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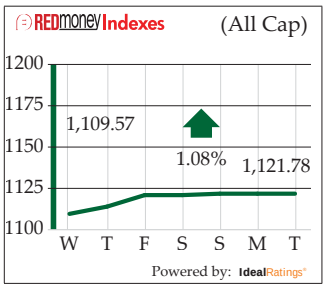

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20th May 2015 (*Volume 12 Issue 20*)

COVER STORY

Law firms look to Middle East for growth prospects

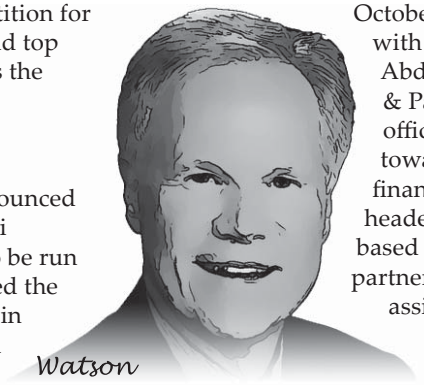
Demonstrating consistent and continued strength in regional performance and with an expanding and ever-evolving capital market, global law firms are looking to the Gulf for new growth opportunities — leading to an inevitable expansion in Islamic finance capabilities. LAUREN MCAUGHTRY talks to market players on their plans for the future.

International law firms are capitalizing on the strategic growth in the Middle East and flocking to expand in the region, with a flurry of new entries and office openings in recent weeks pointing to sustained confidence in the GCC capital markets, even as oil prices rebound to a six-month high. With experienced hires familiar with both the regional framework and specifics especially of Islamic finance transactions now at a premium, competition for talent is also heating up and top names courted from across the senior levels.

New markets

DLA Piper last month announced the opening of a new Saudi Arabian office in Jeddah to be run by Rakesh Bassi, who joined the firm from Clifford Chance in 2014, with plans for a third office this year; taking its total number of Middle Eastern outlets to eight. Global law firm Dechert, which also has an Islamic finance practice, on the 18th May also announced the arrival of dispute specialist Thomas Geuther as a new national partner for Dubai, to strengthen its regional practice. "Thomas's arrival is a step in our commitment to the disputes part of our team — something that will be a key to our success in the Middle East for many years," said Gavin Watson, a co-managing partner of Dechert's Dubai office. "We are committed to growing and strengthening our presence in the Middle East and today's announcement furthers that goal," added Chris Sioufi, also a co-managing partner.

Last year Baker & McKenzie also looked towards Saudi Arabia, with the opening of a second office in Jeddah in October in association with its Saudi advisors Abdulaziz Al-Ajlan & Partners. The office is focused towards Islamic finance transactions, headed by Bahrain-based Islamic finance partner Julie Alexander, assisted by newly-recruited Islamic finance specialist Basel Barakat who joined from Hassan Mahassni. "Having an on-the-ground presence in Jeddah and partners of Basel's caliber will considerably enhance our service offering for high-end finance and corporate advice," said Alexander.


Watson

New players

UK law firm DWF is also looking to the Gulf, with the launch of a new team in Dubai in March marking its first office outside the UK and Ireland. With the goal of supporting its clients across the construction, energy, insurance and transport sectors through the implementation of a three-year growth plan, the company claims that the move was a direct response to demand from major developers, contractors and insurer clients for on-the-ground legal advice in Dubai to support the construction boom in large infrastructure, housing, tourism, and air and port facilities across the Middle East. The team of four includes two players (Fernando Ortega and Jeremy Speller) hired from Americas-based international law firm Holland & Knight. "There is a real opportunity for us in Dubai. We've supported clients in Dubai and across the MENA region for many years and it's become increasingly clear that there is demand for our

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Bank OCBC NISP considers selling Sukuk to fund assets

Garuda to issue US$500 million in Sukuk; begins investor meetings

AEON Credit to auction RM1 billion (US$276.55 million) Sukuk

Masraf Al Rayan to issue benchmark Sukuk

Syarikat Pengeluar Air Sungai Selangor to make Sukuk payment end of May 2015

Bank BNI Syariah initiates offering period for IDR500 billion (US$38.1 million) Sukuk; to list on the 27th May

Indonesia set to auction Sukuk on the 19th May

Hong Kong plans sophomore sovereign Sukuk offering; roadshows to commence on the 18th May

International Islamic Liquidity Management Corporation to sell US$490 million Sukuk on the 21st May

Malakoff redeems RM1.8 billion (US$503.79 million) Sukuk Musharakah early

Dubai Islamic Bank mandates arrangers for benchmark dollar Sukuk

Khazanah Nasional launches first SRI Sukuk; targets education sector

NEWS

Vakif Participation Bank to establish within a month; aims for 15 branches by December

Sri Lanka's Islamic finance industry surges by 42% in 2014

Permodalan Nasional denies buying 1MDB Sukuk

IDB's trade financing arm to provide US$1 billion in financing to Pakistan to meet the country's budget needs

RAM Ratings releases criteria paper on structured transactions

ASSET MANAGEMENT

RHB Asset Management to launch new Islamic funds in Hong Kong; first one due in May

Maybank Asset Management eyes launching more Islamic funds on ASEAN CIS platform; now focusing on building performance record

National Investment Trust receives PKR3.9 billion (US$38.07 million) in subscription for Islamic equity fund

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Morocco adopts Takaful bill; final parliamentary vote expected later in the year

Syarikat Takaful Malaysia eyes acquisition and tie-up for its Malaysian and Indonesian operations

Jubilee General taps Islamic insurance market with window operations

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MARC affirms 'BBB-IS' rating on Senai-Desaru Expressway's Islamic medium-term notes program

KLCC REIT's Sukuk Murabahah program maintains 'AAA/Stable/P1' ratings

MARC affirms **Westports Malaysia**'s RM2 billion (US$556.12 million) Sukuk Musharakah program at 'AA+IS'

S&P affirms **Wataniya Insurance Co** at 'BBB'; with a stable outlook

Ras Al Khaimah receives 'A' rating

Moody's accords '(P)Aa1' rating to Hong Kong's proposed Sukuk program

Fitch assigns 'A(EXP)' rating to **DIB Sukuk**'s new issuance

RAM maintains **Telekom Malaysia**'s Sukuk ratings at 'AAA'

MOVES

CIMB-Principal Islamic Asset Management's CEO leaves; no replacement yet

Sheikh Nasr Amer Al Hosni resigns from **Takaful Oman Insurance**'s board of directors

President and CEO of **EXIM Bank** tenders resignation

Islamic banker **Mehmet Ali Akben** to lead Turkey's banking watchdog

Former **Doha Bank** treasury head joins **Qatar Islamic Bank**'s UK operations

Qatar International Islamic Bank appoints new head of government banking services sector

Kuwait Finance House continues restructuring plans; veterans retire early, new names on board

Law firms look to Middle East for growth prospects

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services on the ground, particularly in relation to construction and insurance work," commented Andrew Leaitherland, the managing partner and CEO.

> ***"The Middle East resembles the Europe of 25 years ago — a heavy banking market with lots of institutions seeking to put loans to work. That means it's harder to develop client desire to go into the capital markets"***

Other UK firms including distinguished international practice Zaiwalla & Co are also looking to the region for expansion opportunities. "Having established our credential all these years in London, we want to represent more Indian companies, and we are seeking to expand our operations in the Asian region, more specifically in India and Middle East," said founder Sarosh Zaiwalla.

New opportunities

This month White & Case also welcomed a new partner to its Dubai office, in the form of Debashis Dey, the former Middle East head of capital markets and structured finance with Clifford Chance.

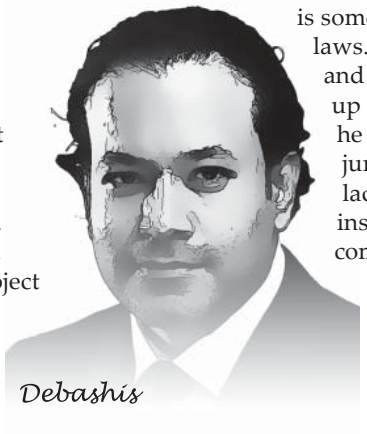
"The White & Case plan for capital markets growth in the GCC includes a focus on Islamic finance and infrastructure opportunities, and our recruitment of Debashis and the expansion of our Dubai presence will provide us a base for those efforts in a key financial center, as well as complement our overall ongoing international growth strategy across all capital markets platforms," the EMEA head of regional capital markets, Rob Matthews, told IFN.

"The Middle East has always been an active market in Islamic finance, and one of the things we've seen is the developing and maturing set of market parameters," Debashis explained to IFN. "We are starting to see some complexity enter into the market beyond what we've been doing before — such as the recent debut ECA-backed Sukuk for Emirates — which shows a recognition by traditional sovereign-linked entities as to the importance of Islamic finance, and a particular appetite to work with existing Islamic finance participants to create new products."

New products

Debashis's remit is not only to strengthen the firm's Middle East practice, but to expand and support its global Islamic finance remit across multiple markets. "The move to White & Case was really meant to assist the firm in building out a team which is based in the UAE but very much can work across the different geographies that White & Case is present in: such as Africa, Asia and Europe," explained Debashis. "In terms of products that White & Case has expertise in, this includes capital markets, asset finance, project finance — and that sits very neatly with my practice area."

One of his goals is to achieve a broader distribution of products, based on the firm's core expertise in project finance — which he expects to see significant growth. "White & Case is a powerhouse in project finance, and there's no doubt that we are moving through a phase currently where a lot of projects are refinancing and will move into the capital markets out of the bond market." Despite the recent slowdown in oil prices, the long timeline for infrastructure projects mean that the sector is expected to remain active over the next 12-18 months — especially as the two regional hotspots of Saudi Arabia and the UAE have not seen material reduction in spending. "While there has been a noticeable effect in terms of new RFPs coming out, the ongoing projects haven't stopped, just slowed," agreed Debashis.


Debashis

Another core initiative is asset finance, following the plethora of airline financing deals such as the recent Emirates transaction and the latest announcement of a US$500 million Sukuk from Indonesia's Garuda Airlines. "White & Case has a number of asset finance experts and they believe that we are likely to see asset finance move further into the Islamic format," confirmed Debashis.

Continued challenges

That is not to say there are no challenges in the sector — both in terms of structure and legal infrastructure. "The Middle East itself is overbanked and highly liquid," warned Debashis. "One of our challenges is that the Middle East resembles the Europe of 25 years ago — a heavy banking market with lots of institutions seeking to put loans to work. That means it's harder to develop client desire to go into the capital markets, when there are multiple banks beating down their doors to lend."

Another problem is that of the legal and regulatory framework. "The modern nature of some of the regional markets is sometimes well in advance of its laws. So the people who write laws and enact laws are trying to catch up with the pace of change," he explained. "Most of the jurisdictions here for example lack a complex bankruptcy law or insolvency law: so we are doing complex financings but we do not necessarily always know what the consequences will be if those financings go wrong.

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And that means that there is a resistance to doing or designing complex deals, because of uncertainty surrounding how these laws work."

Dispute resolution

However, these obstacles do not seem to be impeding the eagerness of international law firms to enter the market — and not just from Europe or the US. Last month saw Dubai welcome the first Korean law firm to operate in the Middle East with the entry of Bae, Kim & Lee (BKL) to the DIFC: and it is hoped that, as with the arrival of dispute specialist Geuther, the ever-broadening sweep of expertise will go some way towards resolving concerns over legal framework and dispute resolution.

"The establishment of their corporate office here is a positive step in terms of expanding DIFC's sophisticated portfolio of services and will significantly boost our position as the leading regional financial and business hub," commented Essa Kazim, the governor of the DIFC. "Notably, their presence will help enhance our delivery of world-class legal and regulatory expertise for ensuring the stability of businesses operating out of the hub and the wider region."

"We are confident that the DIFC arbitration center and DIFC court are fast emerging as the regional hub for dispute resolution in the Middle East," confirmed Kevin Kim, the managing partner of BKL. "We look forward to BKL playing an important role in dispute management in the Middle East."

Dubai dominance

It is also notable that while the Middle East is a clear focal point for international interest, this is coagulating into a number of clear hotspots rather than translating into even growth across the region.

While Dubai and Saudi Arabia are proving enduringly popular, areas such as Qatar, Kuwait, Oman and even other emirates such as Abu Dhabi are increasingly being serviced by regional hub offices located in attractive positions such as the DIFC, whose appealing legal framework makes it a compelling prospect for regional activity.

> ***"Dubai remains a critical finance hub for investment banks and companies in the region. It continues to be a center where transactions come together and where experts gather to advise"***

"Dubai remains a critical finance hub for investment banks and companies in the region. It continues to be a center where transactions come together and where experts gather to advise," agreed Debashis. "For this reason, the push to add capital markets and banking capability in Dubai for White & Case was particularly important strategically."

This trend is exemplified by the recent shock announcement from Latham & Watkins of retrenchment from its four regional offices: with staff in Doha and Abu Dhabi told in March that their offices will be closed by the end of the year.


Voge

With just 35 lawyers currently spread across its four GCC offices, Latham & Watkins reportedly admitted that it had made a mistake in its approach to Middle East expansion seven years ago. Bill Voge, the chairman and managing partner, told Legal Business that the firm had been wrong in assuming that there were four distinct hubs needed to service the Middle East, and was therefore consolidating its presence to just Dubai and Riyadh.

Staff will be relocated to Dubai and Villiers Terblanche, the managing partner of the firm's Dubai, Abu Dhabi and Doha offices, will remain the managing partner of the enlarged Dubai office.

Consolidation makes sense

The move is touted as a strategic regroup that will not impact operations in the region but rather assist in efficiency. With growth in other areas unaffected — including a new office opening in Manchester at the start of the year to cater to the growing demand from the UK real estate market, the step seems to make sense. The firm reportedly held talks with over 12 major clients before the decision, to ensure the closures would not impact business.

"I personally had several calls with top clients in the region to explore the effect on our client service and that gave us the comfort that what we're doing is not disruptive to our clients," Voge commented. "They didn't view having an office in Doha, when our office in Dubai is an hour's flight away, as critical. Dubai is only 80 miles down the road from Abu Dhabi too. Consolidation makes sense."

The trend is not necessarily new. In 2012, Hogan Lovells closed its Abu Dhabi office to focus on Dubai as its regional hub, while in 2013 Herbert Smith Freehills sub-let half of its office space as it also focused on its Dubai office — and in 2014 the office was reduced yet further to just one partner, after losing Islamic finance specialist Adil Hussain to Clyde & Co to head up its Islamic finance practice.

"The Islamic finance industry has experienced dramatic growth in recent years and is predicted to double in industry size by 2017. With the

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> ***"Thanks to these innovations, and the DIFC offering the advantage of English law and a robust securities structure that the rating agencies are very comfortable with, both lawyers and issuers are starting to understand the power of using the DIFC"***

development of the market, I see a lot of potential, both from a regional perspective and an international point of view," said Adil at the time of the move.

Strength from innovation

However, as the capital markets strengthen and the financial sector continues to increase in sophistication, interest in the region is only likely to increase — and with the positive and proactive stance of Dubai and the DIFC in particular towards providing a supportive and conducive environment for regional activities, it looks set to consolidate its dominance and grow its Islamic finance capabilities not only through its regulatory framework and encouraging attitude, but through its development and support for secondary service sectors such as legal practice.


Nabil

"I don't think this is very well known in the community, but the DIFC is recognized as legal in the GCC as far as all the GCC jurisdictions are concerned," explained Nabil Issa, a partner with King & Spalding Middle East, to IFN. "So suddenly, if you structure it carefully enough, it is for example possible for a DIFC fund or special purpose vehicle to own land or shares in companies in Saudi Arabia utilizing Shariah compliant structures. Thanks to these innovations, and the DIFC offering the advantage of English law principles and a robust securities structure that the rating agencies are very comfortable with, I think in recent times both lawyers and issuers are starting to understand the power of using the DIFC."

Strong consumer spending pushes boom in commercial developments

A surge in consumer spending supported by strong economic conditions in the UAE and wider GCC has seen retail sales in the region rocket: leading to a boom in planned commercial developments, discovers LAUREN MCAUGHTRY.

Dubai retail sales are expected to grow by US$2 billion in 2015 to reach US$43.7 billion, driven by a strong economic environment, an exponential surge in online spending and an anticipated 8% growth in disposable income for 2015. The leading regional retail destination, Dubai is home to the second-largest number of global brands after London, with the Dubai Mall and Dubai Shopping Festival alone attracting almost 35 million annual visitors.

In a ripple effect, a recent report by Ventures Middle East notes that this success is driving growth across the GCC, with the UAE's overall retail sector expected to grow by over 33% this year and investment also moving into other countries such as Saudi Arabia, Kuwait and Oman, followed by Qatar and Bahrain. Data from Oman Arab Bank suggests that total retail sales in the UAE could grow from US$65 billion in 2015 to US$92 billion in 2017. Total GCC retail sales could reach US$285 billion by 2018 – an annual growth of over 7%.

According to a new report from Alpen Capital, GCC supermarket sales could reach US$59.3 billion (a compound annual growth rate of 9.2%) while airport-based duty free sales are also being boosted by the growing number of visitors to the region and are set to almost double to US$6.6 billion in 2018 from US$3.9 billion in 2013. The luxury goods segment is also on the rise, expected to grow by 4.6% per year between 2013-18 to reach US$9.4 billion. And of these impressive growth forecasts, Qatar is set to win big with annual growth of around 9.8%. "While retail sales growth across all the GCC countries is expected to remain positive between 2013 and 2018, the outlook for Qatar is most optimistic," said Alpen. A QAR1.65 billion (US$452.77 million) contract was awarded in Doha last year for the construction of the Doha Festival City development: while in Saudi Arabia, Al Futtaim Group and Kayannat Real Estate Company are building the SAR6 billion (US$1.59 billion) Mall of Arabia and in Abu Dhabi, a reported eight new mega shopping centers are set to roll out over the next three years.

> ***"However, the boom is inevitably expected to impact the real estate market in the region: and although the supply of new retail premises is currently keeping up with demand, there are concerns over the upward trend of retail rents that suggest the trend could be changing"***

However, the boom is inevitably expected to impact the real estate market in the region: and although the supply of new retail premises is currently keeping up with demand, there are concerns over the upward trend of retail rents that suggest the trend could be changing. Dubai has seen mall rents increase by up to 25% over the last year, reaching over AED6,000 (US$1,633) per square meter compared to AED4,800 (US$1,306) last year.

"The need to meet the growing demand for consumer goods has led to a boom in planned shopping mall developments in the Middle East," commented Villiers

Terblanche of Latham & Watkins Dubai in a recent note. "Many of these mall developments are financed through a combination of debt and equity, allowing lenders to mitigate their exposure and ensuring sponsors hold enough risk to be incentivized to deliver a successful project."

The firm highlights five key considerations to note when financing shopping malls in the region: market knowledge, tenant profiles, financing structure, construction risk and zoning and permit issues. "Mall developments have typically been structured as structured financings rather than project financings," added Terblanche. "Sponsors are required to contribute equity upfront and to cover cost overruns. Occasionally, there may be cost-overrun facilities (but with increased pricing). Sponsor guarantees cover completion of the project, cost overruns and amounts due to lenders under the financing and are usually in place for the tenor of financing. Stringent account waterfall structures (often with cash-sweeps) are documented with security granted over accounts. Security will also be taken over shares in the project company, all real property, rights over tenancy contracts and other material contracts, performance bonds, insurance policies and other significant income streams." However, due to this sponsor support, the reporting requirements for projects of this nature can often be lighter than in standard project financing deals.

Indonesian microfinance space continues to evolve

IFN catches up with Blossom Finance to discuss its maiden investment, one that is inherently unique and potentially game-changing as it marries cryptocurrency and microfinance. VINEETA TAN has the exclusive.

Islamic crowdfunding platform Blossom Finance, which incorporates Bitcoins into their microfinancing business, confirms with IFN that it will be making a pilot investment of up to US$100,000 into BMT Nusantara Condet (a branch of the BMT Nustantara group) to fund small to medium businesses in the Indonesian capital, an endeavor Yadi Muhammad, the manager of BMT Nusantara Sejahtera, tells IFN is helping them reduce poverty in the country.

Extremely rare in the Islamic finance space, this landmark Bitcoin transaction demonstrates the potential of integrating digital currency or blockchain technology into Shariah compliant financial transactions to enhance transparency and optimize efficiency. "Using Bitcoin in a Shariah model should come as no surprise. Shariah mandates ownership of underlying assets and Bitcoin provides

proof of ownership with absolute, mathematical certainty," explained Matthew Joseph Martin, CEO of Blossom, to IFN. "We're using digital currency technology to make impact investing transparent and independently verifiable."

Despite being the world's largest Muslim nation, Islamic finance remains a minor component of the wider banking system, with a market share of less than 5% — this demonstrates immense potential.

This is especially true for microfinance — an industry which thrives in Indonesia, at least in the case for conventional microlending (See IFN Report Vol 12 Issue 12: 'High cost holding back Islamic microfinance industry in Indonesia').

"80% of Indonesians aged over 15 remain unbanked. Microfinance is confronting that problem head-on by financing micro entrepreneurs that banks can't or won't," said Martin.

The sheer size of the fragmented country limits the access of micro-entrepreneurs to financing. This however, is the beauty crowdfunding can bring to the table. "We're combining the traditional mode of Islamic finance with technology that enables global scale. Financing is no longer limited to people you know in your village or city," shared Martin.

Expecting to realize a return of approximately 7.5% from this Murabahah-structured investment, Blossom has also in the pipeline several other potential projects with other partners.

Company Focus: Tabarak

The Islamic banking landscape of the UAE may be competitive with established big names taking a large market share yet it has not stopped new players from joining the club. VINEETA TAN this week shines the spotlight on Dubai's latest Shariah banking member.

When the opportunity arose for Dr Mohamed Ahmadi and Abdelwahab Al Shihr to acquire an investment bank in the Dubai International Financial Center over a year ago, the professional private banker and successful entrepreneur decided to seize the chance, and used

it as their avenue to enter the Shariah banking space.

"We wanted to target a particularly niche market of not just conventional banking, but also Islamic banking in the future," shared Dr Ahmadi to IFN. "We acquired the investment bank and customized it the way we wanted it, from the physical office setting to the type and area of services we can offer to potential clients."

The end result is Tabarak Investment Bank, a fully-fledged Islamic bank, targeting project finance. While the current focus is infrastructure finance, Dr Ahmadi, who leads the bank as CEO, revealed that the bank is looking to venture into the Islamic asset management sector in the near future.

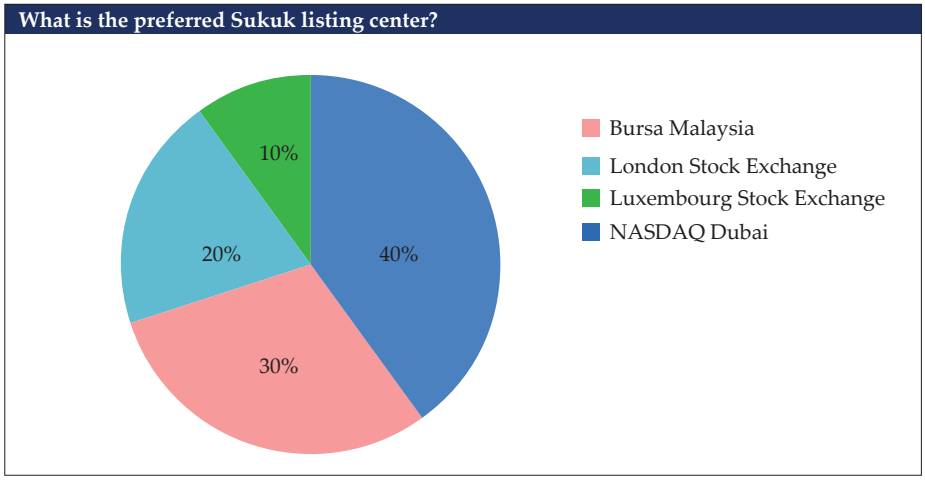
Admitting that new players do struggle in setting foot in the competitive Islamic banking market of the UAE, Dr Ahmadi however remains confident that Tabarak will be able to navigate the environment effectively, leveraging on Abdelwahab (now chairman) and his own wide network. "Tabarak's strategy is quite simple: to be able to provide effective professional solutions to all clients' needs [and] to use our relationship in the market, be it from Bahrain or Saudi Arabia or other GCC countries. I would also like to add that myself and the chairman also have considerable experience in the Islamic market," said Dr Ahmadi.

Apart from setting up a major Swiss private bank in Dubai five years ago, Dr Ahmadi was instrumental in establishing an Islamic investment bank in Bahrain; while Abdelwahab established the Roshana International Group in Saudi Arabia with investment across various sectors.

While the bank may be new, however, it has big ambitions. With a few projects currently in consideration, Tabarak will also expand its focus beyond its core GCC/Middle East market to include international jurisdictions through collaboration with potential associate companies and offices around the world.

IFN Weekly Poll: What is the preferred Sukuk listing center?

As Sukuk gain popularity among sovereigns and corporates across the world, IFN asks the industry which exchanges are most preferable to issuers to list their offering. The few main Sukuk listing centers are Bursa Malaysia, Irish Stock Exchange, London Stock Exchange, Luxembourg Stock Exchange, NASDAQ Dubai and Tadawul. Gauging market opinion, NABILAH ANNUAR writes.



There are multiple factors taken into consideration when choosing a Sukuk listing destination: issuer domicile, Sukuk currency, targeted investors, exchange efficiency and prestige as well as pricing. It is a usual practice for issuers to list on a few exchanges for maximum exposure/coverage of their target 'audience'.

With a preference for NASDAQ Dubai (40%), the poll result this week also showed an inclination towards listing on Bursa Malaysia (30%), London Stock Exchange (LSE) (20%), and Luxembourg Stock Exchange (LuxSE) (10%).

Affirming Dubai as the most preferred bourse for Sukuk, Mudzaffa Reza Mahmud, the executive director of debt capital markets in the debt origination and distribution department at National Bank of Abu Dhabi said: "We've seen growing interest by issuers to include NASDAQ Dubai in the listing centers for their Sukuk and given the recognition and perception of it being an international listing center, similar to London, Ireland and Luxembourg. However, we would note that the choice of listing centers is mainly due to strategic reasons."

Mostly originating from the emirate itself, issuers that have listed their Sukuk on NASDAQ Dubai include: Noor Bank, Emirates Airline, Ras Al Khaimah, Emirate of Sharjah, DIFC Investments and Hong Kong's sovereign Sukuk. Additionally, these issuers also typically list on the Irish Stock Exchange (ISE) and the LSE. Multilateral organizations such as the IDB listed its (most recent) Sukuk on three main exchanges in the Islamic finance world — Bursa Malaysia, LSE and NASDAQ Dubai. Sukuk that are listed on Tadawul mostly originate from Saudi Arabian issuers such as Saudi Electricity Company and General Authority of Civil Aviation.

On the contrary, Sukuk that have been listed on LuxSE come from a diverse range of issuers including: PETRONAS, and the governments of Luxembourg and South African.

> ***"The listing of Sukuk more often than not would offer Sukuk issuers with access to investors; hence origin of issuers and (target) investors would also dictate choice of listing venues"***

Speaking on the condition of anonymity, a key industry player told IFN that the obvious bourse would be the London Stock Exchange due to its status and prestige. Other popular listing destinations also mentioned was the ISE. However, describing the exchange as "a bit slow", he opined that it could be one of the reasons deterring issuers from choosing the ISE.

Nonetheless, selecting a stock exchange to list Sukuk is undoubtedly a subjective matter. "Main considerations include timing/listing process, exchange initial and on-going requirements which conform to global standards and listing costs. Sukuk are typically traded over-the-counters although some exchanges do offer [a] secondary trading platform.

The listing of Sukuk more often than not would offer Sukuk issuers with access to investors; hence origin of issuers and (target) investors would also dictate choice of listing venues based on what we are experiencing," explained Mohamad Safri Shahul Hamid, deputy CEO of CIMB Islamic, the Islamic arm of CIMB group, a top Sukuk arranger according to Dealogic.

Kazakhstan means serious business — looking outwards for expansion

The development of Islamic finance in Central Asia may not be as expansive, cohesive or as fast as the industry would like; however, one country is determined to take the lead in making a name for the region in the Shariah compliant financial universe. VINEETA TAN delves deeper.

Islamic finance growth in Kazakhstan may be slow but things are changing as the Republic shifts gears and looks outward for expansion. Last week, the NASDAQ Dubai and Kazakhstan Stock Exchange (KASE) agreed to pool resources to jointly develop initiatives in a bid to bring the markets of Dubai and Almaty closer; this includes building links between central securities and forming stronger cooperation within the Shariah capital market space, exploring opportunities together to further the Islamic capital markets proposition, a move anticipated to spur cross-border Islamic investments.

"Kazakhstan's ties to the UAE are growing in importance in various sectors ranging from economic and financial to social and cultural. I believe that as our two nations cooperate further there will be growing synergies between KASE and NASDAQ Dubai," said Maxat Kabashev, CEO of KASE, in a statement.

Both the UAE and Kazakhstan have built strong cases for Islamic finance: with the former, an established Islamic financial market, surging forward to transform Dubai into the Islamic economy capital of the world, and the latter being the torchbearer for Shariah finance in the Central Asian region.

While Kazakhstan's Islamic finance and banking industry may still be small, however, the country is committed to turn things around, even putting in place a roadmap towards developing itself into an Islamic finance hub. Not only has there been interest from several domestic banks to convert into Islamic banks, the Shariah capital market — one of the most sophisticated in the region — is also making steady progress. The Development Bank of Kazakhstan in 2012 became the first entity in the region to issue Sukuk and it again tapped the market earlier in January. And now with the agreement with NASDAQ Dubai, a leading Sukuk listing destination with a total listing nominal value of US$25.7 billion, not only can the Republic leverage NASDAQ Dubai's deep expertise and network but the Dubai bourse will also have wider access to the Central Asian region.

Apart from the UAE, Kazakhstan is also looking towards other Islamic finance players for growth opportunities. The country reportedly formed an agreement with Saudi Arabia, one which could see the formation of a new joint Islamic bank or fund designed to meet project financing needs. Also noteworthy, is that the National Bank of Kazakhstan is hosting the 12th IFSB Summit in Almaty, lending strength to the country's deep commitment to be the region's Islamic finance torchbearer.

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.

- European Central Bank (ECB) president Mario Draghi warns EU central banks against "blindly" aggressive monetary policies such as mass bond-buying. However, he confirmed that the ECB would continue to "implement in full" its EUR1.1 trillion (US$1.24 trillion) quantitative easing program.

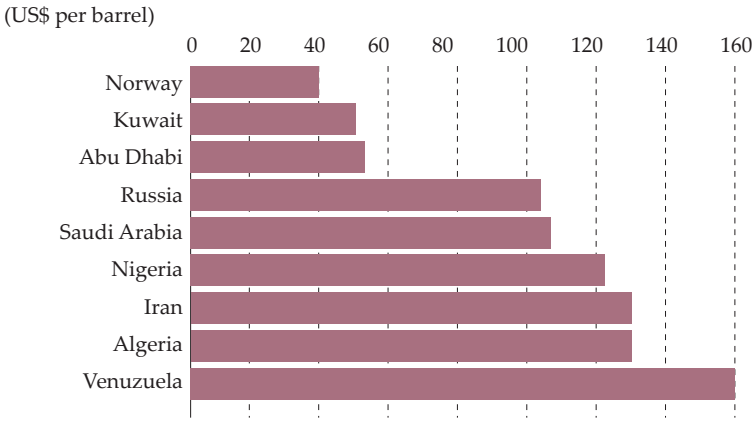
- The US-based Vanguard Total Bond Market Index, a passive fund, has for the first time ever overtaken the world's biggest bond fund: the actively managed Pimco Total Return Fund — demonstrating that in bonds (as in equities) investors are turning towards passive rather than active investing and trusting indexes to bring better returns.

- The US continues to implement the Jumpstart Our Business Startups (JOBS) Act — including a crowdfunding rule that will theoretically allow private companies to raise money from any retail investor (currently restricted to "accredited" investors only).

- US reassures the GCC that it will provide military assistance against threats from Iran if necessary. "We agree that the security relationship between the United States and our GCC partners will remain a cornerstone of regional stability," said president Obama at a summit with GCC nations recently.

Chart 1: Fiscal break-even oil price

Estimated price needed to balance 2015 budget*



*2014 Budget for Venezuela

Source: IMF, Deutsche Bank, Fitch Ratings, The Financial Times

- Indonesia's economy slows to a record five-year low in the first quarter, as economists warn that a slump in household spending in Thailand, Malaysia and Indonesia will place a drag on investor hopes for ASEAN growth prospects — already weakened by the economic slowdown of key trading partner China.

- The International Energy Agency warns that the real battle for oil may have only just begun. "It would… be premature to suggest that OPEC has won the battle for market share," it told the FT this week. The warning comes amid growing tension between the Gulf and the US — with Saudi officials claiming that their high-production policy has succeeded in squeezing US shale producers out of the market; while US players disagree. "They want to stop shale oil," Harold Hamm, CEO of Continental Resources, told the FT this week. "They might for six months, but not for the rest of time." The tension also brings the possibility of growing political support in the US for a relaxation of the ban on crude oil exports — which could bring yet another revolutionary wave to oil price volatility.

- A report from research firm IHS concludes that the controversial fracking process could bring access to a new supply of upwards of 140 billion barrels outside of the US — the equivalent of Russia's total oil resources — spread across key locations including Iran, Russia, Mexico and China. The UAE, Kazakhstan, Libya, Venezuela, Kuwait and Algeria also stand to benefit.

Amlak Finance — comeback kid?

Severely hit by the 2008 real estate crash, Dubai-based Amlak Finance is now determined to rise from the ashes as it undertakes major restructuring plans and implements a new growth strategy. VINEETA TAN writes.

The Islamic mortgage provider, which has been absent from the market for almost seven years, is expected to make a comeback by the end of this month as it seeks to re-list on the Dubai Financial Market (DFM) and aggressively restore, as well as expand, its business line. The firm may have seen first quarter group profit plummet 62.5% to AED6 million (US$1.63 million) but it remains unremitting on re-anchoring itself in the real estate scene.

"Amlak has just [turned] a very challenging corner given our recent restructuring and we are now working

hard towards rebuilding our business capacity and new originations, which have been absent from the market for many years," commented managing director Arif Alharmi, on its latest financial results.

Entering what Arif termed as a "new phase of business growth", Amlak is actively pushing new products and forging new deals. On the 18th May, Amlak rolled out a new financing instrument, known as Istithmari. And earlier in the year, the firm also entered into partnership with Dubai's Tanmiyat Global to provide property finance services for the latter's Living Legends development project, as well as other development initiatives.

The company's newly-elected board of directors is due to meet on the 20th May, to decide on an official date for re-admission, with an announcement to follow immediately. "Now that we have the restructuring behind us, we look forward to have the company's shares re-admitted to the DFM paving the way for us to pursue our growth strategies over the coming years, creating value for our shareholders, whilst we of course, adhere to our financial commitments and business plan agreed with our financiers under the restructuring terms," said Arif.

Bank Nizwa drops merger plans — what next?

In an interesting turn of events in what would have been a straightforward consolidation exercise, Bank Nizwa's proposal to merge with United Finance Company (UFC), which was previously agreed in-principle, are now off the table as Bank Nizwa decides to withdraw its proposal following UFC's decision to open the merger and acquisition bidding process to two other financiers. VINEETA TAN explores this missed opportunity and what it could have meant to Oman's Islamic banking landscape.

At OMR253 million (US$655.02 million), Bank Nizwa is the largest fully-fledged Islamic bank in Oman by total assets, coming in a close second to Bank Muscat's Islamic window, Meethaq, which has almost OMR300 million (US$776.8 million) in assets as at the end of 2014. The amalgamation with UFC, the largest non-banking financial institution in the country with almost OMR120 million (US$310.68 million) in assets, would have likely changed the dynamics of the Omani Shariah banking landscape giving Bank Nizwa a boost to lead ahead of the other seven Islamic banking players in the Sultanate.

In the three months following the announcement of UFC's in-principle

agreement with Bank Nizwa, Al Omaniya Financial Services and National Bank of Oman threw in their hats with similar propositions which have led UFC to reconsider its initial deal with Bank Nizwa. "In the best interest of the shareholders of the company, the board of directors of UFC has now decided and communicated with Bank Nizwa, Al Omaniya and NBO enquiring if they would be interest[ed] in participating in a bidding process for merger/acquisition," said the non-banking financial institution last week. And on the 18th May, UFC announced that Bank Nizwa has decided to withdraw its proposal, leaving the bid to the other two conventional players.

Despite its relative youth, the Islamic banking industry in Oman is growing fast. Islamic banking assets accounted for 5% of the Sultanate's total banking assets as at the end of January, according to central bank data, and this figure is expected to more than double in the next few years. The potential expansion of the country's first Islamic bank was likely to expedite this growth; however, failing to do so was unlikely to arrest the country's upward trajectory.

AlKhair Capital targets MENA and Saudi primary market with Islamic IPO fund

Looking to capitalize on Saudi Arabia's growth, AlKhair Capital has rolled out a Shariah compliant initial public offerings (IPOs) fund targeting public joint stock companies in the primary markets of Saudi Arabia, the wider Middle East and Africa. VINEETA TAN reports.

"Saudi Arabia is the third-fastest growing economy in the G20, with an annual average growth of 5% average over the past decade and the IMF promising strong growth in the years ahead. UAE-Saudi bilateral trade accounted [for] US$19 billion in 2014, which is 50% of the total value of overall trade with the GCC," said the firm in a statement.

Khalid Al-Mulhim, CEO of AlKhair Capital, said that the fund is designed to achieve long-term capital growth, as well as achieving a performance that exceeds the guiding index performance, the AlKhair Capital IPO Index.

Apart from investing in shares of joint stock companies during the IPO period or in new shares of listed companies which have not completed three years since their listing in the secondary markets in Saudi and the MENA region, the AlKhair Capital IPOs Fund will also invest in Islamic money market instruments (Murabahah, Ijarah and Wakalah) rated 'B' (S&P and Fitch), 'B2' (Moody's) or higher.

While AlKhair does not necessarily limit its exposure to solely rated instruments (in the absence of a credit rating, the fund manager accesses the underlying investment based on the financial position and cash flows of issuers), the credit rating requirement differs from the strategy of its maiden Sukuk fund launched last year, which invests in non-rated assets/companies — a move to widen the pool of potential fixed income assets (See Fund Focus Vol 10 Issue 37: 'AlKhair Capital diversifies portfolio with debut Sukuk Plus Fund').

Sovereign Sukuk: Hong Kong to tap the market for sophomore offering

Creating quite a splash in the sovereign Sukuk arena, Hong Kong will once again tap the international Sukuk market with a US dollar offering. In the last week, the market also saw Bahrain and Indonesia conducting their regular Sukuk offerings for liquidity management. Keeping abreast with the sovereigns, NABILAH ANNUAR writes.

The Hong Kong government on the 18th May, began conducting roadshows in Asia, the Middle East and Europe for a potential Reg S US dollar Sukuk offering. The Hong Kong Monetary Authority confirmed in a statement that the government has mandated CIMB and National Bank of Abu Dhabi, HSBC and Standard Chartered Bank as joint bookrunners and joint lead managers, with HSBC and Standard Chartered also acting as joint global coordinators. The Sukuk would be the administrative region's second offering following its historical debut last year.

Moody's in a press release assigned a provisional rating of '(P)Aa1' to the trust certificates issued by Hong Kong Sukuk 2015 (the Issuer), an SPV established in Hong Kong by the government of the Hong Kong Special Administrative Region. The rating assigned to the trust certificates is at the same level as the long-term local-currency and foreign-currency issuer ratings of Hong Kong. The 'Aa1' government bond rating reflects a strong, competitive economy, very high institutional strength, very high government financial strength, and its demonstrated resilience to shocks.

Described as having a very large international assets position, Hong Kong's external assets exceed liabilities by an amount equivalent to 284.9% of GDP at the end of 2014, the second-largest such position of any country rated by Moody's. The significant build-up of assets has resulted from continuous current account surpluses over a long period of time. Incorporating risks related to China, Hong Kong companies derive a considerable portion of their revenues from activities elsewhere in China and are major investors there. The financial markets have also become interconnected to a significant degree, with Chinese companies making up a significant portion of the market capitalization of the Hong Kong stock exchange. While this degree of interconnectedness leaves Hong Kong vulnerable to developments in the mainland, Moody's 'Aa3' rating of China indicates a low probability of adverse developments that would affect Hong Kong's ratings.

Moving to Southeast Asia, the Indonesian government held a Sukuk auction offering four facilities on the 19th May. The indicative target set by the government in this auction is IDR2 trillion (US$153.2 million) where the proceeds will be used to fulfill the financing target set in the State Budget 2015.

Similarly in Bahrain, the central bank successfully completed the monthly issue of its short-term Sukuk Ijarah, which was fully subscribed by 100%. Subscriptions worth BHD26.1 million (US$68.75 million) were received for the BHD26 million (US$68.49 million) issue, which carries a maturity of 182 days. Issued on behalf of the Bahraini government, the expected return on the issue, which began on the 14th May 2015 and matures on the 12th November 2015, is 1.25% compared to 1% for the previous issue on the 16th April 2015.

Turkey: Shining bright

Despite it being ferociously secular, Turkey has taken great strides in the realm of Islamic finance, capturing the world's attention as the emerging Islamic financial market to watch. VINEETA TAN tracks the development of the Turkish participation banking and finance sector which looks likely to grow in numbers and geographical presence.

Sukuk

The first regulation on Sukuk, or trust certificates as it is colloquially known, was introduced in 2010 by the Capital Markets Board of Turkey. Enabling Riba-free financing and investment in the capital markets, the legislation also covered the issuance process of Sukuk Ijarah.

Tax neutrality for lease certificates was adopted in February via Law No 6111. At the end of 2012, a new Capital Markets Law (Law No 6362) was implemented, laying the groundwork for private lease certificates and asset-leasing companies. In April 2013 the Turkish government introduced changes to the legislation, with a communiqué placed on the official gazette dated the 7th June 2013, allowing for new lease certificates to be structured on the Shariah principles of Istisnah, Murabahah, Mudarabah, Musharakah and Wakalah, with other forms of the lease certificate permitted subject to approval from the Capital Markets Board.

The first Turkish Sukuk (US$100 million) was issued by Kuveyt Turk in 2010 and the country issued its inaugural (dollar-denominated) sovereign Sukuk in 2012 to the tune of US$1.5 billion followed by a lira issuance in 2013. Turkish entities have also tapped the Malaysian market by issuing ringgit Sukuk: Turkiye Finans established a RM3 billion (US$838.58 million) program in 2014 and Kuveyt Turk a RM2 billion (US$559.06 million) program in May 2015.

Asset management

Due to the fact that Islamic terms are avoided in describing Shariah compliant financial products, it is slightly more challenging ascertaining the exact number of Islamic funds in the Turkish market. Experts, however, placed the number at five Shariah compliant mutual funds (four Type A and one Type B), four exchange traded funds (ETFs) — two precious metal and two stock ETFs — and eight pension funds in 2014.

Funds in Turkey are classified into Type A and Type B; with the former required to invest a minimum 25% in equities issued by Turkish companies whereas the latter with no such obligations. Newly adapted mutual fund regulation, "Participation umbrella fund" will include funds with no interest-bearing securities.

The Republic has two participation indexes, in which Islamic securities company Bizim Securities had a hand in executing. Bizim Securities in 2006 launched the world's first Islamic ETF, the DJIM Turkey.

Banking and finance

There are four participation banks in Turkey: AlBaraka Turk (1984), Kuveyt Turk (1989), Bank Asya (1996) and Turkiye Finans (2005). Three conventional banks are moving ahead with their plans of introducing Shariah compliant units, with Ziraat Bank and Vakifbank expected to launch their participation banking operations before the first half of 2015. Halkbank, which has received regulatory approval for its Islamic banking plan, is anticipated to follow suit.

In February 2015, the shareholders of Bank Asya lost control of the bank to the Savings Deposit Insurance Fund. The agency for resolving failed banks seized 63% of Bank Asya's privileged shares citing violations of banking regulations on transparency in organizational and partnership structure, a move some quarters have argued is orchestrated by the Erdogan government against once ally Fethullah Gulen, who has strong ties with Bank Asya. Shareholders of the bank subsequently commenced a legal action in an attempt to regain control of the bank.

Aside from Bank Asya, 2015 has been a good year for other participation banks as they look outward for expansion. Kuveyt Turk not only received a license to operate in the Dubai International Financial Center but also approval to commence operations in Germany. Turkiye Finans is also due to open a branch in Bahrain following the obtaining of a license from the Central Bank of Bahrain in March.

Opportunities

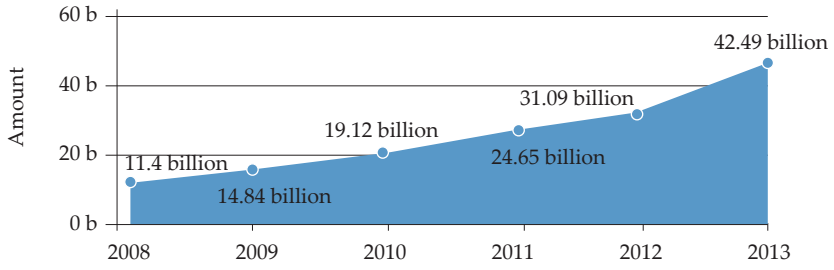
Islamic finance opportunities for Turkey are abound with analysts predicting both the Sukuk and banking market to achieve greater figures this year. This is buoyed by the overwhelming demand for Turkish papers — reflecting a great appetite despite price/inflation volatility — and the impending entry of new players into the banking scene. While demand is good, producing the human capacity to meet this demand is also imperative.

Table 1: Breakdown of participation funds in participation banks as at the 30th April 2014 (in million)

Turkish lira accounts	FX accounts				Total FX accounts (US$)
	US$	Euro	Precious metals (US$)	Others (US$)	
40,109	7,275	2,404	909	66	10,939

Source: Central Bank of Turkey

Chart 1: Total assets of Turkish participation banks (in US dollars)



Source: Islamic Banking Intelligence

More sovereigns come to play in the Sukuk arena

It has always been a big deal when governments raise debt, particularly when it is issued in a Shariah compliant manner. The transaction not only has political implications, it also creates access to a niche market as well as provides a diversification of funding streams. NABILAH ANNUAR analyzes key developments in the sovereign Sukuk arena.

Definition

Sukuk is the Islamic equivalent of bonds. Adhering to Shariah laws, Sukuk grants the investor a share of an asset, linking the returns and cash flows of the financing to the assets purchased, or the returns generated from an asset purchased. The emergence of Sukuk over the past 10 years has been one of the most significant developments in Islamic capital markets. According to the IDB, Sukuk instruments act as a bridge connecting their issuers, primarily sovereigns and corporations in the Middle East and Southeast Asia, with a wide pool of investors, many of whom are seeking to diversify their holdings beyond traditional asset classes.

Market size

The sovereign Sukuk market has recorded a steady growth over the past four years with annual issuance significantly increasing from less than US$15 billion in 2010 to US$33 billion in 2012 and US$23 billion in 2013 and more than US$20 billion in 2014 (according to Moody's). Issuance last year was found to be adversely impacted by a 20% decline in the Malaysian Sukuk market, representing more than two-thirds of global issuance. The continued growth in issuance, however, was driven by a number of factors such as growing familiarity of global investors with Sukuk instruments, increasing Islamic investment liquidity looking for Sukuk, growing retail and corporate demand for Islamic financial services and increasing standardization of unsecured Islamic structures.

Asia

Major players in the Asian sovereign markets are Malaysia and Indonesia. Both countries issue Sukuk on a regular basis through their central banks, finance ministries and government-related entities. Malaysia recently issued a US$1.5 billion paper while Indonesia is expected to do the same next month. The Indonesian government is also exploring utilization of state-owned goods and services for Sukuk issuances. Brunei and Pakistan from time to time conduct Sukuk tenders to manage liquidity in their respective domestic markets. The Pakistani finance minister this year affirmed that the government will not tap the international debt markets until after the republic completes its global capital market transaction portfolio. Bangladesh is similarly actively considering issuing Sukuk in the domestic market. Other countries that have issued Sukuk are Iran and Singapore.

In Central Asia, the Turkish Treasury department looks to issue Sukuk worth TRY1.5 billion (US$570.67 million), with an issue date to be announced. Meanwhile, Kazakhstan's parliament recently approved Islamic finance laws and is expected to propose a new draft law on Sukuk in the near future with an intention to tap the Islamic debt capital markets in 2016. Potential new entrants into the Asian Islamic capital market are: Hong Kong which plans to issue a second Sukuk worth up to US$1 billion following its debut last year and China's Ningxia Hui Autonomous Region which intends to issue up to US$1.5 billion-worth of instruments including Sukuk.

Africa

African countries that have issued Sukuk include: South Africa, Gambia, Nigeria, Sudan and Senegal. Sovereigns that have announced intentions of joining the fray are: (1) the Republic of Ivory Coast, raising approximately XOF300 billion (US$520.53 million); (2) Kenya, expected in the next financial year (ending June 2016) in a bid to double the government's external debt ceiling to US$28 billion; (3) Tunisia, in the second half of 2015; (4) Niger, an issue worth XOF150 billion (US$260.26 million) to fund the Republic's development project pipeline; and (5) Egypt which is yet to present its Sukuk bill to the parliament for approval.

Europe

The UK last year made a splash in the industry issuing a GBP200 million (US$315.23 million) Sukuk paper, and was the first non-Muslim sovereign to do so. Luxembourg followed suit with a EUR200 million (US$227.65 million) offering and is open to the idea of making more sovereign issues as it works towards developing a new structure utilizing investment funds instead of real estate assets.

Middle East

One of the prominent regions for Sukuk issuances, the Middle East has seen several sovereigns tapping the global Sukuk market including the emirate of Sharjah and Ras Al Khaimah. The Central Bank of Bahrain regularly issues short-term Sukuk to manage domestic liquidity. Three sovereigns have announced plans for their debut Sukuk: (1) Jordan, which has engaged the Islamic Corporation for the Development of the Private Sector for the proposed JOD564 million (US$794.03 million) dinar-denominated Sukuk expected this year; (2) Oman, which targets to plug the Sultanate's budget deficit with its OMR200 million (US$517.6 million) offering; and (3) the UAE, which seeks to issue the world's first Sukuk aimed at financing green energy projects.

Outlook

There are varying opinions in regards to the performance of the Sukuk market this year. S&P expects its growth to be hampered (US$100-115 billion) on the back of a slowdown in emerging markets as reduced confidence and low oil prices hit investor demand. Moody's on the other hand expects global Sukuk issuance to gain momentum in 2015 as oil-exporting GCC countries and Malaysia are likely to tap the Sukuk market to fund their public spending plans, with the supply side of the market booted by sovereign and government-related issuers. Similarly, Malaysian ratings agency, RAM Ratings foresees it to remain "fairly resilient" (US$100-120 billion), despite the challenging environment for Malaysia and the GCC with possible delayed issuance plans to the second half of 2015.

Al Hilal MENA Fund: Highest-performing open-ended mutual fund in Oman

Incepted in May 2013, the Al Hilal MENA Fund (AHMF) posted a return of 12% year-to-date as at the 30th April 2015. Boasting commendable performance, the fund is said to be the highest-performing open-ended mutual fund in Oman. Speaking to Ahlibank, NABILAH ANNUAR takes a closer look at the workings of this remarkable fund.

"Islamic banking was introduced in Oman during the latter part of 2012. Sizing the opportunity, Ahlibank Asset Management (AAM) launched its maiden fund, AHMF on the 21st July 2013. Al Hilal MENA Fund, to-date remains the first and only Shariah compliant fund to be launched and managed by a bank in Oman," explained Ahlibank commenting on factors leading to the launch of the fund. AHMF is said to be unique relative to its regional peers as it employs a balanced strategy and is target-driven.

As an Omani domiciled fund, the prime focus geography is the GCC and selectively, MENA countries. Synonymous for its hydrocarbon wealth, the region is woven with common threads in the form of culture, governance frameworks and geographical features. "Hydrocarbon revenues have facilitated swift capital formation, increasing spending power and rapid development, to complement the expanding and youthful population. Capital market asset classes such as equities and Sukuk are best placed to garner returns over an extended period of time, accruing in the abovementioned economic climate and contributes [sic] immensely towards economic expansion and wealth creation," elucidated Ahlibank.

AAM believes that long-term excess returns from equities come from the ability to successfully recognize and capture the cyclical nature of equity risk premium and its tendency for mean reversion. The central pillar in its investment philosophy is to generate absolute returns, compounded over time, while preserving capital during market dislocations. This is accomplished by constructing portfolios of asymmetric investment strategies implemented by active managers. The asset manager's investment philosophy is further enhanced through the use of 'tail risk' management strategies to protect against cyclical downturns and systemic 'black swan' shocks. "We believe in a core/satellite approach in which the core consists of less volatile strategies and the satellites consist of tactical opportunistic investments. Our investment philosophy translates into a blended investment strategy which utilizes the combination of high to moderate 'beta' securities."

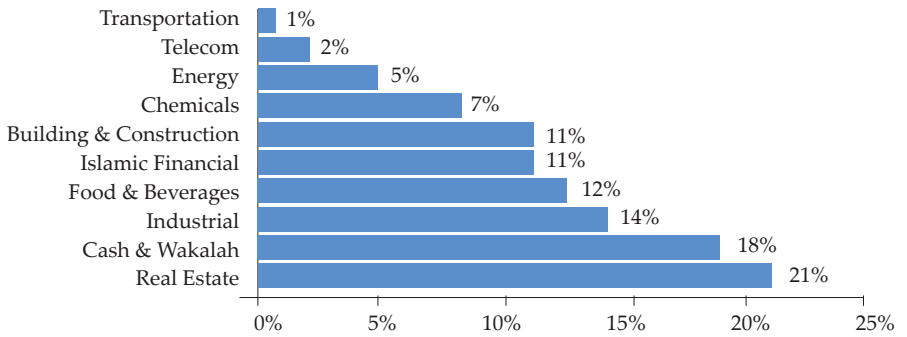
Commenting on the outlook of the fund, Ahlibank sees widespread uncertainty in every asset class to continue as investors anticipate changes in monetary policy, unpredictable economic data and complex geopolitical issues. Lower oil prices (particularly in 2015) are expected to contribute to diverging prospects for oil-exporting and -importing countries, while dampened (global) inflationary expectations exist and the threat of deflation increases across Europe and Japan.

"Given the low-yield environment, the equity risk premium can be anticipated to average below historical averages. Overall MENA markets, purely on a valuation standpoint are fairly valued, relative to historical earnings. Thus, [with] the earnings potential moving forward, value generating initiatives and the anticipated volatility and momentary dislocation of market prices are the opportune moment[s] to asset allocate. In spite of the recent recovery in the oil prices, we still believe the volatility is here to stay. Thus, the asset allocation and rotational strategies will remain focused on 'stock picking' and exposure management. We expect to increase cash holdings as we approach the month of Ramadan."

Al Hilal MENA Fund
Ahlibank Oman

Investment objective	The investment objective of the fund is to operate in accordance to Shariah principles and to achieve long-term capital appreciation, while implementing measures to minimize risks adversely impacting and resulting in capital erosion. The fund seeks to achieve this objective by actively managing investments into Shariah compliant entities and instruments issued within; primarily GCC and broadly the MENA region (Equity, Sukuk and Wakalah).
Inception date	22nd May 2015
Fund characteristics	a) Fund type: open ended fund b) Fund size: OMR4.17 million (US$10.85 million) c) NAV per unit: OMR1.001 (US$2.62)
Management fee	1.25%
Dividend policy	In consultation with the fund manager, the Fund Management Board may pay periodic cash/stock dividends, subject to the availability of sufficient distributable profits.
Fund portfolio composition	Dubai Islamic Bank, SABIC, Barwa Real Estate, Sweets of Oman, Majan Glass
Performance summary	YTD return: 12% Cumulative return since inception: 3.4% Annualized return since inception: 1.95%

Chart 1: Industry allocation



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Query:

A customer of an Islamic bank is a company engaged in import and supply of food and grocery items to the big outlets/ supermarkets all over the country.

The standard Murabahah financing structure to finance the procurement of the goods is not operationally doable, reason being the goods are supposed to be immediately supplied to the outlets without leaving enough time for the conclusion of Murabahah-related formalities, such as inspection of the goods and signing the Murabahah contract before the goods are supplied to the outlets.

Therefore, an alternative Shariah compliant structure is sought which may be operationally feasible.

Pronouncement:

The investment agency (Wakalah Fil Istithmaar) is one of the appropriate financing structures for the abovementioned situation.

This structure operates as follows:

- The Islamic bank shall appoint the customer as its investment agent to purchase the goods from the suppliers and to sell them to the outlets on behalf of the Islamic bank. An investment agency agreement shall be signed by the bank with the customer in order to achieve the desired objective.
- Pursuant to signing the agreement, the Islamic bank shall provide the required funds to the customer who is now the Islamic bank's appointed agent. The customer shall use the funds to commence the activity of purchase and supply of the goods.
- Under the agency agreement, the bank is not allowed to seek from the customer a fixed return which may not have any relation to the actual result of the investment activity since it will be tantamount to a 'loan with interest' transaction.
- Under the investment agency, all proceeds from the purchase and sale transactions shall be the sole right of the bank and the customer shall be entitled to the agreed agency fee. However, the bank can grant the customer a performance incentive if the bank's return exceeds a certain desired percentage.
- For mitigating the investment risks, the bank should ask the customer to submit a feasibility study which shows the expected profit from the proposed investment activity. The customer shall bear the responsibility for the accuracy of the study.
- In order to protect the interest of the bank, the agency agreement may stipulate that the customer is not to purchase the goods at a price higher than the market price or sell them below the price at which it has purchased them.
- The bank as the principal and the fund provider shall bear any loss if it occurs due to force majeure and without any negligence or misconduct or violation of terms and conditions of the agency agreement by the customer. However, in case of non-compliance with the feasibility study and business plan prepared and submitted by the customer, the loss shall be borne by the customer.

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

Daud speaks

The travels continue and have been both interesting and inspirational!

Following visits to the US for the IMF Spring Meeting and with our partner, the World Bank, as well as a series of meetings with partners in the UK on the return leg during April, I was fortunate to attend an invitation-only symposium in Switzerland in early May.

The symposium was not about Islamic finance. Indeed, I was probably the only one of the invited guests who had any detailed knowledge of that subject matter. The topic of the symposium was "Proudly Small" and the objective was to discuss the role of the individual, SMEs, small groups in large companies and small countries, in global sustainability and economic development. The two-day session was attended by one president, two current prime ministers, one former prime minister, multiple ministers, CEOs from 20 of the Fortune 500 companies as well as leaders from numerous multilateral development agencies and 124 students from around the world. The format was a series of plenary sessions in the morning followed by breakout sessions, with a maximum of 30 participants in each, in the afternoon and evening.

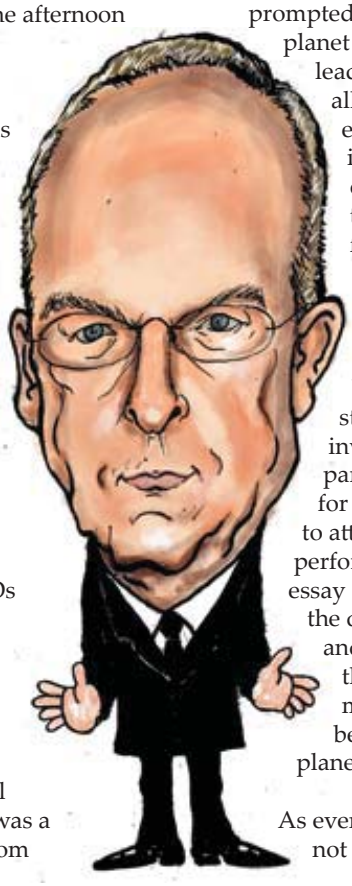
Several things struck me while participating in this event. However, I would like to highlight just three.

Firstly, during a breakout session on the global financial system being "fit for purpose", which was led by the chairman of a major multinational bank and the former economic advisor to the UK government, and was attended by central bank governors and CEOs of international financial institutions, I was pleasantly surprised to find that my brief explanation of the value proposition of Islamic finance was not only well accepted, but that there was a genuine feeling in the room

> ***"An alternative system based on risk-sharing and a return to the real economy is not only desirable but absolutely necessary"***

that an alternative system based on risk-sharing and a return to the real economy is not only desirable but absolutely necessary.

Secondly, in a plenary session on the global economic outlook, a panel of four industry leaders concluded that action was required now regarding financial inclusion and global economic sustainability. There were numerous scathing comments about the lack of political will and leadership around the world in both of these areas, which prompted one CEO to state that planet Earth "has a severe lack of leaders and trees!" In addition all four agreed, with regard to economic sustainability, that it is now actually cheaper to do something about it rather than doing nothing! Food for thought indeed.



The third thing I would like to share is that the whole event was organized by 24 undergraduate students, who, in addition to inviting 250 global leaders to participate, had also arranged for 100 "leaders of tomorrow" to attend based on their performance in an international essay competition. I must say that the quality of their contribution and the professionalism of their organizational skills make me feel a little bit better about the future of our planet.

As ever, there is much to do and not a moment to lose!

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Introducing Takaful in Morocco: The legal process launched

MOROCCO

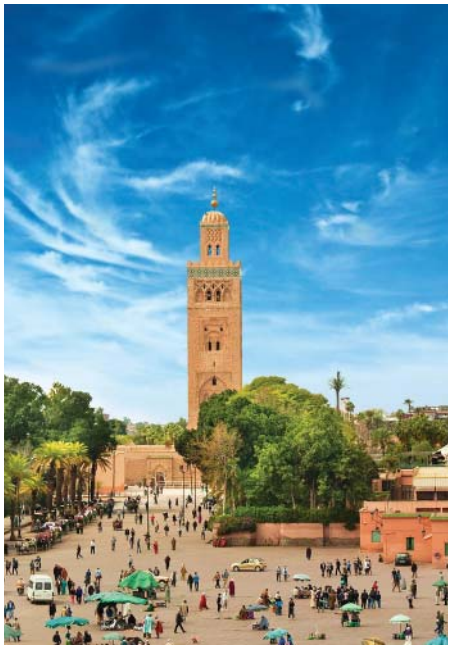
By Dr Ahmed Tahiri Jouti

Since 2012, the Moroccan government has launched a process of updating the financial sector legal framework in order to introduce the evolutions in international practices and standards and enable the different players to accompany the social and economic developments locally and globally.

These legal evolutions aim at strengthening the soundness and the transparency of the Moroccan financial sector by reinforcing the solvency and governance requirements and ensuring the diversity of its components through the introduction of Islamic financial instruments and institutions. Indeed, a new banking law that recognizes Islamic banking was voted in November 2014 as well as the Central Shariah Board that was established in order to accompany the development of the different components of the Islamic financial system in Morocco (including banks, Takaful and capital markets).

> ***"The provisions related to Takaful included in the bill remain general and details will be disclosed after the final vote of the law"***

In this context, the Moroccan government approved, in its weekly council held on the 14th of May 2015, the project law n°59-13 completing and modifying the law n°17-99 related to the insurance code. This bill introduces the concepts and principles of Takaful and drafts the guidelines applying to institutions offering Takaful and re-Takaful products such as the segregation between the shareholders' funds and the



participants' funds; Shariah governance and the obligation to comply with the opinions issued by the Central Shariah Board (the Higher Council of Ulamas); the prohibition of Islamic windows; and the need to establish independent entities.

All in all, the provisions related to Takaful included in the bill remain general and details will be disclosed after the final vote of the law in the different circulars and decrees. Moreover, these provisions are inspired mainly from the AAOIFI standards.

As for the banking law, the project law would be submitted to the parliament. At the beginning, the bill will be discussed and voted in the House of Representatives and then submitted to the House of Counselors for a final vote.

In parallel, the implementation process of Islamic banks has already started and the central bank of Morocco, Bank al Maghrib, will issue circulars related to the licensing process to identify the main players in the Islamic banking sector in Morocco.

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Credit financing in Islamic financial institutions: A Shariah review of Murabahah transactions

Islamic finance is based on firm theoretical foundations defined for Islamic financial institutions in the light of Shariah principles. In the current practice of Islamic banking, many issues have been raised regarding the compliance of the existing Islamic banking practice with Islamic law. In this article, SYED EHSANULLAH AGHA will highlight some critiques raised by scholars on the current practice of Murabahah as a tool of financing in Islamic financial institutions.

MURABAHAH

By Syed Ehsanullah Agha

Islamic banking products on the asset side are, theoretically, to be based primarily on two contracts of partnership – Mudarabah and Musharakah, similar to the conventional concepts of venture capital and joint ventures respectively. However, over 95% of the asset-side financial products being utilized by Islamic banks (IBs) worldwide are based on trading and leasing contracts – Murabahah and Ijarah respectively (Durrani and Babcock, 2014). It is considered the easiest strategy for IBs to mitigate their credit risks. Functioning in today's environment which is largely dominated by the conventional banking system, it is quite a big challenge for IBs to indulge in genuine profit and loss-sharing financing on the asset side.

This phenomenon has been criticized by various Shariah scholars. The core critique is that Islamic finance is mimicking conventional financial products in substance. In other words, only the procedures and paperwork for the processing of the products are Shariah compliant whereas the outcome is apparently similar to conventional finance.

Murabahah is basically a cost plus profit sale contract, whereby the seller expressly mentions the cost of the sold commodity as it is incurred, and sells it to another person by adding some profit or mark-up at credit. Presently, Murabahah is globally used by Islamic financial institutions as a mode of credit financing.

Using the interest rate as a benchmark for financing

Most of the Islamic financial institutions offering credit financing via Murabahah transactions use the interest rate as a

benchmark to determine their profit or mark-up. This practice raised the issue that determination of a profit based on an interest rate should be non-Shariah compliant as the interest itself. Using the interest rate as a benchmark for financing will make the transaction similar to the conventional mode of financing in substance. However, the basic principle for the legality and validity of a Murabahah contract is that it must be a genuine sale along with all its requirements and liabilities and not a superficial contract.

It is obvious that the use of the interest rate for determining a Halal profit is not deemed desirable. Nevertheless, if a Murabahah contract fulfills all conditions of a true sale contract, then merely by using the interest rate for determining a Halal profit will not convert it into an invalid transaction.

Upfront securities against the Murabahah price

In Murabahah financing the price is payable at a later date. To mitigate the risk of default, the seller/financier may ask the client to provide a security for his satisfaction. The security can be in the form of lien or mortgage. From the Shariah perspective, the security can be claimed only after the liability or debt is established. However, in the case of Murabahah financing the security is required from the client before the debt is created which is not lawful. Therefore, the right way would be for the financier to ask for a security after he has sold the commodity to the client, because at this stage, the price will become debt.

> ***"If a Murabahah contract fulfills all conditions of a true sale contract, then merely by using the interest rate for determining a Halal profit will not convert it into an invalid transaction"***

Another way could be that the client should put the security with the financier before the transaction, but it will be considered a security for the debt only after the transaction has been concluded. Prior to the contract, the item will be possessed by the financier solely at his own risk. If the item is destroyed without any negligence or misconduct, the cost will be borne by the financier. It is also permissible to make the sold commodity

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itself a security given to the seller.

Third party guarantee

Sometimes the financier asks the client to arrange a guarantee from a third party. There has been debate among contemporary scholars on whether it is lawful for the third party as a guarantor to charge the fee.

The classical jurists have unanimously agreed that a guarantee is a voluntary transaction and no fee can be charged to guarantee. On the other hand, there are contemporary scholars who hold the view that the prohibition of the guarantee fee is not directly derived from the Quran and Sunnah. It was based on the prohibition of Riba as one of its ancillary consequences. Furthermore, they argue that the guarantee in present commercial activities differs from how it was in the past. The guarantor has to do some administrative work before issuing the guarantee. Based on this argument they allow the guarantor to charge the fee to cover the actual expense.

Penalty of default

In the case of a conventional loan, if the client fails to pay the price on the due date, the interest will keep increasing according to the period of default. However, in Islamic finance once the price of a commodity is fixed in the form of a Murabahah transaction the price cannot be increased. Sometimes this restriction is exploited by dishonest clients as they intentionally delay the installments until the maturity date. To mitigate the risk of default in Murabahah transactions, the regulatory authority in Malaysia suggested that the Islamic bank may charge 1% of the total outstanding amount or the actual loss as compensation but it shall be charged once and not compounded.

Another option which is a practice in the Middle East is that before executing the Murabahah contract, the client undertakes that in the case of default he will pay a certain amount to a charitable fund managed by the bank. It must be clear that the amount of penalty will not be used for the bank`s benefit or income.

Rollover and rescheduling in Murabahah

In conventional finance when the client is unable to pay the loan for any reason, the client can simply request the bank to increase the timeline. This facility is called rollover which is basically to provide another loan of the same amount with a different interest rate and maturity date.

In a Murabahah contract, the price cannot be rolled over for an extended period. Nevertheless, the client may ask the bank to reschedule the installments. In this case, if the bank accepts the client`s request they will reduce payment amounts by extending the payment period and increasing the number of payments. No additional amounts will be charged and the Murabahah price will remain in the same currency.

> ***"The industry is in a "between the hammer and the anvil" situation, ie facing the innovation obligation to satisfy commercial objectives that are restricted by Shariah requirements"***

Rebate on early payment

When a debtor pays earlier than the specified date, conventional banks give a rebate in terms of giving discounts on the agreed deferred price. From a Shariah perspective, is it permissible to give a rebate on early payment? This is discussed in Islamic legal literature as "Dha`Wa Ta'Ajjal" (reduce the debts and expedite the settlements). According to the majority of the jurists it is not permissible. Some scholars consider this as a permissible arrangement, based on a famous Hadith narrated by Abd Allah Ibn Masod. According to this Hadith, when the Jews of Banu Nadir were exiled from Madinah (because of their conspiracies), some people came to the Prophet (peace be upon him) and said: "You have ordered them to be expelled, but some people owe them debt which have not yet matured." Thereupon, the Prophet (peace be upon him) said to the Jews: "Give discounts and receive your debt soon".

It should be taken into account that if the earlier payment is conditioned with a discount then the rebate is not permissible. However, if the creditor gives a rebate voluntarily without any upfront agreement it is permissible. In Murabahah financing, a rebate should not be stipulated in the master agreement, it should remain at the sole discretion of the bank.

Conclusion

The Shariah compliance aspect of Islamic financial products is considered one of the most important factors differentiating Islamic finance from its conventional counterpart. Not only the form but the intention as well. The substance of Islamic products should be in total compliance with Shariah. The Shariah compliance of Islamic banks has been severely criticized especially in the current era, where the fact is that Islamic banks operate under conventional regulations and accounting standards that strongly affect the Shariah compliance aspect of Islamic banks. The industry is in a "between the hammer and the anvil" situation, ie facing the innovation obligation to satisfy commercial objectives that are restricted by Shariah requirements. This actually gives a comparative advantage to conventional banks which can be more innovative and competitive as they have no other restrictions except the banking Acts. This phenomenon should be acknowledged by the government authorities as well as the corresponding regulatory bodies in Islamic finance, and attempts should be made to find alternative solutions to these issues. This is particularly relevant in the current era of increasing globalization, where Islamic banking has to preserve its unique identity.

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Islamic trading and brokerage

Islamic trading accounts are a specific category of investment trading accounts that follow Shariah (Islamic law) to meet the needs of Muslim investors. Many banks and brokerages in the Middle East offer Islamic stock trading accounts and it is a relatively straightforward brokerage service that does not pay or charge interest on the cash funds in the account. Transactions and commission fees are charged similar to a conventional stock trading account and may or may not be competitive. SUHAIL AHMAD explores.

ISLAMIC STOCK TRADING

By Suhail Ahmad

However, the complexity and difference in opinion among scholars on Islamic versus non-Islamic forex (foreign-exchange) trading accounts remain an overhang for the currencies market, the largest financial market (by daily volume) in the world.

Islamic forex trading accounts claim to permit Muslim clients to trade on an interest-free basis (swap-free or rollover-free) with no extra charges or penalties to holding the position overnight to the next day as is the norm on a conventional trading account.

> *"Individuals who try to perform sophisticated forex trading and speculating utilizing electronic exchanges are likely crossing the line according to the Fatwa"*

The waiver of interest costs is often offset with additional costs in the form of higher spreads, generally one point higher than conventional accounts and other transaction fees.

Forex trading, let alone the validity of forex Islamic accounts, remains an area of contention among Islamic scholars. Several Fatwas (or rulings) have been issued over this matter and the majority of Shariah scholars agree with the following generally-accepted guidelines for forex trading:

- There must be an immediate (spot) buying and selling of currencies without delay.
- Currencies need to be transferred from the account of the seller to that of the buyer and vice versa (so actual exchange).
- The cost of the trade should be paid without delay and not in installments.
- No interest is paid or earned on the currency trade or cash held in currency accounts.

However, one of the biggest issues of forex trading is not the issue of Riba or interest but that of Gharar (uncertainty) and speculation. Gharar in Islamic finance is a risky or hazardous sale, where details concerning the sale item are unknown or uncertain. Gharar is prohibited under Islam, which explicitly forbids trades that are considered to have excessive risk due to uncertainty.

Forex trading involves a high degree of risk with leverage as high as a 1:200 ratio meaning for each US$1,000 investment, the investor is controlling a US$200,000 position. Meaning just a 0.5% change in price could either double the US$1,000 investment or evaporate it to zero. Hence, the forex markets are an ideal playground for speculators and less so for long-term traders.

This issue with forex trading was highlighted in 2012 by the Fatwa of the National Fatwa Council of Malaysia which ruled that foreign exchange trading except by money-changers or between banks was not permissible.

The council chairman at that time, Dr Abdul Shukor Husin, said the ruling against forex trading was due to the fact that their study found such trading involves currency speculation which is against Islamic laws. It is therefore 'Haram' or forbidden for Muslims.

Traders at licensed banks can keep trading, and individuals who change cash at licensed exchange outlets are also in the clear. But everyday individuals who try to perform sophisticated forex trading and speculating utilizing electronic exchanges are likely crossing the line according to the Fatwa. This will continue to be a major overhang for the forex trading firms that are marketing to Muslim investors.

On the other hand, Islamic stock trading platforms have been doing relatively well as Middle Eastern stock markets have risen sharply over the past few years. Even firms like Saxo Bank of Denmark have seen strong growth from the Middle East and it opened its second office in Abu Dhabi last year after moving into the Dubai International Financial Center in 2009. The Copenhagen-based firm now derives 10% of its revenues from the Middle East.

In an effort to tailor its products to local investors, Saxo Bank is offering a multi-asset trading platform in Arabic meeting Shariah criteria. "We have a Shariah compliant version of the platform where we have tailored it to this region so you can only trade in commodities and products that meet the tenets of Shariah law," said Lars Seier Christensen, CEO of Saxo Bank last year and he admitted that they are "not sure it (Shariah product) has been hugely successful so far."

Challenges remain for the Islamic trading and brokerage firms with forex traders losing Shariah 'credibility' and stock trading firms battling to differentiate themselves in a highly price-competitive marketplace. But the improving market sentiment and the opening up of the markets (i.e. Saudi Arabia) to international cross-border investments should help the industry grow.

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Legal documentation from a Shariah perspective: Purchase undertaking

In order to suit the Shariah contracts and concepts in the current Islamic finance environment, these contracts must be backed by proper legal documentation. One such documentation which is widely used by Islamic financial institutions (IFIs) is the 'purchase undertaking'. With that, AHMAD MUKARRAMI and AIZUL AIMAN will expound further on its implementation and arising Shariah issues.

PURCHASE UNDERTAKING

By Ahmad Mukarrami Ab Mumin & Aizul Aiman Musa

The essence of Islamic legal documentation should always promote transparency, justice and disclosure, with the aspiration of being better than conventional legal documentations. The urge to make the contract documented is based on the verse from the Quran: "O ye who believe! When ye contract a debt for a fixed term, record it in writing". This underlines the uniqueness of Shariah contracts since Shariah is meant to bring benefit, prevent harm and protect the interest of all parties which fulfill the core objective of Islam that is, to bring benefit to the world. Purchase undertaking serves these purposes, hence validates its extensive application by IFIs.

Purchase undertaking is a unilateral agreement which binds one party to purchase a financed asset from the other party for numerous reasons. It is constructed based on the Shariah contract of Wa'd Bil Al Shira' or promise to purchase where it is legally binding. Thus, when certain requirements are in place, the agreement will be executed and the customer will purchase the asset, transferring the ownership from the Islamic financier to the customer.

When is the purchase undertaking triggered?

The purpose of a purchase undertaking is to reduce risks borne by a party, where the purchase undertaking will revolve around these risks. A common trigger for a purchase undertaking is default in payments. Depending on the structure of the facility, in the event of default, the asset owned by the Islamic financier will be sold to the customer to create indebtedness as well as to transfer the ownership from the financier to the customer.

For example, if the facilities are based on Ijarah and Musharakah where the Islamic financier owns all or a portion of the asset, in the event of default, the ownership by the financier will be transferred to the customer by way of sale to create indebtedness so that the Islamic financier can claim the remaining outstanding agreed payment.

Another situation that may trigger a purchase undertaking is a Sukuk payment arrangement. In a normal Sukuk arrangement, the obligor will give a unilateral promise to the issuer/trustee to purchase the Sukuk asset at the maturity date, pre-agreed date or in the event of default. A purchase undertaking agreement in a Sukuk arrangement is essential to facilitate the profit payment to investors/Sukukholders.

Exercising purchase undertaking

In the event a purchase undertaking is triggered, a sales contract would need to be concluded between the parties. In order to complete the sales contract, the four pillars of a sale contract must be fulfilled; these are the seller, the buyer, the offer and acceptance, and its subject matter.

Exercising a purchase undertaking that occurs in the event of default is more complicated compared to a normal sales contract as it will take place in the absence of the customer (the buyer). Moreover, the effect of the sales contract triggered by the purchase undertaking appears to be compelling the customer to purchase the asset.

Failure to complete the Aqd in accordance to the prescribed Shariah requirement would trigger possible non-Shariah compliant transactions due to the existence of Gharar in the contract. If the sales contract is deemed contracted, the acceptance of this practice from the Shariah perspective would need to be answered by the Shariah committee of the respective institutions.

Solution

To overcome this, the purchase undertaking agreement should come together with the power of attorney (Wakalah) agreement, which, in a financing facility provided by an Islamic financier, grants the Islamic financier a mandate from the customer to facilitate and execute the purchase undertaking process. In the case of a Sukuk arrangement, the power of attorney is given to the trustee as they have been appointed by the Sukukholders to act on their behalf according to the trust deed document. By having this appointment, it may eliminate the uncertainty on the validity of the Aqd executed.

In order to support the power of attorney agreement, other documents are required to perfect the sales contract. Among the documents required are a form of exercise notice and a form of sale and purchase agreement which is duly signed by the customer.

Conclusion

In conclusion, legal documents utilized should be reviewed from time to time to ensure that it embodies the spirit of Shariah while maintaining its legal structure. These documents are constructed based on common and Shariah laws, hence, there will always be possibilities that it may not be in harmony with each other. Therefore, it falls back to the review process that needs to be done regularly to avoid conflicting elements that may not only cause injustice to clients but also put the Islamic financier in a risky position that will affect their image, reputation and business.

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Regulated Shariah compliance: The case of Islamic finance in Malaysia

Today, Malaysia is a brand name in the international Islamic financial market. Malaysia's track record in developing Islamic finance has become an inspiration to many, particularly emerging economies. One aspect that is fundamental in the development of Islamic finance in Malaysia is its robust Islamic finance regulatory framework. In this short article, DR NOOR SUHAIDA KASRI describes briefly the evolution of regulatory framework governing the raison d'etre of Islamic finance – Shariah compliance which distinguishes it from conventional finance.

MALAYSIA

By Dr Noor Suhaida Kasri

The historical evolution of regulated Shariah compliance in Malaysia started 32 years ago wherein the Islamic banking industry was first regulated by the Islamic Banking Act 1983 (IBA). Under the IBA, Shariah compliance became 'institutionalized' through the formation of a Shariah committee at the first Islamic bank in Malaysia, i.e. Bank Islam Malaysia. Thereafter the number of Islamic financial institutions (IFIs) started to grow. This growth is followed by the growth of Shariah committees being set up in each of these IFIs. Numerous Shariah resolutions started to mushroom from these Shariah committees which at times result in duplicity and inconsistency of rulings (based on the ISRA Research Paper (No. 47/2012) titled 'The Shariah Advisory Council's Role in Resolving Islamic Banking Disputes in Malaysia: A Model to Follow?' by Mohamad, Abdul Hamid and Trakic, Adnan. (2012)).

To overcome this, Malaysia's central bank (CBM) established a national reference Shariah advisory body called the Shariah Advisory Council (SAC) on the 1st May 1997. It was only in 2003 that the SAC was given due statutory recognition and empowerment through the amendment of the Central Bank of Malaysia Act 1958 (CBA). The amendment that came through the Central Bank of Malaysia (Amendment) Act 2003 elevated the position of the SAC. Under the CBA, the SAC is deemed as "the authority for the ascertainment of Islamic law for the purpose of Islamic banking business, Takaful business, Islamic financial business…". However, at this stage the adherence and compliance of the resolutions issued by the SAC is only mandatory on the IFIs, Takaful operators and arbitrators.

During this period, numerous judgments have been delivered by the Malaysian courts which questioned the validity of the Islamic finance instruments particularly the home financing facility through the use of the Shariah principle of Bai Bithaman Ajil. Such pronouncements sent jitters though the Islamic financial market. This resulted in another amendment to the CBA in 2009. The effect of this amendment is that adherence and compliance of the resolutions issued by the SAC is mandatory not only on the IFIs, Takaful operators and arbitrators but also on the courts. The courts (as well as the others) must now refer Shariah issues to the SAC either through the SAC's published rulings or if there is none, to request for a fresh ruling from the SAC.

In 2012, the SAC issued a 'Manual for Reference by the Court and Arbitrator to the SAC'. This document ameliorates the uneasiness among the legal fraternity from feeling that the SAC is usurping the function of the judiciary and that the judiciary is abdicating its jurisdiction to SAC (See Mohd Alias Ibrahim v RHB Bank [2011] 3 MLJ 26 (HC)). To address this legal limbo, the SAC elucidates in its manual that in making reference to the SAC, the court is only referring to questions relating to Shariah issues which arise from the disputed Islamic financial transactions. Hence, the role of the SAC is only to ascertain the Shariah ruling on the issues forwarded and not to make any findings on the facts of the case or applying a particular ruling on the fact and making a decision. The jurisdiction of the court remains intact – to judge and decide on the outcome of the case.

On the 30th June 2013, the Islamic finance industry witnessed another milestone in the regulatory evolution of Shariah compliance. On this date, the Islamic Financial Services Act 2013 (IFSA) was promulgated. By the promulgation of the IFSA, the previous statutes that govern Islamic finance and the Takaful industry, namely the Islamic Banking Act 1983 and the Takaful Act 1984 were repealed. These two industries are now regulated by a single legislation, the

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IFSA. The IFSA expressly stipulates that its principal objectives are to promote financial stability as well as compliance with Shariah. For that reason, numerous provisions are found in the IFSA that essentially provide for the meaning and manner deemed as Shariah compliance.

Under the IFSA, all IFIs are required to ensure that its operations, business, affairs and activities are in compliance with Shariah. An IFI is deemed compliant if all these matters are in compliance with the rulings of the SAC and the advice of the IFI's Shariah committee (See section 28(1) of the IFSA). In addition to that, the IFIs must ensure that they are also in compliance with the standards issued by the CBM. The standards that are issued by the CBM relate to Shariah matters and also on matters of Shariah governance. Examples of these standards are 'Shariah Standard on Mudarabah', 'Shariah Standard on Murabahah', 'Guidelines on the Shariah Governance Framework for Islamic financial institutions', 'Guidelines on Musharakah and Mudarabah Contracts for Islamic banking institutions', 'Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic banks', and 'Guidelines on Ibra (Rebate) for Sale-based financing'.

Therefore, in the event that the IFI is aware that its business, affairs or activities are not in compliance with Shariah, the IFI must immediately notify the CBM and its Shariah committee of this breach. Upon such notification, the IFI is required to immediately cease operations of such business, affairs or activities and refrain from taking on any other similar business, affairs or activities. The non-compliance must be rectified and the IFI is given 30 days or any further period as specified by the CBM to submit to the CBM the rectification plan (See section 28(2) of the IFSA). The implementation of such a rectification plan will be supervised and assessed by the CBM to assess whether the IFI has actually rectified the non-compliance.

> ***"Numerous judgments have been delivered by the Malaysian courts which questioned the validity of the Islamic finance instruments such pronouncements sent jitters though the Islamic financial market"***

The duty to ensure that Shariah compliance is continuously adhered to lies on the shoulders of the director, CEO, senior officer and members of the Shariah committee (See section 29(3) of the IFSA). It is the first time in the history of Islamic finance globally that non-compliance will be severely punished. According to section 28(5) of the IFSA, if these persons fail in their duty to ensure that their business, affairs or activities are Shariah compliant, they will upon conviction be liable to imprisonment for a term not exceeding eight years or to a fine not exceeding RM25 million (US$6.95 million) or liable to both.

Malaysia has shown tremendous progress in building its Shariah compliance legal framework. The commitment and determination shown by the Malaysian government has positioned Malaysia in the driving seat in terms of an advanced Islamic finance legal framework which has proven to be a model for others to follow if they are earnest in developing their Islamic finance industry.

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Sovereign Sukuk to tread a new path

The Sukuk market has the potential to record incredible growth. To make it happen, however, there is a need to first concentrate on sovereign Sukuk. ISHRAT HUSSAIN writes.

SUKUK

By Ishrat Hussain

It is surprising that the Sukuk market had seen the first asset-backed trust certificate Sukuk of RM125 million (US$35.07 million) after just two years from when the Fiqh Academy of the Organisation of Islamic Cooperation in 1988 had allowed representation of any collection of assets in a written form. The introduction of the first sovereign Sukuk, however, took a little longer to emerge in the world. It was the government of Bahrain which issued a five-year US$100 million Sukuk in 2001.

Since then, the cumulative amount of sovereign Sukuk issued are estimated around US$440 billion up until the third quarter of 2014 whereas the outstanding amount is estimated at around US$105 billion.

It has to be mentioned that sovereign Sukuk may be either domestic or international. Domestic sovereign Sukuk serves as a benchmark for pricing Islamic finance products and to encourage the development of the secondary Sukuk market facilitating liquidity management in banks, whereas international Sukuk are issued mainly to attract foreign savings. Quasi-sovereign Sukuk are considered sovereign Sukuk. Such Sukuk are issued by companies carrying implicit or explicit government guarantees.

The classification of reasons inhibiting sovereign Sukuk growth between supply-side factors and demand-side factors is very simple. A low market demand of any product indicates insufficient buyers' need of that product. In such cases, the boards of directors of such companies sit together with their marketing department to redefine business strategies. It is a difficult process as they have to decide either to continue or discontinue the product. If they decide to continue, they have to understand what the needs of their target market are and how they can satisfy those needs. But it is easy in cases where the product supply is short in the market and they have to increase their supply lines.

Table 1: Excess demand for sovereign Sukuk

Issuer	Profit rate	Amount subscribed (A)	Amount accepted (B)	Excess demand (A-B)
Pakistan (US dollar denominated on the 26th November 2014)	6.75%	US$2.3 billion	US$1 billion	US$1.3 billion
Luxembourg (Euro denominated on the 30th September 2014)	0.436%	EUR400 million (US$457.76 million)	EUR200 million (US$228.88 million)	EUR200 million (US$228.88 million)
South Africa (US dollar denominated on the 17th September 2014)	3.9%	US$2.2 billion	US$500 million	US$1.7 billion
Hong Kong (US dollar denominated on the 15th September 2014)	2.005%	US$4.7 billion	US$1 billion	US$3.7 billion
UK (GBP denominated on the 25th June 2014)	2.036%	GBP2.3 billion (US$3.62 billion)	GBP200 million (US$314.45 million)	GBP2.1 billion (US$3.3 billion)

> ***"A promising sovereign Sukuk growth is independent of Sukuk issuance by the GCC or Malaysia"***

Factors limiting promising sovereign Sukuk growth are related to the supply side. An example of sovereign Sukuk issued recently by different countries is shown in Table 1. It can be seen that irrespective of the issuer country and profit rate, the amount subscribed is in multiples of the amount accepted by the issuers. So demand is there but supply is short. Even a credit rating of 'AAA' for Luxembourg and a 'B-' rating for Pakistan do not affect excess demand for sovereign Sukuk.

Does the excess demand indicate foolishness of the Sukuk investors? Why do they want to invest in these Sukuk? On top of it, around half of the sovereign Sukuk investors wanted to get attractive yield and diversification of their investment portfolio. Demand for sovereign Sukuk has a negative side too as Islamic finance institutions are largely price inelastic. Why? Because they are mandated to invest in Islamic instruments only. The opportunity cost of their investment in sovereign Sukuk is enormous idle cash balances. It is this class of investors that tightens the price guidance area. As a result, margin squeezes for other investors.

A promising sovereign Sukuk growth is independent of Sukuk issuance by the GCC or Malaysia. No doubt, they have played an admirable role and they have an overwhelming share in outstanding Sukuk. Their role in coming up with a variety of Sukuk structures and marketing strategies that they adopted is enormous. But now both of them are facing economic challenges within their boundaries. Their economic growth trends are expected to get flatter with the passage of time. Why? Because opportunities for new infrastructure as well as capital investment there are not natural like that in Pakistan, India, South Africa and many countries in Africa. Even once peace is restored in Egypt and Iraq, a great need of infrastructure and capital investment will arise there.

Sovereign Sukuk growth will come through new entrants. But new entrants have to face challenges to come up with Sukuk structures meeting investor needs of attractive yield, diversification and reasonable credit risk. These are potential purposes which can contribute to promising growth of sovereign Sukuk from non-Shariah-sensitive investors. Such investors have learned a hard lesson of investing in excessively risky debt.

Continued

They will likely go for Sukuk backed by real assets and projects because they know sovereign issuers guarantee repurchase of underlying assets at a given price. So the principal remains intact, while returns are paid regularly out of earnings of the underlying assets.

It is clear that sovereign Sukuk has to tread a new path to record significant growth. They are no longer just an Islamic finance product destined for Islamic finance institutions. It is a new asset class which conventional investors need to diversify their asset base and earn attractive yields.

> ***"Sovereign Sukuk growth will come through new entrants. But new entrants have to face challenges to come up with Sukuk structures meeting investor needs of attractive yield, diversification and reasonable credit risk"***

Against this background, countries like Pakistan should go for more issuance of Sukuk for investment in infrastructure projects. The IMF and the World Bank have shown their satisfaction with the future economic growth in Pakistan. Inflation is at a low. The exchange rate is expected to stabilize at the current rate or go down. Foreign exchange reserves are increasing and the political and security situation is improving. Everything is good and getting better. Therefore, Sukuk issuance is a win-win scenario for Pakistan and international Sukuk investors.

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Current state of the re-Takaful industry in Asia

It may not be a good idea to look at an old article written sometime ago on the same topic as one may realize that a lot of the predictions made then did not materialize. However, in the case of the earlier article on a similar topic titled 'Challenges of General re-Takaful in Asia today' (published in the IFN Supplements Asia issue in October 2012), most of the statements made about the re-Takaful industry 30 months ago are still valid now. MARCEL OMAR PAPP elaborates.

RE-TAKAFUL

By Marcel Omar Papp

Most re-Takaful operators still face the challenge of slow business growth and they struggle to achieve a positive result for their risk funds especially on the General side. In fact, in the past two and a half years, a few re-Takaful operators have reduced their General portfolio or have stopped writing the General business altogether.

It is still a challenge for re-Takaful operators to write volatile risks (such as industrial and certain commercial lines) on the General side and there are still contentious re-Takaful practices being maintained in the market.

As a result of all these pertaining challenges, it is not surprising that not many new re-Takaful operators were set up in the past few years. However, it is not all doom and gloom. There are also some positive signs on the horizon in the re-Takaful industry.

First of all, Takaful business has continued to increase in the past few years with annual double-digit growth in most countries which should also lead to new business opportunities for re-Takaful. Furthermore, there are new markets opening up for Takaful besides the core ones in the Middle East and Southeast Asia. New Takaful companies are being set up in Africa, Europe and Central Asia. Knowledge about Takaful tends to be limited in these 'frontier' markets.

Henceforth, re-Takaful operators can play an important role in assisting these new companies to set up their operation, share experiences from more established markets, and develop new products, etc.

Secondly, another important development is the increased interest of regulators in re-Takaful. Past experience showed that regulations tend to thrive more in countries with an established framework for re-Takaful such as in Malaysia and Indonesia. A recent example is Pakistan where Takaful windows have recently been allowed. This in turn has given new business opportunities for re-Takaful companies as well.

In line with the increased interest from regulators, IFSB is in the midst of coming up with governance standards for re-Takaful. Thereby, it is good to know that many regulators are part of the working group as their know-how on re-Takaful sometimes tend not to be extensive.

Hopefully, their participation will improve their knowledge about re-Takaful and also provide an incentive for them to implement more robust regulatory frameworks for re-Takaful. It is just a pity that no re-Takaful operator is participating in the working group, otherwise they will at least be involved in the consultation of the draft standards.

There are also some industry initiatives especially in Malaysia under the umbrella of the Malaysian Takaful Association which should give a boost to the industry. One of them is the plan to set up a market re-Takaful pool for industrial risks which should make it more viable for re-Takaful operators to write these risks. Another initiative is the development of a market standard re-Takaful wording which will more accurately reflect the nature of re-Takaful than the current contracts which are simple amendments of conventional wordings.

The big question now is what strategy the re-Takaful operators should adopt to be successful in future. One approach, which is common, is to run a 're-Takaful light' model whereby the re-Takaful operator invests a very limited amount of resources into its re-Takaful operation and runs it basically as part of its conventional set up. The big advantage is the very low additional costs involved in running it as the systems do not need to be adapted and (almost) no additional resources need to be deployed.

At the same time, there are also some disadvantages of running a 'light' operation. A limited know-how about Takaful will be built up and this makes it difficult to provide any knowledge transfer on re-Takaful to clients.

There is also an inherent danger as certain compromises have to be made with regards to Shariah compliance in order to remain efficient. Therefore, the potential reputational risk needs to be kept in mind when running a 'light' operation.

Finally, the financial assessment of the shareholders and risks funds may not be done adequately as the financial reporting will most likely follow the conventional operation not taking into consideration the specifics of re-Takaful. This in turn could lead to wrong management decisions.

In case of a fully-fledged operation, the tables are turned. The higher costs become a disadvantage while the better knowledge about re-Takaful, the Shariah compliance of the operation and the ability to do an accurate financial assessment become advantages.

Both models (re-Takaful 'light' and fully-fledged operation) can work. It is up to the overall strategy of the company to choose the adequate one in line with their strategic goals. At the same time, it is important that the stakeholders such as regulators and Takaful companies are fully aware of the model used by the re-Takaful company and its potential consequences so that they are able to make an informed decision with whom they want to partner.

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DEALS

CBB's short-term Sukuk fully subscribed

BAHRAIN: The Central Bank of Bahrain (CBB) announced in a press release that its monthly issue of its short-term Sukuk Ijarah, has been fully subscribed by 100%. Subscriptions worth BHD26.1 million (US$68.75 million) were received for the BHD26 million (US$68.49 million) issue, which carries a maturity of 182 days.

Issued on behalf of the Bahraini government, the expected return on the issue, which began on the 14th May 2015 and matures on the 12th November 2015, is 1.25% compared to 1% for the previous issue on the 16th April 2015.

Bank OCBC NISP eyes Sukuk

INDONESIA: The Shariah unit of Bank OCBC NISP is mulling over a Sukuk issuance to finance most of its long-term financing assets, reported local news portal Bisnis Indonesia. Quoting Koko T Rachmadi, the head of the bank's Shariah unit, the bank reportedly plans to issue within the next two to three years.

Garuda Indonesia to issue Sukuk

INDONESIA: Garuda Indonesia on the 19th May commenced the roadshow for its forthcoming Global Sukuk Bond following the approval of its extraordinary general shareholders' meeting for the issuance of a US$500 million Sukuk. The airline said in a press release that the investor meetings will begin in Abu Dhabi and Dubai on the 19th May and will move to Hong Kong on the 20th May before transferring to Singapore on the 21st May, Zurich on the 22nd May and London on the 26th May.

Garuda Indonesia has mandated National Bank of Abu Dhabi (NBAD) (the sole global coordinator), Dubai Islamic Bank (together with NBAD as joint structuring banks), Al Hilal Bank, Australia and New Zealand Banking Group, Deutsche Bank Singapore, Emirates NBD Capital, First Gulf Bank, Maybank Investment Bank, Noor Bank, QInvest, Standard Chartered Bank, Warba Bank (together with the joint structuring banks, the joint lead managers and joint bookrunners), BNI Securities, Trimegah Securities and Mega Capital Indonesia (jointly, the co-managers) to arrange a series of fixed income investor meetings during the roadshow.

AEON Credit plans Sukuk

MALAYSIA: AEON Credit in an announcement on Bursa Malaysia's website seeks to establish a seven-year Islamic commercial papers program of up to RM1 billion (US$276.55 million) in nominal value based on the principle of Murabahah (via a Tawarruq arrangement). Each Sukuk Murabahah issuance shall have maturities of any tenure from one to 12 months from the date of issuance, provided that each issuance matures on or prior to the expiry of the program.

Proceeds from the issuance will be channeled towards working capital, financing disbursements to customers, the financing of expenses relating to the proposed program and the repayment of the existing and future banking facilities of the company.

Masraf Al Rayan mulls over Sukuk issuance

QATAR: Masraf Al Rayan is considering the issuance of a benchmark Sukuk, reported Bloomberg. The financial institution has received proposals from banks for the benchmark-sized offering.

SPLASH to make Sukuk payment

MALAYSIA: Water concessionaire Syarikat Pengeluar Air Sungai Selangor (SPLASH)'s redemption of its primary and secondary Murabahah commercial papers worth up to RM435 million (US$121.75 million) will be due and payable on the 29th May, according to an announcement on Bank Negara Malaysia's website.

Bank BNI Syariah to issue Sukuk

INDONESIA: Bank BNI Syariah has revealed plans to sell IDR500 billion (US$38.1 million) in Sukuk to diversify its financing sources, reported local news portal The Jakarta Globe. Referring to a prospectus, the Shariah arm of Bank Negara Indonesia had set the offering period for investors from the 19th-21st May and would list the bonds on the Indonesia Stock Exchange on the 27th May. The Sukuk Mudarabah has a three-year tenor with an annual yield of 12.05%. BNI Syariah has appointed BNI Securities and Danareksa Sekuritas as underwriters for the Sukuk sale.

Indonesia plans Sukuk auction

INDONESIA: The Indonesian government will hold a Sukuk auction offering four facilities on the 19th May and has set an indicative target of IDR2 trillion (US$153.2 million), according to an announcement on the website of its Ministry of Finance.

Hong Kong plans Sukuk roadshow

HONG KONG: The Hong Kong government will conduct roadshows in Asia, the Middle East and Europe beginning the 18th May for a potential Reg S US dollar Sukuk offering. The Hong Kong Monetary Authority confirmed in a statement that the government has mandated CIMB and National Bank of Abu Dhabi, HSBC and Standard Chartered Bank as joint bookrunners and joint lead managers, with HSBC and Standard Chartered also acting as joint global coordinators.

IILM to sell Sukuk

MALAYSIA: International Islamic Liquidity Management Corporation (IILM) announced to the central bank that it will auction US$490 million-worth of three-month Sukuk on the 21st May.

Malakoff redeems early

MALAYSIA: Independent water and power producer Malakoff Corporation on the 15th May redeemed its outstanding RM1.8 billion (US$503.79 million) Sukuk Musharakah program, ahead of time, according to an announcement on Bank Negara Malaysia's website.

DIB plans Sukuk roadshow

UAE: Dubai Islamic Bank (DIB) has mandated six banks to arrange fixed income investor meetings for a potential benchmark size, US dollar-denominated senior Islamic bond issue under its US$2.5 billion Sukuk program, reported Reuters. DIB selected First Gulf Bank, HSBC, Maybank, National Bank of Abu Dhabi, Standard Chartered Bank and itself to arrange the meetings in Asia and Europe.

Meetings will begin in Kuala Lumpur on the 21st May, then Singapore on the 22nd May before concluding in London on the 26th May.

Khazanah to issue SRI Sukuk

MALAYSIA: Khazanah Nasional has launched its first sustainable and responsible investment Sukuk under the Securities Commission Malaysia's SRI Sukuk Framework. To be issued by Ihsan Sukuk, Khazanah said in a statement that proceeds from the RM1 billion (US$279.88 million) ringgit-denominated SRI Sukuk program will be channeled to Yayasan AMIR, a non-profit organization initiated by the sovereign wealth fund in 2010, to manage its cash flow for the deployment of the Trust Schools program. CIMB Investment Bank is the deal's lead arranger, while CIMB Islamic and Amanie Advisors are the joint Shariah advisors.

DEAL TRACKER Full Deal Tracker on page 35

EXPECTED DATE	COMPANY'S NAME	SIZE	STRUCTURE	ANNOUNCEMENT DATE
TBA	Garuda Indonesia	US$500 million	Sukuk	19th May 2015
TBA	Dubai Islamic Bank	TBA	Sukuk	19th may 2015
27th May 2015	Bank BNI Syariah	IDR500 billion	Sukuk	19th May 2015
21st May 2015	International Islamic Liquidity Management Corporation	US$490 million	Sukuk	15th May 2015
TBA	Government of Hong Kong	TBA	Sukuk	15th May 2015
19th May 2015	Government of Indonesia	IDR2 trillion	Sukuk	15th May 2015
TBA	Masraf Al Rayan	TBA	Sukuk	14th May 2015

ASIA

Vakif Participation Bank's debut

TURKEY: Vakif Participation Bank is expected to be launched within a month with a capital of US$300 million, reported Turkish news portal, Daily Sabah. Quoting Adnan Ertem, the general manager of foundations at the Prime Ministry Directorate General of Foundations, the bank reportedly aims to establish 15 branches in Turkey by the end of this year.

Sri Lanka's Islamic sector growth

SRI LANKA: Sri Lanka's Islamic banking and finance sector recorded a 42% growth in assets to LKR50 billion (US$365.25 million) in 2014 compared to LKR35 billion (US$255.68 million) it posted in 2013, reported news portal Lanka Business Online, quoting its minister of industry and commerce.

PNB denies buying 1MDB Sukuk

MALAYSIA: Permodalan Nasional (PNB) has refuted allegations that it purchased Sukuk issued by embattled 1Malaysia Development (1MDB), which has stirred more controversies lately with the revelation of Lembaga Tabung Haji's acquisition of land from the fund. In a statement, the fund management company said it did not receive any offers from the sovereign wealth fund.

Pakistan seeks aid from ITFC

PAKISTAN: In a bid to increase foreign exchange reserves, Pakistan seeks to borrow US$1 billion from the IDB and has asked China to roll over a US$1 billion loan it obtained earlier, reported local news portal The Express Tribune. The move is expected to help Pakistan meet budgetary support needs and finance crude oil imports, helping the country increase its official reserves to US$20 billion in the next 12 months.

The government will borrow US$1 billion on a short-term Murabahah basis from International Islamic Trade Finance Corporation (ITFC) of the IDB to finance crude oil imports.

RAM's new guidelines

MALAYSIA: RAM Ratings has published a criteria and methodology paper that highlights the general guidelines for permitted investments that a project finance or structured finance transaction would have to observe. In a media statement, the rating agency said that project finance and structured finance transactions typically revolve around a single cash flow-generating asset or a pool of receivables and are usually limited recourse in nature. As such, the credit assessment necessarily focuses on the underlying cash flows to support the interest/profit and principal obligations under the bond or Sukuk.

Owing to the timing differences between when cash is collected and paid out to meet the issuer's financing obligations, there is typically a temporary mismatch of cash flow streams. Given the importance of prudent management of transaction cash flows, as part of its rating process, RAM assesses the quality of any permitted investments made.

Islamic banking boost for Pakistan

PAKISTAN: Pakistan's Islamic banking industry is likely to get a big push as the government actively considers assigning designated banks, both Islamic and conventional, to deal with Hajj applications under Shariah compliant accounts, reported the Pakistan Observer. The government on the back of its policy of transforming the financial system into a Shariah compliant system is believed to have given the go ahead to the idea of dealing Hajj applications and deposits under Islamic banking accounts which will provide a boost to Shariah compliant finance in the country.

AmIslamic rebrands

MALAYSIA: AmIslamic Bank, an entity under AmBank Group, has rebranded itself to AmBank Islamic. In a statement to IFN, the bank said that this change is to realign the group's Islamic identity with the AmBank Group mother brand.

EUROPE

Al Rayan opens new branch

UK: Following an announcement by IFN on Al Rayan Bank's expansion plans which includes a new office in Knightsbridge, London, earlier this year, the Islamic bank has confirmed with IFN that it inaugurated a new private banking branch in Knightsbridge this week.

GLOBAL

IDB-AIIB potential collaboration

GLOBAL: The IDB is in discussions with China's proposed Asian Infrastructure Investment Bank to explore the potential of utilizing Shariah compliant financing facilities to fund Asia's infrastructure needs, reported Reuters. This potential collaboration is expected to boost Sukuk issuance and increase investors' access to capital.

Kazakhstan and Saudi Arabia plan joint Islamic bank/fund

GLOBAL: Kazakhstan and Saudi Arabia have reached an agreement to form a joint Islamic bank or fund to finance projects, according to national news agency, Kazinform, quoting Asset Issekeshev, the minister for investment and development of Kazakhstan.

SAP targets Islamic banking sector

GLOBAL: Global software and technology vendor SAP has identified the Islamic banking sector as a key growth area, following a record year for its banking and financial services business; although it is likely to rely on partners to develop as it lacks in-house expertise. "There is... a new interesting prospect for SAP in Southeast Asia in the Islamic banking space," Falk Rieker, the global vice-president and head of banking, told IBS Intelligence. "And we have discovered that our software can provide Islamic functionality as standard, without major modifications or rewrites, [which is] very encouraging to know."

The firm currently has just one Shariah compliant customer: Malaysia Debt Ventures, which specializes in lending to technology firms and has been using SAP's back office management system since 2010.

MIDDLE EAST

Aljazira Capital plans expansion

SAUDI ARABIA: Aljazira Capital, the Kingdom's biggest brokerage house, is seeking to diversify its income streams as domestic competition increases ahead of the launch of foreign access to the Tadawul exchange in June.

"We are working on several initiatives," head of research Abdullah Alawi told IFN. "We will be competing heavily with other local players to attract brand names from abroad to trade through our systems and our brokers. Our plan is to remain number one in brokerage, be famous as an asset manager, and we are also exploring other investment areas within the investment banking and private equity arenas as well."

ADIB-Mint collaboration

UAE: Mint, a vertically integrated electronic payment solutions provider and a leading payroll card service provider based in the UAE, has formed an alliance with Abu Dhabi Islamic Bank (ADIB). According to a press release, both the entities will launch open-loop cards, and microfinancing solutions, in addition to partnering with Arab Link Money Transfer (ALMT), targeting the burgeoning migrant population in the UAE with modest income levels. A subsidiary of ADIB, ALMT will provide Mint wider access to large remittance networks such as Western Union and Xpress Money.

Ajman Bank utilizing NASDAQ Dubai Murabahah platform

UAE: Ajman Bank in a press release confirmed that it has begun transacting on the NASDAQ Dubai Murabahah Platform, facilitating the financial transactions of the bank's retail and corporate clients by supporting the trading of Shariah compliant certificates that have been developed as the underlying assets of the transactions. Since its launch last April, the NASDAQ Dubai Murabahah platform has completed over AED46.5 billion (US$12.66 billion)-worth of transactions.

SIB sets foot in RAK

UAE: Sharjah Islamic Bank (SIB) has inaugurated its first branch in Ras Al-Khaimah. According to Emirates News Agency, the branch is situated in the heart of Al Nakheel, a prime business area in the emirate. The new branch, its second in 2015, brings the total number of SIB's branches across the UAE to 32.

Bank Nizwa pulls out from United Finance merger plan

OMAN: United Finance in an announcement to the Muscat Securities Market disclosed that it has received an official communication from Bank Nizwa stating that the bank has decided to withdraw its initial proposal for a possible strategic merger between the two entities.

Alizz finances development project

OMAN: Alizz Islamic Bank has signed a strategic agreement with Shaden Development Company to provide long-term Shariah compliant financing for the implementation of phase 2 of the Shaden Al Hail project, reported local daily Times of Oman.

KHCB's new corporate financing product

BAHRAIN: Khaleeji Commercial Bank (KHCB) according to a press release has rolled out a new corporate financing product termed I'teman Financing, which acts as a substitute for overdraft accounts enabling customers to cover operating expenses or financial overheads.

GFH wins case

BAHRAIN: Gulf Finance House (GFH) has won a legal case against two of its ex-chairmen pertaining to bonuses they illegally procured from 2005-08. According to a bourse filing, the verdict amounts to US$90.64 million plus a 5% annual interest beginning from the 13th March 2014 until the date of final settlement.

ASSET MANAGEMENT

RHB Asset Management seeks greater access into China

GLOBAL: Malaysia's RHB Asset Management intends to launch two more Islamic funds in Hong Kong with the first one due in May and the second one in September, according to Bloomberg. The firm introduced its first Shariah fund in Hong Kong, the RHB-OSK Islamic Regional Balanced Fund, last year. The existing fund has RM15.5 million (US$4.33 million) in assets.

Maybank AM eyes ASEAN CIS Islamic funds

MALAYSIA: Maybank intends to further leverage the ASEAN Collective Investment Scheme (ASEAN CIS) to launch more Islamic funds. Speaking to IFN, CEO of Maybank Asset Management Group (Maybank AM) Nor'Azamin Salleh, said: "We are in support for [the] ASEAN CIS platform and envisage to bring out more Islamic funds out of Malaysia where there's demand. At the current juncture, we are building the performance record of the funds before passport[ing] the funds out." Maybank AM earlier this month launched the first Islamic fund under the ASEAN CIS platform (See IFN Report Vol 12 Issue 19: 'Islamic funds industry to gain from ASEAN advantage').

NIT launches Islamic fund

PAKISTAN: The National Investment Trust (NIT) has launched a Shariah compliant equity fund, known as the NIT Islamic Equity Fund (NIT-IEF). According to Dawn, the fund received PKR3.9 billion (US$38.07 million) in subscription during the pre-IPO period from 11th-15th May.

RESULTS

Al Baraka Bank Egypt

EGYPT: In the first three months of the year, Al Baraka Bank Egypt grew its net income by 21% to EGP63 million (US$8.23 million) while total assets expanded by 5% to EGP23.3 billion (US$3.05 billion), the bank said in a statement.

Abu Dhabi National Takaful

UAE: Abu Dhabi National Takaful made a net profit of AED12 million (US$3.27 million) in the January-March 2015 period, against AED10.3 million (US$2.8 million) in the corresponding period of 2014. According to a bourse filing, the operator in the first quarter recorded total gross Takaful contributions written of AED78.7 million (US$21.42 million) as compared to AED91.3 million (US$24.85 million). Total assets dropped from AED632.4 million (US$172.14 million) at the end of 2014 to AED624.1 million (US$169.88 million) as at the 31st March 2015.

Bahrain Islamic Bank

BAHRAIN: Bahrain Islamic Bank realized a 23% growth in net profit to BHD3 million (US$7.9 million) in the first quarter of 2015 as compared to the same period last year. The bank said in statement that liquidity ratios for the period reached 16.6%.

Liquidity Management Center

BAHRAIN: Wholesale Islamic bank, Liquidity Management Center (LMC) has posted a net profit of US$1.26 million in the first quarter of this year, compared to US$865,000 in the corresponding period last year, reported Gulf Daily News. Total operating income recorded was US$3.54 million in comparison to US$2.65 million for the same period in 2014.

Amlak Finance

UAE: Amlak Finance disclosed a net group profit of AED6 million (US$1.63 million) and AED3.7 million (US$1 million) attributable to its equityholders for the first quarter of 2015. The Islamic real estate financier said in a statement that total assets remained steady at AED7.3 billion (US$1.99 billion) in the first quarter with no material change since December 2014 and the balance sheet equity position remains steady at AED1.6 billion (US$435.52 million).

Takaful Emarat — Insurance

UAE: For the first quarter of the year, Takaful Emarat — Insurance generated AED9.27 million (US$2.52 million) in net Takaful income but registered a comprehensive loss of AED3.09 million (US$841,102). The operator's unaudited financial statements showed that total assets as at the 31st March 2015 were up to AED365.63 million (US$99.53 million) from AED232.26 million (US$63.22 million) at the end of December 2014.

Ahli United Bank

BAHRAIN: Ahli United Bank, which offers Islamic banking services, announced a 7.8% growth in net profit to US$147.2 million for the first quarter on a year-on-year basis. According to an announcement on its website, the group's return on average equity (ROAE) for the period increased to 17.5%, compared to the ROAE of 17.2% achieved in the first quarter of 2014. Return on average assets was maintained at 1.9%.

Takaful International Company

BAHRAIN: For the first three months of the year, Takaful International Company made a net profit of BHD187,701 (US$494,614), a 230.15% surge from the same period of 2014. The operator's interim financial statement showed that as at the 31st March 2015, total assets were up to BHD7.82 million (US$20.61 million) from BHD6.98 million (US$18.5 million) as at the end of 2014.

Methaq Takaful Insurance

UAE: Methaq Takaful Insurance managed to reduce its net losses from AED4.77 million (US$1.3 million) in the first quarter of 2014 to AED1.75 million (US$476,353) in the corresponding period of 2015. According to the operator's financial report, net Takaful income reached AED9.46 million (US$2.58 million) as compared to a net Takaful loss of AED15.83 million (US$4.31 million) the year before and total assets as at the 31st March 2015 stood at AED366.49 million (US$99.76 million).

TAKAFUL

Morocco adopts Takaful bill

MOROCCO: The Moroccan government has adopted a bill to regulate Takaful activities. The legislation will face a final vote by parliament later this year (See IFN Corresspondent Report on page 19).

Takaful Malaysia's future plans

MALAYSIA: As composite insurers and Takaful players are required to split their life and general insurance businesses under separate licenses by 2018, Syarikat Takaful Malaysia which expects a record year in 2015 may consider buying a local Takaful company in 2017, subject to opportunities, reported local news agency The Sun Daily. Quoting managing director Mohamed Hassan Kamil, the firm mentioned an impending restructuring exercise as it seeks merger and acquisition opportunities.

Syarikat Takaful Indonesia, its Indonesian operations, is also expected to tie-up with another bank in the Republic.

Separately, Syarikat Takaful Malaysia also confirmed that it bought an RM85 million (US$23.78 million) Sukuk from 1Malaysia Development (1MDB) in 2009 when the state investment vehicle was known as the Terengganu Investment Authority, reported local daily The Malaysian Insider. According to a statement during an annual general meeting held by BIMB Holdings (which owns a 60.31% equity in Syarikat Takaful Malaysia), the bond was purchased in 2009 at a coupon rate of 5.25% which will mature in 2039. Mohamed Hassan Md Kamil, the Takaful firm's group managing director, assured that the investment was low-risk and only represented about 2% to 3% of its total asset base of RM7.1 billion (US$1.98 billion), which he described as a "very small exposure" to the company's balance sheet.

Jubilee General launches Takaful window

PAKISTAN: Jubilee General has inaugurated its Takaful window operations, according to a press release.

MOVES

CIMB-Principal Islamic Asset Management

MALAYSIA: IFN has learned that **Ramlie Kamsari** has left CIMB-Principal Islamic Asset Management following the completion of his contract as CEO and executive director. There has yet to be a replacement.

Takaful Oman Insurance

OMAN: Takaful Oman Insurance in a statement on the Muscat Securities Market's website has announced the resignation of **Sheikh Nasr Amer Al Hosni** from the company's board of directors and will disclose an alternative at a later date.

EXIM Bank

MALAYSIA: The board of directors of Export-Import Bank of Malaysia (EXIM Bank) has accepted the resignation of **Adissadikin Ali** as the president and CEO effective the 15th May 2015, the bank confirmed with IFN. Chief operating officer, **Norzilah Mohammed** has been appointed as the acting president and CEO until further notice.

BDDK

TURKEY: **Mehmet Ali Akben**, previously attached to Kuveyt Turk, has been named as the new chief of Turkey's Banking Regulation and Supervision Agency (BDDK), according to national news agency Anadolu Agency.

Former BDDK chief **Mukim Oztekin**, who stepped down last November, passed away on the 2nd May 2015 due to health issues.

Qatar Islamic Bank (UK)

QATAR: Former head of treasury and investments at Doha Bank, **Anthony Lee**, has joined Qatar Islamic Bank (UK) as the head of treasury, according to his LinkedIn profile. Lee takes over from the acting head of treasury **Haissam Saleh**.

Qatar International Islamic Bank

QATAR: Qatar International Islamic Bank has named **Sheikh Abdulaziz Abdullah Faisal Al Thani** as its head of government banking services sector. According to The Gulf Times, Sheikh Abdulaziz's appointment is in line with the bank's Qatarization efforts.

KFH

KUWAIT: Following revelation of major restructuring plans (See IFN Report Vol 12 Issue 19: 'Fundamental shifts for Kuwait Finance House', Kuwait Finance House (KFH) has reportedly placed several veteran bankers into early retirement. According to Kuwaiti newspaper Alra'ai, among those who accepted the bank's lucrative deal for early retirement included: deputy CEO for commercial services **Ahmad Alkhaled** and his deputy **Ibrahem Alhinaidi** and branch regional manager **Emad Alsara'wi**, joined by **Yussef Alshaygee** and **Jamal Alkhalifi** and **Muhamad Alkhaial** and **Bassam Almullah**.

The newspaper also said out of five regional officers in the new hierarchy, four are women including **Amenah Alhamili**, **Sharifah Almutawi'a**, **Hala Altnak** and **Nehal Almuslim** in addition to **Muhamad Alkahtani** as the only gentleman in the group. **Tahani Alkhamis** took over the branches' head management while Suliman Alkhaled for the regional areas.

RATINGS

Senai-Desaru Expressway receives Sukuk ratings

MALAYSIA: MARC in a statement has affirmed its 'BBB-IS' rating on Senai-Desaru Expressway (SDEB)'s RM1.89 billion (US$522.68 million) Islamic medium-term notes (restructured Sukuk) program with a stable outlook. The affirmed rating reflects the expressway's satisfactory traffic performance in line with revised projections, and SDEB's improved cash flow coverage from the accommodative amortization schedule put in place under the program.

The rating is, however, mainly constrained by the lack of catchment areas along key stretches of the expressway that limits traffic growth prospects and the heavy reliance on planned developments to spur traffic growth on the highway as well as SDEB's weak leverage metrics.

KLCC REIT's Sukuk ratings reaffirmed

MALAYSIA: RAM in a statement has reaffirmed the 'AAA/Stable/P1' ratings of Midciti Sukuk's Sukuk Murabahah program of up to RM3 billion (US$829.64 million) nominal value (2014/2044). As Midciti Sukuk is a special-purpose financing vehicle for KLCC Real Estate Investment Trust (KLCC REIT), the ratings of the Sukuk Murabahah reflect the credit profile of KLCC REIT.

Westports acquires Sukuk rating

MALAYSIA: MARC has in a statement affirmed its 'AA+IS' rating on Westports Malaysia's RM2 billion (US$556.12 million) Sukuk Musharakah program with a stable outlook. The affirmed rating reflects Westports's strong market position as a transshipment hub in the region through its operations of five conventional terminals and seven container terminals that have a total handling capacity of 11 million 20-foot equivalent units per annum.

Wataniya Insurance Co rated 'BBB'

SAUDI ARABIA: S&P in a statement has affirmed its 'BBB' counterparty credit and financial strength ratings on Wataniya Insurance Co. The ratings continue to reflect the company's satisfactory business risk profile and lower adequate financial risk profile, while the stable outlook reflects the agency's view that Wataniya will maintain at least lower adequate levels of capital and earnings, and will retain earnings to increase its capital to around SAR100 million (US$26.66 million) and offset increasing capital requirements deriving from business growth.

Ras Al Khaimah rated 'A'

UAE: Ras Al Khaimah has been accorded 'A' long-term foreign and local currency issuer default ratings (IDRs) by Fitch, with stable outlooks. According to a statement by the rating agency, the emirate's short-term foreign currency IDR has been affirmed at 'F1' while the UAE's country ceiling has been rated 'AA+' which applies to Ras Al Khaimah and Abu Dhabi.

Moody's rates Hong Kong's sovereign Sukuk

HONG KONG: Moody's in a statement has assigned Hong Kong's sovereign Sukuk to be issued by Hong Kong Sukuk 2015 a provisional rating of '(P)Aa1', reflecting the government's long-term local currency and foreign currency issuer ratings.

DIB Sukuk's issuance receives rating

UAE: Fitch has assigned DIB Sukuk (SPV for Dubai Islamic Bank (DIB))'s new issuance an expected senior unsecured rating of 'A(EXP)'. The Sukuk will be issued under DIB Sukuk's trust certificate issuance program under which total issuance may be up to a maximum of US$2.5 billion equivalent. The final rating is contingent on the receipt of final documents conforming to the information already received, said Fitch in a statement.

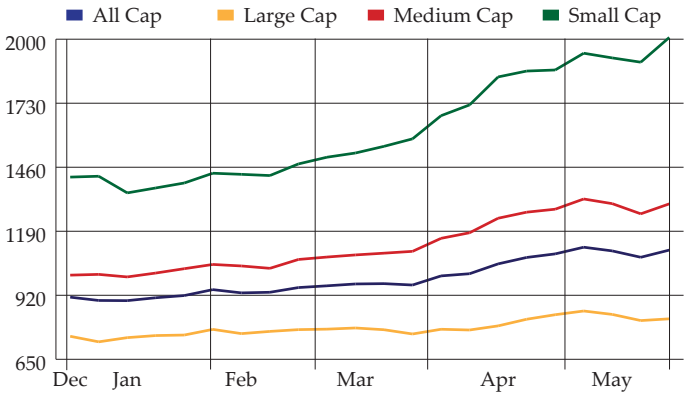
The trust certificate issuance program's expected rating is driven by DIB's 'A' long-term issuer default rating, reflecting Fitch's view that a default of these senior unsecured obligations would reflect a default of the entity in accordance with Fitch's rating definitions.

TM's Sukuk ratings reaffirmed

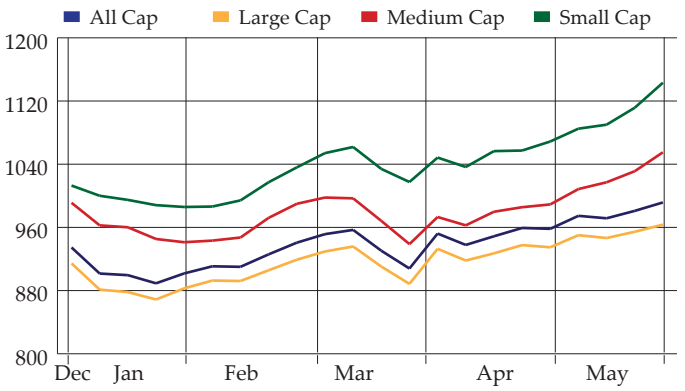
MALAYSIA: RAM has reaffirmed the 'AAA/Stable/P1' ratings of Telekom Malaysia's (TM) Sukuk programs as well as the 'AAA/Stable' rating of Hijrah Pertama's Sukuk. According to a press release, TM's ratings continue to be anchored by its dominance of the fixed-line telephony market in Malaysia as well as its sound financial performance and debt-servicing indicators. A high likelihood of extraordinary government support for the group is also a positive under the rating agency's methodology for government-linked entities.

Expected date	Company's name	Size	Structure	Announcement Date
TBA	Garuda Indonesia	US$500 million	Sukuk	19th May 2015
TBA	Dubai Islamic Bank	TBA	Sukuk	19th may 2015
27th May 2015	Bank BNI Syariah	IDR500 billion	Sukuk	19th May 2015
21st May 2015	International Islamic Liquidity Management Corporation	US$490 million	Sukuk	15th May 2015
TBA	Government of Hong Kong	TBA	Sukuk	15th May 2015
19th May 2015	Government of Indonesia	IDR2 trillion	Sukuk	15th May 2015
TBA	Masraf Al Rayan	TBA	Sukuk	14th May 2015
TBA	AEON Credit	RM1 billion	Sukuk Murabahah	13th May 2015
TBA	Bank OCBC NISP	TBA	Sukuk	13th May 2015
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

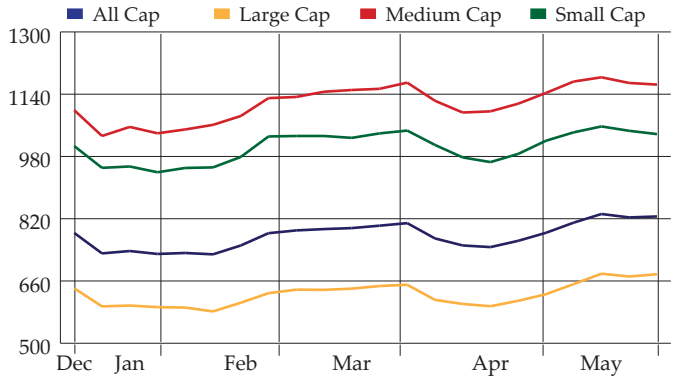
REDmoney Asia ex. Japan *6 Months*



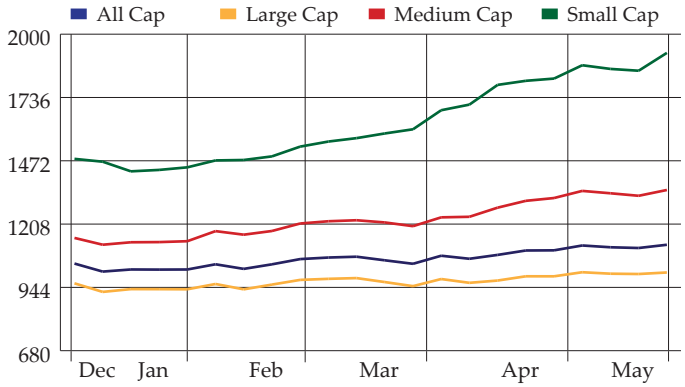
REDmoney Europe *6 Months*



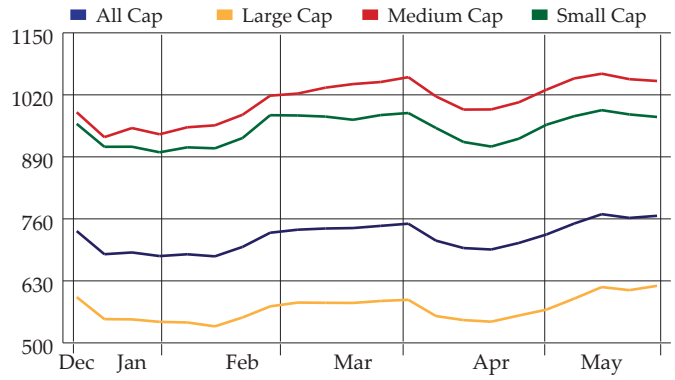
REDmoney GCC *6 Months*



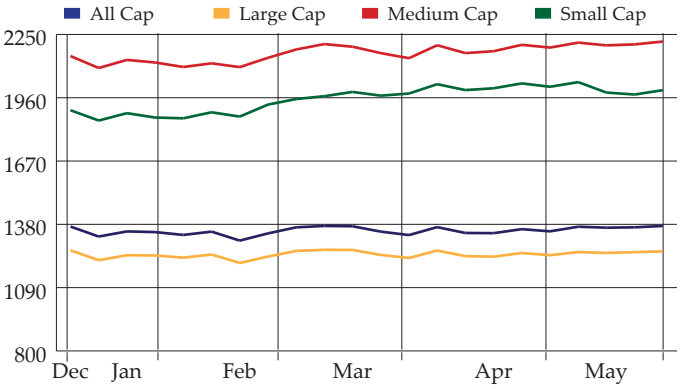
REDmoney Global *6 Months*



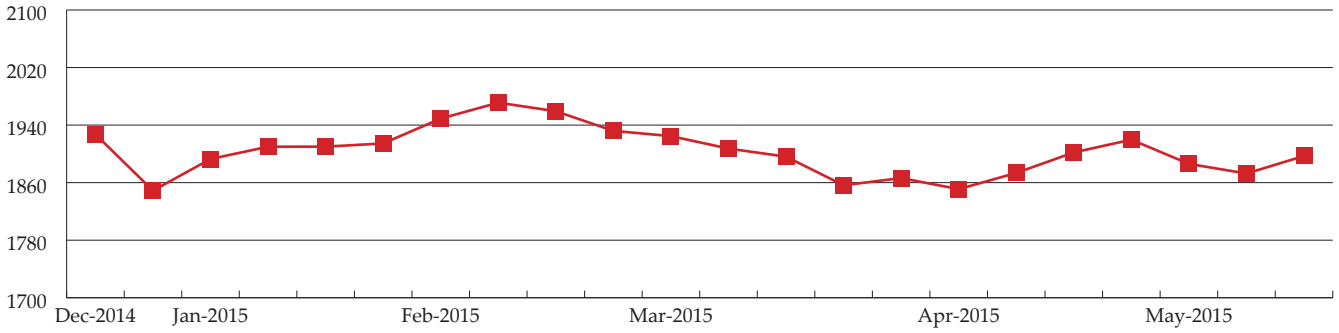
REDmoney MENA *6 Months*



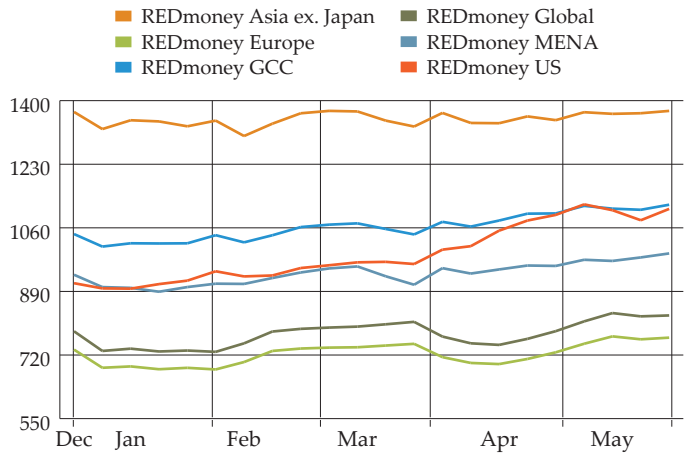
REDmoney US *6 Months*



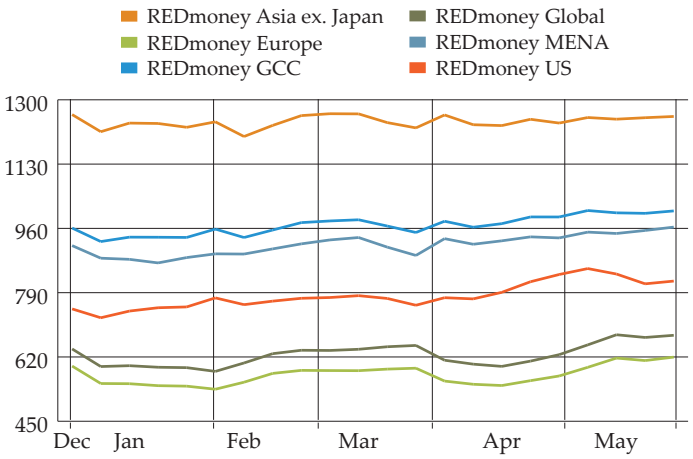
SAMI Halal Food Participation (All Cap) *6 months*



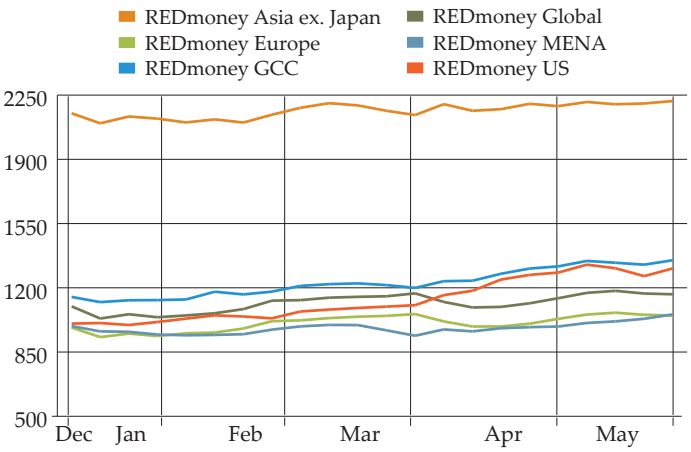
REDmoney Global Shariah Index Series (All Cap) *6 Months*



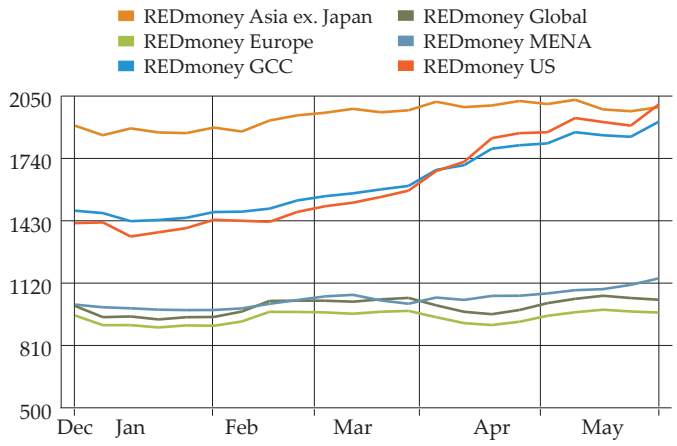
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



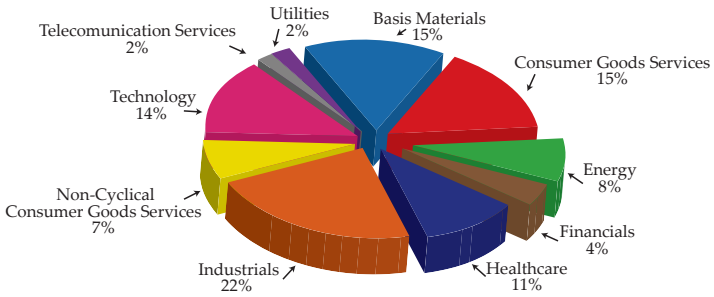
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

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

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



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

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

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

REDmoney Global Shariah Index Series

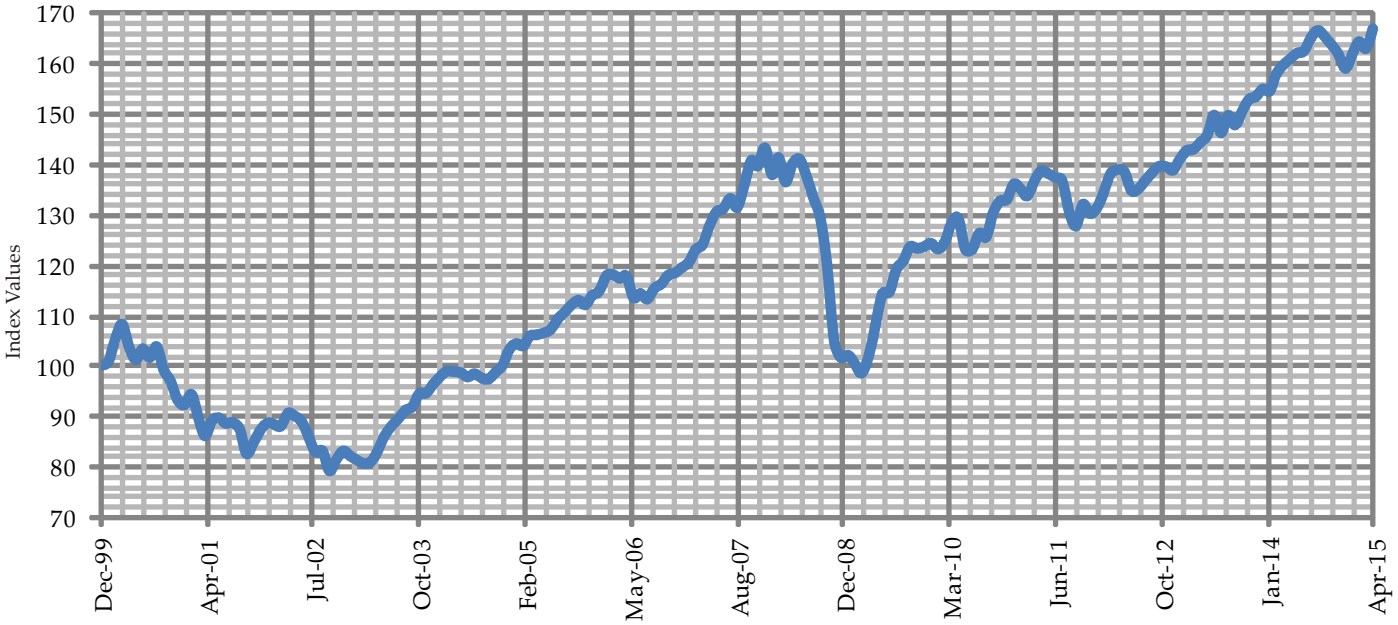
REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

Andrew Morgan
Managing Director, REDmoney Group

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

Eurekahedge Islamic Fund Index



Top 10 Yield-to-Date Returns for ALL Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Rajhi Petrochemical and Cement Equity	Al Rajhi Bank	16.75	Saudi Arabia
2	CIMB Islamic Greater China Equity	CIMB-Principal Asset Management	15.14	Malaysia
3	Al Rajhi GCC Equity	Al Rajhi Bank	13.87	Saudi Arabia
4	RHB-OSK Dana Islam	RHB Asset Management	13.11	Malaysia
5	Eastspring Investments Asia Pacific Shariah Equity	Eastspring Investments	12.27	Malaysia
6	Eastspring Investments Dinasti Equity	Eastspring Investments	12.04	Malaysia
7	Public Asia Ittikal	Public Mutual	10.91	Malaysia
8	CIMB Islamic Asia Pacific Equity - MYR	UOB Asset Management	10.26	Malaysia
9	Taurus Ethical B	Taurus Asset Management	9.77	India
10	Public Islamic Asia Tactical Allocation (PIATAF)	Public Mutual	9.76	Malaysia
	Eurekahedge Islamic Fund Index		**4.85**	

Based on 52.55% of funds which have reported April 2015 returns as at the 18th May 2015

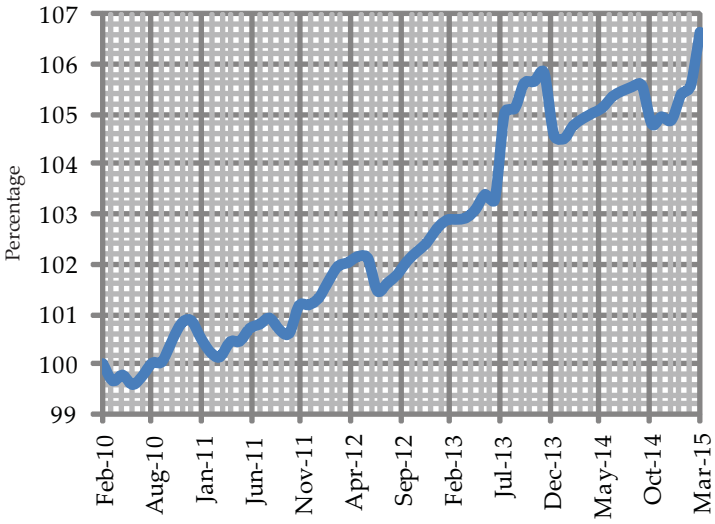
Top 10 Sharpe Ratio for ALL Funds since Inception

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Public Islamic Money Market	Public Mutual	20.72	Malaysia
2	PB Islamic Cash Management	Public Mutual	18.62	Malaysia
3	PB Islamic Cash Plus	Public Mutual	11.74	Malaysia
4	Asia Islamic Trade Finance Ltd	Asiya Assessment Management (Cayman)	9.35	Cayman Islands
5	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	9.00	Pakistan
6	Al Rajhi Commodity Mudarabah - USD	Al Rajhi Bank	6.61	Saudi Arabia
7	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	5.16	Pakistan
8	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	4.92	Pakistan
9	KAF Dana al-Iddikhar	KAF Investment Funds	4.19	Malaysia
10	Public Islamic Income	Public Mutual	3.53	Malaysia
	Eurekahedge Islamic Fund Index		**0.17**	

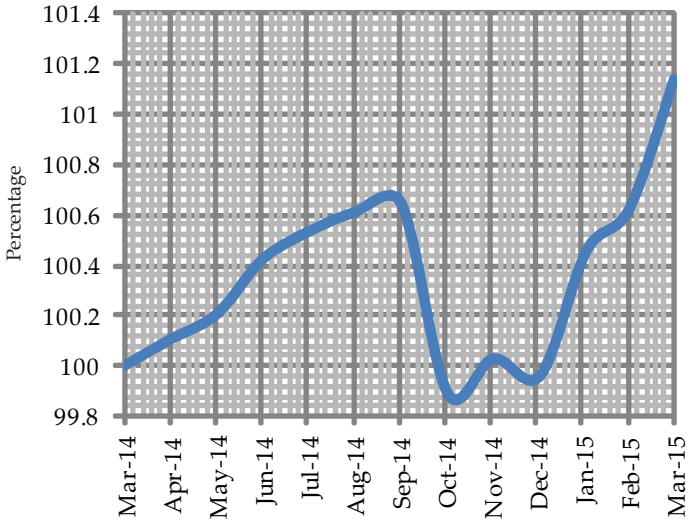
Based on 52.55% of funds which have reported April 2015 returns as at the 18th May 2015

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 Money Market Index over the last 5 years



Eurekahedge Islamic Fund Money Market Index over the last 1 year



Top 10 Islamic Money Market Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	TA Dana Optimix	TA Investment Management	7.63	Malaysia
2	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	2.45	Pakistan
3	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	2.18	Pakistan
4	KAF Dana al-Iddikhar	KAF Investment Funds	0.84	Malaysia
5	Manulife Investment Al-Ma'mun	MAAKL Mutual	0.82	Malaysia
6	TA Islamic CashPlus	TA Investment Management	0.72	Malaysia
7	PB Islamic Cash Plus	Public Mutual	0.72	Malaysia
8	Public Islamic Money Market	Public Mutual	0.72	Malaysia
9	PB Islamic Cash Management	Public Mutual	0.69	Malaysia
10	Kenanga I-Enhanced Cash	ING Funds	0.40	Malaysia
	Eurekahedge Islamic Fund Index		**1.62**	

Based on 42.11% of funds which have reported April 2015 returns as at the 18th May 2015

Top 5 Islamic Commodity Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	ETFS Physical Silver	ETFS Metal Securities	3.81	Jersey
2	AmPrecious Metals	AmInvestment Management	2.73	Malaysia
3	ETFS Physical Gold	ETFS Metal Securities	-1.11	Jersey
4	ETFS Physical PM Basket	ETFS Metal Securities	-2.12	Jersey
5	ETFS Physical Platinum	ETFS Metal Securities	-6.80	Jersey
	Eurekahedge Islamic Fund Index		**(2.85)**	

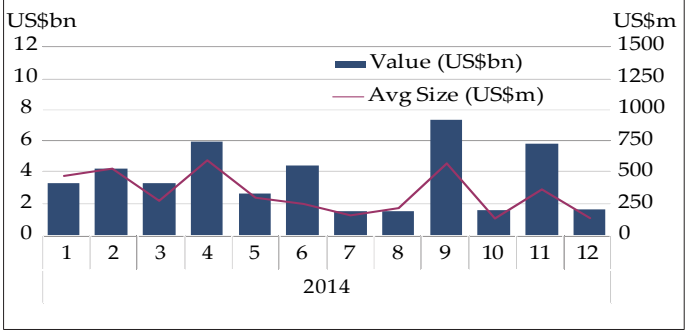
Based on 100% of funds which have reported April 2015 returns as at the 18th May 2015

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

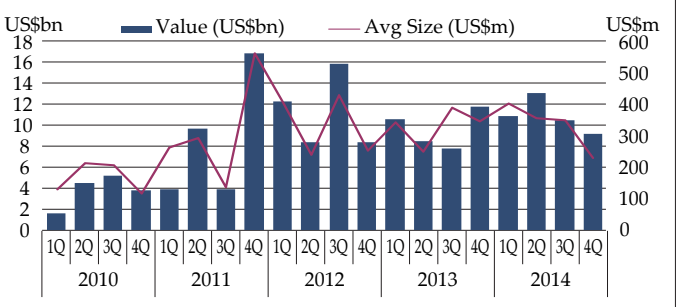
Most Recent Global Sukuk

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



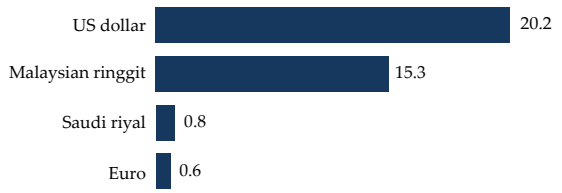
Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss (%)	Managers
1	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	2,881	7.7	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	6.6	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	4.0	Standard Chartered Bank, HSBC, CIMB Group, Emirates NBD
3	Malaysia Sovereign Sukuk	Malaysia	Sukuk	Euro market public issue	1,500	4.0	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	2.7	Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, Citigroup
6	Hong Kong Sukuk 2014	Hong Kong	Sukuk	Euro market public issue	1,000	2.7	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	2.7	HSBC, CIMB Group, Citigroup
6	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	1,000	2.7	JPMorgan, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
6	Dubai Islamic Bank	UAE	Sukuk	Euro market public issue	1,000	2.7	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	2.7	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	Dubai International Financial Centre	UAE	Sukuk	Euro market public issue	700	1.9	Standard Chartered Bank, Dubai Islamic Bank, Emirates NBD, Noor Bank
18	Aman Sukuk	Malaysia	Sukuk	Domestic market public issue	631	1.7	RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, AmInvestment Bank
19	Mumtalakat Sukuk Holding	Bahrain	Sukuk	Euro market public issue	594	1.6	Standard Chartered Bank, Deutsche Bank, BNP Paribas, Mitsubishi UFJ Financial Group
20	Prasarana Malaysia	Malaysia	Sukuk	Domestic market public issue	541	1.4	RHB Capital, Kenanga Investment Bank, CIMB Group, Affin Investment Bank, AmInvestment Bank
21	Saudi Telecom	Saudi Arabia	Sukuk	Domestic market public issue	533	1.4	Saudi National Commercial Bank, Standard Chartered Bank, JPMorgan
22	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
22	Republic of South Africa	South Africa	Sukuk	Euro market public issue	500	1.3	BNP Paribas, Standard Bank, Kuwait Finance House
22	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
22	Kuveyt Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, Kuwait Finance House, Citigroup, Emirates NBD
22	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
22	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
22	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
22	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
30	Rantau Abang Capital	Malaysia	Sukuk	Domestic market public issue	476	1.3	RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group
					37,441	**100**	

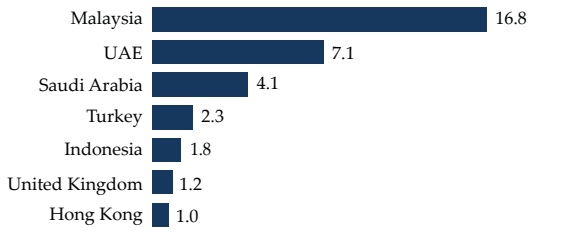
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	5,853	55	15.6
2	HSBC	3,916	27	10.5
3	Standard Chartered Bank	3,663	26	9.8
4	RHB Capital	3,261	44	8.7
5	Maybank	3,215	35	8.6
6	AmInvestment Bank	2,217	29	5.9
7	National Bank of Abu Dhabi	1,640	13	4.4
8	Emirates NBD	1,457	13	3.9
9	Citigroup	1,332	8	3.6
10	Dubai Islamic Bank	1,040	9	2.8
11	Deutsche Bank	754	5	2.0
12	Al Hilal Bank	701	7	1.9
13	JPMorgan	681	4	1.8
14	Natixis	658	3	1.8
15	Affin Investment Bank	525	9	1.4
16	Kuwait Finance House	507	5	1.4
17	Noor Bank	502	5	1.3
18	Saudi National Commercial Bank	472	4	1.3
19	BNP Paribas	442	3	1.2
20	Kenanga Investment Bank	424	7	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	0.8
26	Barwa Bank	279	4	0.8
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	0.6
	Total	**37,441**	**134**	**100.0**

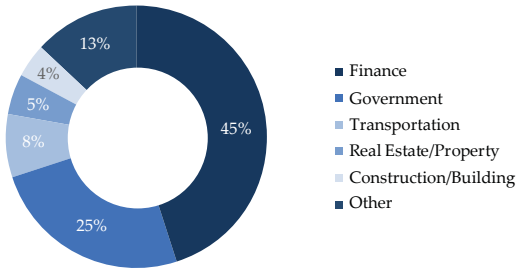
Sukuk Volume by Currency US$ (billion) *12 Months*



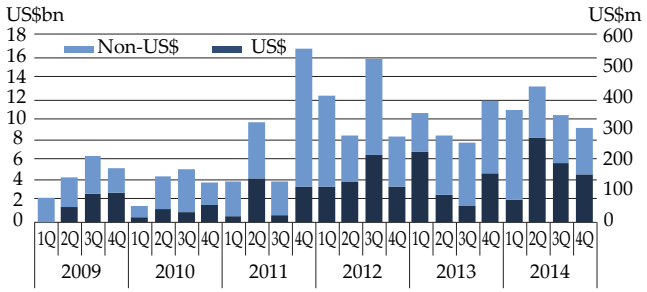
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	6,439	6	27.7
2	Salans FMC SNR Denton Group	3,334	2	14.3
3	Baker & McKenzie	3,109	3	13.4
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	1,380	3	5.9
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

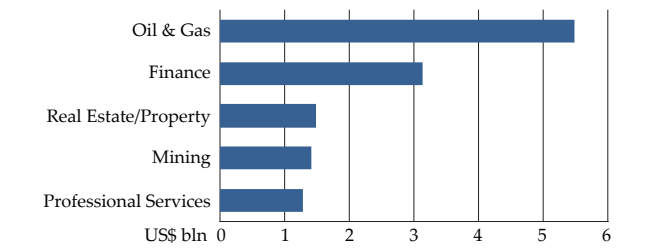
Top Islamic Finance Related Financing Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
30th Mar 2015	Saudi Aramco	Saudi Arabia	9,999
16th Mar 2015	Rabigh Refining & Petrochemical	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	Turkey	1,021
22nd Mar 2015	Arab Petroleum Investments	Saudi Arabia	950

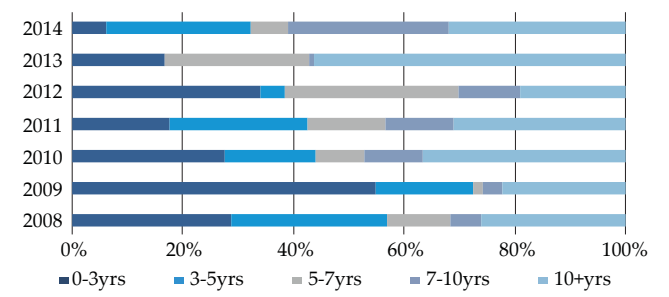
Top Islamic Finance Related Financing by Country *12 Months*

	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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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

MAY 2015		
27th –28th	IFT: Islamic Financial Products: Current Trends, Regulation & Practices	Kuala Lumpur, Malaysia
27th –29th	IFT: Structuring Islamic Trade Finance Solutions	Kuala Lumpur, Malaysia
JUNE 2015		
3th –5th	RMT: Understanding & Applying Structured Products	Kuala Lumpur, Malaysia
7th –9th	IFT: Advanced Sukuk & Islamic Securitization	Riyadh, Saudi Arabia
8th –9th	IFT: Legal & Documentation Issues in Islamic Structured Finance	Dubai, UAE
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: Managing Counterparty Credit Risk, Basel III & Recent Regulatory Issues	Kuala Lumpur, Malaysia

Islamic Finance news

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