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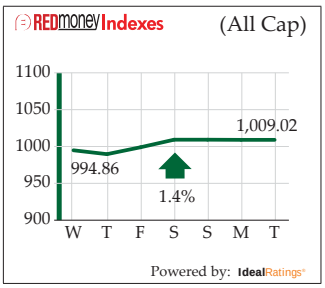




COVER STORY

4th November 2015 (*Volume 12 Issue 44*)

# Welcome to the club: A new player hits the GCC scene

**Oman this week exploded onto the regional capital markets with a debut sovereign Sukuk issuance that was upsized by 25% due to strong demand – and looks set to launch a robust pipeline of pent-up private and public sector deals in a market that could not have consolidated its commitment to Islamic finance more clearly. LAUREN MCAUGHTRY looks at the exciting new opportunities for the Gulf's latest debutante in the Islamic finance dance.**

The conditions have changed somewhat since the last time we looked at the Omani market back in July (see Vol 12 Issue 28: 'A Market on the Edge'), and tightening conditions along with sustained volatility and a weakening macroeconomic outlook for emerging markets have driven the country further into the arms of Islamic finance in a bid to cover its oil-induced budget deficit and fill the widening funding gaps.

## A challenging time

Markets across the Middle East and globally have been struggling with the weakening credit, tightening liquidity and rate hike fears that have characterized 2015 – and Oman is no exception. From a surplus of OMR250 million (US$647.2 million) last year, the government swung into deficit to the tune of a reported OMR1.92 billion (US$4.97 billion) in the first half of 2015. While its sovereign balance sheet is still strong, public expenditure has exceeded expectations to reach 50.3% of GDP, leading to a sustained drawdown on the government's financial reserves and a rapidly rising debt-to GDP ratio – with the IMF estimating that its fiscal deficit could reach 14.8% this year from just 1.5% in 2014.

Fitch Ratings in August this year downgraded five Omani banks: including Bank Muscat, National Bank of Oman, Bank Dhofar, Bank Sohar and Ahli Bank – all of which operate Islamic windows. The move was based on concerns over the sovereign's ability to support its domestic banks, with the agency noting the weakened banking system and the country's dependence on hydrocarbons.

However, it's not all doom and gloom. According to the IMF's October Outlook, the country is still on track for a 4.4% growth in GDP this year, up from 2.9% in 2014. The hydrocarbon sector is expected to boost growth as the government increases current expenditures to expand production and counteract falling prices, while the non-hydrocarbon sector also looks positive with development in the building, construction, utilities and tourism sectors as the country seeks to diversify away from its reliance on oil. The Muscat Securities Market saw the strongest monthly gain in the GCC in October, after two months of decline – gaining 2.4% to close at 5,928.15 (almost breaking the 6,000 barrier) and with trading up fivefold to 1.3 billion shares with a OMR190 million (US$491.87 million) value. The Financial Index saw a particularly strong performance with a 5.9% monthly return, contributing 80% of trading for October: while market leader Bank Muscat reported a 7.5% earnings growth for the first nine months of 2015 and a 14.8% growth in profits for the third quarter.

Fried

## Capital markets push

The latest GCC arrival to the Islamic finance spectrum, Oman has seen strong growth in the retail space. "The market is generally pretty upbeat after a very slow start. Over the first two quarters of 2015, banks' Islamic assets increased 64% year-on-year to represent

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# DEALS

Indonesian government auctions Sukuk with an indicative target of IDR2 trillion (US$146.4 million)

Malaysian government issues GII Murabahah

**Majid Al Futtaim** launches US$500 million Sukuk

**XL Axiata** seeks to raise IDR1.5 trillion (US$110.1 million); launches Sukuk roadshow

**TSH Sukuk Murabahah** establishes Islamic commercial paper and Islamic medium-term note programs

**Sunway Treasury Sukuk** issues Islamic paper

**TSH Sukuk Ijarah** to float Islamic paper

# NEWS

**Islamabad Stock Exchange** agrees to integrate with **Karachi Stock Exchange**; to change name to **ISE REIT Management Company**

Malaysia's 2016 budget signals government's commitment in keeping its fiscal deficit under control, says **Moody's**

**Maybank** expands branch in Sarawak, offering Islamic banking products among others

**Bank Negara Malaysia** introduces Financial Ombudsman Scheme to enhance Islamic and conventional financial dispute resolution arrangements

**Banking Regulation and Supervision Agency** cancels **Halkbank**'s participation bank establishment authorization

**Scottish Ethical Finance Hub** to promote Scotland as key global center in ethical finance practice; begins residency at **Heriot-Watt University**

**IDB Group** approved US$235 billion in first half of 2015 for economic and development efforts in member countries

**Bank of Tokyo-Mitsubishi UFJ** launches Islamic window in Dubai International Financial Center

**Borsa Istanbul** and **Tehran Stock Exchange** sign MoU to develop dual listing opportunities among others

**Maybank Islamic** eyes GCC opportunities through **Anfaal Capital**

**Dubai Islamic Bank** signs AED240 million (US$65.32 million) financing deal with **Metito**

**Islamic Finance House** opens new branch in Dubai

**Dubai Financial Market** signs MoU with the Department of Finance to enable payment of IPO subscriptions via Dubai Smart Government's ePay portal

# ASSET MANAGEMENT

Indonesia to securitize Sukuk against Zakat and Waqf assets; to issue an international core principle of Zakat and Waqf

# TAKAFUL

**Takaful Emarat** to begin trading rights issue from the 1st–15th November 2015

**Takaful Emarat** opens rights issue; tradable until the 15th November

# RATINGS

**S&P** assigns 'BBB' rating on **Axiata**'s proposed US dollar-denominated Sukuk trust certificates

**MARC** affirms **Bank Muamalat Malaysia**'s ratings at 'A/MARC-1'

**Moody's** assigns definitive rating of 'A1' to Oman's debut sovereign Sukuk

**RAM** maintains 'AA2/Stable' Sukuk rating on **First Resources**

**Axiata Group**'s proposed Sukuk gets provisional '(P) Baa2' rating

Capital injection expectation triggers potential rating upgrade for **Bahrain Islamic Bank**

**MARC** maintains **MMC Corporation**'s Sukuk rating at 'AA-IS/Stable' following assessment on acquisition of NCB Holdings

**MARC** affirms **Aman Sukuk**'s Islamic facility at 'AAAIS'; outlook stable

**Bank Islam Brunei Darussalam** secures 'A-/Stable' rating from **S&P**

**Kuwait Finance House Malaysia** gains 'AA+/MARC-1' ratings on the back of parent bank's support

**Moody's** affirms **Arab Banking Corporation**'s ratings and revises outlook to stable

**S&P** downgrades Saudi Arabia's ratings to 'A+/A-1'; outlook remains negative

**RAM** maintains 'AA1(s)/Stable' enhanced rating on **Pendidikan Industri YS**'s Islamic securities

# MOVES

Kazakh president replaces central bank governor amid currency concerns

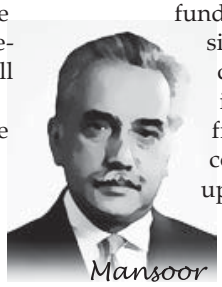
Julian Wynter now heading **Standard Chartered**'s UAE operations

## Welcome to the club: A new player hits the GCC scene

*Continued from page 1*

currently 6.3% of total bank assets," noted Anthony Coleby, the head of the corporate commercial division at Oman-based law firm Said Al-Shahry (SASLO). "A key driver to this seems to be an increase in retail credit in the sector in a market that is still oversupplied in terms of banks with an Islamic finance operation – eight players in total."

"We expect Islamic banking assets to reach around 10% of total banking assets share in the next couple of years, continuing the remarkable growth," Sohail Niazi, the head of Islamic banking for Bank Dhofar's window Maisarah, revealed to IFN. "Like conventional banks, the oil price-related economic headwinds will definitely have an impact on future growth on Islamic finance in Oman but in the near term we expect the Islamic banking industry to experience higher growth than their conventional counterparts – mainly due to conversion of customers from conventional to Islamic banks and new financing demand created by healthy economic growth."




However, the capital markets have lagged behind – in part due to a lack of regulation, and in part because of Oman's historical reliance on cash and limited borrowing experience.

Yet with the rising deficit and increased fiscal pressures, both the public and private sectors are having to look beyond their traditional sources of funding. The government has significantly increased its debt issuance this year, both in terms of volume and frequency, with its regular conventional issuances stepped up. Two rounds of government development bonds have already been issued this year, with the latest issuance stepped up to OMR300 million (US$776.64 million). Yields are also rising – up to 2.54% for the August issuance compared to 2.08% for a similar December issuance.

### Islamic entry

This urgent need for new funding resulted in the long-awaited issuance of Oman's debut sovereign Sukuk last week, with final results and allocation expected to be announced today (although IFN has learned that various last-minute issues could lead to a slight delay in finalization).

The five-year issuance was oversubscribed by 1.7 times and attracted 22 orders of OMR336 million (US$869.84 million) during the subscription period, leading to an upsize from the original target of OMR200 million (US$517.76 million) to a final issuance of OMR250 million.

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## Welcome to the club: A new player hits the GCC scene

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The cut-off rate was marked by the Ministry of Finance at 3.5% and should not only provide the government with much-needed funding but also mark a new pathway for the nation's Islamic aspirations. "The government had laid out very clear objectives for this debut sovereign Sukuk issuance including offering investment avenues for Islamic financial institutions, Islamic funds and Takaful operators in Oman to deploy their excess funds in a Shariah compliant manner in the country, and to support the development of the capital market in Oman," explained Mohammed Jawad bin Hassan, the advisor to the Ministry of Finance and the chairman of the Sukuk Committee, commenting on the successful issuance.

> ***"We are beginning to see some moves toward institutional consolidation and this should add impetus to the sector next year"***

Listed on the Muscat Securities Market (MSM), the Sukuk Ijarah is rated 'A1' by Moody's and can be traded on MSM through CMA-licensed brokers, with clearing and settlement going through Muscat Clearing and Depository (MCD), which is acting as the certificate-holders' agent, paying agent and registrar.

"We are delighted with the positive and strong response from a wide base of investors for the sovereign Sukuk issuance despite the challenging environment. The success of this issue is an important step for the development of the capital market in Oman as it sets a benchmark for future issuances by the government and also by the private sector players to meet their development and funding needs, while diversifying the financing base and risk away from the traditional banking sector," said Abdullah Al Salmi, the executive president of the Capital Market Authority.

### Challenging conditions

In the prevailing economic conditions, it is a remarkable achievement that the sovereign issuance generated the appetite that it did. "The demand exceeded the expectations of parties involved as a result of which the order size was increased from OMR200 million (US$517.76 million) to OMR250 million (US$647.2 million)," pointed out Mansoor J Malik, a senior partner of Omani law firm, Al Busaidy, Mansoor Jamal & Co. (AMJ), which advised the lead arrangers on this transaction. The issuance achieved a 3.5% profit rate - attractive for investors compared to the 2.54% yield for the government's August 2015 development bond issuance, but could this reflect a trend toward higher yields to tempt investors to market?

"We have to give credit for their achievement. Yes, I agree that it should have gained more subscriptions and flatter pricing but due to the current economic climate it is [still] something to be proud of," said Mohsin Shaik Sehu Mohamed, the director and head of Islamic finance at Al Madina Investment, who arranged Oman's first Sukuk two years ago in the form of the Tilal private placement, speaking to IFN. "This issuance will create awareness to other potential issuers in Oman. Previously, we have seen Oman corporates mainly deal with balance sheet lending due to [a] lack of understanding in the Islamic debt capital market space. However, with this issuance, many corporates will start to explore the possibility of Islamic finance."

### Strong pipeline

"There is significant room for growth for the Islamic finance industry in the Sultanate of Oman. As well as broadening the base of Shariah compliant instruments for investors, sovereign issuances set the precedent and benchmark which can be followed by both the government and private sectors. This is particularly useful in the case of Oman since in the absence of Sukuk regulations (a draft of the regulations has, however, been circulated by the Capital Market Authority) this sovereign Sukuk will serve as an invaluable roadmap for both public and private sector players contemplating entering the fray," added Mansoor.


Mohsin

"This was about establishing a benchmark to facilitate the issuance of Sukuk by corporates in a variety of sectors, and we do think that this could be the precursor for future issuances from Oman," agreed Fried. "I think Oman will continue to grow and become an important Sukuk market."

Developments are already afoot, with a positive pipeline suggesting a strong demand for Shariah compliant instruments from the corporate market – both in Sukuk and in wholesale financing. "A significant recent development has been the announcement of five luxury hotels to be funded by Islamic tools, presumably on a diminishing Musharakah/Istisnah and deferred Ijarah basis," said Coleby. The long-awaited OmanTel Sukuk issuance is also expected to emerge before the end of the year, while the public sector will continue to play a role in promoting the capital market. "Many government-owned companies are mulling their own issues and have been doing so for some time," confirmed Coleby. The Omani government has already announced the expectation of a US dollar Sukuk in 2016 to tap the international market, and this should open the floodgates of investment into Oman as market players lap up the tempting opportunities.

"There is considerable scope in infrastructure projects in Oman (such as, roads, rail and port developments and water desalination plants and power plants) and a significant number of foreign firms are setting up over here to take advantage of the work required under such projects. These projects are still in their early stages so

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## Welcome to the club: A new player hits the GCC scene

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whether the funding for these projects is raised purely through conventional or Islamic means or a mix of both remains to be seen," noted Mansoor. However, IFN has learned that there are already a couple of government ministries who are looking at Sukuk, and could raise quite substantial amounts.

And the opportunities in the Sukuk market are just a tip of the iceberg. "In Islamic finance generally, there is significant interest at the moment. We are consistently seeing and advising on transactions where parties are refinancing their existing conventional facilities through Islamic banks," said Mansoor. "Interest in real estate developments from within and outside of Oman where the investors are looking at Ijarah and Musharakah [structures] as modes of investment is also on the rise. The way things are going right now, we expect 2016 to be a good year for Islamic finance in Oman."

### An ongoing journey

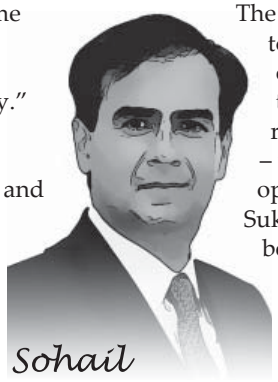
Interestingly, the latest issuance was the first DCM issuance in Oman to be priced through a book-building process with a uniform price auction, and this also bodes well for future issuance, with a positive reception from investors as the government develops and solidifies its offering process. A stated policy objective is the development of the Islamic financial markets in Oman and the recent Sukuk was issued in that context. "The challenge was to work alongside the different layers of government including ministries and regulators in order to gain an understanding of the finer details of the Islamic finance policy initiative and to bring that knowledge to the transaction itself," agreed Fried. "Work on the transaction proceeded alongside a developing regulatory regime for Islamic finance, so the government's focus and participation really were key."

But the regulators must consolidate on their success and move forward to continue development, if Oman wishes to maintain momentum. "The recent successful offering is extremely positive for the industry and it will provide much-needed benchmark and impetus of other private and public issuances," agreed Sohail. "However, this is an important but only a small step toward developing Islamic capital markets in the country. Islamic banks and windows still face a challenge in managing liquidity due to [a] lack of appropriate Shariah compliant money markets and investment instruments. This hurdle will need to be overcome for Islamic finance industry to sustain its growth."

> ***"A lack of awareness in the industry of the rights and benefits available to Islamic banks leads to delays in transaction completions"***

"The Islamic providers among Oman banks are still finding it hard to achieve decent returns on their assets, given that the risk weighting for Islamic assets is still developing and the fact that risk sharing carries a lower return for all banks," pointed out Coleby. "We are beginning to see some moves toward institutional consolidation and this should add impetus to the sector next year."

### Communication is key




The most important factor to continued progress is collaboration between the authorities in terms of regulation, legislation and – vitally – enactment on an operational level. The draft Sukuk regulations have still not been approved, despite being in circulation for almost a year. Expected now in early 2016, they should provide a firm basis for future issuance – especially given their comprehensive nature. One key feature, interestingly, is that the new regulations are the first in Oman to specifically deal with trusts for debt issuance – and bringing in the concept of a trustee (as opposed to the current role of certificate-holders' agent as performed by MCD) could make international investors more comfortable with participation.


Challenges still exist, however, that can only be addressed through collaboration and communication between the different stakeholders. "While significant progress has been made by the government to promote Islamic finance in Oman, there remains a need for harmonization of existing laws and practices by the government. A lack of awareness in the industry of the rights and benefits available to Islamic banks leads to delays in transaction completions. While the government continues to make significant progress in promoting Islamic finance, focus on creating awareness among both the public and government departments to streamline the processes would be highly productive," concluded Mansoor.

### A positive outlook

The youngest performer in the GCC Islamic financial landscape, Oman has nevertheless carved out its own path based on robust regulation, a firm commitment to success and a focus on pure Islamic principles (such as its ban on Tawarruq), which give it a unique position in the regional and international markets. Its two stand-alone Islamic banks and six windows are driven and determined to achieve rapid growth, while its recent sovereign issuance demonstrates a strong appetite for capital markets growth and a significant corporate pipeline that should lead to an exciting year in 2016. It may be early days, but Oman has all the tools to build itself into an influential player in the Islamic space. No longer just one to watch – in future, the country could be one to copy.

# Drying out? Islamic issuers struggle amid capital markets storm

**The capital markets continue to struggle with the ongoing economic challenges that have made 2015 flatline compared to its predecessor – and the outlook for the final months of the year is less than stellar after the worst quarter in years for global capital markets. Emerging markets were among the worst hit, with Asian exchanges crashing by up to 20% – while in the Middle East, Saudi Arabia plummeted by almost 20% and saw a downgrade from S&P to 'A+/A1 negative' and Abu Dhabi and Dubai both saw markets slide by around 12%. While the final quarter has seen some brave issuers come to market, the lackluster sentiment suggests that investors are no longer as keen on Islamic paper. Is the pool, LAUREN MCAUGHTRY asks, finally starting to run dry?**

"The Islamic capital markets are being buffeted by the same macroeconomic factors as the conventional capital markets, and clearly the continuation of low oil prices has had a very significant effect," agreed Jonathan Fried, a partner at Linklaters, who has worked on several of the biggest recent deals. "But some issuers have been able to issue and we have seen a couple of those in recent days such as the Qatar Islamic Bank (QIB) deal. So while it is unlikely that we'll see the same volumes as this time last year, there will doubtless be some issuers that will be able to access the market before year-end."

The question is what the demand for these issuances will be – and how that might affect pricing. International interest has already deteriorated – Middle East investors took around 80% of the recent US$500 million five-year APICORP Sukuk, which saw an orderbook of just US$800 million and priced at a tight 100bps over midswaps. The QIB transaction saw about 68% go to regional investors, and saw a US$1.75 billion orderbook for its US$750 million issuance but paid for it with a final pricing of 135bps over midswaps.

Dubai-based developer Majid Al Futtaim last week saw more success with a US$500 million, 10-year issuance (one of the longer-dated GCC corporate Sukuk issuances) with a book multiple times oversubscribed and a profit rate of 4.5%.

A source close to the deal described it to IFN as: "A truly landmark transaction executed during a period where we saw a weaker tone in credit and rates within the emerging market space, not to mention a day before the US FOMC rate decision announcement." The high demand demonstrates that investors are still keen – but perhaps are demanding higher pricing in order to be tempted. "The transaction reaffirms that the Sukuk asset class is a meaningful product of choice for issuers seeking to capture size, pricing and duration as part of their capital market funding exercises," said the source.

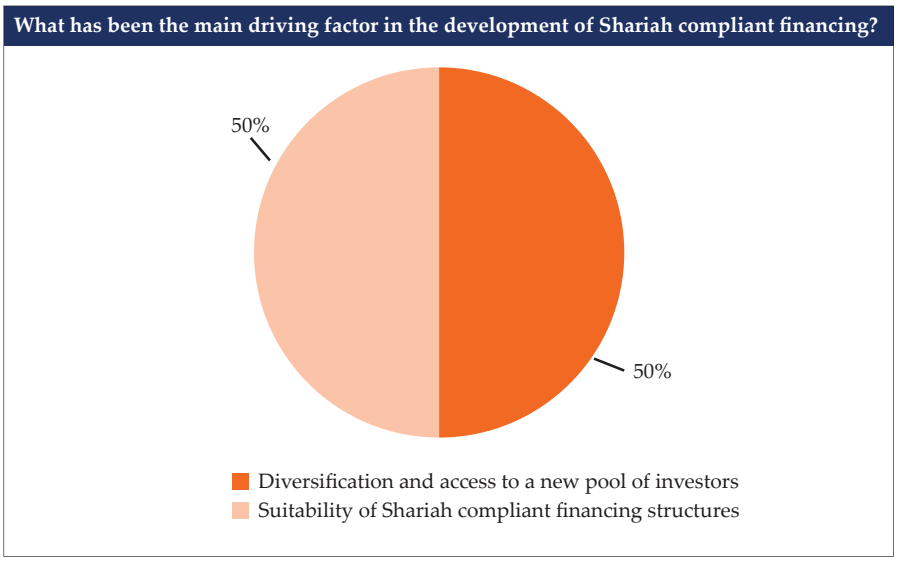
There is still optimism in the market, and Dr Nik Ahmad Zaki Abdullah, the deputy director of fixed income syndication with RHB Group in Malaysia, confirmed to IFN that "we see a heavy pipeline for the beginning of the year" – despite total issuance for 2015 down 33% compared to 2014. However: "Issuers (and bankers alike) are increasingly opportunistically awaiting for the right window of issuance," he warned. "The word which is suitable here is volatility. Volatility is coming back for good."

The challenging conditions are also crowding out smaller issuers and making the market more competitive. "The lack of viable or executable deals in the current market have made issuers and potential issuers scout for banks to arrange for their deals. We are seeing more and more Indonesian-based and China-based issuers reviewing the ringgit bond market given the still ample liquidity in Malaysia and the tightening in funding rates in US dollar space for Indonesia and China (and other emerging markets in general)," commented Nik Ahmad.

"Only the strong names and strong-rated issuers are getting a look at by investors these days. Hence, the continuous updating done by banks to issuers to time the best optimal timing and pricing for execution. The windows for issuance are getting smaller and come very quickly."


# IFN Weekly Poll: What has been the main driving factor in the development of Shariah compliant financing?

**In the poll this week, IFN examines the motivating reason encouraging the growth of Shariah compliant financing activities. Contributing to the growing market share of Islamic finance globally, Shariah compliant financing facilities have begun to see better reception in both prominent Islamic finance countries and new markets. Gauging industry opinion, NABILAH ANNUAR explores the progression of Islamic financing across the globe.**




Witnessing a compounded annual growth rate of around 17% from 2009 to 2013 (according to EY), the global profit pool of Islamic banks is set to triple by 2019. More and more corporates as well as state-owned companies are turning to Islamic financing to meet its funding needs. The question is: why have these companies opted for Shariah means of financing as opposed to existing conventional ones? Is it to diversify and gain access to a new pool of investors (particularly Islamic investors) or is it because of the suitability of Shariah compliant financing structures? According to the poll results, both justifications are usually the main reasons for choosing Islamic facilities.

Over the past year, the industry has seen several new entrants in the Shariah compliant scene. Even for a mature market such as Malaysia, the country this year saw Bank Islam Malaysia in August conclude a RM121.44 million (US$28.2 million) Tawarruq financing for Kerian Energy. The bank noted in a statement that the transaction marks its first involvement as the lead arranger for a syndicated project financing facility for a hydropower plant project.

Further up north, in an interesting move, global communications provider Digicel Group secured a US$60 million Shariah compliant financing facility for its Myanmar unit making the deal the country's first Islamic cross-border transaction.

In the European market, the industry saw Libra Group's LCI conclude a Shariah compliant secured helicopter pre-delivery payment (PDP) funding. The facility is the world's first-ever secured helicopter PDP, and represents an innovation in the field, with an Islamic and conventional bank to work together to create a positive new solution for the client based on real Shariah principles of risk and profit-sharing. The facility was arranged by Lloyds Bank and participated by the Bank of London and The Middle East, and covers Airbus Helicopters's H175 and H225e aircraft.

Similar to Malaysia, the UAE's developed Islamic finance market also witnessed a first. Sunrise Properties made its foray into the Shariah compliant scene when it a signed AED515 million (US$140.18 million) syndicated term and Murabahah facilities recently. Emirates NBD Capital was the sole mandated lead arranger and bookrunner, with Doha Bank and Emirates NBD Bank as financiers of the deal. The facilities, which will be used for the development of the Emerald Palace Kempinski Hotel on Palm Jumeirah, were fully subscribed by both financiers.

In neighboring Kuwait, the market saw Kuwait International Bank (KIB) complete its maiden syndicated Murabahah financing facility in August. KIB's debut facility was well received by regional and global players as the facility was launched at an initial target of US$100 million and upsized by more than three-fold to US$320 million.

According to data by Dealogic, as of the 28th August 2015 (see League Tables in IFN Vol 12 Issue 43), Islamic finance-related financing deals in the oil and gas sector over the past 12 months have exceeded US$7 billion; the utility and energy sector surpassed US$4 billion; the finance sector witnessed deals over US$3.5 billion; while the construction and transportation sector recorded total Shariah compliant financing deals just less than US$2 billion.

# Oman creates benchmark with successful inaugural sovereign Sukuk offering

**Despite challenging macroeconomic conditions, the Sultanate of Oman marked its debut in the sovereign Sukuk space with a successful oversubscribed inaugural offering, setting a precedent for future issuers and propelling the country further in developing its young Islamic finance industry. VINEETA TAN has the story.**

"The development of the bond and Sukuk market in Oman is a strategic development target for the Capital Markets Authority (CMA) and we are pleased to work together with the government on this important initiative to bring this historical and groundbreaking debut sovereign Sukuk deal to the market. This issuance will have a positive impact on Oman's capital market and pave the way for future issuances, spurring further development of the Islamic financial market in Oman," Kemal Rizadi Arbi, an advisor at the CMA and a member of the Oman Government Sukuk Committee, exclusively told IFN.

Initially intending to issue OMR200 million (US$517.71 million), the ministry of finance, however, expanded the program by 25% to OMR250 million (US$647.13 million) to accommodate the strong orderbook – OMR336 million (US$869.75 million) in firm orders from a wide base of conventional and Islamic institutions, and awarded OMR250 million at a yearly 3.5% cut-off yield.

The government has been assertive in developing its Shariah industry and views the Islamic offering as a crucial component in enhancing the wider Omani capital market. This is evident as the Sukuk Ijarah also set the record for being the first debt capital market instrument – Islamic and conventional – to be priced through a book-building process with a uniform price auction.

To be listed on the Muscat Securities Market, the Islamic debt has broadened funding avenues for private and public players, allowing them to diversify their financing base and reducing their exposure to the traditional banking sector. Although the last of GCC nations to fully embrace Islamic finance, Oman has over the last six years built its Shariah banking and finance industry on a strong footing. Islamic banking assets as at the end of the first half of 2015 accounted for 6.3% of the total banking sector and is on track to achieving a double-digit market share over the next few years, and Takaful regulations are currently in the works.

Based on the success of this deal, the government is rumored to be already considering the issuance of US dollar Islamic debt for 2016. Should they do so, we could see an even stronger take-up as players who abstained from participating due to the local currency denomination are also keen to jump onboard.

# Fiscal measures to prop up Malaysia's economy despite anticipated slowdown

**Despite an expected slowdown in growth next year, the Malaysian economy is sufficiently robust to weather challenging macroeconomic conditions, say analysts although political developments could be a cause for concern. VINEETA TAN writes.**

The Southeast Asian nation, also one of the world's largest Islamic finance markets, maintains its hold on top credit ratings including a 'gA2' rating (the second-highest global sovereign credit rating afforded by RAM Ratings) and 'seaAAA' rating (the highest ASEAN rating assigned to sovereigns), reflecting the government's strong and superior capacity to meet its financial obligations. "The government's track record of meeting its fiscal consolidation targets and the successful execution of fiscal reforms feature prominently in our rating assessment", explained Esther Lai, RAM's head of sovereign ratings. "Implementation of GST, abolition of fuel subsidies and raising toll rates are among notable fiscal measures that underpin the Malaysian government's commitment to strengthening fiscal sustainability," Lai elaborated.

> ***"From a broader perspective, Malaysia's rebalancing in recent years and its diversity have helped boost external resilience and support growth"***

Nonetheless, the country is not immune to the effects of a tepid global economic environment and a volatile commodities market which have pressured its current-account surplus – although the nation's consistent positive current account balance (enough to support seven months of retained imports) along with its deep capital markets and high domestic savings have abated these external liquidity risks.

"From a broader perspective, Malaysia's rebalancing in recent years, with domestic demand being the economic driver, and its diversity have helped boost external resilience and support growth at a level higher than Indonesia, which has encountered various obstacles in reforms to move away from extractive commodities," said Lai. The rating agency, however, warned that the sovereign ratings are subject to political risks that could undermine effective policymaking and therefore exert downward pressure on the ratings.

Malaysia's grasp on its ratings comes at a time when another Islamic finance giant – the Kingdom of Saudi Arabia – has had its ratings downgraded by one notch to 'A+/A-1' with a negative outlook by S&P due to plunging oil prices which is largely projected to drive government deficits up to 16% of GDP this year from 1.5% in 2014. This fiscal gap is expected to reach 10% of GDP next year, 8% in 2017 and 5% in 2018 based on current low oil prices.

# Sovereign Sukuk: Oman and Southeast Asia

**Over the past week, the sovereign Sukuk market witnessed significantly interesting developments. Markets witnessed Oman auctioning its first sovereign Islamic bond offering which was well-received; and regular liquidity management offerings from the Malaysian and Indonesian governments. As usual, NABILAH ANNUAR provides an update on the developments of the sovereign Sukuk arena.**

Making a mark in Sukuk history, Oman successfully auctioned its inaugural benchmark offering last week. The debut OMR250 million (US$647.2 million) five-year sovereign Sukuk was priced on the 27th October 2015 with a profit rate of 3.5% per annum, payable semi-annually. Initially intending to issue OMR200 million (US$517.76 million), the ministry of finance, however, expanded the program by 25% to OMR250 million to accommodate the strong orderbook – OMR336 million (US$869.84 million) in firm orders from a wide base of conventional and Islamic institutions, and awarded OMR250 million at a yearly 3.5% cut-off yield.

To be listed on the Muscat Securities Market, the Islamic debt has broadened funding avenues for private and public players, allowing them to diversify their financing base and reducing their exposure to the traditional banking sector. Based on the success of the deal, the government is rumored to be already considering the issuance of a US dollar Sukuk for 2016 from Oman. The main objective of having this first sovereign Sukuk to be denominated in local currency was to provide an investment avenue and cater for the high demand from the local Islamic institutions and funds.

**Upcoming sovereign Sukuk**

| Country | Amount | Expected date |
|---|---|---|
| Ivory Coast | XOF300 billion | Fourth quarter of 2015 |
| Tunisia | US$500 million | 2015 |
| Jordan | JOD200-300 million | Before end of 2015 |
| UAE | TBA | 2015 |
| Indonesia | IDR150 trillion | 2016 |
| Pakistan | TBA | Second quarter of 2016 |
| Shandong Province | CNY30 billion | TBA |
| Egypt | TBA | 2015/16 fiscal year |
| Sindh Province | US$200 million | TBA |
| Kazakhstan | TBA | 2016 |
| Turkey | US$1.1 billion | TBA |
| Bangladesh | TBA | TBA |
| Hong Kong | US$500 million to US$1 billion | TBA |
| Ningxia Hui Autonomous Region | US$1.5 billion | TBA |
| Kenya | TBA | 2016 |
| South Africa | TBA | 2016 |
| Senegal | TBA | TBA |
| Niger | XOF150 billion | TBA |
| Luxembourg | TBA | TBA |

Over in Malaysia, the government issued the RM1.5 billion (US$348.3 million) government investment issue (GII) Murabahah on the 30th October 2015. The issue will mature on the 31st October 2035 and Bank Negara Malaysia may purchase up to 10% of the issuance size.

And similarly in neighboring Indonesia, the government auctioned three project-based Sukuk and an Islamic Treasury bill series on the 3rd November 2015 with an indicative target of IDR2 trillion (US$145.8 million).

Moving toward the end of the year, the sovereign Sukuk market awaits on issuances from Ivory Coast, Tunisia, Jordan and the UAE – all of which announced plans to float an offering before year-end.

# 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.**

- US third quarter GDP growth slows to 1.5%, although consumer spending data is still encouraging.
- US Treasury yields at their highest in a month after the Fed leaves rates unchanged at its most recent meeting. However, the possibility of rates rising in November was specifically highlighted.
- Deutsche Bank cuts 9,000 jobs on the back of third quarter loss of EUR6 billion (US$6.57 billion).
- Shell also sees a loss of US$7 billion after a write-off of US$8 billion in the third quarter.
- China and Germany agree to launch a new exchange in Frankfurt to trade renminbi products, in a collaboration between the Deutsche Borse, the Shanghai Stock Exchange and the China Financial Futures Exchange.
- Indian prime minister Narendra Modi this week promised to promote cooperation between India and Africa, speaking at the India-Africa Forum Summit in New Delhi this week.
- Iran working on a 37,400 hectare new free trade zone on the Iraqi border, notes the FT, as the two countries look to strengthen trade ties.
- Brussels reaches a preliminary deal to give EU regulators more authority to break up big banks.

# African SME debt exchange to drive growth using Islamic finance

**Privately funded African SME debt trading platform Ovamba will be expanding its regional footprint by targeting Shariah-seeking small and medium entrepreneurs with a line of new Islamic financial products, which is likely to drive growth for the SME industry. VINEETA TAN reports.**

"Helping businesses to grow is a key area of domain expertise and investment focus for us. We have been able to assist many companies from multiple industries in their endeavor to boost their business prospects considerably," said Marvin Cole, the founder and global CEO at Ovamba, who emphasized: "Going forward, we believe Islamic financial instruments will provide an excellent platform for building businesses of scale."

It is confirmed that products in the pipeline include instruments based on the Ijarah, Wakalah and Mudarabah structures and will be co-developed with and certified by Bahrain-based Shariyah Review Bureau (SRB).

> *"Financing for trading productivity is not only essential for SMEs, rather it is urgently needed"*

The SME segment is an indispensable component of the African economy, accounting for approximately half of the region's GDP according to some estimates, and comprising about 90% of African business operations. However, a majority (roughly 80% according to Ovamba) of SMEs have limited, if any access at all, to credit. This, along with a less-than-conducive regulatory environment and a lack of qualified human capacity, has severely narrowed the growth potential of SMEs in the region. With Muslims accounting for a significant portion of the African population, Islamic finance is seen as a crucial avenue in enhancing SME finance accessibility.

Functioning as a debt exchange, Ovamba facilitates local and international individual investors and financial institutions to participate in the region's SME finance market by allowing these players to buy transactions issued by fully-regulated local financial institutions.

"Financing for trading productivity is not only essential for SMEs, rather it is urgently needed," affirmed Yasser S Dahlawi, the founder and CEO of SRB. "We believe Ovamba's efforts will help open new venues of investments and augment the way trading is currently done in Africa."

# South American Republic leaning toward the IDB for financial support

**Fresh in his presidency, the leader of one of the poorest countries in the western hemisphere – David Granger – is resolute in extending ties with international financial institutions to lift itself from poverty; and VINEETA TAN reports that the Cooperative Republic of Guyana is also keen to embrace Islamic financing.**

Looking to elevate itself in the global marketplace, the nation of a per capita GDP of about US$3,763 in 2014 (according to the World Bank), has made infrastructure development an ongoing key area of focus and already has large-scale projects in the pipeline, mostly in place to enhance the Republic's transportation system.

These projects are viewed as potential avenues for the IDB to step in. Granger recently met with the IDB to explore prospective financing opportunities, including for the South American nation to join the Islamic multilateral financing organization.

> *"Guyana [has] identified the priorities of the government in terms of the infrastructure and energy sector"*

"It was a good discussion. The president was very supportive of the idea. He mentioned that Guyana [has] identified the priorities of the government in terms of the infrastructure and energy sector," said Yahya Aleem Ur Rehman, the IDB's division manager of advisory services, in a statement.

If Guyana were to secure a membership with the IDB, it would be the second nation in the region to do so after Suriname; and this new arrangement could unlock significant funds to mobilize development projects for the low-income nation of approximately 800,000. The Islamic bank has been increasing its focus in the Caribbean: earlier this year, the organization extended US$75.8 million in financing to Suriname for projects in the health and education sectors; and a formal relationship with Guyana would boost the IDB's presence in the relatively untapped Islamic finance market of the South American region.

# Islamic finance in Latin America – beyond Brazil

**Unlike Africa or Europe, Latin America does not possess the same draw as these emerging Islamic finance markets; however, the region's increasingly strong ties with the Middle East and involvement in the Halal industry present an avenue for Shariah finance to flourish. VINEETA TAN provides a market snapshot of the business and financial landscape of Latin America.**

## Demographics

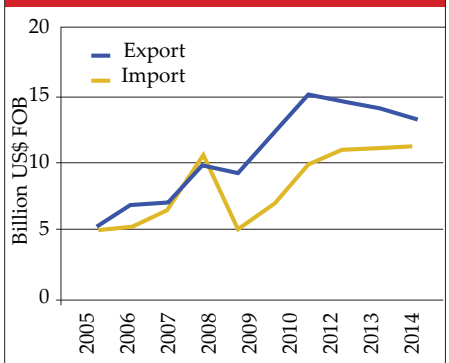
Out of the 20 countries in the region, Argentina and Brazil have the largest Muslim minorities, with approximately one million Muslims in each. Accurate figures are not available as census data does not record religious affiliation, but surveys by Pew Research Center and the Association of Religion Data Archives estimate that almost 2% of the population identify as Muslim. In Argentina, an estimated 3.5 million people are of Arab descent while in Brazil, 12 million people identify as Arab-Brazilian.

## Economy

Over the last decade, Latin America and the Caribbean as a region has shown tremendous progress economically and infrastructure-wise. According to the United Nations Development Program (UNDP), the region, which will have met the majority of the Millennium Development Goals in 2015, is the only region in the world to have reduced income inequality during the first decade of the 21st century, adding some 90 million people to a burgeoning middle class from 2000-12.

The World Bank provides a positive outlook predicting growth in the region at 3.2% in 2015 and 3.7% in 2016, with the region's two most productive markets, Brazil and Mexico, projected to grow 2.4% and 3.4% respectively and regional exports predicted to grow from 4% in 2014 to 5.4% in 2016.

**Chart 1: International trade between Brazil and Arab countries from 2005-14**




*Source: Arab-Brazilian Chamber of Commerce*

## Trade flows

Trade flows between the GCC and Latin America have been steadily increasing – with a large majority involving hydrocarbon exports from the GCC and food exports from Latin America. According to the latest figures by the Economist Intelligence Unit, trade flows between the two regions more than quadrupled from US$3 billion in 2003 to US$17 billion in 2013, and GCC exports to the region posted the largest global rise over the last four years of 32.7%, albeit from a low base.

## Brazil

In the region, Brazil stands out as the most prospective Islamic finance market due to its position as the world's largest Halal meat producer. Brazil also holds the position as the world's largest exporter of soybean (41% of global exports) and orange juice (55% of global exports) as well as 35% of global exports of raw cane and refined sugar – all of which are of interest to the market in the GCC in light of its aim to ensure food security (see Cover Story: 'Global food security: A ticking timebomb for the Islamic World', Vol 11 Issue 18). Trade between Latin America and the GCC is worth US$40.6 billion, and according to figures from the Arab-Brazilian Chamber of Commerce, in 2013, Brazil's trade with Arab countries including Egypt, Kuwait, Qatar, Saudi Arabia and the UAE reached US$14 billion, with Saudi Arabia attaining the top spot as the country's leading importer, securing imports worth US$2.84 billion.

Several Islamic finance initiatives have also been realized in Brazil including Abu Dhabi Equity Partner's inventory finance Wakalah and Murabahah program for an ethanol producer in the state of Mato Grosso do Sul (introduced in 2013) as well as a Shariah compliant livestock financing program (launched in 2014).

## New players

Brazil aside however, other countries in the region – particularly from the Caribbean – have also shown greater interest in Islamic finance. Several South American law firms including from Argentina, Brazil and Chile have joined ISFIN, a global network of Islamic markets advisors; and during a January 2015 visit to Brunei, Chile's non-resident ambassador to Brunei, Christian Rehren, reportedly revealed his government's keen interest to explore Islamic finance opportunities using Brunei's expertise. Suriname is also looking to strengthen its relationship with the IDB. The country is currently undertaking a two-year (2014-15) Interim Member Country Partnership Strategy (MCPS) with the Islamic multilateral financier, after which a fully-fledged MCPS will follow. The IDB at the end of October 2015 also met with the president of Guyana to explore financing opportunities. The South American Republic, said to be considering an IDB membership to unlock funding, identified infrastructure and energy as potential sectors for collaboration.

## Challenges

According to the OECD Latin American Economic Outlook 2014, after a period of relatively strong growth, the region is on the cusp of change, prompted by uncertainty over the US Federal Reserve tapering program, the slow recovery of the eurozone and the slowdown of China's economy, as many of the region's economies are based on export. Despite the rapid progress witnessed in the region over the last 10 years, the overconcentration in certain sectors (agricultural commodities and extractive industries) raises inequalities and environmental degradation, according to UNDP. Experts have also noted that while there is higher synergy and trade flow between the GCC and Latin America, the full potential of this relationship has yet to be realized, evident by the yet-to-be-concluded negotiations for a free trade agreement between Mercosur (Argentina, Brazil, Paraguay, Uruguay and Venezuela) and the GCC. Nonetheless, these established ties and growing interest from Latin American players to tap Middle Eastern wealth could pave the way for Islamic finance.

# Islamic debt capital market: Primary issuances and initiatives

**Expected to once again cross the US$100 billion mark this year (according to S&P), the Islamic debt capital market has thus far remained resilient throughout the year. In spite of volatile economic and financial conditions, it has seen quite an array of primary market issuances. NABILAH ANNUAR takes a look at the global Islamic debt capital market landscape, in particular primary issuances and capital market initiatives.**

## Asia

An Islamic finance heavyweight, Malaysia has indeed made strides in the Islamic debt capital market. Primary issuances were made both from government-linked companies as well as private corporations. The country saw two interesting deals: 1) Asia Brands's subsidiary, Anakku, in March made the first issuance of RM100 million (US$23.22 million) in nominal value under its Sukuk program. The program allocates a tenor of up to 15 years from the date of the first issue of the Sukuk. Proceeds from the issuance will be utilized for Shariah compliant purposes only, which among others, will be to finance investment activities, capital expenditure, working capital requirements, and other general corporate purposes of the issuer and/or its related companies; 2) The country's national mortgage company Cagamas recorded a new first last month when it explored new pastures by issuing a SG$162.75 million (US$116.15 million) Islamic paper. Said to be the company's debut EMTN Sukuk issuance and the first Sukuk issuance denominated in Singapore dollars this year, the offering received interest from a diverse investor base with a large take-up from foreign stakeholders.

## Africa

The Islamic Corporation for the Development of the Private Sector in June formed a partnership with Banco Nacional de Investimento to collaborate in joint operations and the expansion of financial products for the development of the private sector in Mozambique. According to a statement, they will also cooperate in structuring Sukuk/debt capital market transaction opportunities and co-invest in Islamic leasing companies in Mozambique.

## Middle East

The majority of the debt capital market activities can be seen developing across this particular region. The UAE is the GCC's largest bond and Sukuk issuer in the first half of the year, accounting for a majority (75.6%) of the market share at US$14.99 billion, according to Kuwait Financial Center (Markaz). Sukuk sales in the GCC took a 26.45% dive during the January-June period from a total of US$6.55 billion raised in 2014 to US$4.82 billion this year. This decline parallels the conventional segment which experienced a 16.69% tightening in offering at US$15.01 billion.

At the beginning of the year, Bahrain expanded its repertoire as the Central Bank of Bahrain (CBB) and Bahrain Bourse introduced a pioneering mechanism which is expected to increase the sophistication of its Islamic capital market. The new mechanism allows both individual and institutional investors to secure direct ownership in government debts (conventional and Islamic) issued by the CBB in the primary market through the bourse as of January 2015 – making Bahrain the first country in the Middle East to introduce such a system.

Later in June, the CBB rolled out a new instrument – the Islamic Sukuk Liquidity Instrument (ISLI). ISLI is expected to assist in enhancing returns and boost profitability for Islamic banks, reported Gulf Daily News quoting a senior official from Al Salam Bank-Bahrain, one of the first users of the new instrument. It is also believed that ISLI will also add further flexibility in the management of available liquid funds in the banking system leading to an achievement of the overall national economic development within the Kingdom. Consequentially, ISLI also helps to manage a bank's available cash more efficiently.

Over in Saudi Arabia, market sentiments have urged for the revival of the Kingdom's Sukuk market. A return to debt issuance by the Saudi Arabian government is expected to encourage growth in the country's corporate Sukuk market, said Fitch in June. The Capital Market Authority of Saudi Arabia is expected to announce new regulations aimed at reforming the Kingdom's corporate debt market by the end of the year. The reforms will include measures to facilitate and speed up regulatory approval for debt products. This upcoming regulatory reform could also make Sukuk more attractive for its corporate sector that has traditionally relied heavily on bank lending.

The recent decline in oil prices has sparked expectations that Saudi Arabia may issue domestic sovereign debt this year for the first time since 2007. Much of this debt would probably be long term and would be bought by the country's banks, which would consume some of the plentiful liquidity that has helped make bank lending the primary source of funding for Saudi corporates.

In terms of primary issuances, the country saw two: 1) Al Othaim Real Estate and Investment which in September issued a debut Sukuk worth SAR1 billion (US$266.5 million) which was priced at 170bps over the six-month SIBOR; and 2) Arab Petroleum Investments Corporation which priced its maiden US$500 million drawdown under its five-year US$3 billion Sukuk program at a profit rate of 2.383% last month.

Over in Oman, the country issued its inaugural OMR250 million (US$647.2 million) five-year sovereign Sukuk last month with a profit rate of 3.5% per annum. Moody's has assigned a definitive rating of 'A1' to the Omani rial certificates issued by Oman Sovereign Sukuk, an SPV wholly owned by the government of Oman.

# Luxury hotel financing: An Islamic debut for Sunrise Properties

**Dubai-based Sunrise Properties recently signed syndicated term and Murabahah facilities worth AED515 million (US$140.18 million). To be used for the development of a high-end luxury hotel, Emerald Palace Kempinski Hotel and Villas on Palm Jumeirah, the deal was fully subscribed by Emirates NBD and Doha Bank. Speaking to Mahdi Kazim, the general manager of large corporates at Emirates NBD, NABILAH ANNUAR has the exclusive.**

A combination of both Islamic and conventional facilities, the Shariah compliant part of the deal employed a commodity Murabahah structure due to several reasons. "Firstly, this structure entails simplicity while adhering to Shariah principles. Secondly, this structure is accepted by Emirates NBD's Shariah [board] and is also commonly accepted by the Shariah boards of other regional Islamic banks," said Mahdi.

Mahdi further explained that the Ijarah structure was also considered as an alternative; however, given the dual tranche (conventional and Islamic) nature of the deal it was decided that the Murabahah structure was more suitable. "Being a debut Islamic financing for the obligor, this structure was well absorbed by the obligor and its advisors," added Mahdi.

"As the financing was for the development of a high-end luxury hotel, the main challenge for the Islamic tranche was to ensure that non-Shariah elements be excluded. This difficulty was resolved by structuring the financing as conventional and Islamic facilities. Meticulous financing conditions were laid in order to carve out any non-Shariah elements from the Islamic tranche of the financing," he highlighted, commenting on the challenges that was faced in the process of finalizing the transaction.

> ***"This structure entails simplicity while adhering to Shariah principles"***

Marketed exclusively to regional bank investors, due to the small size, the transaction was closed between two banks. Apart from being solely arranged by Emirates NBD Capital, as part of the financing, hotel units in the project are being sold to individual and institutional investors for freehold acquisition with a compulsory lease-back to the hotel operator.

Emirates NBD Capital has structured several development financing deals in the regional hospitality and real estate sectors. Some of the commonly used Islamic structures include commodity Murabahah and Ijarah. This financing exercise with Sunrise Properties is believed to have added a prime hospitality asset to Emirates NBD's portfolio.

**Sunrise Properties**

**AED515 million (US$140.18 million) syndicated term and Murabahah facilities**

**May 2015**

| | |
|---|---|
| **Obligor** | Sunrise Properties |
| **Aggregate principal amount** | AED515 million (US$140.18 million) |
| **Type of facility** | Conventional and Islamic |
| **Structure** | Commodity Murabahah (for the Islamic facility) |
| **Use of proceeds** | Development finance |
| **Tenor** | 8.5 years |
| **Benchmark** | EIBOR |
| **Margin** | Confidential |
| **Profit rate** | EIBOR + margin |
| **Repayment** | Through semi-annual amortizing repayment installments starting after a moratorium period |
| **Frequency of profit payment** | Quarterly or semi-annually |
| **Mandated lead arranger, documentation agent and coordinator** | Emirates NBD Capital |
| **Investment agent** | Emirates NBD Bank |
| **Legal advisor** | Financiers: Dentons<br>Obligor: Chadbourne & Parke |
| **Governing law** | English |

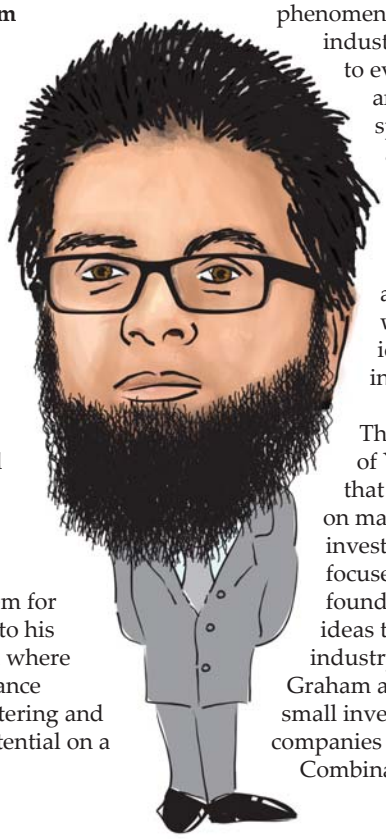
# Flip the script

*By Mohammad Raafi Hossain*

**A few weeks ago, I attended and participated in the Ethical Finance Innovation Challenge and Awards (EFICA) in Dubai. The event was meticulously put together by Abu Dhabi Islamic Bank and Thomson Reuters and brought together compelling presentations on the latest innovative ideas in the ethical and Islamic finance domains from around the world.**

To top it all off, Nobel Peace Prize laureate Professor Muhammad Yunus gave an inspirational keynote address around the importance of creating and scaling socially focused businesses that provide social returns while not sacrificing the financial bottom line.

Professor Yunus's speech on his journey to establish social businesses across the world touched on many different aspects of what it takes to sources ideas, incubate them and then eventually scale them for maximum impact. Listening to his speech, it made me reflect on where we are within the Islamic finance domain when it comes to fostering and nurturing ideas that have potential on a wide scale.



Events such as EFICA are a fantastic first step in the sourcing of ideas and putting them on a pedestal for the wider industry to view and assess. But, what is next? Where do ideas with potential find a home and how can they leverage the rapid growth of Islamic finance?

During the rise of Silicon Valley in the early 2000s, there was a similar phenomenon. The tech industry was just starting to evolve into a force and new ideas were sprouting from all corners. At the time, Paul Graham started Y Combinator, a seed accelerator and incubator that would take great ideas and turn them into great businesses.

The interesting part of Y Combinator was that it was not centered on making monetary investments; rather it was focused on facilitating the founders behind these ideas to connect with industry leaders. Although Graham and his team made small investments, the companies that applied to Y Combinator were intrigued by the star-studded network of industry stalwarts they would get a chance to mingle with. These connections were so powerful that it led to the establishing of some of today's most well-known companies such as Dropbox, Zenefits and Airbnb.

> ***"Creating the next Y Combinator by connecting ideas with industry leaders will be a strong leap forward in innovation and Islamic finance's continued expansion"***

I strongly believe that given where Islamic finance is now, creating the next Y Combinator by connecting ideas with industry leaders will be a strong leap forward in innovation and Islamic finance's continued expansion.

# The bare truth

*By Dr Ken Baldwin*

**When all is said and done, what does it mean to make financial decisions based on faith? Are decisions such as whether to use Shariah compliant modes of deposit and financing really the only faith-based financial decisions we make in our lives?**

> ***"Even if there were no obligation to give, we should give in any case in order to fulfill an ethical duty to help those in need"***

I believe the answer is 'no'. For example, for many non-Muslims, charitable donations are part of everyday life. Small but regular contributions to children's charities, relief organizations dealing with the migrant crisis in Europe, donations to feed the poor in Africa, etc. The list is almost endless. Of course for Muslims, charitable giving is strongly encouraged and there are highly structured approaches in Islam to facilitate giving, such as Zakat.

And perhaps the word 'giving' is not correct either, as we are all, in effect, only custodians of what God has endowed us with in this life. So if we do not actually own anything as such, then can we really be said to ever give it away?

But aside from religious reasons for giving, what other reasons are there? Well, of course there is an inner moral compass and sense of social responsibility, in that even if there were no obligation to give, or reward in the hereafter for doing so, we should give in any case in order to fulfill an ethical duty to help those in need. Economists refer to the fulfillment we get from giving as a 'warm glow', ie a sense of well-being we ourselves derive from helping others. This is interesting to me because it begs the following question — can our actions ever be said to be truly altruistic, ie done for the benefit of others, if we ourselves achieve a sense of fulfillment from the act of giving?

This question has bothered me for quite a long time. It is related to another question which is quite similar in Islam, which is that if actions are to be fully rewarded by God, then shouldn't they be done for his pleasure alone? But there is no denying the act of giving, for example, generates our own sense of well-being.

So does this sense of fulfillment dilute the divine reward we can achieve? I cannot answer this. I can only say that the many answers I have received on this issue from religious scholars over the years have never satisfied me. Perhaps you know the answer and can tell me.

# Islamic finance echoes steady growth

**BRUNEI**

*By Dr Aimi Zulhazmi*

**The Islamic finance sector is displaying a steady growth in Brunei Darussalam with the regular issuance of short-term government Sukuk; the Autoriti Monetari Brunei Darussalam (AMBD) continues to issue short-term Sukuk in the domestic currency of the Brunei dollar. The most recent issue, the 123rd issuance, is the short-term Sukuk Ijarah securities for BN$25 million (US$17.44 million) with a maturity date of a year.**

> ***"Islamic banking assets grew by 16.5% in the fourth quarter of 2014; hence the growth has resulted in Islamic banking commanding a 41% market share of the overall key financial institutions' total assets"***

The Brunei government has thus issued over BN$9.05 billion (US$6.31 billion) worth of short-term Sukuk Ijarah securities since the maiden offering on the 6th April 2006 and the total holdings of the Brunei government Sukuk outstanding until the 8th October 2015 stood at BN$625 million (US$436.01 million). All of the issuances were sold exclusively to the country's seven domestic commercial banks.

This augurs well with the AMBD's plan to launch a securities exchange in 2017, most likely the first full Shariah compliant stock market. With the regulator announcing its intention to widen the list of eligible buyers for the upcoming issue, the prospects of a more liquid Sukuk market, as well as the development of a secondary market, are attracting investors' attention. This burgeoning financial architecture would be further improved by Sukuk of longer maturities and greater liquidity.

According to the AMBD annual report of 2014, there were 13 mutual funds, also called the collective investment schemes (CIS), distributed and offered in Brunei in 2014 as compared to 19 CIS in 2013. The public CIS comprise seven Islamic and four conventional funds whereas the private CIS is made up of one Islamic fund and one conventional fund. Currently, there is one licensed fund manager in Brunei. The total market share of Islamic CIS against conventional CIS has increased from 26% in 2013 to 34% in 2014. The total industry asset under management for 2014 is US$2.7 billion.

The banking sector remained resilient amid diverging performance in the global economy and declining oil prices, churning an asset base of US$13.25 billion at the end of 2014. Islamic banking assets grew by 16.5% in the fourth quarter of 2014 compared to the similar period in 2013; hence the growth has resulted in Islamic banking commanding a 41% market share of the overall key financial institutions' total assets. This augurs well with the government target for Islamic banking to reach 50% by the year 2020.

*Dr Aimi Zulhazmi is an Islamic finance consultant via his own Draznine Advisory and an associate professor in the Islamic finance department of UniKL Business School. He can be contacted at draz9.advisory@gmail.com.*

## IFN Country Correspondents

**AFGHANISTAN**: Dr Alam Khan Hamdard
president, Afghanistan Islamic Finance and Consulting Co
**AUSTRALIA**: Dr George Mickhail
senior lecturer, School of Accounting, Economics and Finance, University of Wollongong, Australia
**BAHRAIN:** Dr Hatim El-Tahir
director of Islamic Finance Knowledge Center, Deloitte & Touche
**BANGLADESH**: Md Shamsuzzaman
deputy managing director, Islami Bank Bangladesh
**BELGIUM:** Prof Laurent Marliere, CEO, ISFIN
**BERMUDA:** Belaid A Jheengoor
director of asset management, PwC
**BRAZIL**: Fábio Figueira
partner, Veirano Advogados
**BRUNEI:** Dr Aimi Zulhazmi, Islamic finance consultant, Draznine Advisory
**CANADA:** Jeffrey S Graham
partner, Borden Ladner Gervais
**CHINA**: Abdullah Han
partner, Al-Sadiq Consulting
**EGYPT:** Dr Walid Hegazy
managing partner, Hegazy & Associates
**FRANCE:** Kader Merbouh
co-head of the executive master of the Islamic finance, Paris-Dauphine University
**HONG KONG:** Amirali Bakirali Nasir
chairman, The Law Society of Hong Kong working party on Islamic finance
**INDIA:** H Jayesh
founder partner, Juris Corp
**INDONESIA:** Farouk A Alwyni
CEO of Alwyni International Capital and the chairman of Centre for Islamic Studies in Finance Economics and Development
**IRAN:** Majid Pireh
Islamic finance expert, Securities & Exchange Organization of Iran
**IRAQ:** Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co
**ITALY:** Stefano Padovani, partner and head of Banking & Finance, NCTM Studio Legale Associato
**JAPAN:** Kaoru Haraguchi
founding attorney, Haraguchi International Law Office
**JORDAN**: Nafith Al Hersh Nazzal, Islamic banking specialist, certified financial and investment advisor
**KAZAKHSTAN**: Timur Rustemov, deputy chairman, association for development of Islamic finance
**KENYA**: Mona K Doshi
senior partner, Anjarwalla & Khanna Advocates
**KOREA:** Yong-Jae Chang, partner, Lee & Ko
**KUWAIT:** Alex Saleh, partner, Al Tamimi & Co
**LEBANON:** Johnny El Hachem
partner – corporate, Bin Shabib & Associates
**LUXEMBOURG:** Said Qaceme, senior manager of Advisory & Consulting, Deloitte Tax & Consulting
**MALAYSIA**: Ahmad Mukarrami Ab Mumin
head, Shariah division, RHB Islamic Bank
**MALDIVES:** Aishath Muneeza
deputy minister, Ministry of Islamic Affairs, Maldives
**MALTA:** Reuben Buttigieg
president, Malta Institute of Management
**MAURITIUS**: Mohammad Akshar Maherally
Director (taxation), International Financial Services
**MOROCCO:** Ahmed Tahiri Jouti
managing consultant, Al Maali Consulting Group
**NEW ZEALAND**: Mohamed Nalar
trustee and board member, Awqaf New Zealand
**NIGERIA:** Auwalu Ado;
Shariah auditor, Jaiz Bank
**OMAN:** Muhammad Abdullah Dewaya
Islamic finance scholar
**PAKISTAN:** Muhammad Shoaib Ibrahim
managing director & CEO, First Habib Modaraba
**PHILIPPINES:** Rafael A Morales
managing partner, SyCip Salazar Hernandez & Gatmaitan
**QATAR:**Amjad Hussain
partner, K&L Gates
**RUSSIA:** Roustam Vakhitov
managing partner, International Tax Associates
**SAUDI ARABIA:** Nabil Issa
partner, King & Spalding
**SENEGAL:** Abdoulaye Mbow
Islamic finance advisor, Africa Islamic Finance Corporation
**SOUTH AFRICA:** Amman Muhammad
CEO, First National Bank-Islamic Finance
**SINGAPORE:** Suhaimi Zainul-Abidin,
advisor, 5Pillars
**SRI LANKA:** Imruz Kamil
head of Islamic banking, Richard Pieris Arpico Finance
**SWITZERLAND:** Khadra Abdullahi
associate, Investment banking, Faisal Private Bank
**SYRIA:** Gabriel Oussi,
general manager, Oussi Law Firm
**TANZANIA**: Yassir Masoud
head, Islamic banking, retail banking, National Bank of Commerce
**TURKEY:** Ali Ceylan
partner, Baspinar & Partners
**UAE**: Rima Mrad
partner, Bin Shabib & Associates
**UK**: Fara Mohammad
director of Islamic finance, Foot Anstey
**US:** Joshua Brockwell
investment communications director, Azzad Asset Management
**YEMEN:** Moneer Saif; head of Islamic banking, CAC Bank

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# Non-performing financing and Bai Bil Wafa

AFGHANISTAN

*By Shah Fahad Yousufzai*

**The concept of Bai Bil Wafa pertains to buying the asset of the existing customer and paying the proceeds of the sale to adjust the previous outstanding debt with the bank. The bank will be the owner due to the effect of the sale transaction and will also submit an independent promise to the customer to resell the same asset to the customer at any specified date under another sale transaction.**

The product is aimed at customers who have defaulted their payments of debt and their debt falls under the category of non-performing assets. The bank will be the owner of the purchased asset unless it is redeemed by the customer and in other cases the bank shall have the right to sell the same asset if the customer is unable to redeem the asset after the expiry of the specified date.

## Targeted customers

All defaulted customers (non-performing financing (NPF) customers) shall form the segment to be targeted by the product.

## Mode of transaction

- The defaulted customer (NPF customer) is approached by the Islamic bank in order to settle their transaction.
- The Islamic bank purchases the asset (held as collateral in the previous defaulted financing) from the customer at the price equivalent to the amount of outstanding liability of the customer.
- The bank makes the purchase with a condition to resell the same asset to the customer at any specified future date.

> *"The concept of Bai Bil Wafa pertains to buying the asset of the existing customer and paying the proceeds of the sale to adjust the previous outstanding debt with the bank"*

- The condition of selling back the asset to the customer on the specified date shall not be stipulated in the contract; instead it will act as an independent promise from the bank.
- The asset shall be sold back to the customer in the event of receiving back the amount of the price set by the bank within the specified period.
- In the event the customer does not pay the price of the asset within the specified time period, the bank shall be cleared from the liability arising out of the promise and the asset will be sold in the market as per the policy of the bank.
- The bank would settle the NPF amount of the customer either by receiving the money back from the customer by way of redeeming the asset by the customer or by selling the asset in the market.
- The bank shall have the discretion to add the profit for the specified time by increasing the reselling price to the customer.

## Accounting treatment

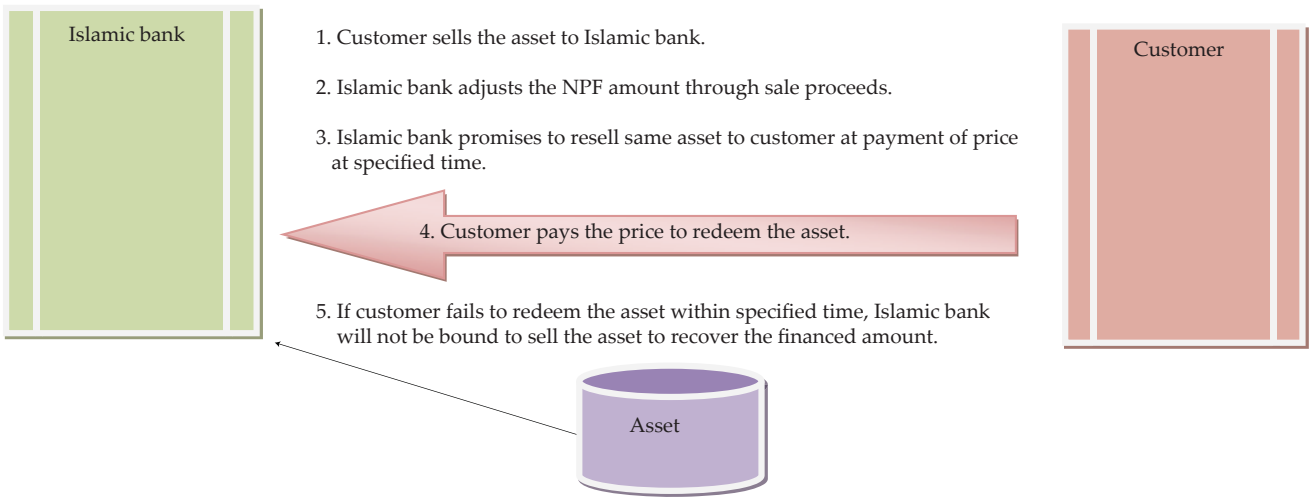
The bank will purchase the asset of the customer and the asset so purchased will be reflected in the balance sheet of the bank.

## Yield

The decision to seek a profit for the time specified to repurchase the asset by the customer shall entirely rest with the NPF management policy.

*Shah Fahad Yousufzai is the chief of Islamic banking at Bakhtar Bank. He can be contacted at shahfahad303@hotmail.com.*

**Figure 1: Graphical representation of the transaction process flow**



# When to extend financing for companies lacking financial statements

LEASING

*By Youssef Aboul-Naja*

**Mark Twain, the famous American author, once wrote: "A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain." Although Twain was infusing humor into how banks go about their daily business, he was spot-on in describing how banks determine, and subsequently deal with, their client base; they are risk-averse driven institutions.**

> ***"Between calculated risk and reckless decision-making lies the dividing line between profit and loss"***

This, of course, is what gave rise for complementary financial service providers such as leasing and Ijarah. As such, leasing companies tend to seek a wider client base on the financial health spectrum. This practice is totally acceptable, given their niche modus operandi, though extra care needs to be taken with clients lacking financial statements.

Many reasons may exist as to why a company does not have financial statements. Maybe it is their first year of operation; or they might be too small that the owners did not see the need to. Whatever the reasoning may be, some of these companies have high growth potential, and should not be overlooked. The following is a non-exhaustive due diligence list aimed at Ijarah professionals to help with unearthing those hidden gems:

- Analyze the bank statements of the company to compile a rough revenue and expenses profile.
- Review the client's signed contracts and compare their payment status against the bank statements.
- Perform a credit check on the company and its owners.
- Undertake an industry and market analysis on the space that the client is operating in and on the economy as a whole.
- If additional assets are to be used as collateral, review payment receipts to ensure that they are fully paid-off; additionally, ensure that they are not pledged to other entities.
- Request performance letters from other financial entities that the client has previously dealt with.
- In the case of used assets, request an independent report from a qualified third party highlighting the assets' approximate price, condition, and remaining life.

Basically, the aforementioned list aims at establishing financial soundness of the client, while identifying future cash flow streams, out of which the client will make the installment payments. Other risk mitigates that Ijarah companies can request include a higher downpayment and extending the financing in a controlled manner, granting more competitive terms as the client builds a favorable history. "Between calculated risk and reckless decision-making lies the dividing line between profit and loss." (Charles Duhigg).

*Any public opinion or media appearance is the author's independent personal opinion and should not be construed to represent any institution with whom the author is affiliated.*

*Youssef Aboul-Naja is an Ijarah specialist at a supranational banking institution. He can be contacted at yaboulnaja@gmail.com.*

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# Is risk management fundamental to finance as physics is to science?

RISK MANAGEMENT

*By Dr Ken Baldwin*

**In somewhat of a slight departure from the regular discussion of risk management for Islamic finance institutions, I'd like to ask the question which is the title to this article.**
**For over 20 years, I have applied the analytic apparatus of risk management to understand the exposure that institutions have to changes which they cannot foresee ahead of time with certainty. The mathematical tools for this are well grounded in probability theory. The art of applying these tools is to model real-world situations in a way that gives us an answer we feel comfortable with, and which can be expressed numerically, for example, the risk of loss is x%, or the exposure over a one-year horizon is $Y, etc.**

More often than not, the approach taken by physicists to model physical systems has some parallel with the way risk analytics depicts uncertainty in financial systems. This is no accident. For the same fundamental approach to modeling is required for each, that of identifying fundamental determinants of uncertainty, and then reducing their complexity into a set of relationships linking interdependent variables, for example, market prices, in order to evaluate how much could be gained or lost in the future. So is the art of modeling risk fundamental to finance as the art of modeling physical systems is to science?

> ***"Behavior also changes over time, so what may be true today may not be true tomorrow"***

I believe it is, but within certain boundaries of analogy. Many physical systems do involve uncertainty, and they are modeled similarly to financial systems using reductionist methodologies, but more importantly, the relationships between variables are deterministic, for example, laws of thermodynamics which describe how temperature changes with pressure. What is subject to uncertainty is accurate measurement, for which statistics is applied in order that measurements are within some level of confidence.

The same cannot be said to be entirely true of financial systems. Behavioral assumptions need to be made in order to predict financial outcomes, for example, deposit withdrawals. Whether the assumptions make sense or not is something which can be tested empirically by using real data. But then behavior also changes over time, so what may be true today may not be true tomorrow.

Because of the difficulty of applying behavioral models, most financial institutions in the Islamic space have not sought to deploy them. But they are the future. And with that future comes a greater departure from the objective analysis of physical systems based on physical laws. This is in some way reassuring, but also a warning sign for risk management. It is reassuring because economics, of which finance is essentially a sub-set, is a social science, and should be treated as such in matters related to applications in risk management. But it is also problematic in that while applying behavioral models to financial systems offers a ray of light to understanding complex systems, especially those for which systemic risk needs to be understood, it also means that we may need different tools from the probability theory to advance this line of thinking, tools which have yet to be developed.

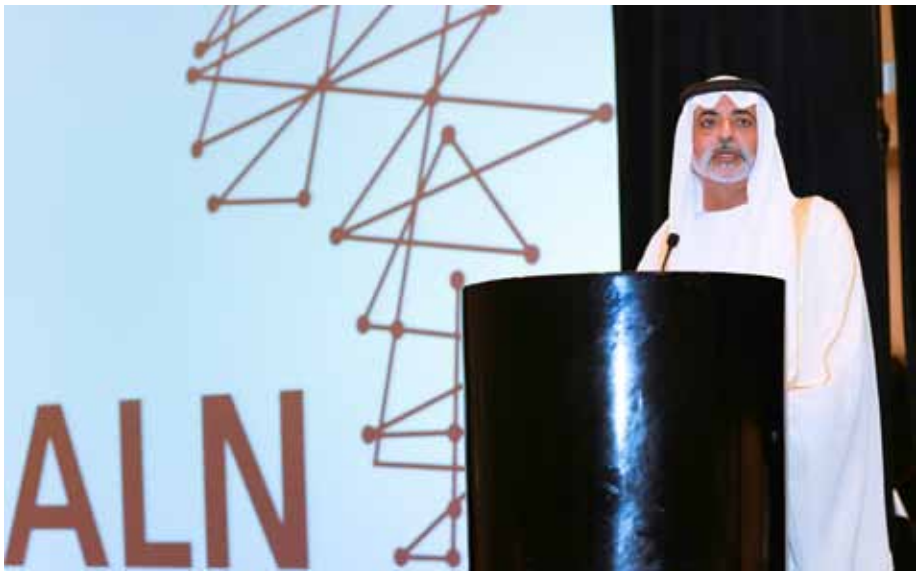
*Dr Ken Baldwin is CEO of Islamic Financial Analytics, a training and advisory firm supporting the human capacity and financial management needs of the Islamic banking and finance sector. He can be reached at drkenbaldwin@isfinalytics.com.*

# Africa: Bridging the Gulf

**On the 21st and 22nd October 2015, Dubai was once again host to the annual Africa Legal Network (ALN) global conference.**

**ALN GLOBAL CONFERENCE**

*By Mona Doshi*




**Since 2012, when the annual global conference was first introduced, the aim has been to bring together business leaders, strategic advisors and international investors from across the globe to discuss and explore opportunities in Africa. While ALN is an independent, award-winning alliance of leading law firms in Africa and the UAE, its global conference was not a legal one.**

Positioned as a business conference, attendees were able to participate in one of the largest networking events with an African focus and were given the opportunity to connect with a diverse group of high-caliber panelists and delegates – from lawyers to senior government officials, and successful entrepreneurs to corporate CEOs. Honorable guests included: Irene C Mambilima, the chief justice of the Republic of Zambia; Likando Kalaluka, a senior counsel and the attorney-general of the Republic of Zambia; Njee Muturi, the solicitor-general of the Republic of Kenya; and Dr Cheick Modibo Diarra, the chairman of ALN and a former prime minister of Mali.

With over 600 attendees, there is no denying the need and appetite for such a forum. There is an obvious interest in the future role of Africa in the world's marketplace, and the ALN global conference is proving, increasingly, to play a critical role in 'bridging the gulf' by showcasing investment opportunities in what is still a largely unexplored continent.

The conference was inaugurated by the guest of honor, Sheikh Nahyan Mubarak Al Nahyan, the UAE's minister for culture, youth and social development. Sheikh Nahyan poignantly and passionately spoke of the UAE's role in bridging both the proverbial and literal gulf between the GCC and Africa. The ties between the two regions are historical and well established, only to have been enhanced in recent times. The growth of the UAE's infrastructure and its geographical proximity to Africa has contributed to the UAE becoming one of the most important trading hubs for Africa. Furthermore, the UAE's growing reputation as being foreign-investor friendly has resulted in not only international and regional commercial corporations from outside Africa, but African businesses themselves, choosing the UAE as the base for their African operations. Most importantly, however, Sheikh Nahyan focused on what is perhaps the biggest gulf between Africa and the rest of the world – ignorance. He stressed the importance of educating ourselves and each other about what has arguably, to date, been the world's "best-kept secret".

Over the course of the two days, participants were able to attend various panels which demystified the African business space, and presented the continent as a mosaic of 54 independent countries, each with something unique to offer, but with important commonalities facilitating business across borders. The panels boasted highly distinguished speakers presenting on a range of topics, including infrastructure, managing risk in Africa, private equity, banking, Islamic finance, health care, oil and gas, fast-moving consumer goods, hospitality, energy, agriculture and commercial

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property. The panel discussions aimed to highlight hard business issues, but also spoke to practical experiences and live opportunities on the continent. Moderators and panelists were engaging and inviting, encouraging participation from the audience. While each panel received at least an hour of presentation time, attendees were keen on continuing the discussions outside the breakout groups – and the speakers more than obliged.

Keeping with its mandate of connecting Africa to the world, the ALN conference this year introduced the concept of the 'business hub', a physical space at the venue dedicated to enabling focused networking. Interested participants were invited to identify delegates or other attendees they wished to connect with, and ALN facilitated the meetings. At a conference as large as this, where it may have been possible to lose networking opportunities due to a large guest list and varying timetables of participants, it became almost impossible to leave the conference without having networked, either organically or through an arrangement at the 'business hub'.

The keynote discussion, a 'deep' talk focused on the relationship between the UAE and Africa, was saved for the closing of the conference and enjoyed by all the attendees. Moderated by Mishaal Al Gergawi, the managing director of the Delma Institute and a well-known independent columnist, the panel consisted of Dr Cheick Modibo Diarra; Anne Muchoki, the chairperson of Kenya Investment Authority; and Njee Muturi, the solicitor-general of Kenya.

Among other things, the discussion delved into common misconceptions the world has about investing in Africa, and what the UAE and Africa can learn from each other in regards to development. Ultimately, the conference closed with the same message as it began: the opportunities to invest in Africa are unexplored and endless, but bridging the gulf between the continent and the world requires educating the public on the nuances of Africa, which is precisely what the annual ALN global conference succeeds in doing.

*Mona Doshi is a senior partner at Anjarwalla & Khanna. She can be contacted at mkd@africalealnetwork.com.*

# Islamic independent pricing benchmark for Islamic banks: Myth or reality?

**One of the challenges the Islamic banking system faces is the use of an interest rate benchmark for pricing their product. Despite being in operation for more than four decades, Islamic banks across the globe have not yet been able to devise a mechanism or tool for valuing or pricing their product. CHOWDHURY SHAHED AKBAR writes.**

**ISLAMIC BENCHMARK**

*By Chowdhury Shahed Akbar*

**Islamic banking products are still benchmarked to LIBOR and other conventional finance benchmarks. Although the use of an interest rate benchmark by Islamic banks do have rationalization by its practitioners and Shariah scholars, this issue has been subject to a lot of criticisms.**

Some even claim that considering interest is prohibited, using an interest rate benchmark by Islamic banks is hypocritical. Even the scholars and practitioners who rationalized the use of an interest rate benchmark for Islamic banks initially, in fact, allowed it considering Islamic banking was a nascent idea then and there was the absence of a readily available alternative to an interest rate benchmark.

They also emphasized the need for developing an Islamic pricing benchmark and hoped that an independent pricing benchmark for Islamic banks would replace this transitory arrangement in due course. However, this has not yet been a reality and critics now find this practice of Islamic banks a bit misleading.

It is a well-known fact that the idea of Islamic banking came into being to offer Muslims an alternative banking system to conventional interest-based banking. The theoreticians initially developed the idea of Islamic banking on the profit and loss-sharing (PLS) basis in which, put simply, depositors will deposit money in the bank to invest. The bank will invest this money and share the profit or loss within the guidelines of Shariah.

According to this theory, banks as a financial intermediary in the modern setting will have PLS arrangements with both the depositors and with the user of the bank's funds. Later, the theoreticians also developed other sales-based non-PLS principles to conduct business mainly for the asset side of the banks.

Therefore, Islamic banks use the two-tier Mudarabah model for conducting their business in which two Mudarabah transactions are used in one scheme and three parties are included in the contract: the depositors as financiers, the bank as an intermediary and the entrepreneur who needs capital.

The first Mudarabah is conducted between depositors (Rab Al Maal) and a bank (Mudarib) while the second one is between the bank (Rab Al Maal) and a borrower (Mudarib). The parties of the first Mudarabah share the bank's profit while those of the second Mudarabah share the profit of the borrower. Since there are many problems associated with PLS-based financing, Islamic banks mostly use various non-PLS sale-based financing modes such as Murabahah, Salam, Istisnah and Ijara, etc, for financing.

But in both cases, Islamic banks need to fix a profit rate. In the case of non-PLS sale-based financing such as Murabahah, Salam, Istisnah and Ijarah, the price has to be fixed in order to complete the transactions and therefore a mark-up rate needs to be fixed beforehand.

On the other hand, in investment-based trade like Mudarabah or Musharakah, though the bank will know the profit rate later, it still needs to declare the expected rate of return beforehand to attract deposits on the investment account. Therefore, it is essential to standardize this mark-up or profit rate for Islamic banks and in the absence of any Islamic alternative, Islamic banks use a conventional interest rate benchmark to do the same.

According to some prominent Shariah scholars of Islamic finance, a benchmarking interest rate (Riba) is not forbidden (Haram) and Islamic banks can use LIBOR as a benchmark of profit rate. However, they agree upon the fact that using interest rate as a benchmark for a Halal business is not desirable and it also does not advance the basic philosophy of Islamic economy thereby making no impact on the system of distribution. They urge Islamic banks to develop their own benchmark and to get rid of this practice as soon as possible.

Some also argue that the dependence on a conventional benchmark by Islamic banks makes them equally vulnerable to any kind of impact that may occur to conventional banks in case of a collapse or any kind of abolishment of the conventional benchmark.

Claiming to have a completely different characteristic in principle and practice than conventional banks on one hand and relying upon the same for existence on the other is self-contradictory.

Theoretically, it also makes Islamic banks exposed to interest rate risk while they operate on interest-free principles. Any changes in the interest rate will motivate customers who are guided by profits to substitute Islamic banking for conventional banking.

The Fiqh Academy of OIC in its 8th Conference on Currency Issues in Jeddah from the 10th-11th April 1993 unanimously passed a resolution No 7 which urges for a prompt creation of a new benchmark which is acceptable from the Shariah perspective as an alternative to interest-based rates to determine the profit margins. Efforts have also been taken by researchers and academicians to come up with an idea or model for the establishment of an Islamic pricing benchmark for Islamic banks.

Models have been suggested based on the rate of profit in money markets, based on the dividends distributed by Islamic banks to their depositors. Other scholarly suggestions include Tobin's Q theory proposed by Abbas Mirakhor (1996) and a benchmark that fits both Islamic and conventional banks proposed by Dr Aznan Hasan in 2009.

In 2010, an ISRA research team examined two models based on CAPM (capital

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asset pricing model) and APT (the arbitrage pricing theory) with a different theory of economics and suggested that a weighted average of the sector's returns determined through the APT is a viable Islamic pricing benchmark rate for the market as a whole. All these models have some limitations for implementation in the existing framework under which Islamic banks now operate.

While concern has been raised for the establishment of an Islamic pricing benchmark and various models have been proposed, the issue of its sustainability has also been questioned at times. Many view that a dual system which has both Islamic and conventional benchmark financing rates could throw markets into disarray.

In a dual system like this, people will arbitrage. Once they see conventional financing is much better, they will go for conventional. Once they see Islamic is much better, they will go for Islamic. It will therefore cause a lot of turbulence to the financial market. To many, creating another benchmark for an Islamic product that fits within the mainstream product is not a good idea. They view that under such an environment, the dominant benchmark will force the new benchmark to converge.

Despite all these complexities, the establishment of an Islamic benchmark is now essential as the industry has made significant progress already while the need for a suitable benchmark has remained low in priority. This is also essential not only to deal with the reputational risk of Islamic banks or to signify the fact that there are inherent differences between an Islamic financial system and a conventional system, but also the eventual success of Islamic banks.

Having an efficient, frequently quoted and globally accessible reference rate for pricing assets and a benchmark for evaluating portfolio performance is vital to the success of today's financial markets and Islamic financial markets are no exception to this. It is to be noted here that some progress has already been made in developing Islamic equity indices which have been used to evaluate portfolio performance such as the Dow Jones Islamic Market Index and the FTSE Global Islamic Index. For Islamic financial institutions, the development of debt-based benchmarks is required which has not been attempted yet.

It is also clearly evident that criticizing Islamic finance for using interest rate as a benchmark is easy but in practice, there are many limitations in finding an alternative. Islamic finance is still waiting for a viable solution and efforts are required by all parties concerned namely, economists, bankers, policymakers and Shariah scholars if this is to be achieved.

*Chowdhury Shahed Akbar works in a private bank in Bangladesh and has a postgraduate degree in Islamic banking, finance and management from the UK. He can be contacted at akbar.chowdhury@yahoo.com.*

# SME financing: An opportunity for Islamic finance

**SMEs, by their sheer size, dominate the world business stage. Although accurate, up-to-date data is hard to obtain, estimates indicate that more than 95% of enterprises across the world are classified as SMEs, and they are now widely recognized as engines of economic growth and key contributors to a sustainable GDP. In this article, the Islamic Corporation for the Development of the Private Sector (ICD) takes a look at the role that Islamic finance can play in SME financing.**

## SME FINANCING

*By ICD*

**Empirical studies have shown that SMEs play a significant role in creating employment opportunities for both skilled and unskilled workers across many sectors (Garikai, 2011, Baptista et al, 2005) and in creating a culture of innovation (Fritsch & Mueller, 2005). Above all, being less capital-intensive and more labor-demanding, SMEs, from a social point of view, are more efficient in resource allocation as compared to large-scale industries. Overall, the evidence suggests that SMEs are critically important for economic health, in both high-income and low-income economies globally.**

In view of the importance of the SME sector, it is undesirable to highlight the many challenges that substantially hinder their progress, growth and their subsequent contribution to economic development. Notably, the major challenge faced by SMEs is the lack of financing options available to them. The 2008 financial crisis and subsequent widespread economic downturn have had a huge impact on the availability of financing to SMEs.

Already, before the crisis, SMEs in many developing countries had been strongly restricted in accessing the capital that they needed to grow and expand. Banks do not provide SMEs with adequate capital in many of these countries. For example, only 20% of African SMEs have a line of credit from a financial institution. The financial crisis has further exacerbated the financing gap for SMEs in developing countries.

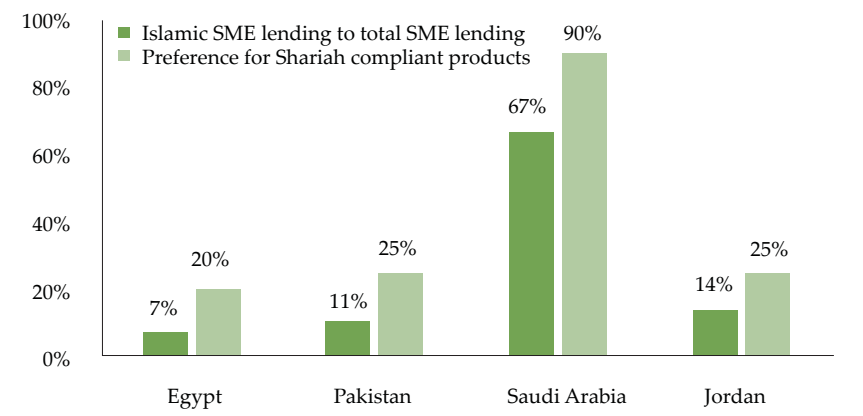
The lack of funding is even more severe in countries where local SMEs would not opt for conventional banking alternatives. In Saudi Arabia for example, up to 90% of SMEs are specifically looking for Shariah compliant banking services, while a broader study by the International Finance Corporation (IFC) showed that approximately 35% of SMEs in the MENA region are excluded from the formal banking sector because they seek Shariah compliant products that are not readily available in the market.

**Table 1: Islamic banking and finance assets in 2014 (US$ billion)**

| Region | Islamic banking assets | Sukuk outstanding | Islamic funds assets | Takaful contributions | Total |
|---|---|---|---|---|---|
| Asia | 203.8 | 188.4 | 23.2 | 3.9 | 419.3 |
| GCC | 564.2 | 95.5 | 33.5 | 9.0 | 702.2 |
| MENA (excluding GCC) | 633.7 | 0.1 | 0.3 | 7.7 | 641.8 |
| Sub-Saharan Africa | 20.1 | 1.3 | 1.8 | 0.6 | 23.8 |
| Others | 54.4 | 9.4 | 17.0 | 0.3 | 81.1 |
| Total | 1,476.2 | 294.7 | 75.8 | 21.5 | 1,868.2 |

*Source: IFSB (2015)*

**Chart 1: Demand and supply side of Islamic SME financing in selected countries**




*Source: IFC*

Several reasons why banks – both Islamic and conventional – are hesitant to lend to the SME sector ring a familiar tune: lenders are reluctant to take on the risk to lend to new or small businesses, instead choosing to place their loans with more established corporates where the economies of scale, published financial information, collaterals and creditworthiness parameters are publicly available. Due to a lack of availability of data on the SME sector, banks are unable to establish whether the borrower possesses technical, managerial and marketing skills that will allow the generation of adequate cash flows and timely loan repayments.

A case in point, the average share of the MENA banks' portfolios made up of SME lending is only 7.6%, as lending activities are mainly focused on large corporate customers and government bonds (Nasr and Rostom, 2013). Furthermore, many financial institutions do not have products customized to meet the needs of the SME sector. The risk-averse approach of banks and specifically Islamic banks has led to a narrow product range offered to SMEs in these countries. Overall, SME

*Continued*

penetration and regulation is still under-developed and hampering lending to the SME sector.

In this aspect, there is a silver lining in that Islamic finance can play a significant role in meeting the financing gap for SMEs. In MENA alone, there is a cumulative SME funding potential opportunity of between US$8.63 billion to US$13.2 billion, according to the IFC. Moreover, SMEs that do not use readily-available finance due to religious reasons also represent a significant market over the next few years. As the asset-backed finance and risk-sharing nature of Islamic financial products aim to promote social and economic development through encouraging entrepreneurship, SME financing is a natural fit for Islamic finance.

Nevertheless, there are a number of factors that will play a key role in the development of the Islamic SME banking sector. This involves a favorable regulatory environment, people's perceptions toward Islamic banking and how Islamic finance products are structured and operate among SME players, and the efforts by multilateral institutions to complement the efforts of governments. To this effect, the ICD has been very pro-active in developing the potential of the SME sector in member countries, such as providing lines of financing to select banks and financial institutions as a means to improve SMEs' access to medium-term financing. To date, the ICD has approved US$570 million global lines of financing facilities for 15 countries.

Among the projects undertaken by the ICD is the SME Funds Platform, which has been created for the development of the SME sector through the deployment of Shariah compliant mezzanine capital into well-run small and medium-sized businesses. The SME Funds Platform's objectives are to develop country/region-specific SME Funds, raise third-party funds to create a multiplier effect on the ICD's own contribution to each fund and build the specialized capabilities and collect resources required to manage each of its funds successfully. It focuses on the development of the SME sector in a specific member country or a group of proximate member countries that share similar economic profiles, characteristics and dynamics. Overall, the SME Funds generally target well-managed performing and profitable small to medium-sized businesses that operate in the key economic sectors, have successfully progressed beyond the proof-of-concept stage, offer incremental employment opportunities, enjoy significant growth prospects, and require additional capital to realize the growth prospects.

In order to enlarge the impact potential of the ICD's intervention in the SME field, the approach is that of a pooled strategy targeting a more inclusive support and leveraging on the ICD's capacity to foster regional integration through a sustainable partnership structure. To date, the SME Funds Platform has developed and launched SME vehicles in Saudi Arabia and Tunisia under both mezzanine and equity fund structures.

Afaq, established in Saudi Arabia on the 1st September 2013 and Theemar, established in Tunisia on the 13th November 2012, have both demonstrated positive results in terms of successful SME financing.

The net asset value (NAV) for both funds have remained consistent throughout the past two years and the average volatility is below 1%. Both funds have proven to be constant in their standards and are still in their early growth stage. With the current size of the Afaq and Theemar Funds at SAR400 million (US$106.61 million) and TND23 million (US$11.51 million) respectively, and less than 50% of the funds capital disbursed, there are more businesses and further projects to fund.

Following the successful launch of the aforementioned SME Funds and collaborative partnerships with financial institutions and regulatory bodies to further develop and support SMEs in member countries, the ICD remains committed in this area, evidenced by the number of exciting initiatives expected to be launched in the near future, such as the collaboration with the European Bank for Reconstruction and Development (EBRD) to launch a regional SME facility in the MENA region, a collaboration with US partners for the Algeria SME Fund, and a venture capital fund in Saudi Arabia. More projects under development to be launched are the Bahrain, Kyrgyzstan, Central Africa and West Africa SME Funds.

In conclusion, the Islamic SME banking challenge can be met by an adequate policy response. Policymakers and stakeholders should develop and implement appropriate policies to fast-track the convergence between Islamic finance and SME industries. In this context, increasing the awareness of Islamic finance and focusing on its ethical value proposition can be an inclusive approach. Similarly, promoting the use of Islamic finance products, which are more linked to real economic activity, to enable SMEs to tap into the rapidly growing pool of Shariah compliant funds, can yield positive results.

# BBA legality challenge: Lessons from Low Chin Meng v CIMB Islamic

**The Islamic financing transaction styled as Bai Bithaman Ajil (BBA) survived yet another legal challenge in Malaysia. ABDULLAH ABDUL RAHMAN analyzes.**

**BAI BITHAMAN AJIL**

*By Abdullah Abdul Rahman*

## The material facts

The factual matrix before the Court of Appeal in Low Chin Meng v CIMB Islamic Bank [2015] 5 CLJ 324, involved a claim by the bank against a public listed company, LCL Corporation (LCL Corp), and its major shareholder and managing director, Low Chin Meng. The bank had granted LCL Corp the financing facility styled as BBA with Low as the security provider.

Under the financing arrangement, Low executed a letter of Hibah to convey his 16 million shares in LCL Corp, by way of gift, to LCL Corp. The company then entered into an asset purchase agreement with the bank where the bank purchased the shares for RM12.125 million (US$2.83 million). The bank then sold the shares back to LCL Corp pursuant to an asset sale agreement at approximately RM16.08 million (US$3.76 million) payable in monthly installments. By way of another letter of Hibah, LCL Corp conveyed the shares, by way of gift, back to Low. All these documents were dated the 24th April 2009. The asset purchase and asset sale agreements dated the 24th April 2009 constitute what the parties called the BBA transaction. It is important to highlight that pursuant to the asset sale agreement, LCL Corp basically purchased shares in itself from the bank.

The aforesaid transactions that took place on the 24th April 2009 were repeated three more times on the same day using the same 16 million shares. So altogether, on the 24th April 2009, the respective parties executed four letters of Hibah by Low in favor of LCL Corp, four asset purchase agreements between LCL Corp and the bank at RM12.125 million each, four asset sale agreements between the bank and LCL Corp at approximately RM16.08 million each and four letters of Hibah by LCL Corp back to Low. The result at the end of the 24th April 2009 was that LCL Corp was under an obligation to pay the bank RM64.35 million in monthly instalments.

Low then executed a memorandum of deposit of securities dated the 24th April 2009 in favor of the bank (Memorandum). Under the Memorandum, Low charged the same 16 million shares as a security for LCL Corp's obligations to the bank.

LCL Corp defaulted on its monthly installments and the bank eventually exercised its rights under the Memorandum by selling the charged shares at approximately RM3.67 million (US$857,857). This was not sufficient for the bank to recover its selling price under the asset sale agreements. Consequently, the bank filed a suit against LCL Corp and Low claiming for approximately RM54.44 million (US$12.73 million).

> ***"Real purchase is required for the Shariah validity of BBA and Bai Inah"***

## First issue: Guarantee within the charge document

The claim against Low was based on a guarantee. The bank took the position that the Memorandum contained a guarantee by Low in favor of the bank where in the event of any deficiency after the sale of the charged shares, Low must, on demand, pay the bank the deficiency. Low's counsel argued that under the Memorandum, Low's liability was to the extent of the charged shares and nothing more. The recourse for any shortfall after the sale of the charged shares should have been against LCL Corp. Further, there is a clause in the Memorandum which states that LCL Corp must pay for the deficiency. This Low contended was inconsistent with the guarantee.

The court found that pursuant to the Memorandum, Low charged the shares to the bank as security for the payment and satisfaction of the indebtedness of LCL Corp. The court also found that the Memorandum contained a 'power of sale' clause under which the bank may, in the event of default by LCL Corp, sell the charged shares. The same 'power of sale' clause also states that in the event of any deficiency after the sale of the charged shares, Low agreed to make good and pay on demand to the bank the deficiency. The court therefore held that the agreement to make good and pay on demand the deficiency amounted to a guarantee as defined in section 79 of the Contracts Act 1950. The court held that it was not bound by the label the parties affixed to their document and went on to decide Low had given a guarantee in favor of the bank. The clause in the Memorandum which requires LCL Corp to pay for the deficiency after the sale of the charged securities was held to be consistent with the guarantee clause as the former merely reaffirmed LCL Corp's obligation as the principal debtor and is actually, superfluous.

Judgment had been entered prior to the trial against LCL Corp. This was not challenged any further by LCL Corp as soon after that, it was wound up. Therefore, at the trial the bank's claim was opposed only by Low. The High Court held that as long as the judgment stood, Low had no right to challenge the validity of the agreements involving LCL Corp and its liability. It followed that the liability of Low as a guarantor also remained. The Court of Appeal agreed with the High Court on this point.

## Second issue: Illegality due to Shariah non-compliance

Next, Low's counsel attacked the manner the BBA arrangement was carried out as illegal for non-compliance with Shariah. The specific feature attacked was the fact that the block of shares sold to the bank and bought back by LCL Corp had been 'recycled' three times. As a result, although the asset was worth merely RM9.44 million (US$2.21 million), it

*Continued*

was 'recycled' three times so that LCL Corp could effectively raise RM48.5 million (US$11.34 million). Similarly, the 'recycling' process enabled the bank to sell the asset at a total of RM64.5 million (US$15.08 million) instead of approximately RM16.09 million (US$3.76 million) if it was done only once.

The High Court referred this issue for the determination by the Shariah Advisory Council (SAC) of Bank Negara Malaysia pursuant to section 56(1)(b) of the Central Bank Act 2009. This provision requires the court, whenever there is any question concerning a Shariah matter in any proceedings relating to Islamic financial business, to take into consideration any published rulings of the SAC on that matter or to refer the question to the SAC for its determination. Under section 57 of the same statute, the ruling made by the SAC is binding on the court making the reference.

The Shariah question was referred to the SAC on the basis that the financing arrangement had been based on the Bai Inah principle. The SAC held that the use of the asset repeatedly was valid under Shariah.

The High Court applied the SAC's ruling to the facts and rejected Low's contention that the BBA arrangement was illegal for non-compliance with Shariah. The Court of Appeal found no reason to disturb the decision of the High Court. The Court of Appeal also added that the SAC's ruling pursuant to the reference by the High Court was binding on the court by virtue of section 57.

## Third issue: Illegality due to LCL Corp's purchase of own shares

Low also took issue with LCL Corp's purchase of the shares under each of the asset sale agreements due to these being shares in LCL Corp. He contended that this amounted to LCL Corp purchasing or dealing in its own shares which contravened section 67(1) of the Companies Act 1965. In essence, section 67(1) prohibits a company, except as otherwise expressly provided by the Act, from: (a) giving any financial assistance for the purchase of its shares; or (b) in any way purchase or deal in its shares.

The court found no evidence of any financial assistance given by LCL Corp to enable the purchase of its own shares. Accordingly, the court held that the aforesaid limb (a) of section 67(1) did not apply.

On limb (b), the court also held that it did not apply. The court held that LCL Corp had not purchased or dealt with the shares. According to the court, what had been carried out (in each round of the transactions) had been a simultaneous sale and purchase of the shares for the sole purpose of conforming with the Islamic financing requirements of BBA.

> ***"The finding of a simultaneous sale and purchase is problematic because it negates the Shariah validity of the transactions"***

In coming to the conclusion that LCL Corp had not purchased the shares, the court relied on the cases which set out the aims of the prohibition under section 67(1). The aims are the preservation of the company's assets and the avoidance of reduction of capital by returning the company's assets to the shareholders. The court found that the asset sale agreements did not result in the depletion of LCL Corp's capital and asset.

These conclusions will potentially be looked at closely in future cases. Firstly, real purchase is required for the Shariah validity of BBA and Bai Inah. In the ruling by the SAC in this case, it was held that the conditions for a valid Bai Inah contract include the following:

(a) the asset purchase agreement and the asset sale agreement are two distinctly separate contracts
(b) the contracts must be executed at different times
(c) the proper sequence of the execution of the separate contracts must be observed
(d) there must not be a buyback condition in the first contract, and
(e) there must be a transfer of the ownership of the asset and of the possession over the same which are valid both according to Shariah and current business practice.

The full text of the SAC ruling, which is in the Malay language, may be found in the High Court's grounds of judgment of this case at [2015] 8 MLJ 832.

However, the conclusion that LCL Corp had not purchased or dealt with the shares appears to contradict the SAC ruling that there must be a distinct and separate contract under which LCL Corp had purchased the shares and that LCL Corp must validly own and possess the shares. Any suggestion that LCL Corp did not purchase the shares will adversely affect the Shariah validity of the transaction. In the circumstances, the conclusion that LCL Corp actually had not purchased the shares is fraught with difficulties. The asset sale agreements by themselves express the intention of the parties that LCL Corp should purchase the shares.

Next, the conclusion that there had been a simultaneous sale and purchase of the shares (in each round of the transactions) does not sit well with the SAC ruling which requires the sale and purchase contracts to be distinct and separate, executed at different times and in a proper sequence. Again, the finding of a simultaneous sale and purchase is problematic. This is not only because it cannot be supported on facts but because it negates the Shariah validity of the transactions.

*Abdullah Abdul Rahman is a partner (dispute resolution and Islamic finance) at Cheang & Ariff, Kuala Lumpur. He may be contacted at abdullah@cheangariff.com.*

*To read the rest of this article, please log on to www.islamicfinancenews.com*

# Lifting sanctions augurs well for Iran's economy and the growth of Islamic finance

**The agreement Iran has reached regarding its nuclear program could bring about its eventual economic rebound, and boost Islamic finance in particular, in Standard & Poor's view. MOHAMED DAMAK explores.**

**IRAN**

*By Mohamed Damak*

**Iran agreed to the Joint Comprehensive Plan of Action with the P5+1 (China, France, Russia, the UK and the US plus Germany) in July 2015. Standard & Poor's believes this bodes well for Iran's economy, if and when sanctions are lifted, and could boost Islamic finance. Iran is one of the largest players in the industry, contributing to around 40% of global Islamic banking assets.**

## Sanction removal could create medium-term opportunities for Islamic finance

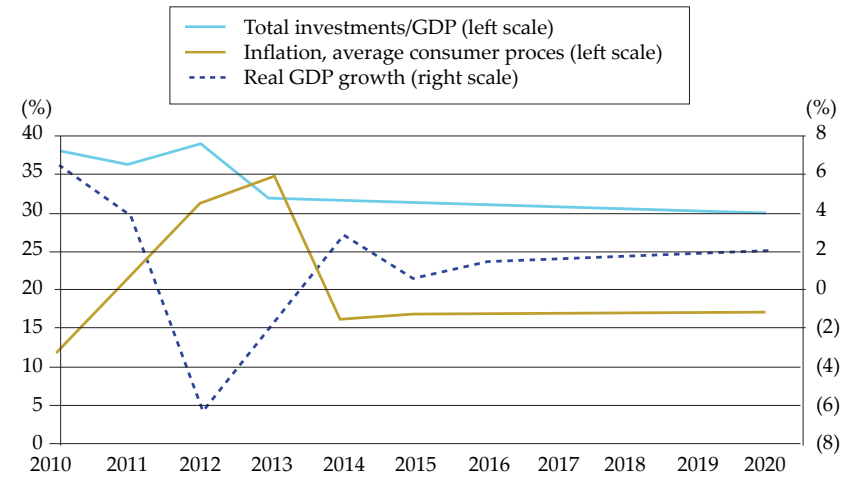
Iran has been under international sanctions for more than 35 years. These have intensified over the past five years and have significantly undermined Iran's economy. Real GDP growth turned negative in fiscal years 2012 and 2013 before recovering slightly in 2014, while inflation spiked and the local currency depreciated by more than 50% (see Chart 1). Over the past few years, investments in key economic sectors have also declined due to the lack of available financing sources as sanctions cut Iran's access to the international capital markets and prohibited foreign investments in most of its economic sectors.

If the agreement is approved and Iran meets all deliverables, sanctions may start to lift in the first half of 2016. Post-sanctions, the Iranian economy is expected to be boosted by increased oil revenues, lower trade costs, higher foreign direct investment of around US$3 billion in 2016 and 2017 compared to almost nil between 2012 and 2014, and reestablished access to frozen foreign assets. Significant investment projects that had been put on hold will also likely resurface and involve foreign, multilateral, and bilateral investors.

While we think that investors might be cautious, Iran's investment needs are significant. Given the scale of opportunities – infrastructure projects or regenerating the country's already well-diversified private sector – Iran will likely seem attractive to many investors, especially compared to other oil-exporting countries in the region, and also because Iran benefits from a relatively well-educated labor force. The UAE and China are likely to be the first beneficiaries from sanctions lifting given their existing relationships with Iran as they contribute to around two-thirds of Iranian imports.

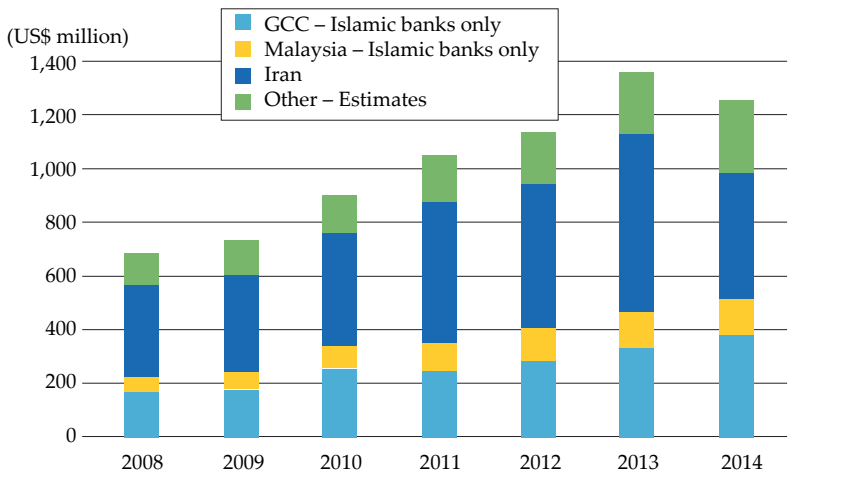
Standard & Poor's believes that the free capacity available in the Iranian banking system might be used to meet some financing needs, possibly boosting growth for Iranian banks and the global Islamic finance industry. Nevertheless, we do not view the agreement as a done deal yet; the removal of sanctions is still not secured and has yet to be approved by some P5+1 parliaments. We consider it unlikely that the Iranian banking system and foreign direct investment alone can

**Chart 1: Selected macroeconomic indicators of Iran**




*Note: These assumptions exclude the impact of sanction removal.*
*Source: IMF*

**Chart 2: Iranian banks' contribution to global Islamic banking assets**




*Source: Standard & Poor's estimates, Central Bank of Iran, Central Bank of Malaysia*

*Continued*

absorb the planned investments and we expect that recourse to other sources of financing – multilateral, bilateral, and Sukuk issuance – might be necessary. In recent years, international sanctions have prevented Iranian entities from global Sukuk issuance, while issuance in local capital markets was estimated at around US$10-15 billion per year, over the past four years.

## The Iranian banking system is one of the largest Islamic banking systems in the world

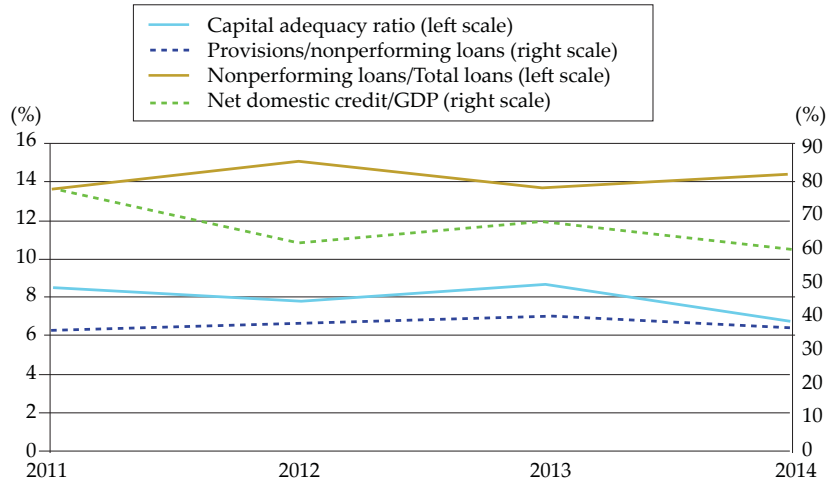
Iran operates under the law for usury-free banking approved by the Islamic Consultative Assembly in 1362 (Solar Hijri; equivalent to 1983/1984). Islamic financial products used in Iran are structured slightly different from products used in other core countries of Islamic finance (GCC countries and Malaysia). For example, banks in Iran are allowed to remunerate their current account holders at their discretion, in the form of cash or in-kind bonuses, and Musharakah is widely used.

Iranian banks contributed about US$500 billion to the global Islamic banking system, or 40% of the industry's total banking assets, at year-end 2014, according to data provided by the Central Bank of Iran. However, we note that Iranian banks' and the central bank's financial data disclosures remain limited compared with more advanced emerging markets, as well as global standards, and the country is slowly healing from stagflation. In addition, the banking system in Iran remains local and lacks integration with other Islamic banking systems.

Iran's banking system has 30 players but is dominated by a top five that collectively control more than half the system's total assets. In our opinion, the overall creditworthiness of the banking system remains relatively weak, however. It has had significant asset quality problems, exacerbated by several years of sanctions and sluggish economic activity. Non-performing loans are high at around 14% at fiscal year-end 2014. Moreover, the system remains under-provisioned and undercapitalized according to IMF data (see Chart 3).

Nevertheless, the system's loan leverage remains relatively limited as shown by a loan-to-asset ratio of around 54% and a loan-to-deposit ratio of around 77% at fiscal year-end 2015 (March 20) suggesting that there is still some room to further expand credit to the economy.

**Chart 3: Selected indicators of the Iranian banking sector**




*Source: IMF*

> ***"The banking system in Iran remains local and lacks integration with other Islamic banking systems"***

## The regulatory environment may be key to Iran's access to required funding

Given the relatively poor creditworthiness of the banking system, we believe Iran will likely need to seek alternative funding sources such as Sukuk to finance its investment projects. We believe that Iran's current regulatory environment is likely to require further strengthening for the country to be able to make full use of structures widely used and accepted in the market. Iran has made a start: a 2008 regulatory change clarified the regulatory framework for Sukuk Ijarah; a 2009 regulatory change allowed for the fiscal neutrality (that is, no additional taxes as for conventional financing) of SPVs in Sukuk issuance; and in 2012 the authorities enacted regulatory requirements for Sukuk Murabahah. Additional regulatory changes to cover other types of widely accepted structures in the market and to clarify whether it would be possible to issue instruments under a foreign law (such as English law) in Iran would be key to attracting Sukuk investors.

In addition, we believe further investor protection and contract enforceability will also help Iran's attractiveness to foreign investors. For the time being, these remain weaknesses; the World Bank ranks Iran at 130th out of 189 countries for ease of doing business and ranks it even lower for investor protection (154) and insolvency resolution (138).

While Iran stands to benefit from a return to the global Sukuk market, assuming sanctions are lifted, global Islamic investors are also likely to see a benefit in new diversification opportunities in a country with a growing economy and less dependence on oil compared with some other oil-exporting countries. We expect this could lead to an increase in global Sukuk issuance in the medium term as Iran would likely have to finance a significant amount of projects that could support market growth in the medium term.

*Mohamed Damak is the global head of Islamic finance at Standard & Poor's Ratings Services. He can be contacted at mohamed.damak@standardandpoors.com.*

# GCC bonds and Sukuk issuances (year to date until third quarter of 2015)

**GCC aggregate bonds and the Sukuk market (including government, corporate and central bank issuances) raised a total of US$92.5 billion from 336 issuances up to the third quarter (Q3) of 2015. Almost 91% (US$84 billion) of the debt raised was through conventional bonds and treasury bills, whereas US$8.6 billion was raised through 32 Sukuk issuances. The aggregate issuances have increased by 159% in the current year to date (YTD) up to the end of Q3 compared to the aggregate issuances valued at US$35.7 billion in 2014. In fact, the debt raised by GCC countries through Sukuk and bonds has surpassed the previous high of US$64.8 billion in 2009. M R RAGHU provides an overview of the debt capital markets.**

**DEBT CAPITAL MARKETS**

*By M R Raghu*

**A country-based assessment of the debt instrument issuances indicates that the UAE was the most active market issuing approximately 37% of the aggregate regional debt instruments of which US$30.5 billion was raised through conventional instruments and US$3.8 billion was raised through Sukuk. Kuwait was the second-largest contributor to the regional debt market with issuances worth US$19.5 billion and was entirely raised through bonds. Kuwait and Oman were the only two countries in the GCC region with no Sukuk issuances.**

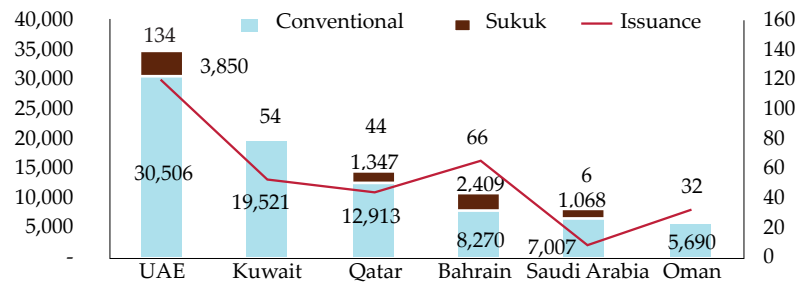
Despite having the highest number of issuances (66) in the region, Bahrain managed to raise only US$10.6 billion compared to Qatar which raised US$14.3 billion through 44 issuances. Saudi Arabia recorded the highest value per deal of US$1.3 billion totaling US$8 billion from six issuances. Oman witnessed the fewest issuances of debt instruments in the GCC region, with the value raised amounting to US$5.6 billion.

Dubai Islamic Bank (DIB)'s US$1 billion BASEL III Tier 1 compliant perpetual Sukuk and sovereign Sukuk of US$1 billion with a 10-year tenure by Ras Al Khaimah were two of the prominent Sukuk issuances from the UAE. However, the US$1.06 billion raised by Riyad Bank was the largest Sukuk issuance in the region during the first nine months of 2015. The corporate bond issuance in Japanese yen by Emirates NBD and the National Shipping Company issuance of US$3.9 billion in Saudi riyals were some of the prominent bond issuances in the GCC region.

The region witnessed almost similar levels of corporate and sovereign issuances during the assessment period. The sovereign issuances which include instruments issued by GCC central banks and GCC governments amounted to US$47 billion. The corporates in the GCC region raised approximately US$45 billion from 158 issuances. The most active market for corporate issuances was the UAE with 133 issues raising US$33.35 billion. The other major markets for corporate debt issuances in the GCC region were Saudi Arabia and Oman with issuances worth US$8 billion and US$1.5 billion respectively. As far as debt raised by the regional central banks is concerned, the Central Bank of Kuwait and the Central Bank of Qatar were the most active issuers of debt with issuances worth US$19 billion and US$14 billion respectively.

Almost 20% of the aggregate issuances in the GCC region, valued at US$18.8 billion, were in the Kuwaiti dinar making it the most prominent currency for issuances during the assessed period. Saudi Arabia is the only country with 100% of the issuance in its own Saudi riyal currency. The Japanese yen and the US dollar were the other prominent

**Chart 1: Country-based Sukuk and bond issuances in US$ billion (YTD – Q3 of 2015)**




*Source: Bloomberg, websites of central banks, Marmore Research*

**Table 1: Currency-based breakdown in US$ billion (YTD – Q3 of 2015)**

| Currency | UAE | Kuwait | Qatar | Bahrain | Saudi Arabia | Oman |
|---|---|---|---|---|---|---|
| Australian dollar | 401 | - | - | - | - | - |
| Bahraini dinar | - | - | - | 9,879 | - | - |
| Swiss franc | 254 | - | - | - | - | - |
| Chinese yuan | 1,353 | - | 89 | - | - | - |
| Euro | 2,958 | - | 356 | - | - | - |
| British pound | 641 | - | - | - | - | - |
| Hong Kong dollar | 776 | - | - | - | - | - |
| Japanese yen | 16,157 | - | - | - | - | - |
| Kuwaiti dinar | - | 18,821 | - | - | - | - |
| Omani riyal | - | - | - | - | - | 4,352 |
| Qatari riyal | - | - | 13,800 | - | - | - |
| Saudi riyal | - | - | - | - | 8,075 | - |
| Singapore dollar | 8 | - | - | - | - | - |
| US dollar | 11,808 | 700 | 15 | 800 | - | 1,339 |

*Source: Bloomberg, websites of central banks, Marmore Research*

*Continued*

currencies with issuances worth US$16 billion and US$14.6 billion respectively. Issuances in the US dollar were raised across the GCC countries with a majority of them from the UAE. On the contrary, issuances in the Japanese yen were only from the UAE.

Almost 56% of the total debt raised in the region was with a tenure of less than one year, while approximately 10.8% were with tenures of one to three years. Around 3.4% of the aggregate issuances were perpetual instruments and were issued by regional banks. The tenures of the remaining issuances ranged from three to 34 years. Apart from DIB's Tier 1 Sukuk, the NBK bond was another perpetual issuance used to finance Tier 1 capital. Out of the aggregate debt instruments issued, instruments valued at US$18.6 billion matured by the end of Q3 of 2015 and issuances worth US$12.5 billion is expected to mature by the end of 2015.

On the corporate side of the issuances in the GCC region, issuances from the financial sector were the most prominent, amounting to an aggregate of US$36.5 billion from all six countries. The industrial and consumer (non-cyclical) sectors are the other two prominent sectors with issuances worth US$4 billion and US$1.6 billion respectively.

An overall assessment clearly indicates that the issuances of debt instruments have increased in 2015 and this could be attributed to lower oil prices. A similar trend was observed during the low oil price period of 2009. Taking into consideration that economies in the GCC region are driven primarily by hydrocarbon revenues, the lower oil price is likely to cause a liquidity drain in the region and the governments are expected to run into fiscal deficits. Given the lower oil prices anticipated throughout 2016, the corporates and the governments are likely to turn to debt capital markets for financing. The recent debt issuances by Saudi Arabia and Oman is testament to the increased issuances that can be anticipated in 2016.

*M R Raghu is the managing director of Marmore Mena Intelligence, a research house focusing on economies in the MENA region. He can be contacted at RMandagolathur@markaz.com.*

# The Takaful impasse – Part 1

**Takaful as an industry is only three and a half decades old. The ethical aspects of Islamic finance are the driving force behind Takaful concepts, which are conceived to be the preferred choice over conventional insurance. In the first part of a special series, AJMAL BHATTY takes us through the concepts of Takaful and the difficulties it faces.**

**TAKAFUL**

*By Ajmal Bhatty*

**The ethical aspects stem from cooperative principles that emanate from cooperation, the binding force of nature. Just as cells work together to produce valuable nutrients of life, so do humans work together like cells in the body of humanity. Cooperation brings strength to society and community, showing us the way to go through life against its rigors both natural and man-made.**

Cooperative principles, the very essence of Takaful, focus on risk-sharing. This works at the cost of self-interest. We give up a little to gain collective strength that brings greater reward for the cooperating group and cooperating community and society. This equally applies to businesses where if these are run with social conscience, it is for the collective benefit of the community and society at large, the very essence of Islamic finance.

The participants and shareholders are supposed to be two pieces of string intertwined to make Takaful work. One cannot exist without the other. Takaful is not just proprietary nor is it just mutual; it is a bit of both. The cooperative principles embrace both the participants and shareholders as one body of cooperation, to bring prosperity to society and the environment through channeling wealth and capital, with social conscience, responsibility and fairness, for risks undertaken and shared. The brand value of Takaful therefore essentially revolves around the following five pillars that define its 'People, Planet, Profit paradigm:

I. Takaful stakeholders are all part of a community benefiting from a mutual and cooperative system, the major stakeholders being the participants, employees and shareholders.
II. Takaful enables the channeling of wealth and capital with social conscience and responsibility, benefiting the communities and environment.
III. Takaful encourages the use of money with commensurate risk and reward for a sustainable system, good for all humanity.
IV. Takaful is built on principles of equity, justice and fair play, minimizing uncertainty of terms and ensuring one party does not exploit another.
V. The rights of stakeholders are clearly defined and transparent.

> *"The fact is that all Takaful companies are commercial organizations expecting to earn a decent return on their investments"*

## The impasse

Herein however lies the impasse. What is evidenced over the last 20 years or so in a genuine pursuit by the industry to embed these ethical principles in a financial system or a market, did not fully achieve what it had set out to achieve in the first 10 years. There are critical issues that are impeding this achievement.

Takaful is an integral part of the Islamic financial system, and yet its growth has been far from being commensurate with the growth of Islamic finance. The assets in Islamic finance were an estimated US$2.1 trillion in 2014, expected to grow to US$3.4 trillion by 2018, whereas Takaful and re-Takaful assets were estimated to be only US$33 billion in 2014.

There is a lot of leakage of Takaful reinsured on a conventional front on the basis of Dharurah. As a portion of claims gets paid from monies from conventional reinsurance, the Shariah compliant system is dipping into a system that has one of the fundamental aspects going against the grains of Takaful principles, such as interest (Riba).

The dispensation from the underlying principles exists of course allowing protection through conventional reinsurance until the system has credible Takaful-driven reinsurance solutions. The dispensation was intended for a period when Takaful and re-Takaful companies were few in number and limited in capital and reserves. But by 2015, we have over 35 years of dispensation and if it is to continue, then the Takaful industry still has not reached that critical mass where it can command self-sufficiency in its own reinsurance capacity for several of its risks written on a Takaful basis.

This begs the question, will it be another 35 years, or perhaps more, or never, before the industry can do away with this dispensation? Or, can the industry find ways much faster and earlier to overcome the issues impeding its growth in attaining self-sufficiency that it needs? It needs to move away from certain dispensations and allow others without compromising on the overall goals of enlarging the ethically based financial services system.

The need of the hour is for Takaful proponents to recognize that there are issues that should be critically examined and solutions found in fixing them.

The critical issues confronting Takaful practitioners largely relate to processes that have proven to be difficult to be put into practice. The roadblocks facing Takaful practitioners are:

1. Terms and definitions, some being confusing and some misleading
2. Expectations misaligned with the substance of the underlying concepts, and
3. Adhering to form over substance, with gaps between theory and practice.

Each of the roadblocks are discussed next.

*Continued*

## Tabarru'

The risk pool is built from insurance premiums, known as Takaful contributions. In support of the cooperative mutual principles, these contributions are deemed donated for the collective benefit of a group of participants in the pool. But the ownership of the pool is not contractually spelt out and has no legal standing as such.

By default, the ownership of this pool becomes that of the shareholders on legal grounds, which negates the mutuality principles unless the cooperative principles can be redefined to embrace participants and shareholders in mutually helping each other. There are other approaches where the risk pool has a legal basis, such as Waqf and Wadiah, but these are not yet widely applied and still being tested in practice.

Wadiah (safekeeping) has a contractual basis of establishing a pool for the participants. The act of donation (Tabarru') comes after the insured event occurs and any payment from this pool is an act of Tabarru' on behalf of the mutual group. The fund has a legal structure established within specific parameters such as participants waiving the rights to their contributions, claims paid as donations and surplus paid to them out of good underwriting results provided the pool is secure, stable and solvent.

## Surplus distribution

Surplus distribution is given greater priority over stability of reserves by several operators. In any operation, there is a need first to build reserves to an adequate level before coming to surplus distribution. The general understanding in the industry is that surplus distribution is one of the benefits of cooperative principles. This is misleading. This lack of clarity stems from the way the doctrine of Tabarru is applied.

## Qard (benevolent loan)

The fundamental pillars of Takaful are the cooperative principles and risk-sharing. The theory is that Takaful shareholders do not undertake insurance risk and therefore do not share in the insurance or underwriting surplus. This would work perfectly well if deficits in the risk pool from excessive and/or persistent losses could be funded by participants themselves or NGOs or the state. Such deficits are likely to occur more readily in certain types of businesses such as industrial and commercial insurance than in other types such as life insurance (or Family Takaful).

As shareholders are not part of the mutuality between them and the participants (mutuality existing only within the pool itself), the Shariah stance is that in order to be fair to all parties (participants and shareholders alike), the shareholders are not obliged to fund the deficits in participant funds. Nevertheless, all regulators in all jurisdictions make it obligatory upon shareholders to correct the deficits. This is where theory is not holding in practice. If participants know that they have to correct the deficits, there will be no participants coming to Takaful companies. Neither are there any state or NGO-funded Takaful companies.

The fact is that all Takaful companies are commercial organizations, with an ethical dimension of committing their capital as social solidarity but at the same time expecting to earn a decent return on their investments. Takaful companies are mandated by statutory regulations to correct deficits. The mathematics of risk tells us that there will be losses every now and then, and at times these will be large.

Managing this risk means spreading the risk through reinsurance, but for the retained risk, there are still real mathematical probabilities for deficits arising in the pool. If these deficits cannot be recovered for a long time, or never (in the case of a re-Takaful company whose client defaults), the debt (Qard) has to be written off, which means this risk was never shared but was always on the risk transfer list.

The Shariah advisors and industry bodies need to come up with an acceptable form to justify the underlying substance of social solidarity on a mutual and cooperative basis made possible only by the shareholders' capital.

This risk-sharing in the guise of risk transfer is most prevalent at the re-Takaful level. Pooling of risks of different Takaful companies into one re-Takaful pool creates issues for re-Takaful companies. This is due to commercial (Tejari) competition between Takaful companies where two competing clients of a re-Takaful company may have good and bad underwriting results.

> ***"The Shariah stance is that in order to be fair to all parties (participants and shareholders alike), the shareholders are not obliged to fund the deficits in participant funds"***

This can result in the shareholders and participants of a company with good underwriting results to suffer from losses of shareholders and participants of a company with bad underwriting results. Sharing of profits and losses in this way would work well in the spirit of risk-sharing if the whole market had a charitable Takaful system but not where Tejari Takaful companies compete within their own industry and with conventional insurance.

*Ajmal Bhatty is the CEO and member of the Board of Directors of Tokio Marine Middle East. He can be contacted at ajmalbhatty@tm-mena.com.*

# Fund transfer and scheduled clearing

**The central bank of Indonesia, Bank Indonesia, has recently issued a new regulation on fund transfer and clearing. Regulation No. 17/9/PBI/2015 entitled 'Fund Transfer and Scheduled Clearing Management by Bank Indonesia' (the Clearing Regulation) replaced two previous regulations on national clearing systems (the National Clearing systems) that were issued in 2005 and later amended by a 2010 regulation. HAMUD M BALFAS delves further.**

**FUND TRANSFER & CLEARING**

*By Hamud M Balfas*

**The Clearing Regulation applies to both conventional and Shariah compliant banks and financial institutions as well as to non-bank institutions that will engage in the business as regulated in the Clearing Regulation.**

In its preamble, the Clearing Regulation stipulates that in order to implement an efficient, smooth and safe interbank clearing, there is a need to have wider national clearing system participants besides banks, an increase in national clearing services to accommodate public needs as well as enhanced user protection in the use of payment systems. The Clearing Regulation stipulates that the National Clearing systems provide for services namely: (i) fund transfers; (ii) script-based debt clearing; (iii) regular payment; and (iv) regular collections. The organizer of the National Clearing systems is Bank Indonesia which has to apply four principles in the management of the National Clearing systems, ie:

i. Fund settlement is based on multilateral netting
ii. Settlement is based on the novation of debt by taking into account a participant's amount of funds
iii. Settlement is final and irrevocable, and
iv. Settlement is made on a same-day basis.

Unlike previous regulations, the National Clearing systems under the Clearing Regulation stipulate that parties that can become members of the National Clearing systems are: Bank Indonesia, commercial banks as well as non-bank fund transfer entities. The Clearing Regulation further classified participants into three categories namely: (i) principal direct participants (PLU), (ii) affiliated direct participants; and (iii) non-direct participants.

Bank Indonesia, as the organizer of the National Clearing systems, will stipulate further provisions with respect to requirements for approval to become participants for each category of the participants.

As part of its efforts to maintain the integrity of the National Clearing systems, the Clearing Regulation, among others, stipulates that participants in the National Clearing systems are required to:

i. Maintain safety in the use of the National Clearing systems
ii. Be responsible for the correctness of the electronic financial data (DKE) and other information provided by participants in the National Clearing systems
iii. Inform customers on the National Clearing systems' transaction fee, and
iv. Provide data and information associated with the management of the National Clearing systems to Bank Indonesia.

## Services provided

The types of fund transfer that may be calculated in the transfer of fund services are those fund transfers that originate from:

i. Fund transfer from one participant to another participant
ii. Fund transfer order from one participant to customers of another participant or vice versa, and
iii. Fund transfer order from customers of one participant to other customers of the participant.

Within a period of sending the DKE fund transfer, the organizer of the money transfer has to calculate for each participant the DKE transfer fund accepted by the organizer and supported with sufficient funds. Based on the calculation, the organizer make settlements to the settlement account of the PLU and/or settlement account fund of the paying banks.

Further, the receiving participants have to verify the DKE fund transfer that they received in accordance with applicable rules. In the event the receiving participants accept verification of the DKE fund transfer that they have received, the receiving participants have to deliver the fund to the customers on the same settlement date. Delivery of fund must be made as soon as practicable but in any case no later than two hours after the settlement date. In the event the receiving participants fail to meet such a deadline, participants have to pay services, interest and compensation to the receiving customers.

The script-based debt clearing consists of activities namely: (i) delivery clearing; and (ii) return clearing. Both these types of clearing constitute an integrated cycle of script-based debt clearing.

Chapter VIII and IX of the Clearing Regulation stipulate the types of regular payment services and regular collection services. As with chapters in the Clearing Regulation that regulate fund transfers and script-based debt clearing, Chapter VIII and IX also discuss the management of the regular payment services and regular collection services, calculation processes, settlement of funds as well as delivery of funds to customers.

The remaining 27 articles in the Clearing Regulation cover various matters regarding the operational time of the National Clearing systems, expenses, handling of abnormal situations and force majeure, waiver of responsibility, compliance as well as sanctions for violations.

Due to the archipelagic nature and the size of the country and its Muslim population, the Clearing Regulation will surely provide more impetus to Islamic banking institutions especially those small institutions such as rural Shariah compliant banks (Bank Perkreditan Rakyat Syariah), Shariah compliant lending and borrowing cooperatives (Koperasi Simpan Pinjam Syariah) and Baitul Maal Wa Tamwil that mostly serve those communities that are underbanked. The Clearing Regulation became effective on the 5th June 2015, the day it was promulgated. The Clearing Regulation, however, delays the application of some of the sanctions that it applies to the 1st January 2016.

*Hamud M Balfas is a counsel at Hamud Balfas & Partners in Jakarta, Indonesia. He can be contacted at hamud_balfas@rbslawoffice.com or hamud_balfas@hbp.co.id.*

# DEALS

## Indonesia auctions Sukuk

**INDONESIA**: The government of Indonesia auctioned three project-based Sukuk and an Islamic treasury bill series on the 3rd November 2015 with an indicative target of IDR2 trillion (US$146.4 million), according to a statement on the Ministry of Finance's website.

## Malaysia issues GII Murabahah

**MALAYSIA**: The government of Malaysia issued the RM1.5 billion (US$350.62 million) government investment issue (GII) Murabahah on the 30th October 2015, according to an announcement on Bank Negara Malaysia (BNM)'s website. The issue will mature on the 31st October 2035 and BNM may purchase up to 10% of the issuance size.

## MAF launches Sukuk

**UAE**: Majid Al Futtaim (MAF) has launched a US$500 million ten-year Sukuk Wakalah with final pricing set at 255bps over midswaps, IFN has learned. The issue was arranged by Abu Dhabi Islamic Bank, Dubai Islamic Bank, HSBC, National Bank of Abu Dhabi and Standard Chartered. IFN understands that the deal was at least twice oversubscribed and confirmed stats will be received from the lead arrangers later. The deal saw a good reception and a strong orderbook, pricing almost flat off the curve and marking a positive reception despite burgeoning concerns over liquidity in the region.

## STSSB issues ICP

**MALAYSIA**: Sunway Treasury Sukuk (STSSB) issued its RM100 million (US$23.22 million) Islamic commercial papers (ICP) Series 24 on the 3rd November 2015 via tender, according to an announcement on Bank Negara Malaysia's website. The 'MARC-1IS'-rated issue will mature on the 3rd December 2015.

## XL Axiata markets Sukuk

**INDONESIA**: XL Axiata is seeking to raise a IDR1.5 trillion (US$110.1 million) Sukuk Ijarah and commenced a roadshow on the 28th October 2015 which will last until the 12th November 2015, according to the Jakarta Globe. The Sukuk, comprising one, three, five and seven-year notes, will go on sale from the 25th-27th November 2015, pending approval from the Financial Services Authority. CIMB Securities, Mandiri Sekuritas and Maybank Kim Eng Securities have been appointed to underwrite the issuance. The Ministry of Technology and Information will decide the license fee in December.

## TSH Sukuk Murabahah establishes ICP/IMTN

**MALAYSIA**: TSH Sukuk Murabahah, a wholly-owned subsidiary of TSH, has established Islamic commercial paper and Islamic medium-term note (ICP/IMTN) programs, according to an announcement on Bank Negara Malaysia's website. The size and tenor of the programs have not been revealed.

## TSH Sukuk Ijarah to issue ICP

**MALAYSIA:** TSH Sukuk Ijarah, a subsidiary of palm oil producer TSH Resources, will issue its RM20 million (US$4.64 million) Islamic commercial papers on the 5th November 2015, according to an announcement on Bank Negara Malaysia's website. The 'MARC-1IS'-rated issue will mature on the 5th February 2016.

**DEAL TRACKER** Full Deal Tracker on page 40

| EXPECTED DATE | COMPANY'S NAME | SIZE | STRUCTURE | ANNOUNCEMENT DATE |
|---|---|---|---|---|
| TBA | Axiata Group | US$1.5 billion | Sukuk | 28th October 2015 |
| 25-27th November 2015 | XL Axiata | IDR1.5 trillion | Sukuk | 15th September 2015 |
| November | Tenaga Nasional | RM10 billion | Sukuk | 24th June 2015 |
| 2016 | Government of Indonesia | IDR150 trillion | Sukuk | 9th October 2015 |
| TBA | MMC Corporation | RM1.5 billion | Sukuk Murabahah | 13th October 2015 |

# ASIA

## ISE to integrate with KSE

**PAKISTAN**: During its annual general meeting with shareholders, the Islamabad Stock Exchange (ISE) has approved the integration scheme of the ISE with the Karachi Stock Exchange (KSE) and will change its name to ISE REIT Management Company, according to Pakistan's Daily Times.

Separately, the Securities and Exchange Commission of Pakistan (SECP)'s chairman Zafar Hijazi has assured enhanced corporate governance at the Pakistan Stock Exchange (PSE). In a statement by SECP, regulatory functions will be segregated from the commercial interests of the PSE and the role of the management will be strengthened at the PSE.

## Moody's assesses Malaysia's 2016 budget

**MALAYSIA**: Moody's in a report expressed the view that Malaysia's 2016 budget signals the government's commitment to keep its fiscal deficit under control despite the persistence of low commodity prices, slowing economic growth and strong political headwinds. The rating agency considers that the macroeconomic assumptions in the budget are realistic and the increasing reliance on goods and services tax receipts over oil-related income to drive revenue growth enhances the sustainability of the government's fiscal tightening.

## Maybank launches Matang Jaya branch

**MALAYSIA**: Maybank has launched a new branch in Matang Jaya, bringing its network in Sarawak to 27, the bank confirmed with IFN. The branch offers a full range of conventional and Islamic products among others.

## FOS effective in 2016

**MALAYSIA**: A Financial Ombudsman Scheme (FOS) will commence in the first quarter of 2016, confirmed Bank Negara Malaysia in a statement.

The FOS which will handle eligible disputes involving both conventional and Islamic financial institutions is made possible under the Financial Services (FOS) Regulations 2015 and Islamic Financial Services (FOS) Regulations 2015 which came into effect on the 14th September 2015 as part of the regulator's efforts to enhance financial dispute resolution arrangements for consumers and to bolster consumer protection.

## BRSA cancels Halkbank's authorization

**TURKEY**: Halkbank has confirmed in a statement that its participation bank establishment authorization has been canceled following the resolution of the Banking Regulation and Supervision Agency (BRSA) dated the 22nd October 2015.

# ASSET MANAGEMENT

## BI focuses on Zakat and Waqf

**INDONESIA**: Bank Indonesia (BI) is exploring ways to securitize Sukuk against the republic's Zakat and Waqf assets and to utilize subsequent proceeds to finance Islamic economic activities, reported The Jakarta Post quoting senior deputy governor Mirza Adityaswara. According to the paper, quoting deputy governor Perry Warjiyo, an international core principle of Zakat — developed in collaboration with the IDB and Islamic economy experts — will be issued next year, with another one of Waqf currently in the works.

Separately, Warjiyo also confirmed that BI has started a pioneer program for developing SMEs through Islamic banking in East Java, particularly Surabaya, as the region is considered the most promising province in Indonesia for Islamic banking.



# MIDDLE EAST

## DIB provides Metito with first Islamic financing

**UAE**: Dubai Islamic Bank (DIB) and Metito, the intelligent water management solutions provider, have signed a AED240 million (US$65.32 million), 10-year Islamic financing agreement, according to a press release. The deal is the first Islamic financing agreement for Metito and the transaction was facilitated by Synergy Consulting, Latham & Watkins, and Morgan, Lewis & Bockius.

## IFH inaugurates Dubai branch

**UAE**: Islamic Finance House (IFH) has inaugurated its second branch in Dubai, at close proximity to both residents in Dubai and Sharjah, according to a press release.

## DFM and DoF collaborate on ePay portal

**UAE**: The Dubai Financial Market (DFM) has signed an MoU with the government of Dubai's Department of Finance (DoF) to streamline the payment of IPO subscriptions via Dubai Smart Government's ePay portal, according to a press release. The platform will enable investors to instantly pay their IPO subscriptions by debiting their bank accounts via seven member banks including: Dubai Islamic Bank, Emirates Islamic, Emirates NBD, Commercial Bank of Dubai, Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank and Union National Bank, whereas Mashreq Bank will join the portal in the near future.

## QIB moves to new premise

**QATAR**: Qatar Islamic Bank (QIB) has undertaken an expansion of its City Center Mall branch and moved to the ground floor of the mall, according to a press release. The branch will be open seven days a week.

## QInvest closes maiden syndicated facility

**QATAR**: Shariah compliant QInvest has completed its debut US$200 million five-year syndicated facility which was arranged by Masraf Al Rayan, Al Khaliji France and Natixis, according to a statement. The facility is in line with the bank's funding diversification and capital efficiency plan.

# GLOBAL

## IDB approved US$235 billion in total finances

**GLOBAL**: For the first half of 2015, total finances approved by the IDB Group for economic and development efforts in member countries amounted to US$235 billion, of which 60% was to support public and private sector investments including infrastructures for energy, transport, communications and social services, according to a statement. The figure was announced during the 76th meeting of the Coordination Group in Jeddah, Saudi Arabia. The Coordination Group comprises: Abu Dhabi Fund for Development, Arab Fund for Economic and Social Development, Arab Bank for Economic Development in Africa, Arab Gulf Program for United Nations Development, Arab Monetary Fund, IDB Group, Kuwait Fund for Arab Economic Development, OPEC Fund for International Development and Saudi Fund for Development.

## First Japanese bank in DIFC

**GLOBAL**: Bank of Tokyo-Mitsubishi UFJ (BTMU), which received an Islamic banking window license from the Dubai Financial Services Agency in July, has launched its Shariah operations in the Dubai International Financial Center (DIFC).

Among products in the pipeline include: deposits, bilateral financing, syndicated financing and trade finance solutions, according to Gulf News quoting BTMU's Dubai branch regional head for the Middle East and general manager Shichito Tobari.

## BI and TSE collaborate on business opportunities

**GLOBAL**: Borsa Istanbul (BI) and Tehran Stock Exchange (TSE) have signed an MoU, aiming to develop dual listing opportunities and foster cooperation between the two exchanges, according to a bourse filing.

## Maybank Islamic eyes GCC for Sukuk expansion

**GLOBAL**: Maybank Islamic is looking to the GCC region in a bid to scale up opportunities in the Sukuk space and will explore opportunities through its stake in Saudi Arabia's Anfaal Capital. The bank's deputy CEO, Nor Shahrizan Sulaiman, was quoted by Gulf Times as saying that the Islamic financier is interested in the asset side rather than plain funding regarding its prospects in the region.

# EUROPE

## SEFH promotes ethical finance in Scotland

**UK**: The Scottish Ethical Finance Hub (SEFH) will begin its residency at Heriot-Watt University to drive the ethical finance agenda and become a center for the promotion and development of the ethical finance practice in Scotland.

According to a press release, the SEFH concept emerged from a series of roundtables held over five years initiated by the Islamic Finance Council UK and is supported by the Scottish government with up to GBP50,000 (US$76,496) in funding.

# RESULTS

## FGB

**UAE**: First Gulf Bank, which operates Islamic window Siraj, reported a 4% year-on-year growth in net profit to AED4.29 billion (US$1.17 billion) for the first nine months of 2015, according to a statement. Total assets over the period stood at AED228.5 billion (US$62.19 billion).

## JIB

**JORDAN**: Jordan Islamic Bank achieved an after-tax profit of JOD35.2 million (US$49.46 million), up 6.1% year-on-year, according to a statement. Total assets (including restricted investment accounts, Muqarada bonds and investment by proxy accounts) amounted to JOD4.1 billion (US$5.76 billion) during the period under review.

## DIB

**UAE**: For the first nine months of 2015, Dubai Islamic Bank declared a year-on-year growth in net profit by 36% to AED2.81 billion (US$764.88 million). Earnings per share increased to AED0.59 (16 US cents) in the third quarter of 2015 compared to AED0.44 (12 US cents) for the same period in 2014, according to a statement.

## Emirates Islamic

**UAE**: For the January-September period of 2015, Emirates Islamic (EI) recorded a year-on-year growth in net profit and total operating income by 109% and 27% to AED534 million (US$145.36 million) and AED1.8 billion (US$489.96 million) respectively, according to a statement.

Emirates NBD, the parent of EI, delivered a net profit of AED5 billion (US$1.36 billion),up 27% on higher income and lower provisions.

## Emirates REIT

**UAE**: Shariah compliant Emirates REIT reported a net property income of US$16 million and a net profit of US$10.9 million in the third quarter of 2015, according to a press release. Total assets increased by 14.1% to US$677.9 million whereas net asset value per share stood at US$1.52 for the quarter reported.

## Bank Maybank Indonesia

**INDONESIA**: Bank Maybank Indonesia posted a surge in year-on-year net profit by 70.7% to IDR592 billion (US$43.28 million) whereas net profit from Shariah banking rose six times to IDR239 billion (US$17.47 million) for the nine-month period of 2015, according to a press release. The group's total assets increased 6.5% to IDR153.9 trillion (US$11.25 billion) during the period under review, with total Shariah assets growing 110% to IDR13.3 trillion (US$964.25 million).

## CBD

**UAE**: Commercial Bank of Dubai (CBD), which operates Attijari Al Islami, observed a growth in net profit of 2.8% to AED915 million (US$249.06 million) in the January-September 2015 period compared to AED890 million (US$242.25 million) achieved in the same period last year. Total assets as at the 30th September 2015 stood at AED53.3 billion (US$14.51 billion), a 13.7% increase year-on-year, according to a statement.

## BiSB

**BAHRAIN**: Bahrain Islamic Bank (BiSB) realized BHD8.6 million (US$22.64 million) in net profit and witnessed an increase of 14% in Islamic finances for the January-September period in 2015, according to a press release.

## AUB

**BAHRAIN**: Ahli United Bank (AUB), which offers customized Islamic finance solutions, reported a net profit attributable to its equity shareholders of US$419.2 million for the first nine months of 2015, an 11.4% year-on-year growth. The bank's basic earnings per share for the third quarter of 2015 increased to 6.5 US cents from 6 US cents achieved for the similar period in 2014, according to a statement.

## NBAD

**UAE**: National Bank of Abu Dhabi (NBAD) announced a semi-annual dividend which equals 3.05% for US dollar and UAE dirham share classes of the net asset value as at the 30th September 2015 for its NBAD Shariah MENA Dividend Leader Fund. Accordingly, each unit in the fund will receive a dividend payout of US$/AED0.117 for the US dollar and UAE dirham share classes, according to a statement. Separately, the bank reported a decline in profit of 3% year-on-year to AED1.33 billion (US$362.02 million) in the third quarter of 2015. Earnings per share for the nine-month period stood at AED0.77 (approximately 21 US cents) versus AED0.76 (approximately 21 US cents) for the corresponding period in 2014.

# TAKAFUL

## Trading of rights issue

**UAE**: Dubai Financial Market has announced that the trading of the rights issue of Takaful Emarat will be from the 1st-15th November 2015 with the opening price set at 63 fils (17 US cents) based on the company's adjusted share price on the market minus the issuing price of the new shares.

## Takaful Emarat's rights issue opened

**UAE**: Takaful Emarat on the 1st November opened its rights issue as the operator looks to raise its capital by AED50 million (US$13.61 million) initially, with shareholders' approval to lift it up to AED100 million (US$27.22 million). The company confirmed in a statement that the rights issues would be tradable on the Dubai Financial Market until the 15th November 2015.

# MOVES

## National Bank of Kazakhstan

**KAZAKHSTAN**: Kairat Kelimbetov has been replaced by presidential advisor Daniyar Akishev as the governor of Kazakhstan's central bank. According to the Financial Times, this move by the country's president, Nursultan Nazarbayev, comes at a time when the tenge has depreciated by a third since August when Kelimbetov made the decision to free-float the currency.

## Standard Chartered

**UAE**: Julian Wynter has been appointed as CEO of Standard Chartered's operations in the UAE, announced the bank. Wynter was previously the bank's group head of internal audit.

# RATINGS

## Axiata's proposed Sukuk gets 'BBB' rating

**MALAYSIA**: S&P has, according to a statement, assigned a 'BBB' long-term issue rating to the proposed benchmark size US dollar-denominated Sukuk trust certificates under Axiata Group's multicurrency US$1.5 billion equivalent Sukuk program. The trust certificates will be issued through Axiata SPV2.

## MARC affirms BMMB's ratings

**MALAYSIA**: MARC has affirmed Bank Muamalat Malaysia (BMMB)'s financial institution ratings at 'A/MARC-1' and concurrently affirmed the 'AIS' rating on the Islamic senior notes program of up to RM2 billion (US$467.5 million), with both ratings having a stable outlook, according to a statement.

## Oman's debut Sukuk gets definitive 'A1' rating

**OMAN**: Moody's has assigned a definitive rating of 'A1' to the Omani rial certificates to be issued by Oman Sovereign Sukuk, the SPV wholly owned by the government of Oman. The rating agency noted in a statement that the payment obligations associated with these certificates will be direct obligations of the government of Oman.

The debut OMR250 million (US$647.13 million) five-year sovereign Sukuk was priced on the 27th October 2015 with a profit rate of 3.5% per annum, payable semi-annually.

## Sukuk rating on First Resources maintained

**MALAYSIA**: RAM has reaffirmed the 'AA2/Stable' rating on the RM2 billion (US$462.84 million) Sukuk Musharakah program (2012/2022) of First Resources. In a statement, the rating agency noted that the rating remains moderated by the palm oil producer's susceptibility to volatile crude palm oil prices and the cyclical nature of the plantation sector.

## Moody's rates Axiata's Sukuk

**MALAYSIA**: Moody's has assigned a provisional '(P)Baa2' rating with a stable outlook on Axiata Group's proposed Sukuk notes to be issued under the US$1.5 billion multicurrency Sukuk program established by Axiata SPV2, according to a statement.

## BiSB's ratings under review for upgrade

**BAHRAIN**: Moody's has placed Bahrain Islamic Bank (BiSB)'s long-term issuer ratings of 'Ba3', the stand-alone baseline credit assessment (BCA) and adjusted BCA of 'caa1' and counterparty risk assessment of 'Ba2(cr)/NP(cr)' on review for upgrade, according to a statement. The review for upgrade is driven by the expectation of a capital injection following shareholders' approval for the issuance of ordinary shares equivalent to BHD20 million (US$52.65 million), according to a statement.

## MMC's Sukuk rating maintained

**MALAYSIA**: MARC has maintained the 'AA-IS' rating with a stable outlook on MMC Corporation's RM1.5 billion (US$350.27 million) Sukuk Murabahah program following its assessment on the impact of the debt-funded acquisition of NCB Holdings on the group, according to a statement. MARC notes that the acquisition is cash accretive, given its ability to generate annual operating cash flows of about RM200 million (US$46.7 million) via its wholly-owned subsidiary Northport (Malaysia).

## Aman Sukuk's IMTN affirmed at 'AAAIS'

**MALAYSIA**: The 'AAAIS' rating on Aman Sukuk's Islamic medium-term note (IMTN) program of up to RM10 billion (US$2.32 billion) has been affirmed by MARC, according to a statement. The rating action affects the outstanding RM6.6 billion (US$1.53 billion) IMTNs issued under the rated program. The rating reflects the credit strength of the Malaysian government as the sole paymaster of the sublease rental payments and the quantum of sublease rental payments that is deemed to be sufficient to meet the principal and profit payments under the IMTN program.

## BIBD earns 'A-/Stable' rating

**BRUNEI**: Bank Islam Brunei Darussalam (BIBD) has been rated 'A-/Stable' by S&P premised on the bank's solid capital position, strong liquidity profile, low financing to deposit ratio and sound funding capabilities, according to a statement.

## MARC affirms KFHMB's rating

**MALAYSIA**: MARC has affirmed the 'AA+/MARC-1' long and short-term financial institution ratings on Kuwait Finance House Malaysia (KFHMB) with a stable outlook. The rating agency noted in a statement that KFHMB's long-term rating is notched down from the ratings of its parent Kuwait Finance House ('AAA/MARC-1/Stable'). MARC's assessment on KFHMB is premised on KFH's parental support to KFHMB over the years and KFH's recent affirmation to support its Malaysian subsidiary and to undertake a restructuring exercise to strengthen KFHMB's operations.

## Bank ABC's ratings affirmed

**BAHRAIN**: Moody's has, according to a statement, affirmed the 'Ba1' deposit ratings and 'ba2' baseline credit assessment of Arab Banking Corporation (Bank ABC) and changed the outlook to stable from positive. The ratings reflect Bank ABC's strong capital buffers that allow it to absorb sizeable potential losses as well as strong asset quality metrics and also capture the concentrations in the bank's funding structure and asset composition.

## Saudi Arabia's ratings downgraded

**SAUDI ARABIA**: S&P has lowered its unsolicited long and short-term foreign and local currency sovereign credit ratings on the Kingdom of Saudi Arabia to 'A+/A-1' from 'AA-/A-1+' with the outlook remaining negative. The rating agency has also revised its transfer and convertibility assessment on the Kingdom to 'AA-' from 'AA'. S&P noted in a statement that it expects the Kingdom's general government fiscal deficit to increase to 16% of GDP in 2015, from 1.5% in 2014, primarily reflecting the sharp drop in oil prices.

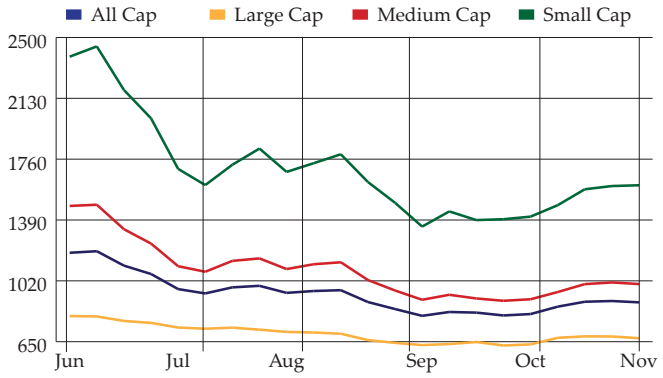
## PIYSB's BaIDS rating maintained

**MALAYSIA**: RAM in a statement has reaffirmed the 'AA1(s)/Stable' enhanced rating on Pendidikan Industri YS (PIYSB)'s RM150 million (US$34.83 million) Bai Bithaman Ajil Debt Securities (BaIDS) (2008/2022). The rating agency is of the view that PIYSB's debt-servicing ability in respect of the BaIDS remains substantially enhanced by a letter of support from its shareholder, the state government of Selangor which will ensure - either through equity, loans, grants and/or other means – that PIYSB fully and promptly meets its financial obligations under the BaIDS throughout the tenure of the facility.

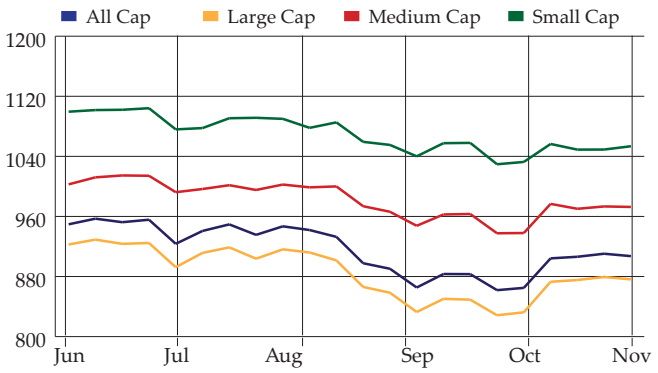
| Expected date | Company's name | Size | Structure | Announcement Date |
|---|---|---|---|---|
| TBA | Axiata Group | US$1.5 billion | Sukuk | 28th October 2015 |
| 25-27th November 2015 | XL Axiata | IDR1.5 trillion | Sukuk | 15th September 2015 |
| November | Tenaga Nasional | RM10 billion | Sukuk | 24th June 2015 |
| 2016 | Government of Indonesia | IDR150 trillion | Sukuk | 9th October 2015 |
| TBA | MMC Corporation | RM1.5 billion | Sukuk Murabahah | 13th October 2015 |
| TBA | Country Garden Real Estate | RM1.5 billion | Sukuk Murabahah | 6th October 2015 |
| First quarter of 2016 | National Home Mortgage Finance Corp | PHP2 billion | Sukuk | 29th September 2015 |
| TBA | XL Axiata | IDR1.5 trillion | Sukuk | 15th September 2015 |
| By December 2015 | HNA Group | US$150 million | Sukuk | 11th September 2015 |
| TBA | Government of Jordan | JOD200-300 million | Sukuk | 4th September 2015 |
| TBA | Saudi Electricity Company | US$1.5 billion | Sukuk | 1st September 2015 |
| TBA | Albaraka Turk | TRY1 billion | Sukuk | 1st September 2015 |
| TBA | Turkiye Finans | TRY1.5 billion | Sukuk | 1st September 2015 |
| 2016 | Government of Indonesia | IDR12.2 trillion | Sukuk | 1st September 2015 |
| By 2017 | KT Bank | EUR100 million | Sukuk | 11th June 2015 |
| Before end of 2015 | National Commercial Bank | SAR2 billion | Sukuk | 24th August 2015 |
| TBA | TIME dotCom | UP to RM1 billion | Sukuk | 19th August 2015 |
| 2016 | Government of South Africa | TBA | Sukuk | 13th February 2015 |
| TBA | Government of Niger | XOF150 billion | Sukuk | 26th February 2015 |
| Third quarter of 2015 | Government of Tunisia | US$500 million | Sukuk | 13th January 2015 |
| 2015 | Al Baraka Turk Participation Bank | US$300 million | Sukuk | 12th August 2015 |
| 2016 | Al Baraka Bank (Egypt) | US$100 million | Sukuk | 12th August 2015 |
| 2016 | Jordan Islamic Bank | US$100 million | Sukuk | 12th August 2015 |
| 2016 | Al Baraka Bank (South Africa) | US$50 million | Sukuk | 12th August 2015 |
| Fourth quarter of 2015 | Government of Ivory Coast | XOF300 billion | Sukuk | 24th April 2015 |
| 2015 | Government of UAE | TBA | Green energy Sukuk | 12th March 2015 |
| TBA | Turkiye Finans | US$400 million | Sukuk | 20th July 2015 |
| TBA | Arab Petroleum Investment Corp | US$3 billion | Sukuk | 1st July 2015 |
| TBA | Eskom | TBA | Sukuk | 25th June 2015 |
| Fourth quarter of 2015 | Republic of Turkey | TBA | Sukuk | 25th June 2015 |
| End of 2015 | Kuveyt Türk | TRY800 million | Sukuk | 24th June 2015 |
| TBA | 1Malaysia Development | RM5 billion | Sukuk | 18th June 2015 |
| TBA | Toyota Capital Malaysia | TBA | Sukuk | 17th June 2015 |
| TBA | SapuraKencana Petroleum | RM7 billion | Sukuk Murabahah | 16th June 2015 |
| TBA | Sindh Province | US$200 million | Sukuk | 15th June 2015 |
| TBA | Grand Sepadu | RM210 million | Sukuk Murabahah | 5th June 2015 |
| TBA | Abu Dhabi Islamic Bank | US$3 billion | Sukuk | 29th May 2015 |
| 2015 | Government of Oman | US$1 billion | Waqf Sukuk | 26th 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 |
| Jun-15 | Adira Dinamika Multi Finance | IDR500 billion | Sukuk | 6th May 2015 |
| 2015/2016 fiscal year | Government of Egypt | TBA | Sukuk | 5th May 2015 |
| 2016 | Government of Kazakhstan | TBA | Sukuk | 9th April 2015 |
| TBA | CIMB Group Holdings | RM1 billion | Sukuk | 9th April 2015 |
| TBA | Government of Senegal | TBA | Sukuk | 6th April 2015 |
| TBA | Oman Telecommunications | TBA | Sukuk | 23rd March 2015 |

# SHARIAH INDEXES

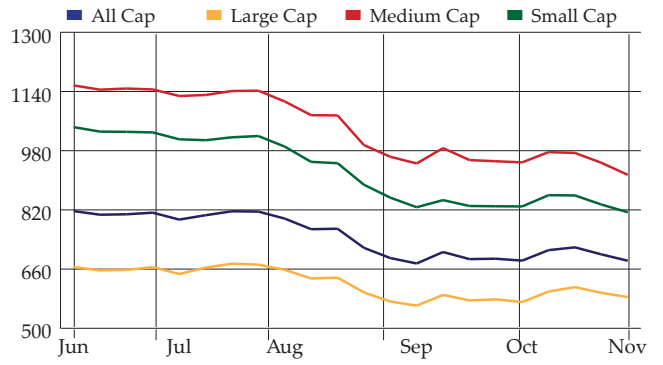
**REDmoney Asia ex. Japan** *6 Months*



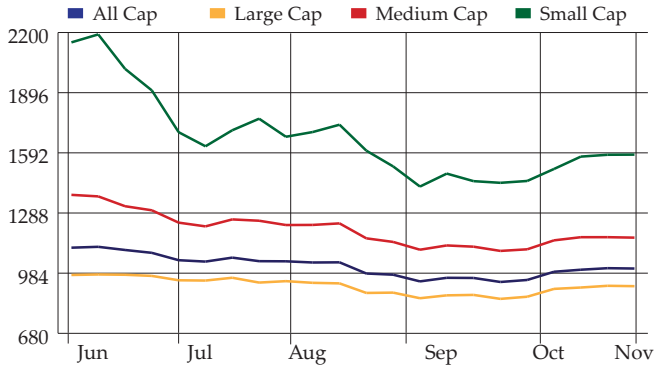

**REDmoney Europe** *6 Months*



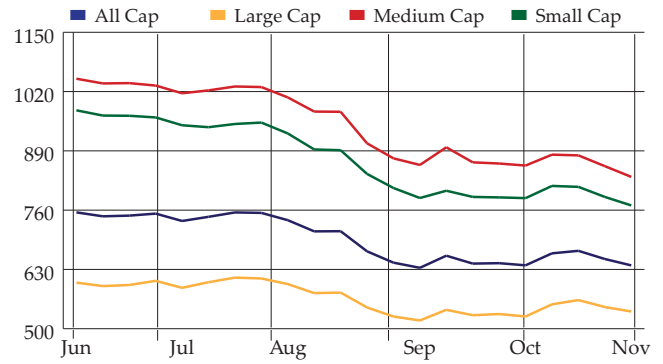

**REDmoney GCC** *6 Months*



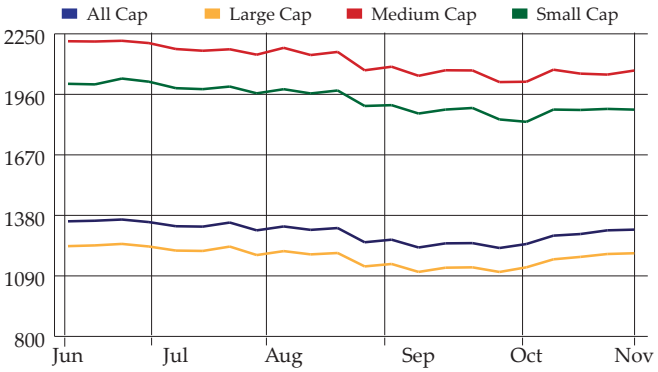

**REDmoney Global** *6 Months*



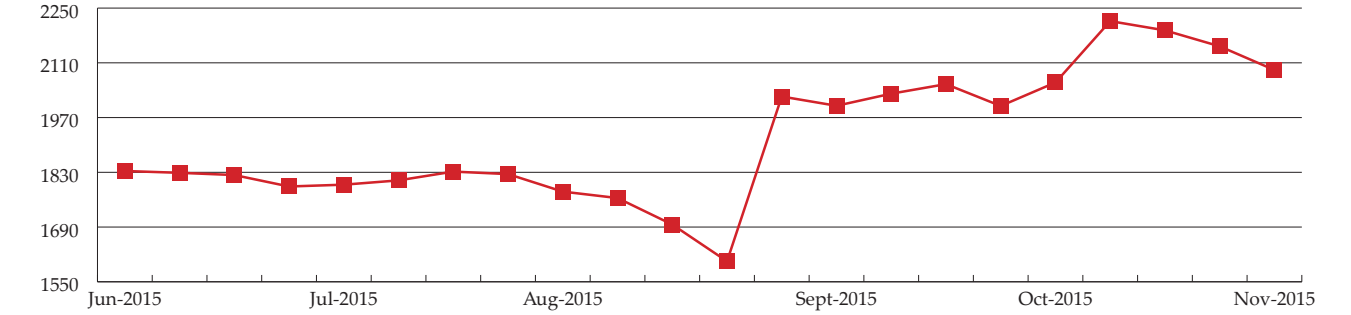

**REDmoney MENA** *6 Months*



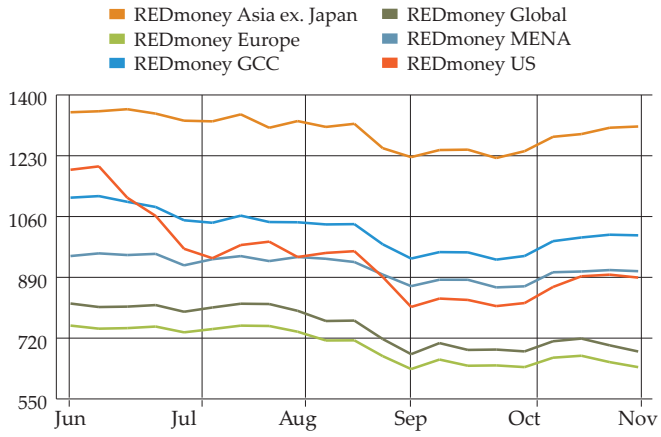

**REDmoney US** *6 Months*



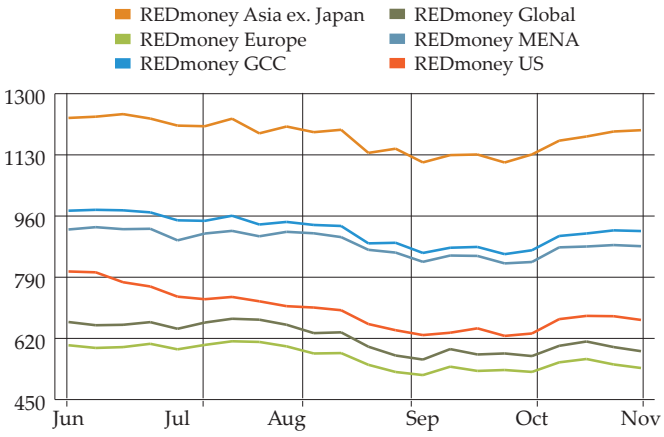

**SAMI Halal Food Participation (All Cap)** *6 months*



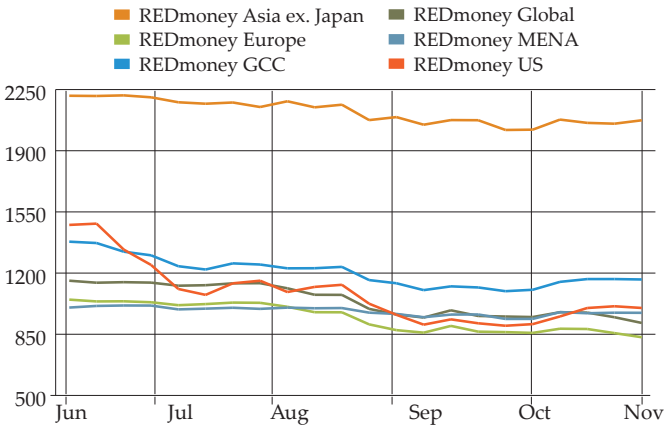
## REDmoney Global Shariah Index Series (All Cap) *6 Months*



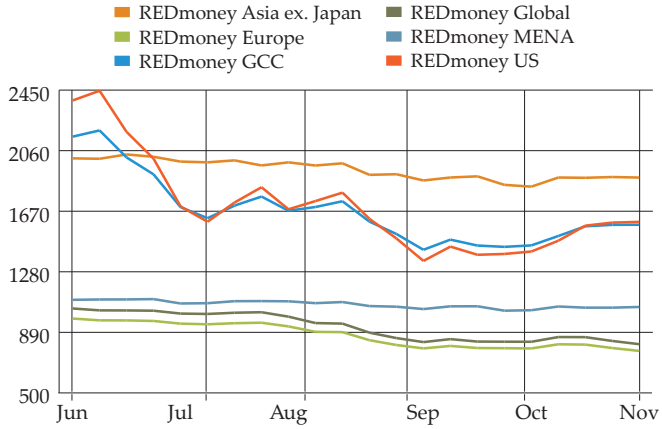

## REDmoney Global Shariah Index Series (Large Cap) *6 Months*




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



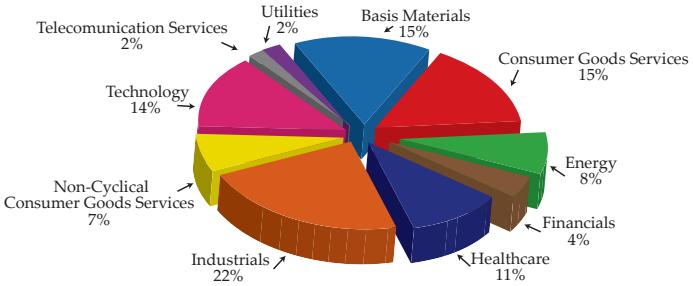

## REDmoney Global Shariah Index Series (Small Cap) *6 Months*




## 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**

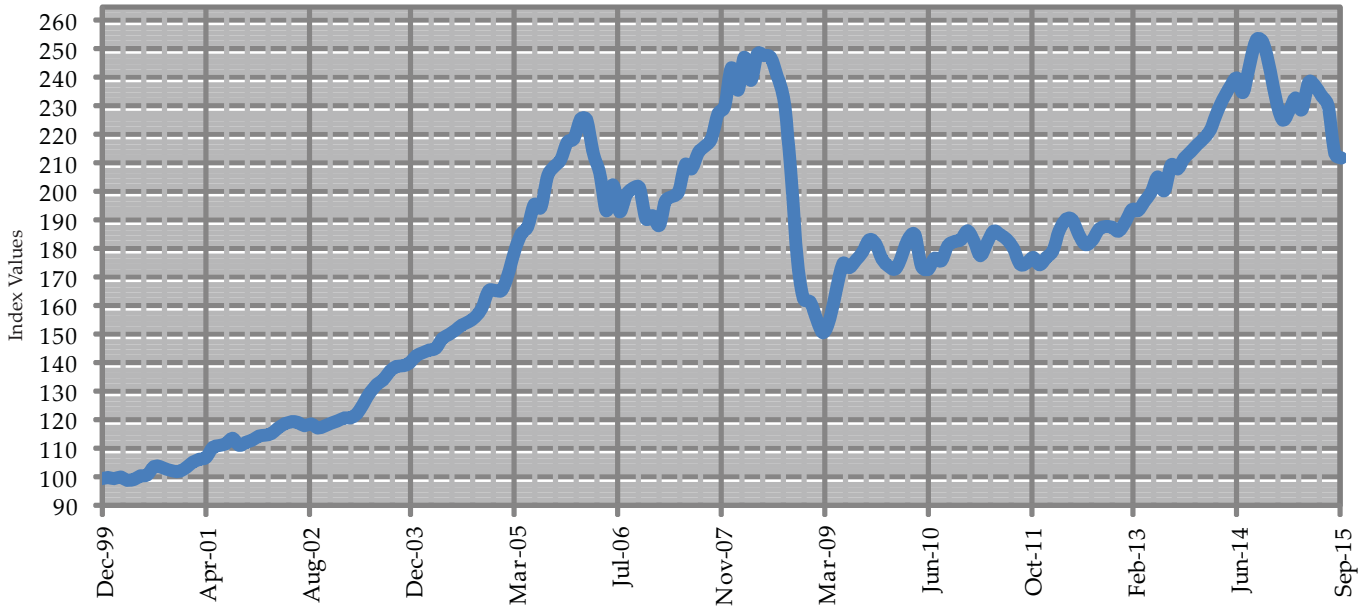
REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

Andrew Morgan
Managing Director, REDmoney Group

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

## Eurekahedge Middle East/Africa Islamic Fund Index




### Top 10 Yield-to-Date Returns for Asia Pacific Funds

| | Fund | Fund Manager | Performance Measure | Fund Domicile |
|---|---|---|---|---|
| 1 | Manulife Investment-CM Shariah Flexi | MAAKL Mutual | 5.74 | Malaysia |
| 2 | CIMB Islamic Small Cap | CIMB-Principal Asset Management | 5.68 | Malaysia |
| 3 | Pacific Dana Aman | Pacific Mutual Fund | 5.63 | Malaysia |
| 4 | CIMB Islamic Equity Aggressive | CIMB-Principal Asset Management | 5.09 | Malaysia |
| 5 | RHB-OSK Dana Islam | RHB Asset Management | 4.99 | Malaysia |
| 6 | Public Islamic Select Treasures | Public Mutual | 4.55 | Malaysia |
| 7 | KAF Dana Adib | KAF Investment Funds | 4.45 | Malaysia |
| 8 | Public Islamic Asia Dividend | Public Mutual | 4.43 | Malaysia |
| 9 | Public Islamic Asia Tactical Allocation (PIATAF) | Public Mutual | 4.32 | Malaysia |
| 10 | Libra Amanah Saham Wanita (ASNITA) | Libra Invest | 4.25 | Malaysia |
| | **Eurekahedge Islamic Fund Index** | | **(0.77)** | |

*Based on 92.86% of funds which have reported September 2015 returns as at the 2nd November 2015*

### Top 10 Yield-to-Date Returns for Middle East/Africa Funds

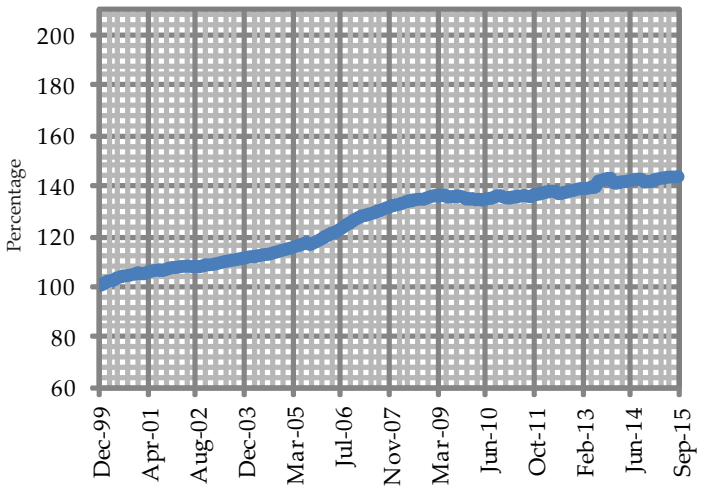
| | Fund | Fund Manager | Performance Measure | Fund Domicile |
|---|---|---|---|---|
| 1 | Banque Misr No. 4 | HC Securities & Investment | 1.41 | Egypt |
| 2 | Sanabel | HC Securities & Investment | 1.35 | Egypt |
| 3 | Emirates MENA Opportunities | EIS Asset Management | 1.25 | Jersey |
| 4 | Osool & Bakheet Saudi Trading Equity | Bakheet Investment Group | 1.07 | Saudi Arabia |
| 5 | Al Rajhi Local Shares | Al Rajhi Bank | 0.99 | Saudi Arabia |
| 6 | IIAB Islamic MENA | Al Arabi Investment Group | 0.89 | Bahrain |
| 7 | IIAB MENA Feeder | Al Arabi Investment Group | 0.81 | Guernsey |
| 8 | Markaz Islamic | Kuwait Financial Centre (Markaz) | 0.71 | Kuwait |
| 9 | Kuwait Investment | Kuwait Investment Company | 0.69 | Kuwait |
| 10 | Pak Oman Advantage Islamic Income | Pak Oman Asset Management | 0.41 | Pakistan |
| | **Eurekahedge Islamic Fund Index** | | **(5.86)** | |

*Based on 66.67% of funds which have reported September 2015 returns as at the 2nd November 2015*

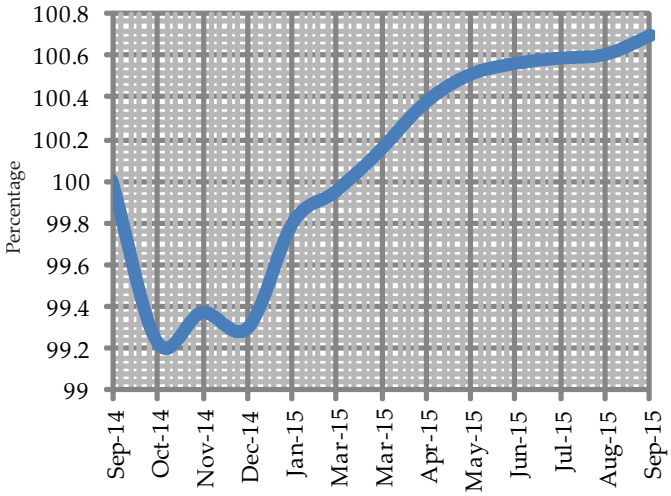
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, 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.

# FUNDS TABLES

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 | Atlas Pension Islamic - Money Market Sub | Atlas Asset Management | 1.39 | Pakistan |
| 2 | Meezan Tahaffuz Pension - Money Market Sub | Al Meezan Investment Management | 0.83 | Pakistan |
| 3 | KAF Dana al-Iddikhar | KAF Investment Funds | 0.82 | Malaysia |
| 4 | PB Islamic Cash Plus | Public Mutual | 0.78 | Malaysia |
| 5 | PB Islamic Cash Management | Public Mutual | 0.78 | Malaysia |
| 6 | Kenanga I-Enhanced Cash | AIA | 0.77 | Malaysia |
| 7 | Manulife Investment Al-Ma'mun | MAAKL Mutual | 0.76 | Malaysia |
| 8 | Public Islamic Money Market | Public Mutual | 0.75 | Malaysia |
| 9 | Kenanga Islamic Money Market | Kenanga Investors | 0.75 | Malaysia |
| 10 | RHB-OSK Institutional Islamic Money Market | RHB Asset Management | 0.66 | Malaysia |
| | **Eurekahedge Islamic Fund Index** | | **0.06** | |

*Based on 84.38% of funds which have reported September 2015 returns as at the 2nd November 2015*

Top 10 Islamic Fixed Income Funds by 3 Months Returns

| | Fund | Fund Manager | Performance Measure | Fund Domicile |
|---|---|---|---|---|
| 1 | Public Islamic Bond | Public Mutual | 1.76 | Malaysia |
| 2 | Atlas Pension Islamic - Debt Sub | Atlas Asset Management | 1.40 | Pakistan |
| 3 | Meezan Tahaffuz Pension - Debt Sub | Al Meezan Investment Management | 0.94 | Pakistan |
| 4 | Public Islamic Enhanced Bond | Public Mutual | 0.60 | Malaysia |
| 5 | Insight I-Hajj Syariah | Insight Investments Management | 0.54 | Indonesia |
| 6 | CIMB Islamic Enhanced Sukuk | CIMB-Principal Asset Management | 0.49 | Malaysia |
| 7 | Libra AsnitaBond | Libra Invest | 0.37 | Malaysia |
| 8 | Pacific Dana Murni | Pacific Mutual Fund | 0.30 | Malaysia |
| 9 | MAA Takaful Shariah Flexi | MAA Takaful | 0.29 | Malaysia |
| 10 | Public Islamic Select Bond | Public Mutual | 0.17 | Malaysia |
| | **Eurekahedge Islamic Fund Index** | | **(0.08)** | |

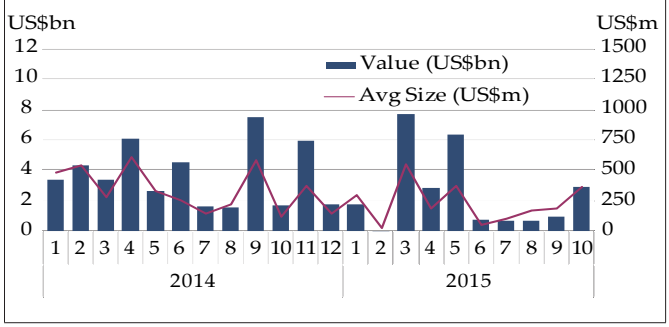
*Based on 90.63% of funds which have reported September 2015 returns as at the 2nd November 2015*

**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

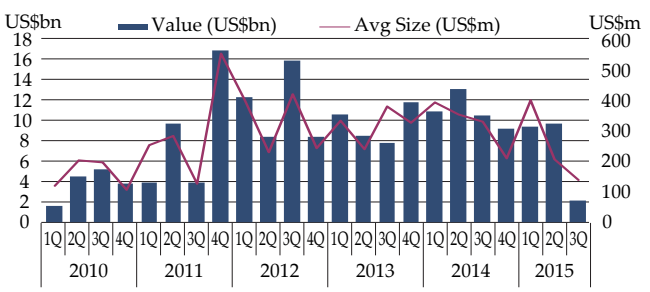
## Most Recent Global Sukuk

| Priced | Issuer | Nationality | Instrument | Market | US$ (mln) | Managers |
|---|---|---|---|---|---|---|
| 27th Oct 2015 | Majid Al Futtaim Properties | UAE | Sukuk | Euro market public issue | 500 | Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank |
| 20th Oct 2015 | Qatar Islamic Bank | Qatar | Sukuk | Euro market public issue | 750 | Standard Chartered Bank, HSBC, Citigroup, QInvest, Barwa Bank, Noor Bank |
| 19th Oct 2015 | Arab Petroleum Investments | Saudi Arabia | Sukuk | Euro market public issue | 500 | Saudi National Commercial Bank, Standard Chartered Bank, Goldman Sachs, First Gulf Bank, Emirates NBD, Noor Bank |
| 13th Oct 2015 | Malaysia Building Society | Malaysia | Sukuk | Domestic market public issue | 217 | RHB Capital |
| 13th Oct 2015 | Jana Kapital | Malaysia | Sukuk | Domestic market public issue | 217 | RHB Capital |
| 8th Oct 2015 | Rantau Abang Capital | Malaysia | Sukuk | Domestic market public issue | 358 | CIMB Group, AmInvestment Bank |
| 5th Oct 2015 | IDB Trust Services | Saudi Arabia | Sukuk | Euro market public issue | 336 | Natixis |
| 18th Sep 2015 | International Finance Facility for Immunisation | United Kingdom | Sukuk | Euro market public issue | 200 | Standard Chartered Bank, National Bank of Abu Dhabi, Maybank, Emirates NBD, National Commercial Bank Jamaica |
| 15th Sep 2015 | Pengurusan Air SPV | Malaysia | Sukuk | Domestic market public issue | 362 | Maybank, Bank Islam Malaysia, CIMB Group |
| 2nd Sep 2015 | SapuraKencana TMC | Malaysia | Sukuk | Domestic market public issue | 200 | Maybank |
| 24th Aug 2015 | West Coast Expressway | Malaysia | Sukuk | Domestic market public issue | 239 | RHB Capital |
| 6th Aug 2015 | Sarawak Energy | Malaysia | Sukuk | Domestic market public issue | 386 | RHB Capital, Kenanga Investment Bank, AmInvestment Bank |
| 30th Jul 2015 | Kuala Lumpur Kepong | Malaysia | Sukuk | Domestic market public issue | 289 | Maybank, CIMB Group |
| 9th Jul 2015 | Putrajaya Holdings | Malaysia | Sukuk | Domestic market public issue | 237 | Maybank, CIMB Group, AmInvestment Bank |
| 19th Jun 2015 | Maxis | Malaysia | Sukuk | Domestic market public issue | 226 | CIMB Group |
| 4th Jun 2015 | Pengurusan Air SPV | Malaysia | Sukuk | Domestic market public issue | 163 | Maybank |
| 28th May 2015 | Hong Kong Sukuk 2015 | Hong Kong | Sukuk | Euro market public issue | 1,000 | Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, CIMB Group |
| 27th May 2015 | Garuda Indonesia Global Sukuk | Indonesia | Sukuk | Euro market public issue | 500 | Standard Chartered Bank, Deutsche Bank, ANZ, National Bank of Abu Dhabi, First Gulf Bank, Maybank, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD, Al Hilal Bank, Warba Bank, Noor Bank |
| 25th May 2015 | Benih Restu | Malaysia | Sukuk | Domestic market public issue | 278 | OCBC, RHB Capital, Maybank, CIMB Group |
| 22nd May 2015 | Jana Kapital | Malaysia | Sukuk | Domestic market public issue | 419 | RHB Capital |

## Global Sukuk Volume by Month




## Global Sukuk Volume by Quarter



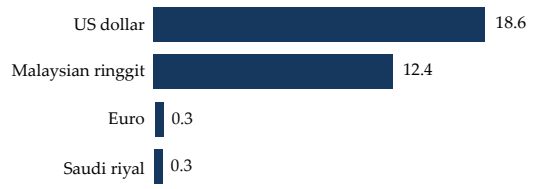
**Top 30 Issuers of Global Sukuk** *12 Months*

| | Issuer | Nationality | Instrument | Market | US$ (mln) | Iss (%) | Managers |
|---|---|---|---|---|---|---|---|
| 1 | Perusahaan Penerbit SBSN Indonesia III | Indonesia | Sukuk | Euro market public issue | 2,000 | 6.3 | JPMorgan, HSBC, Dubai Islamic Bank, CIMB Group |
| 2 | Dubai Islamic Bank | UAE | Sukuk | Euro market public issue | 1,750 | 5.5 | Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank, First Gulf Bank, Maybank |
| 3 | DanaInfra Nasional | Malaysia | Sukuk | Domestic market public issue | 1,663 | 5.3 | RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, AmInvestment Bank, Affin Investment Bank |
| 4 | Malaysia Sovereign Sukuk | Malaysia | Sukuk | Euro market public issue | 1,500 | 4.7 | Standard Chartered Bank, HSBC, CIMB Group |
| 5 | IDB Trust Services | Saudi Arabia | Sukuk | Euro market public issue | 1,336 | 4.2 | Saudi National Commercial Bank, Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, RHB Capital, Dubai Islamic Bank, Gulf International Bank, Natixis, CIMB Group |
| 6 | Petronas Global Sukuk | Malaysia | Sukuk | Euro market public issue | 1,250 | 4.0 | JPMorgan, Deutsche Bank, Morgan Stanley, HSBC, Maybank, Mitsubishi UFJ Financial Group, CIMB Group, Citigroup, Bank of America Merrill Lynch |
| 7 | Islamic Republic of Pakistan | Pakistan | Sukuk | Euro market public issue | 1,000 | 3.2 | Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, Citigroup |
| 7 | Hong Kong Sukuk 2015 | Hong Kong | Sukuk | Euro market public issue | 1,000 | 3.2 | Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, CIMB Group |
| 7 | Hazine Mustesarligi Varlik Kiralama Anonim Sirketi | Turkey | Sukuk | Euro market public issue | 1,000 | 3.2 | HSBC, CIMB Group, Citigroup |
| 7 | Government of Ras Al Khaimah | UAE | Sukuk | Euro market public issue | 1,000 | 3.2 | JPMorgan, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank |
| 11 | Danga Capital | Malaysia | Sukuk | Domestic market public issue | 992 | 3.1 | RHB Capital, CIMB Group |
| 12 | Khadrawy | UAE | Sukuk | Euro market public issue | 913 | 2.9 | Standard Chartered Bank, JPMorgan, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD |
| 13 | Jana Kapital Sdn | Malaysia | Sukuk | Domestic market public issue | 816 | 2.6 | RHB Capital |
| 14 | Qatar Islamic Bank | Qatar | Sukuk | Euro market public issue | 750 | 2.4 | Maybank, Bank Islam Malaysia, CIMB Group |
| 15 | Dubai International Financial Centre | UAE | Sukuk | Euro market public issue | 700 | 2.2 | Standard Chartered Bank, Dubai Islamic Bank, Emirates NBD, Noor Bank |
| 16 | Malaysia Building Society | Malaysia | Sukuk | Domestic market public issue | 645 | 2.0 | RHB Capital, DRB-HICOM, AmInvestment Bank |
| 17 | Mumtalakat Sukuk Holding | Bahrain | Sukuk | Euro market public issue | 594 | 1.9 | Standard Chartered Bank, Deutsche Bank, BNP Paribas, Mitsubishi UFJ Financial Group |
| 18 | Jambatan Kedua | Malaysia | Sukuk | Domestic market public issue | 560 | 1.8 | RHB Capital, Maybank, Kenanga Investment Bank, AmInvestment Bank |
| 19 | Prasarana Malaysia | Malaysia | Sukuk | Domestic market public issue | 541 | 1.7 | Maybank, Bank Islam Malaysia, CIMB Group |
| 20 | Pengurusan Air SPV | Malaysia | Sukuk | Domestic market public issue | 525 | 1.7 | Maybank, Bank Islam Malaysia, CIMB Group |
| 21 | Sharjah Islamic Bank | UAE | Sukuk | Euro market public issue | 500 | 1.6 | Standard Chartered Bank, HSBC, Kuwait Finance House, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank |
| 21 | Noor Bank | UAE | Sukuk | Euro market public issue | 500 | 1.6 | Standard Chartered Bank, Dubai Islamic Bank, South Indian Bank, Citigroup, Emirates NBD, Al Hilal Bank, QInvest, Barwa Bank |
| 21 | IFFIm Sukuk | UK | Sukuk | Euro market public issue | 500 | 1.6 | Saudi National Commercial Bank, Standard Chartered Bank, National Bank of Abu Dhabi, CIMB Group, Barwa Bank |
| 21 | Flydubai | UAE | Sukuk | Euro market public issue | 500 | 1.6 | RHB Capital, DRB-HICOM, AmInvestment Bank |
| 21 | Arab Petroleum Investments | Saudi Arabia | Sukuk | Euro market public issue | 500 | 1.6 | Maybank, CIMB Group |
| 26 | Majid Al Futtaim Properties | UAE | Sukuk | Euro market public issue | 499 | 1.6 | Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank |
| 27 | Garuda Indonesia Global Sukuk | Indonesia | Sukuk | Euro market public issue | 496 | 1.6 | Standard Chartered Bank, Deutsche Bank, ANZ, National Bank of Abu Dhabi, First Gulf Bank, Maybank, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD, Al Hilal Bank, Warba Bank, Noor Bank |
| 28 | National Higher Education Fund | Malaysia | Sukuk | Domestic market public issue | 426 | 1.3 | Maybank, CIMB Group |
| 29 | Sarawak Energy | Malaysia | Sukuk | Domestic market public issue | 386 | 1.2 | AmInvestment Bank |
| 30 | Rantau Abang Capital | Malaysia | Sukuk | Domestic market public issue | 358 | 1.1 | Standard Chartered Bank, AmInvestment Bank |
| | | | | | **31,664** | **100** | |

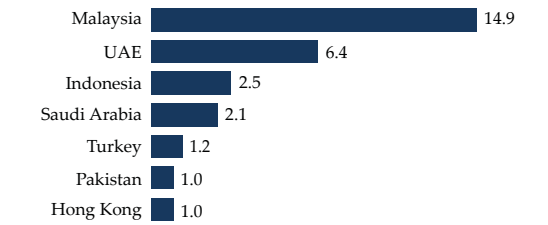
## Top Managers of Sukuk *12 Months*

| | Manager | US$ (mln) | Iss | % |
|---|---|---|---|---|
| 1 | CIMB Group | 5,024 | 46 | 15.9 |
| 2 | RHB Capital | 3,837 | 37 | 12.1 |
| 3 | HSBC | 2,915 | 20 | 9.2 |
| 4 | Standard Chartered Bank | 2,640 | 23 | 8.3 |
| 5 | Maybank | 2,514 | 28 | 7.9 |
| 6 | AmInvestment Bank | 1,779 | 20 | 5.6 |
| 7 | Dubai Islamic Bank | 1,763 | 13 | 5.6 |
| 8 | National Bank of Abu Dhabi | 1,353 | 12 | 4.3 |
| 9 | Citigroup | 1,274 | 7 | 4.0 |
| 10 | JPMorgan | 1,003 | 4 | 3.2 |
| 11 | Emirates NBD | 775 | 9 | 2.5 |
| 12 | Noor Bank | 684 | 7 | 2.2 |
| 13 | Deutsche Bank | 579 | 4 | 1.8 |
| 14 | Kenanga Investment Bank | 562 | 14 | 1.8 |
| 15 | Al Hilal Bank | 541 | 5 | 1.7 |
| 16 | Natixis | 447 | 2 | 1.4 |
| 17 | Affin Investment Bank | 424 | 6 | 1.3 |
| 18 | Saudi National Commercial Bank | 294 | 3 | 0.9 |
| 19 | Bank Islam Malaysia | 293 | 3 | 0.9 |
| 20 | Barwa Bank | 288 | 3 | 0.9 |
| 21 | Mitsubishi UFJ Financial Group | 287 | 2 | 0.9 |
| 22 | Abu Dhabi Islamic Bank | 276 | 3 | 0.9 |
| 23 | First Gulf Bank | 250 | 3 | 0.8 |
| 24 | Hong Leong Financial Group | 192 | 6 | 0.6 |
| 25 | QInvest | 188 | 2 | 0.6 |
| 26 | BNP Paribas | 169 | 2 | 0.5 |
| 27 | Sharjah Islamic Bank | 166 | 2 | 0.5 |
| 28 | Morgan Stanley | 139 | 1 | 0.4 |
| 28 | Bank of America Merrill Lynch | 139 | 1 | 0.4 |
| 30 | Riyad Bank | 133 | 1 | 0.4 |
| | **Total** | **31,664** | **121** | **100** |

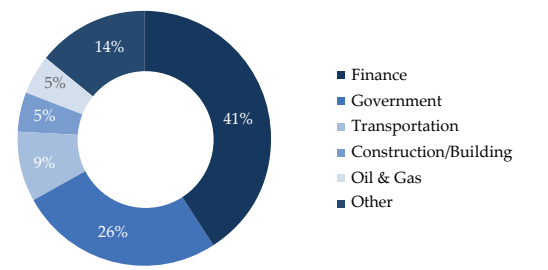
## Sukuk Volume by Currency US$ (billion) *12 Months*



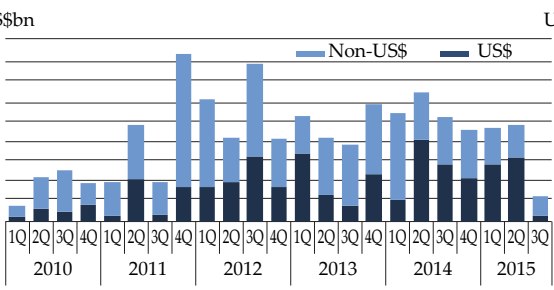

## Sukuk Volume by Issuer Nation US$ (billion) *12 Months*




## Global Sukuk Volume by Sector *12 Months*




## Global Sukuk Volume - US$ Analysis




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

| | Mandated Lead Arranger | US$ (million) | No | % |
|---|---|---|---|---|
| 1 | Sumitomo Mitsui Financial Group | 1,354 | 1 | 18.0 |
| 2 | HSBC | 750 | 3 | 10.0 |
| 3 | National Commercial Bank | 651 | 3 | 8.7 |
| 4 | Riyad Bank | 584 | 2 | 7.8 |
| 5 | Samba Capital & Investment Management | 518 | 3 | 6.9 |
| 6 | Al Rajhi Capital | 356 | 3 | 4.7 |
| 7 | Mitsubishi UFJ Financial Group | 354 | 1 | 4.7 |
| 7 | Mizuho Financial Group | 354 | 1 | 4.7 |
| 9 | Banque Saudi Fransi | 346 | 2 | 4.6 |
| 10 | National Bank of Kuwait | 290 | 1 | 3.9 |

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

| | Legal Advisor | US$ (million) | No | % |
|---|---|---|---|---|
| 1 | Salans FMC SNR Denton Group | 3,334 | 2 | 26.6 |
| 2 | Milbank Tweed Hadley & McCloy | 2,704 | 1 | 21.6 |
| 2 | White & Case | 2,704 | 1 | 21.6 |
| 4 | Allen & Overy | 1,086 | 5 | 8.7 |
| 5 | Clifford Chance | 720 | 2 | 5.8 |
| 6 | Baker & McKenzie | 433 | 2 | 3.5 |
| 7 | Norton Rose Fulbright | 354 | 1 | 2.8 |
| 7 | Pekin & Pekin | 354 | 1 | 2.8 |
| 9 | Latham & Watkins | 333 | 1 | 2.7 |
| 10 | Linklaters | 311 | 1 | 2.5 |

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

| | Mandated Lead Arranger | US$ (mln) | No | % |
|---|---|---|---|---|
| 1 | Samba Capital | 1,501 | 7 | 6.8 |
| 2 | First Gulf Bank | 1,475 | 15 | 6.7 |
| 3 | Abu Dhabi Islamic Bank | 1,412 | 13 | 6.4 |
| 4 | Banque Saudi Fransi | 1,279 | 6 | 5.8 |
| 5 | HSBC | 1,215 | 11 | 5.5 |
| 6 | Saudi National Commercial Bank | 1,131 | 7 | 5.1 |
| 7 | National Bank of Abu Dhabi | 941 | 7 | 4.3 |
| 8 | Abu Dhabi Commercial Bank | 802 | 6 | 3.6 |
| 9 | Riyad Bank | 644 | 3 | 2.9 |
| 10 | Standard Chartered Bank | 614 | 7 | 2.8 |
| 11 | Emirates NBD | 591 | 8 | 2.7 |
| 12 | Mashreqbank | 574 | 6 | 2.6 |
| 13 | Noor Bank | 496 | 6 | 2.3 |
| 14 | Alinma Bank | 490 | 2 | 2.2 |
| 15 | Sumitomo Mitsui Financial Group | 489 | 4 | 2.2 |
| 16 | Dubai Islamic Bank | 417 | 5 | 1.9 |
| 17 | Arab Banking Corporation | 371 | 6 | 1.7 |
| 18 | Gulf International Bank | 347 | 4 | 1.6 |
| 19 | SABB | 342 | 3 | 1.6 |
| 20 | Barwa Bank | 340 | 5 | 1.5 |
| 21 | RHB Capital | 322 | 3 | 1.5 |
| 22 | Union National Bank | 285 | 5 | 1.3 |
| 23 | SG Corporate & Investment Banking | 274 | 3 | 1.3 |
| 24 | ING | 269 | 2 | 1.2 |
| 25 | Ahli United Bank | 258 | 3 | 1.2 |
| 26 | Maybank | 247 | 2 | 1.1 |
| 26 | AmInvestment Bank | 247 | 2 | 1.1 |
| 28 | Kuwait Finance House | 241 | 2 | 1.1 |
| 29 | Al Hilal Bank | 226 | 2 | 1.0 |
| 30 | Qatar Islamic Bank | 222 | 4 | 1.0 |

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

| | Bookrunner | US$ (mln) | No | % |
|---|---|---|---|---|
| 1 | Maybank | 2,239 | 1 | 19.5 |
| 2 | Samba Capital | 1,327 | 1 | 11.5 |
| 3 | Abu Dhabi Islamic Bank | 941 | 5 | 8.2 |
| 4 | Noor Bank | 748 | 4 | 6.5 |
| 5 | Mashreqbank | 731 | 3 | 6.4 |
| 6 | Saudi National Commercial Bank | 666 | 1 | 5.8 |
| 6 | Riyad Bank | 666 | 1 | 5.8 |
| 6 | Alinma Bank | 666 | 1 | 5.8 |
| 9 | Emirates NBD | 519 | 4 | 4.5 |
| 10 | Dubai Islamic Bank | 376 | 2 | 3.3 |

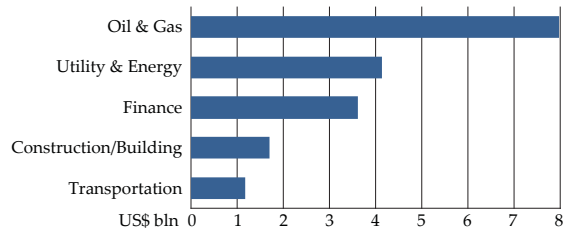
## Top Islamic Finance Related Financing Deal List *12 Months*

| 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 |
| 15th Jan 2015 | SapuraKencana TMC | Malaysia | 2,239 |
| 24th Jun 2015 | Jazan Gas Projects | Saudi Arabia | 1,790 |
| 18th Jun 2015 | Emirates National Oil | UAE | 1,500 |
| 19th Nov 2014 | Saudi Binladin Group | Saudi Arabia | 1,327 |
| 10th Mar 2015 | Port & Free Zone World | UAE | 1,100 |
| 17th Apr 2015 | Turkiye Vakiflar Bankasi | Turkey | 1,021 |
| 15th Dec 2014 | Arab Petroleum Investments | Saudi Arabia | 949 |
| 28th Jul 2015 | GEMS Education | UAE | 817 |

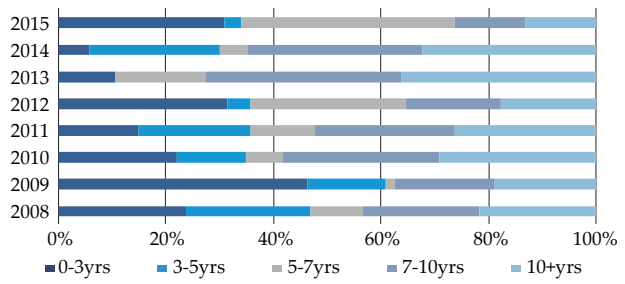
## Top Islamic Finance Related Financing by Country *12 Months*

| | Nationality | US$ (mln) | No | % |
|---|---|---|---|---|
| 1 | Saudi Arabia | 8,044 | 7 | 36.5 |
| 2 | UAE | 7,342 | 18 | 33.3 |
| 3 | Malaysia | 2,411 | 3 | 10.9 |
| 4 | Turkey | 1,890 | 4 | 8.6 |
| 5 | Qatar | 1,000 | 2 | 4.5 |
| 6 | Kuwait | 622 | 3 | 2.8 |
| 7 | Cayman Islands | 325 | 1 | 1.5 |
| 8 | Egypt | 212 | 1 | 1.0 |
| 9 | Pakistan | 71 | 1 | 0.3 |
| 10 | Oman | 55 | 1 | 0.3 |
| 11 | Italy | 51 | 1 | 0.2 |

## 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)
Email: shireen.farhana@dealogic.com Tel: +852 2804 1223

dealogic

## REDmoney events

| | | |
|---|---|---|
| **NOVEMBER 2015** | | |
| 17th | IFN Turkey Forum | Istanbul, Turkey |
| 30th | IFN Saudi Arabia Forum | Jeddah, Saudi Arabia |
| **FEBRUARY 2016** | | |
| TBC | IFN Iran Forum | Tehran, Iran |
| **MARCH 2016** | | |
| 22nd | IFN China Forum | Beijing, China |
| **APRIL 2016** | | |
| 6th – 7th | IFN Asia Forum | Jakarta, Indonesia |
| 21st | IFN Europe Forum | Luxembourg |
| **MAY 2016** | | |
| 24th | IFN Project & Infrastructure Finance Forum | Dubai, UAE |
| **SEPTEMBER 2016** | | |
| 6th | IFN Investor Forum | Kuala Lumpur, Malaysia |
| 28th | IFN Turkey Forum | Istanbul, Turkey |
| **OCTOBER 2016** | | |
| 17th & 18th | Africa Islamic Finance Forum | Abidjan, Côte d'Ivoire |
| 24th | IFN Kuwait Forum | Kuwait City, Kuwait |
| **NOVEMBER 2016** | | |
| 15th | IFN CIS & Russia Forum | Almaty, Kazakhstan |
| 28th | IFN Saudi Arabia Forum | Jeddah, Saudi Arabia |

## REDmoney training

| | | |
|---|---|---|
| **NOVEMBER 2015** | | |
| 2nd – 4th | Asset Liability Management & Risk-Based Pricing for Islamic Banks | Kuala Lumpur, Malaysia |
| 4th – 5th | International Best Practices & Regional Standards in Regulation, Corporate Governance, AML, Sanctions & Compliance | Dubai, UAE |
| 15th – 16th | Liquidity Management in Islamic Banking | Dubai, UAE |
| 17th | Basel 3 for Financial Institutions | Abu Dhabi, UAE |
| 17th – 18th | Cash Waqf & Corporate Waqf: New Financial Products | Kuala Lumpur, Malaysia |



**Islamic Finance news**

**Group Managing Editor** Lauren McAughtry lauren.mcaughtry@REDmoneygroup.com

**Contributions Editor** Sasikala Thiagaraja sasikala.thiagaraja@REDmoneygroup.com

**Features Editor** Nabilah Annuar nabilah.annuar@REDmoneygroup.com

**News Editor** Vineeta Tan vineeta.tan@REDmoneygroup.com

**Senior Copy Editor** Kenny Ng kenny.ng@REDmoneygroup.com

**Journalist** Nurul Ashikin Abd Halim nurul.ashikin@REDmoneygroup.com

**Head of Production** Hasnani Aspari hasnani.aspari@REDmoneygroup.com

**Senior Production Manager** Norzabidi Abdullah zabidi.abdullah@REDmoneygroup.com

**Senior Graphic Designer** Eumir Shazwan Kamal Bahrin eumir.shazwan@REDmoneygroup.com

**Senior Production Designer** Mohamad Rozman Besiri rozman.besiri@REDmoneygroup.com

**Business Development Manager** Steve Stubbs steve.stubbs@REDmoneygroup.com Tel: +603 2162 7800 x 55

**Associate Publisher** Sandra Spencer sandra.spencer@REDmoneygroup.com Tel: +9714 427 3624

**Subscriptions Manager** Faizan Haider faizan.haider@REDmoneygroup.com Tel: +603 2162 7800 x 24

**Subscriptions Manager** Dia Jabassini dia.jabassini@REDmoneygroup.com Tel: +603 2162 7800 ext 38

**Subscriptions Account Manager** Az-Dine Moukrim *(Dubai Office)* azdine.moukrim@REDmoneygroup.com Tel: +971 4 427 3638

**Finance Director** Faizah Hassan faizah.hassan@REDmoneygroup.com

**Deputy Publisher & Director** Geraldine Chan *(Dubai office)* geraldine.chan@REDmoneygroup.com

**Managing Director** Andrew Tebbutt andrew.tebbutt@REDmoneygroup.com

**Managing Director & Publisher** Andrew Morgan andrew.morgan@REDmoneygroup.com

Published By: REDmoney

MALAYSIA
Suite 22-06, 22nd Floor
Menara Tan & Tan
207, Jalan Tun Razak
50400 Kuala Lumpur, Malaysia
Tel: +603 2162 7800
Fax: +603 2162 7810

UAE
PO Box 126732, 3rd Floor,
X2 Tower, Jumeirah Lake
Tower (JLT), Jumeirah Bay,
Dubai, UAE
Tel: +971 4 427 36 23
Fax: +971 4 431 4614

# COMPANY INDEX