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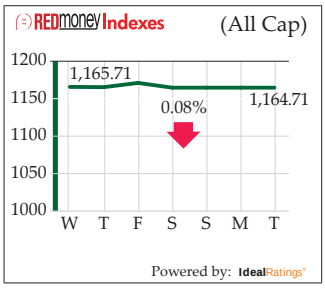

COVER STORY

28th September 2016 (*Volume 13 Issue 39*)

Indonesia kickstarts infrastructure explosion

Indonesia's enormous infrastructure requirements are no secret. According to the government, the country needs over US$413 billion between 2015-19 to meet its needs — almost half its total 2015 GDP and around five times its 2016 tax revenues of US$89 billion. Estimates suggest that the state is currently capable of funding less than a third of this figure and Islamic finance is the obvious answer — but LAUREN MCAUGHTRY learns that it's not always that simple…

Urgent requirement

Indonesia's infrastructure investment needs are huge. There's no doubt about that, and no argument. The government itself estimates a requirement of around US$413 billion while the ASEAN Secretariat in 2015 suggested the country could need up to US$1.3 trillion in public development funds up to 2030.

So what is being done to encourage investment? So far, the situation looks promising. The government has released a number of major economic policy packages, including a stimulus package that focuses on the ease of doing business and the reduction of complexity in order to attract more business. For example, in August plans were announced to massively deregulate the housing development market, slashing the number of permits, time and cost needed to approve projects. Currently, developers are required to apply for 33 permits before starting work, which usually take over two years to obtain. "We will deregulate the 33 permits, reducing the requirement to 11 permits. The 981-day processing time will be reduced to 44 days," said Darmin Nasution, the coordinating minister for economic affairs, speaking to the press last month. The cost is also expected to be cut by up to 70% which should boost the construction industry and improve the climate for affordable housing — just one of the initiatives designed to boost infrastructure spending in the country.

Diversified funding

But it is not just the ease of doing business that is an issue. Funding support for these projects is an urgent requirement and although the government has dramatically increased its sovereign issuance program, this simply is not enough to finance what is needed. Estimates suggest that the state budget is only capable of supporting around a third of the required investment, despite looking far and wide for new sources of funding.

In June, the government raised almost US$1 billion with a privately-placed samurai sovereign bond designed to attract Japanese investors, while it has also stepped up its euro program with issuances worth EUR3 billion (US$3.37 billion) earlier this year that were oversubscribed by 1.8 times — on the back of its debut euro issuance in 2014 which saw demand of seven times over the US$1.4 billion value. Indonesia is now the largest sovereign issuer of international bonds in Asia outside of Japan, raising a combined US$19 billion between 2010-14, according to Dealogic.

Islamic interest

As such, Islamic financing is an obvious solution. Sovereign Sukuk issuance is expected to rise to 50% of total public debt issuance over the next 10 years, from just 13% in 2015 — increased by approximately 5% every year.

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DEALS

Indonesia raises funds from Sukuk sales

Qatar raises QAR2.63 billion (US$721.56 million) from multiple Islamic notes

Malaysia's **Public Sector Home Financing Board** issues inaugural Sukuk; three times oversubscribed

Autoriti Monetari Brunei Darussalam issues 136th short-term Sukuk Ijarah

Malaysian government issues RM500 million (US$120.74 million)-worth of Islamic treasury bills

Edaran SWM's Sukukholders approve early redemption of RM750 million (US$182.49 million) Murabahah notes

TH Heavy Engineering seeking to extend maturity date of its RM170 million (US$41.36 million) Sukuk Murabahah

Cagamas floats RM500 million (US$121.3 million) short-term Sukuk Murabahah

Turkish government to issue Sukuk Ijarah worth TRY2 billion (US$673.06 million)

NEWS

Kenyan higher education loans board to introduce Shariah compliant student financing

Credit Agricole wins license to open an Islamic bank in Morocco

Nasser Social Bank negotiating with **African Development Bank** over US$1.2 million grant for restructuring plan; considering launch of new savings certificates

First Islamic banking service in India takes off in Solapur district

Bank Alfalah partners with **Special Communications Organization** to launch branchless banking service

Bank Muamalat Indonesia to receive IDR2 trillion (US$152 million) capital injection from three main shareholders; to focus on consumer and retail segments

ASSET MANAGEMENT

Kumpulan Wang Persaraan aims to increase alternative investments by 50% starting next year

TAKAFUL

Takaful penetration among both UAE nationals and expats still low, according to **National Bonds Corporation**'s financial health check

Misr Emirates Takaful Life Insurance mulls purchasing property where Alexandria branch lies; studying two funding mechanisms

RATINGS

RAM assigns final ratings of 'AAA/Stable' and 'AA3/Stable' on **Al Dzahab Assets**'s Sukuk

RAM maintains **EXIM Sukuk Malaysia** and **Export-Import Bank of Malaysia**'s ratings

RAM reaffirms **Puncak Wangi**'s Sukuk at 'AAA(fg)/Stable'

Islamic International Rating Agency reaffirms **Al Baraka Bank Egypt**'s ratings

Pakistan Credit Rating Agency assigns 'A' rating to **Pak Qatar Family Takaful**

Capital Intelligence affirms **National Bank of Egypt**'s ratings with stable outlook

RAM maintains Sukuk ratings of **Sarawak Energy**'s subsidiaries reflecting its support for the entities

APICORP maintains 'Aa3' ratings with a stable outlook

Fitch affirms 11 Saudi banks; outlook negative

Moody's downgrades Turkey's ratings as funding risks escalate and credit fundamentals weaken

RAM reaffirms **Lingkaran Trans Kota**'s Sukuk Musharakah's 'AA2' ratings

MOVES

Solidarity Saudi Takaful receives regulator's nod for new CEO

Iraqi parliament dismisses Finance Minister Hoshyar Zebari over corruption and mismanagement allegations

KAMCO Investment Company hires former Islamic banker as CFO

Abu Dhabi Financial Group appoints Dr Saleh Al Hashemi as managing director and CEO of **Integrated Capital**

Takaful Emarat Insurance appoints Adnan Sabaalaish as new financial controller following resignation of CFO Mohammad Iqbal Basha

Securities Depository Center Company appoints Mamdooh Saud Al Sedairy as CEO

BLME Holdings appoints CFO Christopher Power to the board

Islamic finance lawyer Nadim Khan joins **Jones Day** as partner in Dubai office

Indonesia kickstarts infrastructure explosion

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Yet despite its efforts, the state budget is in no shape to meet the full demand — and it looks like the shortfall must be made up through private investment, public-private partnerships and foreign direct investment.

> ***"For Shariah financing to broaden and deepen its participation requires an expansion of funding sources and financial capital"***

Local banks have already recognized this opportunity — earlier this month Maybank Indonesia publicly called on the government to promote Islamic financing as an alternative to boost infrastructure investments. Speaking at the bank's Invest ASEAN 2016 event in September, President Director Taswin Zakara highlighted that many infrastructure projects include tangible assets that could be securitized for Islamic financing. "We view Islamic financing as an alternative, not a substitute," he commented. "We're looking to finance more government projects using Islamic loans." In the first half of 2016, Maybank Indonesia's Shariah division disbursed 80% of its loans (around US$653.8 million) to the infrastructure sector.

"Certainly the accumulating funds parked at all Shariah banks in Indonesia could finance a greater portion of Indonesia's US$450 billion infrastructure development program," agreed Edward Gustely, the managing director of Penida Capital Advisors, speaking to IFN — although he warned that: "A key challenge for Islamic financiers is project selection and contractor procurement under current Islamic structured mechanisms."

Corporate excitement

Despite its challenges, the corporate market is key to meeting the funding gap — there is no question of that. And the private sector is well aware of the opportunities available. "There is a lot of interest in Indonesia at the moment from state-owned enterprises, and also from private-owned corporates. They're all very keen to get involved in the Islamic space," confirmed Qudeer Latif, a partner and the global head of Islamic finance at Clifford Chance, speaking to IFN.

The example provided by the government through its sovereign Sukuk issuance has played a key part in this surge of private sector interest. "The government has issued five or six US dollar Sukuk by now, and firms have seen their success in tapping into a wider pool of investors, which has brought down the government cost of funding," explained Qudeer. "The last sovereign Sukuk issuance priced significantly lower than the first sovereign Sukuk issuance. Private corporates and state-owned enterprises see that and are realizing the benefits and the potential for their own fundraising activities."

A notable recent success involves the US$63.5 million construction financing of the Soroja Toll Road project (located in West Java) — Indonesia's first fully-funded toll road by Shariah lenders, with funding disbursed through a Murabahah scheme. Earlier this month, a group of lenders including Bank Muamalat and the Shariah division of the Central Java Regional Development Bank signed an Islamic syndicated financing agreement worth around US$63.5 million.

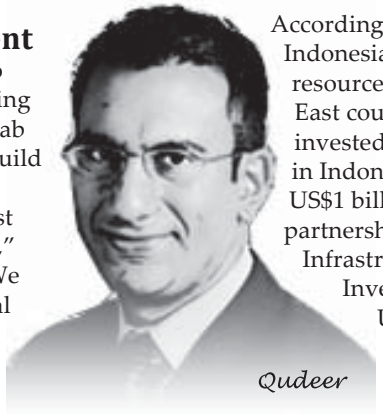
Foreign investment

Islamic financing is also fundamental for attracting investment from the Arab world. "The ability to build stronger relationships between the Middle East and Asia is a key factor," pointed out Qudeer. "We have seen a lot of capital flowing into Indonesia in the last few years and that is a growing relationship that is getting much stronger."

In April this year, the government listed two sovereign Sukuk worth US$2.5 billion on NASDAQ Dubai, with the Indonesian minister of national development planning, Bambang Bodjonegoro, highlighting that: "Our choice of NASDAQ Dubai for listing provides us with close links to regional and international investors."

"Our expanding relationship with Indonesia, the world's most populous Muslim country, strengthens the development of the financial infrastructure of both countries for the benefit of their economies," added Essa Kazim, the governor of the DIFC and secretary-general of the Dubai Islamic Economy Development Center.

> ***"There is a lot of interest in Indonesia at the moment from state-owned enterprises, and also from private-owned corporates. They're all very keen to get involved in the Islamic space"***


Qudeer

According to Sudirman Said, Indonesia's energy and mineral resources minister, Middle East countries have already invested over US$12.2 billion in Indonesia — including a US$1 billion infrastructure partnership between Sarana Multi Infrastruktur and the Qatar Investment Authority, a US$350 million gas power plant project in North

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Sumatera by PLN and Qatar's Nebras, and a 80,000-ton LPG contract between National Iranian Oil Company and Pertamina worth US$60 million.

This enormous Islamic potential has not gone unnoticed by the authorities. A week after she was appointed as the finance minister in 2016, Sri Mulyani Indrawati announced at the World Islamic Economic Forum in Jakarta that given the "huge" infrastructure development needs: "I am sure there is the potential to develop instruments for financing based on Shariah law."

But is there?


Kemenkeu foto/Kukuh

> ***"There are a number of Islamic investors who are keen to invest in the infrastructure sector, but there are still limitations around tax, which is holding back investment and development"***

Barriers to entry

Although everything seems to be looking rosy, in reality the opportunities are not as limitless as the headlines would have us believe.

Unfortunately, despite the repeated commitments and high-profile projects, the government has still failed to address the real issues restricting corporate sector involvement in the Islamic finance sector — the legal, tax and regulatory framework — and until that happens, the market will never reach its full potential.

Currently, an Ijarah transaction still attracts double taxation (on both the sale and the leaseback), for example — and the authorities urgently need to recognize Islamic structures as financing transactions in order to remove the excessive tax burden and treat them on a level-playing field with conventional instruments.

"We are optimistic about Indonesia, but we are actively encouraging the government to accelerate the tax reforms to allow more Islamic financing to happen," agreed Qudeer. "The infrastructure demands are huge — the need for power, water, energy, roads — the needs and demands are very significant. There are a number of Islamic investors who are keen to invest in the infrastructure sector, but there are still limitations around tax, which is holding back investment and development." Although a working committee has already been set up to explore the tax issues, there is no timeline on resolution and no indication of when changes might be implemented.

The lack of understanding is also an issue — and the human capital component is a major part of the issue. Where Malaysia has strength and depth in understanding Islamic finance structures and how they work from a practical perspective, Indonesia has struggled to build the same expertise.

"Indonesia's debt capital market is dominated by conventional financing that corporate borrowers are more familiar with in accessing. For Shariah financing to broaden and deepen its participation requires an expansion of funding sources and financial capital, and developing capable human resources and supportive IT systems," agreed Gustely.

And while the government has been active in promoting Shariah financing, more work is needed in simplifying the process for increased uptake by businesses — including through channels such as the implementation of underwriting standards that can be tracked by market participants.

Roadblock ahead

The requirements are huge, and the opportunity is there, but it remains down to the authorities to provide the playing field needed for the private sector to support this growth — and right now, that is simply not there, which is limiting how much companies can actually do.

"We are working on one sizeable transaction in Indonesia right now, and we do believe the potential is there," said Qudeer. "Look at Malaysia — there are probably five or six very big cross-border US dollar deals per year. Indonesia certainly has the potential to be able to do that, and I have no doubt that it could achieve that, but whether it can translate this potential into real deals all depends on the tax issue, and how quickly they can push the reforms through. When that happens, the floodgates will open."

Takaful in the UAE: Slowing down?

The UAE may be one of the leading Takaful jurisdictions globally and a key growth market but VINEETA TAN asks, will the Emirates be able to sustain its growth momentum on the back of softer macroeconomic conditions?

Looking in terms of growth rate, the Takaful story seems inspiring — healthy double-digit expansion (22% globally, 12% for the GCC except Saudi Arabia, according to EY).

The UAE, like Saudi Arabia and Malaysia, has been identified as a key driver for the global industry — the Emirates, which is one of the largest insurance markets in the GCC, is expected to capture a significant portion of the region's insurance density projected to more than double to US$751.4 in 2017 (from US$367.3 levels in 2012) as an increasing number of individuals and businesses avail insurance cover, according to the MENA Insurance Barometer 2016, an annual market survey.

This comes on the back of an insurance penetration rate expected to almost double from 1.1% in 2012 to 2% next year, as industry growth comfortably exceeds the pace of GDP expansion in the GCC.

Yet, the survey with executives representing 36 regional and international Takaful and insurance operators, re-insurers, intermediaries and trade associations from the MENA region, would show that market participants are less optimistic about the upward trajectory of the Islamic insurance market.

A total of 34% of the respondents — up from 22% — expect the Takaful segment to underperform the market as a whole in terms of growth while the proportion (23%) of those optimistic that the Islamic insurance sector would outperform remains virtually unchanged.

"Many executives continue to feel that Takaful offers no genuine differentiation and does not even live up to the concept of mutuality, given conflicting interests of policyholders and shareholders," noted the report.

> ***"34% of the respondents — up from 22% — expect the Takaful segment to underperform the market as a whole in terms of growth"***

Current situation

The projection seems to correspond with current take-up. The latest financial health check by the UAE's National Bonds Corporation confirmed that a majority of UAE nationals and expats are without Takaful coverage: from the UAE national pool of respondents, 73% do not have Takaful life coverage and 89% are not insured through Takaful against disabilities while among expat residents, 83% do not have Takaful life coverage and 76% are not covered through Takaful for disabilities.

"We are not surprised with the third quarter results of the National Bonds Financial Health Check — it reiterates our understanding that the awareness about the benefits of Takaful coverage is still minimal among UAE residents," explained Mohammad Bitar, the chief commercial officer of National Bonds, who further explained that despite the concerted efforts of many entities in enhancing the regulatory environment to boost Islamic insurance, the public is still hesitant in acquiring both Takaful and traditional insurance coverage.

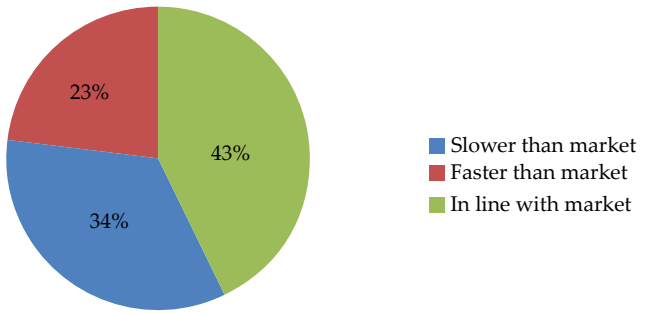
"The majority of the social strata, regardless of nationality, are unable to grasp the significance of insurance and its impact on an individual's and family's stability and security. They also don't effectively understand the difference between traditional insurance and Takaful, let alone comprehend the actual benefits of Takaful, which focuses on social cohesion and involves the collective sharing of any burdens," said Bitar.

Moving forward

Awareness and the lack of a unique selling proposition aside, there is still the issue of complacency. "Many UAE nationals work in the public and government sector, and quite often do not feel the need for insurance coverage in addition to that already provided by their employers," commented Bitar. And while this may be a crutch, it could also be an area for growth, that is encouraging the take-up of Takaful products through customized packages in partnership with the government such as Islamic insurance programs designed exclusively for government employees.

"Going forward, some interviewees suggest that Takaful players should concentrate on embracing the concept of mutuality which works best in personal lines such as motor and medical insurance where portfolios are relatively homogeneous," according to the MENA Insurance Barometer 2016.

Chart 1: Expectations on growth prospects for Takaful market



Source: Mena Insurance Barometer 2016

A new renewables superpower: Morocco goes green

Morocco is big news in the sustainable energy space, and the country is boosting its game with major commitments and high-profile promises as it bids to replace its high-energy demands with renewable alternatives. Amid all this activity, its fledgling Islamic finance market slots perfectly into place — with the 'green makeover' of 600 mosques this month a fitting tribute to its twin ambitions. LAUREN MCAUGHTRY looks at the latest.

Economic achievements

Since the adoption of a new constitution in 2011, Morocco has adopted a wide range of reforms that not only set the basis for a more open and democratic society but led to a strong economic performance over recent years. Thanks to an exceptional agricultural performance in 2014/15, growth soared to 4.4% last year, and a major fiscal reconsolidation effort has seen the deficit decrease from 7.2% of GDP in 2012 to 4.3% in 2015.

However, progress has decelerated sharply in 2016 with total GDP growth expected to fall below 2% according to the latest World Bank estimates. As such, the structural reform agenda remains a priority and the new 2016 budget law is expected to solidify the tax base, rein in expenditure and implement a new pension regime along with ongoing fiscal and financial reforms to improve the business environment.

Green power

Currently the biggest energy importer in the MENA region (depending on outside sources for around 97% of its energy supply) and with no natural oil resources, Morocco's energy requirements are increasing by around 7% per year with electricity requirements expected to quadruple between 2012 and 2030. The country has made its intentions clear in the renewables space in order to meet this need — and now Islamic finance could help achieve these goals.

In 2008, Morocco launched the National Renewable Energy and Energy Efficiency Plan, which aims to develop alternative energy to meet 15% of its domestic energy needs. At the Conference of the Parties (COP) 21 to the United Nations Framework Convention on Climate Change (UNFCC) in Paris in 2015, Morocco pledged to reduce its greenhouse emissions by at least 13% by 2030 as well as meeting 52% of total power needs through clean energy. To meet this target, an investment of US$35 billion has been committed into the electricity and clean energy sectors — a vast opportunity for foreign investors keen to leverage the green scene.

Major projects have already been undertaken — in December 2014, Morocco launched Africa's largest wind farm, representing around 40% of the country's total wind capacity to date. The US$9 billion Noor project, led by the public-private partnership the Moroccan Agency for Solar Energy, is expected to complete in 2019 and will provide 18% of the country's annual electricity generation. The Moroccan Solar Plan aims to generate 2,000 MW of solar power by 2020 by building mega-scale solar power projects at five locations. A new hydroelectric station with a capacity of 350 MW will be operational by 2020 while Morocco is also pioneering a new 1 GW hybrid power plant relying on both wind and hydro, which will be the largest system in Africa. And as the only African country to have a power cable link to Europe, Morocco is also a key player in the Mediterranean Solar Plan and Desertec Industrial Initiative.

Islamic ambition

Morocco's national utility provider, ONE, is developing around 50% of the planned projects, while the other half is contributed by private investment through the 'EnergiPro' initiative. But with such a vast funding requirement, new funding sources are urgently required. It is unsurprising, therefore, that the moderate Islamist government is finally making a move to implement Islamic finance in the hope of increasing liquidity and attracting much-needed international investment.

Although the sector has been slow to take off, primarily due to political concerns, Bank Al-Maghrib, the central bank, this month issued its first Islamic banking approval to Credit Agricole, and has already received a further seven requests to open Islamic banks and three for Islamic windows. Gulf players including Qatar International Islamic Bank, Al Baraka Bank, Guidance Financial Group, Emirates NBD and Masraf Al Rayan are all reported to be in the running, and the central bank has confirmed the adoption of products including Murabahah, Musharakah, Ijarah and Salam.

Mosque makeover

So where do the two trends meet? So far, there has been little Shariah compliant financing of Morocco's energy needs due to the fledgling state of its Islamic sector — but all this could be about to change as the authorities seek to diversify funding sources and pull ahead in the energy race.

> ***"So far, there has been little Shariah compliant financing of Morocco's energy needs due to the fledgling state of its Islamic sector — but all this could be about to change"***

With a 99% Muslim population, Morocco this month took its biggest step yet to unite its twin goals of renewable energy and Islamic finance, with the announcement of 600 'green mosques' to be powered by clean energy. With the first 100 due for completion by the end of 2016, the mosques will receive LED lighting, solar thermal water heaters and photovoltaic systems to raise national awareness over the importance of green energy. And under the project's energy service contract model, contractors will be paid through the energy savings generated from the clean power systems they install.

Although there is no news yet as to how this project will be financed, the burgeoning relationship between socially responsible investing and Islamic finance suggests that Morocco could have positioned itself in a uniquely favorable position to benefit from this trend. As the next host for COP22 (to be held in Marrakech in November), all eyes will be on Morocco to take the next step in climate change commitment — and we should expect Islamic finance to play a far larger role in its execution going forward.

Fund Focus: CIMB-Principal Islamic Asset Management's Global Sukuk UCITS Fund

The Islamic asset management arm of CIMB Group, one of the industry's most well-known financial institutions, has showcased its continuous commitment and support toward developing Malaysia as a hub for Islamic finance products at the global stage after launching the country's first Global Sukuk Fund under the Undertakings for Collective Investment in Transferable Securities (UCITS) structure in Dublin, Ireland, following the approval by the Central Bank of Ireland. DANIAL IDRAKI speaks to CIMB-Principal Islamic Asset Management to find out more about the new fund that is banking on the growing Shariah compliant opportunities across the Middle East and Asia.

CIMB-Principal Islamic, which will act as the investment manager and master distributor of the fund, seeks to maximize total returns over the medium to long term by investing in a diversified portfolio of Shariah compliant fixed income securities issued by governments, government-related entities, corporations and supranational entities based primarily in the Middle East and Asia. Norashikin Mohd Kassim, the asset management firm's CEO, told IFN that the open-ended fund is expected to grow to US$50 million

within the next 12 months and is expected to achieve a potential average annual return of above 4% per annum.

"The expected return is based on the investment performance results achieved by CIMB-Principal Islamic's global Sukuk capabilities for the past three years, according to the Global Investment Performance Standards. As of the 31st July 2016, CIMB-Principal Islamic's global Sukuk total return (gross) recorded an average annual return of 4.86% per annum," she explained. CIMB-Principal Islamic managed a total of US$608 million in global Sukuk mandates as at the end of July, since the establishment of a new Islamic fund range in Ireland in 2011.

Norashikin added that the fund will appeal to investors looking for ethical investments with stable returns in major currencies, such as the US dollar, by tapping into the Sukuk of leading issuers. "We believe Sukuk offer superior risk-adjusted returns and diversification benefits to investors due to the lower volatility and lower correlation to conventional equities and fixed income. We expect strong demand for the Global Sukuk UCITS Fund given the current volatile equity markets and a shortage of good Sukuk issuance in the market." Targeted at both retail and institutional investors across the Middle East and selected European and ASEAN countries, the fund will be offered to investors for a minimum investment of US$1,000 and has an initial offer price of US$10 per share.

CIMB-Principal Islamic remains upbeat on the growth prospects and outlook of the global Sukuk landscape, despite recent reports by S&P and Moody's that expect issuance to moderate in the next six to 18 months. "CIMB-Principal Islamic is confident that the global supply of Sukuk will be sufficient to meet the demand from investors. We have seen issuances such as [those from] Perusahaan Penerbit SBSN, EMAAR Sukuk, DP World Crescent and Sharjah Islamic Bank Sukuk early this year. We expect further issuance to support the growth of [the] global Sukuk market moving forward," Norashikin affirmed.

CIMB-Principal Islamic also manages three other UCITS funds that are domiciled in Ireland: the Islamic Global Emerging Markets Fund, the Islamic Asia-Pacific ex-Japan Fund and the Islamic ASEAN Equity Fund.

US firm launches Islamic robo-advisor to democratize financial services

Robo-advisors are making waves in the financial world and this week, the community welcomes one Islamic robo-advisor designed specifically to meet the needs of Islamic investors. VINEETA TAN reports.

A North American firm is hoping to capture Muslim investment opportunities leveraging fintech by creating an Islamic robo-advisor to assist individuals who are looking to invest in a Halal portfolio.

Founded by two engineering-trained individuals, the robo-advisor, Wahed, utilizes real-time fully-automated software and customized financial optimization algorithms to analyze global securities to create portfolio allocations. Investors are also provided with tools to monitor and plan their customized portfolio through a client portal.

"By implementing a completely digital-based solution, which is informed and supervised by world-class financial expertise, Wahed democratizes access to the best financial advice for investors the world over. We are able to offer the most advanced portfolio management for investments as little as US$7,500, as opposed to the usual US$500,000 minimum required by most wealth management firms," explained Junaid Wahedna, CEO of Wahed Invest, the firm behind the Wahed platform.

Hailing it as the "future of the wealth management and ethical finance industry", co-founder Nilish Chadha said that the Islamic platform — which has been in beta testing since mid-2015 – has been generating a higher expected return than many other traditional funds with lower risks.

"Ethical securities have often outperformed traditional securities. Furthermore, our process is completely transparent and every investor's portfolio is entirely liquid making it a better option than even the traditional savings accounts offered by financial institutions," expounded Chadha. The platform, registered with the Securities and Exchange Commission, is monitored by Wahed Invest's Ethical Review Board, which includes Sheikh Taha Abdul Basser, the former Islamic Chaplin at Harvard University and Shariah board member of Fajr Capital.

Accessible now in the US, Wahed Invest intends to make the platform accessible in more than 100 countries by next year.

Islamic finance's prospects remain robust despite subdued economic environment

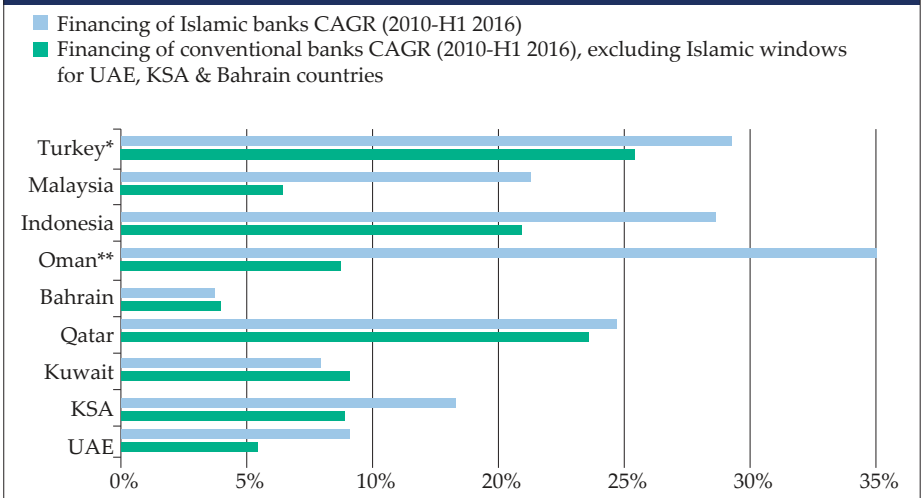
Despite the subdued economic environment and the expectation that new Sukuk issuance volumes for the rest of the year will remain flat, DANIAL IDRAKI writes that the Islamic finance industry can take comfort in the fact that the Islamic banking sector continues to broadly outpace conventional banks in most systems in which Islamic banks have been established.

The growth of the Islamic banking sector is driven by strong retail demand and proactive government legislation for the industry, Moody's noted in a recent report. "The sector also has potential for further growth, especially in countries in which the penetration of Islamic banking assets remains relatively low, at between 5-10% of Islamic financing assets, such as Oman, Turkey and Indonesia," noted Khalid Howladar, the rating agency's global head of Islamic finance. Citing the example of Oman, for example, the Islamic banking sector has gone from zero to an aggregate of around 10% of banking system financing assets as of June 2016 over the last three years, compared to Indonesia and Turkey which have both taken over two decades to reach around 5% of banking system financing assets.

> ***"Since 2014, the number of Basel III-compliant Sukuk has grown, led by GCC and Malaysia"***

The government of both countries, however, have in recent times taken proactive measures to boost the growth of the industry. In Turkey, the creation of new government-sponsored participation banks is expected to double the size of the sector over the next five years. Meanwhile, the recent announcement in Indonesia that 50% of all public financing will be Shariah compliant in the next 10 years provides a massive state-sponsored boost to the sector. "Both countries have significant pent-up demand for Shariah compliant financial services especially among the relatively underbanked rural populations, who seek products that are more aligned with their ethical and moral principles," Moody's affirmed.

Chart 1: Financing/lending growth of Islamic banks compared to conventional banks in key markets



Data up to June 2016 for all banking systems except Bahrain and Indonesia
**Islamic Financing CAGR in Turkey excludes Bank 'Aysa, whose operations have been progressively wound down since 2014*
***Financing CAGR in Oman is calculated over 2013-H1 2016, i.e since the introduction of Islamic banking in the country*
Source: Central banks, bank's annual reports

On the global Sukuk outlook, Moody's acknowledged that new issuance volumes are expected to moderate in 2016 at around US$70 billion, but the longer-term outlook remains hopeful. "Subdued issuance volumes in 2016 were mostly driven by reduced short-term borrowings by the Malaysian government, one of the largest Sukuk issuers globally, as well as the drive of the GCC governments to tap conventional sources of liquidity, which has reduced the attractiveness of the Sukuk format," Nitish Bhojnagarwala, an analyst at Moody's, opined. The rating agency expects increased Sukuk issuance in 2017 from sovereigns, banks and corporates in the Gulf, as regional financing needs increase amid depressed oil prices.

Another positive development for the Sukuk market is the increasing activity of specialized multilateral entities, such as quasi-sovereigns, central banks and supranational entities, including the IDB, the International Liquidity Management Corporation and the Arab Petroleum Investments Corporation. "These entities have become regular issuers — representing around 15% of total Sukuk issuance over the last 12 months — and play a key role in supplying the Sukuk market with high-quality issuances [that are] much needed by Islamic banks, which are facing a deficit in instruments necessary for efficient liquidity management, a situation further exacerbated by new regulatory requirements under Basel III," Moody's said.

Islamic banks' share of the Sukuk market is also growing, and Moody's expects the gradual implementation of Basel III capital requirements to boost their Sukuk issuance as banks will seek to hold sufficient regulatory capital in order to satisfy higher minimum standards. "Since 2014, the number of Basel III-compliant Sukuk has grown, led by GCC and Malaysia with notable issuances from National Commercial Bank (Saudi Arabia), Dubai Islamic Bank (UAE) and Maybank Islamic (Malaysia)," the rating agency noted.

Pakistan inches closer to issuing sovereign Sukuk following cabinet's approval

The Islamic finance industry could be welcoming Pakistan back to the sovereign Sukuk space very soon this year, following the Economic Coordination Committee of the Cabinet (ECC)'s blanket approval last week that will allow the finance ministry to raise funds via the international debt markets. DANIAL IDRAKI writes that the ECC has given the green light to the finance ministry, presided over by Finance Minister Ishaq Dar, to decide on the size, maturity and pricing of the proposed Sukuk.

The Sukuk facility will be backed by the Lahore-Islamabad motorway as collateral to raise the funds, and it has been reported that the government has hired a number of banks to arrange the deal worth at least US$750 million, with Citibank, Deutsche Bank, Standard Chartered, Noor Bank and Dubai Islamic Bank making up the consortium. The Express Tribune quoted officials from the Ministry of Finance as saying that the government will meet with international investors soon and is expected to seal the deal by early October. Except for Noor Bank, the other four banks were also financial advisors for the second sovereign Islamic debt issuance in 2014, in which the government raised US$1 billion for a period of five years at a profit rate of 6.75%.

The South Asian nation's plan for a sovereign issuance comes on the back of depleting foreign exchange reserves and widening current account deficit. Over the last two and a half months, Pakistan's foreign exchange reserves have dwindled by US$400 million to US$17.7 billion as of September 2016, while its current account deficit increased to US$1.3 billion during the July to August 2016 period, according to data compiled by the State Bank of Pakistan.

Should Pakistan successfully issue the Sukuk facility in the international capital markets, it would be the country's third US dollar issuance to date. The 'B3'-rated (Moody's) sovereign has been actively raising money Islamically from its home market this year after issuing new Sukuk regulations in 2015: in the first quarter of 2016, it sold PKR80.4 billion (US$762.07 million)-worth of Sukuk Ijarah and guaranteed the PKR100 billion (US$947.85 million) Sukuk Musharakah facility issued by its Water & Development Authority.

Pakistan has been one of the more progressive countries this year in terms of developing its Islamic finance capabilities. Earlier this month, the government accorded tax neutrality to Sukuk issuance that would bring the Shariah compliant debt issues on par with their conventional counterparts in terms of costs, following recommendations by the Securities and Exchange Commission of Pakistan. Earlier in April, the government introduced a tax concession of 2% for Shariah compliant manufacturing companies through the Finance Act to promote Islamic finance.

DDCAP develops platform to meet Islamic investors' growing demand for responsible finance investing

The growing sophistication of Muslim investors increasingly looking to incorporate SRI principles on top of greater efficiency and stronger governance into their Shariah compliant investment strategies has led one London-based Islamic finance intermediary firm on a decade-long journey to engineer a bespoke Shariah compliant trade platform. VINEETA TAN brings you an insider look into the new product.

DDCAP Group, at the IFN Investor Forum which gathered 338 Islamic finance practitioners from across Europe, Africa, the UAE and Asia in Kuala Lumpur last week, launched the Ethos Asset Facilitation Platform (Ethos AFP), a real-time trade and post-trade services platform providing 24-hour coverage, enabling investors to purchase from a diverse asset inventory via a secure web-based portal.

"Historically, one of the biggest issues with Shariah compliant transactions is that they are very cumbersome with a lot of paperwork involved. The Ethos platform enables you to effectively arrange transactions in seconds while at the same time, full documentation is available ensuring you're still adhering to Shariah stipulations," explained Lawrence Oliver, a director and the deputy CEO of DDCAP.

The Ethos AFP accommodates specific trade and post-trade requirements relating to financial contracts within the Shariah compliant and responsible finance universe and employs stringent governance, risk management and compliance mechanisms.

In addition to regular Shariah screening, transactions executed on the paperless platform are randomly selected and subjected to independent review in accordance with the International Standard on Related Services 4400.

DDCAP has integrated its own responsible business-based principles as well as Shariah-focused requirements of its clients and Shariah supervisory board into Ethos AFP. Asset allocation could also be overlaid with requisite, regulatory-driven compliance and governance stipulations, including sanctions-related protocols or responsible investment and financing considerations at the direction of investors.

"We started work on this process over 10 years ago with a bank in Abu Dhabi and we've had great support from numerous scholars who had their own test platforms to experiment with and provide us guidance. In automation, we gain greater efficiency and mitigate operational risks in a post-trade environment; the concern however is that there should not be a compromise on Shariah stipulations – so it has been a gradual process for us to make sure we are engaged with the right stakeholders to ensure we have the right system in place."

Sovereign Sukuk: A lively and exciting week across five separate countries

The sovereign Sukuk space witnessed a bustling of activities the past week, as countries across key Islamic financial markets issued Islamic debt to raise funds. Indonesia, Malaysia and Brunei were in the limelight for Southeast Asia, while Qatar and Turkey kept the momentum going for the GCC and Eurasia regions. DANIAL IDRAKI brings you the usual updates.

Upcoming sovereign Sukuk

Country	Amount	Expected date
Oman	US$2 billion	TBA
Iran	IRR60 trillion	2016
Nigeria	TBA	First quarter 2017
Jordan	JOD175 million	TBA
Pakistan	PKR79.1 billion	TBA
Egypt	TBA	2016
Kazakhstan	TBA	2016
Kenya	TBA	2016
South Africa	TBA	2016
Bangladesh	TBA	TBA
Hong Kong	US$500 million to US$1 billion	TBA
Ningxia Hui Autonomous Region	US$1.5 billion	TBA
Niger	XOF150 billion	TBA
Luxembourg	TBA	TBA
Tunisia	US$500 million	TBA
UAE	TBA	TBA
Shandong Province	CNY30 billion	TBA
Sindh Province	US$200 million	TBA
Kuwait	KWD5 billion	Sept 2016
Maldives	TBA	TBA
Sri Lanka	US$1 billion	TBA
Germany	US$1 billion	TBA

INDONESIA

The government of Indonesia issued IDR250 billion (US$19.13 million)-worth of sovereign Sukuk at a fixed coupon rate of 8.63% via a private placement. The tradable Sukuk facility (PBS-010) will mature on the 25th January 2019. Separately, the government also announced that it recently raised IDR4 trillion (US$306.12 million) from the sale of five sovereign Sukuk securities. The facilities received total incoming bids of IDR9.9 trillion (US$752.4 million).

MALAYSIA

In neighboring Malaysia, the government issued RM500 million (US$120.74 million)-worth of Islamic treasury bills on the 23rd September, according to a central bank filing. To mature on the 20th September 2017, the issuance received RM1.19 billion (US$287.36 million) in bids.

Separately, Malaysia's Public Sector Home Financing Board (LPPSA) issued its inaugural Sukuk of up to RM4 billion (US$965.92 million). The Islamic medium-term notes (IMTN) are part of LPPSA's RM25 billion (US$6.04 billion) Islamic commercial papers/IMTN program guaranteed by the Malaysian government. In a statement, LPPSA confirmed that the facility received a total order of RM13.4 billion (US$3.24 billion) from 68 investors and was issued in tranches of three to 30 years at a price of 3.5-4.9% per year across tenors.

BRUNEI

Brunei, via the Autoriti Monetari Brunei Darussalam, issued its 136th short-term Sukuk Ijarah facility amounting to BN$100 million (US$72.5 million). The 182-day paper will mature on the 23rd March 2017. The Sultanate has issued over BN$10.19 billion (US$7.39 billion)-worth of short-term Sukuk Ijarah securities since the maiden offering on the 6th April 2006 with the total holdings of the Brunei government Sukuk outstanding until the 22nd August 2016 standing at BN$455 million (US$329.88 million).

QATAR

Moving over to the GCC, the government of Qatar has successfully issued four Sukuk with separate tenors worth a combined QAR2.63 billion (US$721.56 million), according to an announcement on the Qatar Central Bank's website. The government raised QAR650 million (US$178.33 million) from a three-year note with a yield of 2.25%, QAR550 million (US$150.9 million) from a five-year note with a yield of 2.75%, QAR600 million (US$164.61 million) from a seven-year note with a yield of 3.25% and QAR825 million (US$226.35 million) from a 10-year note with a yield of 3.75%.

TURKEY

Turkey, meanwhile, issued two Sukuk Ijarah worth a planned TRY2 billion (US$673.06 million) on the 27th September to diversify its borrowing instruments, broaden its investor base and increase domestic savings, according to a press release by the Turkish Treasury. The fixed rent rate and CPI-Indexed lease certificates will mature on the 26th September 2018 and 22nd September 2021 respectively.

US: Progress despite pessimistic perception

As a world superpower, the US has always been in the global spotlight. This year has been marked with an unpredictable presidential election, heightened religious rhetoric and domestic terror attacks which cast a shadow over religious dynamics amid a growing Chinese threat and monetary policy uncertainty. How has Islamic finance fared in the world's largest economy? VINEETA TAN provides a recap over the last 12 months.

Regulatory landscape

There has yet to be dedicated Islamic finance regulations in the US; however, the existing laws are broad enough to accommodate certain Shariah compliant structures, although not all-encompassing. Similar to conventional financial activities, Islamic finance is governed under established regulations set forth by the country's various financial regulatory bodies such as the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, state banking authorities, the Internal Revenue Service and the Securities Exchange Commission.

Banking and finance

Yet despite the lack of a comprehensive regulatory infrastructure, there are pockets of Islamic finance activities taking place in the US. Some of the most prominent Islamic financial services providers include Lariba Finance House, Devon Bank, Guidance Financial, Saturna Capital, University Bank's University Islamic Financial and Azzad Asset Management among others. In June, Abraham's River, a financial institution based in Chicago, was certified as Shariah compliant (See Company Focus Vol 13 Issue 26). The firm, established in 2015, aims to expand the amount of religiously-compliant financing and to provide religiously acceptable income-oriented investment options.

In September, Wahed Invest launched a fully-automated Islamic platform, serving as a robo-advisor, to individuals looking to invest in ethical and Halal asset classes.

Real estate

Real estate forms the majority of Shariah compliant activities in the US. Mortgage financing is especially in demand among Muslims. Apart from traditional Islamic mortgage providers, the country in 2015 also welcomed its first Shariah compliant real estate crowdfunding platform, HalalSky, based in Texas. As the Muslim population in the US is expected to more than double to 6.2 million in 2030 from 2.6 million (according to Pew Research), market participants understand that this particular demographic cannot be ignored, evident as authorities continuously seek alternative options to include and accommodate Muslims. In the first half of 2015, Seattle mayor Ed Murray released a proposal to address housing affordability, in which he suggested the provision of Shariah compliant financing for Muslims.

Beyond residential mortgage, US real estate has long been an appealing proposition to international investors. In 2016, several Islamic investments into the US property market were made including the US$48 million acquisition in Pennsylvania by the UAE's Gulf Islamic Investments (GII), the SAR350 million (US$93.24 million) purchase of a South Carolina property by Saudi Arabia's Sidra Capital and the UK's 90 North's US$123 million acquisition of Saint Gobain's North American headquarters outside of Philadelphia in February. GII and Sidra Capital announced that they are looking at other US real estate investment opportunities. In May, Soho Properties confirmed that it secured US$219 million in Shariah compliant funding for the construction of its Tribeca condominium tower at 45 Park Place in Manhattan, expected to commence this summer and delivered in 2018.

Sukuk

It is understood that a significant portion of Islamic deals in the US are conducted on a private and confidential basis. In terms of Sukuk, there are few publicly disclosed offerings. First corporate Sukuk issuance was made in 2006 by East Cameron Partners for US$166 million, and was backed by oil and gas assets that did not materialize and resulted in the firm filing for bankruptcy in 2008. GE Capital (the financial arm of General Electric) followed suit with a US$500 million Sukuk Ijarah backed by aircraft leases. In 2014, Goldman Sachs issued its much-talked about US$500 million Islamic debt, the first for the US investment bank, or for any conventional US bank for that matter, after its initial plans to issue a Sukuk facility fell through three years earlier (See IFN Report Vol 11 Issue 38: 'Goldman Sachs — comeback kid?'). In April, University Bank issued a privately-placed Sukuk facility , believed to be the country's first Shariah compliant debt transaction to be structured and governed under US laws (See IFN Report Vol 13 Issue 16: 'Michigan bank raises funds via landmark Sukuk issuance; first to be governed under US laws').

Shariah compliant funds

The US Islamic fund market is small and growing. The earliest Shariah compliant fund in the country belongs to the Amana Mutual Funds family — the Amana Growth Fund was launched in 1984, with the Amana Income Fund following in 1994 and the Amana Developing World Fund in 2009. Other players in the area of Shariah compliant mutual funds in the US are Azzad Asset Management, which was established in 1997, and the Azzad Ethical Fund which was launched in 2000. The fixed income-based Azzad Wise Capital Fund is the country's first Halal, socially responsible fixed-income mutual fund. Allied Asset Advisors also offers a mutual fund, the Imam Fund, which was launched in 2000. The Dow Jones Islamic Index, which lists the aforementioned funds, was launched in 1999. The US is also home to an Islamic exchange-traded fund, the Falah Russell-IdealRatings US Large Cap ETF, launched in 2014.

Outlook

As discussed above, it is observed that despite the divisive religious narrative, there are encouraging Islamic finance developments in the US. In fact, in October, a high-level sovereign Sukuk dialogue, organized by REDmoney *events*, will be held in Washington, parallel to the annual IMF meetings. The closed-door dialogue, which is gathering senior regulators and industry participants from the Middle East, Africa, Asia and the US, will be followed by the IFN US Forum in New York.

Institutional investment in Islamic finance

Institutional investment in the Shariah compliant space is developing at a promising rate. Pockets of activities can be seen across Islamic finance markets in Asia and the Middle East. Nevertheless, industry observers and market players have unanimously called upon greater inflows from institutional investors into the Shariah compliant industry. DANIAL IDRAKI provides an overview of the transactions that have taken place in this particular market segment.

Legislative updates

Turkey's Parliamentary Planning and Budget Commission had in August approved a legislation to establish a management company for a sovereign wealth fund, which will be used to expand the utilization of Islamic financial assets, as well as to stabilize the markets in times of financial stress, among others. The legislative proposal calls for the fund, to be known as Turkiye Varlik Yonetimi, to be established to contribute to instrumental diversity and depth in Turkey's capital markets. Its initial capital of TRY50 million (US$16.83 million) will be covered by the Privatization Fund.

Over in Saudi Arabia, the Capital Market Authority (CMA) announced in June of new amendments to the Rules for Qualified Foreign Financial Institutions Investment in a bid to open up its capital market to foreign investors. According to the suggested amendments, qualified foreign financial institutions are allowed to invest in the debt market, with the minimum limit for the assets under management decreased to SAR3.75 billion (US$999.49 million) from SAR18.75 billion (US$5 billion). The CMA has also increased the types of financial institutions to include government funds and university endowments and other CMA-approved entities.

Malaysia

Malaysia retains its position as one of the leading Islamic financial markets in the world, with a multitude of developments in the institutional arena. The country's second-largest pension fund, Kumpulan Wang Persaraan (KWAP), plans to increase allocation for alternative investments by 50% starting next year.

KWAP, which aims to become a fully-fledged Islamic pension fund, will look to invest in private equity, properties and infrastructure, as traditional investments such as fixed income and equity formed 90% of its current portfolio, with the remaining 10% made up of alternative investments.

The Employees Provident Fund (EPF), which allocated an initial RM100 billion (US$24.22 billion) for its Simpanan Shariah fund that is slated for launch in early 2017, recently announced that it has seen a take-up of 41.07% or RM41.1 billion (US$9.96 billion). Malaysia's pension fund saw a total of 208,795 registrations recorded, and the Islamic fund size is equivalent to about 15% of the EPF's total investment assets of RM681.71 billion (US$169.17 billion) as at the end of March 2016.

Khazanah Nasional, Malaysia's sovereign wealth fund, is said to be considering an offer for Hong Leong Financial Group's 65% stake in Hong Leong MSIG Takaful, as well as its 70% holding in Hong Leong Assurance. The bid could be valued at around RM3.2 billion (US$775.1 million).

The country's pilgrimage fund, Tabung Haji (TH), meanwhile, completed a structured commodity Murabahah transaction for the acquisition of a 40% stake in 747 Collins Street, an office building which is fully leased by the Australian Taxation Office (ATO), in September 2015. The financing agreement is one of the first Islamic financing deals in the Australian commercial property sector. TH bought the building in 2013 with KWAP, which owns the remaining 60% stake in the building.

CIMB Group and Dubai-based Fajr Capital in July had formed a strategic partnership which will facilitate deal origination and cross-distribution and collaborative marketing of the firms' core products in Asia Pacific and the Middle East. The new partnership will focus on Islamic treasury, capital market solutions, asset management services and strategic investments, among others.

MENA

Iran's National Development Fund (NDFI) and Italy's sovereign wealth fund, Fondo Strategico Italiano (FSI), are negotiating the establishment of a joint fund worth US$2 billion. Maurizio Tamagnini, the head of FSI, was reported in March as saying that FSI plans to expand ties with Iran via a joint investment with Italian companies in Iran, find partners for Italian companies interested in investing in Iran, and to work with NDFI to invest in a joint US$2 billion fund.

It was reported earlier this year that the development projects in the Sinai region are expected to receive contributions totaling US$1.5 billion mainly from Arab funds such as the Arab Fund for Economic and Social Development, the Abu Dhabi Investment Authority, the Saudi Fund for Development and the Kuwait Fund for Arab Economic Development each providing US$300 million, and the IDB and the OPEC Fund for International Development providing the remaining US$300 million.

Dubai Banking Group (DBG), a subsidiary of Dubai Group, announced in June that it will sell 48.36% of its stake in Shuaa Capital to Abu Dhabi Financial Group. The sale of DBG's stake in Shuaa Capital is in line with Dubai Group's restructuring agreement, and the completion of the sale is subject to regulatory approvals.

Real estate investor Greenridge Investment Management had in May acquired two properties in the UK:

1) the European headquarters of the US multinational conglomerate 3M in Bracknell in the South East for GBP77 million (US$99.79 million), and

2) the NHS National Services Division headquarters in Edinburgh for GBP48.3 million (US$62.6 million).

The transactions involved structured Islamic financing arranged by Broadoak Real Estate Finance and Shariah compliant investment from a Kuwait-based investment institution. The transactions were advised by Foot Anstey's Islamic finance specialists.

Indosat Ooredoo's Sukuk Ijarah: The final leg

Indonesia's second-largest telecommunication provider, Indosat Ooredoo, earlier this month issued Sukuk Ijarah worth IDR288 billion (US$22 million), witnessing exceptional demand from investors, particularly on the shorter-tenor ends. NURUL ABD HALIM delves deeper into the final Sukuk issuance under its shelf registration program.

The jumbo certificates, comprising four Sukuk Ijarah facilities with different sizes and tenors, were effectively listed on the Indonesia Stock Exchange three days after the issuance date, opening up the liquidity pool for the deepening of the Republic's Islamic capital market.

> ***"The one that didn't really meet our expectation is the longer-tenor end, while demand was mostly for the shorter period. This is the fact that we have to deal with by taking the shorter tenors"***

Indosat, which holds a 21% market share in the Indonesian telecommunication industry, is no stranger to the domestic Shariah capital market community and has been consistently turning to Shariah-seeking investors to raise funds to meet its general corporate purposes, in this case to pay the utilization rights fee of the radio frequency spectrum. The issuer utilized the Ijarah structure throughout the course of this Sukuk program as it believes that the structure is the best fit with the company's funding needs and profile.

"Choosing the Sukuk structure depends on the availability of underlying assets, market demand and also the company's needs," the issuer commented, adding that it was also open to other Islamic structure as well. As the underlying asset is the right to use the MIDI network, the company, under the Ijarah agreement, needed to ensure that the object is properly functioning and in good condition.

Cognizant of the limited demand for a longer-tenor Sukuk instrument in the home country, given the smaller market size, the issuer thus took advantage of the shorter-tenor facilities. "The one that didn't really meet our expectation is the longer-tenor end, while demand was mostly for the shorter period. This is the fact that we have to deal with by taking the shorter tenors," added the issuer who, however, maintains that the pricing for the Ijarah papers has met its expectation and was parallel with investors' demand.

Commenting on the highlight of this deal, Indosat extolled that it has achieved the maximum limit of IDR1 trillion (US$76.4 million) under its Sukuk shelf registration program within two years through the latest Sukuk installment, with the reception for these papers also better in terms of pricing compared with the previous ones.

"We try to actively participate in [the] local Sukuk market by providing the instrument for investors. For the time being, we are still looking at funding opportunities in [the] local currency," Indosat concluded.

Indosat Ooredoo PUB I — 4th phase of Sukuk issuance

IDR288 billion (US$22 million)

2nd September 2016

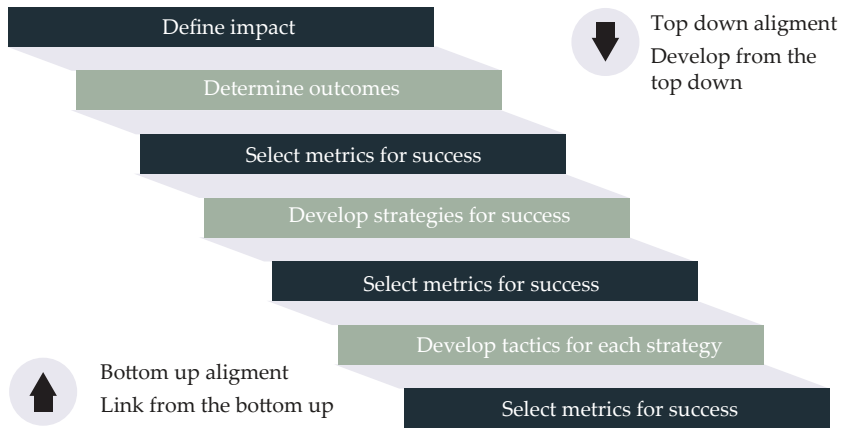
Issuer	Indosat Ooredoo
Obligor	Indosat Ooredoo
Size of issue	IDR288 billion (US$22 million)
Mode of issue	Sukuk Ijarah: Part of 1st shelf registration program
Purpose	For paying the utilization right fee of radio frequency spectrum to the government
Tenor	One, three, five and 10 years
Issuance price	100%
Fixed Ijarah (lease) return — profit rate and size of tranches	One year: 7.5%; IDR163 billion (US$12.45 million) Three years: 8%; IDR61 billion (US$4.66 million) Five years: 8.6%; IDR10 billion (US$764,000) 10 years: 9.15%; IDR54 billion (US$4.13 million)
Payment	Quarterly
Currency	Indonesian rupiah
Maturity dates	2nd September of 2017, 2019, 2021 and 2026
Lead manager(s) and bookrunner(s)	Indo Premier Securities, CIMB Securities, BCA Sekuritas, Danareksa Sekuritas, DBS Vickers Securities
Governing law	Indonesian law
Legal advisor/ counsel	Hadiputranto, Hadinoto & Partners
Listing	Bursa Efek Indonesia
Underlying assets	MIDI network
Rating	Fitch: 'AAA(idn)' Pefindo: 'idAAAsy'
Tradability	Yes
Investor breakdown	Pension funds: 1% Banks: 21% Insurance: 14% Securities houses: 28% Mutual funds: 36%
Face value/ minimum investment	IDR5 million (US$382) and multiples thereof

Thinking big

By Kavilash Chawla, a partner at boutique management consulting firm Bâton Global and a visiting scholar at Drake University.

At this time of the year, as the great pilgrimage concludes, summer holidays end and people return to work and school, I always seem to find myself being reflective. And this year, as I have been reflecting on the continued suffering in Syria, the unrest in Iraq, the attacks in Afghanistan and Pakistan and the bizarre absurdity of contemporary politics globally, I have been 'thinking big' about how we should respond. How do I, as an individual, and how do we, as communities, respond to the need to rebuild both the physical and social infrastructure of the places where we live and raise our families?

Figure 1: The 'Impact Cascade' framework



Source: Bâton Global

I, alongside some longtime friends and colleagues, have been 'thinking big' about the oft-forgotten but critical and powerful institution of Waqf. It would be naive to suggest that the institution of Waqf was a panacea, and that the reinvigoration of Waqf into our economic consciousness would automatically lead to its reintegration into the lifeblood of the Islamic economy. Firstly, needs have changed. A greater proportion of people, especially in OIC member countries, find themselves facing increasing economic and humanitarian uncertainty, often driven by natural, political or social forces well beyond their control. Secondly, there has been a massive expansion of financial management tools and vehicles available through which transformative economic and social returns can be generated. These two parallel trends require us to reflect more deeply about how the institution of Waqf can be resurrected.

Historically, the institution of Waqf has been more than a critical pillar of an Islamic economy; it has been a pivotal anchor of economic and social life. As a values-based institution, a Waqf is fundamentally obligated by religious duty to deliver positive social impact to its beneficiaries (family, designated vulnerable populations, social services/social infrastructure). Secondly, as a values-based institution created in perpetuity, it is obligated to follow strict governance and fiduciary processes to ensure it meets its continual financial and social impact obligations to its beneficiaries. As an institutional structure, a Waqf is an ideal vehicle for values-based economic transformation. The institution of Waqf has played this role before, so let us 'think big' about how it can play this role again.

Like most great transformation, it begins from within. Firstly, the reinvigoration of Waqf requires deliberate effort. Be it on an individual, community, national or international level, reinvigorating the institution of Waqf requires the deliberate allocation of intellectual and human capital. Secondly, it requires commitment. The very structure of a Waqf, to be perpetual, underscores the fact that the successful utilization and application of the institution of Waqf in serving society is not a passive activity, and requires a continual investment in ensuring both the sound financial and social impact management of the Waqf. Thirdly, and equally important, it requires the allocation of capital. If we do not continue to allocate financial resources to Waqf as financial vehicles for creating sustainable economic and social impact, then the rest is for naught.

A route we have found productive has been to reverse engineer solutions based on the problem or need we are trying to address. Once we have identified and isolated a problem we are trying to address, we apply an 'Impact Cascade' framework to help generate productive solutions (see Figure 1). For some problems, Waqf may play a key role in a comprehensive solution, whereas for others, it may not feature at all. In applying the 'Impact Cascade' model in developing and assessing Waqf-based models to address some of the human and social issues I highlighted at the beginning of my column, we frame our analytical processes by the structures, rules, policies, processes, procedures, etc, as dictated by the Waqf. This is key in orienting the analysis around evaluating the suitability of a Waqf-based solution in delivering the desired impact.

The problems we face, as individuals and communities require solutions, so let's 'think big' about how to revive the institution of Waqf as part of a holistic and sustainable solution.

Turkey: Financial inclusion and capital markets development

TURKEY

By Ali Ceylan

The International Finance Corporation (IFC) has announced that it will extend US$250 million in financing to Akbank in order to support SMEs in Turkey. In 2010, the IFC and Akbank cooperated to revive the DPR funding structure, helping to diversify Turkey's capital markets.

> ***"With this financing, we are addressing two of [the] IFC's key development priorities in Turkey — financial inclusion and capital markets development. Turkey is the second-largest country of operations for the IFC globally. Through these investments, the economy of Turkey will continue to grow"***

Manuel Reyes-Retana, the IFC regional head of the financial institutions group in Europe, Middle East and North Africa said: "With this financing, we are addressing two of [the] IFC's key development priorities in Turkey — financial inclusion and capital markets development. Turkey is the second-largest country of operations for the IFC globally. Through these investments, the economy of Turkey will continue to grow and the banking sector will have more opportunities."

Turkey's economy has remained unaffected by the 15th July coup attempt. The amount of cash that flowed into the country since the failed putsch had surpassed the amount that exited. As of the 15th August, the money that entered Turkey [since the 15th July] is US$1 billion more than the money that exited. The government has also improved the capital in Eximbank and Development Bank in a bid to ease access to cash and support investments, according to Turkish Prime Minister Binali Yildirim.

The Turkish lira has climbed back up against the US dollar. The Monetary Policy Committee of the Central Bank of the Republic of Turkey (CBRT) lowered the marginal funding rate by 25bps to 8.5%. The overnight borrowing rate was left unchanged at 7.25% and the one-week repo rate at 7.5, resulting in the lira climbing to 2.93 against the greenback, off its early low of 2.94.

The CBRT continued a series of interest rate cuts with an additional 25bps cut in the upper band of the interest rate corridor to 8.5% in line with market expectations. The CBRT also held the policy rate, the one-week repurchase agreement rate, at 7.5%, and the lower band of the corridor, the borrowing rate, at 7.25%.

In August, approximately 20 banks decreased their home loan interest rates for various terms below 1%, while markets expected a second series of discounts. The government has repeatedly advocated lower interest rates, describing high interest rates as oppressive to business investment. These steps taken by the CBRT are aimed at lowering the cost of Islamic banks while providing finance to their customers. If such an approach succeeds, Islamic banks are expected to grant more financing to their customers.

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Head of Islamic banking, Richard Pieris Arpico Finance
Tanzania: Yassir Salim Awadhi Masoud
Head, Islamic banking and retail banking, National Bank of Commerce
Tunisia: Mohamed Araar
General Directorate of External Financing and Settlements, Deputy Director of Private Financing and International Relations Department, Central Bank of Tunisia
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Italy: Opportunity arises for Islamic finance

ITALY

By Stefano Padovani

This year, August, the typical vacation month for Italians, has seen a tragic event that has affected some cities and villages in central Italy which suffered a violent earthquake, causing hundreds of deaths. Although the catastrophe has shocked the entire country, the government has immediately taken steps to rebuild private houses, public buildings, monuments, schools and roads in the towns hit by the earthquake, though restraints on the public budget and deficit may hinder the timing and effectiveness of such actions.

However, finance needs resulting from the earthquake could be an opportunity to concretely develop Islamic finance in Italy as an instrument to fill the gap between a large public project demand and available funds. Indeed, the public sector has always sought, mainly through public-private partnerships, alternative opportunities in order to finance its infrastructure projects and Islamic finance could be a helpful instrument to finance the reconstruction.

> ***"The public sector has always sought, mainly through public-private partnerships, alternative opportunities in order to finance its infrastructure projects and Islamic finance could be a helpful instrument"***

This has also been envisaged by the G20 Investment and Infrastructure Working Group that, along with the G20/OECD Task Force on Institutional Investors and Long-term Financing, has included the issuing of Sukuk among the possible alternative sources of financing.

Of course, an Islamic onshore financial institution could facilitate the structuring and underwriting of Islamic finance projects in Italy and the establishing of such an entity remains on the agenda of those willing to open the door to Islamic finance in Italy.

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Qatar: Quiet Qatari summer

QATAR

By Amjad Hussain

Perhaps it is not surprising that the summer of 2016 has been a quiet one from a business perspective in the Qatari market. While it is the usual trend in the business cycle for business activity to decrease during the summer period, the 'longer summer period' due to Eid Al Adha falling in the middle of September has elongated that period this year. Yet, despite this, there has been some considerable activity by Islamic banks and other institutions over the past month or so.

Perhaps the headline transaction that concluded over the summer was the acquisition by Qatar Investment Authority (QIA), the sovereign wealth fund of the State of Qatar and the ninth-largest wealth fund in the world, of a 9.9% shareholding interest in Empire State Realty Trust, the owner of the Empire State Building in New York. The deal was announced in August 2016. According to media reports, QIA acquired 29.6 million newly issued Class A common shares at the price of US$21 per share with the total value of the investment amounting to approximately US$622 million. The announcement of this investment came at a crucial time to reaffirm confidence in the Qatari market and to respond to any doubt that investments by the State of Qatar will decrease or that the Qatari market will depreciate or enter into a period of downturn. This is clearly good news for the Islamic finance industry.

A number of banks have also announced pivotal transactions over the summer period. Qatar Islamic Bank (QIB) announced on the 1st September that it has raised QAR2 billion (US$548.8 million) in Basel III compliant additional Tier 1 perpetual Sukuk. In its announcement, QIB cited that the purpose behind the issuance of the Sukuk is to enhance its capital adequacy ratios and to support its future business growth. Additionally, Qatar International Islamic Bank announced in August 2016 that it has raised QAR1 billion (US$274.4 million) through the local issuance of Sukuk. In its announcement, QIIB stated that this was its first issuance to ensure compliance with Basel III.

Elsewhere, Qatar National Bank Group announced in August 2016 the bond issuance of a US$1 billion tranche under its euro medium-term note program in the international capital markets. The issued bonds will mature in five years and have a fixed rate coupon of 2.13% per annum. This bond issuance marks the second bond issuance by the QNB Group within three months after the inaugural issuance of Tier 1 perpetual capital notes for US$10 billion back in June.

Despite the quiet period of the summer, Islamic banks in Qatar have focused on sorting out the internal capital requirements over the summer. As autumn approaches, we anticipate that business activity will increase.

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Update on Indonesia's Islamic insurance industry

INDONESIA

By Farouk Abdullah Alwyni

Based on the latest available data from Indonesia's Financial Services Authority (OJK), the Shariah insurance industry constitutes the largest industry among Shariah non-bank financial institutions (NBFIs). As of July 2016, there are 10 fully-fledged Shariah insurance companies and 46 Shariah units of conventional insurance companies with total assets amounting to IDR31.76 trillion (US$2.41 billion).

Other Shariah NBFIs classified by the OJK are Shariah finance companies, Shariah venture capital companies, Shariah financing guarantee companies, Shariah pawn shop companies, Shariah export financing companies and Shariah microfinance companies. In terms of the number and size, the Shariah insurance industry is followed closely by the Shariah financing industry which has three and 37 fully-fledged and Shariah units respectively with total assets amounting to IDR30.09 trillion (US$2.29 billion).

Although the absolute values of the Islamic insurance industry are still relatively small compared to its conventional counterpart, the market share of the industry has increased steadily over the last five years. The market share of Islamic life insurance reached 6.44% by July 2016, more than double compared with its market share in 2011 (see Table 1). In fact, the market share of the Shariah life insurance industry exceeded the Shariah banking industry which was still hovering at around 5%. Despite its slower growth, Shariah general insurance and re-insurance also expanded its market share between 2011 and July 2016.

In its efforts to support the growth of Shariah NBFIs in the country including primarily Islamic insurance, the OJK issued its NBFI Roadmap 2015-19 in November 2015. In this roadmap, the OJK laid out the strategic issues facing Shariah NBFIs and the vision, mission and development strategies for them.

For the Shariah insurance industry, the development strategies are:

(i) to strengthen the institutions' capitalization, operational activity and business capacity; with an action plan to support the re-insurance business capacity; and develop policies to encourage spin-offs

(ii) to push for the implementation of good corporate governance, and

(iii) to develop gradual risk-based supervision; and (iv) to develop a reporting and monitoring system that will support the application of an early warning system.

Taking into consideration the steady broadening of the market share of the Islamic insurance industry in the last five years, it is expected that those strategies and action plans could contribute in accelerating the growth of the industry. Nevertheless, the roadmap can only add value if it can be executed well and effectively.

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Table 1: Market share of the Indonesian Islamic insurance industry

	Assets (IDR trillion)					
	2011	2012	2013	2014	2015	July 2016
All life insurance	228.8	270.29	293.74	341.2	351.29	402.7
Conventional life insurance	221.53	260.27	280.94	323.15	329.68	376.77
Islamic life insurance	7.27	10.02	12.8	18.05	21.61	25.93
% Islamic life insurance	**3.18%**	**3.71%**	**4.36%**	**5.29%**	**6.15%**	**6.44%**
All general insurance and re-insurance	57.88	76.65	107.44	121.99	137.46	144.18
Conventional general insurance and re-insurance	55.95	73.43	103.6	117.68	132.56	138.35
Islamic general insurance and re-insurance	1.93	3.22	3.84	4.31	4.9	5.83
% Islamic general insurance and re-insurance	**3.33%**	**4.2%**	**3.57%**	**3.53%**	**3.56%**	**4.04%**

Source: Indonesia's Financial Services Authority (OJK)

Hong Kong: A super-connector of Islamic finance for China and 'One Belt, One Road' countries

HONG KONG

By Wilson Yeung

Being one of the three international financial centers issuing Sukuk, Hong Kong takes a very unique role in terms of Islamic finance development and 'One Belt, One Road' initiatives. Since the government's announcement in 2007 on the need to open up the Islamic finance market followed by the relevant tax and stamp duty amendment made in 2013, Hong Kong has so far issued two Sukuk in 2014 and 2015 totaling US$2 billion.

Due to the shortage of necessary information about Islamic finance products in the market, such as how the transactions can be done and how the transaction prices are formed, investors are not familiar with these Islamic finance products, causing them to be relatively inactive in the secondary market.

There is a need to cultivate international talent who can speak Arabic; however, as the Hong Kong banking sector is not active enough in the Islamic financial market, they may be less willing to dispatch their experts or middle management to receive training in Islamic countries.

Hence, under the 'One Belt, One Road' initiative, the Hong Kong financial sector can consider making Hong Kong a super-connector between China's Islamic financial market and the Middle East countries. For instance, the Ningxia government which officially presented their plan in establishing Islamic banks in 2009, became a pilot region for Islamic banking in China the following year.

Equipped with basic and advanced knowledge in Islamic finance in addition to significant experience in legal, regulatory, anti-terrorism and anti-money laundering, Hong Kong financial experts will be able to provide useful suggestions on local environment policy and financial system safety as well as be able to think of ways to develop Islamic finance further in Hong Kong by finding a practical solution to introduce an international capital chain similar to the way 'One Belt, One Road' countries are looking to explore China's Islamic financial market.

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New REIT regulations in Saudi Arabia

SAUDI ARABIA

By Nabil Issa

We note a tremendous increase in the interest in Shariah compliant funds and investors in REITs or real estate investment traded funds (REITFs). The Saudi Arabian Capital Market Authority (CMA) recently issued draft Real Estate Investment Traded Funds Instructions (the Instructions) for which the comment period was completed prior to Eid and the Instructions are expected to come into law soon.

The Instructions contemplate the listing of REITFs on Tadawul (the local stock exchange) and are mean to focus on developed properties that generate periodic income. The REITF manager must be a licensed CMA Authorized Person.

The Instructions permit the underlying assets to have leverage and for the concerned local lender to record the property in the name of a subsidiary of such a lender. Leveraging, however, should not exceed 50% of the total assets value of the REITF. The REITF manager is required to appoint both an independent custodian and a licensed property management company.

The roadshow for the REITF is not to exceed 14 days. At least 75% of such investments must be in Saudi Arabia in developed assets generating periodic income, resulting in the need to identify 75% of the assets prior to launching the REITF.

The Instructions require evidence of binding agreements in relation to the pre-identified income-generating properties. We expect the REITFs will initially focus on various private CMA real estate funds that will utilize the REITF route as an exit.

The Instructions allow for a quarter of such investments to be outside Saudi Arabia. The minimum amount to be raised is SAR100 million (US$26.65 million) and includes at least 200 unitholders from the public.

REITFs are not to invest in vacant land, but may invest up to 25% of the fund's assets in real estate development or the redevelopment of properties.

It is widely expected that the Instructions will further spur the real estate market in Saudi Arabia.

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Systemic risk for Islamic banks

RISK MANAGEMENT

By Dr Ken Baldwin

One of the most interesting areas of research in risk management at the moment in conventional finance is systemic risk. This risk has its roots in the failure of entire financial systems due to the interconnectedness of financial institutions. The idea is simple. When banks fail, there is a risk that their failure causes the failure of other institutions. For example, the failure of one bank could cause the failure of another if it is a significant debtor.

While in most jurisdictions Islamic banks are the minority, the notable exceptions being, for example Iran, Sudan, and Pakistan, it is interesting to question how modern financial theory relates to these banks in the context of systemic risk. So little is still known for the conventional financial system that it may be too early to concern ourselves with this question.

However, one thing is clear. The dynamic for Islamic banks could indeed be quite different. For example, Islamic banks were reported to have suffered second-wave effects, the idea being that write-downs of assets were limited given the avoidance of highly leveraged and risky investments such as asset-backed securities, but liquidity problems arose due to the contamination of the interbank market.

A recent and quite interesting model for systemic risk seeks to build upon the ideas of Markowitz's portfolio theory. The extension revolves around risk inherent in three distinct sources. The first two are the usual systematic and idiosyncratic risks, ie market risk and bank-specific risk. However, a third source of risk is systemic risk, so that the variability of asset returns is driven by the sum of all three risks.

What matters in a model like this is the extent to which the third risk is correlated across assets in the financial system. Specifically, the third risk has within it the effects of the networked structure of interrelationships within the financial system. This structure could be local to a given bank, which may then be less exposed to systemic risk, or further-reaching, in which case the bank might be more vulnerable to failure due to contagion.

In systemic risk studies, an interesting phenomenon arises which builds on the theory of neural networks. The phenomenon is that high interconnectivity causes the speed of contagion to be high, but has in itself also a retarding effect due to the ability of many banks to better absorb a single shock than only a few.

In essence, the correlation structure underpinning any systemic risk model is highly complex. So, to ask how Islamic banks are affected is the right question. But the path to an answer may not be easy.

Dr Ken Baldwin is a lecturer in finance at Coventry University. He can be contacted at drkenbaldwin@yahoo.co.uk.

Swimming in debt

Islamic finance as a system developed a model of financial intermediation that, in theory at least, would be acceptable to consumers of financial products who are sensitive to prescriptions laid down by Islamic commercial law. Aside from such institutions as stock exchanges and listed companies investing with limited liability through shares and secondary markets, the architects of Islamic finance wholeheartedly embraced the concept of debt, because a modern economy cannot be built without debt. What these very same architects overlooked was that not only is the religion averse to rewarding capital with fixed interest, it is not clear on how capital should be awarded other than in a profit-sharing mechanism. HUSSAIN KURESHI writes.

Hussain Kureshi *is CEO of Millennia Global Research House. He can be contacted at husseinkureshi@gmail.com.*

Since the dawn of Islamic finance, Islamic financial institutions and above all Shariah compliant financial products, we have witnessed a lot of legal meandering that makes a sequence of sales look like a debt obligation, a fixed income instrument being 'dressed' as an equity instrument and other novel ideas. A firm with 'Islamic debt' is considered to not be leveraged, if the underlying contracts have certain 'Islamic-sounding' words such as Murabahah or Ijarah. Let's put the system to the test, and not pay back on these obligations and then see if the sellers or lessors feel cheated out of a 'debt obligation' owed to them or not.

As a Muslim, I can very readily say that I am averse to being indebted to anyone, whether morally, socially or financially; it as inborn intuition, possibly drilled into me by my ancestors. Not being a religious scholar, I cannot quote the source of the Hadith, but I recall one where the Prophet (peace be upon him) refused to pray for the soul of a deceased person, if in life he owed a debt to another. For a Muslim, living in the time of the Prophet, nothing would be more valuable than benefiting from the Prophet's blessings.

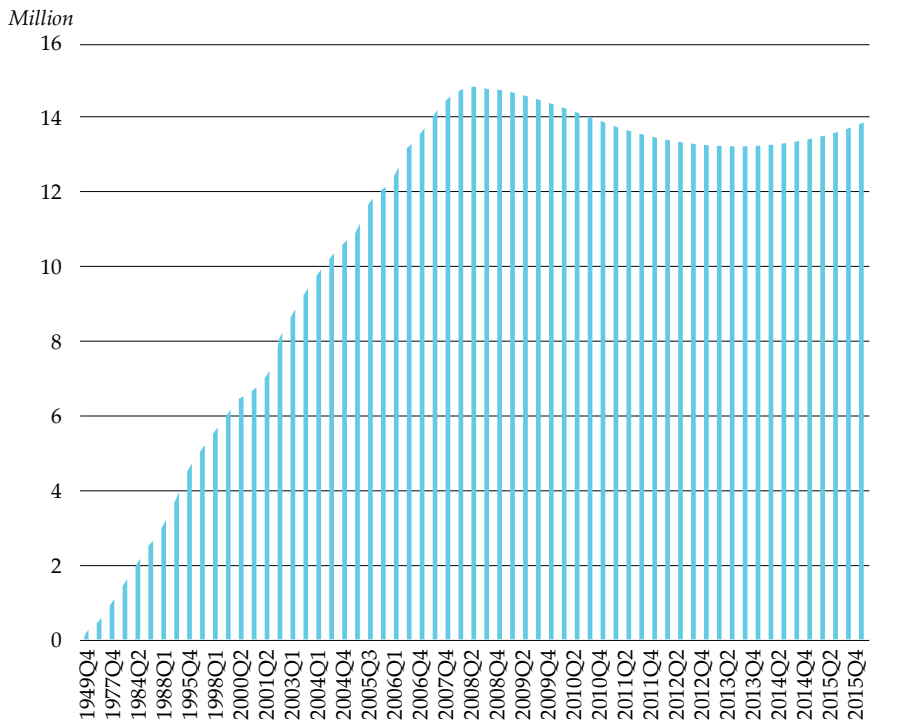
Anyhow, the following is a brief narrative on debt, with a particular focus on residential and commercial mortgage levels in the US, the most-leveraged economy in human history. I will let readers determine for themselves the benefits of debt. In my personal opinion, I have availed commercial debt for business purposes and for the construction of my home, but I paid these obligations off as soon as possible. I did not feel like I owned my assets if there was an encumbrance upon them. In modern society, the fine line between asset ownership or equity has become blurred from owning an asset by borrowing money to buy it.

Debt seems to be a part of everyday life in the US. Asians (many that I have spoken to personally) still feel averse to debt and culturally, debt is seen as something to be avoided. However, when households are floating in US$13 trillion of mortgage debt, you might as well change the narrative around debt and treat your liabilities as an asset. The Federal Reserve started tracking debt levels in the housing market from as early as 1949 (see Chart 1). Mortgage debt in 1949 stood at US$44.76 billion. It took 22 years for US households to reach US$500 billion in debt at exactly US$504 billion. Not accounting for the quarter in which the data was reported, it took six years to hit the next US$500 billion at US$1.02 trillion.

> ***"In modern society, the fine line between asset ownership or equity has become blurred from owning an asset by borrowing money to buy it"***

The next jump took place in four years, hitting US$1.52 trillion. From 1981 to 1992, debt levels went from US$1.5 trillion to US$4 trillion, with jumps of

Chart 1: US mortgage data from 1949 to 2015



Source: US Federal Reserve

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US$500 billion happening at times every two years. At trillion-dollar levels, US home mortgage debt in dollar terms was the size of Germany' s GDP in 2014. From 1992 to 2002, debt levels doubled to US$8 trillion. Jumps of US$500 billion varied from three to two years in this interval. The US$10 trillion mark was reached in 2004, making US homeowners possibly the largest borrowers on earth after the US government. This debt level was higher (and still is) higher than the sovereign debt of any nation aside from China. By the third quarter of 2008, when the financial crises were beginning to surface, US mortgage debt peaked at US$14.77 trillion. This is a country with 124 million households (according to www.statistica.com) and approximately 310 million people. These numbers mean the average household debt in mortgages alone stands at approximately US$118,000.

And nobody in the US thought these levels of mortgage debt were abnormal? Did every household qualify for a home loan and have you heard of rating scores? A mortgage is the most difficult loan to qualify for, and any household that qualifies for one, must be sure of their income stream for at least a period of 25 years. This is not consistent with an economic environment where an employer is considering relocating to cheaper China or outsourcing manufacturing to Mexico. In a country where 60% of the workforce is involved in either farming or manufacturing, and where both environments need cheap labor, one would think twice about taking out a mortgage.

With all this home mortgage debt on the books of retail banks and finance companies, it is no wonder that the smarter bankers, the investment bankers, found a way to securitize this debt and trade it. Whether CDOs, ABS, MBS, or CDO squared, it would be way too tempting for investment banks to not want to dabble in this arena. It is also likely that with such phenomenal amounts in home mortgages, retail segments must have been sucking all the capital of a banking firm, not to mention hoarding all the deposits mobilized to fund these long-term assets. It is the investment bankers who had more of an incentive to securitize mortgage loans and sell them and piggyback off the hard work of consumer banking divisions. And it is the investment banker who walked away with all the bonuses.

> ***"Asians still feel averse to debt and culturally, debt is seen as something to be avoided"***

Many of us in the Middle East and the Far East have traveled to the US, but few understand its economy and labor market. Certainly, the US is a country which gives respect to its labor class, more so than any Muslim country, and countries like China, Vietnam, India or Pakistan. In the US, a commercial truck driver earns close to US$40 an hour, a carpenter earns US$20, a car mechanic earns US$30 an hour and a petrol pump employee considered to be a low-level skilled worker can make up to US$10 an hour. Yet it seems these wages are insufficient to cover the costs of living in the US. With consumer finance debt, which includes auto loans and credit card debt, hovering around US$5 trillion, one wonders if every Starbucks coffee is bought on credit.

Second mortgages are also very common in the US, where homeowners borrow additional money against the equity in their home to finance anything from college education, home renovations or holidays. What I cannot get around is that a normal US employee, who works for some of the largest companies in the world, or an owner of a small business simply cannot be ahead of the game and have surplus savings even in his or her mid-40s.

Salary levels are now a global issue and an issue for the upcoming US presidential elections where Hillary Clinton in her campaigns has begun highlighting her humble origins where her grandfather was a factory worker and her father the owner of a small business. Ever since the publication of the book, 'Capital in the Twenty-First Century', written by the French economist Thomas Piketty, more educated attention has been drawn to the issue of differences in income levels and capital holders.

Is this the model economy we are all supposed to converge toward? Is this the best economic model that the best minds of the world can come up with? Governments in debt, households in debt, companies in debt? My question in this article is, should practitioners follow the model of the US when conceiving a future track for Islamic finance?

Sukuk in West Africa with a focus on Ivory Coast

The use of Islamic finance in West Africa has historically been relatively confined. Islamic banks have often lacked the balance sheet and appetite for risk to finance anything other than small or short-term projects, meaning that western banks have traditionally advised using conventional bonds to finance large projects. IMRAN MUFTI explores.

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With a Muslim population exceeding a quarter of a billion and growing, this approach in West Africa is changing as the asset-based nature of Islamic finance and its intrinsically ethical origin make it particularly suitable for infrastructure and project financing in developing economies.

The Cote d'Ivoire's recent CFA150 billion (US$256.72 million) Sukuk issuance, repeating the success of its debut issuance of the same amount, has paved the way for the further development of Islamic finance in West Africa. The government of Senegal also issued a sophomore Sukuk and the Republic of Togo debuted with a CFA150 billion issuance, both deals over the post-Ramadan summer months. Sovereign participation in Islamic finance is usually the precursor to high-end corporates taking the plunge and the West African market is no different. The expectation is an increased usage of Shariah compliant financial instruments in the future, with the West African market focusing on infrastructure sectors like transportation, telecoms and health. These are all sectors which lend themselves particularly well to the spirit of Islamic finance because of their link to the real economy. Moreover, higher GDP growth rates have led these countries to seek to diversify their funding sources.

As with most excusrions into new frontiers, there are challenges and the West African Sukuk sector is no different. Credible Sukuk structures rely on asset availability but identification of those assets is only the first step. Are the assets encumbered? Are there political factors, especially in the context of a sovereign transaction, that must be considered before committing assets for a Sukuk financing? What is the nature of the rights and interests in the asset that will be transferred, particularly from a local law perspective? These are all considerations that dealmakers and their advisors must address before bringing a transaction to market.

> ***"Untapped capital in the hands of Muslim investors is a resource waiting to be exploited"***

Another key consideration is limiting the amount of the assets underpinning the Sukuk to those necessary for the size of the issuance. 'Overcollateralization' is primarily a concern for repeat issuers – the availability of assets that qualify for an issuance should not unnecessarily be tied up if they can be used as the basis of a future issue.

Juxtapose these concerns with regional regulations pertaining to the way in which investors in the Sukuk hold their interests via a fund conduit, rather than a traditional trust, and the structural considerations increase. Fortunately, the application of Shariah to emergent realities is not new for Islamic scholars; having over 1,400 years of experience helps and the West African Sukuk transactions were no different.

With all three of these transactions, Sukukholders' interests were held through a 'fonds commun de titrisation de créances' or mutual fund. As such, Sukukholders were classified as 'partholders' in a fund with each fund unit or 'part' representing a pro-rata interest in the underlying asset. This structure contrasts with the more usual approach where Sukukholders are beneficiaries under a trust.

The Sukuk for Cote d'Ivoire, Senegal and Togo also drew significant interest because they were denominated in the CFA. That in itself sends out a message to the Francophone jurisdictions that use that currency but also more particularly to the West African Economic and Monetary Union nations as a means of furthering economic integration among those states. Issuance in the CFA also has the potential benefit of staying within borrowing limits in foreign currency for these sovereigns.

Notwithstanding any initial difficulties in carrying out these issuances, or a lack of familiarity with what they involve, a number of foreign investors purchased these sovereign Sukuk. The Islamic Corporation for the Development of the Private Sector, based in Saudi Arabia, acted as the lead arranger for the Sukuk issuances of Senegal, Cote d'Ivoire and Togo, with investors originating from a number of different countries across the Gulf and the Far East.

The upward trend in the popularity of Islamic finance in West Africa is expected to continue. Recent high-profile Sukuk issuances have drawn attention to its growing role, and its international profile has been further boosted by the IMF's announcement that it intends to deepen its involvement in the Islamic finance industry. Moreover, there is increased awareness of the fact that untapped capital in the hands of Muslim investors is a resource waiting to be exploited. Shariah compliant financial instruments currently account for only 1% of financial assets globally, but their increased use should open up new capital markets, especially in developing economies across West Africa.

Investor perceptions on global Shariah compliant capital markets and the outlook moving forward

While Islam is set to remain the world's fastest-growing major religion over the next few decades, there is one simple principle which is likely to drive increased product offerings, improved innovation and access to attractive sources of return: economics. NADIR THOKAN and CLAIRE RENTZKE delve further.


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With the race to capture an estimated US$11.5 trillion pool of wealth in the hands of Muslim investors, the Islamic asset management industry has attracted the likes of conventional asset management businesses such as BNP Paribas as well as Schroder Investment Management over the last 12 months. While the current size of the overall Shariah compliant finance market stands at around US$2 trillion, there is still some US$9.5 trillion in estimated Muslim wealth outside the Shariah compliant finance market.

Bearing in mind these long dated geographic tailwinds for Shariah compliant capital markets, there remains an attractive story to long-term returns from all Shariah compliant asset classes developing in a sustainable manner in line with growth in demand for these various asset class investments. The greatest inhibitors and some solutions to a more diversified institutional asset base in the Shariah compliant asset management industry remains the following factors:

1. The relatively small size of the market compared to conventional asset management markets: This creates fears regarding the depth and liquidity of these markets and the potential for large investors to move the market. As a greater level of innovation and inclusivity occurs, this is likely to improve. Signs of such improving inclusivity occurring already exist through channels such as the inclusion of Sukuk instruments into JPMorgan Emerging Market indices.
2. The perception of compromised returns: Given the exclusion of various financial instruments in Shariah compliant investments, investors believe that returns will be compromised. As highlighted in the following paragraphs, in many instances the outlook for Shariah compliant asset classes are in fact more attractive than their conventional counterparts.
3. A lack of products: This is more of a negative feedback cycle. The lack of institutional demand has resulted in only a few, concentrated products on offer in the Shariah compliant sphere. This is, however, rapidly evolving as the entrance of large asset management houses into the sector introduces a new level of innovation and product development.

Beginning with perhaps the Shariah compliant asset class which has received the greatest amount of coverage given its rapid growth of 23% compounded annually between 2000 and 2015, Sukuk remain in a moderately favorable environment for the remainder of the year and for the foreseeable future. With total Sukuk issuance outstanding at close to US$400 billion in total, liquidity is likely to improve as the market begins to attract conventional investors through the inclusion of Sukuk instruments into the JPMorgan Emerging Market indices. This is likely to continuously enhance the depth of the secondary market in these instruments and also feed into the emerging market yield compression which has been witnessed so far in 2016.

Despite utterances of a tightening cycle within the US before the end of 2016, economic data released more recently has kept the Federal Reserve on hold for now with no evidence of an improvement in data or a spike in inflation forcing an interest rate hike by the end of the year. Even if the Federal Reserve should decide that resuming the monetary policy tightening cycle would be appropriate before the end of the year, improving sentiment toward emerging markets through an improved economic growth outlook, stabilizing fiscal deficits (particularly with regards to Saudi Arabia as expectations of fiscal deficits narrow to 10% of GDP by 2017 from a level of 16% in 2015 according to the IMF) and dissipating political turmoil are likely to counteract some of the impacts of flows back to the US in the face of higher US rates.

In addition to such improving dynamics for emerging markets and consequently Sukuk (where the majority of issuance has been from emerging Asia), central banks in developed markets outside of the US remain definitively dovish and highly accommodative as evidenced by the Bank of England cutting interest rates for the first time in seven years in trying to preempt any economic weakness from the fallout of the UK's vote to leave the EU and the Bank of Japan's recent policy shift to targeting virtually zero interest rates for 10 years in an attempt to spark some level of inflation. This is likely to keep the global search for yield fairly ubiquitous and bodes well for further sovereign and quasi-sovereign Sukuk despite valuations in this part of the overall Sukuk market remaining inflated on a relative basis.

A lack of issuance during the northern hemisphere summer months has ensured that yields have broadly remained in check as strong pent-up demand has ensured a consistent inflow into the asset class. This is evidenced by reports indicating that the demand for Sukuk outstripped the supply of Sukuk by US$90 billion during 2015 and indications that such demand is likely to continuously grow beyond 2018. With total issuance standing at around US$30 billion year to date, a flurry of issuances during the fourth quarter is likely to present significant opportunity with

Continued

regards to yield enhancement and as such, Sukuk investors remain positioned to opportunistically benefit from sound credit yield enhancement opportunities.

What is expected to be a big driver of yield spreads and a risk premium benchmark on a forward-looking basis is the issuance of Saudi Arabia's much-anticipated sovereign debt issuance which is expected to be multi-tranche with a Sukuk component. Risk premiums and spreads captured through this issuance are likely to pave the way for more issuances and a pricing guideline for many GCC issuers as well as Saudi Arabian corporate issuance.

Ultimately, while this is expected to bring a yield sweetener to Sukuk investors, combined with favorable dynamics for emerging markets and select high yield, the Sukuk market is expected to deliver between 4.5% to 5.5% (in US dollar terms) on a one-year forward-looking basis.

The greatest risk to such an outlook remains the flaring-up of emerging market tensions yet again and potential credit default issues, as the events of Turkey's failed military coup continue to be digested particularly as global rating agencies have flagged this as a material risk, placing Turkey's sovereign rating on a negative watch or in some cases downgrading the rating outright. Turkey remains a significant player in the global Sukuk space and as such this remains an evolving concern.

While global Shariah compliant equity markets are broadly subject to the same variables affecting conventional equity markets, some subtle differences exist which could drastically impact returns over shorter periods of time. Ultimately, global equity investors are desperately in search of earnings growth through top line growth and not financial engineering (such as share buybacks or excessive cost cutting).

While the earnings growth cycle remains susceptible to ongoing lacklustre performance given a sluggish global economy, pockets of equity markets globally appear to be offering attractive growth relative to what has been priced into multiples. These companies are ultimately positioned as those capital-disciplined corporates that did not borrow excessively during a low interest rate environment to embark on potentially questionable projects which depended on low costs of capital in order to make economic sense.

In other words, companies which overleveraged their operations in a low interest environment which could run into cash flow issues as the interest rate cycle turns. As a rule of thumb, Shariah compliant companies have generally avoided this debt-fueled destructive behavior as Shariah compliant screening ratios prevent the inclusion of an overleveraged company into any Shariah compliant equity portfolio.

> ***"Perhaps most encouragingly for Shariah compliant REITs, leverage remains well contained"***

As an additional source of potential alpha, Shariah compliant equity funds naturally have limited exposure to the banking sector (with the only exposure in these funds to Shariah compliant banks which generally remain better capitalized with greater prospects for earnings growth through greater penetration of Shariah compliant banking) which is currently attempting to navigate the perfect storm of muted economic growth, more stringent capital requirements and negative interest rates in much of the world. Such measures are having a severe impact on profitability and hence adversely impacting investor sentiment to such companies.

In composite, the exclusion of the cheap banking sector from the Shariah compliant equity universe is somewhat offset from an earnings metrics perspective by the exclusion of a number of expensive consumer goods and bond proxy sectors, thus presenting a similar starting earnings multiple on a forward-looking basis to conventional equity markets.

Earnings disappointments from the larger Shariah compliant equities are, however, less likely for the foreseeable future thus presenting the opportunity of a moderate expansion in earnings multiples on a one-year forward-looking view. Considering all these factors, we believe that investors can expect a return of between 8% and 10% (in US dollar terms) on a 12-month forward basis, constituting around 5% earnings growth, a 3% return in dividends and some contribution to return from slight multiple expansion in Shariah compliant global equities.

The greatest risk to such an outlook remains the global earnings cycle continuing to disappoint and multiples derating as opposed to rerating. An additional risk to consider is a derailing of the emerging market budding recovery driving global growth as well as financial asset prices in these regions lower from their recent recoveries.

Perhaps the most exciting return prospects from listed markets in the Shariah compliant sphere for the foreseeable future remains global REITs. The sector continues to generate real earnings growth in a low-growth environment. In addition, rental escalations and occupation of properties remain contractual and as such a downturn in the economy is unlikely to result in an immediate or pervasive decline in cash flows. Perhaps most encouragingly for Shariah compliant REITs, leverage remains well contained reducing the overall risk of investment. While a lack of leverage may hinder returns during strong economic growth cycles, companies with low leverage are conversely more defensive and secure during periods of lacklustre growth such as the current environment.

In composite, we expect between an 8% to 10% return from the asset class on a one-year forward-looking basis. The biggest risk to this outlook remains global economic growth disappointing severely on the downside translating into higher than expected property vacancies; however, the sector continues to see new listings and to expand, boding well for growth in this sector and improving liquidity too.

The Shariah compliant investment space remains poised for growth with opportunities to not only grow the current pool of assets but also to continue to attract new assets allowing managers to expand on their offerings in this space.

DEALS

Indonesia issues Sukuk

INDONESIA: The government of Indonesia in a statement announced that it has issued IDR250 billion (US$19 million)-worth of sovereign Sukuk at a fixed coupon rate of 8.63% via a private placement. The tradable Sukuk facility (PBS-010) will mature on the 25th January 2019.

Separately, the government also announced that it recently raised IDR4 trillion (US$304 million) from the sale of five sovereign Sukuk securities. The facilities received total incoming bids of IDR9.9 trillion (US$752.4 million).

Qatar sells Sukuk

QATAR: The government of Qatar has successfully issued four Sukuk with separate tenors worth a combined QAR2.63 billion (US$721.56 million), according to an announcement on the Central Bank's website. The government raised QAR650 million (US$178.33 million) from a three-year note with a yield of 2.25%, QAR550 million (US$150.9 million) from a five-year note with a yield of 2.75%, QAR600 million (US$164.61 million) from a seven-year note with a yield of 3.25% and QAR825 million (US$226.35 million) from a 10-year note with a yield of 3.75%.

LPPSA's Sukuk thrice oversubscribed

MALAYSIA: Malaysia's Public Sector Home Financing Board (LPPSA) has issued its inaugural Sukuk of up to RM4 billion (US$965.92 million). The Islamic medium-term notes (IMTN) are part of LPPSA's RM25 billion (US$6.04 billion) Islamic commercial papers/IMTN program guaranteed by the Malaysian government. In a statement, LPPSA confirmed that the facility received a total order of RM13.4 billion (US$3.24 billion) from 68 investors and was issued in tranches of three to 30 years at a price of 3.5-4.9% per year across tenors.

Brunei sells Sukuk Ijarah

BRUNEI: Brunei, via the Autoriti Monetari Brunei Darussalam, has issued its 136th short-term Sukuk Ijarah facility amounting to BN$100 million (US$72.5 million), according to a statement. The 182-day paper will mature on the 23rd March 2017. The Sultanate has issued over BN$10.19 billion (US$7.39 billion)-worth of short-term Sukuk Ijarah securities since the maiden offering on the 6th April 2006 with the total holdings of the Brunei government Sukuk outstanding until the 22nd August 2016 standing at BN$455 million (US$329.88 million).

Malaysia issues Islamic treasury bills

MALAYSIA: The government of Malaysia has issued RM500 million (US$120.74 million)-worth of Islamic treasury bills on the 23rd September, according to a central bank filing. To mature on the 20th September 2017, the issuance received RM1.19 billion (US$287.36 million) in bids.

Edaran SWM's Sukukholders approve early redemption

MALAYSIA: Sukukholders of Edaran SWM have approved the early redemption of the outstanding Sukuk Murabahah of RM750 million (US$182.49 million) in nominal value issued under the Sukuk program of up to the aggregate nominal value of RM1 billion (US$243.31 million), as well as the proposed modification and amendments to the existing terms and conditions of the program, according to a filing with Bank Negara Malaysia.

THHE seeks extension of Sukuk maturity

MALAYSIA: TH Heavy Engineering (THHE) is seeking the consent of Sukukholders to extend the maturity date of its RM170 million (US$41.36 million) Sukuk Murabahah, according to a filing with Bank Negara Malaysia.

Cagamas issues Sukuk

MALAYSIA: Cagamas has issued a three-month Islamic commodity paper facility amounting to RM500 million (US$121.3 million), which was three times oversubscribed, according to a statement. The short-term facility utilizes the Murabahah structure and will be used to fund the purchase of Islamic financing from the financial system.

Turkey issues Sukuk Ijarah

TURKEY: The Turkish Treasury has announced that Turkey will be issuing two Sukuk Ijarah worth a planned TRY2 billion (US$673.06 million) on the 27th September to diversify its borrowing instruments, broaden its investor base and increase domestic savings, according to a press release. The fixed rent rate and CPI-Indexed lease certificates will mature on the 26th September 2018 and 22nd September 2021 respectively.

DEAL TRACKER Full Deal Tracker on page 32

EXPECTEDDATE	COMPANY'S NAME	SIZE	STRUCTURE	ANNOUNCEMENTDATE
By end of September	Meezan Bank	PKR7 billion	Sukuk	29th August 2016
TBA	Aktif Bank	TRY25 million	Sukuk Murabahah	26th August 2016
TBA	Widad Capital	up to RM110 million	Sukuk Murabahah	23rd August 2016
TBA	Ahli United Bank Kuwait	up to US$200 million	Sukuk	17th August 2016
Fourth quarter of 2016	BRI Syariah	IDR1 trillion	Sukuk Mudarabah	16th August 2016
First quarter of 2017	Government of Nigeria	TBA	Sukuk	11th August 2016
August 2016	Republic of Cote d'Ivoire	XOF150 billion	Sukuk Ijarah	8th August 2016
Fourth quarter of 2016	Malaysia Debt Ventures	up to RM1 billion	Sukuk	4th August 2016

AFRICA

HELB plans Islamic financing for students

KENYA: The Higher Education Loans Board (HELB) of Kenya is working on introducing Shariah compliant student financing in a bid to support and cater to the educational needs of a growing number of Muslim students joining local universities, according to Hivisasa. Charles Ringera, HELB's CEO, was quoted as saying that the board was with Islamic finance experts in the implementation of the policy. The proposal is currently under review by the attorney-general, Professor Githu Muigai.

CAM secures Islamic banking license

MOROCCO: Credit Agricole of Morocco (CAM) has become the first institution to obtain an Islamic banking license in the country, according to Ecofin Agency citing the Official Gazette No 6498 published on the 15th September on the General Secretariat of the Government's website. The new Islamic bank will have an initial capital of MAD200 million (US$20.3 million), which will ultimately be raised to MAD400 million (US$40.61 million). Its parent bank, Credit Agricole, will hold a 51% share in the new bank while the rest will be held by the Islamic Corporation for the Development of the Private Sector.

NSB to secure first foreign credit facility

EGYPT: Shariah compliant Nasser Social Bank (NSB) is in talks with the African Development Bank (AfDB) over a US$1.2 million grant to finance its restructuring plan aimed at diversifying its products and services, according to Amwal Al Ghad. This facility will be the first foreign credit facility for NSB. The Islamic bank is also considering launching a Shariah compliant three-year savings certificate in the Egyptian pound as part of its strategy to raise the volume of deposits from EGP4.5 billion (US$502.9 million) to EGP5.5 billion (US$614.65 million) by the end of the 2016/17 financial year.

ASIA

First Islamic banking service launched in India

INDIA: India's first Islamic banking service has begun operations in Maharashtra's Solapur district on the 16th September. According to dna, the Shariah compliant banking service, also referred to as participatory banking, was launched during the inauguration of Lokmangal Cooperative Bank. Subhash Deshmukh, the state cooperation minister of Maharashtra, was quoted as saying that the bank has received INR250,000 (US$3,723.58) of deposits under this service, which was then distributed to 18 needy people from the Muslim community. Deshmukh added that all nine branches of the bank (eight in Solapur and one in Pune) will get a separate counter for Islamic banking services.

Bank Alfalah and SCO team up

PAKISTAN: Bank Alfalah, which offers Islamic banking services, has teamed up with Special Communications Organization (SCO) to launch a branchless banking service in Azad Jammu and Kashmir and the Gilgit-Baltistan region, according to the Business Recorder. The service, envisioned as 'S-Paisa', aims to financially empower the unbanked communities in the aforementioned regions.

BMI to receive capital boost

INDONESIA: Bank Muamalat Indonesia (BMI) expects to see its capital adequacy ratio increase to 18% from 13% as three of its biggest shareholders, the IDB, Boubyan Bank Kuwait and Atwill Holdings, are set to inject capital worth IDR2 trillion (US$152 million) to the Islamic bank before the end of this year, according to Republika.co.id. Endy Abdurrahman, the principal director of BMI, was quoted as saying that the bank is planning to shift its business focus from the corporate segment to the consumer and retail segment in the next three years.

AFG to undertake corporate reorganization

MALAYSIA: The Alliance Financial Group (AFG) has announced a proposed corporate reorganization exercise whereby AFG's listing status will be assumed by its wholly-owned subsidiary, Alliance Bank Malaysia. According to a statement, Alliance Bank is the holding company for Alliance Investment Bank and Alliance Islamic Bank. The undertaking will involve the shareholders of AFG exchanging their existing AFG shares for Alliance Bank's shares on a one-for-one basis, where their number of shares held and percentage shareholdings in AFG will be the same in Alliance Bank. AFG has submitted an application to Bank Negara Malaysia to seek approval for the proposed corporate reorganization.

Bank Negara Malaysia launches RENTAS

MALAYSIA: Bank Negara Malaysia and its wholly-owned subsidiary MyClear have launched the Real-time Gross Settlement Debt Securities Depository (RENTAS) system, which would modernize Malaysia's financial market infrastructures to support the settlement of wholesale payments and securities denominated in international currencies, according to a press release. The repository will support the ringgit, US dollar and renminbi currencies for the time being.

Malaysia's Islamic finance drive spurs ESG growth

MALAYSIA: Malaysia's leadership in Islamic finance is viewed as a catalyst for environmental, social and governance (ESG)-driven investment, according to RAM Ratings in a statement. The rating agency noted that Malaysia has the ecosystem needed to support the growth of Islamic finance, with pension funds and institutional investors creating demand for Sukuk, and corporate, infrastructure and Islamic financial institutions issuers creating the supply, in addition to a robust backbone of regulations. For ESG/responsible investment to have a similar growth trajectory, the government needs to follow a similar path that has led to Malaysia's leadership position in Islamic finance, RAM Ratings noted.

BMI leads syndicated financing facility

INDONESIA: Bank Muamalat Indonesia (BMI) and the Shariah units of members of the Association of Regional Development Banks have agreed to provide a 14-year syndicated Murabahah financing facility worth IDR834 billion (US$63.72 million) for the toll road development project connecting Soreang and Pasir Koja in Bandung, West

Java. According to a statement, Bank Muamalat will provide IDR139 billion (US$10.62 million) of the facility, while the Shariah units of BPD Jawa Tengah, BPD Sumut, BPD DIY Syariah, BPD Kalsel Syariah and BPD Sulselbar Syariah will provide the remaining amount. Bank Muamalat and BPD Jawa Tengah acted as the lead arrangers for the facility.

KFH Malaysia's Halal hub focus

MALAYSIA: Kuwait Finance House Malaysia (KFH Malaysia) has no immediate plans to expand its branch network in Sarawak but the Islamic bank intends to focus on developing its Tanjung Manis branch to support the state government in developing the Halal hub, CEO David Power said in a statement. KFH Malaysia has 15 branches nationwide, with two in Sarawak.

SECP and SBP collaborate

PAKISTAN: In their latest quarterly meeting, the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) have formed a joint committee to make recommendations for the effective regulation of the real estate sector to the federal and provincial governments, according to a media statement. The regulators also agreed to establish a Bond Pricing Agency Oversight Committee comprising officials from both the SBP and SECP to ensure the fair pricing of bonds, in relation to the Draft Bond Pricing Agency Rules 2016. It was also noted that the SECP would share its financial stability set-up with the SBP to allow both institutions to learn from each other's experiences.

EPF sees increased transactions via i-Akaun

MALAYSIA: The Employees Provident Fund (EPF), saw an increase in transactions via its online platform during the second quarter, according to a statement. The usage of i-Akaun increased 44.26% from 3.33 million in the second quarter of 2015 to 4.81 million at the end of June 2016. The number of usage of EPF Kiosks during the quarter under review increased 25.87% to 3.47 million, compared with 2.75 million in the second quarter of 2015. The EPF added that the total number of members rose 3.05% from 14,357,940 in the second quarter of the previous year to 14,796,334 in the second quarter this year, out of which 6,855,701 or 46.33% are active members.

SKL plans Shariah compliance

KAZAKHSTAN: SK Leasing (SKL) has engaged GCC-based Shariyah Review Bureau in a bid to become the first leasing company in Kazakhstan to achieve Shariah compliance in its business activities, according to a statement. Committed to making its Shariah compliant programs work for customers and clients, SKL also intends to be the first company in the CIS region to provide Islamic financial products and services.

ECC waives taxes on sovereign Sukuk

PAKISTAN: The Economic Coordination Committee (ECC) of the cabinet, with support from the Federal Board of Revenue, has granted 10 tax exemptions on the upcoming US dollar sovereign Sukuk, according to the Express Tribune quoting Finance Minister Ishaq Dar. These taxes include the 15% income tax on the profit that investors would enjoy by purchasing Pakistani bonds; the 17% alternate corporate tax, advance income tax and tax on dividend income; the 15% tax on gross payments to non-residents on account of royalty and technical services; up to 12% tax on payments for goods and services; a 0.3% tax on cash withdrawals on these transactions and a 0.4% tax on banking transactions related to the issuance of Sukuk. Income tax on the sale and purchase of air tickets was also exempted. The government is expected to raise between US$750 million and US$1 billion through Sukuk next month by pledging the Islamabad-Lahore Motorway.

EUROPE

Al Rayan opens Bradford branch

UK: Al Rayan Bank has inaugurated a new office at 218 Lilycroft Road, Bradford, offering a range of Islamic retail banking products and services to the communities of Bradford and West Yorkshire, according to a statement.'

IFC and ISRA to hold London workshop

UK: The Islamic Finance Council (IFC) and the International Shariah Research Academy for Islamic Finance (ISRA) will hold a workshop in London on the 26th October.

Themed 'Is the Current Model of Shariah Governance Fit for Purpose?', the event will include the launch of the External Shariah Audit Report. IFN is the media partner for this event.

GLOBAL

ITFC and ICDX team up

GLOBAL: The International Islamic Trade Finance Corporation (ITFC) has signed an MoU with the Indonesia Commodity & Derivatives Exchange (ICDX) to provide a Shariah compliant pre-export warehouse financing facility worth US$50 million to Indonesian tin smelters and buyers from the ICDX, according to a statement. The financing will be delivered via a purpose-built Shariah compliant depository receipt that will be asset-backed by physical tin in the ICDX bonded warehouse and can be traded and priced via the ICDX tin contracts.

Iran aviation deal ratified

GLOBAL: The US Treasury's Office of Foreign Assets Control has on the 21st September given permission to Airbus and Boeing to sell their aircraft to Iran, according to the Associated Press. Airbus's spokesman, Justin Dubon, was quoted as saying that Airbus applied for two licenses to cover its deal with Iran to ensure the fast delivery of some of the aircraft, with the first license covering the initial 17 planes which will be A320s and A330s. In January, national carrier Iran Air signed agreements to buy 118 planes from Airbus, estimated to be worth some EUR22.8 billion (US$25.58 billion). Under Boeing's deal, meanwhile, the Iranian carrier will buy 80 aircraft with a total list price of US$17.6 billion, with deliveries beginning in 2017 and running until 2025. Iran Air also will lease 29 new Boeing 737s in a deal that Iranian officials suggested could be worth some US$25 billion in total.

Gobi launches segment for Islamic ventures

GLOBAL: Gobi Partners, a Shanghai-based venture capital firm, has introduced a new business segment for Islamic ventures known as TaqwaTech in Malaysia in a bid to offer entrepreneurs the opportunity to tap the large Muslim population in the region. Thomas Tsao, the managing partner and co-founder of Gobi Partners told IFN.

MIDDLE EAST

QFC moves to new financial city

QATAR: The Qatar Financial Center (QFC) in a statement announced its relocation to Msheireb Downtown Doha, which will serve as a foundation for Qatar's new financial city. The new financial city will be open to new businesses beginning mid-2017, whereas existing firms can decide to migrate then, or starting 2018. The relocation will also involve other QFC entities as well including the Qatar Financial Center Regulatory Authority, the Qatar International Court and Dispute Resolution Center and the Qatar Finance and Business Academy and their relocation is expected to be completed in 2019.

Saudi Binladin seeks another extension

SAUDI ARABIA: Saudi Binladin Group has requested a second extension on a SAR817 million (US$217.69 million) Murabahah financing facility being used to fund the construction at the Kingdom's Grand Mosque as the Saudi government failed to fully reimburse the firm for the work, according to Reuters quoting unnamed sources. A consortium of eight to nine banks, mainly from the UAE, participated in the financing including Dubai Islamic Bank, which led the facility, Emirates NBD, Noor Bank and Ajman Bank, among others.

Al Rajhi and REDF collaborate

SAUDI ARABIA: Following an MoU signing and a trial run launched last June, Al Rajhi Bank and the Real Estate Development Fund (REDF) are set to launch an accelerated financing program in the next few days, reported Alriyadh. The new scheme aims to expand state-subsidized finance products for citizens by offering interest-free financings that can be repaid over a 15-year period. The REDF will pay the interest to participating banks throughout the financing term. The fund had been in talks with financial institutions and banks to cut mortgage finance charges.

Bank Dhofar updates rights issue details

OMAN: Bank Dhofar, which operates Maisarah Islamic Banking Services, has announced that the subscription for its rights issue will begin on the 5th October until the 19th October 2016, and the trading period will begin on the 2nd October until the 16th October 2016, according to a bourse filing. The record date for the rights issue will be the 27th September, whereby holders of every 1,000 shares of the bank will be entitled to be offered 117 rights shares of the bank duly rounded down to the nearest number.

ASBB offers property escrow account

BAHRAIN: Al Salam Bank-Bahrain (ASBB) has signed a partnership with UAE-based private real estate investor and developer Eagle Hills Diyar to create a real estate development escrow account model in the Kingdom for Marassi Al Bahrain. According to a statement, this arrangement is set up in accordance with Law no.28 of 2014 and the Central Bank of Bahrain's Resolution no.20 of 2016, whereby developers are required to establish an escrow account with a local bank for each real estate development project intended to be sold off-plan. Marassi Al Bahrain is a distinguished urban waterfront project, which will be home to 15,000 residents with a total of 5,600 residences and a total retail space of 250,000 sqm. Financing agreements are also in place with Kuwait Finance House Bahrain for the first phase of the project in the form of Musharakah ownership with Ijarah for up to a 20-year period.

Warba Bank introduces new tech

KUWAIT: Warba Bank has entered into a cooperation agreement with the Public Authority for Civil Information to implement an e-signature service, allowing the Islamic bank to introduce a new service, Express Finance. The bank said in a statement that the e-signature service allows clients to authorize the bank to view their information in the credit network without having to be present physically at the branch, thereby reducing the time needed to perform banking transactions.

QIB launches new card

QATAR: Qatar Islamic Bank (QIB) has launched a new Visa credit card with a flexible payment option, available in Infinite, Platinum and Gold variants. According to a press release, under the new cards' terms, customers have the flexibility to pay anywhere between 5% and 100% of their monthly balance, with monthly settlements automatically deducted from their accounts and the ability to perform early payments at the customer's discretion at all times.

SAMA to boost financial stability

SAUDI ARABIA: The Saudi Arabian Monetary Agency (SAMA) will inject approximately SAR20 billion (US$5.33 billion) in time deposits into the banking system and introduce two new maturity periods for repurchase agreements, according to Reuters.

Saudi banks' LCRs at a healthy level

SAUDI ARABIA: Large Saudi Arabian banks continue to report liquidity coverage ratios (LCRs) above 100% despite a 30% outflow of government-related deposits from the sector since oil prices declined sharply in November 2014, according to Fitch in a statement. The rating agency noted that the banks' ability to withstand such a shock demonstrates that their liquidity positions, at least in the short term, are resilient.

RESULTS

Jordan Islamic Bank

JORDAN: Jordan Islamic Bank, a subsidiary of Al Baraka Banking Group, posted a profit after tax of about US$39.5 million in the first half of 2016, representing an 11.5% increase year-on-year compared with US$35.3 million recorded in the corresponding period of 2015, according to a press release.

The bank's assets grew by 3.9% during the period, amounting to approximately US$6.11 billion compared with about US$5.66 billion at the end of 2015.

ASSET MANAGEMENT

KWAP turning to alternative investments

MALAYSIA: Malaysia's second-largest pension fund, Kumpulan Wang Persaraan (KWAP), plans to increase allocation for alternative investments by 50% starting next year, Bernama quoted the fund's CEO Wan Kamaruzaman Wan Ahmad as saying.

KWAP, which aims to become a fully-fledged Islamic pension fund, will look to invest in private equity, properties and infrastructure, as traditional investments such as fixed income and equity formed 90% of its current portfolio, with the remaining 10% made up of alternative investments, according to Wan Kamaruzaman.

TAKAFUL

Low Takaful take-up in the UAE

UAE: A majority of the National Bonds Corporation's investors do not have Takaful life coverage, the latest financial health check of the Islamic investment company showed. In the third quarter of 2016, it was found that 73% of UAE national respondents who participated in the survey do not have Takaful life coverage against 27% who are covered by traditional policies, while 83% of expats do not have Takaful as compared to 17% with a traditional life insurance cover.

METLICO mulls options for property purchase

EGYPT: Misr Takaful Life Insurance (METLICO) is in talks with four banks over a financing facility to purchase the property where its Alexandria branch lies, according to Amwal Al Ghad citing METLICO's managing director, Salah Abdel Fattah. Salah added that the Takaful operator is also considering allocating part of its investments, as a second funding mechanism, to buy the property and is currently conducting feasibility studies on the two options, with a decision to be reached within this month. METLICO has decided to purchase the property to avoid more administrative expenses as the rental prices periodically go higher. It is also part of METLICO's plans to boost its assets annually.

MOVES

Solidarity Saudi Takaful

SAUDI ARABIA: Solidarity Saudi Takaful has received the approval from the Saudi Arabian Monetary Agency for the appointment of **Badr Khalid Al Anzi** as the company's new CEO, according to a bourse filing. Badr takes over from **Jerais Abdulaziz Al-Jeraisy**, who will step down from the position on the 31st October 2016.

Iraqi finance ministry

IRAQ: **Hoshyar Zebari**, the finance minister of Iraq, was voted out of office by the country's parliament on the 21st September over allegations of corruption and mismanagement. According to the Wall Street Journal, Hoshyar has been under intense scrutiny by lawmakers over accusations of misusing public funds and is now required to step down from office immediately following the parliament's no-confidence vote. Several lawmakers as well as Iraqi Prime Minister **Haider al-Abadi** had sought a postponement of the vote, citing Hoshyar's critical role in negotiating billions in international aid and loans for Iraq's ailing economy and soaring budget deficit.

KAMCO Investment Company

KUWAIT: KAMCO Investment Company, which offers Islamic products, has appointed **Ruben Omar Fernandez** as CFO, according to a media release. Fernandez was previously the group chief treasury officer and financial institutions head at Kuwait Finance House.

Abu Dhabi Financial Group

UAE: Abu Dhabi Financial Group (ADFG), which is planning to set up an Islamic bank in partnership with GFH, has appointed **Dr Saleh Al Hashemi** as the managing director and CEO of Integrated Capital, the group's capital markets business, according to a press release. Dr Saleh will also assume the chairmanship of Integrated Securities, ADFG's securities business that provides clients with the opportunity to trade on the UAE, GCC and international markets. He was most recently the executive director of infrastructure and environment at the General Secretariat of Abu Dhabi's Executive Council.

Takaful Emarat Insurance

UAE: **Adnan Sabaalaish** has been appointed as the financial controller for Takaful Emarat Insurance following the resignation of **Mohammad Iqbal Basha** as its CFO on the 22nd September, according to a bourse filing.

Securities Depository Center Company

SAUDI ARABIA: The board of directors of the Securities Depository Center Company has approved the appointment of **Mamdooh Saud Al Sedairy** as CEO, effective the 27th September 2016. According to a bourse filing, Mamdooh has led several functions and a number of key projects and programs within the Saudi Stock Exchange, and his most recent post was as the chief of

information technology.

BLME Holdings

UK: BLME Holdings has appointed its CFO, **Christopher Power**, to its board as an executive director with immediate effect, according to a bourse filing. In a separate filing, BLME Holdings has decided to treat **Michael Williams** as an independent non-executive director also with immediate effect.

Jones Day

UAE: **Jones Day** has welcomed **Nadim Khan** as a partner in the firm's projects and infrastructure practice based in the Dubai office, according to a statement. Nadim has more than 20 years of experience as an attorney, including 15 in the Middle East and has also structured and developed a number of Islamic financing products.

RATINGS

Final ratings for Al Dzahab's Sukuk

MALAYSIA: RAM has assigned final ratings of 'AAA/Stable' and 'AA3/Stable' on Al Dzahab Assets's RM120 million (US$29.03 million) Class A Sukuk and RM35 million (US$8.47 million) Class B Sukuk respectively. According to a statement, these represent the second issuance under Al Dzahab's RM900 million (US$217.71 million) Sukuk Murabahah asset-backed securitization program, and the first issuance — a RM120 million (US$29.03 million) Tranche 1 Sukuk — was completed in June 2016. The issuance will be collateralized by personal-financing facilities originated by RCE Marketing.

EXIM Sukuk's rating reaffirmed

MALAYSIA: RAM in a statement said that it has reaffirmed the 'gA2(s)/Stable (global-scale)' rating on EXIM Sukuk Malaysia's US$1 billion multicurrency Sukuk program, a funding conduit of Export-Import Bank of Malaysia. Concurrently, the rating agency also maintained the bank's 'gA2/Stable/P1' global-scale financial institution ratings, together with its Malaysian and ASEAN-scale ratings of 'AAA/Stable/P1' and 'seaAAA/Stable/seaP1' respectively.

Puncak Wangi's Sukuk reaffirmed at 'AAA(fg)/Stable'

MALAYSIA: RAM in a statement has reaffirmed Puncak Wangi's guaranteed Islamic medium-term note (IMTN) program of up to RM200 million (US$48.38 million) (2014/2022) at 'AAA(fg)/Stable'. The enhanced rating reflects an irrevocable and unconditional guarantee extended by Danajamin Nasional ('AAA/Stable/P1'), which enhances the credit standing of the IMTN program beyond Puncak Wangi's credit strength. Puncak Wangi is a subsidiary of Malaysian Resources Corporation.

IIRA reaffirms Al Baraka Bank Egypt

EGYPT: Islamic International Rating Agency has reaffirmed Al Baraka Bank Egypt's international scale ratings at 'B-/B' and national scale ratings at 'A-(eg)/A2(eg)', with a stable outlook. According to a statement, the fiduciary score has been assessed in the range of '66-70', reflecting adequate fiduciary standards wherein rights of various stakeholders are adequately protected.

Pak Qatar Family Takaful bags 'A' rating

PAKISTAN: The Pakistan Credit Rating Agency has assigned Pak Qatar Family Takaful with the insurer financial strength rating of 'A', which denotes a strong capacity to meet policyholder and contract obligations, according to a statement. The rating reflects the sustained market position of the company, with a decent foothold in the bancaTakaful segment, in which the company benefits from technical collaboration with FWU.

National Bank of Egypt's ratings affirmed

EGYPT: Capital Intelligence has affirmed the National Bank of Egypt's long-term foreign currency rating (FCR) at 'B-' and the short-term FCR at 'B', with a stable outlook, according to a statement.

RAM reaffirms SEB's subsidiaries' Sukuk ratings

MALAYSIA: RAM announced in separate statements that it has reaffirmed the enhanced 'AA2(s)/Stable' rating on Mukah Power Generation (MPG)'s RM665 million (US$74.32 million) senior Sukuk Murabahah program (2006/2021) and also the 'AA2(s)/Stable' rating on Sarawak Power Generation (SPG)'s RM215 million (US$24.03 million) serial Sukuk Musharakah (2006/2021). The enhanced ratings on these companies reflect the support from its parent Sarawak Energy (SEB). MPG is an independent power producer incorporated to construct, own, operate and maintain a 270 MW coal-fired power plant in Mukah while SPG holds the license to build, own and operate a 320 MW combined-cycle gas turbine facility in Tanjung Kidurong, Bintulu. Both power facilities are located in Sarawak.

'Aa3' for APICORP

SAUDI ARABIA: Arab Petroleum Investments Corporation (APICORP)'s 'Aa3' long-term issuer rating has been affirmed by Moody's, with a stable outlook. The multilateral development bank's short-term issuer rating has also been affirmed at 'Prime-1'. Concurrently, the senior unsecured medium-term note '(P)Aa3' rating of APICORP Sukuk and its senior unsecured 'Aa3' rating have been maintained with a stable outlook. The rating agency said in a statement that APICORP's 'Aa3' rating and stable outlook are predicated on the fact that

Straight to Web Feature

The link between Islamic banking and sustainable development goals

Despite all the criticism and debates around Islamic banking, there is always a belief that it can improve this world economically, socially and even environmentally. With efforts from decision-makers, regulators, practitioner and researchers; this industry can contribute with tangible impact that would be realized on wide geographical areas and serve as a role model. HANAN ABDULLA HASAN looks at Islamic banking's contribution, potential and challenges to sustainable development goals.

To read the full article, log on to www.islamicfinancenews.com.

the increase in APICORP's callable capital in 2016 and improvements in its asset and liability maturity mismatch support its credit profile.

Fitch affirms Saudi banks

SAUDI ARABIA: Fitch has affirmed the long-term issuer default ratings of 11 banks in Saudi Arabia and downgraded the viability ratings of two of the reviewed banks — Riyad Bank and Arab National Bank (ANB) — to 'bbb+' from 'a-', according to a statement. The outlook for all banks is negative, which reflects the corresponding negative outlook on the sovereign rating. Besides Riyad Bank and ANB, the other banks are Al Rajhi, Samba, National Commercial Bank, Banque Saudi Fransi, Saudi British Bank, Saudi Hollandi Bank, Saudi Investment Bank, Alinma and Bank Aljazira.

Moody's lowers Turkey's ratings

TURKEY: Moody's has downgraded the government of Turkey's long-term issuer and senior unsecured bond ratings to 'Ba1' from 'Baa3' and assigned a stable outlook, according to a statement. The downgrade is driven by the increase in the risks related to the country's sizeable external funding requirements and the weakening in previously supportive credit fundamentals, particularly growth and institutional strength.

Moody's believes that this slow deterioration in Turkey's credit profile will continue over the next two to three years and the balance of risks are better captured at a 'Ba1' rating level. The stable outlook on the 'Ba1' rating reflects the strengths in the credit profile, namely the government's robust balance sheet, which would allow for the absorption of shocks and flexible responses.

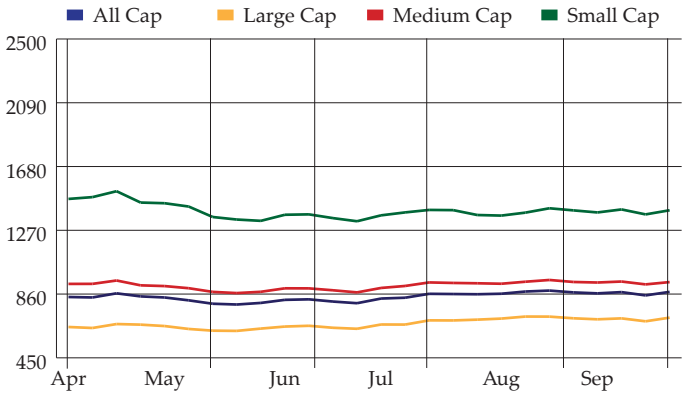
RAM reaffirms Litrak's Sukuk ratings

MALAYSIA: RAM has reaffirmed the 'AA2/Stable' ratings on Lingkaran Trans Kota's Sukuk Musharakah Islamic medium-term note (IMTN) I and II programs with a combined value of up to RM1.45 billion (US$351.22 million), according to a statement. The ratings reflect the robust traffic profile of Lebuhraya Damansara Puchong, underscored by its strategic alignment through major townships, which supports its strong debt-servicing capability.

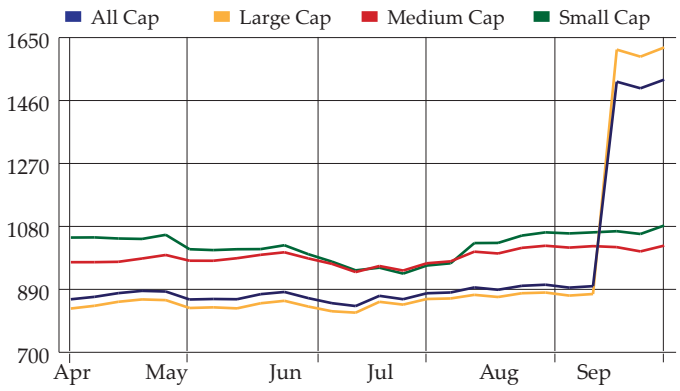
Expected date	Company's name	Size	Structure	Announcement Date
By end of September	Meezan Bank	PKR7 billion	Sukuk	29th August 2016
TBA	Aktif Bank	TRY25 million	Sukuk Murabahah	26th August 2016
TBA	Widad Capital	up to RM110 million	Sukuk Murabahah	23rd August 2016
TBA	Ahli United Bank Kuwait	up to US$200 million	Sukuk	17th August 2016
Fourth quarter of 2016	BRI Syariah	IDR1 trillion	Sukuk Mudarabah	16th August 2016
First quarter of 2017	Government of Nigeria	TBA	Sukuk	11th August 2016
August 2016	Republic of Cote d'Ivoire	XOF150 billion	Sukuk Ijarah	8th August 2016
Fourth quarter of 2016	Malaysia Debt Ventures	up to RM1 billion	Sukuk	4th August 2016
TBA	Warba Bank	US$250 million	Sukuk	28th July 2016
August 2016	Republic of Togo	XOF150 billion	Sukuk	26th July 2016
August-September 2016	DanaInfra Nasional	RM10 billion	Sukuk	19th July 2016
September 2016	Government of Kuwait	up to KWD5 billion	Sukuk	4th July 2016
July 2016	Government of Senegal	XOF150 billion	Sukuk	30th June 2016
TBA	Iranian Mines and Mining Industries Development and Renovation Organization	IRR4 trillion	Sukuk Musharakah	24th June 2016
TBA	Tiga Pilar Sejahtera Food	IDR1.5 trillion	Sukuk	17th June 2016
TBA	Almarai Company	TBA	Sukuk	10th June 2016
By the end of 2017	Ministry of Housing Saudi Arabia	TBA	Sukuk	9th June 2016
TBA	Mahan Air	IRR5 trillion	Sukuk Ijarah	8th June 2016
TBA	The Philippines	TBA	Sukuk	6th June 2016
TBA	GFH Financial Group	US$150 million	Sukuk	2nd June 2016
TBA	Government of Sri Lanka	US$1 billion	Sukuk	27th May 2016
TBA	Saudi Aramco	TBA	Sukuk	26th May 2016
TBA	Al-Tajamaout for Touristic Projects	JOD45 million	Sukuk Ijarah	24th May 2016
TBA	Societe Generale	RM1 billion	Sukuk	23rd May 2016
TBA	Bank Muamalat Malaysia	RM1 billion	Sukuk Murabahah	23rd May 2016
TBA	Bank Rakyat Malaysia	RM5 billion	Sukuk Murabahah	20th May 2016
TBA	Government of Germany	US$1 billion	Sukuk	18th May 2016
By 2017	Republic of Maldives	TBA	Sukuk	29th April 2016
Second half of 2016	Saudia	up to SAR5 billion	Sukuk	26th April 2016
TBA	PRAN Foods	BDT1 billion	Sukuk	11th April 2016
Fourth quarter of 2016	Bank Syariah Mandiri	IDR1 trillion	Sukuk	5th April 2016
2016-17	Sarana Multigriya Finansial	IDR200 billion	Sukuk	4th March 2016
TBA	Ziraat Participation Bank	TRY1.5 billion	Sukuk	1st March 2016
TBA	Hong Kong	TBA	Sukuk	1st March 2016
TBA	Cahya Mata Sarawak	RM1 billion	Sukuk Ijarah	22nd February 2016
TBA	Saudi Electricity Company	US$2.5 billion	Sukuk	16th February 2016
2016	Kuwait Finance House	TBA	Sukuk	1st February 2016
TBA	Oman Telecommunications	US$130 million	Sukuk	28th January 2016
2017	Government of Kenya	TBA	Sukuk	26th January 2016
TBA	Tenaga Nasional	US$3 billion	Sukuk	8th January 2016
TBA	Toprak Mahsulleri Ofisi	up to TRY600 million	Sukuk	7th January 2016
First quarter of 2016	Government of Egypt	TBA	Sukuk	7th December 2015
TBA	Samalaju Industrial Port	up to RM950 million	Sukuk Murabahah	27th November 2015
TBA	Hascol Petroleum	PKR2 billion	Sukuk	9th November 2015

REDMONEY SHARIAH INDEXES

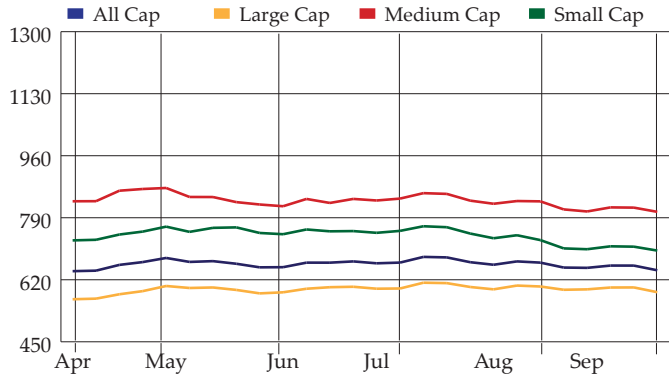
REDmoney Asia ex. Japan *6 Months*



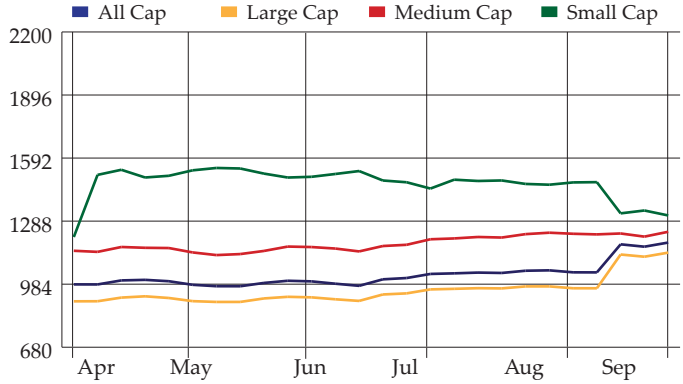
REDmoney Europe *6 Months*



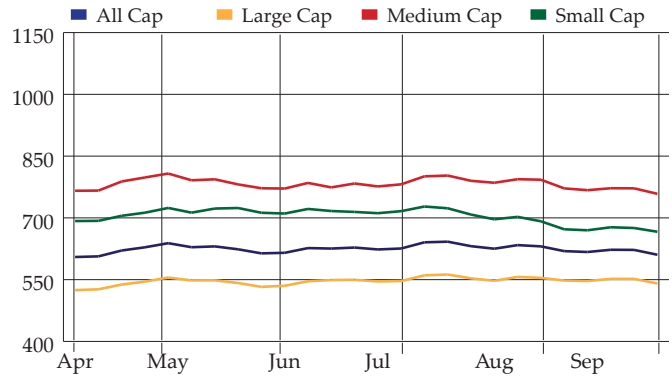
REDmoney GCC *6 Months*



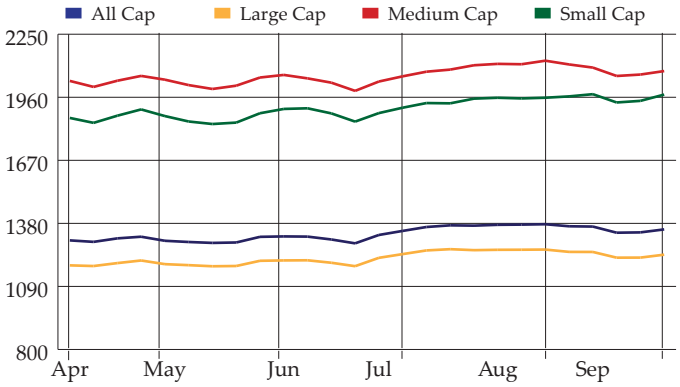
REDmoney Global *6 Months*



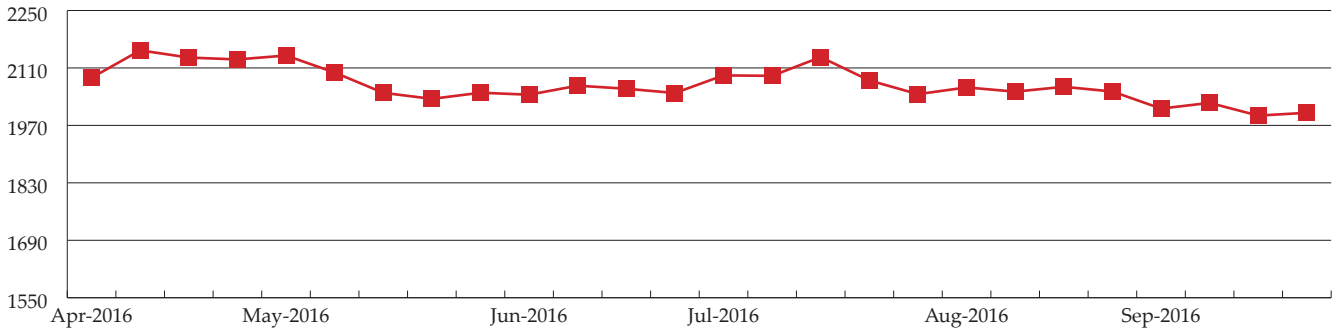
REDmoney MENA *6 Months*



REDmoney US *6 Months*

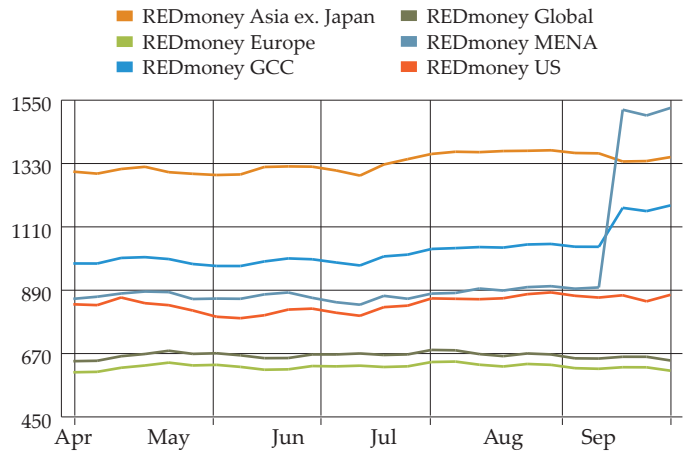


SAMI Halal Food Participation (All Cap) *6 months*

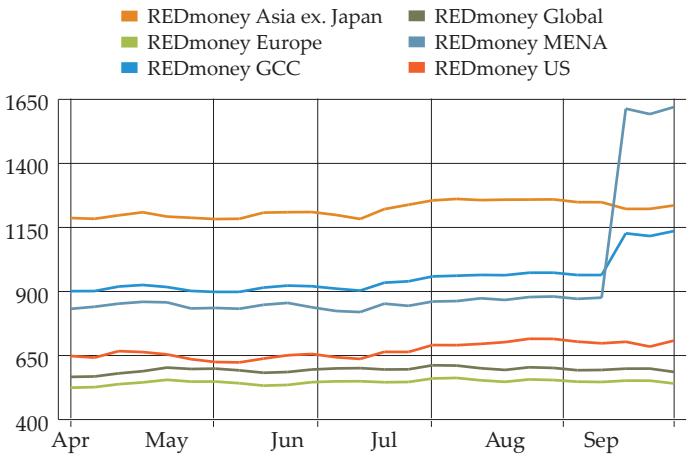


REDMONEY SHARIAH INDEXES

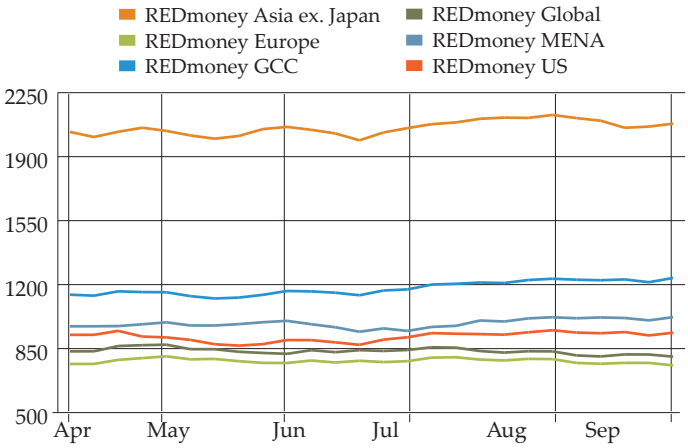
REDmoney Global Shariah Index Series (All Cap) *6 Months*



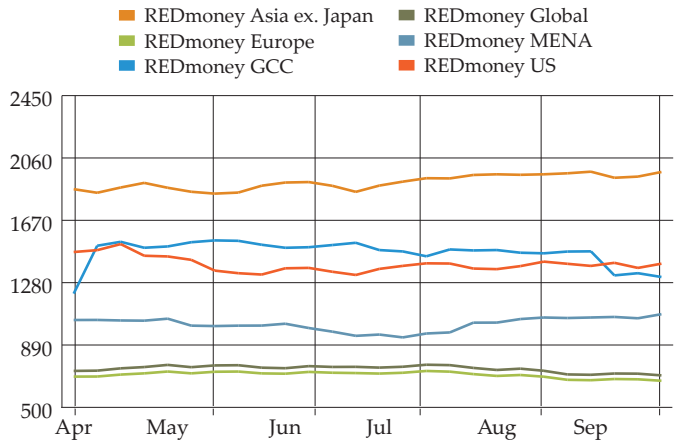
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



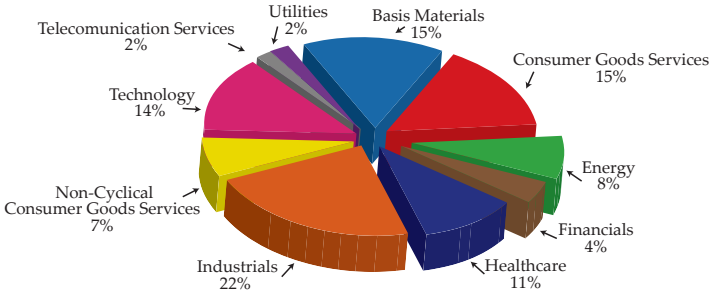
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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®

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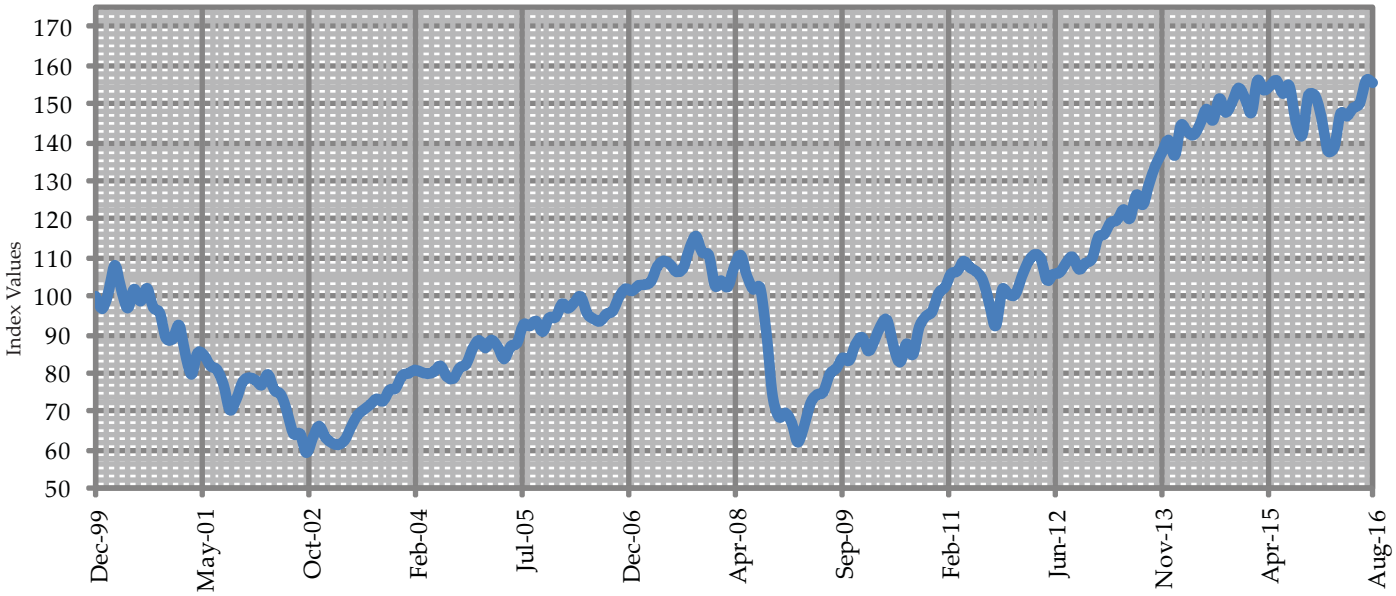
Andrew Morgan
Managing Director, REDmoney Group

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

EUREKAHEDGE FUNDS TABLES

Eurekahedge North America Islamic Fund Index



Top 10 Monthly Returns for Asia Pacific Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Eastspring Investments Dinasti Equity	Eastspring Investments	5.75	Malaysia
2	PB Islamic Asia Strategic Sector	Public Mutual	3.89	Malaysia
3	Hayat India Equity	Hayat Invest Company	3.59	Mauritius
4	Public Islamic Asia Tactical Allocation (PIATAF)	Public Mutual	3.34	Malaysia
5	Public China Ittikal	Public Mutual	3.03	Malaysia
6	PB Islamic Asia Equity	Public Mutual	2.90	Malaysia
7	Pacific Dana Aman	Pacific Mutual Fund	2.65	Malaysia
8	Danareksa Indeks Syariah	Danareksa Investment Management	2.61	Indonesia
9	Danareksa Syariah Berimbang	Danareksa Investment Management	2.50	Indonesia
10	CIMB Principal Islamic Equity Growth Syariah	CIMB-Principal Asset Management	2.33	Indonesia
	Eurekahedge Islamic Fund Index		**0.82**	

Based on 71.54% of funds which have reported August 2016 returns as at the 26th September 2016

Top 10 Monthly Returns for Middle East/Africa Funds

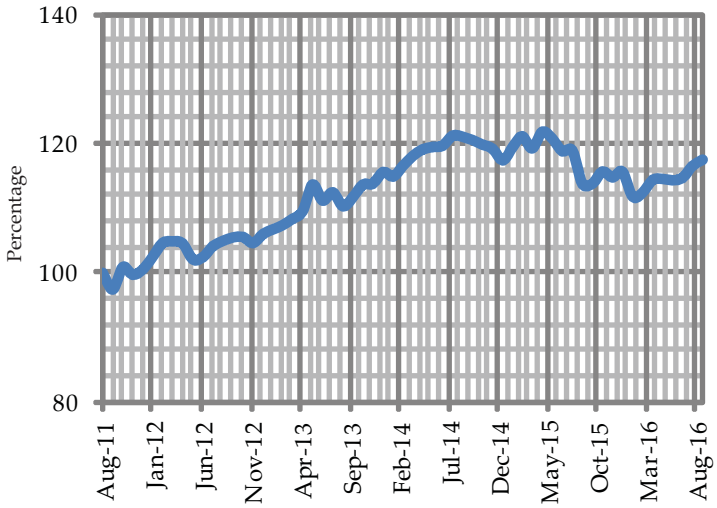
	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Kagiso Islamic Equity	Kagiso Asset Management	3.52	South Africa
2	Emirates Global Sukuk Limited USD Institutional Share Class (Acc)	Emirates NBD Asset Management	0.85	Jersey
3	Pak Oman Advantage Islamic Income	Pak Oman Asset Management	0.58	Pakistan
4	NBAD Sukuk Income	NBAD Asset Management Group	0.53	UAE
5	Boubyan USD Liquidity	Boubyan Capital Investment Company	0.11	Kuwait
6	IIAB Sukuk & Murabaha MENA	Al Arabi Investment Group	0.10	Guernsey
7	Boubyan KWD Money Market	Boubyan Bank	0.09	Cayman Islands
8	Emirates Islamic Money Market Limited Institutional Share Class I USD	Emirates NBD Asset Management	0.04	Jersey
9	IIAB Islamic MENA	Al Arabi Investment Group	-0.02	Bahrain
10	IIAB MENA Feeder	Al Arabi Investment Group	-0.12	Guernsey
	Eurekahedge Islamic Fund Index		**(0.43)**	

Based on 65.85% of funds which have reported August 2016 returns as at the 26th September 2016

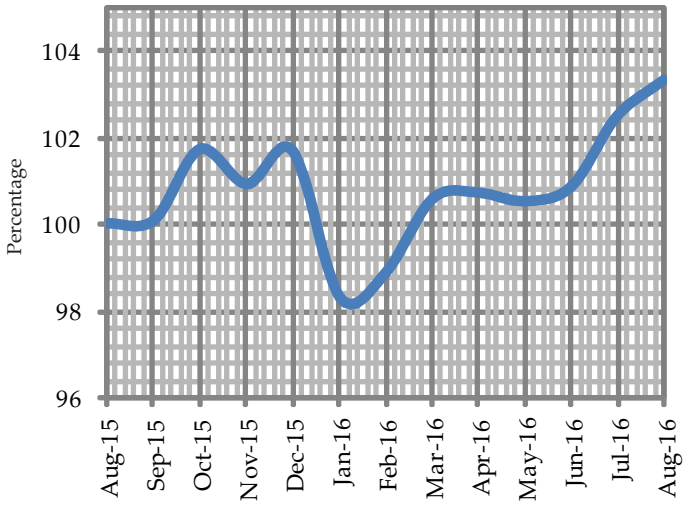
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity,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

EUREKAHEDGE FUNDS TABLES

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Islamic Fund Fixed Income by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	MNC Dana Syariah	MNC Asset Management	2.53	Indonesia
2	CIMB Islamic Enhanced Sukuk	UOB Asset Management	2.40	Malaysia
3	Libra AsnitaBond	Libra Invest	2.40	Malaysia
4	MAA Takaful Shariah Income	MAA Takaful	2.40	Malaysia
5	Public Islamic Enhanced Bond	Public Mutual	2.37	Malaysia
6	Public Islamic Bond	Public Mutual	2.36	Malaysia
7	PB Islamic Bond	Public Mutual	2.34	Malaysia
8	MAA Takaful Shariah Flexi	MAA Takaful	2.32	Malaysia
9	CIMB Islamic Sukuk	CIMB-Principal Asset Management	2.11	Malaysia
10	Eastspring Investments Dana Wafi	Eastspring Investments	1.83	Malaysia
	Eurekahedge Islamic Fund Index		**1.47**	

Based on 72.00% of funds which have reported August 2016 returns as at the 26th September 2016

Top 10 Islamic Equity Funds by by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Danareksa Indeks Syariah	Danareksa Investment Management	14.66	Indonesia
2	CIMB Principal Islamic Equity Growth Syariah	CIMB-Principal Asset Management	14.16	Indonesia
3	Mandiri Investa Atraktif - Syariah (Mitra Syariah)	Mandiri Manajemen Investasi	12.77	Indonesia
4	Batavia Dana Saham Syariah	Batavia Prosperindo Aset Manajemen	11.04	Indonesia
5	Atlas Islamic Stock	Atlas Asset Management	10.27	Pakistan
6	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	10.01	Pakistan
7	iShares MSCI Emerging Markets Islamic UCITS ETF	BlackRock Advisors (UK)	9.58	Ireland
8	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	9.49	Pakistan
9	Pakistan International Element Islamic Asset Allocation	Arif Habib Investment Management	8.69	Pakistan
10	PB Islamic Asia Strategic Sector	Public Mutual	8.62	Malaysia
	Eurekahedge Islamic Fund Index		**3.19**	

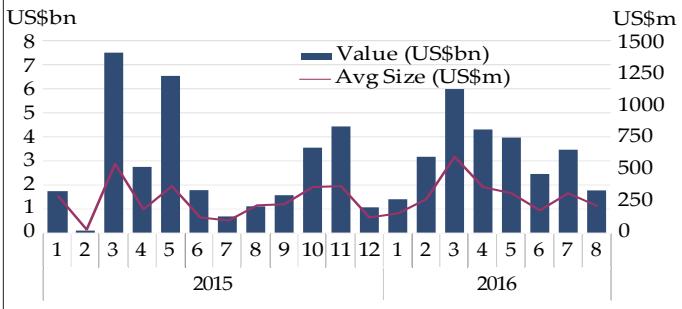
Based on 68.82% of funds which have reported August 2016 returns as at the 26th September 2016

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

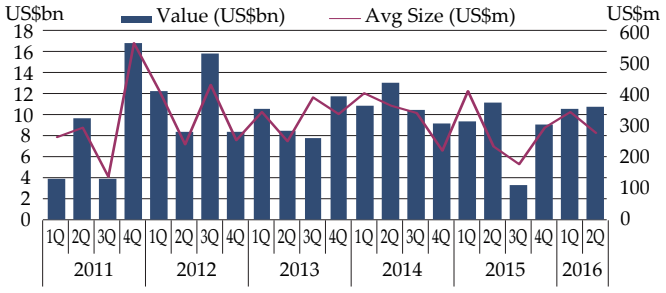
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
8th Sep 2016	Lembaga Pembiayaan Perumahan Sektor Awam	Malaysia	Sukuk	Domestic market public issue	986	OCBC, RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, Affin Investment Bank, AmInvestment Bank
7th Sep 2016	Emaar Sukuk	UAE	Sukuk	Euro market public issue	750	Mashreqbank, Standard Chartered Bank, Arab Banking Corporation, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Union National Bank, Emirates NBD, Noor Bank
1st Sep 2016	SIB Sukuk III	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Kuwait Finance House, Arab Banking, Maybank, Dubai Islamic Bank, Emirates NBD, QNB Capital, Noor Bank
30th Aug 2016	EI Sukuk	UAE	Sukuk	Euro market public issue	250	Standard Chartered Bank, Arab Banking, Dubai Islamic Bank, Emirates NBD
19th Aug 2016	Lebuhraya DUKE Fasa 3	Malaysia	Sukuk	Domestic market public issue	912	RHB Capital, Maybank, CIMB Group, AmInvestment Bank
9th Aug 2016	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	368	Standard Chartered Bank
29th Jul 2016	Sarawak Hidro	Malaysia	Sukuk	Domestic market public issue	1,365	RHB Capital, Maybank
29th Jul 2016	Ziya Capital	Malaysia	Sukuk	Domestic market public issue	222	CIMB Group
22nd Jul 2016	Maxis Broadband	Malaysia	Sukuk	Domestic market public issue	207	CIMB Group
21st Jul 2016	Jambatan Kedua	Malaysia	Sukuk	Domestic market public issue	644	RHB Capital, Maybank, Kenanga Investment Bank, AmInvestment Bank
19th Jul 2016	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	880	Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank
29th Jun 2016	Sultanate of Oman	Oman	Sukuk	Euro market public issue	500	Standard Chartered Bank
2nd Jun 2016	Hazine Mustesarligi Varlik Kiralama Anonim Sirketi	Turkey	Sukuk	Euro market public issue	1,000	Standard Chartered Bank, HSBC, Emirates NBD
2nd Jun 2016	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	350	CIMB Group, AmInvestment Bank
31st May 2016	Al Hilal Bank	UAE	Sukuk	Euro market private placement	225	National Bank of Abu Dhabi
30th May 2016	GovCo Holdings	Malaysia	Sukuk	Domestic market public issue	306	RHB Capital
24th May 2016	Noor Bank	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, First Gulf Bank, Dubai Islamic Bank, Sharjah Islamic Bank, Citigroup, Emirates NBD, Noor Bank
24th May 2016	DP World	UAE	Sukuk	Euro market public issue	1,200	JPMorgan, Deutsche Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, Barclays, Dubai Islamic Bank, SG Corporate & Investment Banking, Citigroup, Emirates NBD
23rd May 2016	EI Sukuk	UAE	Sukuk	Euro market public issue	750	Standard Chartered Bank, HSBC, Arab Banking, Maybank, Dubai Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
17th May 2016	Cagamas	Malaysia	Sukuk	Domestic market public issue	104	CIMB Group

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

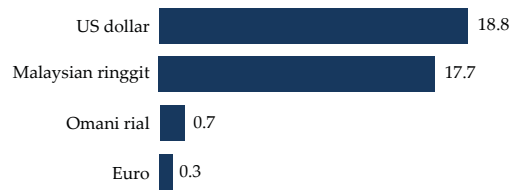
	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss (%)	Managers
1	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	2,500	6.6	Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, CIMB Group, Citigroup
2	Jimah East Power	Malaysia	Sukuk	Domestic market public issue	2,100	5.5	HSBC, Maybank, CIMB Group
3	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	1,936	5.1	Standard Chartered Bank, JPMorgan, National Bank of Kuwait, Gulf International Bank, Natixis, CIMB Group, Emirates NBD
4	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	1,891	5.0	HSBC, RHB Capital, Maybank, CIMB Group, AmInvestment Bank, Hong Leong Financial Group
5	Malaysia Sukuk Global	Malaysia	Sukuk	Euro market public issue	1,500	4.0	JPMorgan, HSBC, Maybank, CIMB Group
6	Sarawak Hidro	Malaysia	Sukuk	Domestic market public issue	1,365	3.6	RHB Capital, Maybank
7	DP World	UAE	Sukuk	Euro market public issue	1,200	3.2	JPMorgan, Deutsche Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, Barclays, Dubai Islamic Bank, SG Corporate & Investment Banking, Citigroup, Emirates NBD
8	Prasarana Malaysia	Malaysia	Sukuk	Domestic market public issue	1,192	3.1	RHB Capital, Maybank, Kenanga Investment Bank, CIMB Group, AmInvestment Bank
9	Sultanate of Oman	Oman	Sukuk	Euro market public issue	1,149	3.0	Bank Muscat, Standard Chartered Bank
10	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	1,118	3.0	Standard Chartered Bank, HSBC, Citigroup, QInvest, Barwa Bank, Noor Bank
11	Danga Capital	Malaysia	Sukuk	Domestic market public issue	1,110	2.9	RHB Capital, AmInvestment Bank, Standard Chartered Bank, DBS, CIMB Group
12	EI Sukuk	UAE	Sukuk	Euro market public issue	1,007	2.7	Standard Chartered Bank, HSBC, Arab Banking, Maybank, Dubai Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
13	Hazine Mustesarligi Varlik Kiralama Anonim Sirketi	Turkey	Sukuk	Euro market public issue	1,000	2.6	Standard Chartered Bank, HSBC, Emirates NBD
13	Axiata SPV2	Malaysia	Sukuk	Euro market public issue	1,000	2.6	Deutsche Bank, HSBC, CIMB Group
15	Lembaga Pembiayaan Perumahan Sektor Awam	Malaysia	Sukuk	Domestic market public issue	986	2.6	OCBC, RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, Affin Investment Bank, AmInvestment Bank
16	Lebuhraya DUKE Fasa 3	Malaysia	Sukuk	Domestic market public issue	912	2.4	RHB Capital, Maybank, CIMB Group, AmInvestment Bank
17	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	880	2.3	Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank
18	Emaar Sukuk	UAE	Sukuk	Euro market public issue	750	2.0	Mashreqbank, Standard Chartered Bank, Arab Banking, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Union National Bank, Emirates NBD, Noor Bank
19	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	748	2.0	RHB Capital, Maybank, CIMB Group, AmInvestment Bank
20	Jambatan Kedua	Malaysia	Sukuk	Domestic market public issue	644	1.7	RHB Capital, Maybank, Kenanga Investment Bank, AmInvestment Bank
21	Rantau Abang Capital	Malaysia	Sukuk	Domestic market public issue	595	1.6	CIMB Group, AmInvestment Bank, RHB Capital
22	Sime Darby	Malaysia	Sukuk	Domestic market public issue	535	1.4	Maybank
23	SIB Sukuk Co III	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, Kuwait Finance House, Arab Banking, Maybank, Dubai Islamic Bank, Emirates NBD, QNB Capital, Noor Bank
23	Noor Bank	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, First Gulf Bank, Dubai Islamic Bank, Sharjah Islamic Bank, Citigroup, Emirates NBD, Noor Bank
23	Emirate of Sharjah	UAE	Sukuk	Euro market public issue	500	1.3	Bank of Sharjah, HSBC, Barclays, Dubai Islamic Bank, Sharjah Islamic Bank, Commerzbank Group
23	Dubai Islamic Bank	UAE	Sukuk	Euro market public issue	500	1.3	Standard Chartered Bank, HSBC, Arab Banking, National Bank of Abu Dhabi, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD
23	Arab Petroleum Investments	Saudi Arabia	Sukuk	Euro market public issue	500	1.3	Saudi National Commercial Bank, Standard Chartered Bank, Goldman Sachs, First Gulf Bank, Emirates NBD, Noor Bank
28	Hilal Services	Saudi Arabia	Sukuk	Euro market private placement	500	1.3	Mizuho, Standard Chartered Bank, HSBC, Arab Banking, National Bank of Kuwait, First Gulf Bank, Dubai Islamic Bank, SG Corporate & Investment Banking, CIMB Group, Emirates NBD, Warba Bank, Noor Bank
29	Majid Al Futtaim Properties	UAE	Sukuk	Euro market public issue	499	1.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank
30	Ezdan Holding Group	Qatar	Sukuk	Euro market public issue	497	1.3	Mashreqbank, HSBC, Abu Dhabi Islamic Bank, Emirates NBD, Barwa Bank
	Total				**37,956**	**100**	

DEALOGIC LEAGUE TABLES

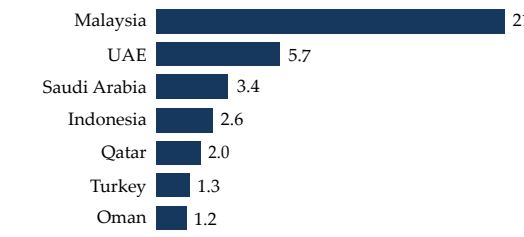
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	5,873	37	15.5
2	Maybank	5,193	34	13.7
3	RHB Capital	4,045	34	10.7
4	Standard Chartered Bank	3,644	22	9.6
5	HSBC	2,679	19	7.1
6	AmInvestment Bank	2,408	19	6.4
7	Emirates NBD	1,503	15	4.0
8	Dubai Islamic Bank	1,373	14	3.6
9	Deutsche Bank	1,037	4	2.7
10	National Bank of Abu Dhabi	975	7	2.6
11	Citigroup	816	4	2.2
12	JPMorgan	809	4	2.1
13	Bank Muscat	649	1	1.7
14	Noor Bank	606	9	1.6
15	Natixis	551	2	1.5
16	Kenanga Investment Bank	455	7	1.2
17	First Gulf Bank	383	5	1.0
18	Arab Banking Corporation	383	6	1.0
19	Affin Investment Bank	365	3	1.0
20	Hong Leong Financial Group	343	3	0.9
21	National Bank of Kuwait	311	3	0.8
22	Barwa Bank	260	3	0.7
23	DBS	255	4	0.7
24	Abu Dhabi Islamic Bank	243	3	0.6
25	Sharjah Islamic Bank	226	3	0.6
26	OCBC	224	6	0.6
27	Gulf International Bank	214	1	0.6
28	QInvest	204	3	0.5
29	Barclays	203	2	0.5
30	Mashreqbank	183	2	0.5
	Total	**37,956**	**127**	**100**

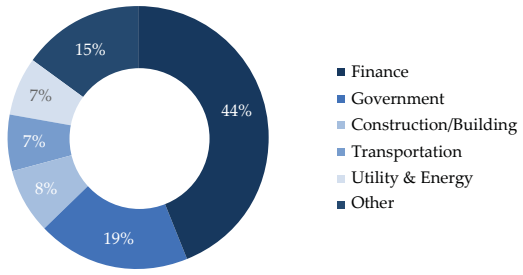
Sukuk Volume by Currency US$ (billion) *12 Months*



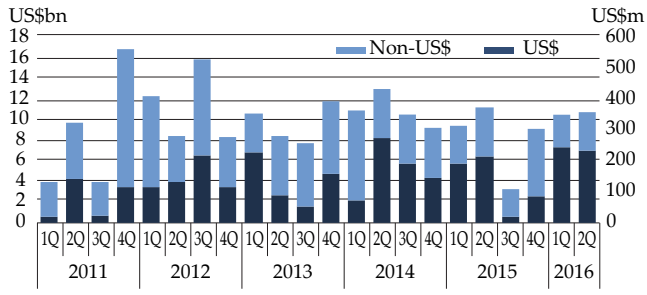
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	China Development Bank	821	2	10.7
2	Al Rajhi Capital	663	2	8.7
3	Banque Saudi Fransi	579	4	7.6
4	Alinma Bank	550	2	7.2
5	HSBC	497	3	6.5
5	Samba Capital & Investment Management	497	3	6.5
7	National Commercial Bank	491	3	6.4
8	Mitsubishi UFJ Financial Group	377	3	4.9
9	Aga Khan Fund for Economic Development	354	2	4.6
10	NATIXIS	314	2	4.1

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

	Legal Advisor	US$ (million)	No	%
1	Allen & Overy	2,447	2	20.3
2	Latham & Watkins	1,532	1	12.7
3	Baker & McKenzie	1,365	1	11.3
4	Adnan Sundra & Low	1,361	1	11.3
4	Zaid Ibrahim & Co	1,361	1	11.3
6	Norton Rose Fulbright	915	1	7.6
7	Clifford Chance	758	1	6.3
7	White & Case	758	1	6.3
9	Anjarwalla Collins & Haidermota	172	2	1.4
9	Haidermota & Co	172	2	1.4
9	Lincolns Law Chamber	172	2	1.4
9	Linklaters	172	2	1.4
9	Mohsin Tayebaly & Co	172	2	1.4

DEALOGIC LEAGUE TABLES

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	China Development Bank	621	1	4.6
2	Dubai Islamic Bank	619	9	4.6
3	Abu Dhabi Islamic Bank	606	5	4.5
4	Emirates NBD	576	7	4.3
5	Abu Dhabi Commercial Bank	568	6	4.2
6	Samba Capital	536	4	4.0
7	Noor Bank	532	8	3.9
8	SABB	495	3	3.7
8	Banque Saudi Fransi	495	3	3.7
10	Mashreqbank	491	6	3.6
11	Saudi National Commercial Bank	489	3	3.6
12	Al Rajhi Capital	366	2	2.7
13	Maybank	338	1	2.5
13	CIMB Group	338	1	2.5
15	Al Hilal Bank	307	3	2.3
16	AKFED	292	2	2.2
17	National Bank of Bahrain	287	2	2.1
17	Gulf International Bank	287	2	2.1
19	Alinma Bank	260	2	1.9
20	National Bank of Abu Dhabi	251	3	1.9
21	Standard Chartered Bank	249	3	1.8
22	Natixis	234	3	1.7
23	Riyad Bank	229	1	1.7
23	Bank Albilad	229	1	1.7
25	HSBC	219	3	1.6
26	Union National Bank	216	2	1.6
27	JPMorgan	206	1	1.5
28	First Gulf Bank	195	5	1.4
29	Sharjah Islamic Bank	179	3	1.3
30	Arab Banking Corporation	173	3	1.3

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

	Bookrunner	US$ (mln)	No	%
1	Abu Dhabi Islamic Bank	1,287	5	16.2
2	Mashreqbank	1,050	3	13.2
3	Abu Dhabi Commercial Bank	610	2	7.7
4	Noor Bank	586	4	7.4
5	Emirates NBD	474	3	6.0
6	Dubai Islamic Bank	388	3	4.9
7	Maybank	338	1	4.2
7	CIMB Group	338	1	4.2
9	Saudi National Commercial Bank	267	1	3.4
9	SABB	267	1	3.4

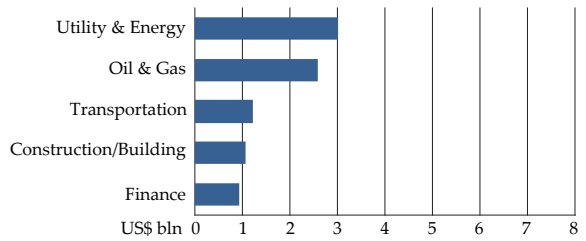
Top Islamic Finance Related Financing Deal List *12 Months*

Credit Date	Borrower	Nationality	US$ (mln)
15th Apr 2016	Yanbu Aramco Sinopec Refining	Saudi Arabia	4,700
27th Jun 2016	Rabigh Electricity	Saudi Arabia	2,686
8th Sep 2016	Aluminium Bahrain	Bahrain	1,500
9th Mar 2016	Dhuruma Electricity	Saudi Arabia	1,138
15th Jun 2016	PNB Jersey	Malaysia	889
21st Dec 2015	Engro Powergen	Pakistan	851
29th Aug 2016	Atlantis The Palm	UAE	850
11th Dec 2015	Cititower	Malaysia	751
29th Nov 2015	Gulf Marine Services	UAE	620
1st Mar 2016	National Oil & Gas Authority	Bahrain	570

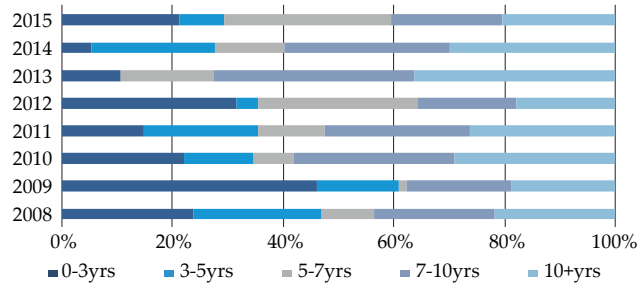
Top Islamic Finance Related Financing by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	UAE	4,219	15	31.2
2	Saudi Arabia	3,746	3	27.7
3	Pakistan	1,613	3	11.9
4	Bahrain	1,188	2	8.8
5	Malaysia	959	2	7.1
6	Jordan	550	2	4.1
7	Egypt	475	3	3.5
8	India	368	1	2.7
9	Turkey	204	2	1.5
10	Qatar	200	1	1.5

Top Islamic Finance Related Financing by Sector *12 Months*



Global Islamic Financing - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Shireen Farhana (Media Relations)
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28th	IFN Turkey Forum	Istanbul, Turkey
OCTOBER 2016		
12th	IFN US Forum	New York, US
17th – 18th	Africa Islamic Finance Forum	Abidjan, Ivory Coast
19th	REDmoney Seminars: Zakat & Waqf - Based Financial Products	Kuala Lumpur, Malaysia
24th	IFN Kuwait Forum	Kuwait City, Kuwait
27th	REDmoney Seminars:Shariah Requirement & Arrangement for Islamic Financial Product & Features	Kuala Lumpur, Malaysia
NOVEMBER 2016		
3rd	REDmoney Seminars: Islamic Financial Solutions for Corporates	Kuala Lumpur, Malaysia
23rd	IFN Sri Lanka Forum	Colombo, Sri Lanka
28th	IFN Saudi Arabia Forum	Jeddah, Saudi Arabia
FEBRUARY 2017		
TBA	IFN Iran Forum	Tehran, Iran
MARCH 2017		
TBA	IFN Oman Forum	Muscat, Oman
TBA	China OIC Forum	Beijing
APRIL 2017		
10th – 11th	IFN Asia Forum	Kuala Lumpur, Malaysia
MAY 2017		
18th	IFN Indonesia Forum	Jakarta, Indonesia
OCTOBER 2017		
24th – 25th	IFN Europe Forum	Chambre de Commerce, Luxembourg

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