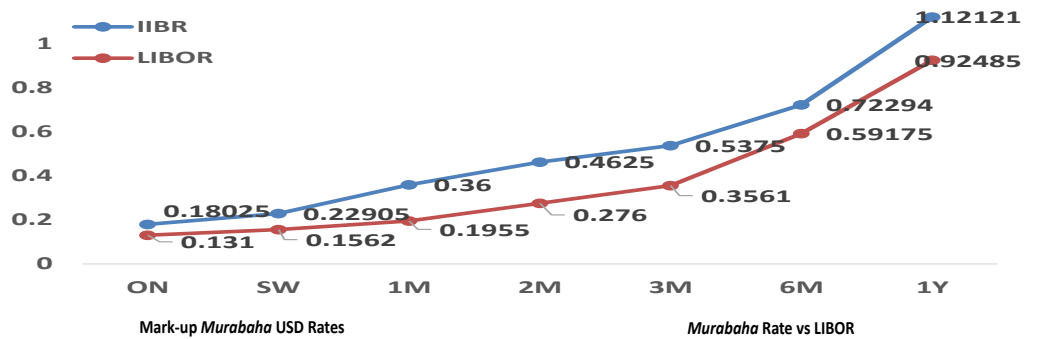


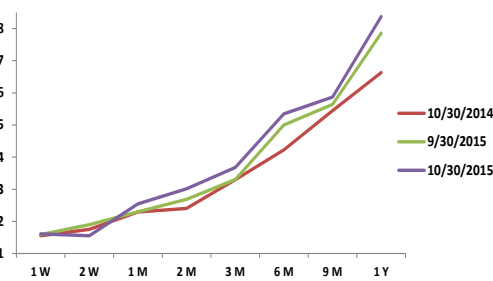
**Issue 6, Fall 2015**

	10/30/2015	9/30/2015	7/30/2015	10/30/2014
	Value	MoM	QoQ	YoY
<b>Equity</b>				
Dow Jones Islamic Index	2864.54	▲ 8.10%	▼ -2.01%	▲ 1.01%
Dow Jones Global Index	316.66	▲ 7.62%	▼ -3.24%	▼ -0.76%
MSCI Islamic Index	1121.16	▲ 8.27%	▼ -2.51%	▼ -2.80%
MSCI World Index	1705.80	▲ 7.83%	▼ -3.07%	▲ 0.98%
MSCI Emerging Market Index	847.84	▲ 7.04%	▼ -5.17%	▼ -15.85%
<b>Fixed Income</b>				
LIBOR 6 Month	0.5517	▲ 0.018	▲ 0.072	▲ 0.223
Murabaha USD 6 Month	0.5347	▲ 0.035	▲ 0.067	▲ 0.112
Dow Jones Sukuk Index	102.26	▲ 0.32%	▼ -0.67%	▼ -1.28%
Bloomberg Emerging Market Bond Index	143.67	▲ 2.89%	▼ -0.37%	▼ -0.58%
<b>Insurance</b>				
Bloomberg Takaful Index	125.82	▼ -4.14%	▼ -21.91%	▼ -12.59%

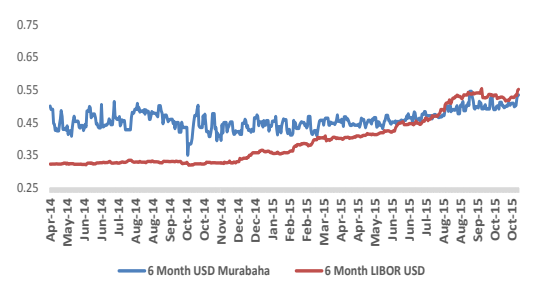
**Yield Curve: IIBR vs LIBOR**



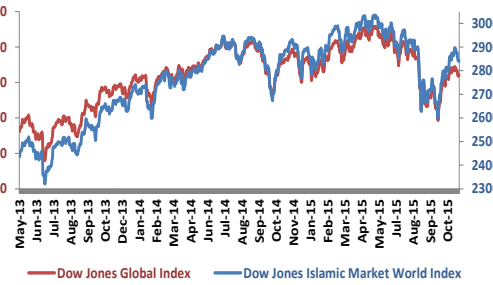
**Mark-up Murabaha USD Rates**



**Murabaha Rate vs LIBOR**



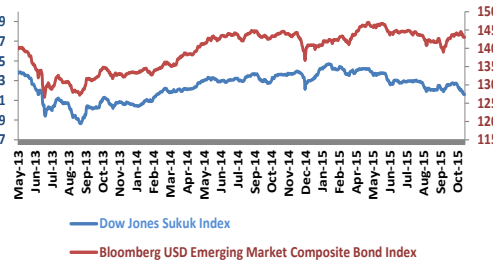
**Dow Jones Global vs Dow Jones Islamic Indices**



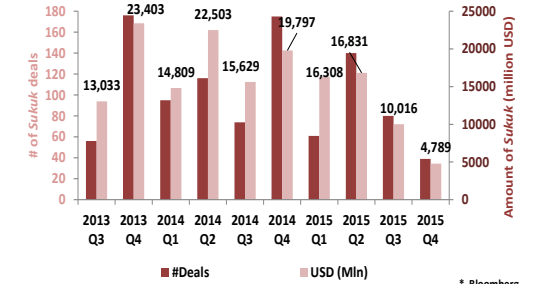
**Bloomberg Takaful Index**



**Dow Jones Sukuk Index vs Bloomberg Emerging Market Composite Bond Index**



**Sukuk and Islamic Financing\***



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\* Bloomberg

# Islamic Finance Bulletin

## Analysis: World Bank held its inaugural symposium entitled, "Islamic Finance: A Catalyst for Shared-Prosperity?"

The World Bank held its inaugural symposium entitled, "Islamic Finance: A Catalyst for Shared-Prosperity?" on Sep. 8-9, 2015 in Istanbul, Turkey. The symposium was co-sponsored by the Islamic Development Bank (IsDB), Guidance Financial, and Borsa Istanbul. The event was part of the Islamic Finance Programmatic Approach and was planned and delivered by the World Bank Global Islamic Finance Development Center in Istanbul. The theme of the inaugural event was selected to enhance the knowledge and understanding of participants on the potential of Islamic finance in enhancing shared-prosperity—one of twin goals of the Bank.

A call for papers was issued which received an overwhelming response of submission of more than 540 abstracts. The two day event was very well attended, with more than 300 registered and more than 125 attended, with participants coming from the public and private sectors within and outside Turkey. Keynote addresses were delivered by Dr. Talat Ulussever, Chairman, Borsa Istanbul, Tan Sri Dr. Andrew Sheng, Former Chairman of Securities & Futures Commission of Hong Kong, and Professor Dr. Abbas Mirakhor, INCEIF, Global University for Islamic finance. Dr. Umar Chapra, Advisor, Islamic Institute of Research and Training (IRTI) also delivered a "distinguished scholar" lecture. Dr. Jemilah Mahmood, Chief, UN World Humanitarian Summit Secretariat addressed the symposium through video conference and provided an update on the activities of the UN Humanitarian Action.

The event was also attended by senior management from Turkey's Capital Markets Board (CMB), Central Bank of Republic of Turkey, Banking Regulations and Supervisory Agency (BRSA), Turkey, Central Bank of Indonesia, and Bank Negara. Dr. Erdem Basci, Governor, Central Bank of Republic of Turkey paid a visit to meet the speakers and other guests. The event received extensive pre- and post-event media coverage in international press.

Some key takeaways from the Symposium include:

- There was general consensus that the risk-sharing feature of Islamic finance is an important component of enhancing shared-prosperity (including risk sharing not only in the financial transactions but risk-sharing in social contracts and social finance)
- Researchers also presented empirical evidence showing positive relationship of Islamic finance with economic growth as well as positive relationship of risk-sharing with economic growth. Papers presented case studies from Bangladesh, Indonesia, and Sudan showing contribution of Islamic micro-finance to economic development as well as women development.
- Redistributive instruments of Islamic finance could play a major role in enhancing prosperity through providing support to poor segments of society as well as providing a safety net. Islamic micro-financing could give the poor affordable access to financial services and could develop hybrid solutions combining market-based risk-sharing and asset-based finance and redistributive instruments. Success in this area will be vital for alleviating poverty and enhancing prosperity.
- Policy-makers need to take serious steps to promote risk-sharing and asset-based finance through the banking sector and capital markets following principles of Islamic finance to fully exploit the potential of Islamic finance to enhance shared-prosperity.

Proceedings of the symposium will be compiled into a book and will be published jointly by the symposium sponsors. Our partners were pleased with the outcome of the symposium and have made commitment to support the next year's symposium.

<http://www.worldbank.org/en/events/2015/09/08/inaugural-annual-symposium-on-islamic-finance>

## G20-Germany urges more Islamic finance integration globally

Islamic finance is increasingly important in the global economy and needs to be better integrated into the international financial system, German Finance Minister Wolfgang Schaeuble told a meeting of the Group of 20 leading economies on Saturday. Islamic finance, which has its core markets in the Middle East and Southeast Asia, follows religious principles that ban interest and shun outright speculation, and as such is seen as an alternative to interest-based banking.

"We all have a better understanding of the risks and role of Islamic finance now," Schaeuble, re-

porting on the G20's Investment and Infrastructure Working Group, told G20 finance ministers and central bankers gathered in Ankara.

In this regard WBG and IMF submitted a note to G20 entitled "Integrating Islamic Finance into Global Finance" discussing policy recommendations on how to integrate Islamic Finance to Global Economy.

<http://www.reuters.com/article/2015/09/05/g20-turkey-islamicfinance-idUSL1N11B0BJ20150905>



"Islamic finance is growing in importance for the global economy. It is therefore important that international financial institutions consider questions related to integrating Islamic finance into global finance," Schaeuble said, according to a text of his speech obtained from the German delegation.

# Islamic Finance Bulletin

## OECD: Encourages changes in the mode of finance, away from debt towards equity



OECD encourages to create a more neutral taxation system between debt and equity and to lower costs of equity floatation in order to spur economic activity. Since Islamic finance is built upon principles of risk sharing and asset based/backed, it could be argued that promoting Islamic finance should would promote economic activity .

OECD, in a recent report stated that:

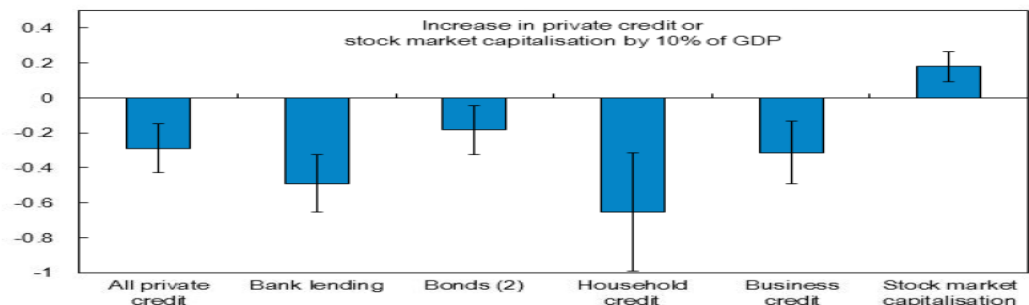
- Credit intermediation and stock markets have hugely expanded over the past half-century. Since the 1960s, credit by banks and other financial institutions to households and businesses has grown three times as fast as economic activity.
- Stock markets have expanded, too, but starting from a lower base and at a much slower pace, so that today their value equals 65% of GDP, a little more than half that of financial sector credit.
- Improving the structure and composition of finance is as important as avoiding credit

booms for the health of our economies. Facilitating stock market funding through

- lowering the costs of equity floatation and
  - making taxation more neutral between debt and equity,
- is linked with higher GDP growth (Figure below). Hence, encouraging changes in the mode of finance, away from debt and towards equity would be particularly powerful in raising economic activity.

<http://www.oecd.org/eco/How-to-restore-a-healthy-financial-sector-that-supports-long-lasting-inclusive-growth.pdf>

**Different forms of financial expansion have contrasting effects on growth<sup>1</sup>**  
Percentage point change in real GDP per capita growth



*“Having IIB in Indonesia will help build infrastructure, bring in capital and boost Islamic banking assets”*

## Islamic Investment Infrastructure Bank (IIB) Moves Closer to Launch

The Islamic Investment Infrastructure Bank, a unit of the Jeddah based Islamic Development Bank (IDB) is expected to be founded in 2016 as a new cross-border institution jointly by the IDB, Indonesia and Turkey. The bank will act to raise funds by means of *sukuk* issuances to fund infrastructure projects. The bank’s founding members will invite other countries to join as shareholders. *“Having IIB in Indonesia will help build infrastruc-*

*ture, bring in capital and boost Islamic banking assets,”* Achmad Kusna Permana, secretary-general at the Indonesia Islamic Banking Association has previously stated in an interview with Bloomberg. *“Malaysia and Saudi Arabia may offer more sophisticated markets, but the greatest funding need is here”* added Permana.

<http://www.islamicfinance.de/?q=node/8204>



Attracting foreign capital is part of those plans; the OJK is considering easing foreign ownership ceilings for Islamic banks, now at

## Indonesia hopes new tools will boost appeal to foreign Islamic banks

Indonesian regulators are promoting new sharia-compliant financial tools and considering easing foreign ownership limits for domestic Islamic banks, seeking to make the sector more appealing to foreign lenders. Indonesia is the world's most populous Muslim nation but its Islamic finance sector is domestically focused and still has only niche status, behind neighboring Malaysia and

several Gulf countries.

The government wants to change that, and this year the financial regulator, Otoritas Jasa Keuangan (OJK), launched a five-year strategy that aims to triple the sector's market share to 15 percent by 2023.

<http://www.reuters.com/article/2015/07/07/islam-financing-indonesia-idUSL8N0ZN03720150707>

# Islamic Finance Bulletin



Chris Salmon at the Bank of England wants to give banks more options on how they access funding

## Bank of England is looking at accepting equities as collateral

Banks could be able to offer the Bank of England shares as collateral under a scheme being considered by officials, executive director Chris Salmon has revealed. Currently, banks can offer assets such as asset-backed securities, government bonds and pools of loans as collateral to ensure the central bank does not lose its money. In future, they could be able to offer shares, too. However, the Bank has not decided on the details, such as whether it would include the bank's own shares or only those it has bought in other firms. The equities would also be subject to a haircut, to protect the Bank of England against losses. For

example, under current rules, a bank offering £100 of UK government bonds maturing in 15 years' time could receive £95.50 from the Bank of England. Speaking to the Money Markets Liaison Committee on Monday, Mr Salmon also said the Bank was looking at Islamic securities.

*"As part of the strategy to broaden liquidity provision, the Bank has committed to consider the feasibility of offering Shari'ah-compliant facilities it would be beneficial to Shari'ah-compliant banks to have access to our balance sheet,"* he said.

<http://www.telegraph.co.uk/finance/bank-of-england/11736422/Bank-of-England-to-accept-equities-as-collateral-from-banks.html>

## Bearish economic climate to drag down Islamic banks' profits, S&P warns

*"2016 will be more challenging because everyone's factoring in a lower oil price for a longer period. That means that government spending, corporate spending and capex are likely to slow down,"* said the analyst. S&P studied a sample of 17 Islamic banks in the Arabian Gulf.

Low oil prices and slower economic growth will hit the earnings growth of Islamic banks in the Arabian Gulf this year and next, says Standard & Poor's. Earnings growth would fall to "mid-single digits" in 2015 and 2016, said the credit ratings agency yesterday, down from the sector's average earnings growth of 12.7 per cent last year. It said the value of collateral assets held by Islamic banks had been hit by government-related entities' declining appetite for capital expenditure amid lower government spending, economic growth and the falling value of Dubai properties.

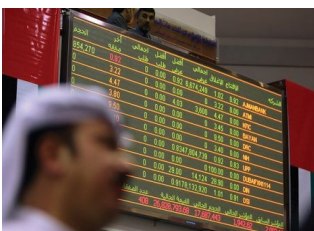
These trends would also bolster non-performing Islamic assets over the next few years, said S&P.

"With revenue from crude oil depressed, and likely

to stay depressed, financing activity should go down across the board," said Sanyalaksana Manibhandu, a senior analyst at the National Bank of Abu Dhabi. "That doesn't just apply to the real estate market, everything will go down because consumers and businesses have less demand for loans and less income." Islamic banks in the UAE are more exposed to real estate than their conventional counterparts. Sharia principles require all transactions to be based on the exchange of real assets, and real estate is commonly used as a form of collateral by customers of Islamic banks.

<http://www.thenational.ae/business/banking/bearish-economic-climate-to-drag-down-islamic-banks-profits-sp-warns>

## Indonesia's Islamic banks launch Islamic repurchase agreement



The move follows the launch in November of a standard contract template for collateralized transactions by the Bahrain-based International Islamic Financial Market (IIFM), where Indonesia's central bank is a founding member.

A group of Indonesian Islamic banks launched on Thursday a standard contract template for sharia-compliant repurchase agreements, aiming to broaden the liquidity management tools available in the sector. The standard will serve as an alternative to interest-based repurchase agreements, which are common money market tools used by conventional banks but are largely absent in Islamic finance.

Currently Islamic banks in Indonesia rely on tools provided by the central bank, such as an Islamic overnight deposit facility known as FASBIS, while the new agreement would standardise bank-to-

bank transactions and help ensure they are cost-effective. An initial group of 18 Islamic banks and Islamic banking units are signatories to the master agreement, which allows use of government-issued Islamic bonds (sukuk) as collateral while tenors can be of no more than one year. "Because we are using underlying (assets), we estimate that the repo rate will be lower (cheaper)," said Ahmad Badawi, head of the Indonesian Islamic Global Market Association.

<http://www.reuters.com/article/2015/07/02/islam-financing-indonesia-idUSL8NOZ103020150702>



# Islamic Finance Bulletin



Licenses for new banks will be given according to criteria set out by the central bank, a statement said

## Qatar's regulator to grant licenses to GCC banks

Qatar's central bank is to grant licences to Gulf Cooperation Council banks to open branches in the state, the government said on Wednesday.

Qatar already has a relatively large number of banks - around 18 - servicing a small population.

Licences for new banks will be given according to criteria set out by the central bank, according to a statement from Qatar's committee for economic and investment affairs.

Usually in the GCC, whose six members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the

United Arab Emirates, banking licences are given to lenders on a reciprocal basis, so when two countries agree to ease rules on applications from each other.

<http://www.reuters.com/article/2015/09/09/qatar-banks-idUSL5N11F39P20150909>

Based on the IFC's previous track record, it is possible that this amortizing structure becomes adopted by other issuers to find a way to attract buyers concerned about rising rates without building in too much rigidity from floating-rate sukuk used to fund fixed rate underlying financial assets leaving all the reinvestment risk with the issuers.

## Amortizing IFC sukuk could offer model during a rising rate environment

IFC, World Bank-related issuer, besides the IFFIm returned to sukuk markets recently. The International Finance Corporation, the private sector development arm of the World Bank, issued a \$100 million sukuk earlier this month which was its first since its \$100 million offering (issued in 2009) matured in 2014. The IFC's first issuance was a 3-year BBA deal in 2004 for RM 500 million. The progression in the sukuk structures employed shows maturation of the IFC's understanding of and familiarity with the Islamic finance industry. When its first sukuk was issued there

was not much of a global market (Bahrain and Malaysia had only just begun issuing USD-denominated sukuk in 2001 and 2002, respectively) and so it went to Malaysia's domestic market for its first issuance. By the time it returned to the market in 2009, the market had matured significantly although at the time the IFC issued its Hilal sukuk, activity was slow due to the impact of the financial crisis.

<http://meglobaladvisors.com/iffim-sukuk-provides-introduction-for-social-responsibility-focused-investors-on-islamic-finance/>

## IFFIm sukuk provides introduction for social responsibility-focused investors on Islamic finance



Michael Bennett, Head, Derivatives and Structured Finance, World Bank argues that the recent sukuk issuances of IFFIm could meet criteria of investors who are seeking socially responsible investments.

In the wake of the global financial crisis, interest in more ethical forms of finance has increased. The two fastest growing areas of ethical finance are Islamic finance and investment funds that follow sustainable investing standards. While these two areas have been largely distinct – involving different investors in different geographic regions – the International Finance Facility for Immunisation ("IFFIm") has issued two sukuk in less than a year that have brought these two investor groups together. IFFIm is an international organization that finances immunization of children, and related health systems strengthening, in the poorest

countries of the world through Gavi, the Vaccine Alliance. Backed by financial support from nine sovereign governments, including the United Kingdom and France, IFFIm raises money in the international capital markets. This funding activity is handled by the World Bank, as IFFIm's Treasury Manager, under the direction of IFFIm's volunteer Board of Directors. IFFIm issued its first sukuk in December 2014. That sukuk, a three year, \$500 million issue, was the largest debut sukuk ever by a supra-national entity. This transaction, which was referred to as the "Vaccine Sukuk," brought the concept of sustainable investing to the sukuk market.

<http://meglobaladvisors.com/iffim-sukuk-provides-introduction-for-social-responsibility-focused-investors-on-islamic-finance/>

# Islamic Finance Bulletin

## Fitch Ratings

The decline in *sukuk* issuances is driven by falling oil prices, challenging external funding conditions due to the expected Federal Reserve interest rate hike, and uncertainties over Greece during 2H15.

### Fitch: *Sukuk* Issuance Slows in 1H15; External Conditions Drag

Fitch Ratings says in a new report that total new bonds and *sukuk* (with a maturity of more than 18 months) from the Gulf Cooperation Council (GCC), Malaysia, Indonesia, Turkey, Singapore, Pakistan, Sri Lanka, and Taiwan (GCC+7) declined 27% in 1H15 from a year ago. Bonds were down 30% and *sukuk* by 16%. In 2Q15 *sukuk* accounted for 20% of total new issuance, marginally up from 18% in 2Q14. The decline is driven by falling oil prices, challenging external funding conditions due to the expected Federal Reserve interest rate hike, and uncertainties over Greece during 2H15. These factors have led to increased volatility in global financial markets, making it

more challenging to raise funds in *sukuk* core markets and emerging markets in general.

In 1H15 GCC *sukuk* and bond issuance declined 25% yoy. Loans (Islamic and conventional syndicated loans) in the GCC+7 issuers were down 7% in 2Q15. However, Islamic finance deals were up 47% yoy in 1H15 and accounted for 13% of total new loans. Islamic finance deals share in 2Q15 increased 9.5%, which was lower than in 1Q15 at 16.5%, but still above the last few years' average of 7%. Islamic deals came mostly from the GCC - mainly Saudi Arabia and the UAE.

<https://www.fitchratings.com/site/fitch-home/pressrelease?id=989299>

*"At the end of the maturity, the underlying assets shall be transferred back to the sourcing entity. The principal and lease yield shall be paid to the investors in one go at maturity. The issuance of the lease certificates, with a gross annual yield of 10.63 percent, was also achieved at a cost that is lower than similar transactions realized recently.*

### KFH-Turkey Issues *Sukuk* of the Highest Ever Amount

House Turkey KFH-Turkey has issued a lease certificate (*sukuk*) of TL160 million with a tenor of 189 days through an initial public offering that achieved a record-breaking highest amount realized so far in Turkey. The issuance, structured in accordance with participation banking principles, is the biggest ever lease certificate (*sukuk*) issuance in TL by the private sector in the domestic market. Operating with the "robust banking" model in Turkey, KFH-Turkey has surpassed its previous issue size of TL150 million in 2013 with its current issuance of TL160 million with a tenor

of 189 days which is structured in accordance with participation banking principles. Halk Yatırım Menkul Değerler A.Ş. was the consortium lead and Bizim Menkul Değerler A.Ş. was the consortium partner in this issuance. The principal and lease yield is to be paid at one time at the end of the maturity.

<https://www.zawya.com/story/>

[KFHTurkey\\_Issues\\_Sukuk\\_of\\_the\\_Highest\\_Ever\\_Amount-ZAWYA20150729100110/](https://www.zawya.com/story/KFHTurkey_Issues_Sukuk_of_the_Highest_Ever_Amount-ZAWYA20150729100110/)



Egypt hopes to issue a second international bond by November or December of 2015, Samy Khallaf, an adviser to the finance minister, said on Monday.

### Egypt aims for second international bond, *sukuk* in coming months

Egypt hopes to issue a second international bond by November or December of 2015, Samy Khallaf, an adviser to the finance minister, said on Monday.

Khallaf said on the sidelines of a Euromoney conference.

<http://af.reuters.com/article/egyptNews/idAFL5N11D35020150907>

The country also hopes to issue Islamic bonds, also known as *sukuk*, by the first quarter of 2016,

# Islamic Finance Bulletin

## Fitch Updates Rating *Sukuk* Criteria; No Rating Impact

Fitch Ratings has updated its Rating *Sukuk* criteria. Existing ratings are not affected by the update.

This criteria report describes Fitch's approach to originator-backed (also called asset-based) *sukuk* structures, in which investors rely on obligor direct support features. Fitch's *sukuk* analysis, as with a conventional bond issue, is driven solely by the originator's rating, in addition to the clarity and strength of the contractual documentation binding the originator to the *sukuk*. Without the necessary documentation, in line with Fitch criteria, *sukuk* could be considered subordinated, or Fitch may choose not to rate the notes at all.

It is also possible for *sukuk* documentation to be structured as subordinated, short-term or secured claims, and if so they will be rated as such in accordance with Fitch's established criteria, with such ratings being benchmarked to the IDR of the financial institution, corporate or sovereign. These criteria do not apply to asset-backed *sukuk*, which rely on underlying collateral.

<https://www.fitchratings.com/site/fitch-home/pressrelease?id=989586>

**FitchRatings**

*Sukuk* do not have a standard structure and each structure may involve differing underlying contractual arrangements. As a result, each structure has to be reviewed individually to assess whether it fits with the agency's criteria

## Jordan's first Islamic microfinance institution officially launched

HM Queen Noor Al Hussein officially launched Ethmar, Jordan's first Shari'ah-compliant microfinance institution on August 8. Ethmar is an affiliate of the King Hussein Foundation, which promotes social equity and economic empowerment in Jordan. Jordan News Agency Petra reported Ethmar Chairman Faris Sharaf as saying three Shari'ah-

compliant products would be launched in collaboration with public and private organizations in the country.

<http://www.islamicfinance.de/?q=node/8055>

Three Shari'ah-compliant products would be launched in collaboration with public and private organizations in the country.

## Shariah finance in growing need for Islamic rating agencies

In the wake of a globally growing Islamic finance sector, rating agencies specialised on Islamic financial products and *Shariah* compliance of financial instruments are seeing fast rising demand for their services. Although the "big three" rating agencies, Standard & Poor's, Moody's and Fitch Rating, are rating Islamic banks or Islamic financial vehicles such as *sukuk*, they are not differentiating them sufficiently enough from conventional banks requesting a global credit rating, critics say. For example, in order to evaluate risk, the established rating agencies would apply a similar analytical framework to Islamic financial institutions as they do to any non-Islamic bank, not ade-

quately weighing the profit-sharing and commodity-based nature of Islamic finance instruments, the wide variety of possible structures for *Shariah*-compliant banking and the complexity of a rating that arises from this factors. While all three claim to have developed their own methodologies to rate *sukuk* and Islamic banks as per their underlying *Shariah*-compliant structures, the agencies acknowledge that Islamic finance rating in general needs completely different analytics.

<http://www.gulf-times.com/eco.-bus.%20news/256/details/455219/shariah-finance-in-growing-need-for-islamic-rating-agencies>



As Islamic finance plays an increasingly important role in both the Muslim and non-Muslim markets, it is useful to explore the often subtle particularities of Islamic finance, especially when it comes to rating their funding instruments

# Islamic Finance Bulletin

## HNA plans China's first Islamic finance deal



*This first Chinese Islamic transaction is just the beginning for Islamic finance into China*

HNA Group, owner of Hainan Airlines, is planning the first Islamic financing deal by a mainland Chinese company, highlighting a growing push by China's private firms to find funding overseas as domestic loans remain scarce and costly.

The shipping and airlines conglomerate plans to raise up to \$150 million in Islamic loans in October to buy ships, said Andrew Kinal, managing director of Geneva-based Shariah Advisory Group (SAG),

which is advising on the deals.

HNA's financing arm will then issue "a very large offshore sukuk", or Islamic bonds, of benchmark size before year-end, said Kinal, which typically means of at least \$500 million.

"A mix of global and Gulf-based banks are working on this transaction," he said.

<http://www.reuters.com/article/2015/09/10/us-islam-financing-china-idUSKCN0RA0CS20150910>

## LCP launches UK's only Sharia-compliant residential fund

*Curiously, there are few opportunities to invest in Sharia-compliant residential funds in the UK. This gap has been seized by Asset Manager, London Central Portfolio*

Sharia-compliant investment has had a presence in the UK for more than 30 years, but only in the past decade has the sector developed rapidly. Although still a fraction of the global investment market, at around 1pc of the world's financial assets, Islamic finance is now estimated to be worth £1.3trn, an increase of 150pc since 2006.

The London Stock Exchange already boasts 53 Sukuk issues (Islamic bonds), raising more than \$38bn. It has a mounting presence in Sharia-compliant Exchange Traded Funds (ETFs) too, with seven available based on Islamic indices. In addition, Takaful (Islamic insurance) has reached a new high in the UK, with premiums estimated to have reached \$30bn in 2012.

It's no surprise, then, that LCP is now launching LCA III, its latest Sharia-compliant offering targeting the private rented sector in the area designated by LCP as "Prime Central London", which covers the boroughs of Kensington and Chelsea, and the City of Westminster.

It is the only one of its kind in the UK and will include a seed portfolio of 40 one- and two-bedroom apartments in areas such as Mayfair and Knightsbridge. It is expected to deliver returns to investors of 12pc IRR per annum over the next five years.

<http://www.telegraph.co.uk/sponsored/property/london-property-investments/11785748/islamic-banking.html>

## Africa Finance Corporation (AFC) receives US\$50 million from the Islamic Development Bank for project financing



*We intend to fully utilize the loan and capital to fund and develop projects within IDB member countries, several of which are also member states of AFC. It is with loans such as these that AFC can continue to improve the quality of the continent's infrastructure and with it help to boost Africa's economic growth*

Africa Finance Corporation (AFC) is pleased to announce its acceptance of a US\$50 million 15 year line of financing, with a 13 year six month repayment period, from the Islamic Development Bank (IDB). The funds will be used to finance projects located across the numerous African IDB member countries. The projects will be structured in a way that is compliant with Islamic Finance, focusing particularly on infrastructural and agricultural projects that promote the economic and social development of the communities concerned. This is AFC's first Islamic finance borrowing and is the result of several years of increasing cooperation and collabora-

tion between the two institutions. AFC initiated discussions in 2009 and a Memorandum of Understanding was later signed with the Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the IDB Group.

[http://www.africafc.org/News-Events/News-Press-Releases/AFC-receives-US\\$50-million-from-the-Islamic-Develo.aspx](http://www.africafc.org/News-Events/News-Press-Releases/AFC-receives-US$50-million-from-the-Islamic-Develo.aspx)



# Islamic Finance Bulletin

## New markets for Islamic finance emerging

New markets for Islamic finance are emerging, with African countries launching debut sovereign sukuk and East Asian countries enabling their domestic markets to tap into Islamic financing, a glimpse of the 2015-2016 edition of the 'State of the Global Islamic Economy' said ahead of the Global Islamic Economy Summit that will run in Dubai on Oct. 5-6, 2015 said.

The Islamic Development Bank (IDB) and the Bill & Melinda Gates Foundation have formally launched a \$500 million grant facility to address poverty and diseases in IDB member countries. Meanwhile, European banks in Rus-

sia and Germany, for example, are also investing in Islamic finance through debut sovereign sukuk and Islamic banking windows.

Besides, as the demand for safe, wholesome and humane food grows around the world, producers of halal food who truly adhere to the concepts of 'halal' and 'tayyib' foods have an opportunity to become the global standard for this segment.

<http://english.alarabiya.net/en/business/banking-and-finance/2015/08/16/New-markets-for-Islamic-finance-emerging-study-finds.html>



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## South Africa Expands Islamic Finance Opportunities

It is proposed that the current legislation in respect of *sukuk* and *murabaha* financing will be extended to listed companies, within the 2015 Draft Taxation Laws Amendment Bill (TLAB) that South Africa's Ministry of Finance recently published for public comment.

As *Sharia* (law) forbids the payment and receipt of interest, South Africa has introduced a tax framework that essentially allows for asset-based financing from which the yield gives rise to tax on an equivalent basis to that on interest income.

South African *Sharia*-compliant financing arrangements have been introduced in stages,

since enactments were made in the 2010 TLAB recognizing diminishing *musharaka*, *mudaraba* and *murabaha* as forms of Islamic finance equivalent to traditional finance entailing interest.

In 2011, changes were made to the tax code to introduce sukuk bond financing arrangements, but these were restricted to the Government. This was extended to public entities from April 1 this year, and is now intended to be available to listed corporates from January 1, 2016.

[http://www.tax-news.com/news/South\\_Africa\\_Expands\\_Islamic\\_Finance\\_Opportunities\\_\\_\\_68702.html](http://www.tax-news.com/news/South_Africa_Expands_Islamic_Finance_Opportunities___68702.html)

*It is also proposed in the 2015 TLAB that it will be possible for listed companies (in addition to banks, as at present) to engage in murabaha financing. Murabaha is described as an unconditional contract of sale between buyer and seller where the goods, cost price, mark-up, and payment date are all clearly defined and agreed upfront.*

## MSCI expands *Shariah*-compliant index range

MSCI, a leading provider of research-based indices, has added to their *Shariah*-compliant index range with the launch of the MSCI Islamic M-Series Indices.

*"We have expanded the existing MSCI Islamic Index Family with the launch of the M-Series that addresses client demand for financial screening criteria based on market capitalization,"* said Rob Ansari, Executive Director and Head of Client Coverage at MSCI in the Middle East. *"We are committed to developing relevant tools for Middle East investors."*

*Shariah* investment principles do not allow investment in companies deriving significant in-

come from interest from lending or companies who have excessive leverage. Traditionally, the financial ratios which measure this have been calculated using accounting measures of total assets as the denominator. The new indices provide an additional screening methodology that instead uses market capitalization. This gives local investors the option to choose between the traditional approach or the more widely used market cap-based methodology.

<http://www.etfstrategy.co.uk/msci-expands-shariah-compliant-index-range-46392/>



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# Islamic Finance Bulletin

## Upcoming Events (November-December 2015)

G20 Mobilizing Islamic Finance for Long-Term Investment Financing (organized by the World Bank Group, Capital Markets Board of Turkey and Borsa Istanbul) <a href="http://www.worldbank.org/en/events/2015/11/18/mobilizing-islamic-finance-for-long-term-investment-financing">http://www.worldbank.org/en/events/2015/11/18/mobilizing-islamic-finance-for-long-term-investment-financing</a>	Istanbul, Turkey	18-19 Nov
IFN Forum Turkey 2015 <a href="http://redmoneyevents.com/main/event.asp?IFN=Turkey2015">http://redmoneyevents.com/main/event.asp?IFN=Turkey2015</a>	Istanbul, Turkey	17 Nov
World Islamic Banking Conference <a href="http://wibc2015.com/">http://wibc2015.com/</a>	Bahrain, Manama	01-03 Dec
AAOIFI – World Bank Annual Conference on Islamic Banking and Finance <a href="http://www.aoifi.com/en/news/aoifi-world-bank-annual-conference-on-islamic-banking-finance-to-be-held-on-6-and-7-december-2015.html">http://www.aoifi.com/en/news/aoifi-world-bank-annual-conference-on-islamic-banking-finance-to-be-held-on-6-and-7-december-2015.html</a>	Bahrain, Manama	06-07 Dec

## Recent Publications On Islamic Finance

<u>Name</u>	<u>Link</u>
LEVERAGING ISLAMIC FINANCE FOR SMEs	<a href="https://g20.org/wp-content/uploads/2015/09/Leveraging-Islamic-Finance-for-SMEs.pdf">https://g20.org/wp-content/uploads/2015/09/Leveraging-Islamic-Finance-for-SMEs.pdf</a>

# Islamic Finance Bulletin

## Description of Data:

**Dow Jones Sukuk Index:** The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari'ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari'ah-compliant fixed-income investments.

The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) indices, which are monitored to ensure their continued adherence to Shari'ah principles.

**Bloomberg USD Emerging Market Composite Bond Index:** The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH. The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

**LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar.** The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

**Dow Jones Islamic Market World Index:** The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

**Dow Jones Global Index:** The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

**MSCI World Islamic Index:** The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

**MSCI World Index:** The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

**MSCI Emerging Markets Index:** The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

**Bloomberg Takaful Index:** Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognized companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009.

**Murabaha Deposit Rates:** Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project where by the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

## Glossary Of Key Terms

<i>Ijara</i>	This is a lease contract wherein the Bank (lessor) leases the property to the customer (lessee) in return for a rental payment for a specified financing period. The Bank promises to transfer the title of the property to the customer at the end of the financing period, if all payments have been made.
<i>Mudaraba</i>	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed.
<i>Murabaha</i>	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
<i>Musharaka</i>	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
<i>Shari'ah Board</i>	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of Shari'ah compliance.
<i>Sukuk</i>	An Islamic financial certificate, similar to a bond in Western finance, that complies with Shari'ah, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a sukuk sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.
<i>Salam</i>	<i>Salam</i> is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of Salam creates a moral obligation on the Salam seller to deliver the goods. The Salam contract cannot be cancelled once signed.
<i>Takaful</i>	The term 'takaful' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a takaful arrangement, the participants contribute a sum of money as wholly or partially tabarru' (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the takaful.
<i>Istisna'</i>	<i>Istisna'</i> is the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of <i>istisna'</i> comes into existence. But it is necessary for the validity of <i>istisna'</i> that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.
<i>Wakala</i>	<i>Wakala</i> is the agency contract which is used widely in Islamic Finance. The applications ranging from brokerages services in permissible activities, like certain stocks, as well as to be the agent in a <i>Murabaha</i> transaction. The client, who wants to be financed, acts as agent of the bank to acquire the asset, then sold to him on credit installments. Agents can be compensated for their assignment with a fixed, variable or performance model, which is frequently used to influence pay outs and cash flows in financial engineering.

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