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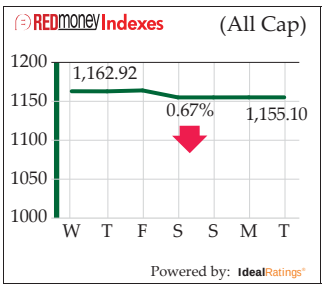


COVER STORY

18th January 2017 (*Volume 14 Issue 03*)

OIC trade finance in 2017: Where do we stand?

Trade finance is a golden opportunity for the Islamic industry — underpinned by sound credentials and supported by real economic transactions, it should be the perfect match. So why has intra-OIC trade fallen by 7.8% over the past year — and what role can Islamic finance play in putting trade flows back on the map for 2017?

The growth of the world economy is forecasted to drop to 3.1% in 2016, according to the latest figures from the IMF — before rebounding to 3.4% the following year. However, emerging markets will provide the lion's share of this growth — advanced economies are expected to see just 1.6% compared to 4.2% in the developing world.

"The growth of world trade remains low [not only] because of the decline in domestic demand and related investment but also [due] to the resurgence of protectionism, the withdrawal of global value chains, the risk of the drop in commodity prices and the appreciation of the US dollar," warned the Islamic Center for the Development of Trade (ICDT) in its November 2016 report on economic and commercial cooperation within the OIC to the Standing Committee for Economic and Commercial of the OIC (COMCEC).

At the same time, according to the latest available 2016 data from the World Trade Organization, the volume of world trade decreased by 13% in 2015 compared with 2014 — falling from US$38.1 trillion to US$33.2 trillion, mainly due to the high fluctuation of commodities prices and exchange rates, caused by the slowdown of the economic growth in China, the recession in Brazil, the sustained production of fuels in the US and the divergence in monetary policies of major economies.


Sami Al Qamzi

"The volatility of financial markets has also affected businesses and consumers' trust and has contributed to the decrease of global demand for certain durable goods particularly in Asia," added ICDT. Between June 2014 and December 2015, the prices of basic commodities declined by 63% due to the increase of the production of OPEC countries, while metals fell by 35%; and food products and agricultural raw materials by 22%. With the latest uncertainties caused by the recent US elections, a rising dollar, wildly fluctuating currencies across Asia and a bond outflow across emerging markets, the situation looks less than promising.

A steady improvement

Having said that, OIC trade still marks a bright spot on a gloomy horizon. Over the past decade the foreign trade of OIC member states has increased by 93% — from US$1.77 billion in 2005 to US$3.43 trillion in 2015. This is to a large part due to the tireless work from organizations such as the IDB, International Islamic Trade Finance Corporation (ITFC), the Islamic Corporation for the Development of the Private Sector and COMCEC in promoting and supporting intra and external OIC trade. For example, between February 2009 and December 2015, the Consultative Group for enhancing intra-OIC trade generated

continued on page 3

Volume 14 Issue 03

DEALS

Central Bank of Bahrain's Sukuk subscribed by 100%

International Islamic Liquidity Management Corporation auctions US$1.11 billion short-term Sukuk

Sabah Credit Corporation upsizes RM3.5 billion (US$781.99 million) Sukuk Musharakah program

Sunway Treasury Sukuk issues Islamic commercial papers

Africa Finance Corp to launch Sukuk by early February

Masraf Al Rayan mandates banks for a US$500 million Sukuk issuance

Saudi Arabia plans Sukuk sale as early as February to help finance budget deficit

Nogaholding engages banks for potential dollar Sukuk/bond sale

NEWS

IDB affirms support for the Republic of Niger's food security and energy and transport sectors

Amana Bank expands network with new branch in Demetagoda

ZICO Law extends reach to Brunei through new member firm

Philippine Stock Exchange announces updated list of Shariah compliant stocks; adds four new securities

Halal Industry Development Corporation targets Asia for Halal markets development in 2017

Securities Commission anticipates companies to raise between RM90 billion (US$20.11 billion) and RM105 billion (US$23.46 billion) in capital this year

Pakistan's subcommittee on taxation makes recommendations to facilitate Islamic finance; proposes tax exemptions for immovable property among others

Herbert Smith Freehills gains Qualified Foreign Law Firm license in Malaysia; to focus on Islamic finance transactions

Chartered Institute of Islamic Finance Professionals issues code of ethics and standards of professional conduct

National Transmission and Despatch Company secures Islamic-conventional combo financing for transmission line

International Center for Education in Islamic Finance to explore Islamic social finance opportunities with **International Federation of Red Cross and Red Crescent Societies**

ASSET MANAGEMENT

Awqaf and Minors Affairs Foundation spends 84% of total budget on Islamic affairs in 2016

Employees Provident Fund's Simpanan Shariah reaches over 59% in take-up rate; allocates RM50 billion (US$11.2 billion) as further injection for 2018

TAKAFUL

Capital Investment to advise **Malath Insurance and Reinsurance Cooperative Company** on capital raise

Solidarity Saudi Takaful Company requests **Capital Market Authority's** approval to cut capital

Orient UNB Takaful to list on **Dubai Financial Market** following successful IPO

Askrindo Syariah expects Ujrah income to hike by 37% this year

Agrobank launches Takaful coverage for persons with disabilities

RATINGS

Northport (Malaysia) receives 'MARC-1IS' and 'AA-IS' ratings on its Sukuk Musharakah programs

MARC withdraws ratings on **Tesco Stores (Malaysia)'s** conventional and Islamic medium-term notes programs

RAM assigns 'AA3/Stable' rating to **Cahya Mata Sarawak's** proposed Islamic medium-term note program

Alliance Islamic Bank receives 'A1/Stable/P1' ratings from **RAM**

Highway concessionaire **LEKAS** maintains 'C2/Stable' Sukuk rating

MARC withdraws 'AAA-IS(fg)/Stable' rating on **Symphony Life's** guaranteed Islamic medium-term note program

MOVES

Arab Bank welcomes new CFO

Mian Muhammad Nazir now CEO of **Dar Al Sharia** following retirement of Sohail Zubairi

Norashikin Mohd Kassim leaves **CIMB-Principal Islamic Asset Management;** chief investment officer appointed acting CEO

OIC trade finance in 2017: Where do we stand?

Continued from page 1

approximately 1,125 projects and activities, 75% of which were achieved in the fields of capacity-building, trade facilitation, trade promotion, trade financing and export credit insurance and guarantee and the development of strategic products. Between 2010-16, many Islamic countries have seen their trade growth exceed 10% — including the UAE, Malaysia, Turkey, Iran, Egypt, Brunei, Kuwait, Senegal, Sierra Leone, the Maldives, Burkina Faso, Algeria, Saudi Arabia, Lebanon, Morocco, Chad, Tajikistan, Indonesia and Cameroon. And according to data from the United Nations Conference on Trade and Development, other OIC nations achieved a maritime connectivity rate of over 25% between 2005-16: including the Maldives, Bahrain, Togo, Sudan, Bangladesh, Jordan, Benin, Somalia, Djibouti, Guinea, Turkey, Cameroon, Egypt, Sierra Leone, Morocco and Côte d'Ivoire. In fact, overall, the average maritime connectivity rate of OIC member states has improved by 18.6% over the last decade.

An Islamic opportunity

But despite these activities and projects, trade between OIC member states represented just 10.33% of world trade in 2015 — compared to 11.2% in 2014, the equivalent of a 7.8% decline over the past year.

Official Shariah compliant trade finance data is hard to come by; however, if the league of OIC world trade leaders is any indication of the utilization of Islamic facilities in cross-border commerce, it is encouraging to note that major Shariah finance markets top the list: the UAE (US$478.4 billion, or 14% of overall trade of OIC countries), followed by Saudi Arabia (US$379.2 billion; 11.1%), Malaysia (US$376.4 billion; 11%), Turkey (US$351 billion; 10.3%), Indonesia (US$293.1 billion, 8.6%) and Iran (US$153.3 billion, 4.5%).

In fact, the UAE is leveraging its trade prowess to reach its global Islamic economy ambitions: in October 2016, the Dubai Islamic Economy Development Center (DIEDC) revealed plans to launch a fully-fledged Islamic bank exclusively offering integrated trade and international commodity financing solutions — believed to be the first of its kind worldwide. Already in advanced discussions with the Central Bank of the UAE with regards to securing provisional approval for a Shariah compliant wholesale banking license, DIEDC is branding the new outfit as Emirates Trade Bank and positioning it as an integral component toward doubling UAE trade flows (which stood at an estimated AED1.4 trillion (US$381.06 billion) in 2014) by 2020.

Table 1: ITFC trade approvals by region (in US$ million)

Region	2014	%	2015	%
Asia/CIS	2,464	47	3,229	53
MENA	2,291	44	2,228	37
Sub-Saharan Africa	448	9	590	10
Total	5,204	100	6,047	100

Source: ITFC 2015 Annual Report

> ***"Despite weak global economic conditions, member states tend to ramp up their intra-OIC trade driven by bilateral and regional agreements"***

"The UAE in general and Dubai in particular are privileged to have a diversified, open and flexible economy capable of addressing international and regional challenges. Emirates Trade Bank is set to reap synergies from the strategic positioning and advanced technical and logistics infrastructure of Dubai, in its efforts to finance international trade and commodity flows, particularly through the UAE," explained Sami Al Qamzi, the director-general of Dubai Department of Economic Development and vice-chairman of the DIEDC, when the bank was announced.

Notwithstanding that trade volume of OIC nations may have declined due to the volatility of commodity prices (by at least US$50 billion over 2014-15, according to latest figures by COMCEC), it is worth noting that the ITFC recorded one of its best years ever in 2015 in terms of trade financing approvals, increasing them by 16% year-on-year to US$6.05 billion. The ITFC also revved up its support for the Asia-CIS region and MENA countries as well as expanded its geographical footprint in Africa and South America.

The ITFC has not slowed down either: In 2016, the IDB unit has been actively forging new partnerships to enhance trade among member countries, this includes alliances with Eastern and Southern African Trade and Development Bank as well Saudi's Catalyst Group among others; and it is expected for the ITFC to continue actively promoting, encouraging and utilizing Islamic financial instruments for cross-border trade purposes.

Where now?

Fluctuating commodity prices and currency exchange rates are still a concern in 2017; after all, these elements factor into the economies of OIC nations during international commercial transactions as well as on foreign direct investments' intra-zone flows. However, history shows that despite weak global economic conditions, member states tend to ramp up their intra-OIC trade driven by bilateral and regional agreements as well as the similarity of consumption patterns, complementarity and regional efforts in promoting trade and trade financing. In the decade leading to 2015, intra-OIC trade accounted for a larger share in the total trade of member states, from 15.5% in 2005 to 20.33% in 2015 — an increase of 31.5%.

New opportunities

As such, new opportunities are abound. Egypt, for example, is very keen to

continued on page 4

OIC trade finance in 2017: Where do we stand?

Continued from page 3

> ***The UAE in general and Dubai in particular are privileged to have a diversified, open and flexible economy capable of addressing international and regional challenges***

collaborate with the ITFC to prepare a strategy to develop its export sector. Iraq's Ministry of Electricity will secure a US$366 million trade finance deal to fund power and infrastructure projects in the country by the end of 2016. Standard Chartered is leading the financing. Motasim Iqbal, the head of transaction banking for the MENA region at Standard Chartered, confirmed a financing MoU signed between General Electric, Trade Bank of Iraq and Standard Chartered to fund power and infrastructure projects in Iraq.

In Africa, the African Export-Import Bank is putting together a Fund for Africa Export Development — a combination of both debt and equity options — to assist African nations better navigate regional economic shocks. The African region is another lucrative trade finance pool due to the fact that there is huge unmet demand for, and a gap in, trade financing: African Development Bank in 2014 posited that US$120 billion in bank trade financing requests were rejected, about one-third of the US$350 billion extended by commercial banks for trade deals in 2012.

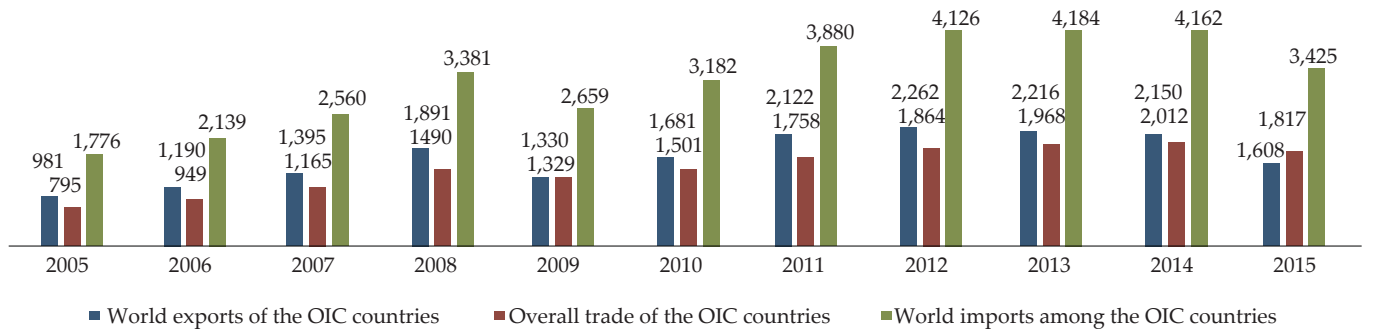
Trade finance funds

And this risk averseness displayed by African banks also extends to other regions including Asia, where banks — already constrained by their limited financing options — are shedding trade finance risks from their balance sheet. This chasm in return translates into opportunities for trade finance funds which are able to fill a vital niche in the higher-risk end of trade finance usually avoided by banks.

Already we are seeing players filling this gap — both Islamic and conventional. Last month, Bahrain-based Ibdar Bank rolled out the Barak Ibdar Shariah Trade Finance Fund, a parallel fund of its successful Barak Trade Finance Fund. Acting CEO Ahmed Al Rayes shared that the fund was in response to clients' request for a high-yielding liquid investment product (the Barak Trade Finance Fund had a straight seven-year positive record with a 168% total return and an average of a 13% return to investors annually). Assets under management of the global trade finance industry is anticipated to double in size in five years to US$20 billion, estimated New York-based Octagon Asset Management.

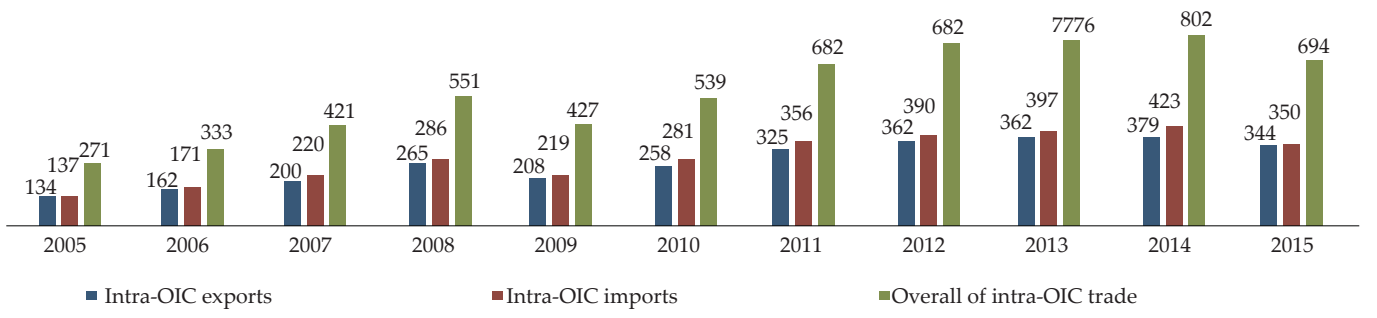
continued on page 5

Chart 1: Evolution of world trade of the OIC member states (in billion US$ between 2005 and 2015)



Source: Annual Report on Intra-OIC Trade, The Islamic Center for the Development of Trade, November 2016

Chart 2: Evolution of the intra-OIC trade between 2005 and 2015



Source: Annual Report on Intra-OIC Trade, The Islamic Center for the Development of Trade, November 2016

OIC trade finance in 2017: Where do we stand?

Continued from page 4

More work needs to be done

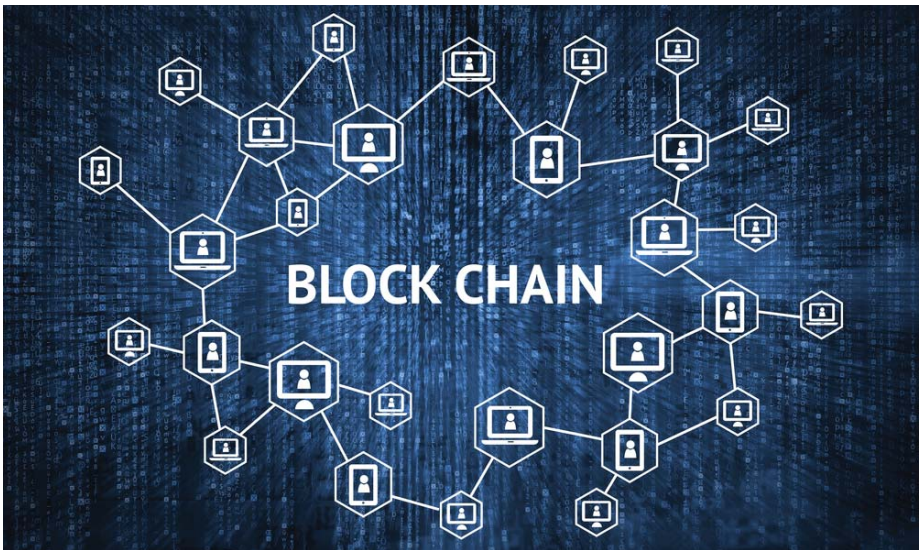
Yet, despite massive potential and positive developments in some quarters, the trade finance landscape is still dominated by conventional actors — the Shariah compliant trade finance instrument stable is still very limited although several market participants remain optimistic the attractive trading margins and returns characterized by this asset class would lead to further product development to meet growing investor demand for Shariah compliant products.

> ***"This chasm in return translates into opportunities for trade finance funds which are able to fill a vital niche in the higher-risk end of trade finance usually avoided by banks"***

It goes without saying that continuous action and support is needed to not only ensure the growth momentum is sustained but also increased. Concerted efforts at the governmental level is imperative as evidenced by the 156% surge in trade volume to US$694.23 billion in 2015 among OIC member states since the implementation of the OIC 10-Year Program of Action. Country leaders need to focus on capacity-building and being more involved in the international trade community by participating in fairs, particularly those organized by the IDB and the ICDT. These need to be complemented by an optimization in foreign trade and intra-OIC investment procedures in order to boost trade among member states as well as an expansion and diversification of exportable supply.

Blockchain: Linking Generation M to Islamic finance

'Islamic fintech' is perhaps the catchphrase of the industry at the moment although individuals driving the development of the segment such as Rachid Ouaich, the founder and managing director of EETHIQ Advisors, would tell you that there isn't such a thing as Islamic fintech — only fintech for Islamic finance. This week, VINEETA TAN catches up with Rachid to discuss one of the latest (and perhaps most exciting) developments in blockchain technology for Islamic finance and how it'll impact the Shariah finance landscape.



Bitcoin — magical, radical or phenomenal — the cryptocurrency based on blockchain shrouded both in mystery and controversy, captured the imagination of Ouaich. "As soon as we started to understand the technology, we directly made the link with Islamic finance," enthuses Rachid.

This link was almost natural. To many, Islamic finance too can be mysterious and controversial due to the inherent complexities of Shariah compliant products. "People don't really know what their money is used for and they don't have the feeling of investing in real assets," Rachid explained. Blockchain can circumvent that. As the data management technology is capable of removing the intermediary (think banks, stock exchanges) between investors and the invested assets, blockchain provides investors the transparency, accountability and efficiency investors are seeking. One particular market segment EETHIQ thinks demands such services is Generation M, the young Muslim millennials.

Major global banks — from HSBC to Societe Generale — are taking up the blockchain cause, believing that the technology holds the key to faster and cheaper services: in fact, IBM in 2016 predicted that 15% of banks worldwide will have adopted blockchain this year; the figure more than quadruples to 66% by 2020. Yet, dishearteningly (but not very surprisingly), not one fully-fledged Islamic bank is known to be implementing, or experimenting in a meaningful way, this technology.

"We looked around to find out if there were any institutions in the world trying to use blockchain for Islamic finance and we haven't found any — so we thought, let's do something," shares Rachid. The result is a four-year joint research program on blockchain technology and smart contracts for ethical and Islamic finance by EETHIQ and its French partner 570 Asset Management in partnership with the University of Luxembourg. The university has formed a team of four comprising two senior researchers, one computer scientist and a PhD candidate to explore how best to use blockchain to leverage the growth of Islamic financial institutions.

> ***"Fintech, even in the conventional world, has not invented a new way of doing finance — they've only found ways to make the same finance cheaper, faster and more efficient and we believe the same logic can apply to Islamic finance"***

"Fundamentally, the technology is exactly the same but the difference lies in how the technology is used, and in this case, for Islamic finance — that's the beauty of it because you can take successful fintech in the conventional world and very easily adapt it to Islamic finance," says Rachid. "Fintech, even in the conventional world, has not invented a new way of doing finance — they've only found ways to make the same finance cheaper, faster and more efficient and we believe the same logic can apply to Islamic finance and benefit both consumers and institutions."

Of course, blockchain which has been around since 2008 is nothing new; however, the technology is not yet perfect. For example, at its current state, blockchain can only handle a limited volume of transactions. Rachid, however, remains optimistic noting that a number of blockchain service providers are coming up with solutions to accommodate a higher volume of transactions.

The best part about this blockchain research program is that it will be based on an open innovation paradigm, allowing any financial institution in the world interested in blockchain for Islamic finance to join. "The whole world is moving to blockchain — the question is whether Islamic financial institutions would be first movers or latecomers," Rachid adds.

Turkey's Islamic banking outlook remains upbeat despite tough operating environment

Turkey's ambition to position itself as a hub for Islamic finance continues unabated despite the challenging economic and political environment that the country is undergoing. With 2017 bringing its own set of challenges to the financial markets around the world, Turkey's Islamic banking continues on its growth trajectory with a long-term view of increasing its depth and reach in the Shariah compliant finance sector. DANIAL IDRAKI writes.

In a recent report by Fitch Ratings, it is noted that Islamic banking in Turkey is viewed as being able to offer reasonable medium-term growth prospects despite the muted growth in recent months, as the government continues on its course to increase the market share of Islamic banks' total sector assets to 15% by 2025, from 4.7% at the end of the nine months in 2016 (9M16).

> ***"We anticipate participation banks to utilize its branch network, which has a total of 1,126 branches compared to 10,985 for conventional banks, more efficiently to increase its share in the banking system in terms of asset size to 10% in the coming years"***

"Downside risks to asset quality remain, given high SME and foreign currency [financing] (including foreign currency-indexed loans) on Islamic banks' balance sheets, and increases in watchlist and restructured loans. Islamic banks' non-performing loans (NPLs)/gross loans ratio stood at 4% at the end of 9M16, above the sector average of 3.3%, although this was partly driven by a fall in [financing] at second-largest participation bank Turkiye Finans Katilim Bankasi in 9M16," Fitch noted.

Additionally, Fitch views that an average equity/assets ratio of 9.5% at the end of 9M16 for the Islamic banks will only be able to provide a moderate buffer to absorb unexpected losses. "This is because of significant asset quality risks, the possibility of further lira depreciation, pressure on internal capital generation from the challenging operating environment and moderate unreserved NPLs relative to equity," the rating agency affirmed.

While the report noted some of the obstacles that Islamic banks in Turkey went through last year with regards to the NPLs/gross loans ratio as well as the overall challenging macroeconomic conditions, Ahmed Tacer, a director at QInvest, believes that 2017 offers much hope for the Shariah compliant finance sector to outpace its conventional peers.

"The entrance of two state-owned participation banks, Ziraat Katilim and Vakif Katilim, brought some momentum to the sector in terms of expansion of the client base and its overall growth. The sector achieved a compounded annual growth rate of more than 20% in the last 10 years and it is expected to outpace the growth of conventional banks in 2017, thanks to a lower loan to deposit ratio to enable further [financing] activity," Ahmed told IFN exclusively.

Ahmed added that the favorable tax legislation that was enacted in August 2016 to provide tax neutrality to all types of Sukuk structures will also facilitate more capital market activity by participation (Islamic) banks and their clients in 2017.

"The government's continued support to promote participation banking will attract more and more corporate and individual clients to establish relationships with participation banks. Hence, we anticipate participation banks to utilize its branch network, which has a total of 1,126 branches compared to 10,985 for conventional banks, more efficiently to increase its share in the banking system in terms of asset size to 10% in the coming years," Ahmed affirmed.

Last year, the Turkish government raised US$1 billion from a sovereign Sukuk issuance after an 18-month absence from the Islamic financial market, while a number of corporations also stepped up their activities with Islamic debt papers. In 2017, Ahmed expects more Sukuk issuance from sovereigns, participation banks and corporations to outperform 2016 in terms of both size and frequency.

Making Islamic finance mandatory for the Halal industry: Is it feasible?

As Malaysia's Halal industry reaches its targets for 2016, the nation's Halal Industry Development Corporation (HDC) eyes bigger achievements with a steadier international presence this year. But will these bring a promising future for mandatory Shariah compliant finance requirements for Halal-certified services and products? DURGAHYENI MOHGANA SELVAM explores.

In its 10th anniversary editorial briefing, HDC unveiled a bright forecast for the country as it continues to spearhead the industry development with a target to contribute 8.7% of the country's total GDP by 2020. Though it was an economically unrelenting testing period for the nation and the world, the Halal market of the Southeast Asian country braced ahead to meet its targets and goals for the year. In 2016, the Halal industry contributed 7.5% of the total GDP, with its exports valued at RM36.3 billion (US$8.13 billion).

> ***"As Malaysia's Halal industry development model is being employed by other nations, compulsory compliance legislation could bring a huge gap in practice, especially in countries that lack Islamic finance resources and funds"***

However, more pertinent to us is what does HDC have in store for the Islamic finance industry, domestic and global alike? Jamil Bidin, CEO of HDC, previously revealed to IFN that Malaysia

was considering making it mandatory for the Halal industry to only use Shariah compliant finance; but Jamil now explains that it is easier said than done.

Jabatan Kemajuan Islam Malaysia (JAKIM), which is responsible for Islamic-related certifications in Malaysia, unfortunately does not take into account the nature of the transactions involved in building a Halal business. In other words, a product could be built using conventional banking and finance, and still be certified Halal.

There are reasons for this, according to Jamil. Malaysia's Halal industry, developed to the extent of advising and aiding other countries' markets, does not have mandatory Shariah financial compliance for its products and businesses. Jamil opines that Malaysia's Islamic finance industry is well established in the global arena. As Malaysia's Halal industry development model is being employed by other nations, compulsory compliance legislation could bring a huge gap in practice, especially in countries that lack Islamic finance resources and funds.

Many developing nations, such as Cambodia which is still lagging behind in Islamic finance, are slowly tapping into the Halal market, with the assistance of Malaysia. If Islamic finance is made a mandatory requirement for Halal development, countries that are not ready for a lasting commitment may not be able to follow, he said. Even in Malaysia, for a Halal organization to be able to tap into Islamic finance, it first needs to be well equipped and adequately resourced. If these are not achieved and mandatory compliance is employed, it would cause a fallback in both industries.

But all is not lost. With about three years left toward realizing Malaysia's Vision 2020, HDC introduced the Halal Malaysia Program with six pillars: policy and legislation; international footprint; Halal enterprise development; Bumiputera development; brand and promotion; and human capital development. On the international front, HDC is targeting Japan, China and ASEAN, particularly Indonesia and Cambodia. Japan is one of the major players in the Malaysian Halal investments market especially in the Halal ingredients industry. HDC plans to generate US$10.3 billion from the East Asian country, particularly through Olympics 2020. Japan, on the other hand, is currently seeking Malaysia's assistance in Halal management and Islamic finance. Work is underway to have all relevant parties such as HDC and Bank Negara Malaysia among others to come together to be able to assist Japan, Jamil said.

If this collaboration is successful, will it pave the way for compulsory compliance to become a reality? A universal mandatory Shariah compliant financial standard for the Halal market can only be achieved if all the participating nations and parties are able and ready, Jamil stated. For this reason, a feasible bridge between the Halal industry and Islamic finance is far along the road.

Astana seeks cross-border collaboration to boost Islamic finance capabilities

Kazakhstan is moving closer toward integrating Islamic finance into its wider economy after the Astana International Financial Center (AIFC) signed an MoU with the Dubai Islamic Economy Development Center (DIEDC) to exchange expertise in the field of Islamic economy and finance, the Halal industry and human capital development. DANIAL IDRAKI reports.

The cross-border collaboration between the two entities aims to bring about financial stability and sustainable growth in vital sectors as well as assist in diversifying Kazakhstan's sources of income, and the Central Asian nation will benefit from the experience of Dubai and the UAE in developing an integrated Islamic economy strategy and implementing Shariah compliant financial mechanisms. Both parties will exchange knowledge and information relating to the Islamic economy and provide documentation as part of shared know-how on Islamic finance transactions, as Kazakhstan — one of the most sophisticated Islamic financial markets in the CIS region — gears up toward creating a more stable and sustainable economy.

Sultan Saeed Al Mansouri, the minister of economy and chairman of the DIEDC, noted in a statement that the MoU demonstrates its commitment to supporting the AIFC in encouraging investors to adopt responsible investment mechanisms that mitigate financial risks and boost social development. He also reiterated that the Islamic finance sector has the potential to achieve tangible growth in line with global efforts to realize the development goals of the third millennium, and pointed to the keenness of Islamic and non-Islamic economy stakeholders to contribute to eradicating poverty, unemployment and diseases. "As part of this priority, we need to observe the principle of solidarity, justice and equality in the distribution of assets. Furthermore, public and private entities alike must enhance governance practices and adopt corporate social responsibility," he added.

The governor of the AIFC, Kairat Kelimbetov, said that Islamic finance, along with the wider Islamic economy, is increasingly becoming an important contributor to the global economy, and that the UAE and Dubai have become role models in the implementation and regulatory frameworks for Shariah compliant industries. "[The] AIFC attaches great importance to the principles of Islamic finance that have proven efficient in protecting local economies in turbulent times, [and] this MoU is in line with the Kazakhstan 2050 Strategy and the steps we have taken to enhance our country's economic diversification efforts toward building a sustainable, competitive and smart economy and to attract investments that will shape Kazakhstan into one of the 30 most developed nations in the world," Kelimbetov noted.

Kelimbetov further added that the country harbors an ambition to become a pioneer in sectors that are able to comply with the rules and ethics of the Islamic economy, such as commerce, industrial development, finance, education, health, tourism and food production.

Kazakhstan's drive in these sectors is well reflected in the MoU with the DIEDC, which will see the Dubai-based organization assist the country in setting up the Kazakh Halal Accreditation Body in collaboration with its strategic partners, and the new organization will eventually join the International Halal Accreditation Forum, as the country steps up its commitment to the Halal ecosystem and certification. "The country's endeavor complements our efforts to promote the Halal industries and increase standards across the board toward facilitating trade exchange and achieving food security at a global level," Sultan affirmed.

The AIFC have in recent times increased its collaboration momentum with Islamic financial institutions around the world, as exemplified by the MoU it penned with the Islamic Corporation for the Development of the Private Sector in October 2016, to explore private sector collaboration in the Islamic financial services industry. Prior to that, the AIFC had also signed an MoU with Qatar Financial Center in September 2016, which provides for the exchange of experience and information on the regulation of markets for Islamic finance.

Jury's still out on Malaysia's Islamic fund and wealth management ambition

Securities Commission Malaysia (SC) has launched what is touted as the world's first national blueprint for Islamic fund and wealth management — an area the regulator has identified as the next key driver to develop its RM1.7 trillion (US$379.82 billion) Shariah capital markets. VINEETA TAN explores what this new plan means.

Islamic banking and Sukuk may be Malaysia's forte but the Shariah finance powerhouse is not resting on its laurels, especially amid stiff competition from the likes of Jakarta, Dubai and London in the Islamic finance universe; the country is now focusing on expanding and deepening its Islamic fund and wealth management sector — a relatively nascent segment both locally and globally.

> ***"The blueprint will be operationalized through several work programs on a phased approach over a five-year period"***

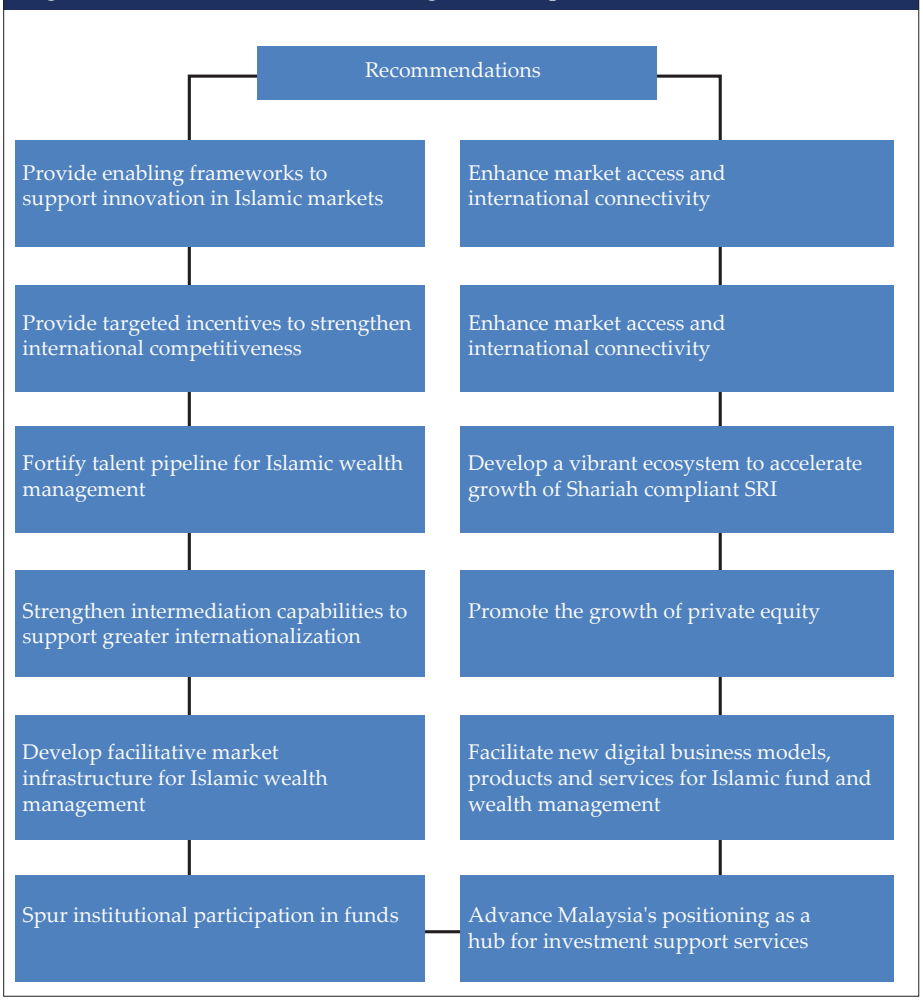
The Southeast Asian nation is second only to Saudi Arabia as far as Islamic assets under management (AUM) are concerned and boasts one of the most sophisticated and comprehensive regulations internationally; however, the Shariah fund and wealth management industry is still characterized by its small size and lack of product diversity. Malaysia for example, holds RM150 billion (US$33.51 billion) in AUM in November 2016, approximately one-fifth of the total domestic industry and only a drop in the ocean in the global landscape.

Over a year in the works, the Islamic Fund and Wealth Management Blueprint builds upon three main pillars: internationalization or connectivity, sustainable and responsible investment (SRI), and intermediation. Broad in its approach, the blueprint may not meet the expectations of certain market participants who were looking forward to more concrete and specific measures to enhance the sector. The general approach, however, according to Zainal Izlan Zainal Abidin, the managing director of development and Islamic markets at the SC, was intentional in order to afford flexibility to the regulator to mobilize effective strategies amid a constantly changing market environment.

"The blueprint will be operationalized through several work programs on a phased approach over a five-year period. For the initial stage of implementation, the work programs that have been identified include the formulation of a framework for issuance of SRI investment funds, the setting up of a global capacity building centre for Islamic capital market and the introduction of a digital investment services framework," confirmed Ranjit Ajit Singh, the chairman of the SC.

With plans to review existing incentives, facilitate new digital business models, establish cross-border links and expand existing frameworks as well as create new ones, the jury is still out on the effectiveness of the measures to come. But if any country were to be successful in positioning itself as a global center for the professional management of Shariah wealth and funds, it would likely be Malaysia, bolstered by its established advanced Islamic capital markets and strong political will for Islamic finance.

Diagram 1: Islamic Fund and Wealth Management Blueprint recommendations



Sovereign Sukuk: Middle Eastern power

It has been a relatively quiet period over the past week in the sovereign Sukuk market, save for Saudi Arabia's planned Sukuk issuance in the first quarter of 2017 and Bahrain's monthly Ijarah and Salam issuances. As the markets prepare themselves to embrace the challenges of the new year, DANIAL IDRAKI brings you the latest developments across the sovereign Sukuk market.

Saudi Arabia

Saudi Arabia is planning a Sukuk sale that could happen as early as February to plug its budget deficit, the Financial Times reported. The Islamic debt issuance will form part of a pipeline of bond sales as the Kingdom invests in economic diversification away from oil and it is likely to appeal to regional investors in the Gulf. However, the size of the Sukuk issuance is as yet unknown.

Bahrain

The Central Bank of Bahrain (CBB)'s BHD26 million (US$68.34 million) monthly Sukuk Ijarah issue has been subscribed by 100%, according to a press release. The expected return of the issue, which matures on the 13th July 2017, is 2.3% compared to 2.25% for the previous issue on the 15th December 2016.

Furthermore, the monthly issue of the CBB's Sukuk Salam Islamic securities worth BHD43 million (US$113.98 million) was also fully subscribed recently. The issue carries a maturity of 91 days and is expected to mature on the 19th April 2017 with an expected return of 2.16%. This is the 189th issue of the short-term Sukuk Salam series.

Upcoming sovereign Sukuk

Country	Amount	Expected date
Saudi Arabia	TBA	First quarter 2017
Morocco	TBA	First half 2017
Bahrain	TBA	First quarter 2017
Oman	US$2 billion	TBA
Iran	IRR60 trillion	2017
Nigeria	TBA	First quarter 2017
Egypt	TBA	2017
Kazakhstan	TBA	2017
Kenya	TBA	2017
South Africa	TBA	2017
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	TBA
Maldives	TBA	TBA
Sri Lanka	US$1 billion	TBA
Germany	US$1 billion	TBA

Malaysia

Over in Malaysia, the Sabah Credit Corporation (SCC), a statutory body fully owned by the Sabah state government, launched its upsized RM3.5 billion (US$781.99 million) Sukuk Musharakah recently. The Sukuk Musharakah program was upsized from RM1.5 billion (US$335.14 million) two years ago to its present size and the SCC's CEO, Vincent Pung, noted that the upsizing exercise would be a source of funding for the SCC to cater to the next few years of growth.

Saudi equities may be the key to yields among emerging markets

As financial markets around the world continue to remain on its toes with continuous uncertainties surrounding the global macroeconomic landscape and a long road to recovery in oil prices, equities in Saudi Arabia may just become diamonds in the rough for Emirates NBD Asset Management, as global asset managers scramble in search of yields. DANIAL IDRAKI writes.

The Dubai-based asset management firm, which also operates an Islamic window, has identified Saudi equities as an area of strategic focus and is targeting medium to long-term capital growth in the Saudi market via its MENA funds.

Recent developments in the Kingdom to reduce its dependence on the energy sector has opened up opportunities for potential growth in other areas, and Emirates NBD Asset Management is wasting no time in positioning itself for the takeoff.

"The potential for investment in Saudi Arabia over the coming years is huge. Government initiatives and its Vision 2030, in particular, indicate a clear appetite for foreign investment and an effort to diversify the economy: in itself an opportunity for Emirates NBD Asset Management and our partners.

An upgrade to the MSCI Emerging Market Index is a clear goal of the stock market regulator, which would instantly boost Saudi Arabia's potential. This combined with the stabilization — or possible increase — in oil prices from 2017 onwards, all contribute to a sense of optimism and improved investor confidence," Yong Wei Lee, the head of equities at Emirates NBD Asset Management, noted in a statement.

Saudi Arabia, one of the largest Islamic financial markets globally, undertook liberalization measures in the middle of last year to ease foreign capital investment flows into the country, which has been hit hard by weak oil prices and an overdependence on the volatile oil and gas sector. The Capital Market Authority (CMA) has relaxed foreign ownership and investment rules for non-domestic qualified financial institutions (QFIs) and these reforms include widening the type of qualified investors to include sovereign wealth funds and university endowments among others, slashing down the required assets under management size for QFIs, removing investment limits of QFIs in the Saudi equity market, lowering investment limitation and raising the ceiling foreign holdings in local companies.

The CMA at the IFN Saudi Arabia Forum last November revealed that it was working on four new regulations to facilitate the Saudi capital markets including listing rules for the secondary market, guidelines on corporate governance, regulation on special purpose entities and a revised set of rules on mergers and acquisition. Above that, the regulator has also enacted a process to review and revamp all of its regulations.

Saudi Arabia currently ranks as the 22nd largest stock market globally by capitalization — similar to other large emerging markets — and the potential inclusion in the MSCI Emerging Market Index could further boost its financial ambitions. "The Saudi QFI program is already implemented and a potential upgrade could occur by mid-2017/18. When the UAE and Qatar were upgraded to the index, these markets appreciated by over 50% 18 months prior to the upgrade, suggesting attractive returns for Saudi Arabia when it enters the index, potentially starting with a 2% weighting," Yong added. Saudi Arabia is currently part of the MSCI Standalone Market Indices.

Tariq Hendi, CEO of Emirates NBD Asset Management, explained that the focus on Saudi Arabia is also part of the firm's expansion of its global offering, particularly across emerging markets. "These markets offer institutions many opportunities for strong risk-adjusted returns, as has been evident through our historical exposure to the Saudi Arabian market," he affirmed.

Saudi Arabia's Tadawul All Share Index closed 9.15 points or 0.13% higher at 6,930.92 in the second week of January, with as much as SAR3.27 billion (US$870.91 million) traded on the bourse. Apart from the Kingdom, Emirates NBD is also targeting other emerging market opportunities, including the UAE and India. As far as Islamic finance markets are concerned, Malaysia, Indonesia, Turkey, Qatar, South Africa and Egypt also make up MSCI's Emerging Markets Index.

UK & Ireland: Leaders of the west

VINEETA TAN brings you an overview of the Shariah finance landscape of the UK and Ireland over the last 12 months.

Regulatory landscape

Economic substance and legal form over Shariah compliance — that is the stance taken by the UK government in its approach to Islamic financial transactions. While there is no special regulatory framework for Islamic banking and Takaful in the UK, however, Shariah compliant mortgages are exempted from double taxation. The abolition of the double Stamp Duty Land Tax on Islamic home financing in 2003 boosted the UK Islamic retail market, and from then on, regular changes were made to the Finance Act to benefit alternative finance (not Islamic finance specifically). In 2007, diminishing Musharakah mortgages were regulated under the ambit of Home Purchase Plans with the same levels of consumer protection as conventional mortgages.

However, 2016 saw certain changes in how Islamic financial transactions were carried out as a result of the UK's decision to divorce itself from the EU in 2016 and new banking regulations such as the Bank Recovery and Resolution Directive (See Cover Story Vol 13 Issue 5: 'BRRD — bad news for Europe?').

The Irish's legal landscape may not be as sophisticated as its UK counterpart with regards to Shariah compliant finance; however, the government continues to build on the momentum created in the Finance Act 2010 to support and provide a level-playing tax field for Islamic finance. In 2015, the International Financial Services Strategy (IFS 2020), which Shariah finance is a part of, was launched as part of the finance ministry's drive to elevate its position as an international financial sector.

Banking and finance

The UK is home to at least 20 international banks offering Shariah compliant financial products although none of the banks in Ireland do. There are six fully-fledged Islamic banks in the UK: Al Rayan Bank (formerly IBB/Islamic Bank of Britain, established in 2004), Rosette Merchant Bank (founded 2003), Rasmala (formerly European Islamic Investment Bank-Rasmala, established in 2005), Bank of London and The Middle East (BLME, established in 2007), QIB-UK (2008) and Gatehouse Bank (2008); Abu Dhabi Islamic Bank also has an office in the UK, established in 2013. The Islamic banks are mostly involved in real estate transactions.

Table 1: Latest financial performance of UK Islamic banks (in GBP)

Bank	Net profit (2015 vs 2014)	Total assets (2015 vs 2014)
Al Rayan	10.27 million vs 1.22 million	1 billion vs 647.97 million
BLME	(6.85 million) vs 973,000	241.93 million vs 241.86 million
Gatehouse	(844,540) vs 4.08 million	281.77 million vs 263.54 million
Rasmala	0.25 million vs 0.6 million	US$1.07 billion vs US$1.11 billion

Source: Respective banks' 2015 financial reports

Apart from political shifts in the UK and the wider region over the past year, 2016 was also a period of major talent reshuffling in UK Islamic banks, particularly in BLME and Al Rayan. As expected, a change in management also introduced new directions. The latest financial results available show a mixed bag for these financial institutions with Al Rayan and Rasmala turning a profit in 2015 with Gatehouse and BLME incurring losses (See Table 1). 2016 was also a particularly good year for Al Rayan which not only hit the GBP1 billion (US$1.22 billion) assets threshold (end of 2015) but also expanded its operations to Scotland.

UK Shariah banks continue to face pressures in meeting the liquid asset buffer requirements as outlined by Basel III, which made the consultation paper issued by the Bank of England in February 2016 on establishing Islamic liquidity instruments most welcomed; the instruments, which were supposed to launch at the end of 2016 however, have yet to materialize.

Islamic capital markets

What Ireland lacks in Islamic banking prowess, it makes up in its Shariah capital market strength. The island is one of the top Sukuk-listing destinations globally — in 2016 alone, it attracted at least five Sukuk issuances. It is also a popular domicile of Islamic funds — CIMB-Principal Islamic, for example, announced in 2016 that it would launch its global Sukuk fund in Dublin.

The London Stock Exchange (LSE) is also a favored Sukuk-listing destination — it has 25 Sukuk listed, five of which listed in 2016. The LSE also houses seven Islamic exchange-traded funds.

Out of the two countries, the UK is the only one which issued a sovereign Sukuk facility — becoming the first western country to do so. The GBP200 million (US$243.58 million) Sukuk Ijarah facility issued in 2014 was heavily oversubscribed, receiving orders of approximately GBP2.6 billion (US$3.17 billion). The landmark issuance was followed by another groundbreaking deal in March 2015: a UK Export Finance-backed Sukuk issuance for Emirates Airline — the world's first export credit agency-guaranteed Sukuk (See Case Study Vol 12 Issue 15: 'World's first export credit agency-guaranteed Sukuk: Emirates Airline'). Another transaction concluded in 2015 worthy of mention is the Shariah compliant secured helicopter pre-delivery payment funding by Libra Group's LCI, the world's first.

Takaful

Cobalt Underwriting remains the UK's sole Takaful and re-Takaful operator (it is the coverholder of Lloyd's). While Islamic insurance is still a small segment, it is growing albeit gradually. In 2016, Cobalt Insurance Holdings and Capital Managing Agency secured in-principle approval from Lloyd's Franchise Board to launch Lloyd's first fully Shariah compliant syndicate, and are working toward a full approval — the syndicate could be launched as early as in the first quarter of 2017. This follows the inclusion of Bermuda-based Armour Group Holdings as the Shariah underwriting agency's new investor in January 2016.

Islamic pensions — an alternative retirement plan with long-term potential

Shariah compliant pensions can simply be defined as long-term investments specifically allocated for retirement purposes with complementary benefits such as tax relief on contributions. The Islamic pension sector is currently viewed as a market segment that is lagging behind due to the lack of demand and understanding, but nonetheless an area that bears significant potential. Acknowledging the necessity and prospects of this growing field, DANIAL IDRAKI analyzes the developments and challenges encountered in Shariah compliant pensions.

Long-standing battle

Pensions have had a hard time securing a standing in the Islamic finance sector. Industry observers have attributed this to a limited product range, lack of diversification and low levels of public awareness. One way to encourage and stimulate a healthy pension cycle is to set up a regulation-based pension scheme to jump-start the segment. With the exception of Malaysia, Pakistan and Turkey, other Islamic finance markets still have much to do in developing their respective Islamic pension funds.

Asia

Malaysia retains its position as one of the leading Islamic financial markets in the world, with a multitude of developments in the pension fund 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.

One of the biggest developments in the Islamic pension arena goes to Malaysia's Employees Provident Fund's Simpanan Shariah 2017, which allocated a fund size of RM100 billion (US$22.4 billion) — equivalent to about 15% of the EPF's total investment assets — for contributors who wish to invest their pension funds in a Shariah compliant manner. As at the 23rd December 2016, a total of 59.03% or RM59.03 billion (US$13.22 billion) from the Simpanan Shariah's allocation has been subscribed.

The EPF's CEO, Shahril Ridza Ridzuan, said in January 2017 that the fund has allocated RM50 billion (US$11.2 billion) as further injection for Simpanan Shariah 2018. About 45% of the EPF's total investment assets are already Shariah compliant and the pension fund expects to grow these assets by at least RM25 billion (US$5.6 billion) a year on average.

In April 2016, Indonesia's Reliance Manajer Investasi launched its maiden Shariah fund, Reliance Saham Syariah, and is targeting not only retail investors but also Takaful companies, pension funds, institutions, Islamic education foundations, Islamic hospitals, the Muslim community, Shariah hotels and pilgrimage funds.

It was announced in March last year that Otoritas Jasa Keuangan (OJK) plans to release a regulation on Shariah pension funds with the aim of expanding the product's market reach.

OJK's deputy for non-bank supervision, Edy Setiady, was quoted as saying that the rule will apply to pension fund management firms run by banks and insurers and those established by employers. In the 2015-19 Shariah Non-bank Roadmap, it is said that the level of public interest for Shariah pension funds has reached 74.8% among workers and 85.7% among businessmen in Indonesia.

Eurasia

Islamic pensions in Turkey and the rest of Europe, the Middle East and Africa also seem to be showing growth, especially in privately funded funds. QInvest Portfoy, one of Turkey's Islamic asset managers, is targeting pension funds for its Islamic investments, which it believes still have quite some room to grow.

Murat Vanli, the general manager at QInvest Portfoy, told IFN in October 2016 that the multi-asset pension funds in Turkey, especially Islamic pension funds, are growing further toward a more meaningful size relative to the industry's total, and relative to the country's GDP. QInvest Portfoy in past years has focused mainly in Islamic pension funds management and has built experience and expertise in this area, and recently established its own mutual funds and has started to utilize this expertise for its retail and high-net-worth clients, Murat explained.

Middle East

When the Central Bank of Jordan issued Jordan's first sovereign Sukuk amounting to JOD34 million (US$47.81 million) over a five-year period in October last year, the facility was subscribed by both Islamic and non-Islamic banks, investment and pension funds, insurance companies, as well as the Social Security Corporation.

In Iran, Novin Investment Bank — the country's first investment bank — facilitated the country's first public debt securities in terms of Sukuk Ijarah in March last year. The IRR5 trillion (US$154.24 million) issue was used to settle payables of Ayandehsaz Pension Fund and Mahan Airlines to the state, with a tenor of four years and a nominal rate of 18% semiannually.

Outlook

The demand for Shariah compliant pension schemes is undeniably on the rise, attributed to necessity as well as capital market and liquidity management requirements. The industry is beginning to witness greater awareness in wealth management and retirement planning, which in turn encourages public pension funds to consider offering Shariah compliant alternatives.

With strong government and regulatory support, Islamic pensions could potentially be an alternative means of fiscal retirement.

IDB's Sukuk: A successful end to 2016

The IDB ended 2016 with a US$1.25 billion Sukuk issuance by its subsidiary, IDB Trust Services. Speaking to the deal's joint lead manager RHB Investment, DURGAHYENI MOHGANA SELVAM has the exclusive.

The issuance, with a five-year tenor, is a Wakalah Istithmar structure which was selected after considering the IDB's Shariah requirements, the currency of issuance and the preference of target investors since such a structure is globally accepted. The proceeds of this transaction are aimed to assist IDB Trust Services to purchase a portfolio of assets from the IDB which, in turn, intends to use the proceeds for its Shariah compliant general corporate purposes.

> ***"There were a series of unexpected news in the global market during the pricing of the trust certificates, creating a very challenging market condition"***

The facility, issued pursuant to the US$25 billion trust certificate issuance program, was indeed a success to the IDB as it was oversubscribed by 1.35 times. RHB Investment opined that despite the challenging market conditions, the trust certificates garnered high demand, clearly suggesting that the pricing achieved was within the IDB's expectations.

But issuing the trust certificates wasn't an easy feat. "There were a series of unexpected news in the global market during the pricing of the trust certificates, creating a very challenging market condition but the joint lead managers/bookrunners worked very hard together to achieve a favorable spread for the issuer and subsequently managed to price the trust certificates within a short time frame," RHB Investment said. The bank also added that this issuance shows the increasing interest of investors for Sukuk.

RHB Investment has previously worked with the IDB in many transactions. In 2014, the IDB issued US$1 billion under its US$10 billion trust certificate issuance program. The IDB also issued, via Tadamun Services, a one-off ringgit-denominated Sukuk facility worth RM350 million (US$78.71 million) in 2016. These experiences paired with the bank's understanding on the IDB's requirements contributed toward the excellence of the transaction.

This issuance has been a platform, according to RHB Investment, for the bank to further raise its international profile which will strengthen and enhance its ability to secure more cross-border debt issuance mandates in the future, as well as showcase its capability to work well with foreign banks in order to ensure a successful issuance for the issuer.

Underlying assets	Portfolio of assets which is separate and independent from all other assets and which comprises: (a) at least 33% of tangible assets comprising lease assets, disbursing Istisnah assets and/or Sukuk; and (b) no more than 67% of intangible assets comprising Istisnah receivables and/or Murabahah receivables.
Rating	S&P: 'AAA' (with stable outlook) Moody's: 'Aaa' (with stable outlook) Fitch: 'AAA' (with stable outlook)
Shariah advisor(s)	The Shariah Committee of the IDB
Structure	Sukuk Wakalah
Tradability	Tradable
Investor breakdown	Various from Europe, Asia and Middle East
Face value/ minimum investment	US$1.25 billion

Trust certificates due 2021 issued pursuant to the US$25 billion trust certificate issuance program

US$1.25 billion

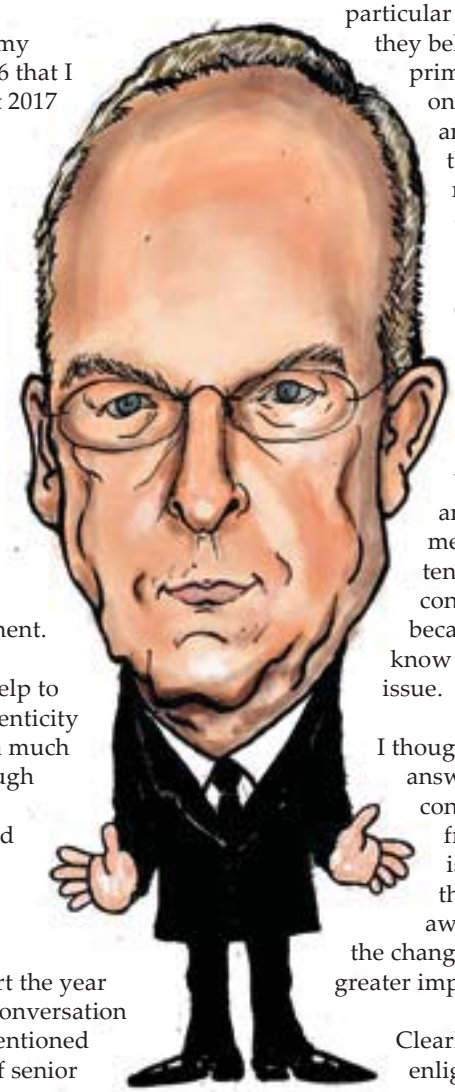
Issuer	IDB Trust Services
Obligor/ guarantor	IDB
Size of issue	US$1.25 billion
Mode of issue	Book-building
Purpose	The proceeds of the trust certificate issuance will be utilized by IDB Trust Services to purchase a portfolio of assets from the IDB, and the IDB will in turn, use the proceeds from the investment for its Shariah compliant general corporate purposes.
Tenor	Five years
Issuance price	At par
Profit rate	2.26% per annum
Payment	Semi-annual
Currency	US dollar
Maturity date	7th December 2021
Joint lead managers and bookrunners	Boubyan Bank, Credit Agricole Corporate and Investment Bank, GIB Capital, JPMorgan Securities, Mizuho International, National Bank of Abu Dhabi, Natixis, RHB Investment Bank and Standard Chartered Bank
Governing law	English law
Legal advisor(s)/ counsel	To the IDB: Dentons & Co To the joint lead managers: Clifford Chance
Listing	London, NASDAQ Dubai and Bursa Malaysia (under the exempt regime)

Forward with impact

By Daud Vicary, the president and CEO of the International Center of Education in Islamic Finance (INCEIF), The Global University of Islamic Finance.

Firstly, a very happy new year to everyone. May you all have a productive and an effective year ahead.

You may recall from my closing article for 2016 that I wanted to ensure that 2017 was as IMPACTFUL as possible. One of the themes that I described was the alignment of the Maqasid Shariah with the UN's 17 Sustainable Development Goals (SDGs). In my view, there is a clear match and it would be helpful if Shariah scholars and boards were seen to be doing much more to both explain and encourage this alignment. Clarity in this area would, in my view, help to demonstrate the authenticity of Islamic finance to a much wider audience, through demonstrating the alignment of goals and outcomes as well as the effectiveness of Islamic finance.



I thought I would start the year off by engaging in a conversation or two on the aforementioned point with a couple of senior scholars. Their reaction and insight were of particular interest. Both of them saw the clear alignment between Maqasid and the SDGs which would be for the benefit of all humanity. They were both sincerely supportive. Their concern was with regard to their fellow scholars who they felt fell short in two particular areas. One was that they believed that their prime area of focus is on issuing the Fatwa and understanding the legal aspects relating to a product or a construct. This is as opposed to understanding the environment and the impact that the usage of the product might have. The second related to a lack of business knowledge and acumen, which meant that they would tend to take a more conservative view because they did not know or understand the issue.

I thought that both the answers and the conversations were frank. The challenge is how do we change the mindset, create the awareness and drive the change so that we have a greater impact in 2017?

Clearly, there is some enlightenment out there but there appears to be a great deal more work to do with the scholars in order to ensure that they better understand the business and SDG environment much more thoroughly. This may well be a long-term challenge but it is one that we must address if we are to develop and create IMPACT. I will continue to comment on this area as the year progresses.

> ***"There is some enlightenment out there but there appears to be a great deal more work to do with the scholars in order to ensure that they better understand the business and SDG environment much more thoroughly"***

As always, there is much to do and not a moment to lose.

Have a wonderful 2017 and let us all be the agents for change that we know we can be. Good luck.

Sri Lanka's Islamic finance industry going through growing pains

SRI LANKA

By Imruz Kamil

Over the past few years, Sri Lanka's Islamic finance sector has been undergoing some growing pains. In many cases, participants have been using different standards to develop Shariah compliant products and services. The Government should facilitate the development of the industry, not merely by creating a level-playing field but by the provision of positive tax incentives too. This approach is evident in many other countries where various tax incentives have been afforded to issuers, investors and intermediaries.

The Islamic financial industry as a whole will need to address these challenges as it evolves into a mature market. As highlighted in the previous issue, Islamic finance participants were expecting more radical regulatory changes to come into effect through proposals in the recent Budget 2017. However, the expectation has not been fulfilled as there is a lack of positive attentiveness seen in the budget proposals to attract Islamic foreign direct investments. The proposal submitted by the Association of Alternative Financial Institutions to the relevant authority has been accepted for future consideration.

While Islamic financial institutions have concluded another successful year, research has shown that the Islamic finance industry in Sri Lanka remains a vibrant and exciting space that continues to attract new customers as well as maintain a very healthy customer satisfaction and retention rate. The total number of players in the industry in 2016 has grown to 43 from 37 in 2012, the breakdown between players who are window operators as against the fully-fledged has changed from 64% and 36% respectively in 2012 to 89% and 11% in 2016. This statistic is an indication of the growing interest in the industry from conventional finance players.

Another hurdle faced by participants in Islamic finance in Sri Lanka is litigation involving Shariah compliant instruments. Courts of law in non-Islamic jurisdictions invariably may rule in favor of conventional laws if there ever is to be a contest between Shariah rules and conventional laws. Judges may refuse to accept that two systems of laws could govern Islamic instruments; explaining Islamic instruments to judges becomes a major stumbling block; some judges treat this has a financial transaction and give verdicts in favor of Islamic institutions and some do not, creating unnecessary problems to Islamic institutions in filing actions against defaulters. It is probable that this would remain a dilemma during the coming decade in all the non-Islamic jurisdictions that have witnessed the penetration of Islamic financial services.

There are some interested participants in the Islamic finance industry in Sri Lanka and legal professionals are seeking alternative arrangements to set up an arbitration tribunal in Sri Lanka, exclusively to hear cases regarding Shariah compliant instruments. This focus group has approached some legal firms in Malaysia to assist and document the process. The legal framework for banking in Malaysia, being a multiracial and multi-religion country, provides for the running of a parallel model of banking where both Islamic and conventional banking can operate side by side. This approach will, to some extent, ease the litigation process in Sri Lanka.

The study of the progress of the status of Islamic financial services reveals that much is expected from policy makers and regulators in Sri Lanka for the sustainability of the system.

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Setback for India's Islamic finance initiative

INDIA

By H Jayesh

2016 saw several positive movements in the area of interest-free banking in India; however, it also saw setbacks.

The Reserve Bank of India (RBI) proposed the opening of an Islamic window in conventional banks to ease the gradual introduction of Shariah compliant or interest-free banking. Also, in September 2016 a major public sector bank announced their intention to inaugurate a division that will provide interest-free banking and had sought the assistance of the RBI to facilitate the same. While these developments thrilled those sections of the society that remained excluded due to religious reasons, those hopes now appear to be laying low since the last month. A Member of Parliament, Chandrakant Khaire, during the zero hour of the Lok Sabha (Lower house of Parliament) submitted a plea opposing the RBI's initiative of introducing Islamic windows into the banking system. He expressed strong views stating that: "Banking should not be done in the name of religion. There should be a discussion on the subject before such facilities are introduced".

Syed Zahid Ahmad of Mumbai who founded Economic Initiatives in 2010, a group that has been supporting interest-free banking products, said that Khaire's views may have a significant impact on opening up India to interest-free banking, as he is also a member of the Standing Committee on Finance. Further, Syed also expressed that Khaire's doubts about interest-free banking arise from a misunderstanding that borrowings will be free of cost.

The promotion of Islamic banking faced another setback when the Minister of State for Finance, during the Lok Sabha session expressed that though Islamic finance was explored by the RBI as one of the ideas for financial inclusion, other schemes like the Jan Dhan Yojana and Suraksha Bima Yojna have worked equally well. Further, the inter-departmental group on Islamic banking was constituted by RBI, to attract finance from Gulf countries for infrastructure development rather than for promoting financial inclusion. However, the idea was not accepted as various legal changes would be required.

It will be interesting to see how RBI would overcome the current roadblocks that have arisen even before the commencement of interest-free banking in India. The RBI will have to demonstrate that Islamic banking does not cater only to a certain sector of society, but is also beneficial for anyone irrespective of their faith and can ultimately help achieve the objective of financial inclusion in India.

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The licenses of Islamic banks finally granted by the Central Bank of Morocco

MOROCCO

Dr Ahmed Tahiri Jouti

In accordance with Articles 34 and 60 of the law n° 103-12 relating to credit institutions, the Committee of Credit Institutions (the Committee) comprising two representatives of Bank Al Maghrib (the Central Bank of Morocco) and two representatives of the Ministry of finance was formed on the 29th November 2016 to examine the license applications for Islamic banks.

According to a press release of the central bank, the committee analyzed the different license applications and complementary information submitted by the applicants and gave a favorable answer for the creation of five fully-fledged Islamic banks as follows:

- CIH Bank in partnership with Qatar International Islamic Bank
- BMCE Bank of Africa in partnership with Dalla Al Baraka — a Saudi-Bahraini group
- La Banque Centrale Populaire with the Saudi Group Guidance (a specialized financial company in real estate finance)
- Credit Agricole du Maroc with the Islamic Corporation for the Development of the Private Sector, a member of the IDB Group, and
- Attijariwafa Bank which is still in discussions with a potential partner.

The Committee also gave a favorable answer for the creation of three Islamic windows as follows:

- La Banque Marocaine du commerce et de l'industrie, a subsidiary of BNP Paribas
- Le Credit du Maroc, a subsidiary of Credit Agricole France, and
- La Societe Generale Maroc, a subsidiary of Societe Generale Group.

The launch of the first Islamic banks in Morocco is expected this year while many issues are still pending such as:

- The issuance by the Higher Council of Ulamas of Shariah standards related to the products
- The issuance by the central bank of the regulatory framework including the capital adequacy ratio and the liquidity coverage ratio
- The connection with the clearing system and the national switch
- The complete Shariah governance framework and the different connections between the Higher Council of Ulamas and Islamic banks, and
- The tax issues to ensure the perfect neutrality between Islamic financing products and conventional products.

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New Islamic finance reference book to drive up awareness

KAZAKHSTAN

By Timur Rustemov

In order to bring the professional knowledge of Islamic finance to a wider audience in Kazakhstan and CIS states, a book titled 'Islamic Finance: Theory, Practice, Regulatory Issues' has been published under the grant of the Ministry of Education and Science of Kazakhstan.

As a project leader, Alfiya Salihova from Pavlodar State University managed to secure approval from the local authorities to use this publication as the main

reference book for Islamic finance courses in universities. A team of 11 experts from Russia and Kazakhstan worked on this book for one year to cover all major theoretical and practical issues in the CIS and global Islamic finance industry.

The book is an updated version from the first edition of 'Fundamentals of ethical (Islamic) finance' initially published in 2014.

Available in the Russian language, the book represents the overall demand for Islamic finance human capital in Kazakhstan and could be a key for professionals and newcomers to the world of interest-free ethical finance.

Timur Rustemov is the chairman of the Association for Development of Islamic Finance. He can be contacted at rustemovt@gmail.com.

Maqasid Shariah — the ethos of sustainable and responsible investing

MALAYSIA

By Ruslena Ramli

Awareness on sustainable and responsible investing (SRI) — an investment management approach that incorporates environmental, social and governance criteria in traditional financial analysis — has been steadily increasing through the last decade. According to Principles for Responsible Investment (PRI) figures, assets under management which follow its code of responsible investment had surged to over US$62 trillion in April 2016 from just US$6.5 trillion a decade ago. Since the launch of PRI in April 2006, the number of signatories has grown from 100 to more than 1,500 as at the end of April 2016.

Interestingly, Islamic finance has also been developing in tandem with the growth of SRI. However, many SRI investors are still unaware that Islamic finance shares common philosophies with SRI. The underlying pillars that govern the operation of Islamic finance are based on achieving Maqasid Shariah, which ultimately seeks to protect the interests of the public. It is on this basis that Islamic finance and SRI both contribute to improving living conditions and the promotion of equality and ethics.

The preservation of wealth and the sustainability of social welfare are among the main objectives of Islamic finance. Resources are reallocated (eg collection and circulation of Zakat) from the surplus sector to the deficit sector, which encompasses the process of creation, consumption and distribution. This value chain is envisaged to facilitate the efficient circulation and distribution of wealth; the ultimate goal is to realize human welfare and preserve public interests. As such, Islamic finance is based on a socioeconomic paradigm driven by a code of ethics. The ability to enhance this relationship will bridge SRI and conventional markets for the benefit of Islamic finance and its appeal as a sustainable form of alternative financing that is available to all.

Nevertheless, the Islamic finance industry faces several challenges that need to be overcome in order to unlock its vast potential and compete in the mainstream financial market. The main challenges are the development of a harmonized Shariah framework, legislative changes and the perception that Islamic finance is only for Muslims. In non-traditional markets, Islamic practitioners need to work harder than their conventional counterparts to educate investors due to a lack of public awareness on Islamic finance products and services.

Greater integration between Islamic finance and SRI should be explored and examined, so that their principal values can be matched to increase the potential for Islamic finance and tap the sizeable pool of global SRI funds. Moving forward, key stakeholders at both ends — encompassing regulators, credit rating agencies, market practitioners, financial experts and research centers — should seek ways of building up the connectivity of these markets.

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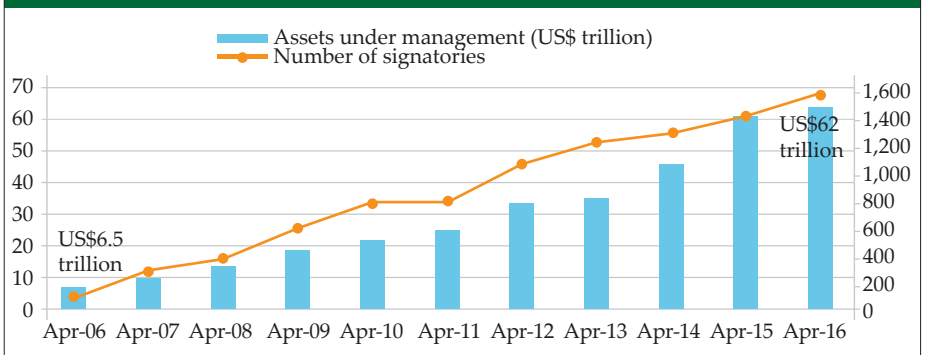
Chart 1: PRI assets under management and number of signatories



Source: UNPRI website

Qatar: Happy new start

QATAR

By Amjad Hussain

The past few weeks have seen a number of significant announcements of key transactions that have completed or are due to complete during the course of 2017. These announcements will certainly set the scene for a promising year ahead.

The IPO of the Investment Holding Group was announced at the end of 2016 and will take place between the 8th and 22nd January, with the shares due to be listed on the Qatar Stock Exchange (QSE) on the 29th January 2017. The IPO will involve 49.8 million shares at a price of QAR10.1 (US$2.77) per share, comprising 60% of the company's share capital. Once completed, this will be the second listing on the QSE in the last eight months following the listing of Qatar First Bank back in May 2016.

Another major announcement relates to the rights issue by the Commercial Bank of Qatar, whose shareholders approved an increase in the share capital of the bank from QAR3.27 billion (US$897.35 million) to QAR3.85 billion (US$1.06 billion) by way of offering 58.82 million new ordinary shares for subscription at a price of QAR25.5 (US$7) per share. The subscription period will take place between the 8th and 22nd January.

However, the Islamic banking sector in Qatar has witnessed perhaps its most significant announcement in recent years. Masraf Al Rayan, Barwa Bank and International Bank of Qatar have announced that they have entered into initial negotiations regarding a potential merger of the three banks to create what will be the largest Shariah compliant bank in the State of Qatar and the third-largest Shariah compliant bank in the Middle East with assets worth more than QAR160 billion (US$43.91 billion) and a share capital of more than QAR22 billion (US$6.04 billion).

The proposed merger is subject to the approval of the Qatar Central Bank, the Qatar Financial Markets Authority, the Ministry of Economy and Commerce and other relevant official bodies and the approval of the shareholders in each of the banks after the completion of a legal and financial due diligence on all three banks. If approved, the new entity will maintain all its dealings in compliance with Shariah principles. Once completed, this merger will transform the landscape of the banking sector in the State of Qatar.

In other news, Masraf Al Rayan announced that it has taken a business decision to suspend the activities of its Al Rayan Financial Brokerage Company and its license issued from the Qatar Financial Markets Authority for a period of two years as part of the restructuring of its operations, with the last date of trading through the company being the 12th January 2017. Additionally, Qatar International Islamic Bank (QIIB) recently announced the acceptance by Bank Al Maghrib, Morocco's central bank, of QIIB's submission for the establishment of a bank in the Kingdom of Morocco in partnership with CIH Bank (Credit Immobilier et Hotelier), a Moroccan bank.

A number of banks also announced that their boards will be meeting to discuss and approve their financial statements. Qatar National Bank held its board meeting on the 15th January, Masraf Al Rayan on the 16th January and Qatar Islamic Bank will be holding its meeting on the 18th January.

In general, 2017 has commenced on a positive note which will hopefully continue during the course of the year.

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Brazil: Mergers and acquisitions and the Halal industry

BRAZIL

By Fabio Amaral Figueira

As published in international media, Brazil is still facing economic problems related, for example, to economic growth rate and unemployment. However, Brazil remains a country where investment opportunities continue to exist. Brazil has the advantage of having a large internal market due to the size of its population and of being well positioned geographically in South America, so the country can be a platform for the export of products to other countries in the region.

Based on a quick research of publications made by the Brazilian antitrust authorities for those transactions, which would have reached the notification thresholds related to merger filings, one may find transactions where Brazilian companies/assets have been the target of foreign investment.

A first example is the acquisition by Italian group Enel of the capital stock of Celg Distribuicao (Celg) in a privatization auction. Celg is an electricity distribution company in the State of Goias. The Italian group already has other investments in Brazil such as participation in electricity distribution companies in the states of Rio de Janeiro (Ampla Energia e Servicos) and Ceara (Companhia Energetica do Ceara).

A second example is a transaction entered into by French group Total and Brazilian state-owned oil company Petroleo Brasileiro–Petrobras as to a concession agreement related to the oil and gas industry.

As mentioned in prior reports, the Brazilian company BRF has created a subsidiary, OneFoods, whose focus is the Muslim markets — Halal food. BRF now intends to raise US$1.5 billion with the sale of 20% of OneFoods's capital stock through an IPO. BRF estimates that OneFoods is valued at around US$6.5 billion with its annual gross revenues amounting to US$2 billion.

According to BRF, OneFoods has a 45% market share with regards to poultry in Middle Eastern countries, namely Saudi Arabia, the UAE, Kuwait, Qatar and Oman.

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Development of Salam Sukuk in Iran's capital market

IRAN

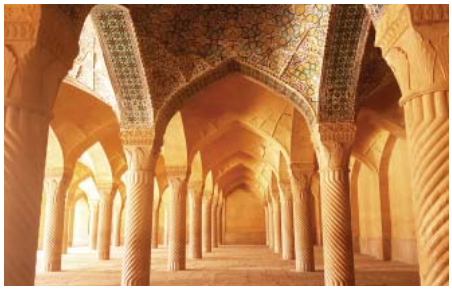
By Majid Pireh

Salam Sukuk are Islamic securities based on the Salam contract in Shariah. As the Salam contract is basically a financing contract in Shariah, the Sukuk which follow it mimics the same capabilities. For this, you can find Salam Sukuk as Shariah compliant financial instruments used in fundraising for companies.

According to AAOIFI, the Salam contract is the purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or the sale of a commodity for deferred delivery in exchange for immediate payment. Based on the Salam contract with the aforementioned criteria, Salam Sukuk could be structured. Salam Sukuk are certificates of equal value issued for the purpose of mobilizing Salam capital so that the goods to be delivered on the basis of Salam come to the ownership of the certificate holders.

Regarding the main potential of Salam Sukuk, Iran's capital market has applied its implementation since the 13th July 2014 in financing Golgohar Company, a mining industry-related company listed in Iran's capital market. The first issuance's value reached IRR820 billion (US$25.29 million).

Since July 2014 until the 30th December 2016, the value of outstanding Salam Sukuk went over US$800 million in the Iranian capital market, accounting for around 9% of total Sukuk outstanding in Iran's capital market as at the end of 2016.



Salam Sukuk in Iran are mainly short-term financing instruments. The tenor of most of the issued Salam Sukuk does not exceed one year and for this reason, manufacturers in the Iranian economy may use it as a short-term planning financial instrument.

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Reducing costs through M&A transactions

MERGERS & ACQUISITIONS

By Burak Gencoglu

The last 12 months can be defined as a year with unpredictable events from both political and business perspectives. When the overall signs are considered, it is expected that 2017 will not be much different from its predecessor. Although we have witnessed unexpected results and events in 2016, it is still possible to witness significant mergers and acquisitions (M&A) activity in 2017.

In terms of M&A transactions in countries in the MENA region, the last year has seen a move to consolidation in the UAE, notably the major mergers between the National Bank of Abu Dhabi and First Gulf Bank and between Mubadala and International Petroleum Investment Company. Both of these two transactions are expected to be completed within 2017.

There may be further consolidation moves in the UAE's banking sector in 2017 as a result of sovereign wealth funds and investors looking to strengthen their balance sheets. Therefore, the expectation is that the consolidation process will continue.

As mentioned previously, mergers of UAE companies have increased in recent years. The reason for mergers may also be explained by the changing conditions in global and local economies.

Economic conditions are changing and becoming less favorable and this situation is making companies to consider more cost-effective and efficient ways to help maximize their profits in current economic conditions. This involves bringing different companies and businesses together under a common parent or holding company. M &A transactions are an alternative way for companies to consolidate their businesses, operating under different legal personalities, under one company in order to reduce their operating costs and rationalize resources.

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What a start to 2017!

REAL ESTATE

By Philip Churchill

Firstly, welcome to 2017. I hope you got some rest over the end of the year, as it seems that much of the Islamic investment world kept on motoring.

Our own 90 North was working through the Christmas and New Year period, including Christmas Day, going unconditional on our latest US acquisition, more details of which we'll be able to share in due course. This was working with Middle Eastern Shariah compliant investors who had certainly put the shock of Donald Trump's victory behind them.

Now two weeks into 2017, I don't remember a busier start to a new year. From day one, the phone has been ringing and emails arriving from investors wanting to start the year as they mean to go on. Interest remains extremely varied, from long-leased investment transactions across the US, the UK and Continental Europe to those seeking higher returns from added value or developments.

Putting such interest in the context of the current global political stage, 2016 on reflection was all about anticipation; 2017 (or more accurately the first three months) is when it will all happen.

By the end of January, Trump will be the president of the US and by the end of March, Theresa May has promised to serve the UK's notice to leave the EU. To say what will follow will be interesting is an understatement.

While for the moment Islamic investors are not discouraged by either event, and indeed they are even encouraging some investment into the US and the UK, we at 90 North remain cautious and are continuing to monitor the situation, speculating that the markets may not have read the likely outcomes accurately.

Historically, although I confess it's been a while since I've seen the research renewed, through their choice of Shariah compliant tenant activities, Islamic real estate investors have managed to avoid some of the extremes that fluctuating economic activity has delivered. As such investors continue to largely seek security and income from their property investments, we hope and trust that this will continue.

Not wanting to end on too dreary a note, uncertainty and differing views create opportunities, and we intend to make the most of them. After all, it's less than 50 weeks until its 2018!

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Calling for greater synergy and better collaboration of the Islamic finance industry in Malaysia

TAKAFUL &RE-TAKAFUL (ASIA)

By Marcel Omar Papp

Recently, Bank Negara Malaysia (BNM) shared their expectations of the Islamic finance industry for 2017. Themed 'Toward greater synergy through better collaboration', BNM wants the industry to focus on three key areas.

In the first area under 'Wider intermediation roles of Islamic finance institutions', the focus is on both investment and value-based intermediation. On the latter, the industry is expected to strengthen its role in social finance through the integration of Zakat/Waqf and Sadaqah as part of the financial inclusion agenda.

The second key area is in relation to the effective implementation and enforceability of developmental and regulatory policies. As such, the most important aspects for the Takaful industry are the upcoming splitting of licenses for composite Takaful operators and the robust internal set-up to meet

new regulatory requirements (eg Shariah standards). BNM is also expecting Islamic subsidiaries to put in place more effective operating models that will utilize group structures and common resources.

The third key area is on the innovation of product offerings and delivery channels. BNM is expecting the Takaful industry to come up with new, more affordable protection products for the underserved segment. The regulator also wants the industry to embrace digitization and use new technologies such as blockchain to accelerate risk-sharing transactions and provide trade credit protection for SMEs. Finally, it wants the industry to apply the various Shariah contracts more dynamically to diversify their product offerings.

It is laudable for BNM to want the industry to progress further. At the same time, many of these initiatives are resource-intensive. In the short run, they may not bring much commercial success. Henceforth, as the theme suggested, the industry should cooperate rather than compete with each other on some of these initiatives. A good example is the insurance/Takaful starter pack which the Life Insurance Association of Malaysia and the Malaysian Takaful Association are currently developing together. The aim is to introduce the concept of life insurance/Family Takaful to the public at an affordable premium/contribution rate so as to ultimately increase the penetration rate and financial inclusion of the population in Malaysia.

It will be interesting to see if the industry will successfully collaborate on other initiatives as well.

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Contracts: The backbone of Islamic banking

The bank is a financial intermediary institution that accepts funds from the surplus unit and channels it to the deficit unit. Accordingly, the main function of a banking institution is to fund the mobilization in the form of deposit and its allocation in the form of financing and investment activities. MOHAMMAD MAHBUBI ALI delves further.

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The idea of the banking system as a financial intermediary is not something new in Islam. The simplest form of banking in the early Muslim state was manifested in the form of the money changer (Sharrafah) which also offered deposit-taking and short-term financing services. However, a more sophisticated form of banking structure was provided by the trade vendor (Jahabidhah/singular Jahbadh) who undertook modern funding and financing activities under the Muslim state supervision.

The Abbasid Caliph established the central bank in 316AH/929CE known as Diwan Al-Jahabidhah to supervise the operation and the development of these banks. The famous Persian historian, Nasir Khusraw (died 1088 CE) recorded that almost 200 banking institutions were established in Isfahan at that time which called for prudent regulation and supervision. A similar initiative was taken in Egypt by the Fatimid state.

Among the common banking instruments offered by Jahabidhah were Sakk (cheque), Suftajah (combination of traveler's cheques and letter of credit features), Hawalah (remittance) and Wadiah (deposit). Nevertheless, modern Islamic banking made a fresh start in the 1960s with the establishment of the Mit Ghamar Bank in Egypt in 1963 under the purview of Ahmed Al-Najjar.

As an institution guided by Shariah principles, Islamic banks are governed by certain rules, values and objectives, which are distinct from the conventional system. Chapra (1985) argued that the introduction of the Islamic banks should bring about the abolition of usury/Riba, adherence to public interest, be a catalyst for development, promote economic well-being, help toward establishing socioeconomic justice and the equitable distribution of income. Dusuki (2005) summarized the views of a number of Islamic economists and Muslim scholars such as Chapra, Ahmad, Mirakhor, Warde, Lewis, Algoud, Iqbal and Molyneux on the nature of Islamic banks and concluded that Islamic banks should strive for justice and fairness, promote brotherhood and cooperation and develop a community-oriented and entrepreneur-friendly financing environment.

> ***"The validity of a contract is the only measure used so far to assess the Shariah compliant status of Islamic banking products and transactions"***

The value proposition of Islamic banks as expounded by their advocates is manifested in the application of a variety of Shariah contracts in Islamic banks which provide different risk and return profiles and seek to realize their differential objectives in Islamic banking and finance. These objectives are often stated by Muslim scholars as follows: To secure Maslahah through the application of a profit and loss-sharing concept, justice and fairness in commercial dealings, the enforcement of equity and equality and to avoid harm and hardship (Mafsadah) via the elimination of usury (Riba), excessive risk-taking and uncertainty (Gharar), gambling (Maysir), deception and giving out asymmetric information.

A contract is the backbone of Islamic banks. It plays an essential role in determining the Shariah compliant status of Islamic banking activities. Rosly (2010) concluded that the validity of a contract is the only measure used so far to assess the Shariah compliant status of Islamic banking products and transactions. The strict adherence to Shariah requirements of a contract therefore ascertains the permissibility and validity of their products and services.

The application of Shariah contracts in Islamic banks is reflected in both asset and liability sides. The liability side is the main sources of Islamic bank funding and is generally categorized into two: deposit products and investment products. Section 2 of the Islamic Financial Services Act (IFSA) 2013 defines Islamic deposit as "a sum of money accepted or paid in accordance with Sharīah", whereby the money "will be repaid in full with or without any gains, return, or any other consideration in money or money's worth". The common contracts for deposit products include Wadiah (safekeeping), Qard (loan) and Tawarruq (monetization).

As for the investment account, IFSA defines it as "an account under which money is paid and accepted for the purpose of investment, including for the provision of finance, in accordance with Sharīah on terms that there is no express or implied obligation to repay the money in full". The prominent contracts for investment purposes are Mudarabah (profit sharing and loss bearing); Musharakah (profit and loss sharing) and Wakalah Bil-Istishmar (investment agency).

On the asset side, Islamic banks employ different sets of Shariah contracts ranging from exchange-based contracts, ie Murabahah (cost-plus sale), Salam (forward sale) and Istisnah (manufacturing contract), to equity-based contracts like Mudarabah and Musharakah, and fee-based contracts such as Ijarah (leasing), Wakalah (agency) and Jualah (commission). IFSA 2013 states that Islamic banks may provide partnership-based financing, lease-based financing, sale-based financing, currency exchange contracts and fee-based activities.

Global Sukuk outlook brightens for 2017

A rebound in global Islamic bond sales (Sukuk) last year has set the foundation for even more issuance in 2017, as investors look beyond traditional fixed income products for better yields and portfolio diversification. MOHIEDDINE KRONFOL explores.

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While Sukuk issuance trailed what was a blockbuster 12-month period for traditional debt sales in 2016, this trend, in our opinion, could reverse this year, as funding challenges push governments, especially hydrocarbon-dependent ones in the GCC region, to consider all options at their disposal to fund declining, but material, budget deficits.

As an emerging asset class, Sukuk continue to make great strides. In 2016, investment bank JPMorgan included Sukuk in their suite of global indexes for the first time, reinforcing the transition of Sukuk from the peripheries of the investment universe to more mainstream portfolios.

Sukuk's rising popularity goes some way to explaining its impressive performance in 2016. Global issuance amounted to US$44 billion, a 23.8% rise on 2015, according to data by Bloomberg. Backed by a robust pipeline of potential Sukuk issues, we expect 2017 issuance to show a further 20-25% improvement on last year's levels. Sukuk prices meanwhile will likely remain supported by the growing influence of Islamic banks and a supply/demand imbalance which continues to anchor the market for Islamic bonds.

For 2017, our constructive outlook is supported by a number of factors that are working in favor of Sukuk. Firstly, while a 25bps rate hike by the US Federal Reserve in December stoked some anxiety in debt markets, we remain of the view that US monetary policy will remain accommodative, perhaps more than the market currently projects. This bodes well for investor interest in the comparatively higher yielding and lower duration world of Sukuk.

Another fillip for sentiment, especially related to issuers in the oil-dependent GCC region, is the sharp rebound in crude oil prices. ICE Brent futures surged over 52% in 2016, the biggest annual gain since 2009. The most recent higher push came after the OPEC agreement in November 2016, along with other major suppliers, to cut global production by around 2%. Depending on compliance, this new pact increases the likelihood that a lingering oversupply in the oil market will be eliminated, providing a positive backdrop for oil prices and a much-needed boost to oil producers' finances.

> ***"Further issuance will help develop the entire Sukuk industry outside of the traditional centers of the Middle East, Turkey and Southeast Asia"***

Oil aside, the investment case for the GCC has been further strengthened by the region's commitment to fiscal consolidation and capital market reform. The wide range of structural change currently being implemented by GCC governments is helping allay investor fears about some of the region's more oil-dependent economies.

For many debt investors, 2016 will be remembered as the year that Saudi Arabia sold its first-ever sovereign bond, a US$17.5 billion issue that ranked as the biggest in emerging market history. In our view, Saudi's bumper debt sale not only augurs well for more conventional local and regional issuance in the next few years but also lays the groundwork

for the Kingdom's first-ever international Sukuk issue, a potential transaction that would be transformational for the entire industry and one that could occur as early as the first quarter of this year. Looking beyond the GCC, after a tough 2016, Malaysia looks an interesting market again. The country has always been known as a leading issuer of Sukuk since the inception of Islamic finance in the 1980s, but a decision last year by Bank Negara Malaysia to cut short-dated Sukuk issuances and switch to other liquidity management instruments had a significant impact on overall issuance. Malaysia too was caught up in a broad emerging market sell-down in the wake of US president-elect Donald Trump's win. In our view, there is a lot of value in the local currency exchange and profit rates, while news that Malaysia's biggest pension fund will offer Shariah compliant plans should also underpin demand for local Sukuk.

Another region to keep an eye on is Africa, where governments are increasingly exploring alternative options to help finance the continent's significant infrastructure needs. Last year, Ivory Coast issued their second Sukuk, following Togo's debut Islamic bond sale, while countries such as Nigeria and Kenya have issued new Sukuk regulations amid expectations that both will issue Islamic bonds in the not-too-distant future. We remain hopeful that further issuance will help develop the entire Sukuk industry outside of the traditional centers of the Middle East, Turkey and Southeast Asia.

Further interest from mainstream Canadian financial institutions to explore Islamic finance

2016 was an interesting year for Islamic finance in Canada as there were developments related to the investment funds side of the business. REHAN HUDA writes.

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The Canadian Muslim population is now estimated at approximately 1.5 million and is the fastest-growing religious group in the country. Approximately half of the country's Muslim population resides in the Greater Toronto Area and most of the remaining population live in the other major metropolitan centres.The growth in size and affluence of the Muslim community in Canada has been accompanied by a growth in the level of observance, leading to more vocal demand for Islamic financial products and services.

Developments in Canada in the field of Islamic finance over the year 2016 were primarily in the area of new Islamic investment products. The two new funds launched in 2016 were from Absolute Wealth, a Toronto-based Shariah compliant division of Crystal Wealth Management, an award-winning Canadian fund manager, and the funds are described briefly in the following:

- **Absolute Sustainable Property Fund**
  Structured as a mutual trust fund, this fund presents a Halal investment opportunity to generate a consistently reasonable level of income while focusing on preservation of capital. The fund invests primarily in real properties, participating in the residential and commercial real estate sector while adhering to sustainable, responsible and Islamic value-based principles. This fund is the only fund in Canada that is Shariah compliant which the regulators have classified as 'low-risk'.

- **Absolute Sustainable Dividend Fund**
  The objective of this mutual fund is to generate long-term capital appreciation while focusing on preservation of capital by combining sustainable, responsible and Islamic value-based principles. The fund primarily invests in a diversified portfolio of Canadian and global dividend-paying public companies that have been financially and socially screened to ensure its Shariah compliancy.

In terms of other Shariah compliant investment funds in Canada, the largest is the mutual fund of the Bullion Management Group, a firm specializing in investing in storing physical gold, silver and platinum bars. Another mutual fund is the Global Iman Fund owned by Global Growth Assets. The fund is managed by UBS and is based on the Dow Jones Islamic Index. The Everest Group based out of the oil-rich province of Alberta has converted its existing mortgage and real estate funds into Shariah compliant structures.

In addition to these investment funds, there are several Shariah compliant mortgage products that continue to operate in the Canadian Islamic finance market. Several Muslim housing cooperatives provide limited funding for home financing.

On the commercial finance side, there have been several Shariah compliant financings for the purchases of Islamic centers, Islamic schools and commercial properties for Muslim businesses. These financings were done by Canadian financial institutions including several major credit unions. A number of real estate projects are currently being undertaken that will be financed by using Shariah compliant commercial mortgage contracts.

The Rotman School of Management within the University of Toronto is Canada's leading business school and continues to provide a leadership role in Islamic finance education. It introduced Canada's first MBA course in Islamic finance, which is now entering its sixth year and has been a top-ranked course since its inception. A number of graduate students have participated in research

on Islamic finance-related topics. The Rotman School has also held several roundtables and conferences over the past years that cover both Islamic finance and business opportunities in the Middle East. There has been strong demand for these events, and many executives from the Toronto financial community have attended. This is indeed a reflection of the increased desire on their part to learn about and hopefully become more involved in Islamic finance. In addition, the school's professors have taught courses and held seminars on Islamic finance across North America and abroad.

It is expected that more funds will be launched in 2017, especially in the booming real estate sector. In addition, there is a strong possibility of retail mortgage and car financing products being launched by some of the leading Canadian financial institutions.

The recent interest from mainstream Canadian financial institutions to explore Islamic financial products shows that the rapid growth of the Muslim population in Canada along with the demand for Islamic financial products will mean more product development for the retail and commercial markets. The Canadian market is becoming more attractive to international investors and there have been discussions at institutional levels for international Islamic finance firms to participate in domestic infrastructure projects among others. 2017 will see a number of initiatives that will be undertaken to explore such opportunities as foreign direct investment is targeted for the Canadian market.

Are trends in pension schemes favorable to Islamic law?

In this article, SHEIKH FAIZAL AHMAD MANJOO argues that as the longevity risk is increasing worldwide, the need to find solutions to mitigate such colossal risk is increasing and he also touches on the auto-enrolment process developed in the UK and the Book Reserve Scheme as developed in some European countries to partially mitigate this risk and he concludes that the risk of longevity needs to be resolved by appropriate legislation and tax relief on pension.

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There is no doubt that the world is heading toward an ageing population whereby the dependency ratio will decrease. In other words, an age-population ratio of those typically not in the labor force (the dependent part) and those typically in the labor force (the productive part). The dependency ratio is used to measure the pressure on productive population. An ageing population will squeeze the financial pressure further on both individuals and the government. This phenomenon brings along the longevity risk, ie the risk that an individual will outlive his/her retirement savings, for example, if one's retirement consists of personal savings and a fixed-term deposit. According to the OECD report on longevity risk, it encapsulates some serious uncertainty surrounding mortality outcomes. Hence to tackle this uncertainty, the existing pension arrangements and structure will need to be relooked into.

In the past, most countries tend to offer the defined benefit pension plan. But this is proving non-sustainable for many reasons such as a volatile investment market, a drop in the rate of interest and the economic slowdown. So the main driving pension plan seems to be the defined contribution whereby the risk lies with the employees. This was also problematic as the pot may turn out to be empty at the time of retirement if there is a poor investment strategy. Hence to balance this risk allocation issue, the defined ambition was developed. It has features from both defined benefit and defined contribution pensions. A defined ambition pension would share the unknowns (risk of insolvency of the pension pot) more equitably between employees and employers. This approach has many formats. For instance, the employer could promise the employee a minimum size of the pension pot at their selected retirement age; the employee would still not know how much retirement income it would buy when he/she opens it, but at least he/she would know the minimum that would be in the pot.

> ***"NEST is providing a Shariah compliant fund but it does not say how it will pay the annuity if someone decides to purchase one at the time of retirement"***

Another way to capture the ageing population financial issue is the auto-enrolment process developed in the UK. The primary aim was to net those who were not on the pension radar at all due to their low income. Now it proves to be beneficial for many employers as well. The government made it mandatory for employers to offer such a pension plan on a portability basis. That is, employers are offered the facility of registering their pension schemes with National Employment Savings Trust (NEST) if they cannot afford to run their own pension fund. NEST is a defined contribution workplace pension scheme in the UK. It was established to smooth automatic enrolment as part of the government's workplace pension reforms under the Pensions Act 2008. Due to its public service obligation, any UK employer can use NEST to meet its new workplace duties as set out in the Pensions Act 2008. The advantage for employees is that NEST will monitor the pension pot for them. The trust allows people working with different employees to have their individual pension pot which is then portable; irrespective who the employer is, the employee is in control of his/her pot as the pension is carried to his/her pot from the various jobs he/she holds or has held as all employers should offer auto-enrolment. This approach through government intervention created a new vista to mitigate the retirement risk. The problem which remains unresolved from the NEST perspective is the issue of annuity which is saddled with prohibited elements such as Riba (interest), Maysir (game of chance) and Gharar.

NEST is providing a Shariah compliant fund but it does not say how it will pay the annuity if someone decides to purchase one at the time of retirement. Fortunately since 2014, the Pension Act has been amended to allow for drawback, ie employees can opt to draw their entire pension lump sum after paying the necessary tax. However, this too is problematic because it has created a debate as to whether retirees can look after their pension lump sum to enable them to meet their financial liabilities or whether they will squander their money in a few years. The experience in Malaysia, for instance, shows that on average people tend to spend their pension money within three years. Hence, the move toward introducing annuity is observed. It is suggested that a solution is warranted for the annuity from NEST for Muslim retirees.

The tax relief is interesting with auto-enrolment. There are two types of tax relief: net pay arrangement and relief at source. The net pay arrangement is where

Continued

the pension contribution is taken out of employees' earnings before the tax is deducted. So effectively, they haven't paid the tax in the first place. On their payslip, the figure they will see is the contribution and the tax relief added together.

Relief at source is where the pension contribution is made after the tax has been deducted, and this tax is then reclaimed by the pension provider directly from the government. So, for every pound contributed to their pension pot, there will be an 80 pence (97.43 US cents) deduction from their take-home pay, and the 20 pence (24.36 US cents) paid in tax is reclaimed from the government by the pension provider.

If the employee is a higher or additional rate taxpayer, to get full tax relief they will need to claim back some of their tax from the government. This is because tax relief is added to their pension at the basic rate of 20% but they will have paid a higher actual rate of tax on their contribution.

To get all the tax relief that is due to the employee, they will need to claim back the difference on their annual tax return, or alternatively, if they are a higher rate taxpayer they can contact HM Revenue & Customs. On their payslip, they will see the pension contribution only. They won't see the tax relief – it is added to the pension separately.

Another pension plan being debated is the Book Reserve Scheme. This is an unfunded pension scheme which is accounted by a provision in the employer's accounts. This is common in some European countries. This entails that the employer would create a debt in their book to pay employees a sum of money after their retirement, in exchange for them receiving a lower salary which will be invested in their pot. The risk of bankruptcy of the company/sponsor can be mitigated by an insurance company. Sums entered in the balance sheet of the plan sponsor act as reserves or provisions for occupational pension plan benefits. Some assets may be held in separate accounts for the purpose of financing benefits, but are not legally or contractually pension plan assets. This model though theoretically is not a pension but it is being considered by many firms in Europe as it is a good way to sustain the cash flow of a company.

From an Islamic law perspective, this product will face two main problems. Firstly, it is converting debt into a product, which may lead to a sale of debt (Bai Dayn) which is not allowed in Islam. The second intricate problem is that the issue of corporate insolvency is still an unresolved matter in Fiqh. Even the latest AAOIFI standard has not dealt with this issue. The standard confines itself to an individual's bankruptcy. If solutions can be found for these identified problems, then Takaful companies can have a very useful role in developing this product. Again, the state might play a role in providing a netting as a last resort for these Takaful companies without which the public will not have confidence in the product.

Though the longevity risk is prominent in most countries, yet solutions can be found to resolve it by the private sector with the help of the government. Pension firms are being considered as one of the biggest investors and need to be supported by appropriate legislation and tax reliefs for employees to contribute more effectively.

Takaful operators pioneering in Oman

Takaful insurance is often seen as one of the major global developments in the sphere of finance and banking. It opens doors to insurance-savvy customers who require insurance but are skeptical about its concept due to religious beliefs. With the advent of Islamic finance and banking as well as Takaful, AJAY SRIVASTAVA opines that customers can now 'choose' what they feel is best for them without having to compromise on their beliefs.

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Takaful was launched in Oman in 2014, when Takaful policies were issued with the objective of attracting people who may have shied away from financial protection products for religious reasons. With a second Takaful operator following soon, the sector has had an impressive start. According to estimates, Takaful constitutes about 8-9% of direct insurance premium in Oman and 5-6% of total paid claims. Oman's launch into the Takaful world almost coincided with the fall in global oil prices and the consequent economic slowdown witnessed in recent times. The growth of Islamic finance therefore is all the more impressive.

> ***"Developing market share, a distribution platform and customer experience were leveraged on existing market share – a reason why Takaful has been able to grow its share of the market so quickly"***

The introduction of Takaful in the Sultanate is also unique in some sense. In most markets, Takaful has been a greenfield venture so it had to go through the pains of a start-up whereas

in Oman it was the unique experience of converting existing conventional insurance companies into fully-fledged Takaful operations. Therefore, developing market share, a distribution platform and customer experience were leveraged on existing market share – a reason why Takaful has been able to grow its share of the market so quickly. A Takaful operator's ability to get people's trust through affordable pricing and superior customer service is one of the other key contributors to the growth of Takaful in the Sultanate.

Creating awareness among the public on the importance of Shariah compliant insurance protection via partnerships among large Islamic banks is significant. With Takaful operators collaborating with local Islamic banks to promote Islamic finance as a whole, a paradigm shift is happening in the local insurance market. Such initiatives act as a catalyst in spreading awareness about Takaful rapidly across the country.

Takaful, however, is still a relatively new concept in Oman where there is a huge opportunity for insurance penetration. The awareness is low and customers are bound to ask pertinent questions: What is Takaful? How much do I have to pay? Will there be a surplus and will I get a share in it? Takaful operators risk building expectations without clearly informing about the caveats. There is a danger of creating perceptions of false promises. Claims will be paid, documents will be issued and services will be provided but unless there is an emphasis on the Takaful brand value, a Takaful operator and its product would look, feel and be like conventional insurance.

The Takaful brand value is about protecting communities. The operators need to work on the theme of social consciousness which is inclusive in nature and based on equity, justice, cooperation and fair play. Takaful is built on the concept of cooperation within a community of people who bring their money together to help each other. For the Takaful industry to grow in Oman and elsewhere, it is important that the holder of the Takaful policy gets a sense of community belonging.

There are some challenges on the technical side for Takaful growth. An important element is the gestation period of five to six years for an insurance company to break even. During this time, investment returns from the share capital covers any operational deficit for a conventional company. However, in the absence of share capital in the policyholders' fund under the Takaful model, the policyholders' fund is deprived of the advantage of a sizeable investment income to its account. This, very often, could mean the early onset of Qard Hasan requirements than would normally be the case.

The Takaful law was promulgated in Oman in 2015 and the regulations are expected soon. The regulator in Oman has played a pivotal role in the development of Takaful and it is expected that the regulations will address some of these vital issues which will provide further impetus to growth.

In Oman, the growth of Takaful is driven by those who are increasingly finding it to be the optimum solution for financial security and wellbeing. This is just the start and with regulations setting in and new products and services made available by Takaful operators, an increased insurance penetration in Oman will eventually lead to an overall increase in the Takaful market share.

DEALS

CBB's Sukuk subscribed by 100%

BAHRAIN: The Central Bank of Bahrain (CBB)'s BHD26 million (US$68.34 million) monthly Sukuk Ijarah has been subscribed by 100%, according to a press release. The expected return of the issue, which matures on the 13th July 2017, is 2.3%.

The CBB also announced in a separate press release that the monthly issue of its Sukuk Salam Islamic securities has been fully subscribed by 100%. Subscriptions worth BHD43 million (US$113.98 million) were received for the BHD43 million issue which carries a maturity of 91 days and is expected to mature on the 19th April 2017 with an expected return of 2.16%. This is issue No.189 (BH0005787906) of the short-term Sukuk Salam series.

IILM auctions US$1.11 billion short-term Sukuk

MALAYSIA: The International Islamic Liquidity Management Corporation has auctioned a short-term US$1.11 billion Sukuk issued in two different series: a US$260 million two-month tenor priced at a 1.21% profit rate and a US$850 million three-month tenor priced at a 1.41% profit rate.

According to a press release, the following primary dealers participated in the US$1.11 billion Sukuk offering: Abu Dhabi Islamic Bank, Al Baraka Turk, Barwa Bank, Boubyan Bank, CIMB Islamic Bank, Kuwait Finance House, Maybank Islamic, National Bank of Abu Dhabi, Qatar Islamic Bank and Standard Chartered Bank.

SCC upsizes Sukuk Musharakah program

MALAYSIA: Sabah Credit Corporation (SCC) has launched its upsized RM3.5 billion (US$781.99 million) Sukuk Musharakah program and its new Shariah financing product, i-Cash, according to the Borneo Post. The Sukuk Musharakah program was upsized from RM1.5 billion (US$335.14 million) two years ago to its present size. SCC's CEO, Vincent Pung, was quoted by The Star as saying that the upsizing exercise would be a source of funding for SCC to cater to the next few years of growth.

STSSB issues ICPs

MALAYSIA: Sunway Treasury Sukuk (STSSB) has issued RM120 million (US$26.81 million)-worth of Islamic commercial papers (ICPs) on the 13th January 2017, according to an announcement on Bank Negara Malaysia's website. The 'MARC-1IS'-rated facility is STSSB's 174th ICP series.

Separately, STSSB will also issue RM100 million (US$22.4 million)-worth of ICPs on the 19th January 2017. The 'MARC-1IS'-rated facility is STSSB's 177th ICP series.

AFC to launch debut Sukuk soon

NIGERIA: Africa Finance Corp (AFC) is likely to launch a debut US dollar Sukuk facility by early February, according to Reuters, quoting sources close to the deal. The Sukuk facility would be structured in the Murabahah format and issued through a private sale and listed on NASDAQ Dubai. The sources added that at least one of the arranging banks is based in the UAE.

Masraf Al Rayan to issue US$500 million Sukuk

QATAR: Masraf Al Rayan has mandated banks for a US$500 million Sukuk issuance, according to Reuters quoting banking sources. Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates NBD and Noor Bank are among the banks mandated to arrange the planned sale.

Saudi Arabia plans Sukuk sale

SAUDI ARABIA: Saudi Arabia is planning a Sukuk sale that could happen as early as February to plug its budget deficit, the Financial Times reported. The Islamic debt issuance will form part of a pipeline of bond sales as the Kingdom invests in economic diversification away from oil and it is likely to appeal to regional investors in the Gulf. However, the size of the Sukuk issuance is as yet unknown.

Nogaholding planning Sukuk/bonds

BAHRAIN: The investment unit of the National Oil and Gas Authority, Nogaholding, has engaged banks to facilitate it tapping the international debt capital markets, either through an Islamic or conventional facility, reported Reuters, which quoted an unnamed source saying that a Sukuk issuance is more likely. The issuance is anticipated to be after Nogaholding secures a credit rating. The company in March 2016 raised US$570 million through a five-year Murabahah facility.

DEAL TRACKER Full Deal Tracker on page 35

EXPECTEDDATE	COMPANY'S NAME	SIZE	STRUCTURE	ANNOUNCEMENTDATE
19th January 2017	Sunway Treasury Sukuk	US$22.4 million	Sukuk	16th January 2017
TBA	Nogaholding	TBA	Sukuk/Bond	15th January 2017
TBA	Masraf Al Rayan	US$500 million	Sukuk	11th January 2017
Early February 2017	Africa Finance Corp	TBA	Sukuk Murabahah	11th January 2017
13th January 2016	Sunway Treasury Sukuk	US$26.81 million	Sukuk	11th January 2017
TBA	Sabah Credit Corporation	US$781.99 million	Sukuk Musharakah	11th January 2017
January of 2017	Investment Corporation of Dubai	TBA	Sukuk/Bond	9th January 2017

AFRICA

IDB affirms support for Republic of Niger

NIGER: The IDB has affirmed its commitment to support the Republic of Niger in ensuring food security and the development of energy and transport sectors of the country, according to a press statement. Since the Republic of Niger joined the IDB in 1974, the multilateral bank has provided US$760 million-worth of financing to the country.

ASIA

Amana Bank's sixth branch launched

SRI LANKA: Amana Bank has opened its latest branch in Demetagoda, Colombo, according to a press release. The branch boasts basic banking facilities and an exclusive ladies unit. This follows the launch of another branch in Kirulapone, Colombo last week. The Islamic bank's branch network now stands at 28.

ZICO Law opens office in Brunei

BRUNEI: Rozaiman Abdul Rahman (RAR) has joined the ZICO Law network, extending ZICO Law's reach to Brunei, effective the 1st January, according to a press statement. RAR is led by Mohamad Rozaiman Abdul Rahman who covers Islamic finance among others.

HDC to tap Asian countries in 2017

MALAYSIA: The Halal Industry Development Corporation (HDC) is targeting Asian countries for global Halal market growth in 2017, particularly Japan, China and ASEAN member countries, as announced in a press release. The HDC is planning to generate an extra US$10.3 billion from Japan alone with a focus on Olympics 2020. China, with a Muslim population of 30 billion, has already established its ties with Malaysia in the Halal market through the 'One Belt, One Road' strategy.

SC expects significant capital-raising from companies

MALAYSIA: Securities Commission is expecting companies to raise capital in the range of between RM90 billion (US$20.11 billion) and RM105 billion

(US$23.46 billion) this year, with the majority of it coming from bonds and Sukuk. According to Chairman Ranjit Ajit Singh, of this amount, about RM85 billion (US$19 billion) would be raised through bonds and Sukuk, RM7 billion (US$1.56 billion) each from IPOs and equities respectively, and the rest from the secondary market.

PSE updates Shariah compliant list

PHILIPPINES: Philippine Stock Exchange (PSE) has updated the list of Shariah compliant stocks in the fourth quarter of 2016, according to a press circular. Four new stocks joined the list, bringing the number of Islamic securities to 56, the same number recorded in the third quarter the year. Pilipinas Shell Petroleum Corporation, Shakey's Pizza Asia Ventures, Dizon Copper Silver Mines and Double Dragon Properties Corporation are the new additions while Italpinas Development Corporation, Cirtek Holdings Philippines, Del Monte Pacific and Liberty Telecoms Holdings have been removed from the list.

Pakistani subcommittee proposes tax exemptions

PAKISTAN: Pakistan's Islamic banking subcommittee on taxation has finalized recommendations to create tax neutrality for Islamic financial institutions. According to the Business Recorder, the subcommittee has proposed for the provincial governments to exempt the registration of the sale/purchase of immovable property by financial institutions under any Islamic contract from the levy of capital value tax, registration fee, stamp duty, district/municipal/town taxes and any other related taxes. The recommendations are reportedly being communicated to the federal and provincial governments.

HSF to open in Malaysia

MALAYSIA: Herbert Smith Freehills (HSF) has secured a Qualified Foreign Law Firm license from Bar Council Malaysia. The firm revealed in a statement that its new Malaysian office, to open in May 2017, will comprise a team of local and international lawyers and serve as an Islamic finance law hub.

CIIF launches code of ethics

MALAYSIA: The Chartered Institute of Islamic Finance Professionals (CIIF) has issued the CIIF Code of Ethics and CIIF Standards of Professional Conduct which set out principles on par with other codes of ethics by its peers, both foreign and local, according to national news agency Bernama.

Islamic finance for Sindh transmission line

PAKISTAN: The National Transmission and Despatch Company has secured a combination of Islamic and conventional financing facilities worth PKR18 billion (US$171.43 million) from a consortium of banks to fund the installation of a 250 km 500 kV transmission line from Thar Desert to Matiari district, according to The News quoting a spokesman. The Islamic tranche is worth PKR11.5 billion (US$109.52 million) and carries a tenor of 15 years together with the conventional package. The participating banks are Dubai Islamic Bank Pakistan, Faysal Bank and Askari Bank.

INCEIF inks deal with IFRC

MALAYSIA: The International Center for Education in Islamic Finance (INCEIF) has signed an MoU with the International Federation of Red Cross and Red Crescent Societies (IFRC) to venture into Islamic social finance opportunities. According to a joint press release, INCEIF will research feasible financial instruments to aid humanitarian initiatives, including the design and development of Sukuk social impact bonds, Waqf and Zakat endowment funds among others. Pilot projects are expected to be launched in selected countries in Africa, the Middle East and Asia, including Malaysia.

Increased interest in Islamic home financings

PAKISTAN: Pakistani Islamic banks led in terms of home financings compared to conventional banks in the third quarter of 2016, according to the central bank's quarterly housing finance review. The total amount of financings by Islamic banks was PKR25.8 billion (US$245.94 million) during the period with Islamic banks' share in financing for the outright purchase of houses amounting to 51.27%.

EUROPE

Al Rayan to promote Birmingham

UK: Al Rayan Bank and Birmingham Airport are exploring joint opportunities to promote the 'Midlands Engine'. According to a statement, CEO of the Islamic bank, Sultan Choudhury and Birmingham Airport's brand ambassador, Uday Dholakia, have met recently to discuss efforts on both sides to enhance the repertoire of Birmingham in key markets such as Qatar.

CBRT reduces borrowing limits

TURKEY: The Central Bank of the Republic of Turkey (CBRT) has reduced banks' borrowing limits through the interbank money market to TRY11 billion (US$2.95 billion), effective the 16th January. The CBRT announced in a statement that its funding provided through the repo markets of Borsa Istanbul may be limited on certain days when deemed necessary. Banks will be able to meet their remaining liquidity needs without limits at a late liquidity window funding rate at the end of the day, it added.

Al Rayan establishes BTLPPs for Scottish market

SCOTLAND: Al Rayan Bank has launched Shariah compliant buy-to-let purchase plans (BTLPPs) in Scotland, one month after the inauguration of its first Scottish branch. According to a press release, the occupancy payment rate is 2.99% with the discounted variable at 3.19% for 35% deposit contribution and 65% finance to value; and 3.39% with the discounted variable at 3.49% for 25% deposit contribution and 75% finance to value until the 31st December 2018.

GLOBAL

Fintech for Islamic finance in the works

GLOBAL: Luxembourg-based EETHIQ Advisors and French asset manager 570 AM are collaborating on two fintech initiatives, EETHIQ founder and managing director Rachid Ouaich told IFN. The first project is expanding 570 AM's Shariah compliant digital mortgage offering to other European countries beyond France; the firms are currently working with a few European banks to do so.

The second is developing a personal finance management platform, which is currently still at the research and development stage. The app, which will have the capability to link to banking accounts, will incorporate Shariah compliant financial products and automated Zakat calculations.

MIDDLE EAST

DFSA's framework recognized

UAE: Dubai Financial Services Authority (DFSA) has announced in a press release that its regulatory framework for central counter parties has been recognized by the European Commission as equivalent to the EU's regulatory framework. The recognition is based on DFSA's work and practices in promoting financial stability through a reduction in systemic risk.

EI launches Islamic credit card

UAE: Emirates Islamic (EI) has introduced its Cashback Plus Visa Signature credit card, rewarding customers up to 10% cashback on purchases made locally and internationally, according to a statement.

Bank Nizwa's new Shariah initiatives

OMAN: Bank Nizwa's Shariah Supervisory Board has approved proposals for new products and services to meet the needs of its growing customer base, according to a press release. The board was also updated on the bank's 2017 Shariah Master Plan which covers a wide range of Shariah structuring and compliance initiatives, including the Shariah audit plan and the Shariah training strategy.

DIFC announces region's first fintech accelerator

UAE: Dubai International Financial Center (DIFC) has launched the region's first fintech accelerator in partnership with Accenture, according to a press release. The launch is expected to provide better exposure in financial services technology in the Middle East, Africa and South Asia. The accelerator is aimed to start with a 12-week accelerator program to promote knowledge in areas such as trade finance and Shariah-based services, among young leaders and entrepreneurs.

Bawan renews Islamic facility with Bank Albilad

SAUDI ARABIA: Bawan Company has renewed a SAR200 million (US$53.3 million) Islamic facility agreement with Bank Albilad to finance its working capital requirements, Mubasher.info reported. The credit facilities will be paid within a maximum period of six months.

Taajeer engages SRB

SAUDI ARABIA: Jeddah-based Taajeer has mandated Shariyah Review Bureau (SRB) to oversee its real estate, machinery and vehicle trading business from a Shariah perspective, according to a press release. Taajeer, which typically invests in vehicle trading and equipment leasing, seeks to tap the regional market with Shariah compliant financing allocation strategies and leasing capabilities.

IDB and Saudi Health Ministry join forces

SAUDI ARABIA: The IDB has signed an MoU with Saudi Arabia's Ministry of Health as part of ongoing efforts to enhance the country's health sector, according to a statement. Furthermore, the Ministry of Health and the IDB will also cooperate in the field of generating a vaccine to tackle the Middle East's respiratory syndrome's coronavirus and facilitating the holding of global forums on the issue, in cooperation with the World Health Organization and the OIC.

Ithmaar relaunches Thimaar

BAHRAIN: Ithmaar Bank has lowered the minimum amount of savings required to win prizes for its Thimaar savings account. According to a statement, the Islamic retail bank also increased the total number of winners and the total prize purse.

ADIB launches investment note

UAE: Abu Dhabi Islamic Bank (ADIB) confirmed in a statement that it has introduced its first Islamic equity investment structured note of 2017. Carrying a maturity of one year, the note allows investors exposure to undervalued blue chip companies from a range of sectors including healthcare, technology and telecommunications. Subscription for the wholly capital-guaranteed instrument is open until the 22nd January 2017.

KFH trades US$11.4 billion in Sukuk

KUWAIT: For the 12 months of 2016, Kuwait Finance House (KFH) traded US$11.4 billion-worth of Sukuk, Group Chief Treasury Officer Abdulwahab Essa Al-Roshood said in a statement.

ASSET MANAGEMENT

AMAF spends 84% of 2016 budget on Islamic affairs

UAE: For the year 2016, the Awqaf and Minors Affairs Foundation (AMAF) spent the entire amount of its five endowment funds totaling AED49 million (US$13.34 million), the foundation confirmed in a statement. Out of the total amount, AMAF spent AED41.3 million (US$11.24 million), constituting 84% of the total budget, on Islamic affairs. The rest were designated to social affairs, healthcare, education and righteousness and piety.

EPF's Simpanan Shariah reaches RM59 billion

MALAYSIA: The take-up of the Employees Provident Fund (EPF)'s Simpanan Shariah has reached RM59.03 billion (US$13.22 billion) of the initial RM100 billion (US$22.4 billion) allocated as at the 23rd December 2016, the pension fund announced in a statement. The EPF's CEO, Shahril Ridza Ridzuan, said that the fund has allocated RM50 billion (US$11.2 billion) as further injection for Simpanan Shariah 2018. About 45% of the EPF's total investment assets are already Shariah compliant and the pension fund expects to grow these assets by at least RM25 billion (US$5.6 billion) a year on average.

RESULTS

Bank Muscat

OMAN: For the 12 months of 2016, Bank Muscat's Islamic financing receivables reached OMR855 million (US$2.21 billion), up from OMR635 million (US$1.64 billion) realized the previous year. In a bourse filing, the bank — which runs Meethaq Islamic Banking — said that Islamic banking customer deposits totaled OMR763 million (US$1.98 billion) as at the 31st December, against OMR625 million (US$1.62 billion) the year before. The bank made a 0.6% increase in net profit to OMR176.56 million (US$457.04 million) in 2016.

Bank Albilad

SAUDI ARABIA: Bank Albilad reported a net profit of SAR221.5 million (US$58.99 million) for the fourth quarter of 2016, 8.37% higher year-on-year compared with the SAR204.4 million (US$54.44 million) it recorded in the same period in 2015, according to a bourse filing. For the 12-month period, the bank posted a net profit of SAR807.7 million (US$215.11 million), a slight increase of 2.45% compared with the SAR788.4 million (US$209.97 million) in the previous year.

Riyad Bank

SAUDI ARABIA: Riyad Bank registered a net profit of SAR293 million (US$78.03 million) in the fourth quarter of 2016, a 65.57% decline year-on-year from the SAR851 million (US$226.64 million) it posted in the corresponding quarter of the previous year on the back of higher total operating expenses, according to a bourse filing. For the 12-month period, the bank's net profit came in at SAR3.34 billion (US$889.53 million), 17.46% lower compared with SAR4.05 billion (US$1.08 billion) it recorded in 2015.

Al Madina Takaful

OMAN: Al Madina Takaful made a net profit and surplus for the year attributable to shareholders of OMR1.66 million (US$4.3 million) for the period ended the 31st December 2016 as compared with OMR827,834 (US$2.14 million) in the previous year, according to a bourse filing. Gross contributions from General Takaful stood at OMR23.88 million (US$61.82 million) declining from OMR29.06 million (US$75.22 million) at the end of December 2015 while gross contributions for Family Takaful increased to OMR3.24 million (US$8.39 million) from OMR1.98 million (US$5.13 million).

Emirates Islamic

UAE: Emirates Islamic has announced a net profit of AED106 million (US$28.85 million) for 2016, with total assets increasing 11% from 2015 to AED59.2 billion (US$16.11 billion). According to a press release, total income for 2016, that is, net of customers' share of profit and distribution to Sukukholders, grew 3% to AED2.5 billion (US$680.46 million). Although the total cost for 2016 increased 11% to AED1.1 billion (US$299.4 million) compared with 2015, total costs decreased over the last three quarters of 2016 as cost control measures were established during the year.

Alizz Islamic Bank

OMAN: Alizz Islamic Bank posted a net loss after provisions and tax at OMR4.72 million (US$12.22 million) for the year ended the 31st December 2016, an improvement of 11.79% compared with the previous year. The bank's financing receivables stood at OMR312.8 million (US$809.71 billion), a 56.84% growth year-on-year compared with the corresponding period in 2015, according to a statement. Deposits grew to OMR291.03 million (US$753.36 million) during the period, representing an 80.33% growth from the same period in the previous year.

TAKAFUL

Orient UNB Takaful's IPO a success

UAE: Orient UNB Takaful (under incorporation)'s IPO has been oversubscribed more than 13 times, receiving AED826 million (US$224.83 million) for its 600,000 ordinary shares, or 30% of the equity of the new company (AED60 million (US$16.33 million)). Shares were priced at AED100 (US$27.22) apiece plus AED1 (27.22 US cents) as issuing expenses. Managed by Union National Bank (UNB), which also acted as lead receiving bank, the offering was the UAE's first IPO since 2015. UNB confirmed in a statement that work is underway with the Dubai Financial Market to list the new Takaful operator.

Malath appoints financial advisor for capital raise

SAUDI ARABIA: Malath Insurance and Reinsurance Cooperative Company has appointed Capital Investment as its financial advisor for a capital raise through a SAR380 million (US$101.25 million) rights issue, according to a bourse filing. Further announcements will be made in due time.

Solidarity requests CMA's approval for capital cut

SAUDI ARABIA: Solidarity Saudi Takaful Company has requested permission from the Capital Market Authority (CMA) to reduce its capital, according to a bourse filing. The

company had earlier received approval from the Saudi Arabian Monetary Authority to cut its capital. Further announcements will be made in due time.

Agrobank unveils Agro Nurani

MALAYSIA: Shariah compliant Agrobank has launched Agro Nurani, the country's first Takaful coverage for persons with disabilities. The scheme offers various benefits, including cash allowance for disabilities due to accidents. Introduced in three packages, this scheme covers those with physical, hearing and learning disabilities as well as those who are blind and deaf. The coverage does not include those with mental disabilities and multiple disabilities.

Askrindo Syariah expects Ujrah growth

INDONESIA: Takaful operator Askrindo Syariah is expecting a 37% year-on-year increase in income from Ujrah this year to IDR210 billion (US$15.75 million), according to CEO Pribadi as quoted by Kontan; Ujrah underwriting revenue reached IDR153.6 billion (US$11.52 million) last year. For 2016, the company saw Tawidh claims hit IDR36 billion (US$2.7 million), higher than forecasted (IDR18 billion (US$1.35 million)) due to an increase in non-performing financing within the Islamic banking industry. Net income for the operator stood at IDR18 billion last year.

RATINGS

MARC affirms ratings on Northport's Sukuk

MALAYSIA: Northport (Malaysia) has received 'MARC-1IS' and 'AA-IS' ratings on its Islamic commercial papers and Islamic medium-term notes respectively from MARC, with stable outlooks. The ratings affect the outstanding amount of RM350 million (US$78.15 million) in 2016 under both programs worth RM1.5 billion (US$334.92 million) cumulatively.

CMS's Islamic notes rated 'AA3/Stable'

MALAYSIA: RAM has assigned an 'AA3/Stable' rating to Cahya Mata Sarawak (CMS)'s proposed RM2 billion (US$446.93 million) Islamic medium-term note program, according to a statement. The rating agency has reaffirmed CMS's corporate credit ratings at 'AA3/Stable/P1', and concurrently withdrew the rating assigned to its proposed RM1 billion (US$223.47 million) Sukuk Ijarah program (2016/2036), which has not been issued.

Alliance Islamic rated

MALAYSIA: Alliance Islamic Bank has been assigned 'A1/Stable/P1' ratings by RAM, which explained in a statement that the rating is predicated upon the bank's importance as the Islamic banking arm of the Alliance Group as well as the support it receives from Alliance Bank.

Tesco no longer rated by MARC

MALAYSIA: MARC has withdrawn its 'AA-(cg)' and 'AA-IS(cg)' ratings with a negative outlook on Tesco Stores's RM3.5 billion (US$781.47 million) conventional and Islamic medium-term note programs, according to a media release. The withdrawal was initiated by Tesco and MARC has ceased all analytical coverage on the organization.

LEKAS's Sukuk rating reaffirmed

MALAYSIA: Lebuhraya Kajang-Seremban (LEKAS)'s RM633 million (US$141.77 million) junior Sukuk Istisnah (2007/2025) facility has been reaffirmed at 'C2/Stable' by RAM which noted in a statement that the rating considers the low likelihood of repayment of the program as well as its deeply subordinated position to the company's other debt obligations.

Wego's Sukuk rating withdrawn

MALAYSIA: The preliminary 'AAA/Stable' rating assigned to Wego's proposed Sukuk Musharakah of up to RM210 million (US$47.03 million) in December 2015 has been withdrawn by RAM as the rating has lapsed. According to an official statement, there had been no drawdown of the proposed facility.

MARC withdraws Symphony Life's Islamic notes' rating

MALAYSIA: MARC has withdrawn its 'AAA-IS(fg)/Stable' rating on Symphony Life's guaranteed Islamic medium-term note program, according to a statement. The rating withdrawal follows the full redemption and subsequent cancelation of the program, as confirmed by the facility agent.

MOVES

CIMB-Principal IAM

MALAYSIA: IFN understands that **Norashikin Mohd Kassim** has left CIMB-Principal Islamic Asset Management (CIMB-Principal IAM) to join an Islamic bank; standing in as acting CEO is Chief Investment Officer **Mohd Fadzil Mohamed**. Norashikin was appointed as CEO of CIMB-Principal IAM in 2015.

Arab Bank

JORDAN: Arab Bank, which has an Islamic banking arm, has appointed **Ghassan Hanna Sulaiman** as CFO of its senior executive management, with the appointment effective from the 8th January 2017.

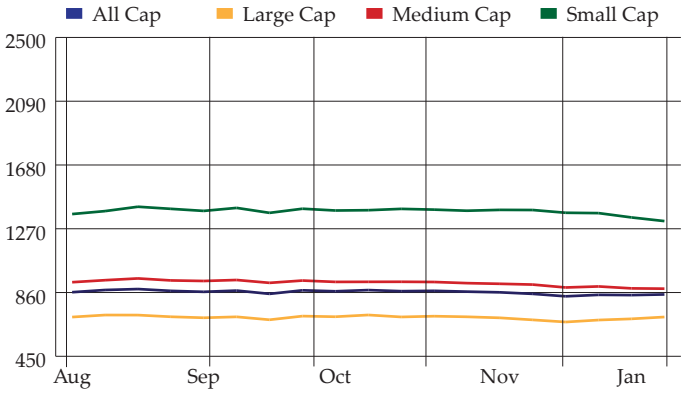
Dar Al Sharia

UAE: **Sohail Zubairi**, the founding CEO of Dar Al Sharia, has retired, the Shariah advisory firm informed IFN. COO **Mian Muhammad Nazir** has been appointed as Sohail's replacement.

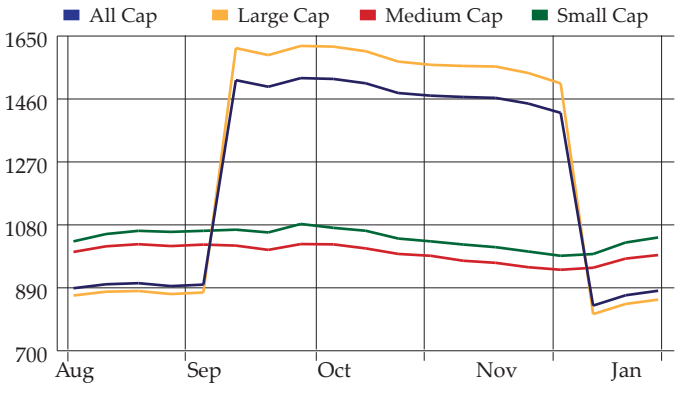
Expected date	Company's name	Size	Structure	Announcement Date
19th January 2017	Sunway Treasury Sukuk	US$22.4 million	Sukuk	16th January 2017
TBA	Nogaholding	TBA	Sukuk/Bond	15th January 2017
TBA	Masraf Al Rayan	US$500 million	Sukuk	11th January 2017
Early February 2017	Africa Finance Corp	TBA	Sukuk Murabahah	11th January 2017
13th January 2016	Sunway Treasury Sukuk	US$26.81 million	Sukuk	11th January 2017
TBA	Sabah Credit Corporation	US$781.99 million	Sukuk Musharakah	11th January 2017
January of 2017	Investment Corporation of Dubai	TBA	Sukuk/Bond	9th January 2017
TBA	Dubai Islamic Bank	US$500 million	Sukuk	4th January 2017
11th January 2017	IILM	US$850 million	Sukuk	4th January 2017
11th January 2017	IILM	US$260 million	Sukuk	4th January 2017
TBA	Government of Oman	US$1 billion	Sukuk/bond	3rd January 2017
6th January 2017	Government of Malaysia	US$779.96 million	GII Murabahah	3rd January 2016
TBA	Sabana Reit	US$55.24 million	Sukuk	27th December 2016
TBA	Kingdom of Saudi Arabia	TBA	Sukuk	28th December 2016
22nd March 2017	Central Bank of Bahrain	US$112.37 million	Sukuk Salam	21st December 2016
First quarter of 2017	Warba Bank	US$250 million	Sukuk	20th December 2016
TBA	Nigeria Debt Management Office	TBA	Sukuk	19th December 2016
TBA	EQUATE Petrochemical Co	US$2 billion	Sukuk	16th Dcember 2016
First quarter of 2017	Al Baraka Banking Group	US$300 million	Sukuk	7th December 2016
TBA	ACWA Power	up to US$1 billion	Sukuk	6th December 2016
20th December 2016	Bank Syariah Mandiri	IDR1 trillion	Sukuk	24th November 2016
TBA	TRIplc Medical	up to RM639 million	Sukuk Murabahah	16th November
TBA	Sichuan Development Holdings	US$300 million	Sukuk	4th November 2016
TBA	Warba Bank	US$250 million	Sukuk	3rd November 2016
First quarter of 2017	National Real Estate Company	US$500 million	Sukuk	25th October 2016
TBA	Housing Development Finance Corporation of Maldives	TBA	Sukuk	13th October 2016
TBA	APM Automotive Holdings	up to RM1.5 billion	Sukuk Murabahah	11th October 2016
TBA	Shatel	IRR10 trillion	Sukuk Murabahah	10th October 2016
2017	Muhammadiyah	up to IDR1 trillion	Sukuk	28th September 2016
TBA	Aktif Bank	TRY25 million	Sukuk Murabahah	26th August 2016
TBA	Widad Capital	up to RM110 million	Sukuk Murabahah	23rd August 2016
First quarter of 2017	Government of Nigeria	TBA	Sukuk	11th August 2016
Fourth quarter of 2016	Malaysia Debt Ventures	up to RM1 billion	Sukuk	4th August 2016
TBA	DanaInfra Nasional	RM10 billion	Sukuk	19th July 2016
First quarter of 2017	Government of Kuwait	up to KWD5 billion	Sukuk	4th July 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

REDMONEY SHARIAH INDEXES

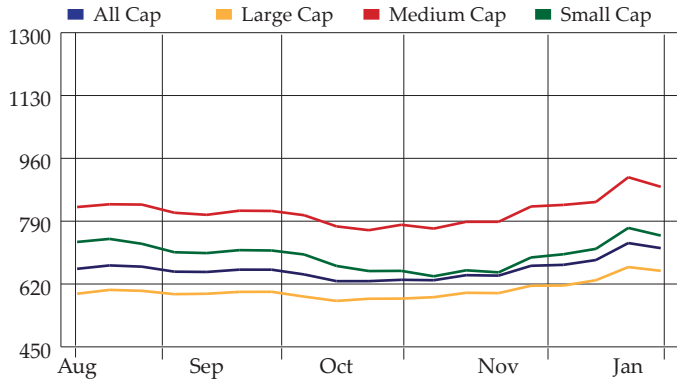
REDmoney Asia ex. Japan *6 Months*



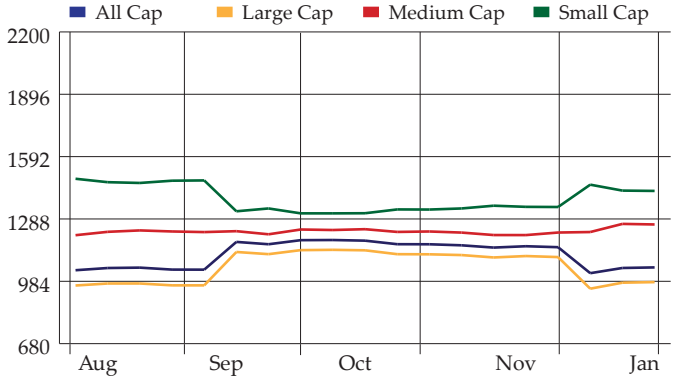
REDmoney Europe *6 Months*



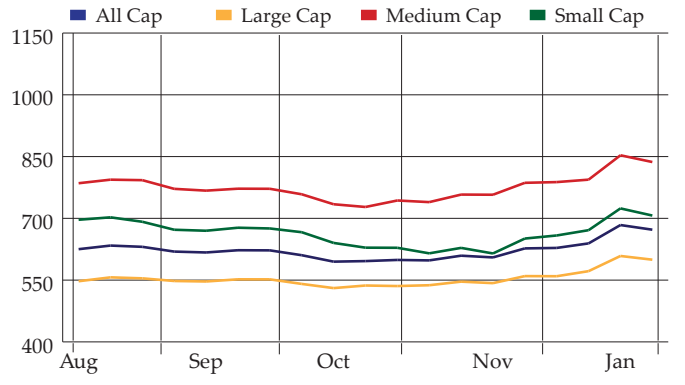
REDmoney GCC *6 Months*



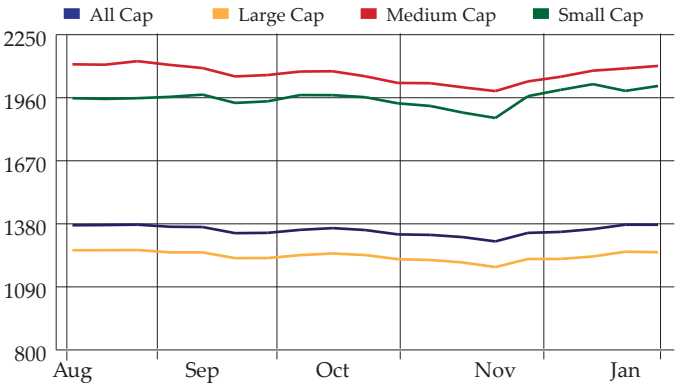
REDmoney Global *6 Months*



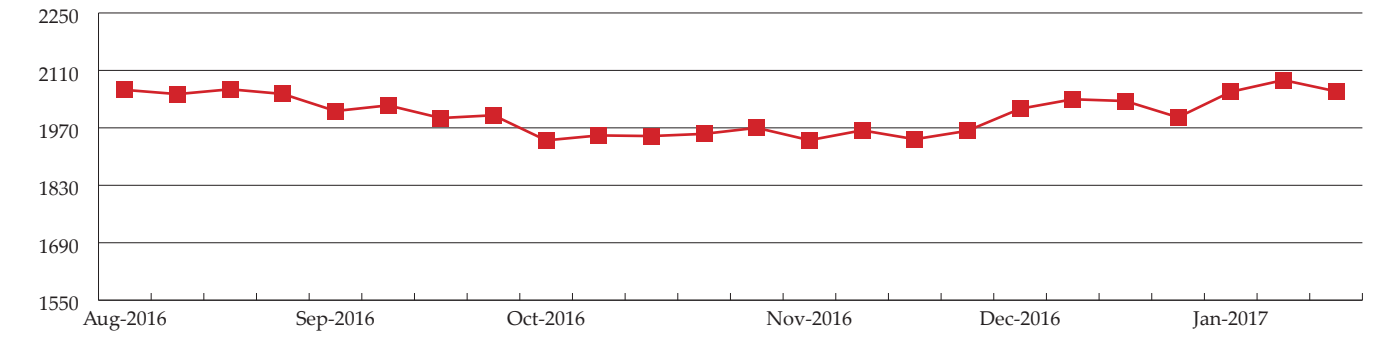
REDmoney MENA *6 Months*



REDmoney US *6 Months*

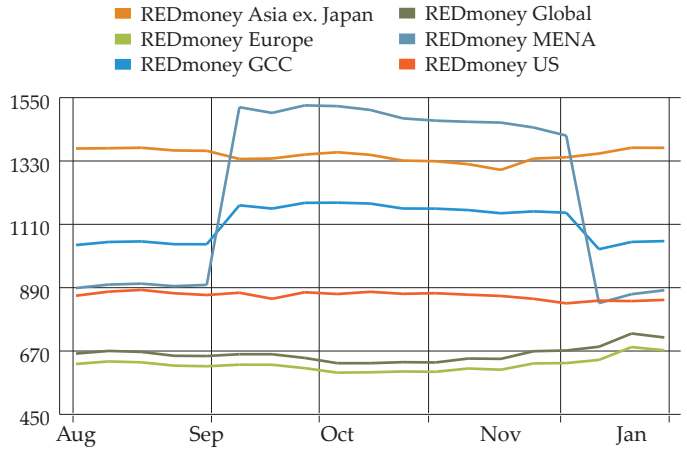


SAMI Halal Food Participation (All Cap) *6 months*

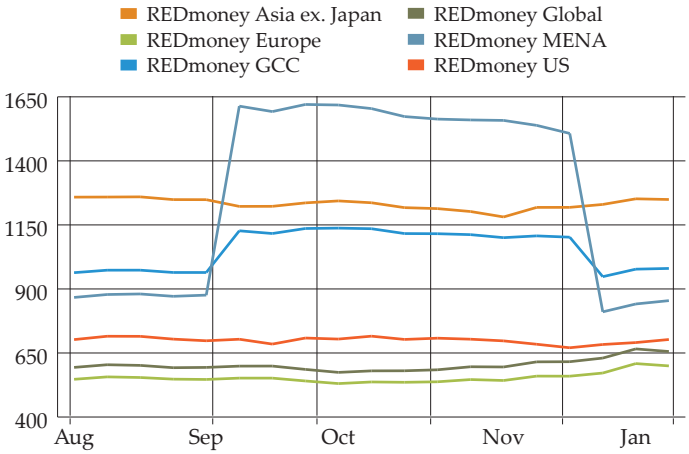


REDMONEY SHARIAH INDEXES

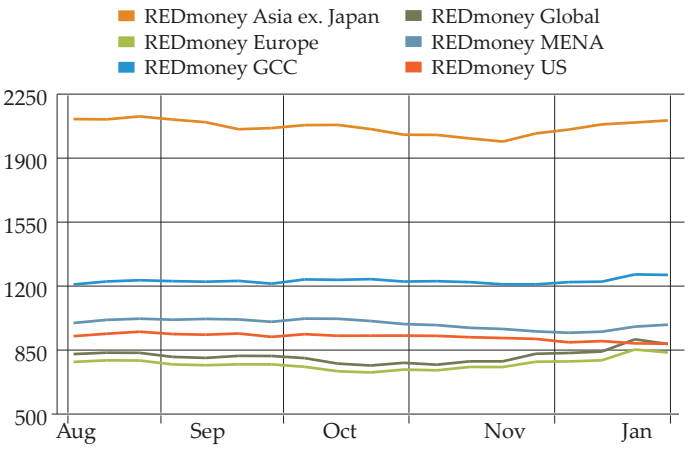
REDmoney Global Shariah Index Series (All Cap) *6 Months*



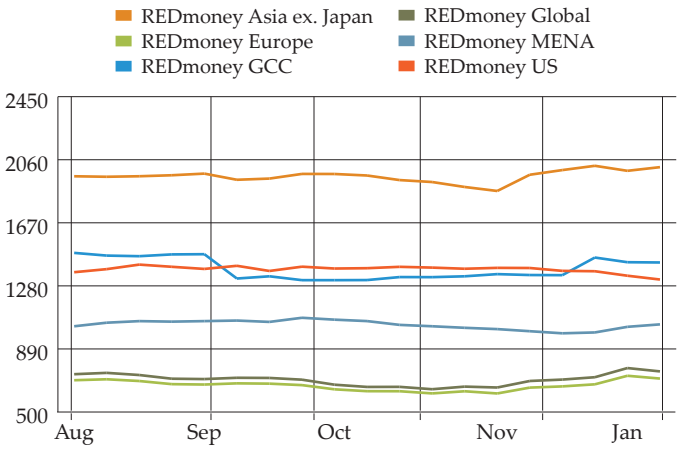
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



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



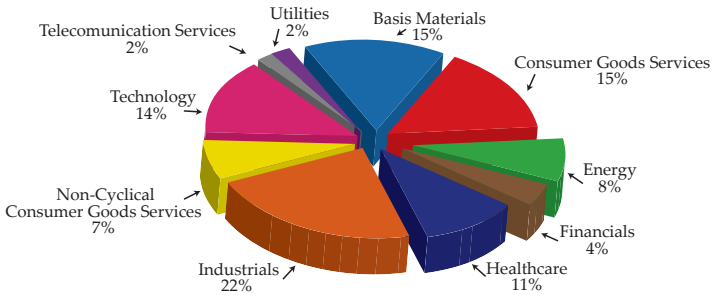
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



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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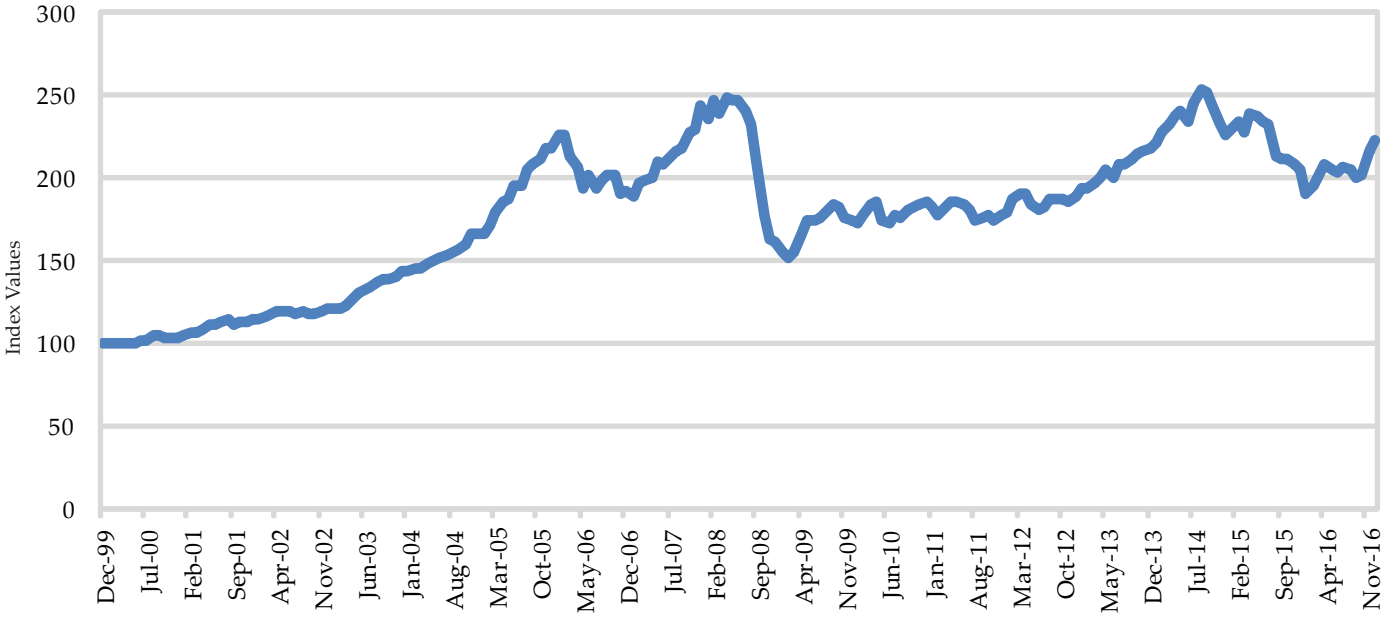
Tel +603 2162 7800

EUREKAHEDGE FUNDS TABLES

Eurekahedge Middle East/Africa Islamic Fund Index



Top 10 Monthly Returns for Developed Markets Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al-Ameen Islamic Active Allocation Plan - I	UBL Fund Managers	8.76	Pakistan
2	Al-Ameen Islamic Active Allocation Plan - II	UBL Fund Managers	8.74	Pakistan
3	Al-Ameen Islamic Active Allocation Plan - V	UBL Fund Managers	8.71	Pakistan
4	Al-Ameen Islamic Active Allocation Plan - III	UBL Fund Managers	8.68	Pakistan
5	Al-Ameen Islamic Active Allocation Plan - IV	UBL Fund Managers	8.58	Pakistan
6	iShares MSCI World Islamic UCITS ETF	BlackRock Advisors (UK)	2.40	Ireland
7	QInvest JOHCM Sharia'a	J O Hambro Capital Management	2.12	Cayman Islands
8	Deutsche Noor Precious Metals Securities - Class A	DWS Noor Islamic Funds	1.91	Ireland
9	AmOasis Global Islamic Equity	AmInvestment Management	1.70	Malaysia
10	Al Rajhi Global Equity Fund	Al Rajhi Bank	1.66	Saudi Arabia
	Eurekahedge Islamic Fund Index		**1.69**	

Based on 50.00% of funds which have reported December 2016 returns as of the 16th January 2016

Top 10 Monthly Returns for Emerging Markets Funds

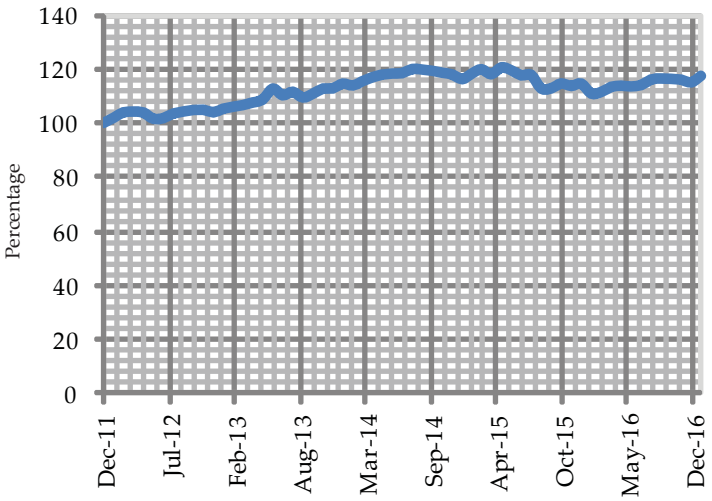
	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al-Ameen Shariah Stock	UBL Fund Managers	12.07	Pakistan
2	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	12.03	Pakistan
3	Atlas Islamic Stock	Atlas Asset Management	11.92	Pakistan
4	Meezan Islamic	Al Meezan Investment Management	11.86	Pakistan
5	Al Meezan Mutual	Al Meezan Investment Management	11.74	Pakistan
6	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	11.58	Pakistan
7	Alfalah GHP Islamic Stock	Alfalah GHP Investment Management	11.42	Pakistan
8	Al Baraka	Hermes Fund Management	9.38	Egypt
9	Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	9.11	Egypt
10	Pak Oman Islamic Asset Allocation	Pak Oman Asset Management	8.96	Pakistan
	Eurekahedge Islamic Fund Index		**1.15**	

Based on 49.58% of funds which have reported December 2016 returns as of the 16th January 2016

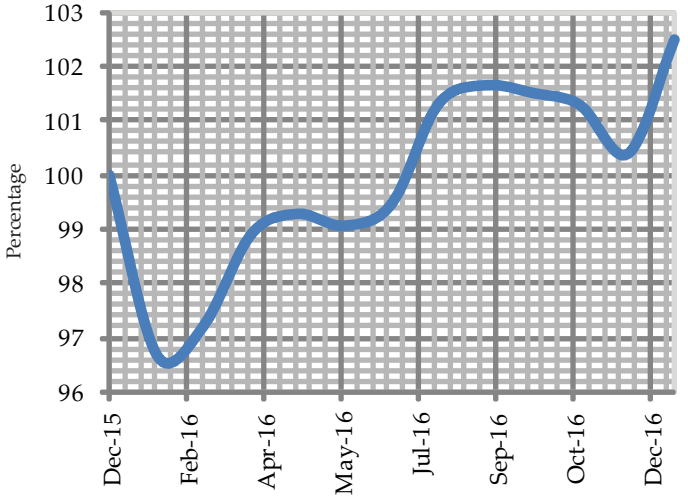
Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, 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	Public Islamic Bond	Public Mutual	3.00	Malaysia
2	Public Islamic Select Bond	Public Mutual	3.00	Malaysia
3	Atlas Pension Islamic - Debt Sub	Atlas Asset Management	2.11	Pakistan
4	Meezan Tahaffuz Pension - Debt Sub	Al Meezan Investment Management	1.60	Pakistan
5	Meezan Islamic Income	Al Meezan Investment Management	1.21	Pakistan
6	Al-Ameen Islamic Aggressive Income	UBL Fund Managers	1.09	Pakistan
7	AmBon Islam	AmInvestment Management	0.00	Malaysia
8	BIMB Dana Al-Fakhim	BIMB UNIT Trust Management (BUTM)	-0.02	Malaysia
9	Pacific Dana Murni	Pacific Mutual Fund	-0.28	Malaysia
10	Libra AsnitaBond	Libra Invest	-0.33	Malaysia
	Eurekahedge Islamic Fund Index		**(0.14)**	

Based on 65.52% of funds which have reported December 2016 returns as at the 16th January 2017

Top 10 Islamic Fund Equity by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	Al Baraka	Hermes Fund Management	51.34	Egypt
2	Faisal Islamic Bank of Egypt Mutual	Hermes Fund Management	39.98	Egypt
3	Al Rajhi Saudi Equity	Al Rajhi Bank	24.16	Saudi Arabia
4	FALCOM Saudi Equity	FALCOM Financial Services	23.80	Saudi Arabia
5	Al Rajhi Petrochemical and Cement Equity	Al Rajhi Bank	21.50	Saudi Arabia
6	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	18.11	Pakistan
7	Al Meezan Mutual	Al Meezan Investment Management	18.00	Pakistan
8	Atlas Pension Islamic - Equity Sub	Atlas Asset Management	17.90	Pakistan
9	Atlas Islamic Stock	Atlas Asset Management	17.67	Pakistan
10	Al Rajhi GCC Equity	Al Rajhi Bank	17.65	Saudi Arabia
	Eurekahedge Islamic Fund Index		**3.47**	

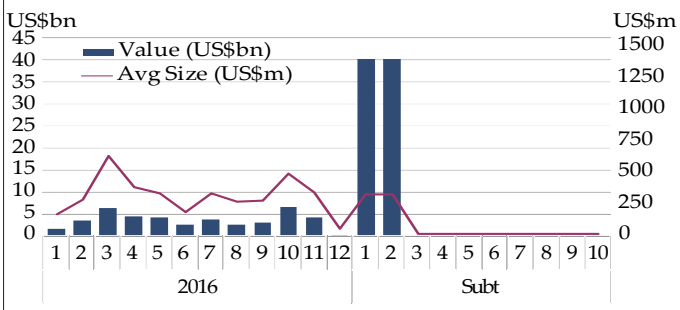
Based on 67.02% of funds which have reported December 2016 returns as at the 16th January 2017

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

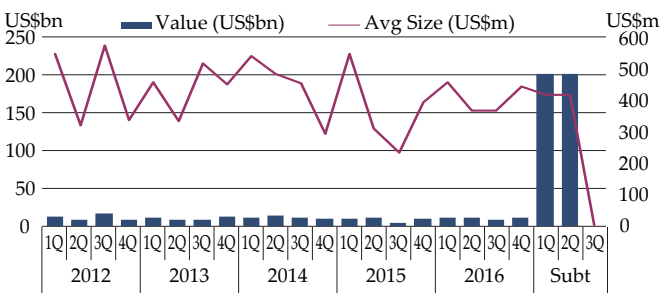
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
30th Nov 2016	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	1,250	Mizuho, Standard Chartered Bank, JPMorgan, National Bank of Kuwait, National Bank of Abu Dhabi, RHB Capital, Gulf International Bank, Natixis, Credit Agricole
23rd Nov 2016	Etihad Airways	UAE	Sukuk	Euro market public issue	1,500	JPMorgan, HSBC, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank
21st Nov 2016	Bank Muamalat Malaysia	Malaysia	Sukuk	Domestic market public issue	113	OCBC, DRB-HICOM
18th Nov 2016	Maxis Broadband	Malaysia	Sukuk	Domestic market public issue	560	Maybank, CIMB Group, AmInvestment Bank
8th Nov 2016	Barwa Bank	Qatar	Sukuk	Euro market private placement	130	National Bank of Abu Dhabi PJSC
31st Oct 2016	Bank Pembangunan Malaysia	Malaysia	Sukuk	Domestic market public issue	357	HSBC, CIMB Group
25th Oct 2016	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk	Foreign market public issue	500	Standard Chartered Bank, Kuwait Finance House, Arab Banking, Dubai Islamic Bank, Emirates NBD, QInvest, Noor Bank
24th Oct 2016	Celcom Networks	Malaysia	Sukuk	Domestic market public issue	133	HSBC, CIMB Group
20th Oct 2016	Maxis Broadband	Malaysia	Sukuk	Domestic market public issue	120	AmInvestment Bank
18th Oct 2016	Ahli United Bank	Bahrain	Sukuk	Euro market public issue	200	Credit Suisse, Citigroup, Credit Agricole
12th Oct 2016	TNB Global Ventures Capital	Malaysia	Sukuk	Euro market public issue	750	BNP Paribas, HSBC, CIMB Group, Citigroup
12th Oct 2016	Cagamas	Malaysia	Sukuk	Domestic market private placement	139	CIMB Group
12th Oct 2016	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	1,079	HSBC, RHB Capital, Maybank, CIMB Group, AmInvestment Bank
5th Oct 2016	Islamic Republic of Pakistan	Pakistan	Sukuk	Euro market public issue	1,000	Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, Citigroup, Noor Bank
4th Oct 2016	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	2,000	Standard Chartered Bank, JPMorgan, BNP Paribas, Arab Banking, Credit Suisse
26th Sep 2016	Edaran SWM	Malaysia	Sukuk	Domestic market public issue	194	CIMB Group, Hong Leong Financial Group
22nd Sep 2016	UMW Holdings	Malaysia	Sukuk	Domestic market public issue	169	Maybank, CIMB Group
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, 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

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



Top 30 Issuers of Global Sukuk *12 Months*

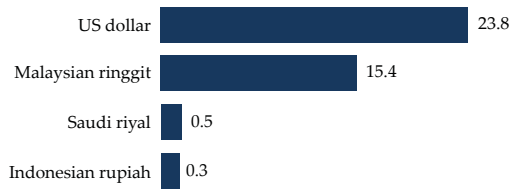
	Issuer	Nationality	Instrument	Market	US$ (mln)	Iss (%)	Managers
1	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	2,850	7.1	Standard Chartered Bank, JPMorgan, National Bank of Kuwait, Gulf International Bank, Natixis, CIMB Group, Emirates NBD, Mizuho, National Bank of Abu Dhabi, RHB Capital, Credit Agricole
2	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk	Euro market public issue	2,500	6.2	Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, CIMB Group, Citigroup
3	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	2,242	5.6	RHB Capital, Maybank, CIMB Group, Hong Leong Financial Group, AmInvestment Bank, HSBC
4	Kingdom of Bahrain	Bahrain	Sukuk	Euro market public issue	2,000	5.0	Standard Chartered Bank, JPMorgan, BNP Paribas, Arab Banking, Credit Suisse
5	Malaysia Sukuk Global	Malaysia	Sukuk	Euro market public issue	1,500	3.7	JPMorgan, HSBC, Maybank, CIMB Group
5	Etihad Airways	UAE	Sukuk	Euro market public issue	1,500	3.7	JPMorgan, HSBC, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank
7	Sarawak Hidro	Malaysia	Sukuk	Domestic market public issue	1,365	3.4	RHB Capital, Maybank
8	DP World	UAE	Sukuk	Euro market public issue	1,200	3.0	JPMorgan, Deutsche Bank, HSBC, National Bank of Abu Dhabi, First Gulf Bank, Barclays, Dubai Islamic Bank, SG Corporate & Investment Banking, Citigroup, Emirates NBD
9	Danga Capital	Malaysia	Sukuk	Domestic market public issue	1,110	2.8	RHB Capital, AmInvestment Bank, Standard Chartered Bank, DBS, CIMB Group
10	EI Sukuk	UAE	Sukuk	Euro market public issue	1,007	2.5	Standard Chartered Bank, HSBC, Arab Banking, Maybank, Dubai Islamic Bank, Emirates NBD, Al Hilal Bank, Noor Bank
11	Islamic Republic of Pakistan	Pakistan	Sukuk	Euro market public issue	1,000	2.5	Standard Chartered Bank, Deutsche Bank, Dubai Islamic Bank, Citigroup, Noor Bank
11	Hazine Mustesarligi Varlik Kiralama Anonim Sirketi	Turkey	Sukuk	Euro market public issue	1,000	2.5	Standard Chartered Bank, HSBC, Emirates NBD
13	Lembaga Pembiayaan Perumahan Sektor Awam	Malaysia	Sukuk	Domestic market public issue	986	2.5	OCBC, RHB Capital, Maybank, Bank Islam Malaysia, CIMB Group, Affin Investment Bank, AmInvestment Bank
14	Lebuhraya DUKE Fasa 3	Malaysia	Sukuk	Domestic market public issue	912	2.3	RHB Capital, Maybank, CIMB Group, AmInvestment Bank
15	Maxis Broadband	Malaysia	Sukuk	Domestic market public issue	886	2.2	CIMB Group, AmInvestment Bank, Maybank
16	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	880	2.2	Maybank, CIMB Group, Affin Investment Bank, AmInvestment Bank
17	Kuveyt Turk Katilim Bankasi	Kuwait	Sukuk	Euro market public issue	850	2.1	HSBC, Kuwait Finance House, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Kuwait Projects, QInvest, Noor Bank, Standard Chartered Bank, Arab Banking, Dubai Islamic Bank
18	Pengurusan Air SPV	Malaysia	Sukuk	Domestic market public issue	793	2.0	RHB Capital, Maybank
19	TNB Global Ventures Capital	Malaysia	Sukuk	Euro market public issue	750	1.9	BNP Paribas, HSBC, CIMB Group, Citigroup
19	Emaar Sukuk	UAE	Sukuk	Euro market public issue	750	1.9	RHB Capital, Maybank, CIMB Group, AmInvestment Bank
21	Prasarana Malaysia	Malaysia	Sukuk	Domestic market public issue	733	1.8	RHB Capital, Maybank, Kenanga Investment Bank, CIMB Group, AmInvestment Bank
22	Jambatan Kedua	Malaysia	Sukuk	Domestic market public issue	644	1.6	RHB Capital, Maybank, Kenanga Investment Bank, AmInvestment Bank
23	Barwa Bank	Qatar	Sukuk	Euro market private placement	605	1.5	National Bank of Abu Dhabi, Standard Chartered Bank
24	Dubai Islamic Bank	UAE	Sukuk	Euro market public issue	570	1.4	Standard Chartered Bank, HSBC, Arab Banking, National Bank of Abu Dhabi, Dubai Islamic Bank, Sharjah Islamic Bank, Emirates NBD
25	Sime Darby	Malaysia	Sukuk	Domestic market public issue	535	1.3	Maybank
26	Bank Albilad	Saudi Arabia	Sukuk	Euro market private placement	533	1.3	HSBC
27	Sultanate of Oman	Oman	Sukuk	Euro market public issue	500	1.2	Standard Chartered Bank
27	SIB Sukuk III	UAE	Sukuk	Euro market public issue	500	1.2	Standard Chartered Bank, HSBC, Kuwait Finance House, Arab Banking, Maybank, Dubai Islamic Bank, Emirates NBD, QNB Capital, Noor Bank
27	Noor Bank	UAE	Sukuk	Euro market public issue	500	1.2	Standard Chartered Bank, First Gulf Bank, Dubai Islamic Bank, Sharjah Islamic Bank, Citigroup, Emirates NBD, Noor Bank
27	Emirate of Sharjah	UAE	Sukuk	Euro market public issue	500	1.2	Bank of Sharjah, HSBC, Barclays, Dubai Islamic Bank, Sharjah Islamic Bank, Commerzbank Group
	Total				**32,202**	**80**	

DEALOGIC LEAGUE TABLES

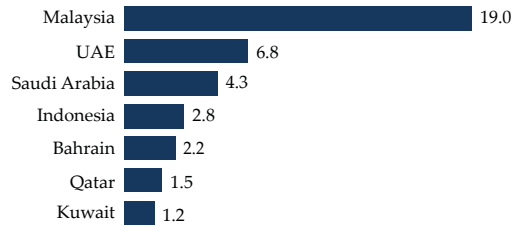
Top Managers of Sukuk *12 Months*

	Manager	US$ (mln)	Iss	%
1	CIMB Group	5,374	37	13.3
2	Maybank	4,428	31	11.0
3	Standard Chartered Bank	4,210	23	10.4
4	RHB Capital	3,245	31	8.1
5	HSBC	2,979	19	7.4
6	AmInvestment Bank	2,546	21	6.3
7	Dubai Islamic Bank	1,829	16	4.5
8	JPMorgan	1,598	7	4.0
9	Emirates NBD	1,456	14	3.6
10	National Bank of Abu Dhabi	1,394	9	3.5
11	Citigroup	1,146	6	2.8
12	Deutsche Bank	987	4	2.5
13	Arab Banking	854	8	2.1
14	Noor Bank	634	8	1.6
15	BNP Paribas	588	2	1.5
16	First Gulf Bank	550	5	1.4
17	Credit Suisse	467	2	1.2
18	National Bank of Kuwait	450	4	1.1
19	Kenanga Investment Bank	406	7	1.0
20	Abu Dhabi Islamic Bank	393	3	1.0
21	Affin Investment Bank	391	4	1.0
22	Hong Leong Financial Group	367	4	0.9
23	Natixis	353	2	0.9
23	Gulf International Bank	353	2	0.9
25	OCBC	281	7	0.7
26	DBS	253	3	0.6
27	Sharjah Islamic Bank	226	3	0.6
28	Credit Agricole	223	3	0.6
29	Kuwait Finance House	206	4	0.5
30	Barclays	203	2	0.5
	Total	**40,309**	**133**	**100**

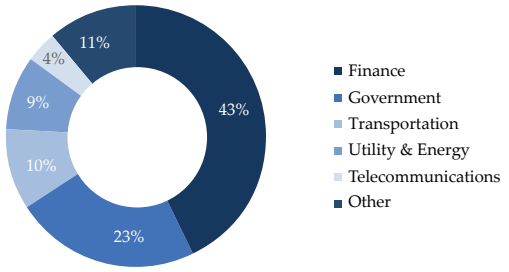
Sukuk Volume by Currency US$ (billion) *12 Months*



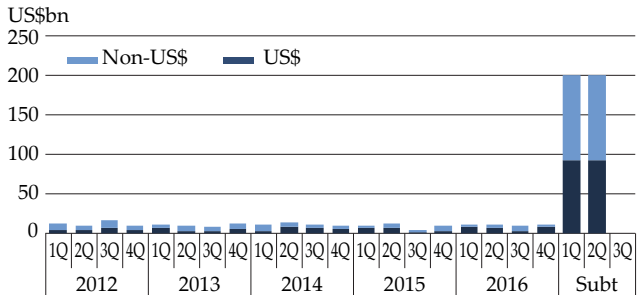
Sukuk Volume by Issuer Nation US$ (billion) *12 Months*



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	Kuwait Finance House	1,996.95	1	16.75
1	National Bank of Kuwait	1,996.95	1	16.75
3	Al Rajhi Capital	663.095	2	5.56
4	Alinma Bank	549.592	2	4.61
5	Banque Saudi Fransi	497.225	3	4.17
5	HSBC	497.225	3	4.17
5	Samba Capital & Investment Management	497.225	3	4.17
8	National Commercial Bank	490.692	3	4.11
9	Mitsubishi UFJ Financial Group	377.187	3	3.16
10	Standard Chartered Bank	328.93	3	2.76

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

	Legal Advisor	US$ (million)	No	%
1	Latham & Watkins	4,279.41	3	32.24
2	Allen & Overy	3,197.46	3	24.09
3	Clifford Chance	2,755.10	2	20.76
4	Baker & McKenzie	1,365.39	1	10.29
5	Norton Rose Fulbright	915.00	1	6.89
6	White & Case	758.14	1	5.71

DEALOGIC LEAGUE TABLES

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

	Mandated Lead Arranger	US$ (mln)	No	%
1	Dubai Islamic Bank	1,019	12	7.5
2	Samba Capital	969	5	7.2
3	Banque Saudi Fransi	939	4	6.9
4	Saudi National Commercial Bank	933	4	6.9
5	Noor Bank	815	12	6.0
6	Abu Dhabi Islamic Bank	788	7	5.8
7	Emirates NBD	643	8	4.8
8	SABB	604	6	4.5
9	Standard Chartered Bank	525	8	3.9
10	Abu Dhabi Commercial Bank	385	4	2.8
11	Al Rajhi Capital	366	2	2.7
12	HSBC	365	6	2.7
13	Union National Bank	345	4	2.6
14	Natixis	265	4	2.0
15	Alinma Bank	260	2	1.9
16	Riyad Bank	258	2	1.9
17	Arab National Bank	254	2	1.9
18	Arab Banking Corporation	251	4	1.9
19	Credit Agricole	249	3	1.8
20	First Gulf Bank	243	6	1.8
21	Bank Albilad	229	1	1.7
22	National Bank of Abu Dhabi	207	3	1.5
23	Gulf International Bank	193	3	1.4
24	Al Hilal Bank	184	1	1.4
25	Mashreqbank	173	3	1.3
26	National Bank of Bahrain	159	2	1.2
26	Ahli United Bank	159	2	1.2
28	Mitsubishi UFJ Financial Group	138	1	1.0
29	Sharjah Islamic Bank	136	3	1.0
30	BBK	133	2	1.0

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

	Bookrunner	US$ (mln)	No	%
1	Abu Dhabi Islamic Bank	1,006	6	13.2
2	Noor Bank	746	7	9.8
3	Dubai Islamic Bank	642	5	8.4
4	Standard Chartered Bank	570	5	7.5
5	Emirates NBD	474	3	6.2
6	Mashreqbank	428	2	5.6
7	SABB	312	2	4.1
8	Abu Dhabi Commercial Bank	283	1	3.7
9	Arab Banking Corporation	275	4	3.6
10	Saudi National Commercial Bank	267	1	3.5

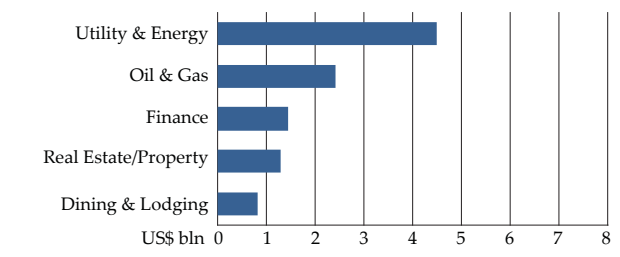
Top Islamic Finance Related Financing Deal List *12 Months*

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
20th Sep 2016	Aluminium Bahrain	Bahrain	1,500
19th Sep 2016	Saudi Electricity	Saudi Arabia	1,333
9th Mar 2016	Dhuruma Electricity	Saudi Arabia	1,138
15th Jun 2016	PNB Jersey	Malaysia	889
29th Aug 2016	Atlantis The Palm	UAE	850
31st Aug 2016	Almarai	Saudi Arabia	600
1st Mar 2016	National Oil & Gas Authority	Bahrain	570
10th May 2016	Allana International	UAE	500

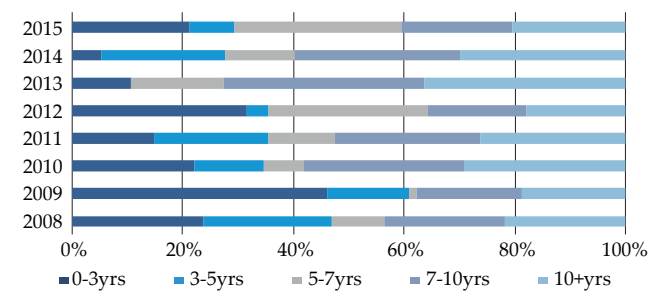
Top Islamic Finance Related Financing by Country *12 Months*

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	5,756	7	42.6
2	UAE	4,181	19	30.9
3	Bahrain	1,188	2	8.8
4	Qatar	460	1	3.4
5	Turkey	384	3	2.8
6	India	368	1	2.7
7	Egypt	305	2	2.3
8	Malaysia	283	1	2.1
9	Jordan	275	1	2.0
10	Pakistan	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: Mayumi Ohira (Media Relations)
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FEBRUARY 2017		
22nd	KL Awards Dinner	Kuala Lumpur, Malaysia
27th	Iran Dialogue	Tehran, Iran
28th	Dubai Awards Dinner	Dubai, the UAE
MARCH 2017		
6th	IFN Oman Forum	Muscat, Oman
14th	CIS Forum	Astana, Kazakhstan
22nd	China OIC Forum	Beijing, China
28th	IFN Morocco Forum	Casablanca, Morocco
APRIL 2017		
10th – 11th	IFN Asia Forum	Kuala Lumpur, Malaysia
11th	IFN FinTech Forum	Kuala Lumpur, Malaysia
MAY 2017		
16th	IFN UK Forum	London, the UK
JULY 2017		
27th	IFN Indonesia Forum	Jakarta, Indonesia
SEPTEMBER 2017		
14th	IFN Turkey Forum	Istanbul, Turkey
18th	IFN Europe Dialogue	Luxembourg
19th	IFN Investor Forum	Luxembourg
OCTOBER 2017		
TBC	Africa Islamic Finance Forum	TBC
16th	Sovereign Sukuk Dialogue	Washington DC, the US
18th	IFN US Forum	New York, the US
TBC	IFN Pakistan Forum	Lahore, Pakistan
NOVEMBER 2017		
19th	IFN Kuwait Forum	Kuwait City, Kuwait
21st	IFN Jordan Forum	Amman, Jordan
22nd	IFN Saudi Arabia Forum	Jeddah, Saudi Arabia

Islamic Finance *news*

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