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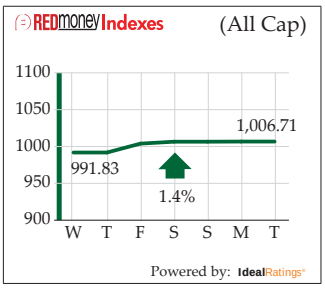


COVER STORY

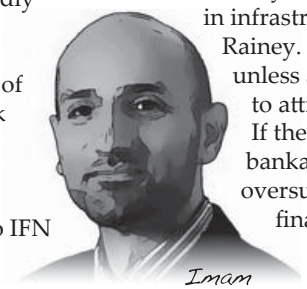
2nd December 2015 (*Volume 12 Issue 48*)

Europe through the looking glass: Islamic finance from the other side

The recent tragic events in Paris have cast a new pall over the future for Islamic finance in Europe – and with concerns over public perspective, tightening liquidity, worrying economic conditions and limited growth prospects, the progress of Islamic finance in Europe may look bleak. But despite the negative sentiment and narrowing opportunities, LAUREN MCAUGHTRY learns that bright spots still exist – if you only know where to look…

Limited prospects

The general outlook for the European market seems to be gloomy. Despite the great strides taken in the past year – including the sovereign Sukuk from the UK and Luxembourg and the new KT Bank established in Germany – progress seems to have stalled with the only activity taking place in the real estate sector and any likelihood of activity on the commercial or capital markets side receding rapidly into the distance. Despite the fond hopes of various stakeholders, the prospect of a thriving European Sukuk market seems less and less likely. Serene Shtayyeh, a partner with PwC in Luxembourg, confirmed to IFN that: "Sukuk are still quite expensive and there is little knowledge about it in the industry. We need a few large players to do it first and start the ball rolling."



But is a kick-start really all it will take? Mike Rainey, partner with King & Spalding, warns that Islamic options are unlikely to be seriously considered in Europe as a form of raising finance. "Easier forms of funding are available, such as Murabahah financing (if the company is Shariah compliant) or conventional financing (if the company is not Shariah compliant)," he explained to IFN. "There is no pipeline at all for Sukuk in Europe." And Imam Qazi, a partner with law firm Foot Anstey in the UK, firmly agrees. "It will take time… we are not currently seeing a pipeline of UK or European Sukuk."

Even on the infrastructure side, for which so many have such high hopes, the outlook is bleak. "We have not seen any Islamic finance being used in infrastructure projects," said Rainey. "We are unlikely to do so unless a particular effort is made to attract that type of financing. If the infrastructure project is bankable then it is likely to be oversubscribed with conventional financial institutions chasing such projects."

Same same but different

So what is happening for Islamic finance in Europe? Well, from the top down, it looks as if it is really just business as usual – there is activity, but unsurprisingly it is all going into the property market as Islamic investors jockey for safe havens amid the turbulence of the global markets. "Islamic finance in the UK and Europe is driven by investors who are looking to leverage acquisitions, principally real estate acquisitions. Therefore to understand the Islamic finance market you need to understand what is happening in real estate and private equity," agreed Rainey. "The UK remains a popular destination for Gulf investors, which in turn drives the need for Shariah compliant financing." Serene agrees that little innovation is happening, although the underlying drive is still there. "There continues to be interest to develop something – but… more focused on real estate products and private equity," she explained. "We also hear from people on various projects to promote Islamic finance via informational platforms and educational initiatives."

New markets

You could be forgiven for thinking that the market in Europe is stagnating into

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DEALS

Government of Malaysia issues GII Murabahah

Grand Sepadu to make Sukuk profit payment on the 11th December 2015

Syarikat Pengeluar Air Sungai Selangor redeems Islamic papers

Water and Power Development Authority to issue Sukuk to finance hydropower projects; to set up **WAPDA Fourth Sukuk Company**

Sime Darby plans perpetual Sukuk program of up to RM3 billion (US$708.97 million) under LOLA framework

XL Axiata's Sukuk oversubscribed by 1.5 times

Puncak Niaga Holdings to buy back all outstanding convertible Sukuk Ijarah on the 3rd December 2015

SP Setia announces periodic distribution for Series 1 perpetual Sukuk Musharakah

Sunway Treasury Sukuk to issue Islamic facility

Tenaga Nasional sells Sukuk worth RM8.98 billion (US$2.11 billion)

NEWS

Jaiz Bank ready to expand across the country following regulatory approval

Agrobank signs RM112 million (US$26.38 million) banking facilities agreement with **Sarawak Land Consolidation and Rehabilitation Authority**

Indonesian Shariah banks commit to sustainable financing; pilot green banking project to commence in January 2016

Otoritas Jasa Keuangan streamlines Sukuk issuance policies to facilitate issuers and increase investor confidence

Malaysia maintains lead in global Sukuk, says **RAM**

Ambank Islamic to provide RM300 million (US$71.15 million) funds under state government's affordable housing scheme

Securities Commission Malaysia releases updated list of Shariah compliant securities; admits 35 new securities

Otoritas Jasa Keuangan issues new regulation on EBA Shariah instruments and Shariah mutual funds

ASSET MANAGEMENT

Adeem Financial Company to list Islamic IPO fund on **Tadawul**

Al Rajhi Capital and **Arcapita** exit ARC Real Estate Income Fund at total transaction value of SAR1.35 billion (US$359.37 million)

Securities & Investment Company targeting MENA region with debut Islamic fund

Public Mutual distributes over RM180 million (US$42.21 million) for eight funds as of the 30th November 2015

TAKAFUL

Egyptian Takaful Property Insurance to commit up to EGP35 million (US$4.46 million) in equity capital to **Misr Reinsurance Company**

MAA Group to dispose stake in Takaful unit; submits formal application to regulator

Asuransi Takaful Keluarga collaborates with **Aplikasinusa Lintasarta** on digital-based health services through **Owlexa Healthcare**

RATINGS

Fitch affirms **Islamic Bank of Thailand** at 'BBB-'

Moody's assigns '(P)A2' ratings to **Barwa Bank**'s Sukuk program

RAM maintains 'AAA(fg)/Stable/P1' ratings on **Poh Kong Holdings**'s Danajamin-guaranteed Islamic program

Gas Malaysia's Islamic facility secures 'AAAID' rating with a stable outlook

Samalaju Industrial Port proposes Sukuk Murabahah program; obtains 'AA1(s)/Stable' rating

S&P affirms ratings on **Bank of Tokyo-Mitsubishi UFJ**; ratings removed from CreditWatch negative

Fitch affirms China at 'A+' with a stable outlook

Puncak Wangi maintains 'AAA(fg)/Stable' rating for its Islamic medium-term note program

MOVES

Rehan Shaikh to lead **Standard Chartered Saadiq** as CEO

Deputy director of **Securities and Exchange Commission of Pakistan** moves on to **Juwayni and Hawkins** as senior partner

BLME Holdings appoints James Harrowsmith as director for leasing team

Yasser Hamad Al Jar to assume CFO role at **Inovest**

Europe through the looking glass: Islamic finance from the other side

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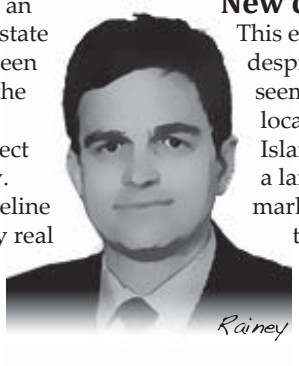
insignificance. But there is still activity – and from areas that might come as a surprise. "We have seen some funds from Islamic investors go into Germany and the Nordic countries but the UK seems to retain its status as the primary destination for Islamic real estate investment," said Imam. However, Rainey predicts that: "As yields tighten Gulf money may look elsewhere for higher yields, ie markets that are perceived to be more risky such as Spain. Also, private equity may return as an asset class."

At the moment, countries attracting Gulf money into real estate include Germany, France (mainly Paris), Holland and Spain – but the Mediterranean region is putting its own feelers out into the industry with Islamic finance already identified as a key tool for potential economic development in the region. At the third Mediterranean Islamic Finance Forum, held this month in Barcelona, experts noted that the industry represented a valuable source of funds that could assist regional financial institutions to diversify their funding sources. "Islamic finance is useful for infrastructure finance and for financing SMEs," said Pablo Moreno, the head of Financial Organizations and International Relations of the Spanish Central Bank. "Spain is highly dependent on SMEs for employment and growth. We face challenges in financing them, and, despite many attempts by EU to help, it is still not enough.

New opportunities

But it is not just SMEs that present an opportunity for Islamic finance. "Asset management is definitely a growth area," agreed Rainey. "It is not uncommon for funds to be raised in the Gulf by a Gulf asset manager who then teams up with a European asset manager to invest the funds, typically in real estate but also private equity, equity, Sukuk and money markets." Activity levels are high – and we are now once again seeing fund structures with an eye on pan-European real estate investment. "We have not seen pan-European funds since the financial crisis as investors have tended to focus on direct investment," agreed Rainey. However, "We do see a pipeline of investment funds (mostly real estate)," noted Imam.



But it is not just real estate that is driving development in the asset management sector. Recent changes which came into effect last year mean that products not domiciled in Europe are now very hard to market and promote in the region. "A lot of people who set up Shariah compliant funds domiciled them in jurisdictions that suited their home markets," explained Lawrie Chandler, the director of Edale Group which runs the Salam Pax set of funds. "So directives such as AIFMD meant that jurisdictions outside of Europe struggled. The market really shrank with regard to Shariah compliant opportunities because a lot of products were no longer viable."

> ***"Sukuk are still quite expensive and there is little knowledge about it in the industry"***

But another side effect of this trend is that most of the products registered in Europe are not currently directed toward the general public – very few are directed toward the local or retail market, with the majority targeting wealthy overseas Islamic investors. "This is where we think we have an opportunity with Salam Pax," said Chandler. "The entire set-up is designed to cater for Shariah compliant investors in Europe who haven't got access to products or capable investment strategies through any other means." The group already has UK and French-registered funds, and are now looking at new markets including the Netherlands, which it hopes to tap within the next six months.

New customers

This emphasizes a trend that, despite what people may say, seems to be gathering pace – of local retail investors tapping Islamic structures. "Europe has a large Islamic retail investor market," agreed Serene. However, this is currently underserved. "I think economically, institutional investors are more viable/profitable, and thus few institutions are willing to make a large and expensive leap into this niche solely for retail investors."

Yet the demand is undeniably there. According to polling firm IFOP, over 40% of French Muslims are 'practicing' and would choose Shariah compliant products where available, for example. The Takaful market is a core example of this. According to the French Federation of Insurance Companies (FFSA), in 2013 France saw EUR188 billion (US$198.86 billion) in insurance premiums, while in 2014 the country reported EUR11 billion (US$11.64 billion) in Takaful premiums. And this is growing. In September this year, Shariah compliant French insurance firm NoorAssur announced the opening of its first office in Paris and confirmed plans to open up to 20 other branches in France by 2016. Launched in 2012, the firm claims 3,000 clients of which 95% are retail investors.

French insurance brokers including NoorAssur offer savings products, investment and insurance services in partnership with Swiss Life, with Edale Group's Salam Pax providing the investment vehicle. "We've seen a very good response. The Salam Pax Funds are the investment engine of Salam-Epargne & Placement, the first Takaful proposition launched in France," said Chandler. "In the French market, around 60% of investors invest through an insurance-type product, so Takaful is an efficient tax method for French investors."

New partnerships

It is not just the Muslim retail market that is driving development. According to NoorAssur's head of business development Mourad Chabchoub, 15% of investors are non-Muslim, and this marks a growing crossover in Europe between conventional and Islamic options. "We have seen an increasing number of projects in the UK which are backed by Middle Eastern and Islamic investors. There is also a clear increase in the number of conventional and non-Muslim clients utilizing Islamic finance," confirmed Imam. "Conventional borrowers are seen to be more readily considering Shariah compliant financing structures and this is driven by the need to widen their financing sources as well

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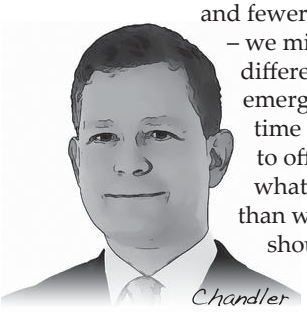
as the need of investors. In the longer term I expect that the domestic demand for Islamic finance in the UK and Europe may become more significant."

New perspectives

There is an undeniable population need for Islamic finance in Europe, suggesting that up until now the issue has been supply and awareness. On a macroeconomic level, it is also true that going forward and given the current economic environment, people are likely to be more reliant on self-financing for retirement provision. "We identified a longer-term savings market, because a lot of investors now have longer-term horizons," explained Chandler. "A lot of people in the asset management world want the quick wins, and it's easy to get that from a big high-net-worth investor than to build up the market and truly support the smaller private investors."

This difference is perhaps why some people see opportunity in the European market while others see stagnation. Perhaps it is all just a question of perspective. "A lot of the growth that we are seeing is grassroots and it involves a lot of shoe leather work," said Chandler. "From a helicopter perspective, it can be difficult to see the activity - but from the ground up there is definitely interest. What the industry needs to do is turn the binoculars upside down. You can't look at things only from the top-down – for example, Amsterdam as a market currently offers great opportunities, but if you look at the Netherlands on a wider basis you might not see that. Realistically, you need to look at things on a local level, and not many providers are prepared to do that."

Perhaps if more players were interested in Europe on a granular rather than generic basis – with lower expectations and fewer preconceptions – we might see a rather different industry emerge. Perhaps it is time for Islamic finance to offer Europeans what they need, rather than what it thinks they should want.



Sovereign Sukuk: A subdued week

The sovereign Sukuk market this week faces a slow progress witnessing only one issuance from Malaysia. Separately, global sovereign ratings are expected to remain in spite of risks to global growth and capital flows could negatively influence credit quality in 2016. As usual, NABILAH ANNUAR provides an overview of the developments surrounding the sovereign Sukuk market.

The government of Malaysia on the 27th November 2015 issued its RM3.5 billion (US$820.8 million) government investment issue (GII) Murabahah 5/2015 at a profit rate of 3.508%. According to an announcement on Bank Negara Malaysia (BNM)'s website, the issue will mature on the 15th May 2018 and BNM may purchase up to 10% of the issuance size.

Moody's in a recent statement conveyed that sovereign ratings around the world are expected to remain broadly stable and risks to global growth and capital flows could negatively influence credit quality in 2016.

"Going into 2016, our credit outlook for global sovereigns is stable overall, but there is more scope for negative surprises than for positive ones. The proportion of Moody's-rated sovereigns with a stable outlook (75%) has slightly reduced compared with a year ago (almost 80%), and the share of negative outlooks has risen (to 17% from 13%)," said Alastair Wilson, the managing director of global sovereign risk at Moody's.

The rating agency also expects that the two engines of global growth – US and China – will continue to perform reasonably well. However, there could be a negative effect on sovereigns around the world if the global economic slowdown is sharper than expected.

Having launched its Sukuk program last week, the market still awaits on the first drawdown. Countries that also announced its timeline to issue before the end of 2015 include Tunisia (US$500 million), Jordan (JOD200-300 million (US$280.75-421.12 million)) and the UAE (amount to be announced).

Islamic finance for world's tallest building

The world's tallest building will be funded in a Shariah compliant manner under an SAR8.4 billion (US$2.24 billion) fund dedicated specifically to finance Saudi Arabia's ambitious Jeddah Economic City. VINEETA TAN reports.

Sitting at the center of this proposed world-class urban city center is the Jeddah Tower, previously dubbed as the Mile-High Tower, the emblem of Saudi pride on the global stage as the Kingdom seeks to lead the trend in future real estate and urban development and become a hub for business, trade, education and medical treatment.

To be financed by Alinma Bank and managed by its investment arm, the Alinma Jeddah Economic City Fund will be used to develop the first phase of the Jeddah Economic City Project and to complete the construction of the Jeddah Tower, which currently stands at 26 floors but is expected to hit the one-kilometer mark, beating Dubai's 829.8 meter-tall Burj Khalifa as the world's highest skyscraper.

"This agreement with Alinma is part of Jeddah Economic Company's drive to diversify its sources of funding for Jeddah Tower and Jeddah Economic City," said Prince Alwaleed, the chairman of Kingdom Holding Company (KHC) and chairman of the fund. "Our cooperation with the banking sector is a manifestation of just how strongly we believe in this ambitious project, which is set to become the pride and joy of every Saudi, especially those who reside in Jeddah, and will become an iconic urban center that will take the city to the next level, both regionally and globally."

While the project will elevate Saudi Arabia's stature worldwide in terms of infrastructure, it is also anticipated to set a precedent in the Islamic finance segment.

"When we formulated and prepared the financial model, which included all aspects of cost and revenue, we made sure that we studied every single one of the project's needs," explained Talal Al Maiman, the executive director of KHC — the partner to Jeddah Economic Company established to develop the project. "Alinma Investment has been an active partner in the process of devising a detailed, sophisticated financial model that complies with Shariah and law so we can build the world's highest skyscraper on our homeland. Such a financial model will set the trend for future real estate projects."

The Jeddah Economic City will be built over 5.3 square kilometers of land to accommodate multipurpose commercial and residential developments.

Strong capital buffers to support Saudi banks as market turns tougher next year

Banks across oil-exporting countries are bracing themselves for tougher operating conditions with liquidity drying out and credit growth tightening amid a global oil price collapse; and Islamic finance heavyweight Saudi Arabia is no exception. Although its economy is being hit by its own onslaught against US shale oil producers, the Kingdom is showing no real signs of backing out of its strategy despite pleas from smaller OPEC members who are struggling to stay afloat in the current oil glut. In what is looking like a continued period of weak oil prices, VINEETA TAN asks what then can be expected from its banking industry?

"Banks will remain resilient over the next 12-18 months, despite the economic slowdown driven by low oil prices," said Moody's Investors Service on the Saudi banking segment. Despite projecting a spike in non-performing financing to about 2.5% next year from 1.4% as of June 2015, the rating agency maintains that the banks' solid capital buffers (and the Kingdom's deep pockets) would support bank profitability moving forward. "Our view on the resilience of the banks is predicated on our projection that

government spending will help contain the economic impact of low oil prices."

With financial institutions likely to keep a firm grip on net earnings as financing business contracts, Moody's expects capital buffers to increase with the average tangible common equity ratio rising by about 1% to 16.8% by December 2016 (against 15.4% in June 2015) — higher than most of its global banking peers, and this will allow Saudi banks to mitigate against unexpected asset quality deterioration and concentration risks.

Nonetheless, with real GDP on a downward trajectory (2.8% in 2015 and 2.7% in 2016 against 3.5% in 2014) and fiscal pressures escalating leading to a potential slash in government spending, business confidence in the Kingdom — which commands the largest share of the global Islamic banking market (after Iran) — is hanging precariously. "Such a scenario would contribute to a more pronounced decline in business confidence and economic growth than expected in our current baseline scenario," said Moody's.

Saudi banks have for years been successful in receiving a vote of confidence from the business community, evident by the rating agency's continuous stable outlook on the industry for the past five years. However, the market, on the back of an evolving regulatory landscape (ie adopting the Financial Services Board's stance on resolution of distressed banks which may see the Saudi government playing a thinner role in supporting banks), will be greatly tested.

"Although business confidence and performance have been resilient so far in Saudi Arabia, we believe that current conditions will lead to a tightening of liquidity in the economy, with a lagging negative effect on business activity and loan performance," opined Moody's.

IFN Weekly Poll: With two Sukuk issuances in the market this year, could Iran successfully place itself as a prominent Islamic banking player in 2016?

Following Iran's agreement to the Joint Comprehensive Plan of Action with the P5+1 (China, France, Russia, the UK and the US plus Germany) in July 2015, the move has boded well for the sanction-laden nation. The country auctioned two Sukuk issuances this year — one in September and the other in November. Could this be the decisive step toward cementing its position in the global Islamic finance market? NABILAH ANNUAR reports.

Setting a cautiously optimistic tone, the poll results this week showed a 50-50 opinion on Iran successfully placing itself as a prominent Islamic finance player next year. Already having in place a Shariah compliant Islamic banking system, 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 the Central Bank of Iran).

International markets have been denied access to Iranian bonds due to years of isolation. The world Sukuk market has therefore been led by Saudi Arabia and more significantly Malaysia. "This is all likely to change as western sanctions are gradually removed and Iran is reinstated as a lawful member of the international financial community.

Iran's massive entry into global Islamic finance will be a boon to the world economy. But more prominently benefiting from Islamic finance will be developing countries in Asia, Africa and Latin America. Non-petrodollar Muslim countries will be net beneficiaries of Iran's money," said Shabbir Jafer Razvi, a financial and business consultant at the UK's International Finance Solutions Association.

S&P, however, believes 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.

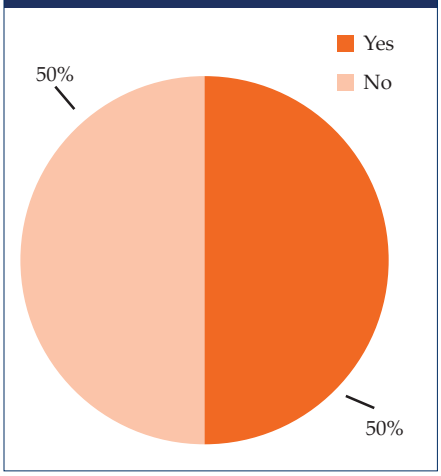
In a bid to revive its stalled economy and expand its banking ties with the international community, the Iranian parliament has also ratified the Combating Financing of Terrorism bill. Eyeing more shares in the IDB, the parliament in August approved the government's request to increase its current investment in the IDB to 4.17 billion Islamic dinar from 1.48 billion Islamic dinar with demand bonds.

The country also announced the resumption of the activities of its banks and insurance companies in Azerbaijan and the UK in the near future. With the lifting of sanctions, Iran also seeks to attract investors for the Qazvin-Rasht-Astara railway project and the country has been considering several options of investment, conducting discussions with the IDB and Ecobank as well as some countries and companies for investment and technical equipment.

The Islamic Republic of Iran on the 29th September issued approximately US$300 million-worth of one-year Islamic treasury bills at a profit rate that is expected to be higher than the official bank deposit rate, which is about 20%, according to the Financial Times. Its public offering through Fara Bourse will reportedly be offered at a steep discount to their face value and another US$600 million-worth of Islamic treasury bills would be offered in the next few months.

Jamil Mufti, a portfolio manager at the Bank of London and The Middle East opined that Iran's latest Islamic treasury bill issuance did not have much traction in the international Sukuk community. "Personally, I think it's too early for most international fixed income investors to get involved in Iran, from both an economic and political standpoint. It will be difficult to obtain approvals from investment committees and the Sukuk community in particular is usually quite risk-averse, so the high return will not be enough to sway them," he explained.

With two Sukuk issuances in the market this year, could Iran successfully place itself as a prominent Islamic banking player in 2016?



Jamil added that while the terms of the Sukuk seem favorable with talk of the effective profit rate being around 20%, he however said this represented investor apprehension and high non-performing loans in the banking sector, which Iran is heavily dependent on. "A more prudent entry-point may be to wait until the sanctions have officially been lifted and international companies start to operate in Iran again which would represent some normalization."

Nevertheless, being bullish, the country again in November saw its first Sukuk Istisnah sale on the Tehran Stock Exchange. Tose'e Melli Mining and Industries Company on the 23rd November issued Sukuk Istisnah to raise IRR1.62 trillion (US$54.12 million) — the first transaction of its kind on the Tehran Stock Exchange, reported Financial Tribune. At an annual profit rate of 23%, proceeds from the Sukuk will be used to fund the construction of two iron ore concentrate and pellet plants.

With a positive attitude and improving geopolitical conditions, this favorable atmosphere could very well propel Iran to become a prominent contender in the global Shariah finance industry next year.

ISDA and IIFM release Islamic Cross Currency Swap Standard

The International Swaps and Derivatives Association (ISDA) and the International Islamic Financial Market (IIFM) recently launched a new hedging documentation standard designed to assist Islamic financial institutions in mitigating currency risks and managing cash flow at a time when Islamic finance is expanding into new markets and seeing a rise in cross-border activities. VINEETA TAN speaks with IIFM to learn more of their latest initiatives and those in the pipeline.

The ISDA/IIFM Islamic Cross Currency Swap Standard is an arrangement between two parties to exchange one currency and its associated profit rate over a period of time, enabling a party to access foreign currency and hedge its liabilities in that currency.

The product template — part of the ISDA/IIFM Tahawwut Master Agreement (TMA) — utilizes a commodity Murabahah and a reverse Murabahah, linked with a unilateral Waad committed separately by each counterparty.

Speaking to IFN, Ijlal Alvi, CEO of IIFM, revealed that the standard-setting body is currently working on a foreign exchange forward template which it expects to publish in the near future. Also in the works is an Islamic credit support arrangement under the TMA as well as legal opinions on Tahawwut for specific markets including Malaysia, Singapore and the UK.

> ***"The standard-setting body is currently working on a foreign exchange forward template which it expects to publish in the near future"***

"When we started, we have planned for these standards to provide unification across the industry. As the industry continues to grow, we are seeing more

institutions adopting these standards and we are now approaching what we set out to achieve," said Ijlal.

The TMA was jointly developed by IIFM and ISDA five years ago and was the first globally standardized documentation for over-the-counter Islamic hedging products with the aim of facilitating risk management practices of Islamic financial institutions.

"IIFM has been playing a pioneering role in the Islamic hedging segment and, at an early stage, undertook the challenge of developing global standards in collaboration with ISDA. I am confident our ongoing efforts will play a critical role in shaping the industry, particularly in view of new regulations being introduced in G20 economies," said Khalid Hamad, the chairman of IIFM.

Tighter credit growth for Islamic banks in 2016

Islamic banks in the UAE are likely to see credit growth rates shrink and asset quality deteriorate next year against a weaker macroeconomic backdrop and potential hike in borrowing costs. VINEETA TAN, however, writes that despite the moderation in credit extension which would cut into profits, analysts are expecting financing growth rates to be in the top single-digit range bolstered by a greater appetite for Shariah compliant financial services.

"Growth is particularly high for Islamic banks where we expect continued demand growth. We expect loan growth to moderate slightly further in 2016, but remain in high single digits," opined Fitch Ratings.

The first six months of 2015 proved to be a fruitful period for Shariah banks in the emirates in terms of earnings and financing expansion; the six largest Fitch-rated Islamic banks accounted for a larger market share of total bank gross loans at 21% — up 3% — while banking asset market share grew by 3.4% to 20%. Shariah financiers also marked the first half with an improvement in the impaired loans/gross loans ratio cutting by more than half to 5.3% at the end of June 2015 from 11.5% at the end of 2012. The figure, however, is still lower than the conventional banks' average of 4.6% — dragged down by their high exposure to the real estate sector as well as the relatively large proportion of retail financing (over 40% at the end of 2014).

Another cause for optimism is the growing availability of liquidity in the Shariah space particularly in the Sukuk markets, according to Fitch. "In 2015, the UAE's central bank included Shariah compliant securities in the range of instruments it accepts as collateral for accessing liquidity. This will help UAE Islamic banks, which often hold these securities," it said.

The regional Sukuk market has had a strong showing in the first 10 months of the year with market value — as tracked by the S&P MENA Sukuk Index — rising 14% year-to-date to US$37 billion, far outstripping the 1% growth in the conventional bond market. Michele Leung, the director of fixed income indexes at S&P Dow Jones Indices, confirms that the UAE is the region's most active issuer with a 52% country exposure.

IDB solidifies focus on Bangladesh – more Islamic infrastructure financing to come?

Bangladesh has become the IDB's latest target market to anchor its Country Gateway Office (CGO), a move VINEETA TAN proposes not only signals the Islamic multilateral financier's confidence in the South Asian nation's strong economic growth story, but also an indication that an increasing number of Bangladesh's development projects would be financed in a Shariah compliant manner.

The Republic joins four other IDB member countries which are or would host a CGO. Presently, the offices in Turkey and Indonesia are already up and running while preparations are underway for Nigeria and Egypt.

Over the last few years, Bangladesh has been posting strong GDP growth with figures generally above the 6% mark and the Republic anticipates the number to be lifted to 7% next year stimulated by the government's latest five-year plan to be implemented in 2016. It is based on this positive trajectory, the country's recent World Bank ranking upgrade to medium income as well as its solid relationship with the IDB as a founding member that led the Islamic bank to make the country a base for its CGO.

While the country has deep infrastructure needs, however infrastructure development has, for the most part, been slow. The World Bank estimated that Bangladesh will need to spend 7.38-10.02% of its GDP, or US$74-100 billion between 2011-20 to enhance its infrastructure network – power grids, water supplies and roads – to be able to serve its growing population. At 3% of its GDP, the country spends less than half of what it should for infrastructure.

A stronger presence of the IDB in Bangladesh could stimulate more development projects and support the country's aspirations to grow its economy by 8% by 2020.

"Currently, the volume of approved IDB Group financings with Bangladesh stands at US$18.6 billion, the highest amount of financing ever approved by the 56 IDB member countries," confirmed IDB Group president Dr Ahmad Mohamed Ali.

Brazil: Moving beyond its Halal industry

Brazil's Islamic finance potential is often associated with its robust Halal food industry, as it rightfully should; however, VINEETA TAN writes that beyond the food sector, infrastructure is another growing investment avenue for Shariah finance especially in light of the government's attempt to capture foreign capital into the segment.

Table 1: Brazil in a nutshell

Region	Latin America & Caribbean
Income category	Upper middle income
Population	202.03 million
GNI per capita (US$)	11,760

Source: World Bank

Economic overview

In South America, Brazil carries the economic torch with its well-developed agricultural, mining, manufacturing and service sectors which have among other things, contributed to a growing middle class and stronger presence in the global markets. Brazil's inclusion into the BRIC bloc is testament to its economic prowess. In terms of doing business, the World Bank placed the country at 111th in 2015 and 116th in 2016.

Regulatory landscape

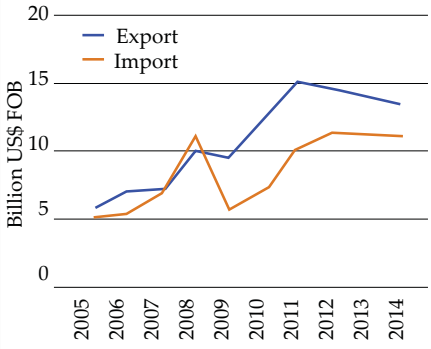
While there is no specific legal framework in place for Islamic finance in Brazil guaranteeing the enforcement of Shariah contracts and addressing the issue of double taxation, the government does support the use of Islamic finance contracts such as Salam, Murabahah and Mudarabah to structure financial instruments that are widely used in Brazilian agribusiness.

Halal industry

Although Brazil may have the largest Muslim minority in the region (alongside Argentina), however, the direction for Islamic finance in the country is likely to be toward the institutional side instead of retail.

The Shariah finance prospects for the country are most commonly discussed with respect to its robust Halal industry. In addition to being the world's largest Halal meat producer, Brazil also holds the distinction of being 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).

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



Source: Arab-Brazillian Chamber of Commerce

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).

The Central Islamic Brazilian Halal Food (Cibal Halal) is the operational arm of the Federation of Muslim Associations of Brazil, the organization behind the development and implementation of the Brazil's Halal industry, and has been in place since 1979. The Cibal Halal certification is recognized by various religious councils including those in Malaysia, Singapore and the Philippines and is considered one of the best in the world.

Infrastructure

Halal food aside, another segment that has been identified as a potential area for Shariah investments is infrastructure.

In the past few years, Brazil has undertaken robust infrastructure projects, especially in the area of housing, sanitation, transportation and energy, as part of its 2007 Growth Acceleration Program. According to industry participants, a significant portion of such investments is yet to be done or even in need of further financing to move forward – which therefore creates the opportunity for Islamic finance to step in.

According to Fábio Figueira, a partner at the Brazilian law firm Veirano Advogados, such opportunities for investments are not only found in projects to be developed, but also in ongoing finance to support the companies' cash flow. Veirano Advogados is one of the few domestic market participants positioning itself to tap the Shariah finance market and early this year, joined the global Islamic finance legal network ISFIN.

Recognizing such potential, Brazilian property developer Ritz Property and construction company G5, through its partnership (Ritz-G5), in February 2015 announced a Shariah compliant investment avenue in its Natal-based premium residential project, Majestic Village. The Brazilian premium residential project is the first independent investment product to be eligible for Shariah compliant funding.

Previously, Islamic funds in Brazil have primarily been the domain of equity houses and banks such as Banco do Brasil. Majestic Village is a 75-hectare serviced land plot condominium development in Parnamirim, an up-and-coming residential area in Natal. The project is designed to appeal to the domestic market and Brazil's rising middle and upper class population of over 90 million.

Corporate governance in Islamic finance

Independence, competence, responsibility and accountability are the qualities looked for in Shariah supervisory body members. A number of Shariah compliant institutions have updated their Shariah advisory selections so far this year, addressing issues that affect corporate governance across the Islamic finance industry. NABILAH ANNUAR assesses further developments in Shariah compliant corporate governance over the past 18 months.

Overview

The rapid growth of Islamic finance has necessitated strong and transparent corporate governance practices across all sectors. Many regulators have called upon the establishment of proper mechanisms and strategies to effectively implement suitable corporate practices in Islamic financial institutions. Correct corporate governance practices will contribute added value by enhancing the protection of depositor and investor rights, facilitating access to finance, reducing the cost of capital, improving operational performance, as well as increasing institutions' soundness against external shocks.

Addressing this need, international institutions such as the IFSB and AAOIFI focus on the development of principles and standards for corporate governance practices and reporting requirements of Islamic banks and Islamic financial institutions. Such standards are in line with international standards described by institutions like the Financial Stability Board, the Basel Committee and IOSCO.

Global regulatory update

The IMF's Inter-departmental Working Group on Islamic Finance in October convened its first meeting with its External Advisory Group, discussing the enhancement of Shariah and corporate governance, development of the Sukuk market, implications of Basel III requirements for capital and liquidity, and improving financing infrastructure and access.

Asia

Indonesia's financial services authority, Otoritas Jasa Keuangan, last year issued revised Islamic banking rules covering asset quality and capital adequacy to help clarify market practices as the industry's growth deteriorates. Announced on the 19th November 2014, the move is part of a package of 20 new rules ranging from corporate governance to microfinance. Authorities aim for Islamic banks to hold at least a 15% market share by 2023.

The Securities and Exchange Commission of Pakistan's chairman Zafar Hijazi in October 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.

Middle East

In the middle of the year, the Institute of Corporate Governance (Hawkamah), a subsidiary of the Dubai International Financial Center, entered into an agreement with the Department of Economic Development to collaborate in the creation of an Islamic Management and Governance Center in Dubai.

The center aims to provide training and education on Islamic governance as well as develop a broader Islamic economic and business ecosystem.

Fitch Ratings in a statement conveyed that the recently announced new rules from the Capital Market Authority of Kuwait (CMA) could galvanize the country's Sukuk market which has stalled and pave the way for issuance by corporations in 2016.

The new rules provide a broad framework that includes rules on governance and ensuring Shariah compliance, setting out the general terms and structure of Sukuk, requirements for appointing trustees, setting up SPVs, requirements for a credit rating for public issuance and the need for approval by the CMA and the Central Bank of Kuwait, among others. Fitch, however, added that it is unsure of how issuers and investors will take to the rules and how effective the implementation will be.

Metito Group's maiden Islamic deal

Dubai Islamic Bank (DIB) and UAE-based Metito, the intelligent water management solutions provider, in late October signed a AED240 million (US$65.32 million), 10-year Islamic financing agreement. The deal is the first Islamic financing agreement for Metito and the transaction was facilitated by Synergy Consulting, Latham & Watkins, and Morgan, Lewis & Bockius. Speaking to the financier, NABILAH ANNUAR provides an exclusive insight to the deal.

The facility is Metito's first Islamic finance agreement and DIB's debut partnership with a private company working in the water and wastewater industry. It is also the first deal involving a wastewater treatment plant under a long-term concession agreement. The long-term attributes of Islamic finance also makes it ideally suited for the sustainable nature of the water sector, with many projects lasting decades and requiring ongoing finance at competitive rates.

> ***"The region, and in particular the UAE, is witnessing renewed economic momentum with infrastructure development attracting local and international investors"***

According to DIB, several structures including Ijarah, Mudarabah and Musharakah were explored in detail. However, based on guidance and inputs from its Shariah advisory team, it was recommended that the most suitable financing structure for the client would be Musharakah. Proceeds from the facility are channeled to corporate expansion and the recapitalization of assets.

It was conveyed that there were a number of challenges faced in concluding the deal. "First and foremost, explaining to the client the concept of Islamic banking and its product offerings. Secondly, [the] due diligence process of the bank since the transaction is [the] first of its kind and we needed to evaluate all dynamics of the business before sealing the deal.

The major challenges faced were timelines and documentation involved for this deal. Despite [the] challenges, we were able to successfully conclude the deal in a timely manner as mutually agreed between both parties," said the bank to IFN.

The company had never explored Islamic financing until the said transaction where DIB was able to successfully structure the current financing deal customized to the client's requirements. The transaction is believed to be another step in expanding Islamic finance into sectors and institutions previously catered to by the conventional form of banking.

Commenting on the agreement, Dr Adnan Chilwan, group CEO of DIB, conveyed in a statement: "Clearly the region, and in particular the UAE, is witnessing renewed economic momentum with infrastructure development attracting local and international investors.

In our view, primary infrastructure development projects are the cornerstone of sustainable growth, a key element of the strategy of the country. DIB has always played a pivotal role in leading and facilitating such transactions and is linked to many landmark deals with some of the top corporates across the UAE and beyond. Metito's business model and their long-term strategic vision, ties in well with DIB's own growth plans, and further solidifies our position as a bank of choice in this sector."

Dubai Islamic Bank's Islamic financing for Metito Group

AED240 million (US$65.32 million)

بنك دبي الإسلامي
Dubai Islamic Bank

27th October 2015

Obligor	Park Water (Metito Group)
Aggregate principal amount	AED240 million (US$65.32 million)
Type of facility	Bilateral
Structure	Musharakah
Use of proceeds	Corporate expansion/ Recapitalization of assets
Tenor	10 years
Benchmark	EIBOR
Frequency of profit payment	Quarterly
Mandated arranger, documentation agent and coordinator and investment agent	Dubai Islamic Bank (DIB)
Legal advisor	DIB — Morgan, Lewis & Bockius Client — Latham & Watkins
Governing law	English law

The bare truth

By Dr Ken Baldwin

One of the things that I find interesting is to ask whether universities in the UK offering Islamic finance and banking courses will, in the future, continue with a modular approach or deliver fully-fledged whole courses in Islamic finance.

Currently, the vast majority of course delivery is modular. This reduces the risk that universities fail in their attempts to successfully market Islamic finance at the higher education level. Including a single module on Islamic finance packaged together with many more mainstream banking and finance modules in an undergraduate or Master's level course is definitely less risky.

It also makes sense from the perspective that a student who is not educated in mainstream banking and finance may fail to appreciate what an Islamic version is and how it is different.

However, is it not true that there are many students who would prefer a higher number of modules on Islamic banking and finance in their mainstream university courses?

It seems to me that this issue is probably being seen as one of specialist versus generalist. To specialize in Islamic banking and finance too early on could be seen as potentially detrimental to a career in banking if to do so means cutting off the chance of working for a conventional bank. Students who prefer to keep their options open would then choose modules rather than whole degrees in Islamic banking and finance.

But here's the snag. That would then mean that students wishing to pursue further education in Islamic finance and banking would have to do so at the Master's or PhD level, after which they may well stay in academia. This would in turn mean fewer bankers who are university-qualified in Islamic banking and finance. Hence, the rise of professional certifications in Islamic banking and finance that are undertaken by practitioners.

If the above point is correct, and I'm not saying it is, I'm just trying to ask a question, does that mean in future there is a growing demand for professional certifications in Islamic finance and banking that outstrips the rate of growth in demand for university-level Islamic finance and banking courses? Food for thought.

Flip the script

By Mohammad Raafi Hossain

Recently, a noteworthy academic institution invited CEOs from a variety of Islamic financial institutions to take part in a closed-door roundtable discussion alongside leading academics in Islamic finance.

The gathering, entitled 'CEOs Roundtable', was primarily brought together to discuss corporate social responsibility (CSR) and the contemporary role of Islamic finance in social development. It was a brilliant agenda and a well-organized event, yet only one CEO (out of more than a dozen invitees) actually attended. The rest of the financial institutions sent representatives on behalf of their respective CEOs. Why was such an important topic — that some would say is the elephant in the Islamic finance space — be neglected by the leading men in a maturing industry?

> ***"The value within CSI is where Islamic finance can truly espouse and intertwine the very ethos and social principles that it is built upon"***

Having been disappointed in the turnout and ensuing discussion, I decided to do some cursory investigation. Here are some recent CSR/social development projects by three large and well-known Islamic banks:

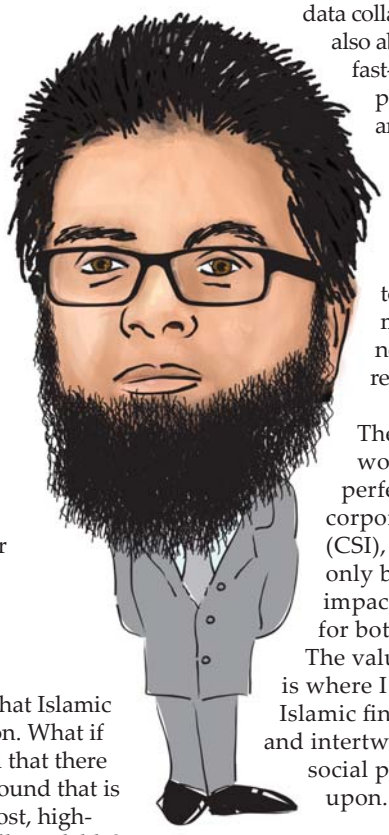
- Bank A: Contribution to build a hospital
- Bank B: Distribution of charity parcels
- Bank C: Creation of charity gift cards.

The aforementioned projects are hardly the type of projects that will engage CEOs of Islamic banks. And if they are the perceived notion of CSR within this space, then I think we are all willing to absolve high-level Islamic finance executives from attending any such discussions.

I'm not saying charity is not important, but charitable projects should be…well, left for charities.

Corporate social innovation (CSI)

Everyone will tell you that Islamic finance needs innovation. What if Islamic banks were told that there is an innovation playground that is under-regulated, low-cost, high-reward and exponentially scalable?



That innovation playground actually exists and it is called young people and the emerging middle class. These playgrounds not only exist in current domestic markets where Islamic finance is growing, but in frontier markets, such as North Africa, where Islamic finance is just starting to establish itself.

Among the numerous arenas for financial innovation, there is a tremendous opportunity to re-evaluate how creditworthiness checks are carried out through new methods such as psychometric analysis and high-frequency data collateralization. Potential also abounds in utilizing fast-growing mobile payment technologies and alternative crypto-currencies. And along with entrepreneurship and microfinance, all of these sub-domains offer an opportunity for banks to cater to an underserved market while testing out new products that may be replicated at the retail level.

These are areas that I would like to highlight as perfect domains for corporate social innovation (CSI), where the returns not only bring lasting social impact, but a strong prospect for bottom line profitability. The value within CSI initiatives is where I strongly believe that Islamic finance can truly espouse and intertwine the very ethos and social principles that it is built upon.

IBA establishes Center for Excellence in Islamic Finance

PAKISTAN

By Muhammad Shoaib Ibrahim

The Institute of Business Administration (IBA) announced the establishment of the Center for Excellence in Islamic Finance (CEIF) at the IBA with the collaboration of Meezan Bank. This center has been set up with the objective to bridge the gap between trained human resources and the industry's growing requirement in the field of Islamic finance. It aims to be a world class center to produce resources for the Islamic finance industry.

> ***"Good talent is needed at operations, the frontline of innovation, product development, marketing and customer relations"***

The CEIF won the competitive award under a challenge competition organized by the State Bank of Pakistan (SBP) which is being financed under a program by UK Aid. The SBP after scanning a long list of universities across the country has shortlisted three universities for establishing the CEIF: IBA Karachi, LUMS Lahore and IMS Peshawar. The center will offer degree programs in Islamic finance. At the moment, the focus of the center will be to offer short-term open and customized executive courses for professionals working in the Islamic banking industry.

The management board of the CEIF includes CEOs of major Islamic banks, regulators and the dean of the IBA. This strong linkage with the industry will enable the center to achieve its key objectives which include:

- To provide trained human resources to the industry to take it to the next level of maturity
- To conduct quality research and document case studies for enhancing and disseminating knowledge
- To be a platform for debate, discussion and discourse on current issues and best practices around the globe
- To provide a network of global outreach for Islamic finance
- To advance the theory of Islamic economics and finance and its role in society, and
- To establish a data center with best local and international resources.

Islamic finance continues to reach new heights and the industry is evolving into a more mature and sustainable economic system. Likewise, this segment is also growing within the country in an impressive manner. However, with the growth of the industry, the challenge of talented human resources is also rising. Good talent is needed at operations, the frontline of innovation, product development, marketing and customer relations. Pakistan's Islamic banking industry is rapidly growing and it is expected that it will double in growth within a few years. This high growth will demand expert human resources on Islamic finance on a continuous basis.

The IBA, which has been around for almost six decades, is dedicated to the task of imparting valuable education and work ethics to its students. The institute has gone through major changes over time in order to embrace a wider set of disciplines in its curricula. The cumulative impact of these developments is that the IBA today provides a congenial environment to its students to continuously enrich their academic and professional skills.

The establishment of the CEIF is an excellent initiative by the SBP, Meezan Bank and the IBA and will greatly support the Islamic financial industry of Pakistan to fill the gap of required human resources.

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Takaful, insurance, and reinsurance inside and outside of Egypt

EGYPT

By Dr Walid Hegazy

Several Egyptian insurance companies are currently renewing reinsurance agreements worldwide as part of their year-end policies. Companies such as Misr Insurance and Suez Canal Insurance are renewing arrangements with European insurance companies such as Germany's Hanover Re, but one renewal stands out. Wethaq Takaful is currently renewing its reinsurance treaty with the General Insurance Corporation of India (GIC Re). This deal is particularly important because it combines international reinsurance, Takaful, and insurance markets with high potential.

In general, as opposed to insurance, where a company collects premiums from customers and pays customers in case of events, reinsurance is when an insurance company pays another insurance company to protect it in case of catastrophic loss. Shariah prohibits traditional insurance because of its inherently speculative nature, and Takaful, which is Shariah compliant insurance, works based on principles of communal support and mutual benefit. In Takaful, payments in case of a catastrophe are not based on conditional contracts, but on extending support to one's neighbor.

The reinsurance treaty between Wethaq Takaful and GIC Re is important because of what it may mean for India's Muslim population of over 170 million people. There are more Muslims in India than in Egypt and the GCC combined. GIC Re is wholly owned by the Indian government, and the current Indian prime minister is Narenda Modi, who is a member of what is widely considered a pro-Hindu party. If an Indian government-owned enterprise is comfortable seeking reinsurance from a Takaful company, this may signal an increased willingness to build an Islamic finance market in India.

In October, Moody's, one of the three leading credit rating agencies, stated that Egypt's insurance market displayed 'untapped potential'. Moody's explained that this potential came from a combination of low insurance penetration and rapid growth of structures such as Takaful. Misr Insurance, which was mentioned earlier as a player in the reinsurance market, is currently considering setting up a new Takaful insurance company with the help of an experienced partner.

Also in October, the chairman of the Egyptian Financial Supervisory Authority (EFSA), which regulates insurance in Egypt, announced that a new draft Law for Insurance Supervision and Control is working its way through the Egyptian government. The EFSA chairman also stated that the draft law includes provisions that would regulate Takaful. Legal clarity support should further stimulate this market.

Although insurance is widely considered to be safe and relatively dull, the Egyptian Takaful market is in a period of significant excitement.

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Latest developments in the UAE Islamic finance space

UAE

By Rima Mrad

In the month of November, the UAE witnessed the announcement of an abundant number of news relating to the Islamic finance sector which is further fostering the previous announcements made by the UAE government to transform Dubai into a world-class Islamic capital market.

In early November, one of the major regional shopping mall operators, Majid Al Futtaim (MAF), completed the issuance of its US$500 million 4.5% trust certificates due in 2025. The trust certificates were issued through MAF Sukuk under their US$1.5 billion hybrid (Mudarabah and Wakalah) trust certificate issuance program and were admitted to trading on the Irish Stock Exchange and NASDAQ Dubai. It has been further reported that the sale of these Sukuk received an orderbook of US$1.6 billion.

Also, the National Bank of Ras Al Khaimah (RAKBANK) has partnered with Dubai Properties to provide the UAE's residents and non-residents with flexible conventional as well as Shariah compliant home financing solutions. According to a press release by RAKBANK, the facilities extend up to 25 years with finance available to foreigners and nationals.

Dubai Islamic Bank and Metito, a water management solutions company, have also signed a 10-year Islamic financing agreement for AED240 million (US$65.32 million).

On another level, the Dubai Chamber of Commerce and Industry held a workshop on the various structures and technicalities surrounding Islamic financial practice. The workshop focused on the most common Islamic financial transactions and investment vehicles and covered the structures of Mudarabah, Ijarah, Istisnah, Musharakah and Sukuk.

Further, the International Innovative Platform for Islamic Economy Products 2015 was launched recently. This platform is looking to strengthen the international Islamic economic system and is being organized by the International Center of Islamic Economy in partnership with DAFZA and in conjunction with UAE Innovation Week 2015 which is being held in line with president Sheikh Khalifa Zayed Al Nahyan's declaration of 2015 as the 'Year of Innovation.' Innovation Week is a pioneering initiative launched by Sheikh Mohammed Rashid Al Maktoum, the UAE vice-president, prime minister and ruler of Dubai.

The Dubai International Financial Center (DIFC) has also announced that Mitsubishi UFJ Financial Group (MUFG)'s banking arm, the Bank of Tokyo-Mitsubishi UFJ has launched its Islamic finance business through its Dubai branch based in the DIFC.

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Islamic finance: The need to emerge from the conventional shadows

ISLAMIC FINANCE

By Youssef Aboul-Naja

We are all acquainted with the saying, 'No man is an island' which actually comes from a poem by John Donne, where it says: "No man is an island, entire of itself; every man is a piece of the continent, a part of the main." This self-explanatory phrase is cited, more often than not, to highlight our interconnectedness to each other; no one person is self-sufficient. Yet, we often overlook the implicit reference to individualism embedded within the saying; this 'man', whom is perfectly defined, is his own unique entity, while being part of the whole.

> ***"To date, Islamic finance has been playing within the shadows of the conventional industry, partly due to the industry's comparatively smaller size"***

It is important to stress that individuals and collectives alike play an important role in influencing and shaping each other. For example, if we look at any one of the various systems (religion, language, culture, economics, etc), we note that any specific subsystem has underpinnings from the collective and that specific subsystem started translating accessible knowledge within its own interpretational lens. As the subsystem matures, it begins to produce its own set of knowledge; should it become large enough, it may even become its own respective system.

To that end, 'modern' Islamic finance entered the finance world scene sometime in the mid-1970s. Like any newly formed discipline, Islamic finance borrowed heavily from its conventional counterpart. Over the next couple of decades, Islamic finance grew at unprecedented double-digit rates; and keeping in mind how systems behave, conventional banks began to take note.

So just as Islamic institutions began 'Islamizing' conventional facilities, conventional banks began devising 'Islamic windows'; channels aimed at pious-centric clients. But to date, Islamic finance has been playing within the shadows of the conventional industry, partly due to the industry's comparatively smaller size. Although this may still be fine for the time being, failure to detach from conventional practices, even in a gradual manner, may run the risk of capping the industry's growth potential; worse yet, the Islamic finance industry may even be gobbled up by its conventional larger sibling.

But in all seriousness, putting aside the doom and gloom scenario, today's reality of the Islamic finance industry is nothing short of a rosy picture. The industry is in perpetual growth, orchestrated by highly motivated and innovative players capitalizing on phenomenal demand. The time is ripe for the industry to leap toward its next phase of maturity. "Turn your face to the sun and the shadows fall behind you" (Charlotte Whitton).

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REGULATORY ISSUES (ASIA)
Intan Syah Ichsan , chief operating officer, Samuel Aset Manajemen

REGULATORY ISSUES (MIDDLE EAST):
Mohammad Abdullah Malik Dewaya, head of Shariah compliance and audit, Maisarah Islamic Banking Services

RETAIL BANKING:
Chowdhury Shahed Akbar, officer, Southeast Bank, Bangladesh.

RISK MANAGEMENT:
Dr Ken Baldwin, CEO, Islamic Financial Analytics

SECURITIES & SECURITIZATION:
Nidhi Bothra, executive vice-president, Vinod Kothari Consultants

STOCK BROKING & TRADING:
Athif Shukri, research analyst, Adl Capital

STRUCTURED FINANCE:
John Dewar, partner and head of Islamic finance, Milbank, Tweed, Hadley & McCloy

SUKUK
Anthony Coleby, head of corporate commercial department, Said Al Shahry Law Office (SASLO)

SYNDICATED FINANCE
Damir Galiev, portfolio manager, AK BARS Bank

TAKAFUL & RE-TAKAFUL:
Dr Sutan Emir Hidayat, assistant professor and academic advisor for Islamic finance, University College of Bahrain

TAKAFUL & RE-TAKAFUL (AFRICA):
Uwaiz Jassat, acting head of Islamic banking, Absa Islamic Banking

TAKAFUL & RE-TAKAFUL (EUROPE):
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Challenges in the Islamic asset management industry

In order for the Islamic finance industry to competitively compete with its conventional counterpart, the industry is required to not only provide the Shariah compliant version of mainstream financial services, but also offer tailor-made services to cater to the growing needs of all potential clients, especially as economies become more mature and financial transactions grow more complex in nature.

ASSET MANAGEMENT

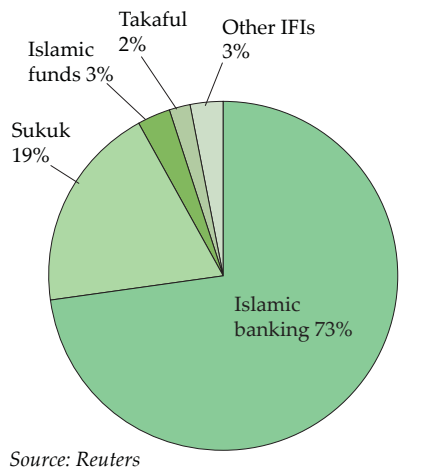
By ICD

This is crucial, given the importance of financial intermediation in sustaining economic growth and development, especially when one considers the strategic role of financial institutions as the prime mover of the economy. Therefore, a strong and inclusive banking system should be able to fulfill clients' demands in all sub-sectors within the banking sector, which include retail banking, corporate banking, investment banking, brokerage and trading, and asset management.

Nevertheless, there appears to be a disconnect when it comes to the speed of maturation of the Islamic asset management sector vis-à-vis other sub-sectors within the Islamic finance industry. Relatively speaking, the Islamic asset management sector is still struggling to reach its potential and continues to lag behind in terms of growth compared to the retail, corporate, and investment banking sectors, which have flourished with leaps and bounds over the years. To put it into perspective, the current Islamic finance industry is worth approximately US$2.1 trillion; however, Islamic funds' assets under management (AUM) represent a mere 3% of total global Islamic finance assets.

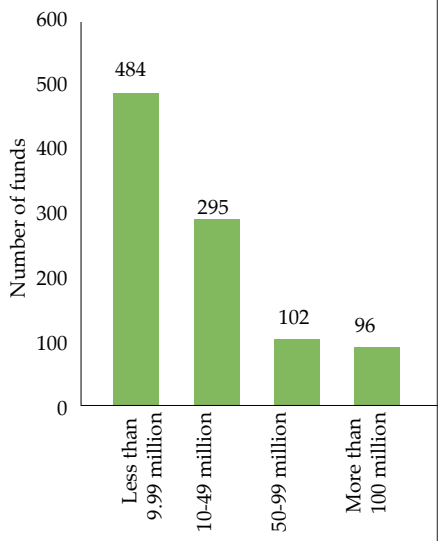
There are a number of legitimate concerns that need to be properly addressed, to which the lack of scale continues to be a key obstacle facing the Islamic asset management industry. Compared to the conventional asset management industry, the differences in scale are immense, and so are the differences in terms of sophistication, complexity and resource allocations. Given the small size of the industry, the Shariah compliant fund space is largely monopolized by players of larger funds, and this forces out smaller players as they are unable to compete.

Chart 1: Islamic finance breakdown by sector (2014)



Source: Reuters

Chart 2: Islamic mutual funds' AUM outstanding in US$ (financial year-end 2014)



Source: Reuters

The industry is also highly concentrated in core geographic markets (top three domiciles for Islamic funds are Malaysia, Saudi Arabia and Indonesia), which leaves no room for diversification and product innovation since the space is flooded with the same types of structures with matching mandates. This becomes a big problem as the market is continuously demanding for more sophisticated products with broader product ranges.

Other industry challenges include fund costs and the valuation of assets. An additional layer is added to the cost of running Shariah compliant funds, as there is a need to appoint Shariah boards in order to ensure full compliance. This issue of financing Shariah boards is exacerbated with sometimes conflicting interpretations by different scholars from different jurisdictions, which makes distribution across borders more complicated.

Due to the fragmented nature of the industry and regulatory constraints that would otherwise enable funds to be distributed across borders and be readily available for investors across the globe (such as fund passporting schemes), launched funds will remain focused to serve local marketplaces on a country-to-country basis through asset managers' in-house channels. Currently, most Islamic banks have yet to progress toward open architecture platforms and third-party distribution channels, and the emphasis is still geared toward the sale of proprietary products. Considerations for growth of the industry should include effective distribution networks, which will allow expanded geographic and product penetration.

Meanwhile, the required screening process of Shariah compliant assets is cumbersome, while asset valuation is hampered by a lack of liquidity in some instruments. The need for skilled personnel with the appropriate expertise is also critical, although this is a similar issue plaguing the Islamic finance industry as a whole.

Additionally, whereas the foundation of the conventional asset management

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industry is mostly made up of institutional investors, such as sovereign wealth institutions and pension funds, followed by high-net-worth investors, the Islamic asset management industry suffers from a high dependence on retail investors. Consequently, there has been a slow adoption of Islamic funds. In this case, creating products to suit the investment criteria and risk appetite of institutional investors is ideal in order to attract higher volumes.

On a positive note, more players are seeing the growth and potential in this niche market. Moving forward, it is hoped that regulatory challenges are addressed and new products are rolled out to capture the opportunities and capitalize on market expansion. Investors now have more investment options than the typical equity fund (which usually represent more than half of the funds universe), such as niche products in agribusiness, natural resources equity funds and so on.

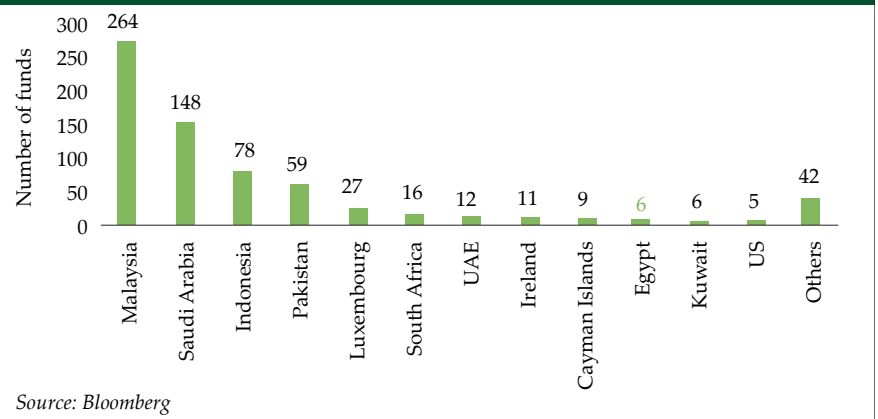
Through the set-up of its thematic funds, the Islamic Corporation for the Development of the Private Sector (ICD) aims to address problems created by trends such as resource shortages or urbanization, while meeting investors' financial objectives.

In essence, the similarities of Shariah compliant socially-responsible investment (SRI) products such as the funds outlined in Figure 1 and ethical asset management products will open up a far greater target market than what exists today, in that they create the opportunity to broaden the investor base of Islamic products to benefit both Muslim as well as non-Muslim investors who are interested in SRI.

In conclusion, the Islamic finance asset management industry is still at its infancy stage, with much room for growth and development. Although the industry is riddled with challenges and growth has been sub-par in recent years, awareness of the industry has grown across the globe and the long-term growth potential of the industry is optimistic, given the inherent demand.

Additionally, the strong philosophical convergence between SRI and Islamic finance can open doors in non-Muslim markets, which bodes well for the future of the industry.

Chart 3: Countries with the most Islamic funds (as of 2014)



Source: Bloomberg

Figure 1: ICD's thematic funds

Current Funds	Future Funds
The ICD Food & Agribusiness Fund has been developed to make a catalytic contribution toward promotion of food security and development of the food and agriculture sector in the member countries **The ICD Central Asia Renewable Energy Fund** has been created to developed and promote the renewable energy sector in various Central Aisan Member Countries **The ICD Islamic Growth Fund** is designed with the objective of further streamlining, expanding and improving the effectivenness of ICD's intervention programn in the financial institution sector	**The ICD healthcare Fund** focuses on the core, traditional healthcare sub-sector within ICD Member Countries. The subsector of interest include general hospitals, specialized clinics such as pediatrics, gynecolcogy etc. satellite clinics, long term care facilities, medical laboratories, pharmaceutical companies, pharmacy logistic and chains Other funds in solar energy, education sector, are also in planning stages. It is envisaged that at least one of these funds in the renewable energy sector will be succesfully developed and launched before the yaer 1438H

Source: ICD

Murabahah in Morocco: What must be adjusted

After the promulgation of the new banking law n°103-12 in February 2015, economists and finance specialists stand curious about the circulars of the central bank (Bank Al-Maghrib) and the tax administration (Direction Générale des Impôts) accompanying the introduction of participative (Islamic) banks in 2016. MOHAMED MAHFOUD analyzes the legal framework of Murabahah in comparison to AAOIFI's international Islamic finance standards to try and avoid the failure of participative products.

MURABAHAH IN MOROCCO

By Mohamed Mahfoud

Each specialist or researcher in Islamic finance wants to know what kind of improvements or adjustments the legislator will introduce into the regulatory framework of participative banking products, in order to avoid the failure of the alternative banking products launched in 2007. The major causes of the failure of the alternative banking products are: high prices, incoherent and over-taxation, low advertising and a lack of willingness from bankers).

Murabahah is defined in Article 58 of the Banking Law 103-12 as: "The contract by which the participative bank sells to its client a commodity (owned by the bank) with a defined and agreed mark up. The payment is made by the client on an agreed schedule." The regulatory framework of Murabahah in Morocco is regulated by the central bank for the legal and accounting framework and by the tax administration for the tax framework.

Thus, what are irregularities and inconsistencies of the Murabahah regulatory framework in Morocco? And what should be done in order to adapt it to the international Islamic finance standards?

Legal and Shariah framework

In comparison to AAOIFI's Shariah standard n°8, the legal framework of Murabahah suffers from some inconsistencies as follows:

- **Form of the contract**: The AAOIFI standards emphasizes two separate contracts: the first contract, between the supplier and the bank; and the second contract, between the bank and the customer. The Moroccan legislator considers Murabahah as one contract with three contractors (including the first contract of the commodity purchase and the second one for the re-sale to the customer).

- **The promise from the customer**: The purchase promise from the customer has no legal qualification in Moroccan law. The AAOIFI declares that the promise from the customer must be:
  - unilateral (obligations and legal effects)
  - agreed and signed before the Murabahah contract
  - established separately besides the Murabahah contract, and
  - considered as a simple promise and not a sales contract.

- **The security deposit advance**: In the international standards, there are differences between the advance of the customer and the security deposit. In fact, the security deposit:
  - is to be paid within the promise phase
  - can be held either as trust in the custody of the bank or as an investment trust in a Mudarabah contract
  - can be used to compensate any damages caused to the institution arising from a breach by the customer of his binding promise
  - is an engagement from the client toward the institution.

Nevertheless, advances are to be paid after the signing of the Murabahah contract because they are considered as a part of the Murabahah sale price. According to AAOIFI standards, it is highly recommended for the bank to just deduct damages and costs from a client's advances in case of a breach of his binding promise.

- **The client purchase orderer as the institution's agent**: There are several conditions to respect in order to design the client as the institution's agent. According to international standards, the non-compliance of these conditions will render the Murabahah transaction similar to an interest loan or an Inah sale. Although the Moroccan legislator has formally clarified all the obligations and effects of the agent (in a sales operation) in Articles 879 to 942 of the Obligations and Contracts Law, he should include the Murabahah contract because it has many particularities and risks regarding its Shariah compliance.

- **Commissions and expenses charged to the client**: The AAOIFI standards stipulate that any commission or expense (except those related to a feasibility study or actual file expenses) charged to the client before the Murabahah contract is forbidden. Thus, commitment or credit facility fees are not permissible under any circumstances. In Morocco, banks and financial institutions charge to their clients excessive commitment fees. Knowing that the billing of such costs falls within the contractual freedom of the contracting parties, banks use their strong position to benefit from these commissions, whereas they should constitute only the actual costs incurred by the bank.

Accounting framework

In comparison to AAOIFI accounting standard n°2, the accounting framework of Murabahah suffers from some irregularities as follows:

- **Engagement types and the security deposit**: In the AAOIFI standards, there are two types of client engagement (binding and non-binding promise of purchase), and so the bookkeeping of the security deposit is clearly defined. In the central bank's circular, client engagement is posted out of balance without identifying the type of engagement or the treatment of the security deposit.

- **Commodity's possession principle**: The AAOIFI standards consider the possession of the good (by the bank) before its resale to the client as an important stage for the compliance of the Murabahah contract. However, the central bank omits the possession principle in the accounting drawings for the Murabahah operation because it is considered as two simultaneous

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operations (purchase and resale). Thus, the commodity's possession by the bank is impossible. The Murabahah transaction can be assimilated to a loan with interest.

- **Murabahah's commodity valuation at year-end**: The Moroccan legislator did not mention how to evaluate the Murabahah's good for resale at the end of the year. As the Murabahah is considered as two simultaneous operations, there is no reason for the good to stay in the bank's stocks at year end. However, the AAOIFI standards define two methods of valuation regarding Murabahah goods at the end of the accounting year: historical cost or net realizable value whether the client's engagement is binding or not.

- **The client's withdrawal**: The AAOIFI standards present the bookkeeping schemes regarding the client's advances and the security deposit in case of the client's breach of his binding promise. However, the risk of the client's withdrawal is impossible according to the central bank's schemes because of the simultaneous purchase and resale operations in Murabahah.

- **Delay penalties**: In Islamic finance, delay penalties charged to a bad client (who delays with no good reasons) are just considered as punitive and as a deterrent. Moreover, these penalties are diverted to charitable causes and not for the benefit of the institution. However, the Moroccan legislator considers the delay penalties as an income for banks and financial institutions without differentiating between a client in a bad financial situation and a good client.

- **Discount from the supplier**: It is clearly stated in the AAOIFI standards that if the institution receives a supplier's discount on the item's price of a Murabahah sales — even after drawing up the contract — the client should benefit from it. The Moroccan legislator does not mention the treatment of such a discount.

Tax framework

The tax framework of Murabahah in Morocco has improved since the introduction of alternative banking products in 2007. In fact, in the 2010 financial law, the value-added tax (VAT) rate was decreased from 20% to 10%, the double taxation regarding registration duties was deleted (a unique rate 4% is now applied on the purchase price of the commodity) and the client is able to deduct the margin profit's installment from his payroll's income tax.

However, two inconsistencies need to be managed as follows:

- **Combined VAT**: In the business model of commercial operations, VAT is normally calculated based on the item's price without VAT. However, in Murabahah (as a commercial operation) the institution considers the purchase price (with VAT) as the basement for margin calculation; therefore, VAT of the resale price is calculated upon an amount price which already includes VAT.

- **Double payment of property's registration duties**: These duties are paid twice; first when the bank purchases the property and second when it is resold to the client. Obviously, the bank charges the property registration fees to the client at both stages.

Recommendations

The following are recommendations about the Murabahah contract model as elaborated by the central bank and adopted by Moroccan banks:

- **Two separate contracts**: In Murabahah, there must be two separate contracts: the first one is between the supplier and the bank, and the second one is between the bank and the client or purchase orderer.

- **Two separate delivery receipts**: Attached to the two aforementioned contracts, there must be two delivery receipts. The first receipt is signed by the bank, and the second one is signed by the client (the two receipts act as an approval for the good's delivery).

- **Cancel any arrangement between the supplier and the client/purchase orderer**: Any arrangements made before the Murabahah contract between the supplier and the client/purchase orderer must be canceled (such as a reservation contract or a preliminary sales agreement).

- **Consider the amount paid by the client before the Murabahah contract as a security deposit**: There has to be a difference between the security deposit paid before the Murabahah contract and the advance paid after the contract. Each type of payment obeys specified accounting rules according to AAOIFI. Thus, the legislator must define the treatment of the security deposit and the advance in case of a client's withdrawal.

- **Observe a minimum period of time between the purchase of the good by the bank from the supplier and its resale to the client**: The first operation of a good's purchase by the bank from the supplier must be separated from the second one where the bank sells the good to the client. In general, the first operation (purchase) must be approved and finalized before the second one (Murabahah) and must be separated by a period of time depending on uses and traditions of each country. In Morocco for example, the ownership transfer of the property — in real estate Murabahah — depends on the registration in the property register of the administration.

- **Specific article about delay penalties**: In the Murabahah contract, it must be clearly written that the penalties charged to clients who delay payments will be donated to charitable associations in order to differentiate them from interest (Riba).

In conclusion, this article is an overview of the regulatory framework of Murabahah in Morocco. Despite legal and accounting discrepancies and inconsistencies in tax statements, it can be said that Murabaha — which will certainly be the most popular product after introducing participative banks — has a legal, accounting and tax framework fairly advanced compared to other participative products such as Ijarah, Istisnah, Salam, Musharakah and Sukuk. The improvements and adjustments proposed in this article will make Murabahah even more attractive and competitive in the financial market, through its compliance with Shariah and international accounting standards of Islamic finance issued by AAOIFI.

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Innovation in financial services needed

The lending requirements in the financial services domain and more importantly in the Islamic finance space have advanced to accommodate a range of various alternatives, including peer-to-peer (P2P) lending options. Over the years, research firms have tried to unfold the trends and upcoming requirements in the industry to effectively inform providers and institutions of the changing consumer behavior patterns. AKASH ANAND summarizes some of the trends in the sector.

FINANCIAL SERVICES

By Akash Anand

'Disruption' (as it is defined by the alternative finance researchers) will not be a one-time event, rather a continuous pressure to innovate and shape customer behaviors, business models, and the long-term structure of the financial services industry.

Innovation in financial services seems to be needed; industry players will be needed to differentiate in order to increase and maintain their competitive advantage. Innovations affect the areas of technology and client service especially for Islamic financial institutions, while the deployed business models add significant value.

The banking sector seems to be affected by these changes, while other industries will play a key role in developing new lending processes.

Islamic finance institutions might need to deploy parallel strategies, aggressively competing with new entrants while also leveraging legacy assets to provide those same new entrants with infrastructure and access to services.

Disruption in lending methodologies

As the alternative lending platforms in the high-risk lending market matures, alternative lending marketplaces will gain sufficient customer trust to attract more risk-adverse investors and low-risk borrowers.

The ability of alternative lending platforms to offer borrowers lower interest rates and a more streamlined customer experience will also help attract and retain this type of borrowers.

Lending marketplaces also move upstream to prime lending markets thus evolving to become the primary point for consumer lending and an investment destination for a portion of a bank's deposit float.

In order to build sufficient customer awareness/trust, particularly in the market for low-risk lending, alternative lenders enter into partnerships with existing financial institutions.

Traditional financial institutions are able to refer high-risk borrowers who do not meet minimum lending requirements to alternative platforms, thereby helping those customers fulfill their financing needs without the risk of losing other elements of their business (eg deposit accounts, credit cards) to another traditional financial institution.

Some smaller, and more regional, institutions may also find it beneficial to 'park' excess funds with their lending marketplace partners as a mechanism to diversify their lending portfolios.

Responding to the trend of online marketplace platforms, traditional institutions transform their technologies and processes and/or acquire or partner with the alternative platforms. This allows traditional institutions to leverage alternative adjudication methods, deliver a more streamlined lending process, and improve efficiency to potentially offer lower interest rates. It will also allow them to selectively cater to different types of borrowers .

Peer-based capital-raising platforms that focus on seed-stage investment opportunities lose popularity among mass investors when they realize that the investment horizon is very long and the chance of a successful exit is low. Instead, peer-based platforms (crowdfunding) can shift their focus to smaller projects that either have a higher chance of generating sustainable profits sooner, or can deliver benefits above and beyond financial returns.

Examples of non-financial returns include community development (eg funding the expansion of a favorite coffee shop or re-paving local roads) and ideological pursuits (eg sustainable energy), also known as donation crowdfunding.

Inspired by the ability of peer-based funding platforms to simultaneously raise funding and cultivate new clients, established companies (such as insurance companies and banks) partner with peer-based platforms to fund their growth. By engaging directly with customers, large companies can gain exposure to potential customers and build deeper partnerships with existing ones. Customers in turn feel that they are participating in the growth of their favorite businesses.

Businesses can also further compensate or incentivize their customer-investor base by providing perks that go beyond interest or dividends, such as future discounts.

Alternative lending

New lending platforms are transforming credit evaluation and loan origination as well as opening up consumer lending to non-traditional sources of capital.

Key disruptive trends

- P2P lending
  By acting as online marketplaces, P2P lenders face lower funding costs than traditional depository lenders.

- Alternative adjudication
  Alternative lending platforms assess the creditworthiness of borrowers based on metrics beyond the credit scores used by traditional lenders more frequently to incorporate feedback based on empirical analysis.

- Lean, automated processes
  Alternative lending platforms are utilizing modern technologies, allowing them to onboard and assess borrowers and lenders in a more streamlined fashion. Assessment of borrowers is partly automated against

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predefined rules for fast, transparent processing.

Implications for financial institutions

- As savers turn to alternative platforms, traditional deposits and investment products will be forced to change.
- Intensified competition will narrow the spread between deposits and loans.
- Financial institutions' ability to collaborate with non-traditional players and other institutions will become essential.

Conclusion

The aforementioned trends for the industry including Islamic finance institutions can be summarized as follows:

- Niche, specialized products: New entrants with deep specializations are creating highly targeted products and services, increasing competition in these areas and creating pressure for the traditional end-to-end financial services model to unbundle.
- Automation of high-value activities: Many emerging innovations leverage modern technologies to automate activities that were once highly manual, allowing them to offer cheaper, faster, and more scalable alternative products and services.
- Customer empowerment: Emerging innovations give customers access to previously restricted services, with online, mobile and cloud technology.
- Streamlined infrastructure: Emerging platforms and decentralized technologies provide new ways to aggregate and analyze information, improving connectivity and productivity.

Akash Anand is the head of the MEA and APAC regions and the managing director of regional affairs at Profile Software. He can be contacted at aanand@profilesw.com.

Kenya's eurobond 2014/2015 and debut Sukuk 2015/2016

Kenya had plans to sell a US$1.5 billion eurobond to American and European investors to fund infrastructure projects including rail and roads as part of the program to transform the country into a middle-income country by 2030. The issuance of the eurobond by the International Finance Corporation had been in the pipeline for the last seven years and was initially expected to be in January 2014 or earlier. However, it was only in June 2014 when the government received US$2 billion in its account with the Central Bank of Kenya (CBK) after it completed the issuance of a 10-year US$1.5 billion and a five-year US$500 million eurobonds on the Irish Stock Exchange market. KHALFAN ABDALLAH explores.

KENYA

By Khalfan Abdallah

According to some reports, the Kenyan government received KES250 billion (US$2.41 billion) from the eurobond loan, from which approximately KES196.9 billion (US$1.9 billion) was transferred to the exchequer account and approximately KES53 billion (US$510.33 million) used to repay a syndicated loan.

What is a eurobond?

A eurobond is a bond that is issued in a currency other than the currency of the country where it is issued. The currency in which eurobonds are issued also determines their name, for example eurodollar, which is issued in US dollars, or euroyen, which is issued in the Japanese yen. In Kenya's case, it is eurodollar bonds. Through these two bonds, the government essentially asked investors to lend US$2 billion on the promise that it will pay it back in five and 10 years with interest. The government, through the CBK, gave these private investors a piece of paper known as a bond, and in return the CBK collected on the government's behalf US$2 billion in cash in the form of a loan. The buyers or investors of these eurobonds, who are generally large companies, banks or financial institutions and governments, will be paid interest on an annual basis and the principal amounts at maturity. Eurobonds are free of withholding tax and are traded electronically in the secondary markets across international financial centers.

Expectations versus reality

Kenya's expected eurobonds will go toward financing huge infrastructure projects such as roads, railways, ports, water and energy to ensure steady economic growth and poverty reduction and would also be helpful for the country's economy if the borrowed funds are spent on infrastructure projects that offer a greater scope for augmenting revenue earnings and creating employment opportunities. However, according to news reports it is unclear what happened to all that money. It was reported by Daily Nation on the 4th November 2015 that Treasury Cabinet secretary Henry Rotich was at pains to explain which infrastructure projects were funded by the KES196.9 billion.

Though Rotich gave a statement to the media on how the government shared billions among ministries to fund infrastructure projects, he has, however, been unable to list the specific projects the money was used to fund, fueling speculation that the funds could have been used to pay salaries and other recurrent projects or that they could have been stolen.

Eurobonds are expected to ease interest rates in East Africa's biggest economy. The current high domestic borrowing by fiscal authorities to finance the budget deficit increases competition for funds and drives up interest rates. It seems that Rotich is now planning to borrow less from domestic markets because of this new money from the bond proceeds; there will be pressure on banks to lend the excess liquidity elsewhere. The extra supply of cash will, therefore, hopefully help to bring down bank lending rates to the productive sectors of the economy.

Contrary to expectations, on the 9th June 2015 the CBK raised the benchmark interest rate to 10% from 8.5%, setting the stage for a rise in the cost of loans in the coming months. And on the 22nd October, the 91-day treasury bills peaked at 22.5% while the interbank lending rate reached 25.84%. According to Business Daily on the 24th October 2015, banks have started to advise their customers on the interest rate changes which according to some banks have gone as high as 27% and likely to take effect before the end of November.

However, the media has reported that the CBK has intervened and directed banks to freeze all planned interest rate increases and instead reduce their market rates on loans in line with the current market conditions. Lenders were, however, quick to dig in with their lobby group indicating that the industry might ignore the directive and keep the rates high. Currently, only Standard Chartered Bank and Barclays Bank have informed their customers that they had shelved their plans to increase rates. Equity Bank followed suit with the cancellation of notices that had informed borrowers of the bank's intention to increase rates by up to six percentage points with effect from the 19th November. This move by the banks triggered a steep fall in Treasury bill and bond yields from 22.5% on the 21st October to 9.7% in the second week of November.

The eurobonds are expected to reduce domestic borrowings by the government. At the moment, the domestic markets have been the biggest source of government borrowings.

With the current cash crunch facing the government due to the Kenya Revenue Authority's below-expected average collections, the government is seeking to borrow a staggering KES78.8 billion (US$758.75 million) in syndicated loans from local banks to plug a gaping KES600 billion (US$5.78 billion) hole in the budget, which has been made worse by low tax collection and wastage. The Daily Nation on the 14th October 2015 reported that the government had

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borrowed KES100 billion (US$962.88 million) from the local market since July and all the money was used to settle local and foreign debt.

By the 4th November, Treasury was looking for KES80 billion (US$770.31 million) and managed to borrow a KES60 billion (US$577.73 million) commercial loan from Citibank, Standard Bank and Standard Chartered Bank as the first tranche. The rest will be secured from 'other sources' according to Treasury principal secretary Kamau Thugge. Again, according to Treasury, the money will go to infrastructure projects!

"With respect to interest rates, the intended reduction in the borrowing rates has not been felt. The 91-day Treasury bill rate reduced slightly in August 2014 after the bond was issued in June 2014 and stabilized until May 2015 when an upward trajectory was witnessed. This indicates that the sovereign bond did not have a huge impact on the domestic borrowing by the government," the Budget Office said in a brief prepared for the Public Aaccounts Committee. Currently, public debt stands at KES2.6 trillion (US$25.03 billion), equivalent to 46.8% of GDP.

The political opposition has now become vocal and accuses the government of 'over-borrowing, over spending and over stealing.' The government says any debt below 50% of the GDP is sustainable and rejected any wrongdoings.

The flotation of the bond will also be a step in the right direction for easing pressure on foreign exchange reserves. It would enable the government to maintain a stable exchange rate. It is expected that with the dollar proceeds from the bond, the Kenyan shilling is expected to receive a cushion.

Despite eurobond proceeds being received, the Kenyan shilling against the dollar reached an all-time high of 106.15 in September 2015. However, according to exchangerate.org.uk, by June 2014 the Kenyan shilling was exchanging with the dollar at 87.88. A year after the bond, the rate reached 102.30 and now after ups and downs it has reached 102.35 per dollar. The Parliamentary Budget Office said the eurobond had no impact in stabilizing the exchange rate.

Now, according to the Business Daily, the Uhuru government is facing criticism over the current economic uncertainty facing the country, which has been characterized by a serious cash crunch, sliding value of currency, high interest rates and sky rocketing public debt.

Debut Sukuk (Islamic bond)

Speaking after a successful debut US$2 billion eurobond in 2014, Rotich had said that Kenya plans to issue another international bond in fiscal 2015/16 and may consider a Sukuk. According to The Star, the National Treasury is working on an Islamic bond, popularly known as Sukuk, to draw foreign investments from oil-rich Gulf and Middle East regions whose participation in the hugely successful US$2 billion debut eurobond was religiously prohibitive.

With the current political climate, the outcry on mismanagement of the eurobond proceeds, the mismatch between expectations and reality coupled with serious corruption allegations, it was reported in the Daily Nation that the publication of an official audit found just 1% of the Kenyan government spending and a quarter of the entire US$16 billion budget was properly accounted for. The Daily Nation quoted Agnes Odhiambo (a controller of budget) as disclosing that money from the KES175.6 billion (US$1.7 billion) eurobond was received and approved for spending, but Treasury has not been clear on what the money had been used for, which makes one wonder if the country is ready and prepared to issue Sukuk.

Unless the situation changes, Sukuk is likely to be shelved indefinitely due to the political climate but more importantly, to prevent religious-motivated investors from facing high Shariah non-compliance risk due to the negative eurobond precedent.

Normally, Sukuk proceeds are expected to be channeled to specific projects or specifically used in a Shariah compliant manner. With many questions surrounding eurobond proceeds and its aftermath, if the government wants to move on with Sukuk plans extra efforts will be required from the government, Shariah scholars (who will approve the structure) and other stakeholders to assure investors that the funds would not end up servicing any existing government interest loans or invested in conventional banks to earn interest (some reports show that the eurobond earned KES14 million (US$134,803) in interest from offshore banks), or end up in corruption scandals.

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Corporate governance in the GCC: How current practices can be further enhanced and how existing challenges can be overcome

According to the CFA Institute: "[C]orporate governance is the system of principles, policies, procedures, and clearly defined responsibilities and accountabilities used by stakeholders to overcome the conflicts of interest inherent in the corporate form." Essentially, corporate governance is to oversee how organizational affairs are conducted. M R RAGHU takes a look at corporate governance in the GCC.

CORPORATE GOVERNANCE

By M R Raghu

Companies that have effective corporate governance mechanisms can instill a sense of accountability and transparency in organizational leaders. In an age of dynamic technological developments that are empowering various stakeholders to monitor and question organizational actions, a functioning corporate governance setup will help in building deeper public trust. There are several factors, both international and regional, that are pushing companies in the GCC toward more proactive corporate governance practices.

There is now intensified international convergence of prudential and regulatory codes and standards on matters such as anti-money laundering and counter-terrorist financing. In a regional context, the role of the stock exchanges and capital markets are growing in the GCC, which traditionally has had a large number of privately held and family-owned enterprises. There is little doubt there is still some way to go before all of the GCC develops highly robust corporate governance codes and practices.

A 2006 report published by the Institute of International Finance and Hawkamah, the Institute for Corporate Governance noted that: "[I]n general, the economic and business environments within the Gulf Cooperation Council […] countries have not been conducive to the development of effective corporate governance practices. With the exception of Oman and to a lesser extent Kuwait and Saudi Arabia, the current corporate governance frameworks of GCC countries do not meet the threshold sought by international investors." In the GCC, the first wave of corporate governance practices began with the corporate governance codes released by Oman in 2002. The following table lists the years that GCC countries released their corporate governance codes, along with the issuing entity.

Table 1: Year of introducing corporate governance codes of GCC countries and issuing entity

Country	Year of introducing corporate governance code	Issuing entity
Oman	2002	Capital Market Authority
Saudi Arabia	2006 (amended in 2009)	Capital Market Authority
UAE	2007	Capital Market Authority
Qatar	2009	Capital Market Authority
Bahrain	2010	Central Bank
Kuwait	2013	Capital Market Authority

Source: Marmore Research

Corporate governance in the GCC has come under sharper focus with the recent Mobily incident. Mobily, the Saudi subsidiary of the UAE-based telecom major, Etihad Etisalat, admitted in November 2014 that it would have to restate 18 months' worth of corporate earnings due to alleged accounting irregularities. The development has caused Mobily's shares, which was one of the strongest telecom stocks, to lose about 60% in value from November 2014 through October 2015, with trading in the shares suspended twice in 2015 (as of October 2015) by the Kingdom's market regulator.

Moreover, statistics reveal that over 70% of business enterprises in the GCC are either family-owned or controlled, which indicates that family businesses have to embrace the concept of corporate governance for it to holistically succeed in the region. Corporate governance can very often get associated with listed companies, corporate irregularities, and related compliance and controls. Increasingly, it is important to consider corporate governance as an enabler of sustainability of GCC companies, including family-owned ones.

GCC countries will need time to evolve their corporate governance structures, in line with best practices from around the world. There is awareness of the need for patience to allow corporate governance systems to grow into maturity. For instance, Kuwait's corporate governance codes, issued in 2013, called for the separation of the positions of chairman and chief executive, the prompt disclosure of corporate information to the market, and the establishment of internal controls and risk management.

The new codes framed by the authorities have increased the number of audit requirements that add to the increasing cost of compliance to companies. However, keeping in mind the practical constraints that may hinder some of the Kuwaiti companies from applying the governance rules, Kuwait's market regulator extended the implementation deadline by 1.5 years to the end of 2016.

According to a Gulf Family Business Council and McKinsey & Company study (released in October 2015) that surveyed the largest GCC family-owned businesses that collectively generate US$100 billion in yearly revenues, family-owned businesses in the region have made considerable progress in establishing corporate governance structures, but are lacking when it comes to systematic implementation. In an era of global competition, deficient corporate governance implementation can pose challenges to enterprise sustainability for

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Table 2: How board structures can be reimagined in the GCC	
Board descriptor	Enhancement idea(s)
Structure	Board of directors to be drawn from diverse group with rich industrial experience.
Size	Number of board of directors shall not be fewer than five.
Composition	Non-executive members to be in majority and it shall include independent members, whose count/number shall not exceed half of the board of directors.
Selection and tenure	Shareholders through secret ballots elect the board of directors for a specified period (not greater than three years) and they can be re-elected unless the articles state otherwise.
Retirement	The company general assembly may retire the board chairman or any of its members based on the proposal made by the absolute majority of the board or through a signed request from a number of shareholders whose holdings amount to no less than a quarter of underwritten capital. The Capital Markets Authority needs to be informed if any of the members is terminated, along with the reasons.
Multiple directorships	Board directorship in more than five listed companies based in Kuwait at the same time is disallowed and they should not hold directorship in a similar or competitive company. Being chairman for more than one listed company based in Kuwait is not allowed either.
Independence	Independence is voided if the member holds more than 5% of company shares to which he is nominated (or) If he had been a senior executive over the past two years in any company of the group. Should not have a first or second degree relationship with any member of the board or senior executives nor be employed in the past two years with any related parties (such as auditors/marketing, etc.).

Source: Marmore Research

a number of GCC companies. Though many family-owned GCC businesses are now competing with international players, they are still characterized by centralized decision-making that diminishes the capacity for strategic agility and operational nimbleness.

There are two principal forms of articulating corporate governance codes: The 'principles-based' approach and the 'rules-based' approach. In the GCC, corporate governance codes can tend to be rather rules-based, wherein specific instructions are provided and a set of rules are explained for extracting compliance. In some jurisdictions, such as in the UK, the Cadbury Commission of the London Stock Exchange released their Combined Code of Governance Principles and Best Practices which are principles-based. Even in Hong Kong the good governance practices were published as a 'Code of Best Practices'. The codes' intention is not to provide rules to be rigidly adhered to, but rather to serve as aspirational guidelines.

The principles-based approach emphasizes more on the essence of the guidance and attempts to foster responsibility and the exercise of professional judgment. This approach also eliminates the mechanistic mindset of 'box-ticking' to comply with legislation and the use of potential loopholes to avoid compliance. The principles-based approach is considered relatively robust and flexible. Meanwhile, the rules-based approach is considered easier to comply with as the requirements are clearly articulated and leave little room for misunderstanding or fluid interpretations. For regulators, the rules-based approach is deemed to be easier to enforce. The principles and guidelines-based approach is favored by most jurisdictions around the globe for encouraging better governance. This could be due to the thought that the spirit of regulation should be given more importance and that trust should be extended to corporations to endorse such implicit principles.

In 2014, Fitch Ratings cautioned that though corporate governance practices are consistently improving in the GCC, privately-owned companies are being impeded due to a lack of effective independent boards, limited transparency and weak disclosure practices. For GCC companies with international ambitions, lagging corporate governance standards can discourage international investors and partners when faced with tightly controlled company ownership structures that practice limited transparency. GCC countries will also have to look at inculcating more diversity in the board, by bringing in independent directors with subject matter expertise. This will aid the process of interdisciplinary thinking that is vital for the success of modern organizations. For example, the following table provides ideas as to how board structures can be reimagined in the GCC (table developed in the context of Kuwait).

Large companies in the GCC are now recognizing the need to work with professional bodies to access best practices and shared learning. For example, in March 2015, Saudi Arabia's mining and metals major, Ma'aden, signed an agreement with the GCC Board Directors Institute, which would allow Ma'aden employees to access the latest training, best practices and networking opportunities. GCC countries are also looking to enhance board diversity in terms of gender. In 2012, the UAE cabinet enacted a regulation making it mandatory for the country's corporations and federal agencies to include women in their boards. Even as the policies, regulations and structures fall into place, a lot would depend on practicing the spirit of corporate governance, beyond just mere compliance with the rules.

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Risk budget, risk management and alpha target

The approach to portfolio construction begins by setting and formalizing a risk budget and alpha target. This encapsulates the investment objective of the client and guides most of the decisions around portfolio construction and recommendations. The risk budget can be thought of as an acceptable level of risk at the portfolio level and which guides the allocation of quantities of risk across individual asset classes/strategies. This is done in such a way that achieves the stated alpha target. The risk budget can be defined in terms of tracking error, volatility or maximum tolerated drawdown. MOHAMED HAGE writes.

ASSET MANAGEMENT

By Mohamed Hage

The allocation of quantities of risk differs to the more traditional approach of achieving diversification through the allocation to a pre-defined number of individual strategies or asset classes. By isolating the individual constitutes of risk, the process is better able to monitor risk and quantify the likely maximum drawdown that is attributable to each exposure. This helps to install an integrated and proactive approach to risk management.

To demonstrate this concept, consider the following hypothetical balanced and growth portfolios. In this example, the alpha target has been set so that performance is greater than or equal to the upper quartile performance of the median balanced and growth manager (1.75% and 2.5% respectively).

Assuming active funds with an information ratio of between 0.7 and 1.0 and some reasonable assumptions about diversification benefits between managers, the growth portfolio must take active risk of approximately 2.25% to 2.75% above the median manager so as to achieve the three-year alpha target.

Table 1: Risk budget and alpha target

Example funds	Three-year alpha target (gross)	Risk budget/tax expenditure target
Balanced	1.75%	1.5-2%
Growth	2.5%	2.25-2.75%

Source: Author's own

In terms of risk management, this approach provides a platform to monitor total risk within the portfolio, its composition and trends over time. Together, this assists in improving the quality of portfolio construction and strategy recommendations.

Two examples are provided in Figure 1. In the first illustration, the risk budget of the hypothetical balanced portfolio is traced over time. This indicates that risk (expressed through the tracking error) has exceeded the 1.5% to 2% budget. This would precipitate further research to identify the contributor(s).

The second example simply dissects total risk according to asset class. This would open up discussions regarding the appropriateness of the concentration of risk. For example, inevitably a 'conventional' asset allocation sees equity risks dominate — this leads to discussions of alternative assets, a greater contribution from fixed interest classes, and higher conviction managers as a source of return rather than markets ('alpha versus beta').

Portfolio construction

The true measure of success of a portfolio is the extent to which it meets the needs of clients. This requires a process that begins first by understanding the investment objectives and risk appetite of the client. It is these inputs that help to shape and ultimately formalize the risk budget and alpha target. As client needs invariably differ, consultants comprehensively assess these requirements to ensure that the investment policy and strategy is structured sufficiently to achieve the objectives sought.

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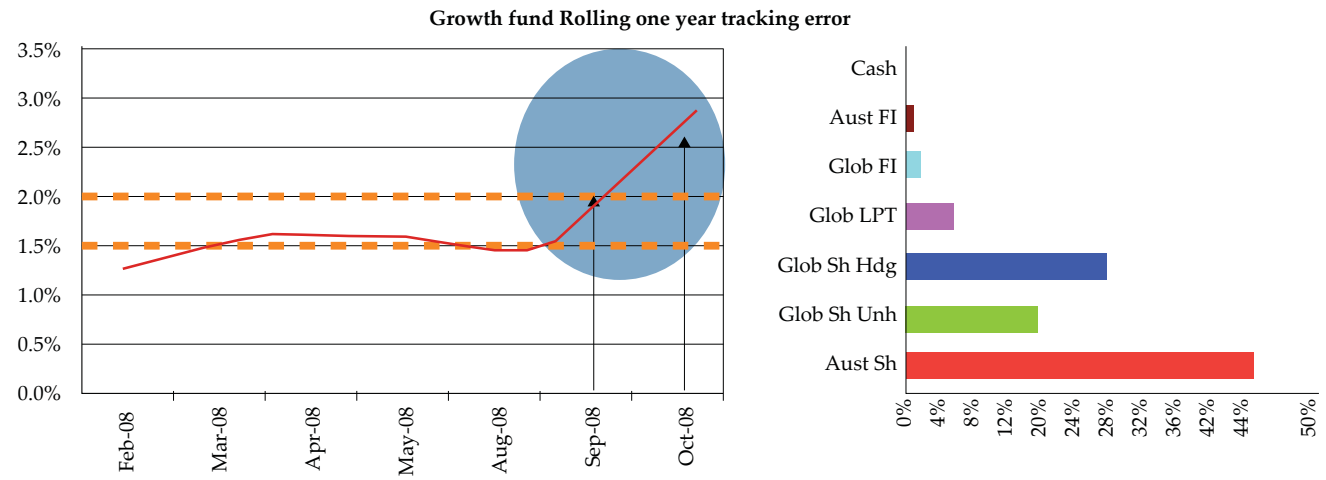
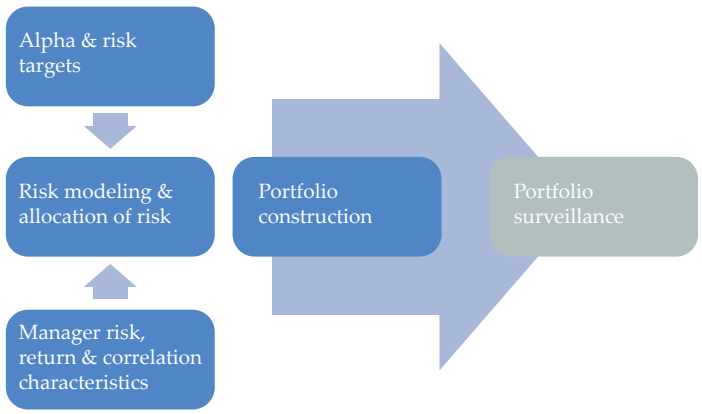
Figure 1: Risk budget and risk management



Source: Author's own

Continued

Figure 2: Portfolio construction



Source: Author's own

The driving philosophy behind the construction of portfolios and the blending of fund managers is the principle of diversification. This multifaceted process has two important endpoints: firstly, the creation of a portfolio that meets the objectives of the client, and secondly, a combination of strategies that interact together to deliver the most efficient allocation of risk.

The process relies on qualitative inputs such as strategy and fund research and quantitative models that assist in manager blending and optimization. The entire process is managed with a judgment to ensure reasonability of assumptions.

As mentioned previously, the formalization of a risk budget and alpha target is integral to the portfolio construction process. Risk categories are budgeted to individual strategies so as to best achieve the performance target. More importantly, the qualitative and quantitative inputs interact together to see out recommendations that are based on a strategy's unique contribution to the risk and return properties of the total portfolio. The allocation of risk is then monitored so as to identify deviations that may alter the risk characteristics of the total portfolio.

Therefore, while a strategy may have a number of attractive attributes when reviewed in isolation, the inclusion in a portfolio will ultimately depend on its blend with existing strategies.

The key attributes that follow from this process include:

- Structuring portfolios where return is a function of rewarded risk over unrewarded risk.
- Managing portfolios to individual objectives ensure that high-quality, bespoke solutions are delivered to asset consultancy, research and portfolio construction. Individual objectives are met by formalizing individual risk budgets and alpha targets.
- Reduce the volatility and cyclicality of returns by leveraging the best qualitative and quantitative inputs in the investment process.
- Emphasize downside risk and the protection of capital over relative risk to a predefined benchmark.
- Avoid having to pick the top-performing manager over very short time periods. The aim is to position the portfolio to strategies that have demonstrated the skill and capacity to add value over the full market cycle.
- Risk is managed on an integrated and proactive basis by recognizing, quantifying and monitoring risk across the entire portfolio.

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DEALS

Malaysia issues GII Murabahah

MALAYSIA: The government of Malaysia issued its RM3.5 billion (US$824.39 million) government investment issue (GII) Murabahah 5/2015 at a profit rate of 3.508% on the 27th November 2015. According to an announcement on Bank Negara Malaysia (BNM)'s website, the issue will mature on the 15th May 2018 and BNM may purchase up to 10% of the issuance size.

GSNK to make Sukuk profit payment

MALAYSIA: According to an announcement on Bank Negara Malaysia's website, Grand Sepadu (GSNK) will make a profit payment on the 11th December 2015 for the stock codes: PI150010, PL150011 and PP150012 under the RM210 million (US$49.8 million) in nominal value Sukuk Murabahah.

SPLASH redeems Islamic papers

MALAYSIA: Syarikat Pengeluar Air Sungai Selangor (SPLASH) has redeemed the secondary Murabahah medium-term notes (MMTN) for the stock codes: VM062229, VM062247 and VM062266 under the Murabahah commercial papers/MMTN program of up to RM435 million (US$103.17 million) on the 27th November 2015, according to an announcement on Bank Negara Malaysia's website.

WAPDA to issue Sukuk to finance hydropower projects

PAKISTAN: The Water and Power Development Authority (WAPDA) will raise PKR244 billion (US$2.28 billion) in Sukuk to finance two hydropower projects, according to The Express Tribune. The Economic Coordination Committee (ECC) has authorized the authority to borrow from commercial banks through Sukuk but did not grant tax exemption for these loans. However, the ECC has assured that the tax exemption issue will be dealt with separately.

PKR100 billion (US$935.53 million) is to be issued at a profit rate of about 8.3% for meeting financing needs of the 969 MW Neelum Jhelum hydropower project whereas PKR144 billion (US$1.35 billion) is for phase one of the 2,160 MW Dasu hydropower project. The Sukuk will be backed by WAPDA assets and sovereign guarantees. The authority will also establish the WAPDA Fourth Sukuk Company to arrange the funds.

Sime Darby to initiate perpetual Sukuk program

MALAYSIA: Sime Darby is planning to establish a perpetual Sukuk program of up to RM3 billion (US$708.97 million) in nominal value and is expected to make the lodgment to the Securities Commission Malaysia (SC) under the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch (LOLA) Framework in due course.

According to a bourse filing, proceeds from the issuance is envisaged to be utilized for the refinancing of debt obligations and working capital requirements of the group. Maybank Investment Bank has been appointed as the principal advisor, lead arranger and lead manager.

XL Axiata's Sukuk oversubscribed

INDONESIA: XL Axiata's first Sukuk tranche under its IDR5 trillion (US$360 million) Sukuk program has been oversubscribed by 1.5 times to IDR2.25 trillion (US$162 million). According to The Jakarta Post quoting XL's finance director Mohamed Adlan Ahmad Tajudin, the biggest Sukuk offering in Indonesia was a huge success and attracted a lot of buyers, of which mostly were local investors. The proceeds from the Sukuk is planned to be used to pay the government for the rights to use 2G radio frequency.

PNHB to buy back outstanding Sukuk Ijarah

MALAYSIA: According to an announcement on Bank Negara Malaysia's website, Puncak Niaga Holdings (PNHB) will buy back all outstanding convertible Sukuk Ijarah in the nominal amount of RM160 million (US$37.81 million) under the stock code: PI130062 on the 3rd December 2015 and all outstanding convertible Sukuk will be canceled on the same day.

SP Setia to make Sukuk profit payment

MALAYSIA: SP Setia has announced on Bank Negara Malaysia's website that it will make the periodic distribution for the Series 1 RM700 million (US$164.12 million) nominal value unrated subordinated perpetual Sukuk Musharakah under its Sukuk Musharakah program on the 14th December 2015.

STSSB to issue ICP

MALAYSIA: Sunway Treasury Sukuk (STSSB) has announced on Bank Negara Malaysia's website that it will issue its RM100 million (US$23.45 million) STSSB Islamic commercial paper (ICP) Series 32 on the 3rd December 2015 via tender. The 'MARC-1IS'-rated facility will mature on the 4th January 2016.

TNB issues Sukuk

MALAYSIA: Tenaga Nasional reportedly sold its Sukuk worth RM8.98 billion (US$2.11 billion) via Jimah East Power in October, according to Bloomberg quoting sources familiar with the matter. According to the media outlet, company Sukuk sales in Malaysia is forecasted to be the second best on record in 2016 as the rollout of subway and road projects revives issuance after a lackluster 2015.`

DEAL TRACKER Full Deal Tracker on page 35

EXPECTED DATE	COMPANY'S NAME	SIZE	STRUCTURE	ANNOUNCEMENT DATE
Dec-15	Government of Kuwait	TBA	Sukuk	30th November 2015
TBA	WAPDA	PKR144 billion	Sukuk	26th November 2015
TBA	WAPDA	PKR100 billion	Sukuk	26th November 2015
Dec-15	Government of Ivory Coast	XOF150 billion	Sukuk	23rd November 2015
Dec-15	Albaraka Turk	US$250 million	Sukuk	11th November 2015
December	Government of Pakistan	PKR300 billion	Sukuk	16th November 2015

ASIA

Agrobank extends financing to SALCRA

MALAYSIA: Shariah compliant Agrobank has signed a RM112 million (US$26.38 million) banking facilities agreement with Sarawak Land Consolidation and Rehabilitation Authority (SALCRA), according to a press release. The facilities will be utilized to part-finance SALCRA's new palm oil mill in Lubok Antu, Sri Aman, Sarawak and other working capital requirements.

Indonesian banks commit to sustainable financing

INDONESIA: BRI Syariah, Bank Muamalat, Bank Mandiri, Bank Rakyat Indonesia, Bank Central Asia, Bank Negara Indonesia, Bank Jabar Banten and Bank Artha Graha Internasional all have signed the commitment with the Financial Services Authority (OJK) and the World Wildlife Fund Indonesia to implement sustainable financing. According to The Jakarta Post quoting OJK head Muliaman D Hadad, the commitment is manifested in a pilot project called 'first step to becoming a sustainable bank', which would run for a year and a half beginning in January 2016, with the first phase taking place in the palm oil sector. The pilot project is based on the OJK's 2014-19 Sustainable Financial Roadmap and is hoped to help the country meet the UN's Sustainable Development Goals next year.

OJK simplifies Sukuk issuance policies

INDONESIA: Otoritas Jasa Keuangan (OJK) has simplified the policies on Sukuk issuance, aiming to facilitate issuers and increase investor confidence, according to Kontan.co.id. The principal refinement policy No.18 /POJK.4/2015 contains three points: the simplification of registration documents for issuers to issue Sukuk; the requirement of a team of Shariah capital market experts in the issuance of Sukuk; and the rights and obligations of investors in Sukuk trustee agreements (issuers that conduct an IPO of Sukuk need to prepare a Sukuk trustee agreement).

Malaysia maintains lead in global Sukuk

MALAYSIA: Malaysia has maintained its lead in the global Sukuk market with 52.9% (equivalent to US$154.5 billion) of the total outstanding value of global Sukuk, according to RAM in a statement. The country's issuance of corporate debt securities came up to RM60.7 billion (US$14.3 billion) in the first nine months of 2015, with Sukuk making up 43% or RM25.9 billion (US$6.1 billion). RAM's head of Islamic finance Ruslena Ramli observed that: "Sukuk continues to account for the bulk of the domestic debt capital market with 53.1% of the outstanding value."

Ambank Islamic and state government collaborate

MALAYSIA: The Johor state government and Ambank Islamic have drawn up a housing scheme which will see the bank providing funds totaling RM300 million (US$71.15 million) to assist the low-income group to obtain financing for affordable homes, according to Bernama. The scheme includes the Package A and Package B type units priced at RM42,000 (US$9,960.87) and RM80,000 (US$18,973.1) respectively and which will be available in January 2016.

SC updates list of Islamic securities

MALAYSIA: The Securities Commission Malaysia (SC) has updated the list of Shariah compliant securities approved by its Shariah Advisory Council. Effective from the 27th November 2015, the updated list features a total of 667 Shariah compliant securities, constituting 74% of the total 901 listed securities on Bursa Malaysia, according to a press release. The list includes 35 newly-classified Shariah compliant securities and excludes 39 from the previous list issued in May 2015.

OJK enhances regulations on Sukuk instruments

INDONESIA: Otoritas Jasa Keuangan (OJK) has published a regulation (No. 19/POJK.04/2015) concerning the issuance and requirements of Islamic mutual funds, according to Kontan.co.id. Under the rule, investment managers are allowed to invest a minimum 85% of the net asset value of the underlying asset in the Sukuk. The underlying asset can be more than one, can also vary and includes the Shariah commercial paper issued by the Indonesian legal entity which becomes the parent or builder of MSMEs or Baitul Maal Wa Tamwil, besides the Shariah state securities and corporate Sukuk.

The regulator, on the 10th November, also published a new regulation (POJK No.20/POJK.4/2015) outlining the issuance and conditions of EBA Shariah instruments, according to Kontan.co.id. Under the regulation, OJK has set two types of EBA Shariah instruments: the Collective Investment Contract EBA Shariah and the EBA Islamic Participation Letter. The new regulation will replace the Chairman of the Capital Market Supervisory Agency and Financial Institution policy No. KEP-181/BL/2009 on Publishing Islamic Securities 30th June 2009.

The OJK will also finalize the codification of Islamic banking products, which is targeted to be completed by the end of 2015, according to Kompas.com. The rule, in accordance with the Policy Package V issued by the government in late October 2015, relaxes the requirement for Islamic banks to release new products without having to acquire permission from the regulator. Also stated in the policy is the second rule on the simplification of requirements for opening an office network for Islamic banks.

Meezan Bank partners with Atlas Honda

PAKISTAN: As part of the US$50 million Corporate Vendor and Distributor Finance Program launched recently, Meezan Bank and Karandaaz Pakistan have entered into a corporate partnership agreement with Atlas Honda, according to a press release. The partnership will strengthen Atlas Honda's supply chain and distribution channels by providing access to finance (capital investment and expansion working capital financing) for its small and mid-sized vendors and distributors.

OJK publishes Islamic securities list

INDONESIA: Otoritas Jasa Keuangan (OJK) has released a list of Shariah compliant securities for the second half of 2015 which took effect on the 1st December, according to Republika. Comprised of 331 securities, 17 new issuers were included in the list while another 18 were excluded.

Shariah megabank deadline brought forward

INDONESIA: The Financial Services Authority (Otoritas Jasa Keuangan) has expedited its plans to establish a state-owned Shariah megabank which will involve the merger of several Islamic

banks (BNI Syariah, UUS BTN, BRI Syariah and Bank Syariah Mandiri) to 2017 from 2018 as initially planned, according to Kompas.com.

Philippines prepares Islamic finance roadmap

PHILIPPINES: The Peace and Equity Foundation together with Al Qalam Institute of Ateneo de Davao University, Cordaid and the World Bank Philippines have partnered to prepare the 21-year roadmap to attain compliance in the Islamic finance industry, according to Sun Star Philippines. The roadmap will be divided into three stages with seven years each of realization. To commence in 2016, the first phase of the program will be focusing on information drive and increasing public awareness and capacity-building of stakeholders in Islamic financing.

Separately, the World Bank Philippines is urging lawmakers to pass House Bill 5989 amending the Al Amanah charter in a move to expand Islamic banking in the country, particularly in Mindanao, according to Edge Davao.

MIDDLE EAST

Nogaholding looks to Islamic financing

BAHRAIN: State-owned Nogaholding is seeking a US$350 million Shariah compliant financing to be utilized for general business purposes. According to Reuters quoting unnamed sources, the oil and gas company is looking for a profit rate of around 250bps over the LIBOR, but may be pushed up to the 300bps mark due to recent market moves. Nogaholding is looking to arrange the Islamic five-year facility, the first for the company, before the end of the year.

AlSafwa lists on Second Market

UAE: AlSafwa Islamic Financial Services on the 26th November had its shares listed on Dubai Financial Market (DFM)'s Second Market, becoming the first private joint stock company to do so. According to a press release, listing on the Second Market may pave the way for private companies to go public and list on the Main Market at a later stage. Trading information of private companies will be displayed on the main Market Watch, indicated with a special icon.

BiSB's rights issue 100% subscribed

BAHRAIN: The rights issue offered by Bahrain Islamic Bank on the 15th-29th November has been fully subscribed, according to a statement. Total number of ordinary shares offered was 170.94 million and they were 100% subscribed in the capital increase exercise.

Joint financing scheme to help SMEs

BAHRAIN: Ithmaar Bank and Tamkeen have launched a joint financing scheme which follows an agreement earlier this year to add BHD10 million (US$26.06 million) to the joint Ithmaar-Tamkeen enterprise finance scheme portfolio to support private sector enterprises in the Kingdom, according to a statement. The scheme offers up to BHD500,000 (US$1.3 million) at a subsidized reduced profit rate, a repayment tenor option of up to 10 years with exceptional flexibility in repayment methods and grace periods of between one month and two years.

AFRICAS

Jaiz Bank to operate nationwide

NIGERIA: Jaiz Bank is expected to open branches across the country once the Central Bank of Nigeria has granted the final approval. According to Daily Trust, the Islamic bank has met the conditions set by the apex bank to operate nationwide.

EUROPE

Dentons to welcome OPF Partners

LUXEMBOURG: OPF Partners will be joining global law firm Dentons on the 1st January 2016 and will become the global firm's presence in Luxembourg. OPF Partners also noted in a statement that it is moving to a new office at the Atrium Vitrum Building in Luxembourg.

EIIB rebrands as Rasmala

UK: The European Islamic Investment Bank (EIIB) has changed its name to Rasmala, effective immediately, and will make a further announcement on the subject before the end of the year, according to a bourse filing.

RESULTS

CIMB Islamic

MALAYSIA: For the nine-month period of 2015, CIMB Islamic reported a pre-tax profit of RM378 million (US$89.65 million), a drop of 5.3% owing to slower Islamic capital markets activity. According to a statement, total deposits for the reported period grew by 3.6% year-on-year to RM43.2 billion (US$10.25 billion).

BIBD

BRUNEI: For the financial year ending the 31st December 2014, Bank Islam Brunei Darussalam (BIBD) achieved a 17.9% growth in profit after Zakat and taxation to just above BN$111 million (US$77.48 million). Total assets of the bank over the period reached almost BN$7.3 billion (US$5.1 billion).

Maybank

MALAYSIA: For the first nine months of 2015, Maybank Islamic registered a 13.2% growth in pre-tax profit to RM1.23 billion (US$290.68 million). The bank noted in a statement that Islamic financing now constitute 48.7% of Maybank's total domestic loans and financing as at September 2015. Etiqa Insurance and Takaful, commanding a 13% market share in the general insurance and Takaful business, reported a decline in pre-tax profit to RM349.5 million (US$82.6 million) from RM560.9 million (US$132.55 million) a year earlier.

AFFIN Islamic Bank

MALAYSIA: AFFIN Islamic Bank registered a profit before tax and Zakat of RM83.7 million (US$19.51 million) for the nine-month period ending the 30th September 2015 as compared to RM63.6 million (US$14.82 million) in the same period last year, according to a statement.

BIMB

MALAYSIA: As at the 30th September 2015, Bank Islam Malaysia Holdings (BIMB) achieved a profit before Zakat and taxation of RM634.2 million (US$148.73 million), depicting a 6.5% growth year-on-year. According to a statement, net asset per share improved to RM2.19 (51 US cents) over the period compared to RM1.97 (46 US cents) as at the 31st December 2014.

GLOBAL

IFSB releases PSIFIs

GLOBAL: The IFSB has announced the second release of its Prudential and Structural Islamic Financial Indicators (PSIFIs) for 16 member countries, according to a press release. The project, supported by the IDB, the IMF and Asian Development Bank, aims to provide data on the financial soundness and growth of the Islamic banking systems in participating IFSB member jurisdictions. The standard-setting body is currently collecting data for the first two quarters of 2015 and targets to disseminate the data in the first quarter.

IDB offers proposals to enhance partnership

GLOBAL: The president of the IDB has made four proposals in a bid to enhance partnership between the IDB, its member countries and Turkey, according to a statement. The proposals include a call for a tripartite agreement between the IDB Group, Turkey and any IDB member country, the setting up of a program that will contribute to the process of expediting the effective implementation and operationalization of trade-related agreements similar to the TPS-OIC, the setting up of a program to enhance trans-continental regional corridors and the need to study the effect of the establishment of major regional blocks on intra-OIC trade and regional integration and presenting proposals and future plans to address this challenge.

ITFC and Morocco collaborate in Islamic trade finance

GLOBAL: The International Islamic Trade Finance Corporation (ITFC) and Morocco have signed an MoU to enhance cooperation and coordination in trade finance and development, according to a statement.

The agreement will enhance and provide opportunities for Islamic trade finance for Moroccan investors or financiers and also examines the possibility to implement projects under the Aid for Trade Initiative for Arab States.

Al Ahli Bank not looking to Islamic banking in Egypt

GLOBAL: Kuwait-based conventional bank, Al Ahli Bank, is not seeking to acquire an Islamic banking license for its Egyptian unit, according to Amwal Al Ghad quoting the bank's CEO Michel Accad.

KBBO Group hires banks for IPO of subsidiary

GLOBAL: The KBBO Group is planning to sell up to 40% of Centurion Partners in an IPO, which is set for the first half of 2016. According to Reuters quoting unnamed sources, the company has hired several banks including Abu Dhabi Islamic Bank and Emirates NBD (as co-lead managers), EFG-Hermes (as bookrunner), and Goldman Sachs and Morgan Stanley (as bookrunners and global coordinators).

ASSET MANAGEMENT

Adeem Financial Company to list IPO fund

GLOBAL: The Capital Market Authority of Saudi Arabia has approved the public offering of Adeem Fund of IPO Funds by Kuwait-based investment and Islamic financial company Adeem Financial Company, according to a bourse filing.

Al Rajhi Capital and Arcapita exit real estate fund

SAUDI ARABIA: Al Rajhi Capital and Arcapita have announced a successful exit from the ARC Real Estate Income Fund at a total transaction value of SAR1.35 billion (US$359.37 million), according to a statement. The fund has acquired seven income-generating assets in the logistics, warehousing and retail sectors in Saudi Arabia and the UAE since its inception in 2010. Over the last two years, the fund delivered approximately 18% growth in net asset value with an average annualized yield of 7.2% and distributed an annual yield in excess of 9%.

SICO to launch Shariah compliant fund

BAHRAIN: Securities & Investment Company (SICO) is planning to launch a new Shariah compliant fund focusing on the MENA markets, according to a statement. The fund will be its first Islamic and MENA-dedicated fund in a bid to expand its product offerings from the GCC to the wider MENA region.

Public Mutual distributes income

MALAYSIA: Public Mutual has declared a distribution of more than RM180 million (US$42.21 million) for its eight funds including five Islamic funds: Public Islamic Sector Select Fund, Public Islamic Alpha-40 Growth Fund, Public Ittikal Sequel Fund, Public Islamic Mixed Asset Fund and Public Islamic Infrastructure Bond Fund. According to a statement, the total fund size managed by the company was RM66.4 billion (US$15.57 billion) as of October 2015.

TAKAFUL

Misr Re to raise paid-up capital

EGYPT: Egyptian Takaful Property Insurance (Egyptian Takaful) will commit a maximum of EGP35 million (US$4.46 million) to Misr Reinsurance Company (Misr Re)'s equity capital as the reinsurer is looking to raise US$200 million in paid-up capital. According to Amwal Al Ghad, Egyptian Takaful's planned commitment will represent around 2% of Misr Re's capital.

MAA to dispose 75% stake in Takaful unit

MALAYSIA: MAA Group, Solidarity Group Holding and Zurich Insurance Company on the 30th November jointly submitted an application to Bank Negara Malaysia to enter into an agreement with Zurich for the proposed disposal by MAA and Solidarity of their respective 75% and 25% equity interest held in MAA Takaful. According to a bourse filing, the application was submitted pursuant to the Islamic Financial Services Act 2013.

Takaful operator to provide e-health services

INDONESIA: Asuransi Takaful Keluarga has entered into an MoU with Aplikasinusa Lintasarta, a subsidiary of Indosat Ooredoo, to benefit from the latter's digital-based health services (e-health) through Owlexa Healthcare, according to a statement. Under the partnership, Owlexa will act as a third-party administrator, providing administrative services to participants of the Takaful operator, and infrastructure support for information and communication technology.

RATINGS

Fitch affirms Thai's state policy banks

THAILAND: Fitch in a statement has affirmed Islamic Bank of Thailand (IBANK)'s long-term issuer default rating (IDR) at 'BBB-' with a stable outlook, short-term IDR at 'F3', support rating at '2', support rating floor at 'BBB-', national long-term rating at 'AA(tha)' with a stable outlook and national short-term rating at 'F1+(tha)'. IBANK's long-term IDR and national ratings are two notches below the sovereign due to a relatively lower level of explicit legal and financial support from the government.

Concurrently, Fitch has also affirmed the ratings on the following policy banks: Bank for Agriculture and Agricultural Cooperatives, Export-Import Bank of Thailand, Government Housing Bank, IBANK and SME Development Bank of Thailand based on its expectation of a high probability of the government providing extraordinary support, if required.

Barwa Bank's Sukuk program obtains '(P)A2' ratings

QATAR: Moody's in a statement announced that it has assigned provisional '(P)A2' senior unsecured ratings (foreign and local currency) to the US$2 billion trust certificates program of BBG Sukuk (the issuer and an SPV incorporated by Barwa Bank). The assigned rating is aligned with the long-term deposit ratings of Barwa.

The proceeds of the trust certificates will be utilized to acquire a portfolio of Shariah compliant assets which will form part of two Wakalah and Mudarabah portfolios managed by Barwa in its capacity as the servicing agent and Mudarib respectively.

Poh Kong's ICP/IMTN program ratings reaffirmed

MALAYSIA: RAM has reaffirmed the 'AAA(fg)/Stable/P1' ratings on Poh Kong Holdings's RM150 million (US$35.33 million) Danajamin-guaranteed Islamic commercial paper/Islamic medium-term note (ICP/IMTN) program (2011/2018). The rating agency noted in a statement that the enhanced long-term rating reflects an irrevocable and unconditional financial guarantee from Danajamin Nasional ('AAA/Stable/P1'), which enhances the credit profile of the ICP/IMTN beyond the company's stand-alone credit strength.

Gas Malaysia's Islamic facility affirmed at 'AAAID'

MALAYSIA: Gas Malaysia's RM500 million (US$117.77 million) Murabahah medium-term note program has been affirmed at 'AAAID' with a stable outlook by MARC. According to a statement, the rating reflects the company's strong domestic competitive position in natural gas distribution and factors in the high reliability of gas supply from its key shareholder PETRONAS Gas and its strong financial profile. The rating also considers Gas Malaysia's weakening profit margins stemming from the steeper pace of the increase in the gas purchase price relative to the selling price.

Samalaju proposes Sukuk Murabahah program

MALAYSIA: Samalaju Industrial Port (Samalaju), a subsidiary of Bintulu Port Holdings (BPHB, 'AA1/Stable/P1'), is proposing a Sukuk Murabahah program of up to RM950 million (US$224.51 million) which has been assigned a preliminary rating of 'AA1(s)/Stable' by RAM. The rating agency confirmed in a statement that the rating reflects an unconditional and irrevocable corporate guarantee extended by BPHB. Proceeds from the Sukuk will be used to finance Samalaju Port.

BTMU ratings affirmed

JAPAN: S&P has affirmed an 'A' long-term counterparty credit rating on Mitsubishi UFJ Financial Group (MUFG) and an 'A+' long-term counterparty credit rating on its three core subsidiaries including Bank of Tokyo-Mitsubishi UFJ (BTMU), Mitsubishi UFJ Trust and Banking Corp and Bank of Tokyo-Mitsubishi UFJ (China). According to a statement, the rating agency has also removed all the ratings from CreditWatch with negative implications. The outlooks on the long-term ratings on MUFG and the three core subsidiaries are negative.

China affirmed at 'A+'

CHINA: Fitch has affirmed China's long-term foreign and local-currency issuer default ratings (IDRs) at 'A+' with a stable outlook and concurrently affirmed its country ceiling at 'A+' and the short-term foreign-currency IDR at 'F1'. According to a statement, China's ratings balance a strong sovereign balance sheet and sustained high GDP growth against high sovereign contingent liabilities and a range of structural weaknesses and risks.

Puncak Wangi's Sukuk rating reaffirmed

MALAYSIA: Puncak Wangi's guaranteed Islamic medium-term note program of up to RM200 million (US$46.9 million) in nominal value (2014/22) has been reaffirmed at 'AAA(fg)/Stable' by RAM, reflecting an irrevocable and unconditional Al Kafalah facility from Danajamin Nasional, according to a statement. Fully owned by MRCB, Puncak Wangi was established to undertake the construction of an office tower in the commercial hub of Petaling Jaya.

MOVES

StanChart Saadiq

GLOBAL: Standard Chartered has appointed **Rehan Shaikh** as CEO of Standard Chartered Saadiq, according to a press release. Prior to joining the bank, Rehan was the senior vice-president and business head (private sector and transaction banking) at Dubai Islamic Bank.

Juwayni and Hawkins

PAKISTAN: IFN has learned that **Qaiser Imam**, previously the deputy director of the Securities and Exchange Commission of Pakistan, has joined legal and financial advisor Juwayni and Hawkins as a senior partner effective the 1st October 2015.

BLME

UK: Shariah compliant BLME Holdings has appointed **James Harrowsmith** as a director of the leasing team and will report to **Fred Yue**, the head of leasing at BLME. Harrowsmith was recently at Eddie Stobart prior to joining BLME, according to a press release.

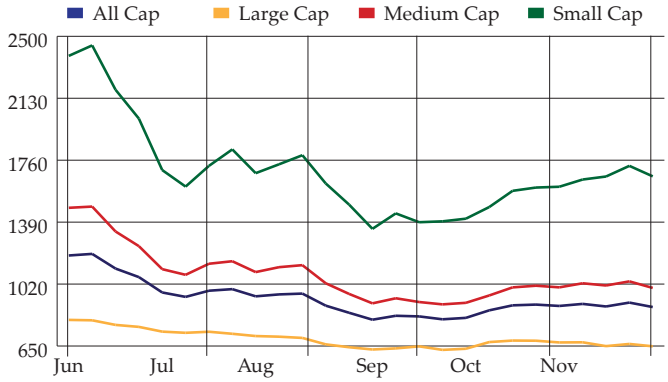
Inovest

BAHRAIN: **Yasser Hamad Al Jar** will replace **Mohammed Abdulla Isa**, who earlier resigned, as CFO of Inovest effective the 3rd December, according to a statement to the bourse.

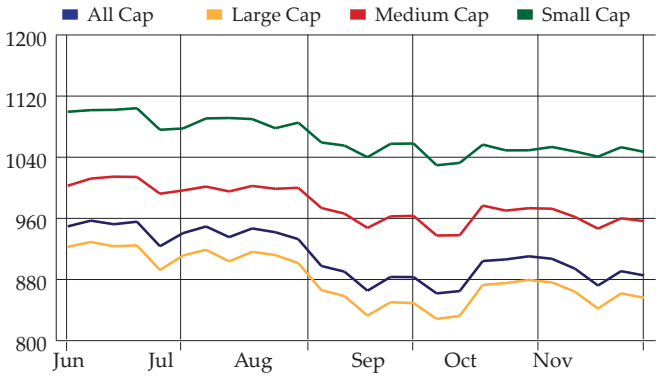
Expected date	Company's name	Size	Structure	Announcement Date
Dec-15	Government of Kuwait	TBA	Sukuk	30th November 2015
TBA	WAPDA	PKR144 billion	Sukuk	26th November 2015
TBA	WAPDA	PKR100 billion	Sukuk	26th November 2015
Dec-15	Government of Ivory Coast	XOF150 billion	Sukuk	23rd November 2015
Dec-15	Albaraka Turk	US$250 million	Sukuk	11th November 2015
Dec	Government of Pakistan	PKR300 billion	Sukuk	16th November 2015
TBA	Kuveyt Turk	US$400 million	Sukuk	13th November 2015
TBA	Widad Capital	RM120 million	Sukuk Murabahah	13th November 2015
TBA	Oman Telecommunications	OMR50 million	Sukuk	10th November 2015
TBA	Hascol Petroleum	PKR2 billion	Sukuk	9th November 2015
TBA	Emirates Airline	US$500 million-US$1 billion	Sukuk	9th November 2015
TBA	CIMB Islamic	RM5 billion	Sukuk	6th November 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
By Dec 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	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
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
2015	Government of UAE	TBA	Green energy Sukuk	12th March 2015
TBA	Turkiye Finans	US$400 million	Sukuk	20th July 2015
TBA	Eskom	TBA	Sukuk	25th June 2015
Fourth quarter of 2015	Republic of Turkey	TBA	Sukuk	25th June 2015
TBA	1Malaysia Development	RM5 billion	Sukuk	18th June 2015
TBA	Toyota Capital Malaysia	TBA	Sukuk	17th 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
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

SHARIAH INDEXES

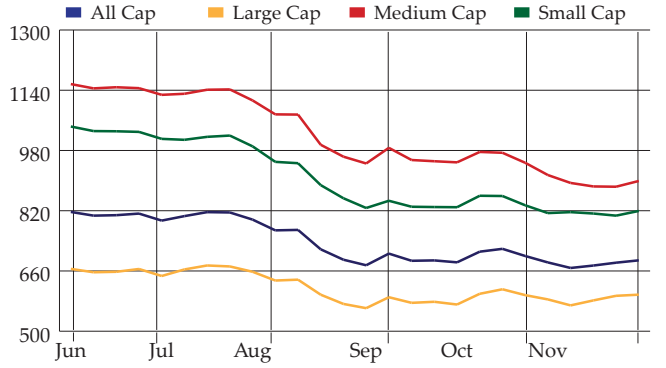
REDmoney Asia ex. Japan *6 Months*



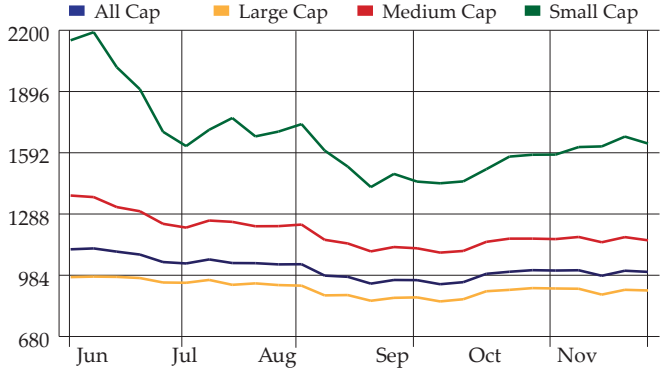
REDmoney Europe *6 Months*



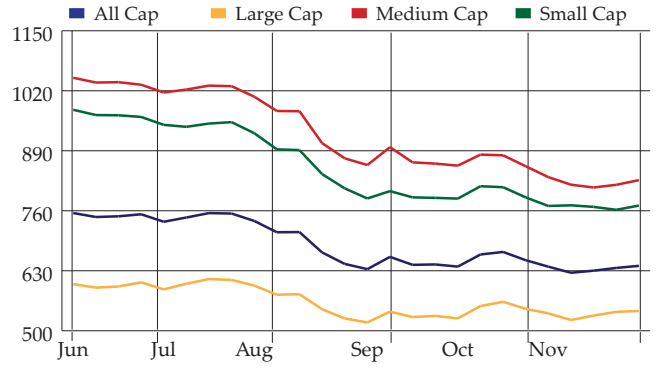
REDmoney GCC *6 Months*



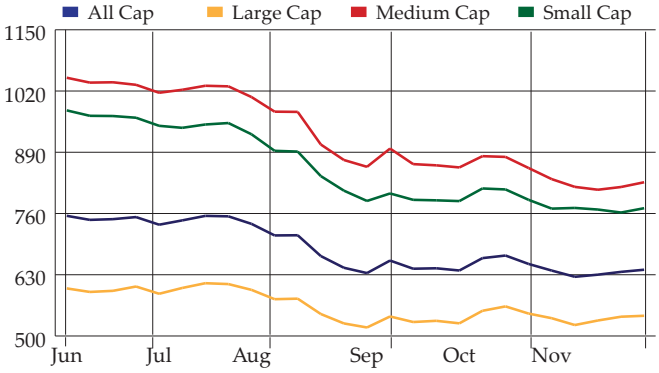
REDmoney Global *6 Months*



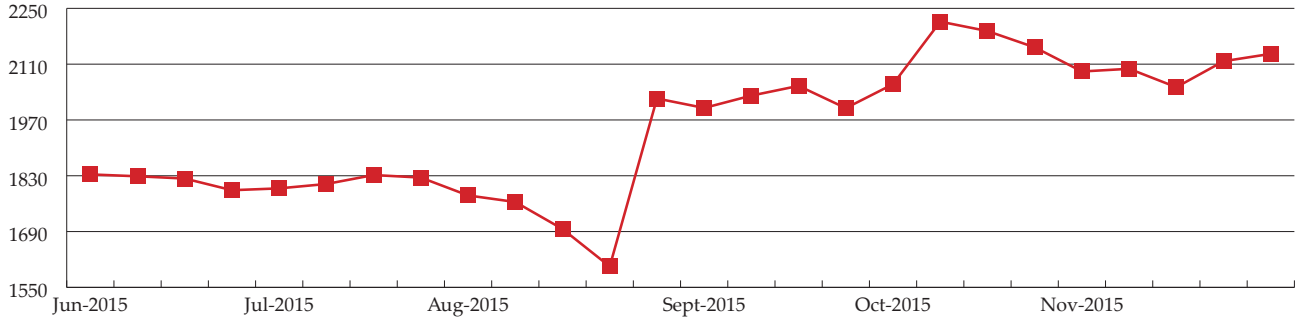
REDmoney MENA *6 Months*



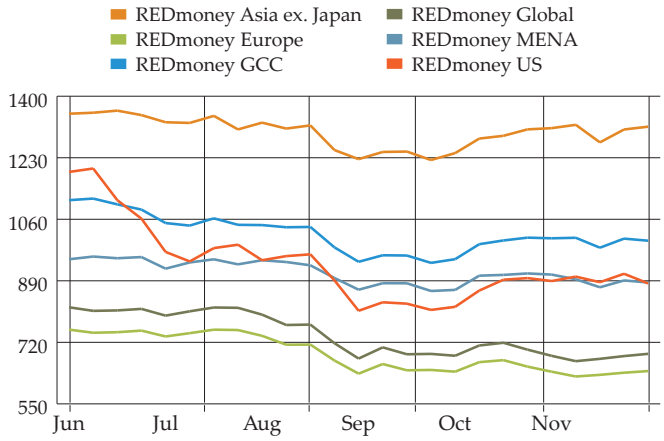
REDmoney US *6 Months*



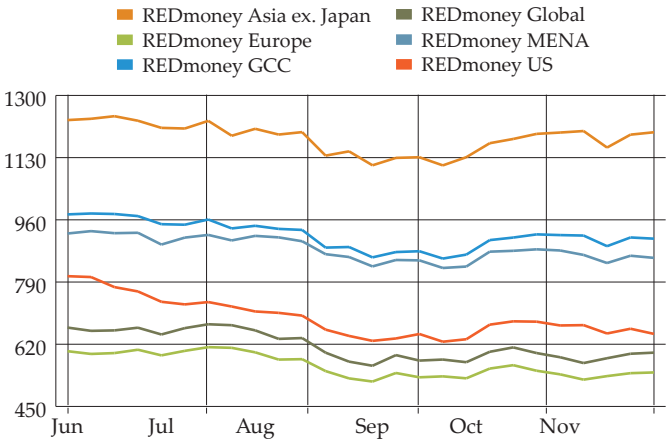
SAMI Halal Food Participation (All Cap) *6 months*



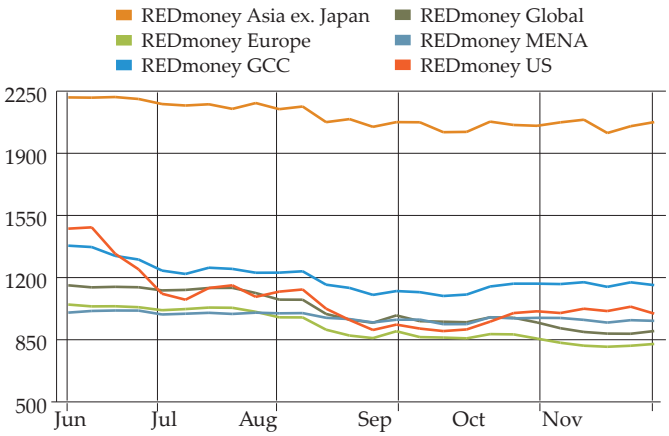
REDmoney Global Shariah Index Series (All Cap) *6 Months*



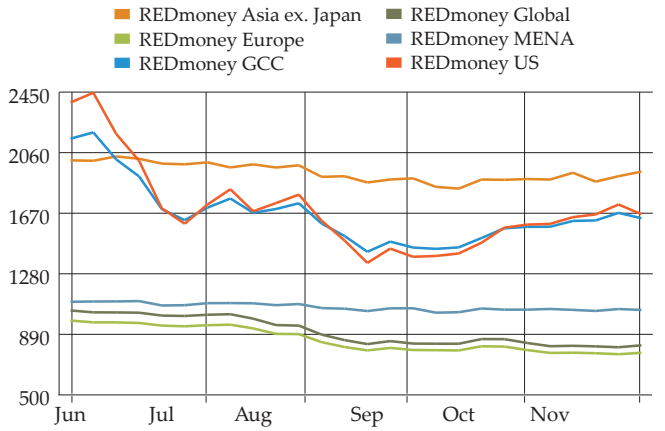
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



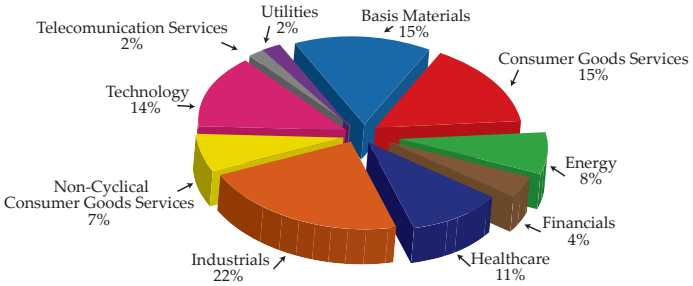
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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:

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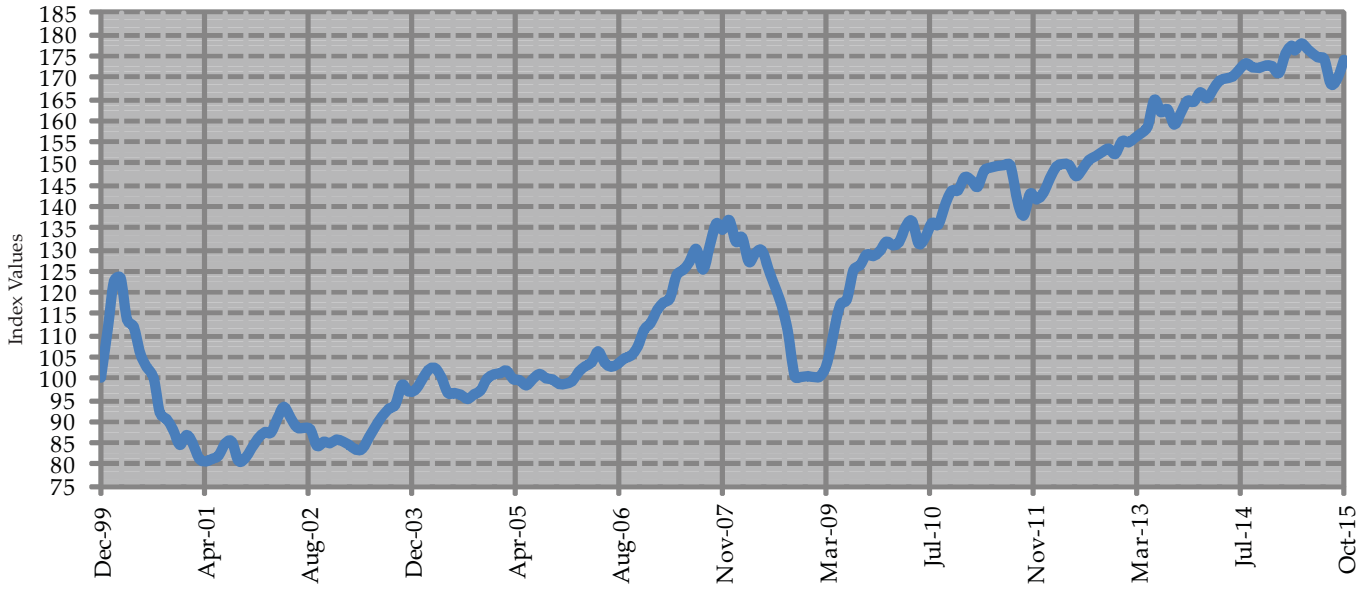
Tel +603 2162 7800

Eurekahedge Asia Pacific Islamic Fund Index



Top 10 Monthly Returns for Developed Markets Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Deutsche Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	11.76	Ireland
2	AmPrecious Metals	AmInvestment Management	10.95	Malaysia
3	The Iman	Allied Asset Advisors	9.84	US
4	AlAhli Global Trading Equity	The National Commercial Bank	9.81	Saudi Arabia
5	Altaira Funds - Ethical Global High Dividend (I)	Altaira Capital Partners	9.57	Luxembourg
6	DJ Islamic Market Titans 100 Theam Easy UCITS ETF - USD	BNP Paribas Investment Partners	9.49	France
7	HSBC Amanah Global Equity Index - AD	HSBC Amanah Central Shariah Committee	9.49	Luxembourg
8	iShares MSCI USA Islamic UCITS ETF	BlackRock Advisors (UK)	8.68	Ireland
9	iShares MSCI World Islamic UCITS ETF	BlackRock Advisors (UK)	8.28	Ireland
10	QInvest Edgewood Sharia'a	QInvest	7.97	Cayman Islands
	Eurekahedge Islamic Fund Index		**9.58**	

Based on 77.35% of funds which have reported in the past three months

Top 10 Monthly Returns for Emerging Markets Funds

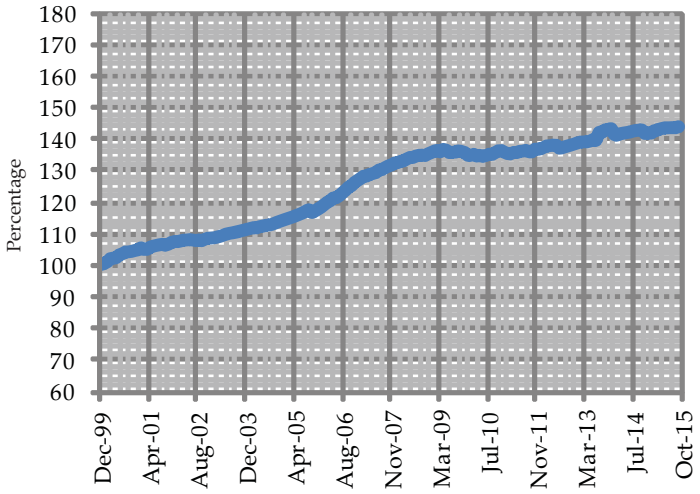
	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Pheim Asia Ex-Japan Islamic	PHEIM Unit Trusts	16.49	Malaysia
2	Atlas Islamic Stock	Atlas Asset Management	12.60	Pakistan
3	CIMB Principal Islamic Equity Growth Syariah	CIMB-GK Securities	10.13	Indonesia
4	AlAhli Emerging Markets Trading Equity	The National Commercial Bank	9.24	Saudi Arabia
5	WSF Asian Pacific - USD I	Cogent Asset Management	8.37	Guernsey
6	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	7.52	Pakistan
7	BNP Paribas Pesona Amanah	BNP Paribas Investment Partners	7.33	Indonesia
8	Alkhair Capital Index	Alkhair Portfoy Yonetimi	7.26	Turkey
9	Old Mutual Albaraka Equity	Futuregrowth Specialist Asset Management	7.08	South Africa
10	CIMB Islamic Small Cap	CIMB-Principal Asset Management	6.76	Malaysia
	Eurekahedge Islamic Fund Index		**9.28**	

Based on 71.37% of funds which have reported October 2015 returns as at the 23rd November 2015

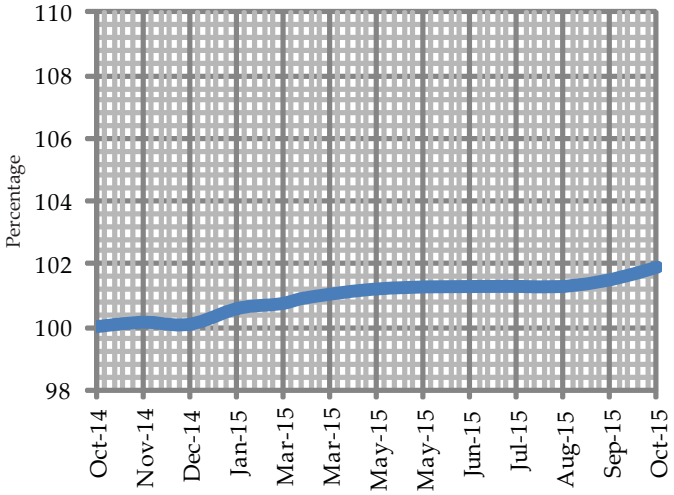
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, 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 Money Market Index over the last 5 years



Eurekahedge Islamic Money Market Index over the last 1 year



Top 10 Islamic Money Market Fund by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	TA Dana Optimix	TA Investment Management	2.98	Malaysia
2	Atlas Pension Islamic - Money Market Sub	Atlas Asset Management	1.07	Pakistan
3	KAF Dana al-Iddikhar	KAF Investment Funds	0.82	Malaysia
4	Apex Dana Al Kanz	Apex Investment Services	0.81	Malaysia
5	PB Islamic Cash Plus	Public Mutual	0.77	Malaysia
6	Manulife Investment Al-Ma'mun	MAAKL Mutual	0.77	Malaysia
7	PB Islamic Cash Management	Public Mutual	0.76	Malaysia
8	Public Islamic Money Market	Public Mutual	0.76	Malaysia
9	Meezan Tahaffuz Pension - Money Market Sub	Al Meezan Investment Management	0.65	Pakistan
10	TA Islamic CashPlus	TA Investment Management	0.65	Malaysia
	Eurekahedge Islamic Fund Index		**0.60**	

Based on 80.65% of funds which have reported October 2015 returns as at the 30th 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	2.09	Malaysia
2	Meezan Islamic Income	Al Meezan Investment Management	1.62	Pakistan
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	1.03	Pakistan
4	Public Islamic Enhanced Bond	Public Mutual	0.93	Malaysia
5	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	0.79	Pakistan
6	CIMB Islamic Enhanced Sukuk	CIMB-Principal Asset Management	0.62	Malaysia
7	Libra AsnitaBond	Libra Invest	0.49	Malaysia
8	Public Islamic Select Bond	Public Mutual	0.25	Malaysia
9	MAA Takaful Shariah Flexi	MAA Takaful	0.14	Malaysia
10	AlAhli Diversified US Dollar Trade	The National Commercial Bank	0.13	Saudi Arabia
	Eurekahedge Islamic Fund Index		**(0.37)**	

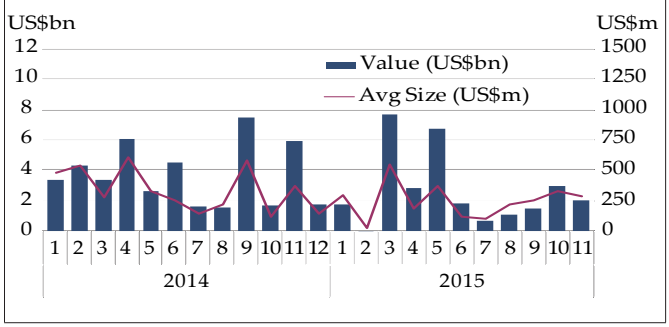
Based on 78.79% of funds which have reported October 2015 returns as at the 30th November 2015

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

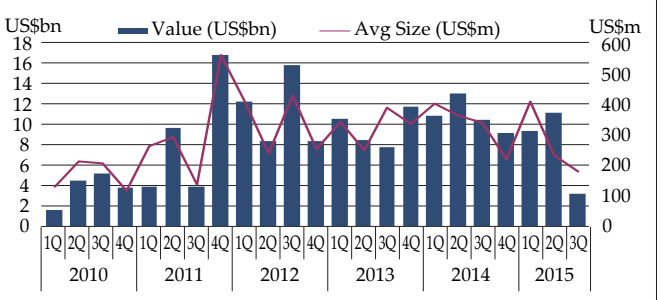
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
24th Nov 2015	Albaraka Turk Katilim Bankasi	Turkey	Sukuk	Euro market public issue	250	Standard Chartered Bank, Nomura, Dubai Islamic Bank, Emirates NBD, QInvest, Barwa Bank, Noor Bank
13th Nov 2015	Axiata SPV2	Malaysia	Sukuk	Euro market public issue	500	Deutsche Bank, CIMB Group
13th Nov 2015	Cagamas	Malaysia	Sukuk	Domestic market public issue	114	CIMB Group
3rd Nov 2015	MMC Corporation	Malaysia	Sukuk	Domestic market public issue	279	RHB Capital
2nd Nov 2015	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	727	HSBC, RHB Capital, Maybank, CIMB Group, AmInvestment Bank
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	UK	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
8th Sep 2015	Arab National Bank	Saudi Arabia	Sukuk	Domestic market public issue	533	JPMorgan, Deutsche Bank, HSBC, Arab National Bank
2nd Sep 2015	SapuraKencana TMC	Malaysia	Sukuk	Domestic market public issue	200	Maybank
26th Aug 2015	Almarai	Saudi Arabia	Sukuk	Domestic market public issue	427	HSBC, Samba Capital
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

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



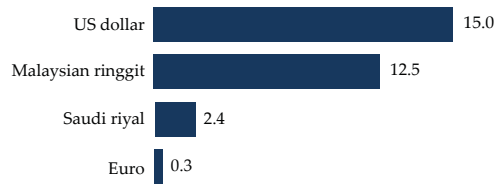
Top 30 Issuers of Global Sukuk *12 Months*

	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss (%)	Managers
1	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	2,000	6.6	JPMorgan, HSBC, Dubai Islamic Bank, CIMB Group
2	Dubai Islamic Bank	UAE	Sukuk	Euro market public issue	1,750	5.8	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	1,670	5.5	RHB Capital, Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank, HSBC
4	Malaysia Sovereign Sukuk	Malaysia	Sukuk	Euro market public issue	1,500	5.0	Saudi National Commercial Bank, Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, RHB Capital, Dubai Islamic Bank, Gulf International Bank, Natixis, CIMB Group
5	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	1,336	4.4	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	4.1	RHB Capital
7	National Shipping Co of Saudi Arabia	Saudi Arabia	Sukuk	Domestic market public issue	1,040	3.4	JPMorgan, HSBC, Samba Capital
8	Hong Kong Sukuk 2015	Hong Kong	Sukuk	Euro market public issue	1,000	3.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, CIMB Group
8	Government of Ras Al Khaimah	UAE	Sukuk	Euro market public issue	1,000	3.3	JPMorgan, National Bank of Abu Dhabi, Citigroup, Al Hilal Bank
10	Danga Capital	Malaysia	Sukuk	Domestic market public issue	992	3.3	RHB Capital, CIMB Group
11	Khadrawy	UAE	Sukuk	Euro market public issue	913	3.0	Standard Chartered Bank, JPMorgan, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
12	Jana Kapital	Malaysia	Sukuk	Domestic market public issue	816	2.7	RHB Capital
13	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	2.5	Standard Chartered Bank, HSBC, Citigroup, QInvest, Barwa Bank, Noor Bank
14	Malaysia Building Society	Malaysia	Sukuk	Domestic market public issue	645	2.1	RHB Capital, DRB-HICOM, AmInvestment Bank
15	Jambatan Kedua	Malaysia	Sukuk	Domestic market public issue	560	1.9	RHB Capital, Maybank, Kenanga Investment Bank, AmInvestment Bank
16	Prasarana Malaysia	Malaysia	Sukuk	Domestic market public issue	541	1.8	RHB Capital, Kenanga Investment Bank, CIMB Group, Affin Investment Bank, AmInvestment Bank
17	Arab National Bank	Saudi Arabia	Sukuk	Domestic market public issue	533	1.8	JPMorgan, Deutsche Bank, HSBC, Arab National Bank
18	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	525	1.7	Maybank, Bank Islam Malaysia, CIMB Group
19	Sharjah Islamic Bank	UAE	Sukuk	Euro market public issue	500	1.7	Standard Chartered Bank, HSBC, Kuwait Finance House, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
19	Noor Bank	UAE	Sukuk	Euro market public issue	500	1.7	Standard Chartered Bank, Dubai Islamic Bank, South Indian Bank, Citigroup, Emirates NBD, Al Hilal Bank, QInvest, Barwa Bank
19	Axiata SPV2	Malaysia	Sukuk	Euro market public issue	500	1.7	Deutsche Bank, CIMB Group
19	Arab Petroleum Investments	Saudi Arabia	Sukuk	Euro market public issue	500	1.7	Saudi National Commercial Bank, Standard Chartered Bank, Goldman Sachs, First Gulf Bank, Emirates NBD, Noor Bank
23	Majid Al Futtaim Properties	UAE	Sukuk	Euro market public issue	499	1.7	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank
24	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
25	Almarai	Saudi Arabia	Sukuk	Domestic market public issue	427	1.4	HSBC, Samba Capital
26	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	426	1.4	Maybank, CIMB Group
27	SABB	Saudi Arabia	Sukuk	Domestic market private placement	400	1.3	HSBC
28	Sarawak Energy	Malaysia	Sukuk	Domestic market public issue	386	1.3	RHB Capital, Kenanga Investment Bank, AmInvestment Bank
29	Rantau Abang Capital	Malaysia	Sukuk	Domestic market public issue	358	1.2	CIMB Group, AmInvestment Bank
30	AmIslamic Bank	Malaysia	Sukuk	Domestic market public issue	332	1.1	AmInvestment Bank
					30,284	**100**	

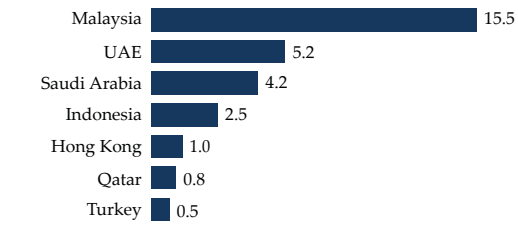
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	4,720	42	15.6
2	RHB Capital	4,047	34	13.4
3	HSBC	3,664	23	12.1
4	Maybank	2,476	28	8.2
5	Standard Chartered Bank	1,931	19	6.4
6	AmInvestment Bank	1,654	18	5.5
7	JPMorgan	1,483	6	4.9
8	Dubai Islamic Bank	1,302	11	4.3
9	National Bank of Abu Dhabi	1,181	10	3.9
10	Citigroup	691	5	2.3
11	Emirates NBD	565	8	1.9
12	Deutsche Bank	564	4	1.9
13	Kenanga Investment Bank	562	14	1.9
14	Samba Capital	560	2	1.9
15	Al Hilal Bank	541	5	1.8
16	Noor Bank	473	6	1.6
17	Natixis	447	2	1.5
18	Affin Investment Bank	409	5	1.4
19	Abu Dhabi Islamic Bank	276	3	0.9
20	Hong Leong Financial Group	264	6	0.9
21	First Gulf Bank	250	3	0.8
22	QInvest	223	3	0.7
22	Barwa Bank	223	3	0.7
24	Saudi National Commercial Bank	194	2	0.6
25	Sharjah Islamic Bank	166	2	0.6
26	Bank Islam Malaysia	149	2	0.5
27	Morgan Stanley	139	1	0.5
27	Mitsubishi UFJ Financial Group	139	1	0.5
27	Bank of America Merrill Lynch	139	1	0.5
30	Arab National Bank	133	1	0.4
	Total	**30,284**	**117**	**100**

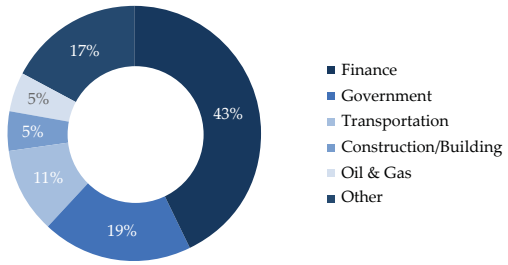
Sukuk Volume by Currency US$ (billion) *12 Months*



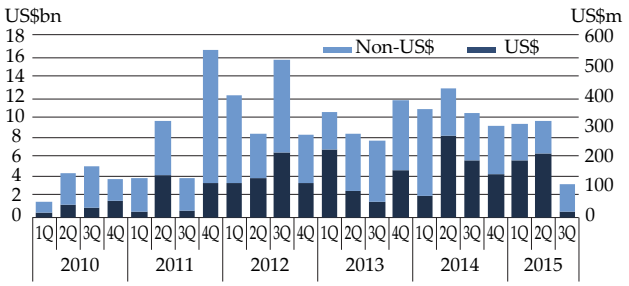
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	21.6
2	HSBC	750	3	11.9
3	Riyad Bank	584	2	9.3
4	Mitsubishi UFJ Financial Group	354	1	5.6
4	Mizuho Financial Group	354	1	5.6
6	Banque Saudi Fransi	346	2	5.5
7	National Bank of Kuwait	290	1	4.6
8	Al Rajhi Capital	257	2	4.1
9	National Commercial Bank	251	2	4.0
9	Samba Capital & Investment Management	251	2	4.0

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	30.9
2	Milbank Tweed Hadley & McCloy	2,704	1	25.1
2	White & Case	2,704	1	25.1
4	Allen & Overy	687	3	6.4
5	Baker & McKenzie	433	2	4.0
6	Latham & Watkins	333	1	3.1
7	Linklaters	311	1	2.9
8	Clifford Chance	275	1	2.6
9	Linklaters	311	1	2.6
10	Clifford Chance	275	1	2.3

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	First Gulf Bank	1,516	16	7.4
2	Banque Saudi Fransi	1,279	6	6.2
3	HSBC	1,215	11	5.9
4	Saudi National Commercial Bank	1,131	7	5.5
5	Samba Capital	1,100	7	5.4
6	Abu Dhabi Islamic Bank	830	11	4.0
7	Abu Dhabi Commercial Bank	662	5	3.2
8	Standard Chartered Bank	655	8	3.2
9	Riyad Bank	644	3	3.1
10	Mashreqbank	614	7	3.0
11	Emirates NBD	591	8	2.9
12	National Bank of Abu Dhabi	499	6	2.4
13	Noor Bank	496	6	2.4
14	Alinma Bank	490	2	2.4
15	Sumitomo Mitsui Financial Group	489	4	2.4
16	Dubai Islamic Bank	458	6	2.2
17	Arab Banking Corporation	371	6	1.8
18	Gulf International Bank	347	4	1.7
19	SABB	342	3	1.7
20	Barwa Bank	340	5	1.7
21	RHB Capital	322	3	1.6
22	Union National Bank	285	5	1.4
23	SG Corporate & Investment Banking	274	3	1.3
24	ING	269	2	1.3
25	Ahli United Bank	258	3	1.3
26	Maybank	247	2	1.2
26	AmInvestment Bank	247	2	1.2
28	Kuwait Finance House	241	2	1.2
29	Qatar Islamic Bank	222	4	1.1
30	Mizuho	221	2	1.1

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

	Bookrunner	US$ (mln)	No	%
1	Maybank	2,239	1	23.0
2	Noor Bank	748	4	7.7
3	Mashreqbank	731	3	7.5
4	Saudi National Commercial Bank	666	1	6.8
4	Riyad Bank	666	1	6.8
4	Alinma Bank	666	1	6.8
7	Abu Dhabi Islamic Bank	521	4	5.3
8	Emirates NBD	519	4	5.3
9	Dubai Islamic Bank	376	2	3.9
10	Standard Chartered Bank	304	2	3.1

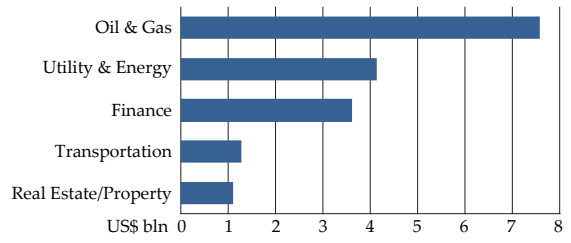
Top Islamic Finance Related Financing Deal List *12 Months*

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
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
16th Aug 2015	ACWA Power International	Saudi Arabia	769

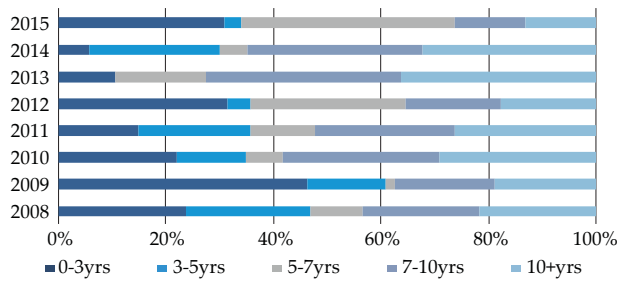
Top Islamic Finance Related Financing by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	UAE	7,167	18	34.9
2	Saudi Arabia	6,718	6	32.7
3	Malaysia	2,411	3	11.8
4	Turkey	1,890	4	9.2
5	Qatar	1,000	2	4.9
6	Kuwait	622	3	3.0
7	Cayman Islands	325	1	1.6
8	Egypt	212	1	1.0
9	Pakistan	71	1	0.4
10	Oman	55	1	0.3
11	Italy	51	1	0.3

Top Islamic Finance Related Financing by Sector *12 Months*



Global Islamic Financing - Years to Maturity (YTD Comparison)



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

MARCH 2016		
15th	IFN CIS & Russia Forum	Moscow, Kazakhstan
22nd	IFN China Forum	Beijing, China
APRIL 2016		
6th – 7th	IFN Asia Forum	Jakarta, Indonesia
21st	IFN Europe Forum	Luxembourg
MAY 2016		
May	IFN Iran Forum	Tehran, Iran
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		
28th	IFN Saudi Arabia Forum	Jeddah, Saudi Arabia

REDmoney training

DECEMBER 2015		
1st – 2nd	Islamic Financial Products: Best Practices & Applications	Jeddah, Saudi Arabia
1st – 3rd	Financial Models for Islamic Banking Institutions	Kuala Lumpur, Malaysia
2nd – 3rd	Structuring Sukuk & Islamic Securitization	Jeddah, Saudi Arabia
6th – 8th	Advanced Sukuk & Islamic Securitization	Dubai, UAE

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