, which is likely to spur further diversification efforts in the economy. "In Saudi Arabia, most private sector economic activity is centered around banking, petrochemicals and cement, and these are saturated with employees already, so to find avenues for the 300,000-plus Saudi graduates is a challenge," warned Abdullah. "That might push the government into using its reserves to create new opportunities — but I'm not sure whether beefing up the public sector any further is really possible. So that's a challenge that could change policies in the near future."

Surge or trickle?

But aside from these grand long-term plans, what immediate impact will the new rules have when they come into effect in June? There are already concerns that the move will already be priced in, making its implementation something of an anti-climax rather than the seminal surge observers are hoping for. In addition, international investors are likely to move slowly rather than jumping in feet first, given the strict limits on how much they can invest and the concerns over soaring valuations should money pour into the market too quickly. "We have to be realistic," warned Abdullah. "Saudi Arabia is attractive but it's not China."

In addition, many players that want access have already entered through other means, and while they will be keen to obtain more direct access, it may not materially change the level of funds entering the Kingdom. "We expect to see only a trickle as foreign investors have had access already to the Saudi market through swaps and P-notes," predicted Omar.

Domestic impact

The biggest changes, in fact, are likely to come from the domestic market. According to Tawadul, it is hoped that the opening of the exchange to foreign investors will encourage more Saudi firms to list publicly: and the exchange has reportedly met with over 250 companies interested in a Saudi listing over the past two years.

With the introduction of a more sophisticated kind of investor in the Kingdom, the major family offices or family houses could certainly be interested in listing themselves: bringing in new options, new companies and perhaps even new sectors. "That is something that would be very useful, because that would increase the depth of the market and will lower the volatility in the longer-term," agreed Abdullah.

Climbing competition

"The competitive landscape is high across most sectors of the economy (e.g. financial services, construction, retail) — and this is only likely to increase as international investors enter the market — especially in the financial sector, as domestic players vie with each other to attract big name brands.

"We really look forward to attracting foreign investors, big international groups, to be our partners in Saudi Arabia — because that will add to the mix beautifully," agreed Abdullah. "So I think we will be competing heavily with other local players to attract brand names from abroad to trade through our systems and our brokers."

> ***"It is hoped that the opening of the exchange to foreign investors will encourage more Saudi firms to list publicly"***

The Tadawul and CMA are also reportedly considering the introduction of new tools and new ideas to improve market sophistication yet further, and players are concerned that this could spur further competition. "It is very competitive in Saudi Arabia already — everyone is trying their best to grab a bigger market share," said one banker, who asked not to be named. "It is tough, and we expect it to become even tougher when more international heavyweights return to the Kingdom."

"We are working on several initiatives to diversify our income streams," added Abdullah. "Our plan is to remain number one in brokerage, be famous as an asset manager — we have a clear strategy for that — and we are also exploring other investment areas within the investment banking and private equity as well. But again, the competition is tough — we have so many players, whether physically present here or in Dubai, London, New York. Everyone is coming to the Kingdom at the moment."

Index inclusion

The real change, in fact, is likely to come not from the qualified investor rules this year but from Saudi Arabia's inclusion

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into leading global emerging markets equity benchmark indices. As this will require further steps from the regulators to reduce access restrictions, that is unlikely to happen overnight. However, when it does, we will see billions of dollars pouring into the Kingdom and the move could be a game-changer for the national economy. "The Saudi market is rallying in anticipation of the opening up. The next major catalyst is inclusion into popular benchmarks like MSCI," agreed Omar. "The inclusion of the Saudi market into the MSCI indexes would significantly increase foreign participation in the Saudi market and allow local market prices to trade in line with global ones (for example, in the petrochemical sector). But we do not expect Saudi to be added to the MSCI index before 2017."

According to some analysts, looking at regional precedents such as Morocco, Egypt and the UAE, the Kingdom's stock market may re-rate once included in the main indices: while others have compared its accession to the opening up of India and China. Once added to the MSCI index, Saudi Arabia is likely to account for up to 4% of the total, according to MSCI executive director Sebastien Lieblick.

Looking ahead

So what's next for the Tadawul train? Chairman Khalid Al-Rabiah last month confirmed that the exchange would in coming months host a series of roadshows across North America and Europe, emphasizing its interest in encouraging institutional investment. The exchange also plans to replace its current NASDAQ OMX trading platform with the new X-Stream INET system by the third quarter of 2015.

Khalid also told journalists that the market may consider the option of privatization once the current plans are executed — although state parent the Public Investment Fund would have the final say in any projected IPO. "Once Tadawul has a robust cash flow that guarantees sustainability, the owners will look into it," he said.

However, core issues of transparency, company disclosures and opacity of business culture remain, which could inhibit international participation until regulations are brought closer to international standards. Huge alleged bribery and corruption scandals at major multinational firms such as Alstom, Airbus and Siemens; along with more recent issues such as the auditing errors that led to the suspension of Saudi-based Mobily CEO Khalid Omar Al Kaf last year, have inevitably affected market reputation and raised investor concerns.

"Although additional steps will need to be taken in the future to further improve market accessibility, the QFI program is a key step in the development of Saudi Arabia's equity market," commented Orzano. While this is true, and considerable appetite awaits the Tadawul, it remains to be seen what more the CMA will do — or indeed, must do — to regain the trust of the market and reassure foreign institutions before they arrive.

Horizons expand for Islamic investment as Irish firm seeks Southeast Asian opportunities

Even as the usual suspects in Islamic finance continue to dominate the headlines, this week the industry saw two unfamiliar names make a splash in the news. Irish-owned mobile phone operator Digicel on the 4th May announced a US$60 million Shariah compliant financing deal to fund a new venture in Myanmar — representing a new move both in terms of source and direction of investment. LAUREN MCAUGHTRY looks at what this could mean for both the country and the industry.

Despite being owned by Irishman Denis O'Leary, Digicel Group in fact focuses on the Caribbean market, and is one of the largest mobile phone operators in the region. Established in Jamaica in 2001, the group has over 70% market share in its home country as well as dominating markets such as Haiti, Central and South America and Oceania. The group has a business model of entering large frontier and undeveloped nations with little mobile phone coverage, and rapidly dominating the sector — and it has long had a focus on the smaller Southeast Asian markets.

In 2009 Digicel announced its intention of entering Myanmar, which had only a very basic mobile infrastructure, with the eventual aim of investing up to US$9 billion and achieving 96% coverage by the end of 2016 via a 4G network. Although the group lost out on its license bid to Middle East firm Ooredoo and Norwegian Telenor Group, in December 2013 it subsequently won the tender to develop, construct and lease the telco towers for Ooredoo Myanmar through its reorganized consortium, Singapore-based Digicel Asian Holdings. "We are delighted to work with Ooredoo to help develop a high-quality telecommunications network across the Republic of the Union of Myanmar, contribute to the growth of the Myanmar economy and benefit Myanmar citizens across all of the country's states, regions and Union territories," chairman O'Leary said at the time.

To achieve penetration in Myanmar, in a surprise move this year the group looked to the Islamic finance industry for funding. The US$60 million Islamic deal for Digicel's Myanmar Tower Company (MTC) represents the first Islamic cross-border deal in Myanmar, according to Clifford Chance, which advised deal arranger QInvest on the transaction. The financing was completed through Digicel Asian Holdings, which will subsequently transfer the funds to MTC.

> ***"There is room for foreign interests to participate in this growth as the country opens up — especially in areas such as infrastructure, banking, telecommunications, tourism, manufacturing, energy and natural resources"***

Since the end of its military rule in 2011, Myanmar has become one of the last Asian economies to open its markets, and the world is awaiting with interest its response to increased economic freedom. Multiple international firms including Unilever, Diageo and Coca-Cola have jumped into the market, while the new Yangon Stock Exchange is set to open towards the end of the year and investors are eyeing opportunities. In 2013, the nation was the world's third least-penetrated mobile market, according to a report from Beaufort Securities, with telephone lines less than one per capita (on a par with Eritrea and the Sudan): but is now ready to take "one mighty leap… to having 75-80% national 3G/4G-ready coverage by March 2016." There have been 22 projects worth US$473 billion in Myanmar's communication sector over the past five years, demonstrating its potential.

"There is room for foreign interests to participate in this growth as the country opens up — especially in areas such as infrastructure, banking, telecommunications, tourism, manufacturing, energy and natural resources, and the provision of essential services," according to Simon Makinson, the Myanmar partner for Allen & Overy. "Another impetus is the government's active pursuit of foreign investment alongside foreign expertise as it opens its economy to multinationals."

The opportunities are obvious — but why did an Irish-owned Caribbean-based telecoms operator choose a Shariah compliant structure to fund expansion in a market where Islamic deals have been hitherto in short supply? Digicel could not be reached by IFN for comment, but the lack of precedent or familiarity in either market suggests perhaps that the pricing, availability of funds and/or ease of access could have been factors.

In a 95% unbanked country for which the IMF predicts over 8% annual GDP growth, investors and financial institutions are champing at the bit to enter. However, with foreign banks restricted to serving foreign clients and prohibited from entering the domestic industry, the opportunities in the banking sector are limited. Therefore, any activity will largely be directed towards encouraging and enabling international investment participation — and it seems as if the Islamic sector already has a firm foothold. A transaction such as the recent Digicel deal will only increase the attraction of Islamic financing for other companies, by creating a track record and setting a precedent. It will be interesting to see who follows in its footsteps.

Islamic financing mitigates risks as prices recover

Over the last 12 months, Shariah compliant financing in the oil and gas sector has made steady headway: recording financing deals worth over US$5 billion, according to data by Dealogic (see page 42) — perhaps unsurprising given the recent volatility in oil prices. Analyzing data and speaking to analysts, NABILAH ANNUAR sheds some light on the current role of Islamic finance in the oil and gas industry.

It is no secret that the global oil industry has been undergoing a periodic slump in prices. With initial indications in the last half of 2014, oil prices subsequently plummeted — with severe impact across the global financial markets — although in the first quarter of 2015 they have gradually regained some ground. "This is a common feature of highly capital-intensive industries with long project lead times, and is no surprise to longstanding observers and participants in the market," said Alex Griffiths, the head of natural resources and commodities EMEA at Fitch Ratings. "We believe that ultimately oil prices will tend towards the marginal cost of supply, which we believe to be around US$80."

The recurring question however, is: when will such a recovery take place? According to Griffiths, supply-driven price slumps have in the past taken about three years to correct, since supply responses take time. However, with the high decline rates of US shale (which means that capex cuts fairly quickly affect supply), there is a reasonable chance that the market will see supply correcting more quickly this time around — and this can already be seen to a degree. "As a rating agency it is important we recognize that the current moves are just a natural part of the market, and will correct in time — most companies will survive and the larger, typically higher-rated ones will do so with relative ease, albeit they will have to take firm action to trim opex and capex," he added.

According to data from Dealogic, over the last 12 months, five companies obtained Shariah compliant financing facilities. On the 30th March 2015, Saudi Aramco secured a facility valued at US$9.99 billion with one Islamic tranche worth US$1.99 billion. According to the data, proceeds from the deal are to be used for future acquisitions, repayment of debt and general corporate purposes. PetroRabigh on the 16th March contracted a financing deal worth US$2.87 billion, with two Islamic tranches worth US$508 million and US$108 million. Monies procured are utilized for project and ECA financing. The Saudi Arabian company is currently expanding its petrochemical complex in Rabigh, called Rabigh Phase II (estimated at SAR30 billion (US$7.99 billion)), which is expected to begin production in the first half of 2016. On the 15th January the market saw Malaysia's Sapura Kencana secure an Islamic financing deal worth US$2.24 billion exclusively for the repayment of its debts. In November last year, the UAE's Zakher Marine International obtained an Islamic facility worth US$420 million for capital expenditures; and in June, Dana Gas procured a US$100 million facility to fund its general corporate purposes and project financing.

> ***"Ultimately, all will depend on the credit standing of the issuer and the banks' risk appetite regardless as to whether a debt issue is Islamic or conventional"***

Industry observers have suggested that many companies in the sector are diversifying and seeking alternative routes thought to be safer, by refinancing their conventional debt Islamically. Bashar Al-Natoor, the global head of Islamic finance at Fitch, opined: "Refinancing conventional debt with Islamic is not something unique to the oil and gas sector. Many issuers in the GCC and some parts of Asia mainly choose Islamic finance to attract a wider investor pool and include the Islamic banks in their deals.

Islamic banks can only participate in Islamic finance structured deals whilst conventional banks can do both. Another common practice is to have two tranches of debt — one Islamic and the other conventional. From a credit standpoint, we would not say the choice is either safer or riskier. Ultimately, all will depend on the credit standing of the issuer and the banks' risk appetite regardless as to whether a debt issue is Islamic or conventional."

Due to this volatility, companies have started cutting their losses through retrenchments, shutting down drilling operations and the like. However, announced cuts to capital expenditure have varied, reflecting investment profiles, financial flexibility, cost structures and belief in the speed of recovery. According to Griffiths, larger companies such as Total and Shell have not cut much of their capex, reflecting their longer term more complex projects. Larger cuts were announced by US shale companies or among smaller players with less financial flexibility. "Raising debt in this environment is typically a defence mechanism for smaller companies — if you believe prices will recover the real risk is that you will run out of cash before they rise. So if there is cash available to borrow there is some sense in borrowing whilst the market is open," he elucidated.

For larger companies, raising debt now makes sense due to quantitative easing, which has driven borrowing costs in Europe down to record lows as they are taking the opportunity to replace more expensive debt with cheaper debt. Some have suggested that prices could plateau over the next few months. Based on the forecast of US$80 in the long term, Fitch expects some recovery from current levels. However, it remains to be seen what might trigger oil to rise above this particular point.

Waqf — finally in the spotlight?

Deeply rooted in the traditions of Islam, Waqf not only serves as a potentially effective wealth management instrument but also holds significant prospects for large-scale social development and poverty alleviation. Yet, despite the promises Waqf may bring, the sector has been slow to take off as it suffers from mismanagement due to legal complexities as well as the lack of standardization and a skilled talent pool. VINEETA TAN, however, observes that this is gradually changing with industry players and regulators realigning their focus to give greater emphasis to Waqf.

This week, Saudi Arabia's Alkhabeer Capital announced that it will be providing advisory services on structuring and managing Waqf assets, becoming the first Capital Market Authority-licensed entity in Saudi Arabia to be advising on this segment. Targeting educational and charitable organizations, family offices, high-net-worth individuals and philanthropists, the firm's CEO and executive director Ammar A Shata said the company will offer services "in structuring Waqf entities, enabling Waqfs to invest in all types of assets without any geographical limitation, under an independent portfolio, free of administrative complexities."

Several countries have also implemented the legal infrastructure to develop their Islamic endowments. India for example, created the National Waqf Development Corporation last year to facilitate and mobilize resources to develop Waqf properties. This comes following the enactment of the Waqf (Amendment) Act 2013 which aims to create more transparency in the management of Waqf properties. While Islamic finance and banking have not received the full support from the Indian government, the emerging economy giant recognizes the significant contributions Waqf could realize. It is estimated that India could generate some INR120 billion (US$1.88 billion) annually from Waqf properties, predicated on a projected 10% return.

Earlier in February, Malaysia's Labuan International Business and Financial Center released guidelines on the establishment of Labuan International Waqf Foundation, a Shariah compliant foundation aimed at the international community, using common and civil law foundation and trust Acts. While in the African continent the Senegalese

parliament last month passed a law on Waqf which will serve as the foundation of a framework to develop the segment. The Maldives is also renewing its focus on the segment with the Ministry of Islamic Affairs initiating the Darul Eman project, a real estate investment to sustain the mosque cash Waqf fund last year.

The challenges surrounding Waqf may be many and complex; however, it is encouraging to see players from both the regulatory and market spheres making a conscious effort to realize the true potential of Islamic endowments.

B20 Turkey Financing Growth Taskforce receives Islamic finance recommendations

The General Council for Islamic Banks and Financial Institutions (CIBAFI) has submitted key recommendations relating to the development of the Shariah finance industry to the B20 Turkey Financing Growth Taskforce, a taskforce by the Business 20 Group (B20), in a move that could catalyze the development of the industry. VINEETA TAN takes a closer look at the recommendations.

B20, the brainchild of the G20, is a platform gathering business leaders from G20 economies to facilitate interaction between business communities from various nations and to address critical issues for enterprises.

This year's G20 Summit, chaired for the first time by a Muslim-majority nation, is especially significant for the Islamic finance community as Shariah finance will be on the agenda of the high-level international summit, a potential industry game-changer. Islamic financial instruments, particularly Sukuk, have been explored by G20 members in a meeting held earlier in the year which had an audience of ministers and central bank governors.

Intending to enhance the current global financial landscape and to diversify SME access to equity among other things, CIBAFI's policy note included a host of recommendations that spanned across various aspects of the Islamic financial industry including: regulatory consistency, risk parameters, trade finance, the function of external rating agencies for Shariah financial entities, liquidity challenges, Sukuk infrastructure financing and profit-sharing investment accounts.

The Bahrain-based international organization also suggested adjusting SME scoring according to risk parameters of equity-based financing; Shariah compliant guarantee schemes for SME financing; comprehensive package through a mixture of SME financing, cash Waqf and microTakaful; and entrepreneurs' skills enhancement and monitoring strategies for equity financing.

Apart from the IDB lending support in pushing the proposition of Islamic finance during the G20 Summit, several Islamic finance players are also involved in this year's conference including Turkey as chairman and Indonesia as co-chair of the G20 investment and infrastructure working group. It is noteworthy that the B20 is co-chaired by Adnan Ahmed Yousif, the president and CEO of Islamic financial entity, Al Baraka Banking Group.

IFN Global Trendswatch

What's been going on in the world this week? LAUREN MCAUGHTRY brings you an update of the most significant economic, regional and global events, issues and trends that have the potential to affect the Islamic finance industry.

- Significant volatility in EU bond market worries investors — could this be an early correction to the quantitative easing program introduced earlier this year, and will concerns continue throughout 2015?
- Greece is near to defaulting — which could lead to its exit from the EU. What can be done to save it — and how much will it cost an already shaky Europe?
- Russia and China strike a financing deal through the Russian Direct Investment Fund and the China Construction Bank, signaling closer ties between the two nations following the sanctions inhibiting Russia from accessing western financing. Has Islamic finance missed a trick?
- US Senate passes Iran nuclear review bill, allowing it to go to Congress and making a final deal more likely.
- Oil prices reach their highest level in 2015, approaching US$70 per barrel.
- The EU is calling for a global arbitration court to settle trade negotiations, as the current 'Investor-State Dispute Settlement' is becoming increasingly controversial as companies use the process to challenge government regulations.

  "We need a robust and serious reform of investment dispute resolution, because it's an important part of global investment policy," said Cecilia Malmstrom, the EU trade commissioner.
- China has allowed over 30 key international financial institutions including HSBC and Morgan Stanley to access its bond market, in one of its most significant recent steps towards opening up its domestic capital markets and improving international holdings of renminbi.
- The Federal Reserve could now wait until 2016 to increase rates, following slow growth in the first quarter — giving emerging markets breathing space to recover and rebalance.

Company Focus: Blossom Finance

While Bitcoin may have taken the mainstream global financial fraternity by storm, the Islamic financial community remains cautious within the confines of its familiar landscape. VINEETA TAN this week shines the spotlight on an Islamic crowdfunding platform which has successfully merged the usage of the digital currency with its Shariah compliant offering.

Conceived in San Francisco, Blossom Finance is the brainchild of Matthew Joseph Martin, a start-up enthusiast (and software engineer) who aspires to leverage the power of social crowdfunding to aid Muslim entrepreneurs in executing their businesses. Realizing that there was a huge demand for Shariah compliant microfinancing solutions in the world's largest Muslim market, Martin moved his operations to Jakarta two months ago and has hit the ground running.

As an Islamic microfinance crowdfunding vehicle, Blossom, however, does not finance businesses directly (due to regulation constraints) but instead disburses funds through a network of local microfinance institutions, leveraging their expertise and established strong presence in the domestic market. "After careful and extensive screening, we've identified approximately 20 institutions which

would work well with our model, and we are due to execute our first investment this week," revealed Martin to IFN. Crowdfunding itself is an exciting trend gaining prominence in the Islamic space; however, Blossom's proposition is made even more interesting through its utilization of Bitcoin.

"The decision to use Bitcoin is due to the enhanced transparency it provides, and transparency, which is aligned with the Shariah, is crucial to us in building the trust between investors and fund recipients," explained Martin. After pumping in their investment (in local currency), investors are able to track the transactions or money transfer (which are converted into Bitcoins) to the intended fund recipient in real time using the Bitcoin Blockchain. The Bitcoins are again converted into local currency once it reaches the hands of the entrepreneurs.

Expecting to deliver average returns of between 7.5-12.5%, transactions carried out are structured based on the concept of Mudarabah, with the firm not receiving any fee upfront until a profit is realized, from which it will take a fixed percentage. In terms of the Shariah compliance aspect of business, the company has been receiving guidance from several Islamic scholars and experts, and Martin plans to form an official Shariah board in the near future.

While various parties have expressed keen interest in investing with Blossom — from across the US, the UK, Singapore, Indonesia, the Middle East and Malaysia — the investor base is currently limited to a private network due to security laws of the various countries. However, opening up the platform to the public is Martin shared, definitely on the cards.

As the Islamic financial landscape continues to evolve, adapting to an ever-changing world, it is always interesting to see what innovative platforms and instruments are brought to the table. And while Bitcoin remains a tiny, almost negligible part of the Islamic economy (See IFN Report Vol 10 Issue 47: 'Bitcoin — does the digital currency have a future in Islamic finance?'), it is refreshing to learn of different methods to better deliver the Shariah proposition to a wider audience; and Blossom perhaps represents one of the early steps as to how crypto currency could be engineered into Islamic financial product offerings.

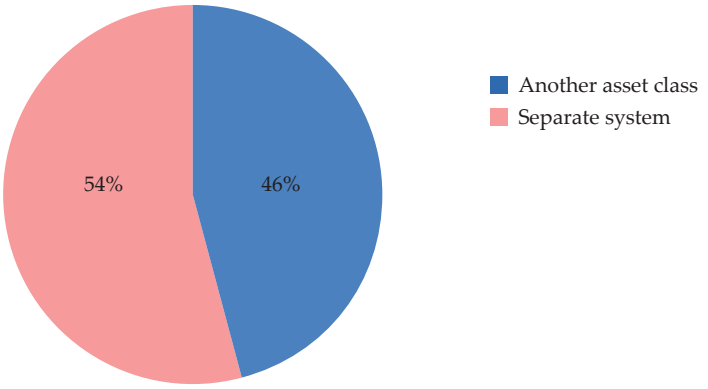
IFN Weekly Poll: Should Islamic finance be recognized as just another asset class in the greater banking industry, or as an entirely separate system?

As our niche industry grows from strength to strength every year, one cannot help but ask how financial markets see Islamic finance. This week IFN asks the tough question — if it should be regarded as an asset class or a separate system altogether. NABILAH ANNUAR gauges market perceptions.

Since its mainstream introduction to global financial markets, Islamic finance has posted fairly gradual progress, and more recently posting sustainable developments outpacing the growth of its conventional peers. However, the Shariah compliant sector is nonetheless a very small fraction of the global banking and finance space. Prominent among large Muslim-populated regions such as Southeast Asia and the Middle East, the sector only started taking off a couple of years ago in wider non-Muslim markets. Over the past year the industry has witnessed interest in countries such as the UK, Luxembourg, South Africa, and Hong Kong — all of which have successfully tapped the international Sukuk market. Other market constituents such as Japan, France, Ivory Coast and Maldives have indicated interest in this niche industry.

Technically a separate financial system altogether, market sentiments show that in actual fact it is presently regarded as another asset class. Corresponding to this view, the poll results this week showed a majority (54%) vote that it should be regarded as an entirely separate system rather than a mere asset class. Faisal Hasan, the senior vice-president of the investment research department at KAMCO Investment Company said: "As of now the Islamic finance is another asset class but which is growing very rapidly. There is definitely an edge that Islamic finance has over the conventional finance in acceptability in select markets. There is [a] lot of work that is happening in terms of product innovation in Islamic finance and the understanding of Islamic products among the market participants has increased considerably. However, to be designated an entirely separate system, we need [a] more diversified product range, risk management tools and greater penetration in the world financial markets."

Should Islamic finance be recognized as just another asset class in the greater banking industry, or as an entirely separate system?



> ***"To be designated an entirely separate system, we need [a] more diversified product range, risk management tools and greater penetration in the world financial markets"***

Sharing the same view, Brian Luck, the managing director of the UAE-based Asiya Investments said that it should be a separate system. "We have seen with the success of our Islamic trade finance fund that the opportunity is to produce innovative products that both meet the needs of investors (in this case with stable low-risk income), and support ongoing business (trade in physical goods) that is inherently Shariah compliant and can be conducted as such."

Leaning on the more realistic side and concurring with 46% of respondents who opined that it is another asset class, Adil Hussain, the global head of Islamic finance and partner at Clyde and Co stated that while the Shariah compliant market indeed has a significant role (that should not be underestimated) to play in the global banking sector, the capital value of Islamic finance still currently remains as 'a drop in the ocean' compared to the value of conventional finance. "We are increasingly seeing the interplay between Islamic finance and conventional finance through multi-sourced financing structures, where Islamic finance and conventional finance sit side-by-side. This would lend support to the assertion that Islamic finance is part of the greater banking industry and not an entirely separate and isolated system."

Employing an entirely different concept from conventional finance, Islamic finance should ideally be regarded as a different financial system altogether. Perhaps over time, as the global financial industry becomes more familiar with Islamic transactions, the industry could stand at par with the conventional banking system.

Sovereign Sukuk: Indonesia and Oman auctions soon

Two sovereigns came to the market last week detailing their plans to tap the global Sukuk market. The government of Indonesia has mandated four banks for its upcoming US dollar paper. Oman on the other hand plans to make its debut with a OMR200 million (US$517.87 million) Sukuk through a private placement. Keeping abreast with the sovereigns, NABILAH ANNUAR writes.

Following the announcement made several weeks ago, the Indonesian government received over IDR3.6 trillion (US$276.48 million) in incoming bids for its Sukuk auction held on the 5th May. The Ministry of Finance noted in an official announcement that the auction awarded a total of IDR1.96 trillion (US$150.53 million). With intentions to tap the international Sukuk markets, the government has selected four banks for its US dollar-denominated issuance. Joint lead managers, CIMB Group Holdings, Dubai Islamic Bank, HSBC and JPMorgan are expected to conduct investor meetings in London, the Middle East and Kuala Lumpur over the next two weeks.

Other Asian peers, Kazakhstan, Turkey, Bangladesh, Hong Kong and Ningxia Hui Autonomous Region in China are yet to provide an update on their respective Sukuk deals. African sovereigns too have been quiet in the last week as the market anticipates on issuances from Egypt, Ivory Coast, Kenya, South Africa, Senegal, Niger and Tunisia. In Europe, Luxembourg declared that the country is open to the idea of making more sovereign issues after conducting its maiden Sukuk last September. Its finance minister confirmed to IFN last year that authorities are working towards developing a new structure for future Sukuk utilizing investment funds instead of real estate assets.

Moving to the Middle East, the Omani government finally came up with specifics on its maiden issuance after receiving approval from the country's capital market authority. Looking at an issue of OMR200 million, authorities have agreed that it will be made through a private placement process and marketed primarily to Islamic financial institutions, and sophisticated investors with a minimum subscription amount of OMR500,000 (US$1.29 million).

Local daily Times of Oman reported that the Sukuk would have a face value of OMR1 (US$2.59) and the broad investor community would be able to buy them once they were listed on the Muscat Securities Market. Hamood Sangour al-Zadjali, the central bank president, was also quoted to have revealed intentions to issue an international bond (for the first time since 1997) in the second half of this year, but did not specify if the issue would be conventional or Islamic. The region still waits on Jordan's budget deficit-mending Sukuk and the UAE's green Islamic paper.

Upcoming sovereign Sukuk

Country	Amount	Expected date
Kazakhstan	TBA	2016
Turkey	TRY1.5 billion	TBA
Bangladesh	TBA	TBA
Hong Kong	US$500 million to US$1 billion	TBA
Ningxia Hui Autonomous Region	US$1.5 billion	TBA
Indonesia	TBA	2015
Ivory Coast	XOF300 billion	2015-20
Kenya	TBA	2016
South Africa	TBA	2016
Senegal	TBA	TBA
Niger	XOF150 billion	TBA
Tunisia	US$500 million	2015
Jordan	JOD564 million	2015
Oman	OMR200 million	2015
UAE	TBA	2015
Luxembourg	TBA	TBA

Islamic funds industry to gain from ASEAN advantage

IFN previously discussed the potential seismic change the implementation of the ASEAN CIS Framework — a fund passporting scheme similar to Europe's UCITS platform — could bring to the Islamic funds industry (See IFN Report: 'ASEAN CIS: A much-needed impetus for regional Islamic cross-border fund activities') during which we highlighted Malaysia's prime position to lead the development and internationalization of the Shariah funds segment. True enough to our predictions, VINEETA TAN writes that the country, which is also the world's largest market for Islamic funds (along with Saudi Arabia), is the first among its neighbors to further the Islamic finance agenda by leveraging this infrastructure to tap not only the ASEAN region but also that of Greater China.

Maybank Asset Management (Maybank AM) and Maybank Islamic Asset Management have launched the Maybank Bosera Greater China ASEAN Equity-i Fund, the first Shariah compliant fund to be introduced under the ASEAN passport scheme. Offering investment opportunities across three different classes in two different currencies (Malaysian ringgit and US dollar), the open-ended fund gains both retail and institutional investors exposure to the emerging markets of Southeast Asia and China.

"We will maintain a minimum of 35% of the fund's net asset value each to Greater China and ASEAN equities markets, while between 2% to 30% will be invested in Islamic liquid assets including Islamic money market instruments as well as placement in Islamic deposits for liquidity purposes," explained Nor' Azamin Salleh, CEO of Maybank AM Group, on the fund's investment strategy.

The fund is a culmination of the partnership between Maybank AM and Hong Kong's Bosera International, a subsidiary of Shenzen-based Bosera Asset Management, and is expected to realize 7-12% in returns yearly on a three-year rolling basis.

With an estimated Muslim population of over 23 million, which is bigger than that of Malaysia and the UAE combined, and paired with the fact that it is the world's fastest-growing major economy (and largest after the US), China presents a compelling and lucrative proposition for Islamic investments; and the economic giant in recent years have taken note of its own potential and the opportunities Shariah dollar would bring. Apart from the landmark sovereign Sukuk issued by Hong Kong last year (with another one in the making), Chinese brokerage Southwest Securities also forged a partnership with Qatar International Islamic Bank through which the bank will mobilize efforts (including designing an Islamic finance framework) to develop the Shariah financial industry in China.

Fundamental shifts for Kuwait Finance House

Big moves are afoot for Kuwait Finance House (KFH), the first Islamic bank in Kuwait and one of the most venerable institutions in the industry. Following weeks of rumors and speculations, the bank has confirmed that it is indeed restructuring its investment portfolio: including the impending sale of its KFH-Malaysia arm. Investment bank Credit Suisse has been selected as advisor to the project, according to a statement from KFH, and will "identify the steps and any decisions in the coming period." LAUREN MCAUGHTRY has the story.

Since Mazin Saad Al Nahedh came on board as KFH's new group CEO last October, a number of changes were implemented including the appointment of KFH veteran Ahmed Al Kharji as a non-independent non-executive director of KFH Malaysia. In May this year, the group subsequently named Ahmed as CEO of its Malaysian arm, its fourth in a decade of operations, replacing Abdul Hamidy Abdul Hafiz, despite Bank Negara Malaysia (BNM)'s stated preference for local bank chiefs, suggesting that further changes were on the way.

The news comes as confirmation of a decision that has seen swirling suggestions sweep the sector, as industry players speculate on what the eventual game plan might be. Earlier in March, IFN revealed that KFH had closed its Malaysia-based research arm KFH Research, moving operations in-house under a new research and innovation department, as part of the overall changes. Some KFH Research employees were offered positions at KFH Malaysia, but most were made redundant. This also saw Baljeet Kaur Grewal, an industry veteran, leave the group.

While the Malaysian base may be restructuring, in March this year KFH announced plans for a new branch in Germany following the approval of its license by the German government. The bank is set to launch by July under the Kuveyt Turk subsidiary brand, as the gateway to a wider expansion of "new branches, companies and banks" across Europe, according to KFH. The move is supported by its increased activity in Turkey itself, including last month's debut RM300 million (US$83.3 million) Sukuk from Kuveyt Turk and new plans for a TRY1 billion (US$368.8 million) deal as the bank seeks to increase its financing capabilities. It looks as if its global focus could be shifting from east to west.

And while KFH is playing coy with its announcements, there are indications that the sale of its Malaysian arm may be further along than it seems. "The findings and recommendation of the advisor will be chosen based on factors that are deemed to be in the best interest of KFH, its clients and its shareholders," said the bank. Despite no timeline yet indicated, IFN understands that representatives of the bank have met with BNM, the central bank, recently – suggesting a deal could potentially be in its final stages. No response was received when questioned by IFN but watch this space for an announcement.

"KFH Group remains committed to working in all markets where it operates," the bank confirmed in a statement. "It also continues its efforts to search for the best investment opportunities around the world based on in-depth analysis and monitoring of markets and their performance indicators." As one of the most respected institutions in the industry and with a track record lasting all the way back to 1977, KFH is a bellwether for the Islamic finance industry and its further movements will inevitably be awaited with interest.

Islamic bank invests in Scotland

VINEETA TAN reports on Gatehouse Bank's latest investment into Scotland.

Gatehouse Bank has acquired a student accommodation property (Fountainbridge) in the capital of Scotland for GBP20 million (US$30.42 million) from Rockspring Property Investment Management. Located centrally to the University of Edinburgh, Herriot-Watt, Napier and Queen Margaret universities, the London-based Islamic bank's latest investment marks its shift into the direct-let assets sector as the Fountainbridge acquisition includes a subset of direct-let rooms.

"Student accommodation is a sector which is well understood and in high demand among our investor-base. Today our clients are looking for stable, yielding assets, and Fountainbridge is the first of several income-generating investments which we plan to introduce throughout the remainder of the year," shared Henry Thompson, CEO of Gatehouse, in a statement to IFN.

David Swan, the head of real estate investment at the bank, confirmed that Gatehouse intends to expand its portfolio within the lucrative student accommodation space, with several other investments being weighed at the moment. In 2014, the bank generated a combined value of over GBP100 million (US$152.12 million) from its four investments, consisting of over 1,600 beds, in the segment.

The shortage of residential supply for students in the UK has made student accommodation a strong asset class for investors, and Shariah-conscious investors are also moving in to cash gains. Last month, another Islamic finance player, Tadhamon Capital from Bahrain, revealed that it is making UK student accommodation a key focus in its investment strategy following the sale of its maiden Central London student property investment which realized over 70% in return to investors over a period of less than three years.

Marle Place Property acted on behalf of Gatehouse, and Knight Frank on behalf of Rockspring.

Iran: Waiting to be unleashed

The world is waiting with bated breath as the fate of Iran slowly unfolds. The removal of sanctions on the Islamic Republic could herald a new chapter in the international economic landscape, more particularly to the Islamic financial universe. VINEETA TAN provides an overview on the world's largest Shariah compliant financial market.

Legal and regulatory

Under the 1983 law of Usury Free Banking, banks in Iran are not allowed to engage in transactions paying or receiving interest, making its entire financial system entirely Shariah compliant. Regulated by the Central Bank of Iran, the rules of the Shia Islamic financial system practiced, however, allows the selling of debt at a discount and in theory may permit banks to accept Riba from non-Muslims.

Banks may accept deposits from the customers as Gharzol-hassane (benevolent loans) and in turn provide loans on the basis of a profit and loss (PLS) system.

Business environment

Despite the heavy sanctions imposed on Iran that have isolated it from the majority of the global financial markets, the country has commendable growth with GDP expanding 4.2% last year. International trading does still occur with Iranians making use of private exchange houses and trading companies in other countries to circumvent the restrictions; instances of utilizing forged identities and Hawala (paperless dealing run on trust) transactions to pay and receive money do still occur.

The prospects have begun to look better for Iran as the 5+1 nations consider lifting their sanctions on the Islamic nation, a move which could usher in immense opportunities for the Islamic finance world as Iran readies to join the international community. A number of countries have voiced their keen interest in strengthening, if not build, bilateral ties with the Islamic Republic, including Azerbaijan, Turkey, Indonesia, and Singapore among others. Iran has also committed to joining China's proposed Asian Infrastructure Investment Bank (said to rival the IMF and World Bank) as a founding member.

Banking and finance

With 45 institutions in the market (including three government commercial banks, five government specialized banks, 19 private commercial banks as well as five branches of foreign banks), the Iranian banking system is oversaturated.

Bank Melli is the largest bank in Iran, and the largest Islamic bank in the world. According to Islamic Banking Intelligence, total assets for the bank reached US$42.54 billion in 2012.

In October 2014, the Iran-Russia Joint Chamber of Commerce confirmed that Tehran and Moscow are in the process of accessing the possibilities of establishing a joint bank as an effort to enhance bilateral trade between Iran and Russia, and as a way to bypass sanctions on Iran's banking sector.

Capital market

The Securities Exchange Organization is looking at introducing new Islamic capital market instruments. At present, Sukuk, particularly Musharakah papers, are a popular mode of financing in Iran. However, the high inflation rate (16.2% as at the 1st April 2015 according to Trading Economics) continues to pose a challenge to the Republic's financial system.

Outlook

As the world's third-largest oil and second-largest gas reserves, the prospects of Iran joining the mainstream financial stage are extremely attractive. This is perhaps more for the Islamic finance community considering that it is the world's largest Shariah compliant financial market, with total banking assets reaching US$482 billion in 2014 (according to the Dubai Center for Islamic Banking and Finance). With the termination of sanctions looking like a real possibility, various countries are reaching out to Iran, with Iran also looking outwards. For example, according to Islamic Republic News Agency, the Iranian government is looking to increase its share in the global Halal food market, from its current share of approximately US$400 million out of a total of US$700 billion of turnover. However, that is not to say that the opening of the Iranian market to world players and its entry into the international arena would be smooth as the country wrestles with high inflation and a largely loss-making banking industry among other geopolitical and economic challenges.

Table 1: Summary of the assets and liabilities of the banking system *(billion rials)*

	Year-end balance	Percentage change
	2013/14	2013/14
Assets		
Foreign assets	5,056,931.5	122.4
Claims on public sector	1,108,494.2	21.8
Government	885,521.1	26.7
Public corporations and institutions	222,973.1	5.5
Claims on non-public sector	5,056,0081.1	22.2
Others	4,238,230.5	41.6
Sub-total	15,459,664.3	49.9
Below the line items	1,885,117.6	40.1
Total assets=total liabilities	17,344,781.9	48.7

Source: Central Bank of Iran

Table 2: Tehran Stock Exchange (TSE) activities *(1990/91=100)*

		Percentage change
	2013/14	2013/14
Shares traded		
Number (million shares)	189,689.0	136.7
Value (billion rials)	964,198.0	275.1
Public sector's shares offering		
Number (million shares)	8,260.0	267.7
Value (billion rials)	104,078.5	-
Market capitalization (year-end) (billion rials)	3,865,970.0	126.4

Source: Central Bank of Iran

Commodities in Islamic finance

Commodities are basic goods used in commerce that are interchangeable with other commodities of the same type. When they are traded on an exchange, commodities must meet specified minimum standards, also known as a basis grade. In Islamic finance, commodities are usually utilized in Murabahah transactions, commonly known as commodity Murabahah. Playing a significant role in Islamic finance transactions, NABILAH ANNUAR provides a gist of new products and recent developments in Shariah compliant commodities.

Usage and application

Literally translated, commodity Murabahah means "sale of commodity with the cost price disclosed". Under such a transaction (also known as Tawarruq) a bank purchases and takes the title to the relevant assets (usually precious metals such as palladium) from a third-party broker. The bank then sells the assets to the borrower at cost plus a specified profit. Payment of the sale price is usually deferred and may be structured in accordance with the wishes of the parties. The borrower subsequently enters into a contract to sell the assets to the broker for the cost price. The net result is to create a deferred payment obligation from the borrower to the bank. The bank and the customer will usually enter into a succession of such transactions to create monthly, quarterly or semi-annual payment obligations.

Africa

Industry observers have suggested that the slowdown in China could adversely affect commodity exporters in South Africa, Angola and Zambia. This is because the slowdown is likely to spill over into slower growth in Africa due to significant trade ties between sub-Saharan Africa (SSA) and China as exports to China are now equivalent to almost 7% of SSA's GDP, a much larger ratio than in any other emerging region including emerging Asia. It is, however, highlighted that one of the potential Shariah compliant assets, particularly in South Africa would be commodity exchange-traded funds (ETFs), in particular precious metal commodity ETFs listed on the Johannesburg Stock Exchange.

Asia

In Malaysia, BTMU Malaysia last year signed a US$100 million commodity Murabahah agreement, to be utilized alongside the Islamic Corporation for the Development of the Private Sector (ICD) proprietary capital to finance projects in ICD member countries and is one of a selection of Japanese banks including SMBC Malaysia, Mizuho Bank and Nomura Islamic Asset Management to offer Islamic finance products in the country.

Australia-based Waratah Resources last month entered into a non-binding letter of intent with Malaysia-based Amanie Holdings to form a joint venture for the purpose of funding its commodity trading business. Developing its presence in the commodity space, Amanie will under the agreement assist Waratah in the provision of the necessary finance and other commercial relationships that will allow the latter to rapidly expand its trading business.

> ***"It is highlighted that one of the potential Shariah compliant assets, particularly in South Africa would be commodity ETFs"***

Europe

The UK-based Murabahah broker and platform provider, Eiger Trading in October 2014 became an affiliate of the London Platinum and Palladium Market, one of the world's pre-eminent markets and standard-setting bodies for the physical trading of platinum group metals. In collaboration with Gulf International Bank (GIB)'s Saudi retail arm, 'Meem', the company in August last year launched the first-ever fully-automated Shariah compliant 24/7 retail Murabahah platform. As the first dedicated retail platform in the market, the new system uses straight-through-processing and a direct integration with banks' core systems, in order to optimize the efficiency of Murabahah transactions, enabling real-time round-the-clock services to banks' retail clients.

Middle East

On the retail side, KFH Bahrain launched an Islamic personal financing scheme called 'Tamweeli', structured on a Tawarruq facility based on palm oil commodity Murabahah, whereby the transaction and transfer of product ownership occurs in real time. The offering assists retail customers to access new means of Islamic personal financing to manage their liquidity shortages and needs.

In Kuwait, Warba Bank launched 'Mosawama', a new service which provides its customers as well as customers of other banks with investment opportunities and more options to purchase goods and products available both locally and internationally without any loss margin. Said to be the first of its kind for any Islamic bank in Kuwait, the service is distinguished by quickly performing the transactions where the customer receives the entire commodity without any additional fees on the transaction, and the sale amount is directly credited into the customer's account.

Outlook

Since the last quarter of last year, markets have seen a constant volatility in commodity prices. A report by the World Bank last month conveyed that well-supplied markets are continuing to drive down prices of commodities, across the board; the weakness would, however, signal a long-term easing of prices. Surplus production and subdued demand due to weak global growth are said to continue depressing commodity prices, while the slowdown in emerging economies, coupled with a strong US dollar will likely 'keep the lid' on prices. Although weaker prices will mean lower revenues for commodity-exporting countries, they will help reduce current account and fiscal deficits in many commodity-importing countries.

Inaugural Sukuk: Noor Bank

Noor Bank last week successfully completed the issuance of its debut US$500 million Sukuk Wakalah. With the order book closing in excess of US$2.1 billion, representing an oversubscription of 4.3 times, the issuance was one that was well received by the industry, particularly from international investors. Speaking to Noor Bank and Latham & Watkins, legal advisor to the deal, NABILAH ANNUAR provides a detailed account of this historical transaction.

Engineered based on the principle of Wakalah, the structure incorporated underlying assets which included the Ijarah and the commodity Murabahah portfolio. "This structure was key to the success of the issuance, since it allowed Noor Bank the maximum flexibility to utilize the assets that it had available to it to support issuances under the Sukuk program, while at the same time utilizing a structure that investors are both familiar and comfortable with," explained Lee Irvine, a senior associate at Latham & Watkins. As part of the bank's US$3 billion program, proceeds from this issuance will be channeled for the diversification of the bank's funding base.

According to Noor Bank, the Sukuk achieved the lowest-ever pricing paid on a senior unsecured Islamic instrument by any financial institution among the outstanding issuances in the UAE. The paper was well received attracting the most international investor participation by any UAE bank Sukuk issuance in 2015 and was one of the best-priced inaugural issuances out of Dubai. In terms of geographical distribution, the Sukuk was taken up by investors from: Middle East (54%); Europe (29%); and Asia (17%). Investor-type subscriptions comprised of: fund managers (47%), banks (44%), private banks (6%), insurance companies (2%); and other investors (1%).

Commenting on the challenges faced in the process of the transaction, Noor Bank told IFN: "This was Noor Bank's debut issuance, and being a new issuer in the international market means having to educate potential investors about the bank. However, the bank's financial metrics and strong growth story was able to convince a diverse range of investors wherein over 46% of the order book was subscribed by non-Middle Eastern accounts." Further elaborating on the challenges faced, Irvine said that the development of the structure required close cooperation with the Shariah supervisory boards of Noor Bank and Standard Chartered, the arrangers of the program and the other advisors on the transaction throughout the structuring and documentation phase of the Sukuk in order to satisfy the Shariah requirements for the transaction, while maximizing its appeal to local, regional and international investors.

Noor Bank's issuance is an example of the growing sophistication and development of the Sukuk market in the Middle East and the strong appetite of international investors as evidence to the growing confidence in Shariah compliant products and to the Islamic finance industry as a whole. "These developments should provide encouragement to other issuers whose principal asset base might not traditionally have been considered appropriate for use in Islamic structuring. We expect that Sukuk issuances, particularly by corporate and financial institutions, are therefore likely to further proliferate over the next two or three years, as innovative structures continue to expand the range of assets that can be used as underlying sources of profit," opined Irvine.

Establishment of US$3 billion trust certificate issuance program and issuance of US$500 million trust certificates thereunder

28th April 2015

Issuer	Noor Sukuk Company
Obligor	Noor Bank
Issuance price	100%
Purpose of issuance	General corporate purposes
Delegate	BNY Mellon Corporate Trustee Services
Tenor	Five years
Coupon rate/ return	2.78% payable semi-annually
Currency	US dollar
Maturity date	28th April 2020
Global coordinator	Standard Chartered Bank
Joint bookrunners	Al Hilal Bank, Barwa Bank, Citigroup, Dubai Islamic Bank, Emirates NBD Capital, QInvest, Sharjah Islamic Bank, Standard Chartered
Co-lead managers	Arab Banking Corp, Abu Dhabi Islamic Bank, Ajman Bank
Governing law	English, DIFC and UAE law
Legal advisors	Latham & Watkins advising the managers and the delegate Allen & Overy advising Noor Bank
Listing	NASDAQ Dubai
Underlying assets	Commodity Murabahah and Ijarah assets
Obligor and issue rating	'A –' (Fitch)
Shariah advisors	Fatwa and Shariah Supervisory Board of Noor Bank Shariah Supervisory Committee of Standard Chartered Bank
Structure	Wakalah
Tradability	Yes
Face value/ minimum investment	US$200,000 and integral multiples of US$1,000 in excess thereof

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Query:

An Islamic bank has raised the following query.

A financing facility has been approved for a customer, whereby it was allowed to utilize the facility through multiple Murabahah transactions under the facility limit during the facility period.

Under each Murabahah transaction, the Islamic bank purchases the goods, and sells the same to the customer with a higher price and deferred payment.

In one of these Murabahah transactions, it happened that the customer could not pay the deferred sale price under that Murabahah transaction on the scheduled date and requested the bank to extend the payment date by three months.

Since there is clear guidance from the Shariah board not to increase the Murabahah amount if it becomes past due, the Islamic bank has suggested the following options subject to approval from its Shariah board:

1. **To reschedule the overdue Murabahah amount for another three months and charge the customer an administration fee equal to the lost profit for the proposed period.**

2. **To reschedule the overdue Murabahah amount with a condition to increase the profit element in the next Murabahah by the loss of profit for three months on the current Murabahah.**

Shariah guidance is required to see if either of the provisions is Shariah compliant.

Pronouncement:

It is not permissible for an Islamic bank to charge any amount on account of postponing the debt, whether calling the same as interest or a fee.

It is also not permissible to agree with the customer on increasing the profit rate of the future Murabahah transaction in order to indemnify the loss of profit on the current Murabahah transaction which was rescheduled at the customer's request without increasing the profit for the extended period of three months. Such prohibition stems from the fact that it is tantamount to charging interest on a debt.

However, at a later stage and without any reference to the rescheduled Murabahah transaction, the Islamic bank can ask the customer to agree to an amendment of the existing facility arrangement with an increased profit rate for future Murabahah transactions. Alternatively, the Islamic bank can propose a higher profit rate to the client at the time of renewal of the Murabahah facility, again without making any reference to the past due Murabahah transaction.

Such Shariah permissibility is based on the fact that the future Murabahah transactions with a higher profit rate was not the condition stipulated by the bank at the time of rescheduling the past due Murabahah. Moreover, the customer shall have the right to disagree with the increase in profit rate on future Murabahah transactions and even if the bank insists on applying a higher profit rate, the customer may not utilize the facility by not entering into any future Murabahah transactions.

In addition, the Islamic bank, in order to discipline the customer, can stipulate in the Murabahah agreement at the time of its execution that in case of default of the timely payments of the Murabahah amount by the customer, the Islamic bank shall impose a certain amount or percentage of the Murabahah amount as a delay penalty which shall be donated by the Islamic bank to charity.

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

Ijarah fulfills the need for education finance

SRI LANKA

By Imruz Kamil

An Islamic financial institution (IFI) may offer Ijarah products to its customers who seek to obtain education loans without Riba. Ijarah products replace the conventional personal loan financing. Personal loans are fairly small general-purpose lending tools that enable people to borrow money from banks or financial institutions. This type of financing is generally sought out when people need to borrow a few thousand rupees to do things like pay university course fees, undertake professional studies, arrange overseas travel, or meet huge hospital bills. The overall Islamic personal loan market is still quite small relative to its conventional counterpart, but is growing rapidly. Today, IFIs are offering education financing schemes under the Ijarah principle.

In Sri Lanka, Amana Bank recently launched an education financing scheme based on Ijarah whereby the facility is offered to students who wish to obtain professional qualifications from recognized universities and institutions. Financing is provided to pay university course and examination fees, from a minimum of LKR50,000 (US$367.83) to a maximum of LKR5 million (US$ 36,783.1). In Ijarah, the bank will have agreements with various service providers, whereby the bank leases the services required by the customer directly from the provider and subleases it to the customer on the basis of Ijarah.

Creating competitive products will go a long way in attracting customers to Islamic banking. Ijarah in its purest meaning will definitely help the industry to maintain its sustainability, if it is implemented in its true sense. There is a huge demand for this type of product in Sri Lanka; although conventional banks offer various types of loan facilities for educational purposes, Muslims cannot use these facilities due to the element of interest embedded in the transaction.

How an Ijarah-based service works

- The customer requests the IFI to finance the package of tangible or intangible services and promises to lease the services from the service provider by way of Ijarah.
- Upon accepting the request from the customer, the IFI will issue a service confirmation order to the service provider whereby the IFI will offer to purchase the services from the service provider.
- The service provider accepts the offer (acceptance will form an agreement between the IFI and the service provider).
- The service provider will issue the invoice in the name of the IFI upon which the IFI will settle the payments to the service provider.
- The IFI will enter into a lease agreement with the customer whereby the IFI will lease the services to the customer for a consideration of lease rental. The IFI becomes a lessor and the customer becomes a lessee. The lease rental could be paid in installments by the customer as agreed between the IFI and the customer.

As the IFIs operate in highly competitive markets, it must be able to offer an attractive product range to satisfy customer needs and desires. Services based on Ijarah can also be offered to support overseas travels and arrange packages for religious pilgrimages and business travels. Furthermore, it can be structured to avail conveniently healthcare packages from reputable hospitals for the provision of general health care, vision care, etc. More importantly, the Ijarah business process will enhance opportunities and momentum across all target audiences by providing solutions for their personal financing needs and every IFI can customize the services from the service providers to their specific objectives.

Imruz Kamil is the head of Islamic finance at Richard Pieris Arpico Finance. He can be contacted at imruz@rpcfinance.com.

Kenya partners with Qatar and the KCB officially launches its Islamic banking products

KENYA

By Mona K Doshi

Banks in Kenya are opening Islamic banking windows to capture their market share in the Islamic finance sector. In April, Kenya Commercial Bank (KCB) launched KCB Sahl Banking, its Islamic banking unit in Kenya. The KCB plans to roll out its Islamic banking unit in Uganda, Rwanda and Burundi as it seeks to tap into the increasing demand for Islamic financial products across the region.

The KCB has started off by offering asset and liability products such as Mudarabah, Qard Hasan, Wadia, Murabahah, Musharakah and Ijarah.

During the launch of KCB Sahl Banking, it was announced that the National Treasury Cabinet secretary, Henry Rotich, would be signing a memorandum of understanding (MoU) with the minister of finance of the State of Qatar to enhance cooperation in the development of the Nairobi International Financial Center (the NIFC), including with regards to growing Islamic financing opportunities.

> ***"Once the MoU is signed, Kenya will become a hub for Shariah compliant financing and will allow for much friendlier borrowing options than those afforded by conventional banks"***

According to Rotich, once the MoU is signed, Kenya will become a hub for Shariah compliant financing and will allow for much friendlier borrowing options than those afforded by conventional banks.

Additionally, the Kenyan government is gearing towards issuing its first Sukuk bond following the successful issue of the US$2 million Eurobond. The deal with Qatar is important in that respect. Because Sukuk bonds offer more favorable repayment terms than conventional bonds, they are an attractive product for infrastructure financing.

Several days after the KCB's launch, Kenya and Qatar did indeed sign an MoU for the creation of the NIFC. The NIFC should be established over the next few months.

Regulators are aware of the changes that need to be made to current legislation to provide an enabling environment for Shariah compliant products. The regulators can collaborate with the experienced Qataris to gain know-how for the implementation of the required legislative and regulatory changes, which will hopefully usher in an era for innovative products to enter the market.

Mona K Doshi is a partner at Anjarwalla & Khanna Advocates. She can be contacted at mkd@africalegalnetwork.com.

Rising to the challenge: The CBB introduces a new liquidity management instrument

BAHRAIN

By Dr Hatim El Tahir

The issue of liquidity in Islamic finance has for some time been the weakest link and challenge to industry leaders including both regulators and practitioners. It is often discussed in public forums and workshops but with few notable achievements or breakthroughs. Recently this pattern has changed or probably reversed. Several initiatives are now under consideration to develop this segment of industry. Central banks in the region and elsewhere in Asia as well as industry standard-setters are setting the stage for developing this market by means of innovative Shariah compliant short and medium-term instruments.

In line with this development, last month the Central Bank of Bahrain (CBB) announced the introduction of a new Shariah compliant Wakalah liquidity management instrument (Wakalah LMI), which was approved by the bank's Shariah board. The CBB asserts that this new instrument is aimed at absorbing surplus funds of the local Islamic retail banks. The instrument has been developed based on a standard contract of the International Islamic Financial Market.

Strengthening liquidity risk capabilities

The introduction of this new Shariah compliant liquidity instrument is a positive development for the Islamic liquidity management practice generally and a compelling investment opportunity over the short and medium-term in the Kingdom of Bahrain. A number of points are worth noting as follows.

A first for Islamic retail and commercial banks

The new Wakalah LMI will help banks build capabilities in treasury functions and effectively make them confidently able to identify, measure and manage liquidity risk positions. Other favorable value-added considerations include:

- Liquidity risk functions will be able to use a new product and thus improve internal and regulatory capital compliance requirements.
- Banks will be able to channel surplus funds into risk-free investment with the central bank, thus improving their overall asset and liability management practices.

This new instrument also further strengthens the CBB's sources and uses of Sukuk programs and allows the bank to generate a stream of short-term funds which will be channeled to investment projects and monetary management policies.

Emphasis on best practices

It goes without saying that the new LMI complements the increasing innovative Shariah compliant instruments developed by the industry. These instruments aim at improving liquidity management strategies which are necessary to ensure a sound and operationally vibrant industry. Moreover, the advent of Shariah compliant liquidity instruments will ultimately make institutions offering Islamic financial services more efficient and result in more best practices. Effectively, it will make these institutions less vulnerable to capital and liquidity risks while achieving greater integrity and business viability.

Dr Hatim El Tahir is the director and Islamic finance group leader at Islamic Finance Knowledge Center, Deloitte & Touche, Bahrain. He can be contacted at heltahir@deloitte.com.

Islamic syndication market dips slightly

SYNDICATED FINANCE

By Elina Khayrullina

In April, the Islamic syndication market turnover decreased slightly after an active ending of the first quarter.

This month the market fixed three public transactions totaling US$1.44 billion exceeding the year-on-year April amount by more than two-fold. Those were Islamic syndicated deals of Cititower, Albaraka Turk Katilim Bankasi and Impian Bebas.

Turkish Albaraka Bank raised US dollar financing at Libor+125 which is quite comparable to pricing within the classical syndicated loans market where the average margin to 3-month Libor made 150bps for financial institutions. Apparently, Turkish borrowers prefer the US currency to Turkish lira due to the ongoing devaluation of the national currency.

With the reduction of the key rate (Turkey one week repo) reaching 10% in early 2014 (currently 7.5%), the depreciation of the Turkish currency is in progress. As of the end of April, the Turkish lira depreciated by 14.09% since the beginning of the year, and by 2.5% for the month of April. Regulators continue adhering to the course of the key rate reduction.

In Malaysia, the construction services and real estate borrowers closed two Islamic syndicated deals in Malaysian ringgit. According to open data, the ringgit will continue to slightly lose value against the US dollar in 2015 with a strengthening trend prospective in 2017-19.

On the whole, there was a slight decline in the Islamic syndication market in April. The lack of interest is apparently due to the market awaiting Fed actions on the key rate regulation which most probably will affect the global capital markets.

Elina Khayrullina is the investor relations manager at AK BARS Bank. She can be contacted at elinakh@akbars.ru.

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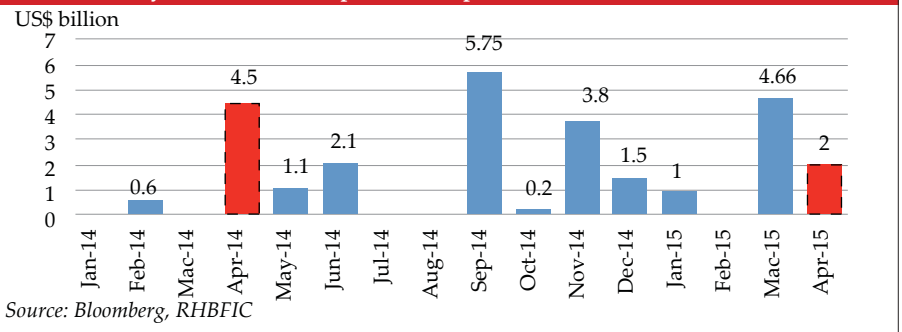
RHB Global Sukuk Markets Research

RHB Fixed Income & Currency Research (RHBFIC) views that the US dollar (US$)-denominated Sukuk primary market will be driven by sovereigns, as oil countries firm up budget needs. An estimated US$6-8 billion of US dollar Sukuk issuance in the second quarter of 2015 (2Q15) is expected, as RHBFIC expects the US interest rate to stay low in 2Q15, hence supporting our view of the bullish Sukuk market to resume.

Weaker global growth and supply scarcity tightened US dollar Sukuk yields during the month. The average US dollar global Sukuk yield within our coverage tightened 14.3bps month-on-month (M-o-M) to 2.99%, contributed by corporates (-38bps M-o-M to 3.21%) with notable performances of real estate names such as DARALA18 (-70bps M-o-M to 5.42%), DAMAC 19 (-141bps M-o-M to 6.62%), ALDAR 18 (-28bps M-o-M to 2.51%) and DPWDU 17 (-26bps M-o-M to 2.24%).

Chart 1: Primary issuance less in April 2015 v April 2014



Source: Bloomberg, RHBFIC

The average sovereign yield tightened by 4bps during the month to 2.51% largely contributed by PKSTAN 19 (-64bps M-o-M to 5.67%), INVICOR 20 (-30bps M-o-M to 3.39%), and MALAYS 21 (-20 M-o-M to 2.68%). However, financials' average yield showed the opposite as it rose slightly by 3bps to 3.26% mainly due to the uncertainty of Bank Asya being released from government management (ASYAKA 23: +66bps M-o-M to 16.53%). Nevertheless, we note that perpetuals performed well during the month, with the yield average tightening by 21bps during the month.

We believe that global growth weakness, as well as supply scarcity contributed to tightened yields in April, and is likely to continue through 2Q15 given the downside tilt of global growth by the IMF. In the latest IMF World Economic Outlook (WEO) released this month, global growth is projected to be 3.5% in 2015, in line with the January 2015 WEO, but lower than the October 2014 WEO projection of 3.8% in 2015 due to slower growth from emerging and developing economies. Given the downside tilt of growth, mainly due to threats from geopolitical tensions and global market volatility, we expect Sukuk yields to continue to perform nicely in 2Q15.

The primary market in April is less than half of what it was last year, circa -55.5% year-on-year (Y-o-Y) to US$2 billion (April 2014: US$4.5 billion) (refer to Chart 1); but we expect more to come in 2Q15 amid US Fed dovishness. Last year in April, tapering uncertainty nudged issuers into the primary market given the weaker GDP data expectation at the time. Whereas this year, the US Fed rate hike has been priced in the third quarter of 2015 with a potential delay, and therefore we anticipate a rise in the primary market in 2Q15.

> ***"This year, the US Fed rate hike has been priced in the third quarter of 2015 with a potential delay, and therefore we anticipate a rise in the primary market in 2Q15"***

We expect sovereigns to be the key driver this quarter, as oil countries firm up budget needs in 2015. Although we have seen a rising trend in the price of Brent crude since the start of April supported by geopolitical tensions in the Middle East, prices are still low being circa 22% lower than last year (calculated from the 22nd April 2014 to the 22nd April 2015). Nevertheless, we still expect a strong 2Q15, most likely toward the end of the quarter, similar to the experience in the first quarter of 2015 (1Q15).

In RHBFIC's contribution to IFN in March 2015, we estimated US$5 billion issuance in 1Q15, with the quarter closing slightly over our expectations at US$5.66 billion. Going into 2Q15, we expect global Sukuk issuances to be driven by sovereigns, as more oil-exporting countries recalibrate fiscal needs for 2015. There have been US$2 billion of issuances so far in 2Q15 from the Malaysian sovereign's two-tranche Sukuk (US$2 billion) and Dubai's Noor Bank (US$500 million), with healthy demand from both issuers at an average of circa six times. Sovereigns have already shown interest, having announcements made from Indonesia (US$1.5 billion), Ningxia province (US$1.5 billion), Oman (US$300-400 million) and Jordan (US$1 billion).

On the corporate market, potential issuers in the pipeline are Qatar Islamic Bank (QIB)'s plans of up to US$1.37 billion of Additional Tier 1, Islamic Corporate Development of the Private Sector (US$1.2 billion), Cagamas (>US$500 million), Telekom Malaysia's US$750 million and Turkish's Dogus Group (US$370 million) during the quarter while a few airlines could also be eyeing opportunity to tap the market. We estimate that the 2Q15 primary market supply could pick up, mirroring the same period of last year (second quarter of 2014: US$7.7 billion), to range between US$6-8 billion as issuers rush to lock in lower interest rates. RHBFIC expects the US interest rate to stay low in 2Q15, hence supporting our view of a buoyant Sukuk market to resume.

Financial inclusion: The future of a sustainable economy

Malaysia's central bank, Bank Negara Malaysia (BNM), aimed at becoming a strategically-focused, outcome-driven and a sustainable organization in its three-year business plan (2012-14). The business plan focused on developing a more inclusive financial system for a sustainable high performance of the institution regionally and globally. DR SYAHIDA ABDULLAH provides an overview of financial inclusion in Islamic finance.

FINANCIAL INCLUSION

By Dr Syahida Abdullah

Financial inclusion is aimed at enabling larger participation of individuals and enterprises by granting them access to financial services. Such services are significant to reach the economically and socially underprivileged group of people who have been excluded from the formal financial sector due to socio-economic deficiencies that include, inter alia, financial capability and literacy, geographical inconvenience, and a religious concern of prohibited elements such as Riba, Maysir, and Gharar. An approach that is in accordance with Islamic law (Shariah) is Islamic microfinance. Islamic microfinance is able to harness the untapped group of people to engage in economic activities that conform to Shariah principles.

Islamic microfinance is seen as a successful mechanism in generating income for the poor specifically, resulting in a significant change in their standard of living and socio-economic status. Islamic microfinance is designed to provide financial assistance to the lower class of people, while Shariah principles inherent in the system protect them from the exploitation of Riba and other prohibited elements in Islam. Such prohibitions are an essential aspect of Shariah in promoting fairness and transparency in wealth accumulation and distribution, and social and economic justice.

In Islam, wealth is considered to be sufficient for all humanity; hence, hoarding of wealth is not allowed as it will create unfairness in the social system, particularly between the haves and the have-nots. Therefore, wealth should be acquired in an Islamic and just manner and it should be distributed fairly within the society, which includes the poor, the needy, the destitute, the helpless and the less fortunate members of the community. The economics of distribution signifies the importance of wealth-sharing as a means to achieving social peace for ultimate prosperity. There are several Shariah compliant microfinance programs in Malaysia. These facilities are offered by either the federal government, state governments, non-governmental organizations, or banking institutions. These are as presented in Table 1.

Table 1: Malaysian organizations that offer Islamic microfinance programs

Federal government	State government	Non-governmental organizations	Banks
1. Yayasan Pembangunan Ekonomi Islam Malaysia 2. Perbadanan Nasional	1. Yayasan Pembangunan Usahawan Terengganu (Terengganu) 2. Yayasan Bina Upaya (Perak) 3. Yayasan Dar Al-Qard Al-Hasan (Selangor)	1. Amanah Ikhtiar Malaysia (AIM)	1. Agrobank 2. Bank Simpanan Nasional 3. Bank Rakyat 4. CIMB Islamic

These institutions often provide financing schemes such as Qard Hasan or benevolent loans without any interest, and profit and loss-sharing facilities with instruments such as Mudarabah and Musharakah. The underlying Shariah principles applied in the Islamic financial system are individual rights and ownership, property rights, sanctity of contracts and sharing of risk. These principles aim to promote equality and fairness for the betterment of humanity in general and the Muslim Ummah in particular.

The Islamic microfinance programs offered by these institutions have alleviated poverty from the livelihoods of many people across the country. For instance, AIM has successfully lifted 347,907 people from the poverty line to become entrepreneurs by 2014. AIM has a membership populace of 129,921 members and investments worth RM76 million (US$21.27 million) as at August 2014; while the total cumulative funds disbursed on the 30th September 2014 was RM11.35 billion (US$3.18 billion). AIM exceeded its target in increasing the number of entrepreneurs and by enabling them to earn a constant monthly income. AIM was thus mandated by the government under the Economic Transformation Program to continuously increase its efforts to raise the living standards of low-income households and the number of entrepreneurs.

It is estimated that by 2020, Malaysia intends to fulfill the GNI (gross national income) target of US$15,000 per capital, which requires among others an additional 3.3 million jobs. The results of the Islamic microfinance initiatives in Malaysia thus far have shown positive growth for the low-income and underserved segments in creating employment. In this context, the promotion of self-employment or entrepreneurship through microfinancing that conforms to Shariah principles has great potential. Such schemes can satisfy the religious aspect of enticing these low-income people to participate in economic and financial activities and simultaneously would serve the purpose of propelling the Malaysian economy to grow. A key component of economic growth and development is inclusion, which means that financial inclusion is vital for a sustainable economy. Broadening the access to financial inclusion through Islamic microfinance is thus believed to enable more people to participate in economic activities and development, and therefore it is regarded as essential for good socio-economic growth and is vital for ensuring sustainability.

Dr Syahida Abdullah is a researcher at the International Shariah Research Academy for Islamic Finance or more commonly known by its acronym, ISRA. She can be contacted at syahida@isra.my.

Sukuk: Show me the money

All of us are familiar with Tom Cruise's favorite line: "Show me the money." While writing his previous piece, "What does Islamic finance have in common with Madoff?", HUSSAIN KURESHI had to research the list of investors that had filed cases against Madoff in various courts, and in this article, he elaborates on his findings.

SUKUK

By Hussain Kureshi

The list included banks, hedge funds, state pension funds, pension funds of charities, schools, and funds managed by various reputable asset management companies among others. It got me thinking, the economies of the west and the emerging and frontier markets are different, and so are the wealth holding patterns. Emerging markets and frontier markets have a prominence of high-net-worth individuals (HNWIs), very rich individuals. These individuals may be wealthy because of large land holdings, (for example, Pakistan), which down the road got converted into industrial wealth by setting up cement companies, sugar mills, flour mills, steel companies, and even banks. The shareholding pattern of many of these companies are such that one family owns in excess of 30% of the company.

Government institutions may be the weakest, with low tax to GDP ratios and high subsidies on necessities like oil and possibly grain which create huge budget deficits and force the country to apply for aid or soft loans. Corporations have, over the past 10 years, been able to build up huge reserves and are flush with surplus cash. These may be state-owned oil companies, semi-autonomous government entities, and the like. Pension funds have begun to enjoy stability and success in managing the savings of their participants. Insurance companies have also matured and reached the critical scale needed to be profitable. Individual investors and HNWIs may be slightly more risk tolerant, whereas pension funds, insurance companies, and the like are rather risk averse.

In the western economies, wealthy institutions dominate the wealth-holding patterns. These economies have developed systems that allow for a large middle-class to develop without a few individuals controlling large stocks of cash. Unless one belongs to a family where wealth was passed down from generation to generation, most of us start from scratch. HNWIs are more likely to

be Hollywood stars, musicians or football stars than they are to be landlords. In fact, large family landholdings are converted into a corporate structure and become the assets of a large real estate firm. Government institutions are very resourceful. State-managed pension funds like the Employees Providend Fund in Malaysia and sovereign wealth funds of oil-producing countries like again Malaysia, Qatar, the UAE, Saudi Arabia and Norway now command in excess of US$3 trillion-worth of funds. These economies have developed ingenious ways of convincing their citizens to pass on their mandatory savings into the control of asset management firms that offer a puny 1% return.

The question I wish to ask is: "Why do these institutions want to invest in Shariah compliant capital markets instruments?" Is it because that with the emergence of Sukuk, sovereign assets became the collateral for many of these instruments and these sovereign assets, of typically oil-rich states, have 'A' ratings from the ratings agencies? Is it because these sovereign assets have never hit the markets before? For many Sukuk issuers, especially sovereign issuers, it was their first experience of tapping international capital markets in the first place. One obviously puts one's best foot forward as a first-timer and thus each country puts up their most secure and liquid assets as collateral to back the issues. In countries where the public is averse to the idea of borrowing and rather financially illiterate, the word 'bonds' is an anathema. So was the word Sukuk used to appease the opposition parties and the sentiments of the public? Were investors looking for Shariah compliant instruments, because of the religiosity behind the whole affair, or was it because Sukuk typically by nature offered excellent tax-saving opportunities? As Sukuk structures are typically sale and buy-back structures or sale and lease-back structures, all originators had to create an SPV to construct the buy-back. Where else to register an SPV than Cayman Islands or other tax havens? Where else to list the instruments aside from the domestic exchanges, than destinations like Luxembourg, where the amount of tax concessions offered are embarrassing?

Are Islamic instruments helping investors dodge their moral obligations to their countries of paying their taxes? Is this part of Maqasid Shariah? We all know that Sukuk is not an equity instrument; it is a debt instrument and trading Sukuk is like trading receivables. Further structures of Musharakah coupled with a promissory undertaking whereby the obligor buys back the underlying asset at par value and not market value, are legal convolutions. The main difference between equity and debt is that in the former there is non-obligation to pay the fund provider back; whereas equity is a sink or swim scenario, debt is a "you sink and I keep on swimming" scenario. So we have distorted our faith, our laws and our Shariah to develop instruments to raise funds from capital markets for our greater good, or Maslahah. So does building bridges, oil tankers, ports and housing development areas where citizens can live in 24-hour air-conditioning not fulfill the needs of the Ummah? You decide.

On a final note, the savings of citizens of the smaller Arab states are being channeled into 'A'-rated instruments being issued by the wealthier states and not being channeled into infrastructure projects at home. This is like taking the savings of the poor to make the rich richer, and this is Islamic?

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Commodities and Islamic financing

Shariah compliant banking is proving to be a more practical and safer alternative to conventional banking. And what could be an industry-shaping trend in the long term, will also be promoting ethical investments that enhance society. SAMAR HABIB KIDWAI writes.

COMMODITIES

By Samar Habib Kidwai

Islamic finance was practiced predominantly in the Muslim world throughout the Middle Ages, fostering trade and business activities with the development of credit. It is based on Shariah, the Islamic law that provides guidelines for multiple aspects of Muslim life, including religion, politics, economics, banking, business and aspects of the legal system. What Shariah compliant financing seeks to do is to shape financial practices and accompanying legal instruments that conform to Islamic law. Major financial principles of Shariah include a ban on interest and uncertainty, adherence to risk-sharing and profit-sharing, promotion of ethical investments that enhance society and do not violate practices banned in the Quran, and tangible asset-backing.

However, describing the Islamic financial system simply as 'interest-free' does not provide a true picture of the system as a whole. Undoubtedly, prohibiting the receipt and payment of interest is the nucleus of the system, but it is supported by other principles of the Islamic doctrine advocating risk-sharing, individuals' rights and duties, property rights, and the sanctity of contracts.

The Islamic financial system today is founded on the absolute prohibition of the payment or receipt of any predetermined, guaranteed rate of return. This closes the door to the concept of interest and precludes the use of debt-based instruments, making debt a relationship in which all parties to a contract share risk and responsibility. This system encourages risk-sharing, promotes entrepreneurship, discourages speculative behavior, and emphasizes the sanctity of contracts.

The financial system may be able to promote justice if, in addition to being strong and stable, it satisfies at least two conditions. One of these is that the financier should also share in the risk so as not to shift the entire burden of losses

to the entrepreneur or the borrower, and the other is that an equitable share of society's financial resources becomes available to even the poor on affordable terms, in keeping with their ability to repay so as to enable them to realize their dream of owning their own homes, pursuing higher education and vocational training, and establishing their own microenterprises.

> ***"Before understanding the impact of declining prices of commodities on commodity Murabahah, we should look at the basic differences between money and commodity"***

According to Islamic teachings, money is a measure of value, not a commodity. Before understanding the impact of declining prices of commodities on commodity Murabahah, we should look at the basic differences between money and commodity. Money has no intrinsic utility. It cannot be utilized in direct fulfillment of human needs. It can only be used for acquiring some goods or services. A commodity, on the other hand, has intrinsic utility and can be utilized directly without exchanging it for some other thing. Commodities can be of different qualities while money has no quality except that it is a measure of value or a medium of exchange. Therefore, all the units of money of the same denomination are 100% equal to each other. An old and dirty note of QAR100 (US$27.44) has the same value as a brand new note of QAR100.

To further explain this, if a buyer purchased a particular car by pinpointing it, and the seller has agreed, he deserves to receive the same car, not another car of the same type or quality. On the other hand, if a buyer has purchased a commodity from a seller by showing him a particular note of QAR100, he can still pay him with another note of the same denomination.

Based on this logic, Islamic Shariah has treated money differently than commodities. First, money of the same denomination is not held to be the subject matter of trade like other commodities. Its use has been restricted to its basic purpose, i.e. to act as a medium of exchange and measure of value. Second, if for exceptional reasons, money has to be exchanged for money or is borrowed, the payment on both sides must be equal, so that it is not used for another purpose like money trade. In short, money is treated as 'potential' capital. It becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money, but only when it acts as capital, not when it is 'potential' capital.

Now that the difference between money and commodities is clear, it is imperative to understand the principle behind Murabahah transactions. The Murabahah was originally an exchange transaction in which a trader purchases items required by an end user. The trader then sells those items to the end user at a price that is calculated using an agreed profit margin over the costs incurred by the trader.

But, in order to comply with the principles of Islamic finance governing

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Continued

exchange transactions, every Murabahah transaction must first meet certain conditions. Murabahah transactions may be undertaken only where the client of a bank, or financial institution, wants to purchase a commodity. This type of transaction cannot be taken into effect in cases where the client wants to get funds for a purpose other than purchasing a commodity, like payment of salaries, settlement of bills or other liabilities. To make it a valid transaction, it is necessary that the commodity is really purchased and owned by the bank so that it may assume the risk of the commodity as long as it remains under its ownership and possession, until it is passed on to the client through a valid sale. Some quarters have equated Murabahah transactions to interest-based loans.

However, there are many significant factors that distinguish a Murabahah contract from a Riba-based one. If the end user fails to pay, the financier only has recourse to the items financed, and no further mark-up or penalty may be applied to the sum outstanding. This means that the amount to be repaid does not continue increasing with time, contrary to the amounts that are borrowed from conventional banks on interest. In conventional financing, banks give loans to their clients without being concerned on how the money is being put to use; whereas in a Murabahah transaction, no money is loaned to the client. Instead, the financing party purchases the goods based on the requirement of the client. This ensures that financing is always asset-based. In effect, this type of financing creates real assets and inventories. Another major difference between a Murabahah contract and an interest-based one is that the financier cannot be unconcerned about the purposes for which the asset being leased is to be put to use. Conventional banks have no compunction in lending to gambling houses or liquor companies, or even pornographic filmmakers.

Any financing typically depends on the three core attributes: the intention, ability and liquidity of an establishment or an individual. Financing institutions have various tools to assess these attributes and decide on the amount, pricing, tenure and collaterals for an establishment or an individual accordingly. Hence, whenever there is fluctuation in the prices of the commodity, the financier opts for commodities that have the least fluctuation in the prices and assumes risk for the fluctuation before pricing the Murabahah. Moreover, the amount (as per working capital needs) for the financing can be lessened to take into account the fluctuations, i.e. one month, three months, six months or up to any relevant tenure where the organization's risk appetite allows it to do so. So primarily, it will be more realistic for an establishment to know what's happening in the world around it rather than just having an open line of financing where the bank only charges the interest on the outstanding limit of financing. The establishment would clearly know the direction of the market before borrowing, and would control it accordingly.

> ***"Whenever there is fluctuation in the prices of the commodity, the financier opts for commodities that have the least fluctuation in the prices and assumes risk for the fluctuation before pricing the Murabahah"***

Based on the aforementioned logic, it is safe to assume that any establishment would be keen to get into the Islamic mode of financing, be it commodity Murabahah, Musharakah or Mudarabah, because of the underlying nature of the transaction, i.e. asset-backed, free of uncertainty and gambling, Riba-free, and risk/reward-sharing.

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DEALS

Adira Dinamika to issue Sukuk

INDONESIA: In a move to support its business expansion, Adira Dinamika Multi Finance, the auto financing unit of Bank Danamon Indonesia, plans to raise IDR2.5 trillion (US$190.25 million) from the capital markets next month. The company is expected to sell Sukuk worth IDR500 billion (US$38.05 million) and conventional bonds worth IDR2 trillion (US$152.2 million), according to local business magazine GlobeAsia, as reported by the Jakarta Globe.

Riyad Bank's Sukuk on the horizon

SAUDI ARABIA: Riyad Bank has obtained the Saudi Arabian Monetary Agency's approval to issue Sukuk not exceeding the maximum value of SAR4 billion (US$1.06 billion) for a maximum maturity period of 10 years and non-refundable after five years, according to a bourse filing. The Sukuk is aimed at strengthening the capital base of the bank to support the expansion of its credit.

Indonesian Sukuk auction a success

INDONESIA: The Indonesian government received over IDR3.6 trillion (US$276.48 million) in incoming bids for its Sukuk auction held on the 5th May. The Ministry of Finance noted in an official announcement that the auction awarded a total of IDR1.96 trillion (US$150.53 million).

Indonesia's next global Sukuk

INDONESIA: Indonesia has mandated four banks for its next global Sukuk, according to IFR. Expected to be a US dollar-denominated issuance, CIMB Group Holdings, Dubai Islamic Bank, HSBC and JPMorgan have been hired as joint lead managers for the Sukuk with investor meetings scheduled in London, the Middle East and Kuala Lumpur over the next two weeks.

Bahri plans Sukuk

SAUDI ARABIA: National Shipping Company of Saudi Arabia (Bahri) seeks to float a debut Sukuk issuance worth up to SAR3.9 billion (US$1.04 billion) for diversification purposes this quarter, reported Reuters. The company had previously said it planned to make the issue by the end of March this year and that the tenor would be 10 years.

Najran Cement's upcoming Sukuk

SAUDI ARABIA: Najran Cement Company intends to issue tradable debt instruments including Saudi riyal-denominated Sukuk. According to a bourse filing, the Sukuk will be offered to local investors via a private placement and the company expects to conduct investor meetings from the 10th May 2015. The amount of the issuance and the expected return will be announced to Tadawul as soon as it is determined. Proceeds from the auction will be used for the company's general corporate purposes, including the refinancing of any indebtedness. Saudi Fransi Capital has been appointed as the sole lead manager and bookrunner to manage the issuance.

RHB Islamic pays out

MALAYSIA: RHB Islamic Bank in an announcement on Bank Negara Malaysia's website notified that the semi-annual profit payment for the stock code PN140026 of its subordinated Sukuk Murabahah program of up to RM1 billion (US$278.57 million) in nominal value is due and payable on the 15th May 2015.

Oman's debut sovereign Sukuk

OMAN: The Omani government has officially announced the issuance of its maiden sovereign Sukuk worth OMR200 million (US$519.48 million), reported Times of Oman. The Sukuk has attained 'in-principle' approval from the Capital Market Authority of Oman and are in the advance stages of structuring and documentation. Issued through a private placement, the Sukuk will open for subscription soon and be marketed primarily to Islamic financial institutions and sophisticated investors with a minimum subscription amount of OMR500,000 (US$1.29 million).

TSH Resources issues Sukuk

MALAYSIA: TSH Sukuk Ijarah, a subsidiary of TSH Resources, on the 11th May issued RM20 million (US$5.6 million) in Sukuk Ijarah commercial papers (ICP) under its Sukuk Ijarah program worth up to RM400 million (US$111.95 million), according to an announcement on Bank Negara Malaysia's website. Proceeds from the sale will be used to refinance the existing and maturing RM20 million Sukuk ICP on the 14th May.

Ooredoo announces Sukuk payment

QATAR: Ooredoo in a statement announced that Ooredoo Tamweel, its wholly-owned subsidiary, will pay its Sukukholders' periodic payment on the 3rd June 2015. The company will pay US$18.99 million on the periodic payment date for the US$1.25 billion (at a profit rate of 3.04%) guaranteed notes due the 3rd December 2018 (ISIN – XS0999501538).

SABB mulls Sukuk

SAUDI ARABIA: Saudi British Bank (SABB) is reportedly planning to sell a riyal-denominated Sukuk that will boost its capital reserves, with an announcement expected to be made soon, according to Reuters quoting anonymous sources. The issue seeks to boost SABB's Tier 2, or supplementary, capital and is said to be arranged by HSBC's Saudi Arabian unit. The issuance could be worth SAR1.5 billion (US$399.88 million) and will have a 10-year lifespan with a clause allowing the bank to redeem the issue at the end of the fifth year.

DEAL TRACKER Full Deal Tracker on page 34

EXPECTED DATE	COMPANY'S NAME	SIZE	STRUCTURE	ANNOUNCEMENT DATE
TBA	Government of Oman	OMR200 million	Sukuk	11th May 2015
TBA	Najran Cement Company	TBA	Sukuk	8th May 2015
TBA	Saudi British Bank	SAR1.5 billion	Sukuk	8th May 2015

ASIA

BNM's new guideline deemed positive

MALAYSIA: Bank Negara Malaysia (BNM)'s new guideline on restructured and rescheduled (R&R) loans is viewed by RAM Ratings as a prudent move towards strengthening the resilience of the Malaysian banking sector in the longer term. "The strength of the Malaysian banking system lies in its regulatory framework, which has raised the bar for banks and this new guideline follows on from a series of macro prudential measures we have observed over the recent years," said Sophia Lee, RAM's co-head of financial institution ratings, in a statement. The firm expects to see an uptick in the industry's gross impaired loan ratio this year resulting from new R&R activity after the 1st April 2015, following the implementation of this new guideline.

AMT in Jakarta

INDONESIA: Roosdiono & Partners (R&P), a member of ZICOlaw, and Anderson Mori & Tomotsune (AMT) have established a dedicated AMT Jakarta Desk in the office of R&P in Indonesia to assist AMT's Japanese clients expanding into the country, according to a press statement.

MBSB eyes KFH Malaysia for merger

MALAYSIA: Malaysia Building Society (MBSB), which aims to become a fully-fledged Islamic bank, is said to be eyeing KFH Malaysia as an option for a merger exercise, reported local newspaper The Star, quoting unnamed sources. However when contacted by IFN, the exempt finance company declined to comment on the matter. Considering the fact that KFH is not seeking a partnership or merger of operations, it is IFN's view that any agreement would lean towards an acquisition. MBSB and its major shareholder, the Employees Provident Fund, are said to be looking at the foreign Islamic bank from "afar" and currently studying its numbers.

Amana Bank's relocation

SRI LANKA: Amana Bank in a press release announced the relocation of its Akurana branch to a more spacious and customer-friendly location at No. 204/1 Matale Road, Akurana. With the relocation, the branch offers added facilities such as an exclusive ladies unit, extended banking hours, safety deposit lockers and also houses a gold safekeeping unit through which the bank offers a Shariah compliant alternative for conventional pawning.

TH denies second 1MDB investment

MALAYSIA: The country's pilgrim funds board, Lembaga Tabung Haji (TH), has denied purchasing 1Malaysia Development (1MDB)'s Signature Tower for RM578 million (US$161.77 million) as alleged in a blog. Johan Abdullah, TH's deputy group managing director and CEO, clarified in a statement that it did, however, invest RM188.5 million (US$52.76 million) in a parcel of land within the Tun Razak Exchange. The acquisition has stirred controversy as some quarters have argued that the price paid by TH is "exorbitant" and the investment too risky due to sovereign wealth fund 1MDB's large debts amounting to almost RM42 billion (US$11.76 billion).

Sukuk main portfolio for MARC

MALAYSIA: In 2014, Malaysian Rating Corporation (MARC) rated RM44.1 billion (US$12.26 billion)-worth of new corporate debt and Sukuk programs, with Islamic papers forming the majority of MARC's assigned ratings. The rating agency noted in a statement that this figure translates to approximately 75% of the total assigned value and about 70% of the total number of ratings assigned. MARC, which realized a pre-tax profit of RM5.4 million (US$1.5 million) in 2014, also confirmed that it will create new rating offerings.

KASB Bank subsumed

PAKISTAN: BankIslami Pakistan has acquired KASB Bank as the amalgamation scheme has been approved by the federal government. The State Bank of Pakistan said in a statement that as a result of the merger, the moratorium placed on the former KASB Bank has been lifted with immediate effect and former depositors of the bank are now depositors of BankIslami.

UNMC's new membership

MALAYSIA: The University of Nottingham Malaysia Campus (UNMC) according to a press release has been conferred with membership of the International Council of Islamic Finance Educators as an institutional member, lending further credence to the university's work in the area of Islamic finance education, mainly through its Center for Islamic Business and Finance Research and the Master of Science Investment and Islamic Finance program offered by Nottingham University Business School Malaysia.

TH defends 1MDB Sukuk

MALAYSIA: Pilgrim funds board Lembaga Tabung Haji (TH) confirmed it has poured RM920.8 million (US$255.32 million) into 1Malaysia Development (1MDB)'s Bandar Malaysia Sukuk issuance in February 2014, reported The Edge. TH has stirred controversies of late with the reveal of its purchase of land from embattled 1MDB — one that is deemed as a risky and unjustifiable investment. Chief investment officer Abd Kadir Sahlan said that the investment into the 1MDB Sukuk is expected to generate a yield of 5.85% and 6.05% for seven and 10 years, respectively.

GLOBAL

ADB-IFSB collaboration

GLOBAL: The Asian Development Bank (ADB) and the IFSB have launched a joint publication entitled "Islamic Finance for Asia: Development, Prospects, and Inclusive Growth". In a statement to IFN, the IFSB said that the publication aims to increase awareness on Islamic finance among ADB's developing member countries, as a potential source for financing infrastructure projects, diversifying public debt management as well as improving the supply of high quality liquid instruments.

CIBAFI submits recommendations

GLOBAL: The General Council for Islamic Banks and Financial Institutions (CIBAFI) has submitted key recommendations relating to the development of the Shariah finance industry to the B20 Turkey Financing Growth Taskforce, a taskforce by the Business 20 Group (B20). According to a statement to the press, the recommendations spanned across various aspects of the Islamic financial industry including: regulatory consistency, risk parameters, trade finance, the function of external rating agencies for Shariah financial entities, liquidity challenges, Sukuk infrastructure financing and profit-sharing investment accounts.

GFH taps Saudi Arabian retail sector

GLOBAL: Bahrain-based Gulf Finance House (GFH) has acquired Events Mall, located in Jeddah, Saudi Arabia. The Islamic investment bank in a bourse filing announced that the mall is valued at SAR180 million (US$47.97 million) and that the deal is expected to realize an average semi-annual cash return of 12% and internal return rate of 12% over the investment period.

SEDCO educational acquisition

GLOBAL: Saudi Arabian Islamic private wealth management company, SEDCO Holding Group, has according to a press release acquired a 50% stake in Mektebim Okullari, a company operating in the private education sector in Turkey. Under a partnership agreement with the Turkish company which currently operates 17 schools from pre-school to high school levels, SEDCO Holding Group will own 50% of the company's shares and play an active part in the company's ambitious growth strategy in the region. The schools currently have over 4,000 students and Mektebim Okullari will add eight more schools this year to its portfolio and has many other projects under consideration.

MIDDLE EAST

CMA implements the QFI Rules

SAUDI ARABIA: The Capital Market Authority (CMA) of Saudi Arabia on the 4th May adopted the Rules for Qualified Foreign Financial Institutions Investment in Listed Shares (the QFI Rules). According to a bourse filing, the rules were adopted following a 90-day review of its draft and the confirmation of readiness by the Saudi Stock Exchange to allow foreign financial institutions to trade shares on the bourse.

MSCI to introduce new indexes

SAUDI ARABIA: MSCI on the 1st June will launch the MSCI Saudi Arabia Indexes as Standalone Market Indexes as the Kingdom readies itself to open up its market to foreign direct investments next month. MSCI in a press release also revealed that it will introduce a series of related regional and capped indexes on the 1st June, including the MSCI GCC Countries International Index and the MSCI Saudi Arabia IMI 25-50 Index. The MSCI Saudi Arabia Indexes will be transitioned from the existing MSCI Provisional Saudi Arabia Indexes. The pro forma constituents and weights for the MSCI Saudi Arabia Indexes will be announced on the 12th May as part of the May 2015 Semi-Annual Index Review announcement.

New Islamic investment bank launched in DIFC

UAE: The Dubai International Financial Center (DIFC) has welcomed Tabarak, a new Islamic investment bank, to its community, the bank confirmed with IFN.

Founding shareholders of the new bank are its chairman Abdulwahab Al Shiri who established Saudi Arabia's Roshana International Group and CEO Dr Mohamed Ahmadi, a career banker who set up a branch of a Swiss private bank in Dubai.

Fincorp's new Islamic investment banking services

OMAN: The Financial Corporation (Fincorp) has begun offering Shariah compliant Islamic investment banking services including brokerage, asset management, corporate finance and advisory services. According to a bourse filing, the company also launched a new mobile application, Finxpress, allowing users to trade on the Muscat Securities Market.

Waqf Fund's venture capital initiative

BAHRAIN: The Waqf Fund in its 8th Roundtable Discussion has according to a press release highlighted the importance of venture capital as an industry that needs to be further developed in Bahrain and the GCC not only because of the financial returns but also due to the economic and social benefits such as job opportunities.

Al Yusr Islamic inaugurates branch in Nizwa

OMAN: Al Yusr Islamic Banking, the Shariah compliant arm of Oman Arab Bank, has opened a new branch in Nizwa town in Al Dakhiliya Governorate, according to Times of Oman. The fully-fledged branch offers a suite of products for the retail, small and medium enterprises and corporate banking segments.

ASSET MANAGEMENT

Al Hilal MENA Fund

OMAN: Al Hilal MENA Fund (AHMF), posted a return of 12% year-to-date (net asset value of OMR1.01 (US$2.62)) as of the 30th April 2015, reported Times of Oman. The performance is said to have elevated Al Hilal MENA Fund, managed by Ahlibank Asset Management, to become the 'highest performing' open-ended mutual fund in Oman. AHMF is the first and only Shariah compliant fund sponsored and managed by a bank in Oman.

Manulife's Shariah fund distributes income

MALAYSIA: Manulife Asset Management Services (Manulife) has declared an income distribution of 3 Malaysian sen (0.8 US cents) for the Manulife Investment Shariah Progress Fund for the financial year ended the 30th April 2015. According to a statement on its website, all unitholders who maintained their units in the Islamic small cap fund as at the said date are entitled to receive the distribution which represents a yield of 7.06%. As of the end of April 2015, the fund realized a 74.79% returns for the three-year period.

RESULTS

Al Rayan Bank

UK: Al Rayan Bank reported an 86% increase in total customer financing to GBP450.3 million (US$684.94 million) for the 2014 financial year, the Islamic bank informed IFN. Operating income was up 168% to GBP11.8 million (US$17.95 million) while the bank realized a post-tax profit of GBP1.2 million (US$1.83 million), a swing from a GBP5.5 million (US$8.37 million) loss recorded the previous year.

PruBSN

MALAYSIA: Prudential BSN Takaful (PruBSN) generated a 26.4% year-on-year growth in new business annual contribution equivalent to RM340.1 million (US$94.54 million) in 2014. The operator informed IFN that the expansion was due to its advancement in technology and customer-focused offerings.

Al Baraka Banking Group

BAHRAIN: Al Baraka Banking Group (ABG) revealed a 3% growth in net profit for the first quarter to US$69 million. The Shariah compliant banking group announced in a statement that while balance sheets items were affected by the devaluation of exchange rates of currencies of the countries where ABG is present, where total assets decreased by 1%, total financing and investments remained almost the same as at the end of December 2014, and customer accounts decreased by 2% at the end of March 2015 compared to the end of December 2014. The banking group also plans to launch 54 new branches this year across different countries.

Faisal Islamic Bank

EGYPT: Faisal Islamic Bank saw its total volume of business increase 9.9% in the first quarter, as compared to the corresponding period in 2014, to EGP52.51 billion (US$6.86 billion). According to a statement on the bank's website, total assets for the period were up 9.8% to EGP51.89 billion (US$6.78 billion).

Ithmaar Bank

BAHRAIN: Shariah financier Ithmaar Bank made a 261% increase in net profit for the first three months of 2015 to US$7.62 million over the same period last year, the bank said in a statement to IFN. Net profit attributable to equityholders for the first quarter was up 426% to US$2.64 million. Total assets as at the 31st March 2015 grew to US$8.06 billion, marking a 7.18% year-on-year growth.

Al Amanah Investment Bank

PHILIPPINES: Al Amanah Investment Bank marked a 50% improvement in net loss in 2014 to PHP24.74 million (US$555,206), as compared to 2013. The bank's annual report showed higher total income at PHP48.13 million (US$1.08 million), a 79.6% growth while capital expenditure fell 11.24% to PHP38.66 million (US$867,594).

Amana Bank

SRI LANKA: Amana Bank continued its profitability trend from the last quarter as it made LKR23 million (US$169,017) in profit before tax for the first three months of 2015, the bank informed IFN. This is an improvement from the LKR49.3 million (US$362,284) pre-tax loss it made in the corresponding period last year.

Pak-Qatar Takaful

PAKISTAN: Pak-Qatar Takaful Group made a total business of PKR6.1 billion (US$59.54 million) for the 2014 financial year, the operator announced on its website. The group also paid PKR2 billion (US$19.52 million) in claims last year.

Ziraat bank

TURKEY: Ziraat Bank, which is expected to open its Islamic operations in May, has reported first quarter profits of TRY 1.1 billion (US$408.25 million), according to Daily Sabah. Loans constituted 58% of balance sheets that reached TRY271 billion (US$100.57 billion). The net profit of the bank, which was TRY930 million (US$345.15 million) in the first quarter of last year, soared by 18% in the same period of this year, hitting TRY1.1 billion.

TAKAFUL

Walaa Insurance's subscription period

SAUDI ARABIA: Tadawul announced on its website that it began the first subscription period and tradable rights trading for Saudi United Cooperative Insurance Company (Walaa Insurance) yesterday. The subscription period is scheduled to end on the 14th May 2015.

Kenya issues Takaful rules

KENYA: The Insurance Regulatory Authority of Kenya has released draft rules on Takaful. The document, available on the regulator's website, dictates the scope of duties and responsibilities of Takaful operators, provides a framework for operations and sustainable Takaful funds and sets minimum standards for operations — both for fully-fledged operators and Takaful windows.

EFU Life Assurance-JS Bank collaboration

PAKISTAN: EFU Life Assurance and JS Bank have entered into a distribution partnership for EFU Life's window Family Takaful products under a dedicated brand 'Hemayah', announced JS Bank.

RATINGS

Etiqa Takaful's ratings reaffirmed

MALAYSIA: RAM has reaffirmed the 'AAA/Stable/P1' claims-paying ability ratings of Etiqa Takaful (ETB). The agency concurrently reaffirmed the 'AA1/Stable' rating of the company's RM300 million (US$83.25 million) subordinated Sukuk Musharakah. According to a statement by the agency, the ratings reflect ETB's well-entrenched franchise as Malaysia's largest Takaful operator, with its General Takaful accounting for almost half of the industry's gross contributions.

ETB derives strong operational support and financial flexibility from its parent, Maybank Ageas Holdings that also operates Etiqa Insurance (rated 'AAA/Stable/P1'). As a member of the Maybank Group, ETB benefits from the vast network of its ultimate parent, Malayan Banking (rated 'AAA/Stable/P1').

Indosat accorded ratings for Sukuk and bond issues

INDONESIA: Fitch in a statement has assigned national long-term ratings of 'AAA(idn)' to Indosat (Indosat: 'BBB/AAA(idn)/Stable')'s IDR1.75 trillion (US$134.05 million) senior unsecured bonds and IDR250 billion (US$19.15 million) Sukuk Ijarah issues. The issues are from Indosat's IDR9 trillion (US$689.4 million) bond program and IDR1 trillion (US$76.6 million) Sukuk Ijarah program affirmed at 'AAA(idn)' on the 27th March 2015, and are consequently rated at the same level as the programs. Indosat will use the debt issue proceeds to refinance its existing US dollar debt and to fund capex.

QIIB's outlook rated stable

QATAR: Moody's has upgraded Qatar International Islamic Bank (QIIB)'s long-term and short-term issuer rating to 'A2/Prime-1' from 'A3/Prime-2', and changed baseline credit assessment (BCA) and adjusted BCA to 'baa3' from 'ba1'. The rating agency also said in a statement that it changed the outlook on the bank's long-term ratings to stable. Concurrently, Moody's also assigned a new counterparty risk assessment of 'A1' to the bank.

Cagamas's Sukuk rating affirmed

MALAYSIA: MARC in a statement has affirmed its 'AAAID' rating on Cagamas's RM2.05 billion (US$568.43 million) asset-backed Sukuk Musharakah issuance, with a stable outlook. The rating action affects the outstanding RM1.32 billion (US$367.40 million) Sukuk issued under CMBS 2005-1. Cagamas MBS is a wholly-owned special purpose vehicle of Cagamas Holdings and was established to undertake the securitization of conventional and Islamic home financing originated by the government of Malaysia.

Muamalat downgraded

INDONESIA: Fitch in a statement has downgraded the national long-term ratings on Bank Muamalat Indonesia (Muamalat) to 'A-(idn)' from 'A(idn)' and affirmed Bank Mayapada Internasional (Mayapada) at 'A-(idn)'. The rating outlooks have been revised to negative from stable. Subsequently, Fitch also affirmed the national short-term ratings of 'F1(idn)' for both banks.

Muhibbah Engineering's Sukuk rating withdrawn

MALAYSIA: RAM in a statement has withdrawn the rating of Muhibbah Engineering's RM130 million (US$36.05 million) Sukuk with 38 million detachable warrants (2010/2015), following the full redemption of the facility on the 27th April 2015. As such, the ratings agency no longer has any rating obligation in respect of the Islamic bonds, previously rated 'AAA(s)/Stable'.

MOVES

Qatar Islamic Bank

QATAR: **Abdulrahman Al Nabit** has been appointed as the new head of Tamayuz Banking at Qatar Islamic Bank (QIB), the bank announced in a statement. Abdulrahman was the area manager responsible for QIB's northern region branches network.

Ethiopian Commodity Exchange

ETHIOPIA: The Ethiopian Commodity Exchange announced to the press the appointment of **Ato Ermias Eshetu** as CEO of the exchange.

BLME

UK: BLME Holdings has in a press release announced the appointment of **Michael Williams** as interim CEO of BLME Holdings and of its main operating company, Bank of London and The Middle East (BLME) with effect from the 13th May 2015. Williams reports directly to **Adel Abdul Wahab Al-Majed**, the non-executive chairman of the board of BLME Holdings.

Al Rajhi

SAUDI ARABIA: Al Rajhi Bank in a press release has announced the appointment of **Steve Bertamini** as CEO of the bank effective the 18th May 2015. Bertamini previously held the position of group executive director and CEO for global consumer banking at Standard Chartered Bank.

Islami Bank Bangladesh

BANGLADESH: IFN has learned Islami Bank Bangladesh has promoted **M Shamsuzzaman** from executive vice-president to deputy managing director, effective the 7th May. Shamsuzzaman is also IFN's correspondent for Bangladesh.

AmMetLife Takaful

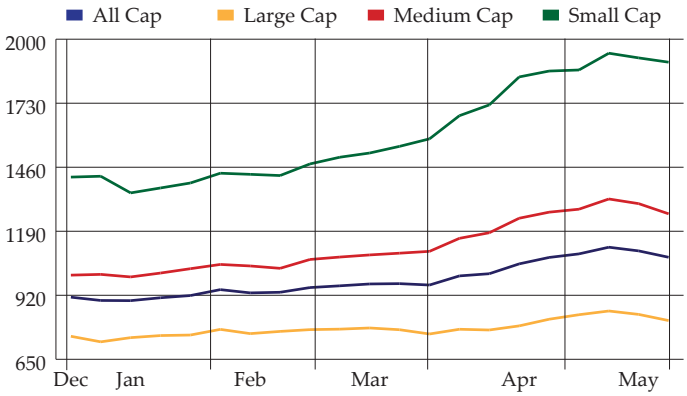
MALAYSIA: AmMetLife Takaful confirmed with IFN that it has appointed former chief of Great Eastern Takaful **Mohamad Salihuddin** as its new CEO, replacing **Wan Zamri Wan Zain** who will step down on the 15th May.

BIMB Holdings

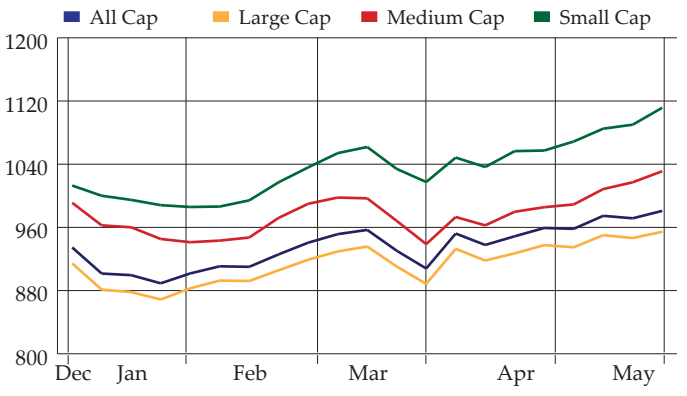
MALAYSIA: BIMB Holdings has appointed **Malkit Singh Maan** as its new group chief financial officer (CFO), taking over from **Mohamad Azlan Mohamad Alam** who will be re-designated as chief operating officer. Previously CFO of Bank Islam Malaysia, Maan will be replaced by **Mohd Muazzam Mohamed**, formerly partner of KPMG Malaysia and executive director of KPMG Malaysia's Management Consulting.

Expected date	Company's name	Size	Structure	Announcement Date
TBA	Government of Oman	OMR200 million	Sukuk	11th May 2015
TBA	Najran Cement Company	TBA	Sukuk	8th May 2015
TBA	Saudi British Bank	SAR1.5 billion	Sukuk	8th May 2015
2nd quarter 2015	National Shipping Company of Saudi Arabia	SAR3.9 billion	Sukuk	7th May 2015
TBA	Government of Indonesia	TBA	Sukuk	7th May 2015
TBA	Riyad Bank	SAR4 billion	Sukuk	6th May 2015
Jun-15	Adira Dinamika Multi Finance	IDR500 billion	Sukuk	6th May 2015
2015/2016 fiscal year	Government of Egypt	TBA	Sukuk	5th May 2015
2015	Government of Ivory Coast	XOF300 billion	Sukuk	24th April 2015
TBA	Noor Bank	US$3 billion	Sukuk	15th April 2015
16th April 2015	International Islamic Liquidity Management Corporation	US$860 million	Sukuk	10th April 2015
2016	Government of Kazakhstan	TBA	Sukuk	9th April 2015
TBA	CIMB Group Holdings	RM1 billion	Sukuk	9th April 2015
TBA	Taliworks Corporation	RM210 million	Sukuk Murabahah	8th April 2015
TBA	Government of Senegal	TBA	Sukuk	6th April 2015
TBA	Oman Telecommunications	TBA	Sukuk	23rd March 2015
TBA	Zorlu Energy	TRY100 million	Sukuk	20th March 2015
TBA	Turkiye Finans	RM2.05 billion	Sukuk	20th March 2015
TBA	Government of Jordan	JOD400-500 million	Sukuk	20th March 2015
TBA	Bank Muscat	OMR500 million	Sukuk	20th March 2015
24th March 2015	Government of Indonesia	IDR2 trillion	Sukuk	18th March 2015
Apr-15	Masraf Al Rayan	TBA	Sukuk	17th March 2015
TBA	Emirates Airline	TBA	Sukuk	16th March 2015
As early as April 2015	Government of UAE	TBA	Green energy Sukuk	12th March 2015
Before June 2015	BNI Syariah	IDR500-750 billion	Sukuk	10th march 2015
TBA	Treet Corporation	PKR539.51 million	Sukuk	9th March 2015
2015	Government of Hong Kong	US$500 million-1 billion	Sukuk	9th March 2015
Before end of April	Emirate of Ras Al Khaimah	TBA	Sukuk	5th March 2015
End of March	National Shipping Company of Saudi Arabia	SAR3.9 billion	Sukuk	5th March 2015
TBA	Sharjah Islamic Bank	TBA	Sukuk	4th March 2015
TBA	Tulip Maple	US$750 million	Sukuk	4th March 2015
6th March 2015	Government of Malaysia	RM100 million	Islamic Treasury Bills	4th March 2015
Mid-2015	Central Bank of Oman	OMR200 million	Sukuk	2nd March 2015
TBA	Khazanah Nasional	RM1 billion	Sukuk	27th February 2015
2015	Gulf Finance House	US$230 million	Sukuk	26th February 2015
2015	Garuda Indonesia	US$500 million	Sukuk	25th February 2015
TBA	IDB	TBA	Sukuk	25th February 2015
TBA	Qatar Islamic Bank	QAR5 billion	Sukuk	23rd February 2015
11th March 2015	Government of Indonesia	IDR5 billion	Sukuk	23rd February 2015
TBA	Al Baraka Bank	TBA	Sukuk	17th February 2015
18th February 2015	Turkish Treasury	TRL1.8 billion	Sukuk Ijarah	17th February 2015
TBA	Government of Malaysia	TBA	Sukuk	16th February 2015
2016	Government of South Africa	TBA	Sukuk	13th February 2015
3rd quarter 2015	SGI-Mitabu	AU$150 million	Sukuk	13th February 2015
TBA	Petroliam Nasional (Petronas)	US$ 7 billion	Sukuk	12th February 2015
TBA	Abu Dhabi Islamic Bank	TBA	Sukuk	11th February 2015

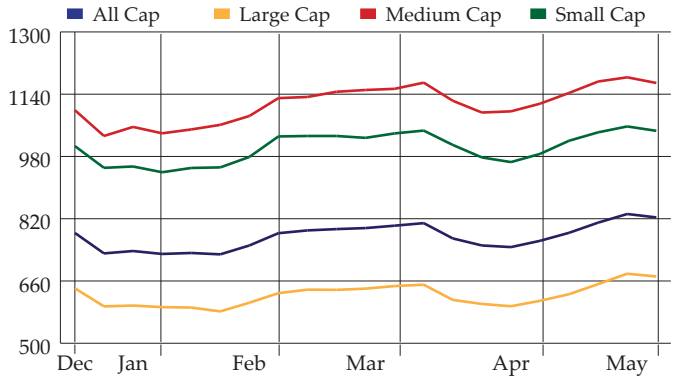
REDmoney Asia ex. Japan *6 Months*



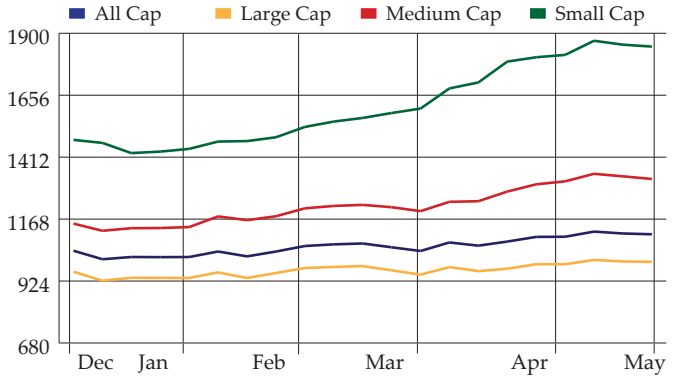
REDmoney Europe *6 Months*



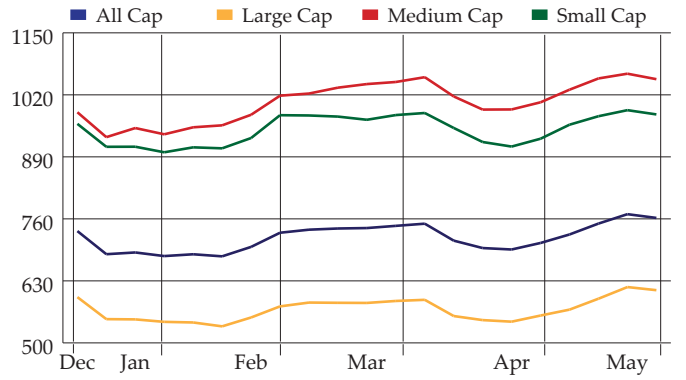
REDmoney GCC *6 Months*



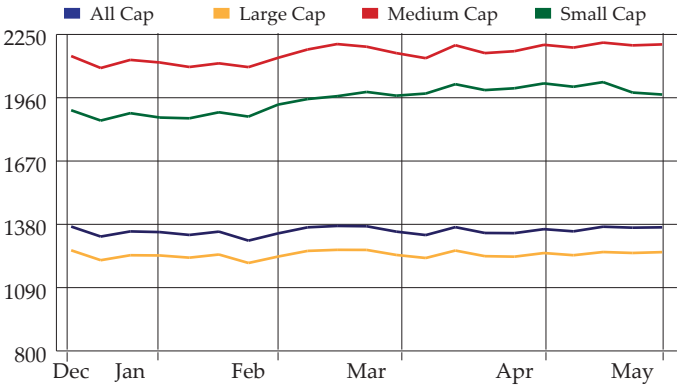
REDmoney Global *6 Months*



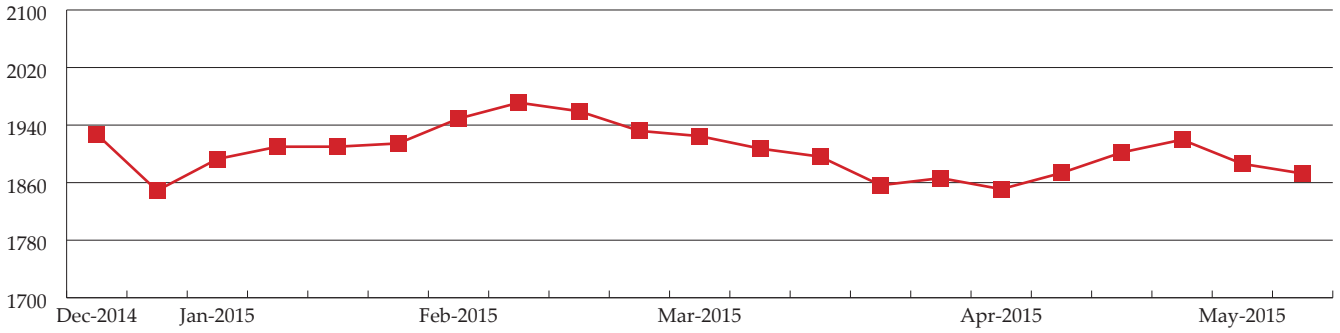
REDmoney MENA *6 Months*



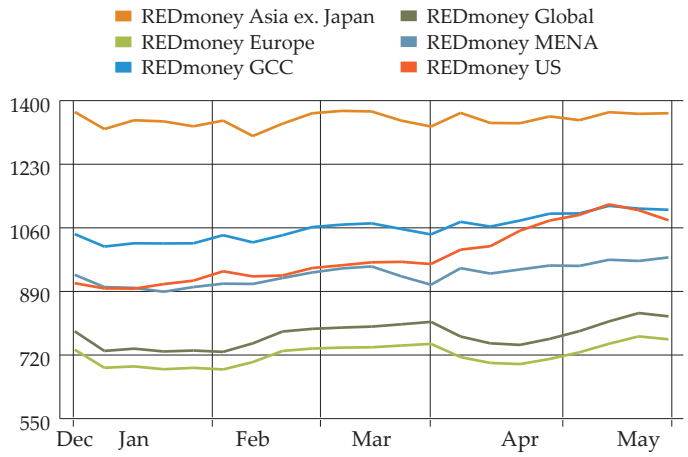
REDmoney US *6 Months*



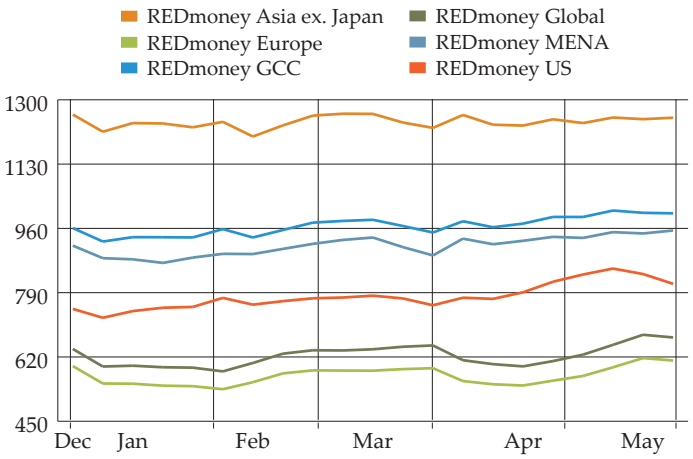
SAMI Halal Food Participation (All Cap) *6 months*



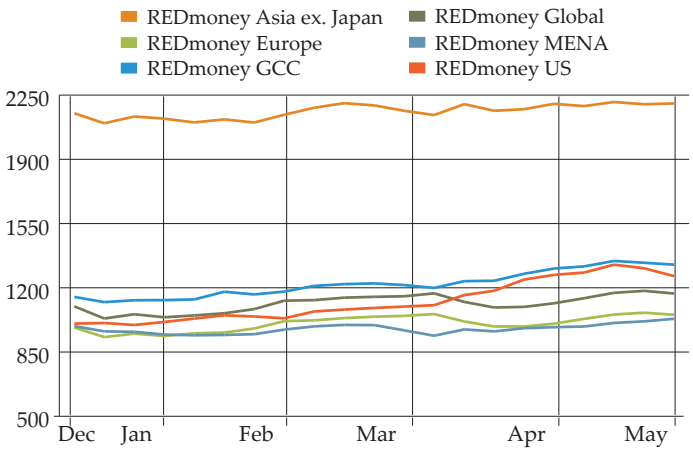
REDmoney Global Shariah Index Series (All Cap) *6 Months*



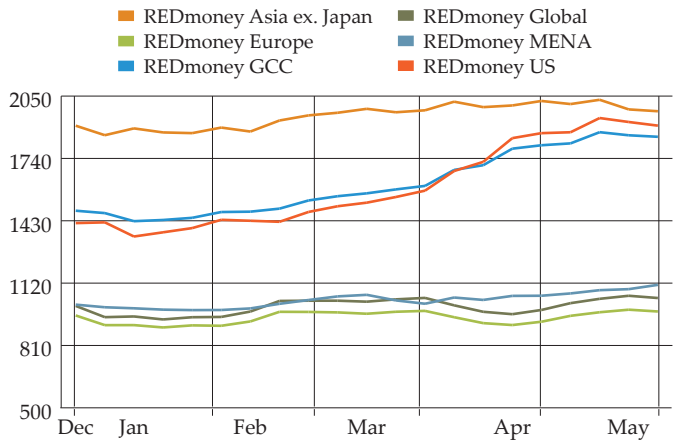
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



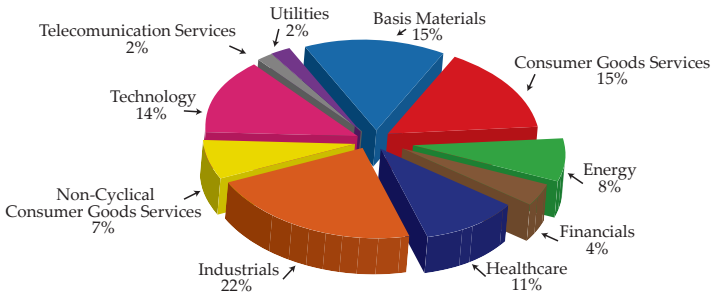
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

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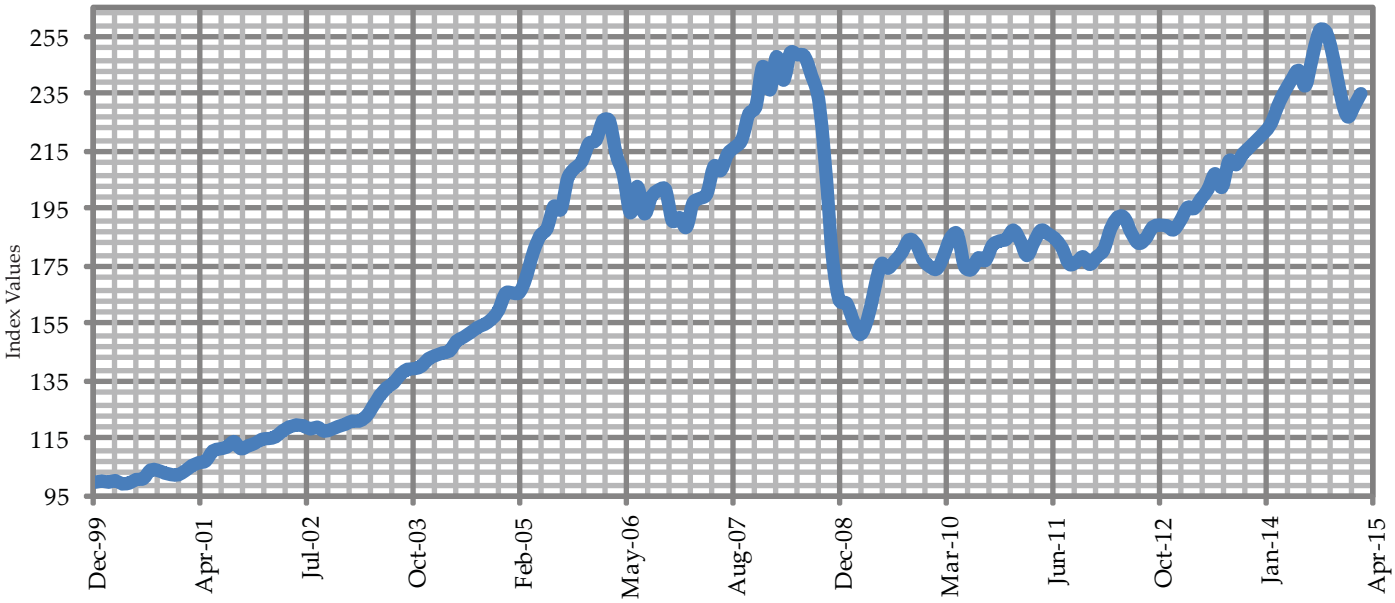
Managing Director, REDmoney Group

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

Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 Monthly Returns for Asia Pacific Markets Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	BIG Dana Muamalah	Bhakti Asset Management	1.61	Indonesia
2	Meezan Islamic Income	Al Meezan Investment Management	0.92	Pakistan
3	Insight I-Hajj Syariah	Insight Investments Management	0.91	Indonesia
4	PB Islamic Bond	Public Mutual	0.91	Malaysia
5	BNI-AM Dana Syariah	BNI Asset Management	0.86	Indonesia
6	RHB-OSK Islamic Bond	RHB Asset Management	0.85	Malaysia
7	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	0.84	Pakistan
8	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	0.78	Pakistan
9	PNM Amanah Syariah	PNM Investment Management	0.74	Indonesia
10	Public Islamic Bond	Public Mutual	0.70	Malaysia
	Eurekahedge Islamic Fund Index		**1.94**	

Based on 40.16% of funds which have reported April 2015 returns as at the 11th May 2015

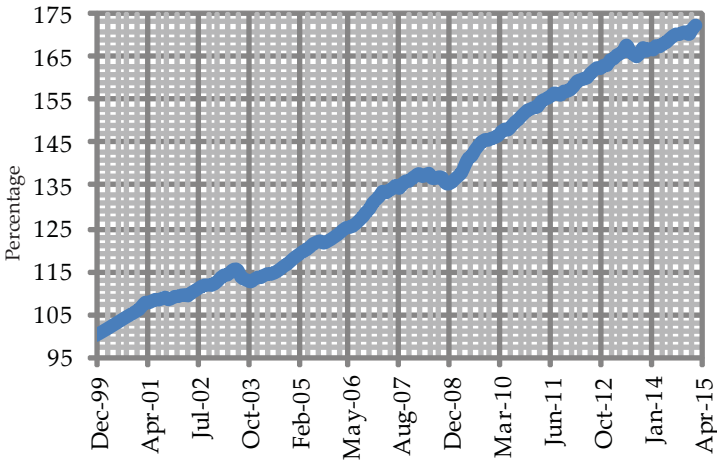
Top 10 Monthly Returns for Middle East/Africa Markets Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Islamic Certificate on the LLB Top 20 Middle East TR Index (EUR)	ABN AMRO Bank	17.48	Netherlands
2	Dow Jones DJIM Turkey ETF	BIZIM MENKUL DEGERLER (BMD)	12.42	Turkey
3	Sanabel	HC Securities & Investment	4.15	Egypt
4	Al Yusr Aman Multi Asset	Saudi Hollandi Bank	3.78	Saudi Arabia
5	STANLIB Shari'ah Equity A	STANLIB	2.77	South Africa
6	Kagiso Islamic Equity	Kagiso Asset Management	2.43	South Africa
7	FALCOM Saudi Equity	FALCOM Financial Services	2.00	Saudi Arabia
8	NewFunds Shariah Top 40 Index ETF	NewFunds	1.25	South Africa
9	Al Rajhi Petrochemical and Cement Equity	Al Rajhi Bank	1.01	Saudi Arabia
10	Emirates MENA Opportunities	EIS Asset Management	0.98	Jersey
	Eurekahedge Islamic Fund Index		**2.12**	

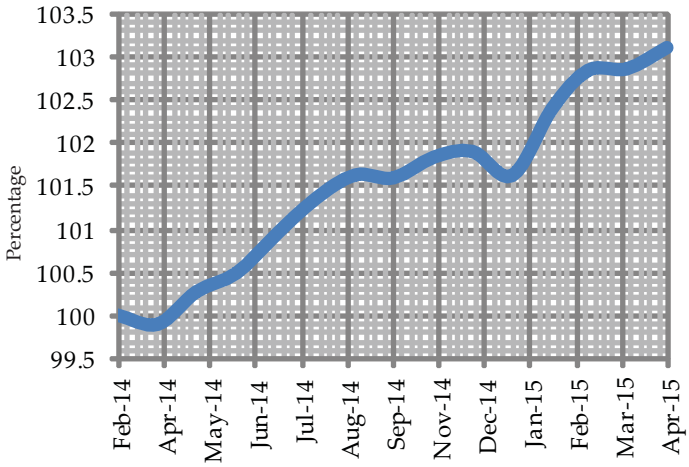
Based on 56.25% of funds which have reported April 2015 returns as at the 11th May 2015

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

Eurekahedge Islamic Fund Fixed Income Index over the last 5 years



Eurekahedge Islamic Fund Fixed Income Index over the last 1 year



Top 10 Islamic Fixed Income Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	MAA Takaful Shariah Flexi	MAA Takaful	11.17	Malaysia
2	Kenanga Shariah Balanced	ING Funds	8.48	Malaysia
3	BNI-AM DanaPlus Syariah	BNI Asset Management	5.95	Indonesia
4	MAA Takaful Shariah Income	MAA Takaful	3.23	Malaysia
5	Meezan Islamic Income	Al Meezan Investment Management	3.09	Pakistan
6	RHB-OSK Islamic Bond	RHB Asset Management	3.04	Malaysia
7	Al-Ameen Islamic Aggressive Income	UBL Fund Managers	2.32	Pakistan
8	BNI-AM Dana Syariah	BNI Asset Management	2.31	Indonesia
9	Public Islamic Bond	Public Mutual	2.27	Malaysia
10	PB Islamic Bond	Public Mutual	2.25	Malaysia
	Eurekahedge Islamic Fund Index		**1.42**	

Based on 40.00% of funds which have reported April 2015 returns as at the 11th May 2015

Top 10 Annualized Sortino Ratio for ALL Islamic Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	12.12	Pakistan
2	Commodity Trading - SAR	Riyad Bank	9.83	Saudi Arabia
3	Kagiso Islamic Equity	Kagiso Asset Management	6.13	South Africa
4	Taurus Ethical B	Taurus Asset Management	6.09	India
5	Public Islamic Select Enterprises	Public Mutual	5.15	Malaysia
6	Alkhair Capital Istanbul	Alkhair Portfoy Yonetimi	4.16	Turkey
7	Public Islamic Bond	Public Mutual	3.40	Malaysia
8	PB Islamic Bond	Public Mutual	3.17	Malaysia
9	Mashreq Al-Islami Income	Mashreq Capital (DIFC)	2.83	UAE
10	Emirates Global Sukuk Limited USD Institutional Share Class (Acc)	Emirates NBD Asset Management	2.75	Jersey
	Eurekahedge Islamic Fund Index		**0.22**	

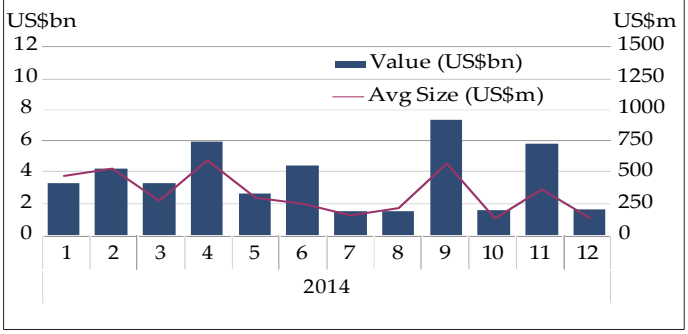
Based on 44.56% of funds which have reported April 2015 returns as at the 11th May 2015
Based on reporting funds with at least 12 months of returns till April 2015 as at the 11th May 2015

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

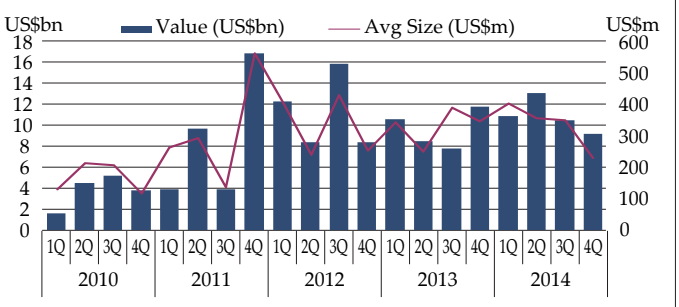
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
21st Apr 2015	Noor Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, Dubai Islamic Bank, South Indian Bank, Citigroup, Emirates NBD, Al Hilal Bank, QInvest, Barwa Bank
17th Apr 2015	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	140	RHB Capital, CIMB Group, AmInvestment Bank
8th Apr 2015	Malaysia Sovereign Sukuk	Malaysia	Sukuk	Euro market public issue	1,500	Standard Chartered Bank, HSBC, CIMB Group
6th Apr 2015	Point Zone (M)	Malaysia	Sukuk	Domestic market public issue	219	Maybank, CIMB Group, Hong Leong Financial Group, Affin Investment Bank, AmInvestment Bank
25th Mar 2015	Khadrawy	UAE	Sukuk	Euro market public issue	913	Standard Chartered Bank, JPMorgan, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
25th Mar 2015	Danga Capital	Malaysia	Sukuk	Domestic market public issue	547	RHB Capital, CIMB Group
24th Mar 2015	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	1,000	JPMorgan, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
23rd Mar 2015	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	943	RHB Capital, Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank
20th Mar 2015	Mah Sing Group	Malaysia	Sukuk	Domestic market public issue	146	Maybank, CIMB Group
20th Mar 2015	HSBC Amanah Malaysia	United Kingdom	Sukuk	Domestic market public issue	203	HSBC, Maybank, Hong Leong Financial Group
17th Mar 2015	Prasarana Malaysia	Malaysia	Sukuk	Domestic market public issue	541	RHB Capital, Kenanga Investment Bank, CIMB Group, Affin Investment Bank, AmInvestment Bank
11th Mar 2015	Petronas Global Sukuk	Malaysia	Sukuk	Euro market public issue	1,250	JPMorgan, Deutsche Bank, Morgan Stanley, HSBC, Maybank, Mitsubishi UFJ Financial Group, CIMB Group, Citigroup, Bank of America Merrill Lynch
10th Mar 2015	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Kuwait Finance House, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
5th Mar 2015	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	1,000	Saudi National Commercial Bank, Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, RHB Capital, Dubai Islamic Bank, Gulf International Bank, Natixis, CIMB Group
2nd Mar 2015	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	332	AmInvestment Bank
28th Jan 2015	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	139	Maybank, CIMB Group
22nd Jan 2015	Danga Capital	Malaysia	Sukuk	Domestic market public issue	445	RHB Capital
14th Jan 2015	Dubai Islamic Bank	UAE	Sukuk	Euro market public issue	1,000	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
19th Dec 2014	DRB-HICOM	Malaysia	Sukuk	Domestic market private placement	206	CIMB Group
19th Dec 2014	Northport (Malaysia)	Malaysia	Sukuk	Domestic market public issue	101	Maybank, Affin Investment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



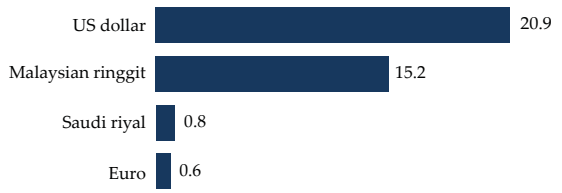
Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss (%)	Managers
1	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	2,881	7.6	Standard Chartered Bank, Deutsche Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, Maybank, Gulf International Bank, Natixis, CIMB Group, Saudi National Commercial Bank, RHB Capital, Dubai Islamic Bank
2	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	2,479	6.5	Standard Chartered Bank, RHB Capital, Maybank, CIMB Group, AmInvestment Bank, Affin Investment Bank, Bank Islam Malaysia
3	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	1,500	3.9	Standard Chartered Bank, HSBC, CIMB Group, Emirates NBD
3	Malaysia Sovereign Sukuk	Malaysia	Sukuk	Euro market public issue	1,500	3.9	Standard Chartered Bank, HSBC, CIMB Group
5	Petronas Global Sukuk	Malaysia	Sukuk	Euro market public issue	1,250	3.3	JPMorgan, Deutsche Bank, Morgan Stanley, HSBC, Maybank, Mitsubishi UFJ Financial Group, CIMB Group, Citigroup, Bank of America Merrill Lynch
6	Islamic Republic of Pakistan	Pakistan	Sukuk	Euro market public issue	1,000	2.6	Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, Citigroup
6	Hong Kong Sukuk 2014	Hong Kong	Sukuk	Euro market public issue	1,000	2.6	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, CIMB Group
6	Hazine Mustesarligi Varlik Kiralama Anonim Sirketi	Turkey	Sukuk	Euro market public issue	1,000	2.6	HSBC, CIMB Group, Citigroup
6	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	1,000	2.6	JPMorgan, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
6	Dubai Islamic Bank	UAE	Sukuk	Euro market public issue	1,000	2.6	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
11	Danga Capital	Malaysia	Sukuk	Domestic market public issue	992	2.6	RHB Capital, CIMB Group
12	Bank Pembangunan Malaysia	Malaysia	Sukuk	Domestic market public issue	948	2.5	HSBC, CIMB Group
13	Khadrawy	UAE	Sukuk	Euro market public issue	913	2.4	Standard Chartered Bank, JPMorgan, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
14	Sharjah Sukuk	UAE	Sukuk	Euro market public issue	750	2.0	Standard Chartered Bank, HSBC, Kuwait Finance House, National Bank of Abu Dhabi, Sharjah Islamic Bank
14	Emaar Malls Group	UAE	Sukuk	Euro market public issue	750	2.0	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
16	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	743	2.0	Maybank, CIMB Group
17	ICD	UAE	Sukuk	Euro market public issue	700	1.8	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Citigroup, Emirates NBD
17	Dubai International Financial Centre	UAE	Sukuk	Euro market public issue	700	1.8	Standard Chartered Bank, Dubai Islamic Bank, Emirates NBD, Noor Bank
19	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	631	1.7	RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
20	Mumtalakat Sukuk Holding	Bahrain	Sukuk	Euro market public issue	594	1.6	Standard Chartered Bank, Deutsche Bank, BNP Paribas, Mitsubishi UFJ Financial Group
21	Prasarana Malaysia	Malaysia	Sukuk	Domestic market public issue	541	1.4	RHB Capital, Kenanga Investment Bank, CIMB Group, Affin Investment Bank, AmInvestment Bank
22	Saudi Telecom	Saudi Arabia	Sukuk	Domestic market public issue	533	1.4	Saudi National Commercial Bank, Standard Chartered Bank, JPMorgan
23	ZAR Sovereign Capital Fund	South Africa	Sukuk	Euro market public issue	500	1.3	BNP Paribas, Standard Bank, Kuwait Finance House
23	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, Kuwait Finance House, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
23	Noor Bank	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, Dubai Islamic Bank, South Indian Bank, Citigroup, Emirates NBD, Al Hilal Bank, QInvest, Barwa Bank
23	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, Kuwait Finance House, Citigroup, Emirates NBD
23	JANY Sukuk	US	Sukuk	Euro market public issue	500	1.3	Saudi National Commercial Bank, Goldman Sachs, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank, Emirates NBD, QInvest
23	IFFIm Sukuk	United Kingdom	Sukuk	Euro market public issue	500	1.3	Saudi National Commercial Bank, Standard Chartered Bank, National Bank of Abu Dhabi, CIMB Group, Barwa Bank
23	Flydubai	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD, Credit Agricole, Noor Bank
23	Al Hilal Bank	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Citigroup, Emirates NBD, Al Hilal Bank
					38,086	**100**	

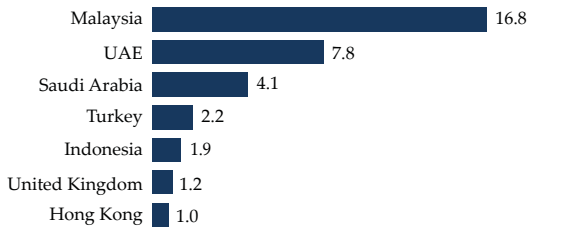
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	5,796	52	15.2
2	HSBC	4,056	28	10.7
3	Standard Chartered Bank	3,773	26	9.9
4	RHB Capital	3,264	44	8.6
5	Maybank	3,187	34	8.4
6	AmInvestment Bank	2,217	29	5.8
7	National Bank of Abu Dhabi	1,640	13	4.3
8	Emirates NBD	1,597	14	4.2
9	Citigroup	1,472	9	3.9
10	Dubai Islamic Bank	1,180	10	3.1
11	Deutsche Bank	754	5	2.0
12	Al Hilal Bank	701	7	1.8
13	JPMorgan	681	4	1.8
14	Natixis	658	3	1.7
15	Affin Investment Bank	525	9	1.4
16	Kuwait Finance House	507	5	1.3
17	Noor Bank	502	5	1.3
18	Saudi National Commercial Bank	472	4	1.2
19	BNP Paribas	442	3	1.2
20	Kenanga Investment Bank	423	6	1.1
21	Bank Islam Malaysia	389	4	1.0
22	Hong Leong Financial Group	345	10	0.9
23	Abu Dhabi Islamic Bank	328	4	0.9
24	Mitsubishi UFJ Financial Group	287	2	0.8
25	QInvest	283	4	0.7
26	Barwa Bank	279	4	0.7
27	Gulf International Bank	278	2	0.7
28	Sharjah Islamic Bank	275	2	0.7
29	First Gulf Bank	235	2	0.6
30	Morgan Stanley	207	2	0.5
	Total	**38,086**	**132**	**100.0**

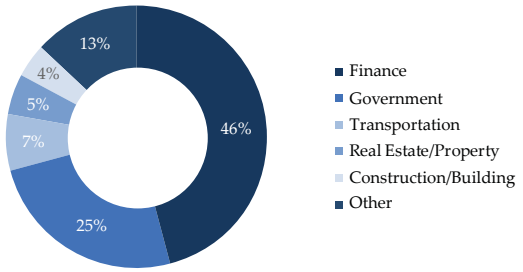
Sukuk Volume by Currency US$ (billion) *12 Months*



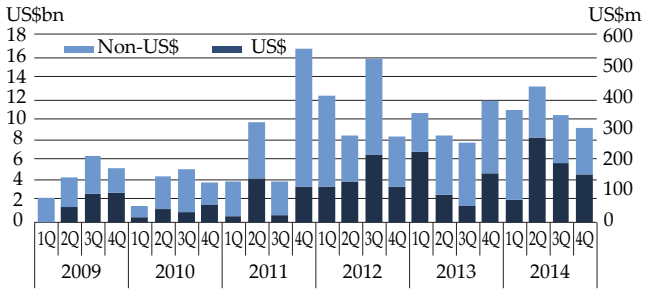
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	National Commercial Bank	2,822	4	21.6
2	Sumitomo Mitsui Financial Group	1,606	3	12.3
3	HSBC	1,036	4	7.9
4	Riyad Bank	755	3	5.8
5	Samba Capital & Investment Management	689	4	5.3
6	Al Rajhi Capital	576	4	4.4
7	Mitsubishi UFJ Financial Group	529	3	4.0
7	Mizuho Financial Group	529	3	4.0
9	Banque Saudi Fransi	517	3	4.0
10	Alinma Bank	310	2	2.4

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

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	6,475	6	27.7
2	Salans FMC SNR Denton Group	3,334	2	14.3
3	Baker & McKenzie	3,109	3	13.3
4	Milbank Tweed Hadley & McCloy	2,704	1	11.6
4	White & Case	2,704	1	11.6
6	Linklaters	1,631	2	7.0
7	Clifford Chance	1,416	3	6.1
8	Chadbourne & Parke	660	1	2.8
9	Latham & Watkins	433	2	1.9
10	Norton Rose Fulbright	354	1	1.5
10	Pekin & Pekin	354	1	1.5

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Samba Capital	1,258	5	7.3
2	National Bank of Abu Dhabi	1,198	7	7.0
3	Banque Saudi Fransi	1,077	5	6.3
4	First Gulf Bank	1,058	11	6.2
5	Abu Dhabi Islamic Bank	1,047	5	6.1
6	HSBC	967	8	5.6
7	Saudi National Commercial Bank	816	4	4.8
7	Riyad Bank	816	4	4.8
9	Alinma Bank	710	3	4.1
10	Dubai Islamic Bank	625	5	3.6
11	Mashreqbank	586	3	3.4
12	Standard Chartered Bank	577	7	3.4
13	Abu Dhabi Commercial Bank	561	4	3.3
14	Emirates NBD	468	8	2.7
15	Noor Bank	448	3	2.6
16	Al Rajhi Capital	310	2	1.8
17	Arab Banking Corporation	279	4	1.6
18	Sumitomo Mitsui Financial Group	269	2	1.6
18	ING	269	2	1.6
20	Barwa Bank	261	4	1.5
21	Commercial Bank of Dubai	247	3	1.4
22	Union National Bank	217	3	1.3
23	UOB	215	1	1.3
23	RHB Capital	215	1	1.3
23	Maybank	215	1	1.3
23	CIMB Group	215	1	1.3
23	AmInvestment Bank	215	1	1.3
28	Al Hilal Bank	191	2	1.1
29	Saudi Investment Bank	171	1	1.0
30	SABB	160	1	0.9

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

	Bookrunner	US$ (mln)	No	%
1	Maybank	2,239	1	25.2
2	Samba Capital	1,327	1	14.9
3	Abu Dhabi Islamic Bank	845	3	9.5
4	Saudi National Commercial Bank	666	1	7.5
4	Riyad Bank	666	1	7.5
4	Alinma Bank	666	1	7.5
7	Emirates NBD	302	4	3.4
8	Noor Bank	225	2	2.5
9	Dubai Islamic Bank	176	2	2.0
10	HSBC	161	1	1.8
10	Citigroup	161	1	1.8

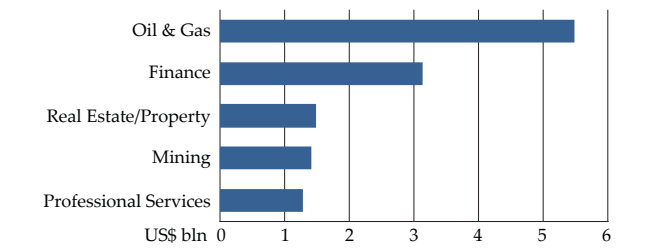
Top Islamic Finance Related Financing Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
30th Mar 2015	Saudi Aramco	Saudi Arabia	9,999
16th Mar 2015	PetroRabigh	Saudi Arabia	2,870
30th Jun 2014	Ma'aden Waad al-Shamal Phosphate	Saudi Arabia	2,350
15th Jan 2015	SapuraKencana TMC	Malaysia	2,239
21st May 2014	Emaar Malls Group	UAE	1,500
19th Nov 2014	Saudi BinLaden Group	Saudi Arabia	1,327
8th Sep 2014	Atlantis The Palm	UAE	1,100
10th Mar 2015	Port & Free Zone World	UAE	1,100
17th Apr 2015	Turkiye Vakiflar Bankasi - VakifBank	Turkey	1,021
22nd Mar 2015	Arab Petroleum Investments	Saudi Arabia	950

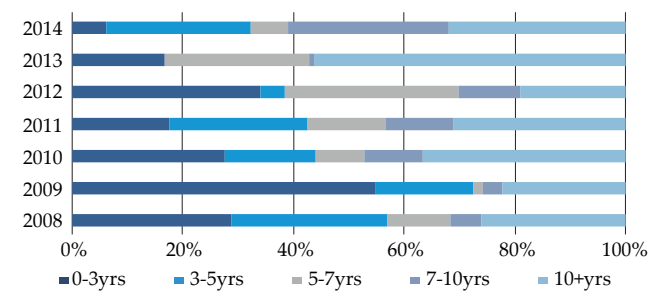
Top Islamic Finance Related Financing by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	7,104	7	41.4
2	UAE	5,616	14	32.7
3	Malaysia	2,239	1	13.0
4	Turkey	1,594	3	9.3
5	India	272	1	1.6
6	Kuwait	261	1	1.5
7	Indonesia	90	1	0.5

Top Islamic Finance Related Financing by Sector *12 Months*



Global Islamic Financing - Years to Maturity (YTD Comparison)



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

REDmoney events

MAY 2015		
25th – 26th	IFN Asia Forum	Kuala Lumpur, Malaysia
JUNE 2015		
10th	IFN Europe Forum	Luxembourg
SEPTEMBER 2015		
13th	IFN Issuer Forum	Dubai, UAE
OCTOBER 2015		
5th	IFN Kuwait Forum	Kuwait City
27th	IFN Egypt Forum	Cairo, Egypt
NOVEMBER 2015		
17th	IFN Turkey Forum	Istanbul, Turkey
30th	IFN Saudi Arabia Forum	Jeddah, Saudi Arabia

REDmoney training

JUNE 2015		
3th –5th	RMT: Understanding & Applying Structured Products	Kuala Lumpur, Malaysia
7th –9th	IFT: Advanced Sukuk & Islamic Securitization	Riyadh, Saudi Arabia
8th –10th	RMT: Funds Transfer Pricing	Istanbul, Turkey
9th –11th	RMT: Asset Liability Management	Kuala Lumpur, Malaysia
9th –11th	IFT: Sukuk Structuring & Legal Documentation	Kuala Lumpur, Malaysia
10th –11th	RMT: International Best Practices & Regional Standards in Regulation, Corporate Governance, AML, Sanctions & Compliance	Kuala Lumpur, Malaysia
11th –12th	RMT: Fixed Income Products & Bond Markets	Istanbul, Turkey
14th –15th	IFT: Accounting & Reporting for Islamic Financial Products	Dubai, UAE
15th	IFT: Islamic Financial Services Act (IFSA) 2013 for Takaful	Kuala Lumpur, Malaysia

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