IFN Islamic Finance news

The World's Leading Islamic Finance News Provider

IFN ASIA Report 2018

Featuring

IFN FORUM ASIA 2018

AbleAce Raakin

ACREDITUS
RISK | RATINGS | MARKETS | ISLAMIC FINANCE

ADNAN SUNDRA & LOW
ADVOCATES & SOLICITORS
www.asl.com.my

ARLC GROUP

Cagamas
National Mortgage Corporation of Malaysia

CIMB ISLAMIC

Danajamin

DDCAP Group

EIGER

FAB SIRAJ

HSBC Amanah

ICD

IdealRatings®

itfc
International Islamic Trade Finance Corporation

ISFD

KLIA

MFPC
Malaysian Financial Planning Council

Moody's INVESTORS SERVICE

MUFG
MUFG Bank (Malaysia) Berhad

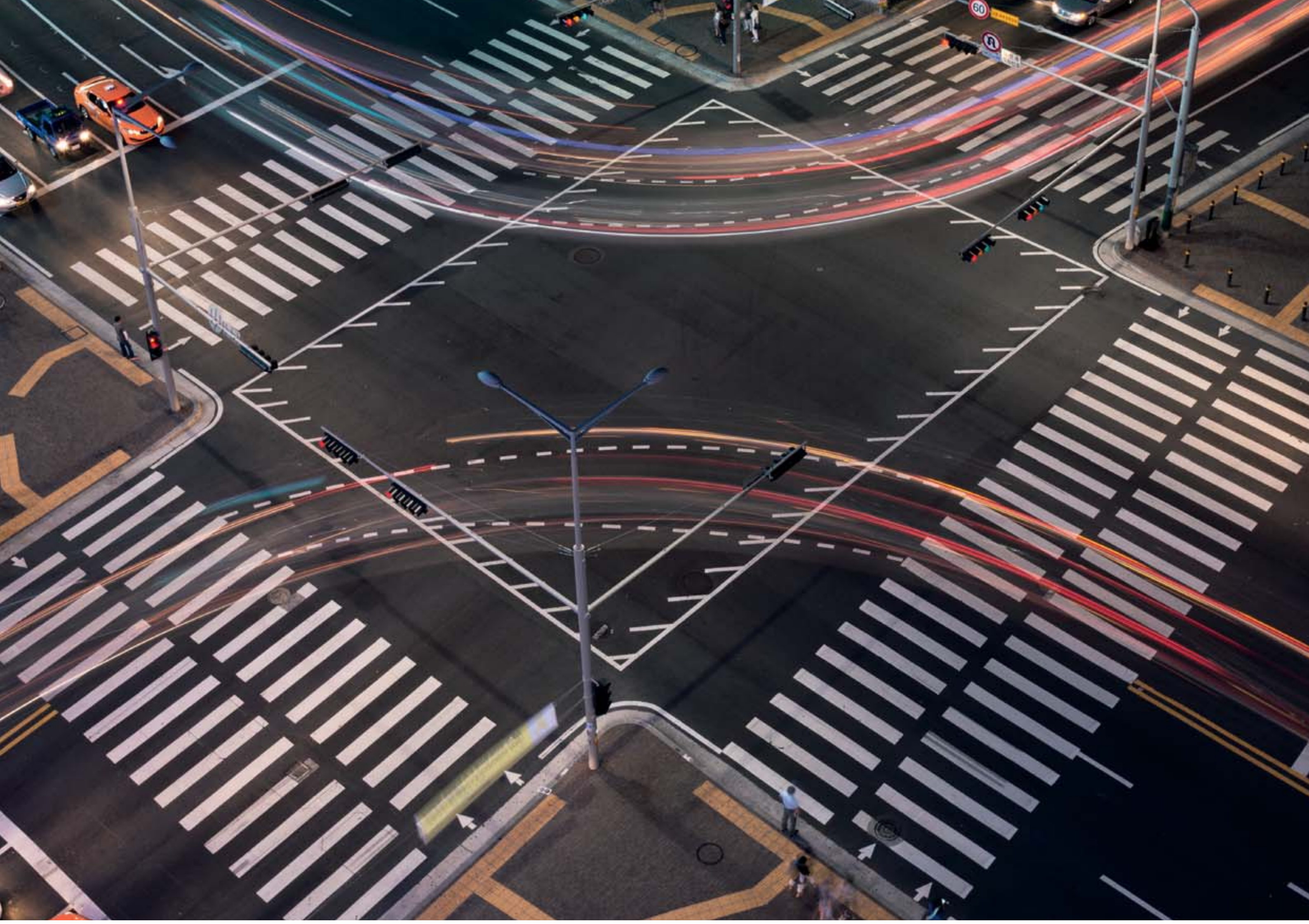
RFI FOUNDATION

th trowers & hamlins

TRX
TUN RAZAK EXCHANGE

UOB 大华银行

REDmoney



CONTENTS

Islamic Finance *news*

Group Managing Editor	Lauren McAughtry lauren.mcaughtry@REDmoneygroup.com
Editor	Vineeta Tan vineeta.tan@REDmoneygroup.com
Senior Contributions Editor	Sasikala Thiagaraja sasikala.thiagaraja@REDmoneygroup.com
Senior Copy Editor	Kenny Ng kenny.ng@REDmoneygroup.com
Senior Journalist	Marc Roussot marc.roussot@REDmoneygroup.com
Journalist	Durgahyeni Mohgana Selvam durgahyeni.selvam@REDmoneygroup.com
Head of Production	Hasnani Aspari hasnani.aspari@REDmoneygroup.com
Senior Production Manager	Norzabidi Abdullah zabidi.abdullah@REDmoneygroup.com
Senior Graphic Designer	Eumir Shazwan Kamal Bahrin eumir.shazwan@REDmoneygroup.com
Associate Publisher	Steve Stubbs steve.stubbs@REDmoneygroup.com
Finance Manager	Fatimah Omar fatimah.omar@REDmoneygroup.com
Managing Director	Andrew Tebbutt andrew.tebbutt@REDmoneygroup.com
Managing Director & Publisher	Andrew Morgan andrew.morgan@REDmoneygroup.com

Published By: REDmoney

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

UAE
PO Box 126732, 3rd Floor, X2
Tower, Jumeirah Lake Tower (JLT),
Jumeirah Bay, Dubai, UAE
Tel: +971 4 427 36 28
Fax: +971 4 431 4614

LONDON
Level 1, Devonshire House, 1
Mayfair Place, London W1J
8AJ, UK

www.IslamicFinanceNews.com

Asia, roaring!

What a time for Islamic finance in Asia!

Malaysia may be the bastion of Shariah finance but we are also seeing new stars being born in the region. Indonesia is an awakened giant firing up its Islamic finance sector with bold reforms and initiatives; Brunei is making a comeback and has set its eyes on playing a more international role in the Islamic finance sphere; the Philippines is still as committed to bring non-interest finance to the masses with its long-awaited Islamic finance bill progressing slowly but surely while activities are flourishing in pockets of China and India.

In South Asia, Pakistan is confident of achieving its 15% market share target this year as it continues to bolster its Islamic finance regulatory infrastructure; Bangladesh is maintaining healthy double-digit growth rates despite the absence of a dedicated Shariah finance regulation; the Maldives is fast catching up with new products and Islamic finance institutions and Sri Lanka is keeping a stable momentum to advance the sector.

A major force behind the acceleration of Islamic finance developments in the region is ASEAN. With a single market in mind, the intergovernmental organization has built banking and finance links between its member countries, easing Islamic finance cross-border flows and it is also setting the benchmark for green bond and Sukuk offerings with its ASEAN Green Bond Standards.

As you read through this report, you will notice several recurring themes: value-based intermediation and ethical/socially responsible finance are the industry's favorites at the moment, fintech has been identified as a game-changer and Islamic financial institutions are braving a new world in an era of new global leaders in the backdrop of familiar issues plaguing geopolitics as well as challenges specific to the Islamic finance industry.

Interesting times indeed — and we look forward to hosting IFN Asia Forum, one of the biggest Islamic finance conferences in Asia, again next year.

Most sincerely,

Vineeta Tan
Editor
Islamic Finance *news*

Over 580 industry players gather in Kuala Lumpur at IFN Asia Forum to discuss the future of Islamic finance

The Islamic finance industry is on the cusp of a major transformation — this was the main consensus reached during IFN Asia Forum 2018 which gathered over 580 senior industry professionals from 37 countries across six continents in Kuala Lumpur on the 7th May. VINEETA TAN reports.

Changing demographics of key Islamic financial markets and evolving consumer behavior driven by the advancement of financial technology are pushing issuers and corporates to create new Islamic asset classes and seek alternative fundraising mechanisms which could redefine the global Shariah finance industry.

The full-day event, opened by Zainal Izlan Zainal Abidin, the deputy chief executive of Securities Commission Malaysia, hosted eight panel discussions and a closed-door high-level roundtable session, touching on the most pressing issues facing the Asian and global Islamic financial industry including the impact of significant global economic and political policies, the effects of the controversial Dana Gas Sukuk case, the rise of green finance and the market-sweeping influence of fintech.

Several groundbreaking announcements were also made including the upcoming blockchain-based Sukuk offering by Indonesia's Blossom Finance, believed to be the first in the world, and plans by Sarana Multi Infrastruktur to issue green Sukuk next year.

One of the main themes of discussion is the rising integration and alignment of Islamic financial principles to various streams of ethical finance such as ESG (environmental, social and corporate governance), SRI (socially responsible investing), PRI (the UN-supported Principles for Responsible Investment) and VBI (value-based intermediation) toward achieving the UN Sustainable Development Goals.

According to Rozani Osman, a financial sector specialist with the World Bank, approximately 72% of millennials are willing to pay a slight premium for sustainable investments.

Infrastructure has been identified as a 'natural' asset class for the SRI and green sector. Annually, the ASEAN economy needs to spend almost US$200 billion to meet its infrastructure needs, creating opportunities for banks and the private sector to partner with governments on project financing using green instruments.

It is agreed that Malaysia is leading the green and SRI Islamic financing pack with dedicated regulatory frameworks and government incentives to stimulate the sector. A combination of the top-down and bottom-up approach is needed to replicate the success in other markets.

While delegates are generally optimistic and welcoming of the green and SRI sector, believing that it will be a mainstay of the Islamic finance industry and could further internationalize the Shariah sector, panelists were careful to remind that the industry has to also brace itself for challenges and risks posed by global macroeconomic events and address prevailing market gaps.

Potential pain points include IFRS 9 which may erode profit margins of banks, the lack of breadth in the Sukuk market (In the case of Malaysia, the slow take-up of Islamic papers outside of the 'AAA' and 'AA' rating band), the lack of retail participation in the Sukuk market and the ongoing Dana Gas court case.

The Dana Gas case has negatively impacted issuer appetite for Sukuk, although, according to Simon Chen, a vice-president and senior analyst of the Financial Institutions Group at Moody's Investors Service, Malaysian investors are confident that such a case would not occur in Malaysia due to its robust legal framework. Nonetheless, the panelists agreed that the outcome of the case would have critical implications on the global Sukuk industry.

The forum ended on a high note with the IFN Fintech Huddle — a 75-minute onstage open interactive dialogue on key fintech topics including the role of Islamic financial institutions in the age of fintech, issues and challenges faced by Islamic fintech start-ups including in the area of fundraising as well as the impact of regulatory changes on the fintech sector and how fintech players and incumbent financial institutions can collaborate to serve the market.

ZAINAL IZLAN ZAINAL ABIDIN — *Deputy chief excutive, Securities Commission Malaysia*

It gives me great pleasure to be here this morning. First and foremost, I would like to thank the organizers, REDmoney and its forum partners, for inviting me to say a few words at this annual event. I am delighted to note that the IFN Asia Forum in Malaysia has consistently attracted significant participation, making it one of the main platforms for extensive discussions on the Islamic finance industry.

This large turnout not only reflects the sustained and growing interest in Islamic finance, but also helps to further broaden the reach of Islamic finance and raise greater awareness on its universal value proposition. I am also confident that the commitment of thought leaders and industry captains from across the globe who are here to deliberate on major opportunities and issues for the Islamic finance industry will generate some potentially impactful takeaways from this forum.

Given the theme of today's event, 'Driving Sustainable Growth through Malaysia's Islamic Capital Markets and Banking System', please allow me to share some developments on Islamic finance vis-a-vis the sustainability agenda at both national and international levels, and identify further opportunities that all of us as industry stakeholders can capitalize on collectively.

The world today is facing numerous social and environmental issues, such as the adverse impact of climate change, poverty and lack of access to good healthcare and education, just to name a few. Accordingly, in the context of investment and financing, stakeholders globally are increasingly demanding activities and solutions that generate both commercial benefits as well as positive social and environmental outcomes.

At the same time, estimates show that the world needs up to US$90 trillion-worth of infrastructure investments by 2030. This presents a significant opportunity for green finance to be part of mainstream investment and financing solutions. According to United Nations Environment estimates, the number of policy measures related to green initiatives for the financial system has reached approximately 200 across 60 countries. Furthermore, Climate Bonds Initiative reported that in 2017, green bond issuances reached US$156.7 billion, setting a new global record.

Opportunities for Islamic finance, and the Islamic capital market in particular, to capitalize on the substantial alignments in the underlying principles between Islamic and sustainable finance are significant. Furthermore, there is already international recognition of such alignments as, for instance, Islamic funds are considered part of the sustainable investment universe by the Global Sustainable Investment Alliance. The most recent Global Sustainable Investment Review report shows that Malaysia is the largest sustainable investment market in Asia ex-Japan with about US$15 billion in asset size and a 30% share, on account of its Islamic funds. Malaysia is therefore well positioned to benefit from this fast-growing market segment that has US$23 trillion in assets under management globally. For this reason, the Securities Commission Malaysia (SC) introduced the Sustainable and Responsible Investment (or SRI) Funds Guidelines in December 2017 to facilitate the issuance and labeling of Shariah compliant and conventional SRI funds.

The SRI Funds Guidelines were preceded by the issuance, in 2014, of the SRI Sukuk Guidelines which aimed to broaden the range of Sukuk offerings by the world's largest Sukuk market. The development of the SRI ecosystem in Malaysia is a key priority for the SC, in view of the growing relevance of SRI while leveraging on the country's leadership in the Islamic capital market. This development has already contributed to greater innovation and collaboration among key stakeholders resulting in a broader and deeper market that has seen increased participation from issuers, investors and intermediaries, which further strengthened Malaysia's value proposition as a regional center for Shariah compliant SRI as envisaged under the country's Islamic Fund and Wealth Management Blueprint which was launched in January 2017.

On the global scale, the agenda for sustainability and sustainable growth may be represented by the 17 UN Sustainable Development Goals (SDGs) launched in 2015 under the 2030 Agenda for Sustainable Development. The initiative is all-encompassing, containing 169 targets within the global goals tackling a broad range of sustainable development issues such as quality of education, availability of clean energy and good health. Toward achieving these goals, various governments would need to cooperate and establish relevant frameworks in tandem with the goals.

The social and economic impact of achieving the SDGs may potentially have far-reaching effects. According to the 'Better Business, Better World' report by the Business and Sustainable Development Commission, achieving the SDGs in four sectors, namely food and agriculture; cities; energy and materials; and health and wellbeing, would create US$12 trillion of new market opportunities by 2030, creating an estimated 380 million new jobs with 90% of the job creation expected in developing countries.

Although the results and benefits may be far-reaching, achieving the SDGs — as we are all aware — is by no means a certainty. It requires a comprehensive approach that includes innovative solutions and engaging collaborations. In this regard, Islamic finance has a real role to play and in certain cases has already had observable demonstration effects. Allow me to illustrate a few of them.

To address SDGs 1 and 2, namely 'No Poverty' and 'Zero Hunger' respectively, Islamic finance has a variety of social finance tools which can be used to mobilize funds and assets from a diverse range of sources, including the corporate sector, impact investors and social entrepreneurs. The UN High-Level Panel for Humanitarian Financing co-chaired by Sultan Nazrin Muizzuddin Shah, in its 2016 report, has identified Waqf, Zakat and social impact Sukuk as potential Islamic social finance solutions to address the humanitarian financing gap. Such solutions are especially appropriate as 90% of ongoing humanitarian crises globally occur in OIC member countries.

For SDG 3 on 'Good Health and Well-Being', innovations for mobilizing finance such as the issuance of social impact bonds and enabling funding from non-traditional sources directly to frontline responders have been and are being developed. In this regard, the Sukuk issuance by the International Finance Facility for Immunisation in December 2014, amounting to US$500 million, reflects the viability of Islamic capital market instruments in addressing a major social issue. The landmark transaction, for which the World Bank acts as the treasury manager, is the first social impact Sukuk. The funds were utilized for children's immunization in the world's poorest countries. A second issuance of the Sukuk for US$200 million followed in September 2015.

On the subject of Islamic social finance, development of Waqf assets can be seen as a relevant and impactful avenue to improve the socioeconomic wellbeing of the community. Such development may involve the issuance of Sukuk under the SRI Sukuk framework, which can help unleash the potential of Waqf structures as a mechanism to undertake Shariah compliant SRI projects of significant size.

The Islamic capital market can also help propel Waqf development through professional services provided by intermediaries such as asset managers licensed by the regulator to efficiently manage Waqf-related investment portfolios. These licensed intermediaries have resources and expertise in assessing, developing and managing investments related to Waqf assets thereby creating opportunities for larger economic returns to the community. By leveraging on these available avenues in the Islamic capital market, Waqf institutions can broaden and enhance social impact projects as well as sustainable and responsible development for the country and beyond.

A fairly recent development in this area was the offering of Waqf shares structured under a social enterprise model through an IPO which is another world's first. Proceeds from the subscription of the Larkin Sentral Property shares were utilized to finance the upgrading of Larkin Sentral Terminal. Under the scheme, share subscribers endow the shares together with all their rights and entitlements to a trustee, and dividends from the Waqf shares are intended to help small traders from the low-income and single-mother groups to pay lower rental rates for shop lots at the terminal. This initiative can be viewed to be consistent with SDG 10 on 'Reduced Inequalities'.

There are several SDGs related to clean energy and climate change which are deeply rooted in protecting the planet and conserving the environment. I am delighted to say that Malaysia has paved the way for various green financing initiatives that have also led to the issuance of the world's first green Sukuk in Malaysia, supported by a collaboration between the SC, Bank Negara Malaysia and the World Bank. The milestone Sukuk, launched in July 2017 under the SC's SRI Sukuk framework, further strengthened Malaysia's value proposition as a regional center for Shariah compliant SRI.

The SDGs related to the environment's wellbeing received a significant boost as green Sukuk, which is emerging as an important component of social finance toward a greener economy, is generating interest in both the green sector and the Sukuk market. In this regard, Malaysia's experience in facilitating green Sukuk issuance by developing the necessary framework and ecosystem for an enabling green Sukuk market is potentially a key driver in bridging Islamic finance, SRI and the green industry at the international level. This development can be viewed as timely and progressive given the increasing awareness and demand for green and sustainable development projects globally, which bodes well for the future of green sustainable financing.

The final SDG I wish to mention is SDG 4 on 'Quality Education' which I believe is widely regarded as the foundation to improving people's lives. The milestone for Islamic finance in this aspect was the inaugural SRI Sukuk issuance amounting to RM100 million (US$25.21 million) by Khazanah via Sukuk Ihsan in 2015, which is part of a RM1 billion (US$252.09 million) program to fund the development of trust schools. In August last year, the second tranche of RM100 million was issued which included a retail portion of RM5 million (US$1.26 million).

As we discuss the role of Islamic finance in driving sustainable growth, it is important to ensure that the development of the Islamic finance industry itself remains sustainable. For this reason, the industry must continue to be resilient and relevant. In this regard, technology is playing an increasingly significant role as an enabler in the financial services sector therefore it is essential for Islamic finance to embrace it extensively in order to facilitate access to operations of the industry. Furthermore, digital finance is becoming an integral component of the financial services sector ecosystem, and the SC has put in place several initiatives in this area such as the equity crowdfunding and the digital investment management frameworks to broaden the options for market participants which will potentially drive further growth of the Islamic capital market as well.

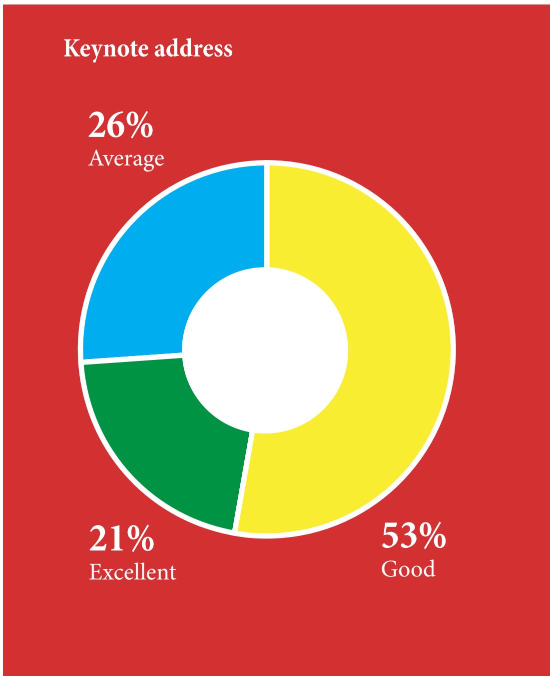
On a related note, digital finance can be a key catalyst to increase the level of financial inclusion among the Muslim community. Based on World Bank estimates, financial inclusion varies significantly across the world, with rates close to 100% in developed countries. For other countries, inclusion ranges from 14% in the Middle East to 69% in East Asia and the Pacific. This suggests that digital finance is potentially more impactful in enabling access to Islamic financial products and services to achieve higher levels of financial inclusion in Muslim-majority nations in view of the room for further development.

In order to remain resilient and relevant, the Islamic finance industry also needs to ensure that the breadth and depth of its range of products and services are comparable to those in the conventional space. In the Islamic capital market for instance, efforts should be undertaken to enhance the development of products such as exchange-traded funds and REITs, where their conventional equivalents have demonstrated good growth over recent years. Similarly, the Islamic private equity and venture capital segment has significant potential for further growth. In all these areas, the SC has undertaken significant steps including collaborating with industry and other stakeholders to generate greater growth traction. For venture capital in particular, a number of measures were announced during the 2018 Malaysian Budget to enhance growth and vibrancy of the segment including Islamic venture capital.

We are entering an era where stakeholders are acknowledging that the Islamic finance industry enshrines sustainability, responsibility and inclusiveness at its core. With the collective knowledge and high capacity for further innovation within the industry, I firmly believe the industry is well positioned to pool resources among its stakeholders to deploy Islamic finance-based solutions toward achieving sustainable growth.

As mentioned earlier, Islamic finance, including the Islamic capital market, is already making noteworthy contributions toward achieving the SDGs. To fulfill its maximum potential however, it is critical to ensure close collaboration among the various relevant stakeholders, which will create greater traction for sustainable initiatives.

On that note, I thank you for your attention.



IFN ASIA REPORT 2018
09:20 – 10:10

ASHRAF MOHAMMED — *Assistant General Counsel, Asian Development Bank*
RAFE HANEEF — *CEO and Executive Director, CIMB Islamic*
MOHAMMAD ALI ALLAWALA — *CEO, Standard Chartered Saadiq*
IRWAN ABDALLOH — *Head of Islamic Capital Market, Indonesia Stock Exchange*
INDAR BARUNG — *Head of Financing, Investment and Syndications, Sarana Multi Infrastruktur*
ARSALAAN AHMED — *CEO, HSBC Amanah (Moderator)*

SUPER TRENDS: GLOBAL AND REGIONAL INFLUENCERS FOR ISLAMIC FINANCE AND INVESTMENT

We examine and discuss key issues and themes influencing Islamic finance and investment in Asia, as well as significant other markets such as the Gulf and Africa. From regulation, to political risk, to the ascendancy of fintech — what will offer opportunity and what will disrupt?

One of the most important trends in the regional Shariah finance space is value-based intermediation (VBI).

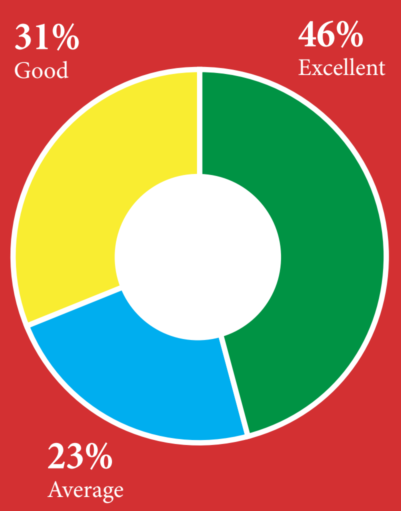
According to Arsalaan Ahmed, CEO of HSBC Amanah, the three key themes of VBI are economic prosperity, people and planning. Rafe Haneef, CEO and executive director of CIMB Islamic, described VBI as a set of policies and a process to ensure the financing is for sustainable businesses and among the first steps that banks need to take are to reduce the negative impact and to create products that can create impact, especially to develop SMEs and entrepreneurship. Ali Allawala, CEO of Standard Chartered Saadiq, shared that bank clients see benefits and when properly guided, they are ready to take the journey with the bank as they realize the importance of VBI to their businesses as well.

The second trend that was explored was green financing. Rafe was optimistic saying that there is a huge potential for green Sukuk as investors are pushed to invest in sustainable bonds. He also mentioned that the demand is high but supply is limited and green financing will be the trend for years to come. Ashraf Mohammed, the assistant general counsel at Asian Development Bank, on the other hand, spoke on the government front and said that the green agenda is taking hold, and they need to understand the importance of having green financing as an important economic criteria. An exciting announcement came from Indar Barung, the head of financing, investment and syndications at Sarana Multi Infrastruktur, who said that Sarana expects green loan disbursement as much as possible, and is also planning a green Sukuk issuance by next year.

The influence of fintech was also discussed, with Rafe explaining that Malaysia's fintech sector is a growing sector, with many initiatives introduced to develop the sector such as Bank Negara Malaysia's sandbox. CIMB is also working to introduce virtual assistance services to its customers. He mentioned a downside to the fintech revolution: the important need to upscale and retrain employees. Ashraf explained further that Asia has a youth-oriented economy; and there is a need to analyze how to provide sustainable job opportunities especially with the revolution.

From the Indonesian front, Irwan Abdalloh, the head of the Islamic capital market at the Indonesia Stock Exchange, said that four initiatives of the government helped Islamic finance development in the past year: the latest budget was increased by 41%; 3% of funding for the latest budget was from Sukuk which increased consistently for the last five years; infrastructure spending was increased; and green Sukuk were oversubscribed. He also mentioned that more green efforts are expected to come from the government and corporates of Indonesia.

Super Trends: Global and Regional Influencers for Islamic Finance and Investment



10:10 – 11:00

YEOH TEIK LENG — *Head, Structured Finance and Loan Markets, Capital Markets Group, AmInvestment Bank*
CHARANJEEV SINGH — *Managing Director, NewParadigm Capital Markets*
NICHOLAS EDMONDES — *Partner, Trowers & Hamlins (Moderator)*
MASUMI HAMAHIRA — *Advisor, MUFG Bank (Malaysia)*
SHAMZANI HUSSAIN — *Managing Director and Head of Islamic Banking – Corporate and Investment Banking, First Abu Dhabi Bank*

FIXED INCOME, LENDING AND SUKUK IN MALAYSIAN CAPITAL MARKETS

We ask a panel of market participants to reveal their thoughts and insights on raising capital through Islamic finance. What are the positives and what does the industry need to address to allow Islamic finance to truly compete with conventional? What are the risks in issuing and investing in Sukuk and how can these risks be addressed and managed?

The Malaysian Islamic capital markets, while one of the most vibrant in the Southeast Asian region, still have gaps to bridge.

In the first quarter of 2018, debt capital markets issuance was recorded at a total of RM30 billion (US$7.53 billion), with 80% contributed by Sukuk papers, according to Yeoh Teik Leng, the head of structured finance and loan markets of AmInvest Bank's Capital Markets Group.

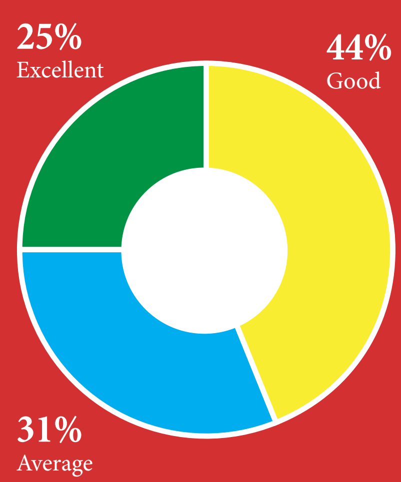
While the numbers are impressive, the Malaysian Islamic capital markets are still very domestic-centric. Shamzani Hussain, the managing director and head of Islamic banking — corporate and investment banking of First Abu Dhabi Bank, explained that Malaysian market deals are mostly denominated in the ringgit instead of the US dollar, and therefore have limited attractiveness to international investors. He also stated that other countries are growing fast as Sukuk centers with more US dollar Sukuk listings, for example, Dubai, London, Luxembourg and Ireland. "Malaysia faces more competition and needs to think how to remain as the niche of [the] Islamic finance space. For this, the nation needs more US dollar issuances," opined Shamzani.

A hot trend in the Malaysian Islamic capital market scene is green Sukuk as well as

"Malaysia faces more competition and needs to think how to remain as the niche of [the] Islamic finance space. For this, the nation needs more US dollar issuances"

ESG-related instruments. According to Masumi Hamahira, an advisor at MUFB Bank (Malaysia), the demand for green Sukuk is increasing but the supply is still low. Charanjeev Singh, the managing director of NewParadigm Capital Markets, echoed that sentiment adding that it is important to encourage international investors into the local market, and two important factors to achieve this are the creation of an ecosystem and the development of legal frameworks that are transparent and easier to digest. Singh also said that 'AAA'-rated issuers are taking over the market, causing smaller companies to lose out. "Investors stick to what they are familiar, so they keep going back to the big players. The trick is to develop the mid-sized issuers to compete with the big ones."

Fixed Income, Lending and Sukuk in Malaysian Capital Markets



Best in class?
Ask the experts...

Acknowledgement from leading organizations is an honor and these achievements reflect our commitment to high quality expertise in both global and local markets. From in-depth market knowledge to thought leadership and leading customer service, these attributes lie at the heart of everything we do and highlight our dedication to financial markets.

Get more details and see our full collection of awards at moodys.com/awards

MOODY'S
INVESTORS SERVICE

IFN ASIA REPORT 2018
11:30 – 12:10

KHALID HOWLADAR — *Managing Director and Founder, Acreditus (Moderator)*
AZLIN AHMAD — *Senior Associate, Herbert Smith Freehills*
MOHAMED DAMAK — *Global Head of Islamic Finance, S&P Global Ratings*
MOHSIN SHAIK SEHU MOHAMMED — *Head of Investment Banking and Capital Markets, Maisarah Islamic Banking Services, Bank Dhofar*
SIMON CHEN — *Vice-President — Senior Analyst, Financial Institutions Group, Moody's Investors Service*

MANAGING RISK AND RATING IMPLICATIONS

Leading capital markets and investment management professionals discuss the lessons learned so far from the Dana Gas event and ask if Malaysia is immune to such an occurrence. We also examine the effectiveness of credit enhancement measures in the local fixed income market and discuss the associated rating implications.

The Dana Gas standoff with its Sukukholders has been ongoing for many months now. What started out as a rejection of Sukuk compliance is now a full-blown scandal. It is a case like no other and has shook the Islamic finance industry for it could result in tighter regulations and risk-vetting methods; it could also shape the way investors look at future Sukuk papers.

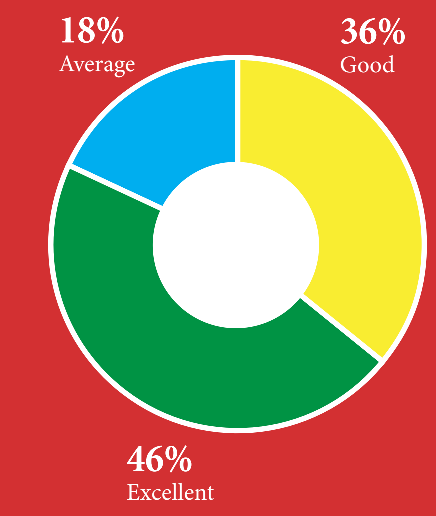
This was the key theme of IFN Asia Forum's third session of the day, which was on managing risk and rating implications. The session was moderated by Khalid Howladar, the managing director and founder of Acreditus and the panelists were Azlin Ahmad, a senior associate of Herbert Smith Freehills; Mohamed Damak, the global head of Islamic finance at S&P Global Ratings; Mohsin Shaik Sehu Mohammed, the head of investment banking and capital markets at Maisarah Islamic Banking Services; and Simon Chen, a vice-president and senior analyst of the Financial Institutions Group at Moody's Investors Service.

One of the session's objectives was to provide an update on the Dana Gas case from the beginning when it defaulted to its latest dividend payment (at the time of writing) and its implications for the Malaysian market. The panelists agreed that it wasn't an issue of lack of judgment clarity as the judges fully understood the complexity of the situation, but they have to abide by the law and Shariah compliance.

There was a strong call for standardization during the session as the panelists discussed what could be done to avoid similar issues cropping up in the future. More scrutiny is needed in terms of Sukuk documentation in order to enhance transparency in the market. But would standardization hamper market innovation? Mohamed Damak answered in the negative. "Some people against standardization would argue that standardization would kill innovation. But they need to understand that having standardization would open the way for innovation. If there was a Fatwa to refer to, Dana Gas and all parties involved would have saved money and energy," he explained. Chen seconded Mohamed Damak, saying that investors believe Malaysia's legal frameworks are much clearer and more transparent.

So how is the market actually gauging the scandal and the potential complications that come with it? The panelists seemed to be divided on this. Mohamed Damak said that the appetite of investors has been affected by the scandal. In Oman, which has a relatively nascent Islamic finance market, investors are cautious as Sukuk itself is new to Oman, with the Dana Gas case raising doubts in investors. Mohsin said that despite the keenness of Omani corporates and the government in Islamic finance, the Dana Gas case does affect investors' mindsets in terms of the security of Sukuk papers. But in an advanced Islamic finance sector, such as in Malaysia, the market is confident that an issue similar to Dana Gas won't happen. "In Malaysia, the Securities Commission has all [the] regulations in place to avoid similar problems in the local market," Azlin expounded.

Managing Risk and Rating Implications



12:10 – 12:45

JOHNNY MAYO — *Business Consultant, SuperCharger Fintech Accelerator (Moderator)*
ABDUL RAHMAN — *Managing Partner, Abdul Rahman Law Corporation*
GOPAL KIRAN — *Fintech Advisory Lead – Malaysia, EY*
KHAIRUL NIZAM — *CEO, Financial Accreditation Agency*
ROBIN LEE — *CEO, HelloGold*
DIMA DJANI — *Co-Founder, ALAMI*

PREPARING FOR THE FUTURE: FINANCIAL TECHNOLOGY IN ASIA

What does the advancement of technology mean for financial institutions in Malaysia and the Asian region? What role will cryptocurrencies play in the global Islamic finance industry and will asset-linked coins feature in the corporate fundraising process? We assess the latest developments in fintech and analyze likely industry shifts, regulation and developments in product and delivery channels.

Islamic fintech makes perfect business sense

With Muslims making up 25% of the global population and 70% of the unbanked population, orienting fintech business to meet Muslim sensitivity makes sense. Offering Shariah compliant solutions opens up the potential customer base and is in line with the principle of financial inclusion.

Disruption or evolution?

The rise of fintech is seen as one of the biggest advancements in the industry today as part of the Fourth Industrial Revolution, leaving various segments of the financial market disrupted, in particular, the core businesses of banks such as lending and deposit. According to Gopal Kiran, the fintech advisory lead at EY Malaysia, at least 30% of these businesses will be taken up by these new fintech companies.

While changing demographics and customer preference are certainly redefining financial services, this does not spell the end of the bricks-and-mortar bank, opined Khairul Nizam, CEO of the Financial Accreditation Agency. Traditional financial institutions still have a role to play but have to be agile enough to adapt to market developments and changing consumer demand to remain relevant.

> *“The panelists unanimously agreed that blockchain technology, including smart contracts, can significantly enhance the Islamic finance sector as it promotes transparency and efficiency”*

As a fintech company, Robin Lee, CEO of HelloGold, said its business model complements banks, and is not to substitute banks. “When our clients become wealthier, they will then migrate to banks — this is a natural progression,” explained Lee, who runs a Shariah compliant gold trading platform aimed at democratizing financial services especially among the working class.

Lack of Shariah expertise

There is currently a dearth of expertise in terms of evaluating the Shariah compliance of new fintech solutions and instruments such as cryptocurrencies.

“The expertise has not caught up yet with the development of technology — the technology is there and it is fantastic for Shariah compliant products,” said Abdul Rahman, the managing partner of Abdul Rahman Law Corporation.

While it is important to ascertain Shariah compliance of new fintech-

12:10 – 12:45

based instruments, Khairul asserted that consumer protection should also be at the top of the agenda and that there is a need to strengthen key and core competencies of financial services providers to ensure consumer rights are always protected in light of new digital and cyber threats as well as risks from new structures.

Blockchain is the future

The panelists unanimously agreed that blockchain technology, including smart contracts, can significantly enhance the Islamic finance sector as it promotes transparency and efficiency.

"We have completed 1.1 million transactions this year and we have a healthy pipeline going forward. Smart contracts are a key driving factor behind this; in Indonesia, Shariah compliance can be enhanced with blockchain," shared Dima Djani, the co-founder of ALAMI, a Shariah compliant trade finance aggregator.

ICOs — alternative capital-raising method

Conventional capital-raising methods such as IPOs and bonds are not always suitable for start-ups; venture capital (VC) and traditional funds, according to Abdul Rahman, are also not as easily accessible anymore. This has compelled companies to look for alternative solutions such as initial coin offerings (ICOs) and crowdfunding. For a fintech start-up like HelloGold, an ICO was a better process for its funding strategy. "It was easier to raise funds — we raised US$5 million last year to expand and we are going to the market again this year to raise US$20 million; it would have been highly unlikely to have done so through conventional means," said Lee.

> *"The entire financial ecosystem has to prepare for the future: allocate more resources toward digitalization as this would be instrumental in elevating the Islamic finance industry as a whole"*

Depending on one's business model, a company is likely to use a combination of funding methods. For example, one would go to market with an ICO, and then match it with a VC fund before trying crowdfunding.

"It is likely it will be a mix and match to facilitate organic growth; but in the digital age, ICOs will be a consistent feature," said Abdul Rahman.

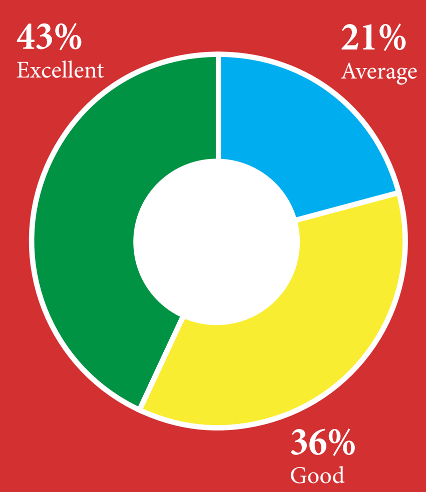
The challenge would be creating a level-playing field between incumbents and start-ups as the burden of proof on start-ups is much higher due to the long shadow of ICO scams.

Moving forward

The entire financial ecosystem has to prepare for the future: allocate more resources toward digitalization as this would be instrumental in elevating the Islamic finance industry as a whole.

At the heart of this fintech wave, start-ups are hoping to have a level-playing field to compete with the incumbents. The panelists were of the opinion that only when the game is fair, can innovation flourish.

Preparing for the Future: Financial Technology in Asia



IFN ASIA REPORT 2018

14:00 – 14:50

TAHIR ALI SHEIKH — *Director and Head Islamic Advisory, Client Coverage - Group Wholesale Banking, CIMB Investment Bank (Moderator)*
CHUNG CHEE LEONG — *CEO, Cagamas*
FARIDAH BAKAR ALI — *Director and CFO, Khazanah Nasional*
MOHD AMRI SOFIAN — *Chief Corporate and Investment Officer, Danajamin Nasional*
LEE CHOO BOO — *Executive Director, Quantum Solar Park Malaysia*
HAZWAN ALIF ABDUL RAHMAN — *CEO, CMC Engineering*
YAP TSE-JUIE — *Head of Finance, Alpha REIT Managers*

TODAY'S FUNDING AND CAPITAL-RAISING OPTIONS FOR ISSUERS

What represents an effective capital-raising strategy for local issuers today, across all available product areas and markets? What more needs to be done to bring issuers to market, particularly for corporate issuance?

Companies have many possibilities and opportunities to raise funds in a Shariah compliant manner, such as issuing Sukuk and obtaining Islamic financing. Several factors including pricing, timing, structure and currency have to be taken into consideration when elaborating an effective capital-raising strategy.

Cagamas, which buys housing loans and Islamic home financing from banks and financial institutions, is Malaysia's largest issuer of corporate debt. Its process is simple: issuing Sukuk upon buying Islamic home financing, otherwise issuing bonds.

Following the introduction of a euro medium-term note program in 2014, Cagamas has issued in many currencies including the US dollar, Chinese renminbi, Hong Kong dollar, Australian dollar and Singapore dollar. Prior to that, Cagamas was very dependent on the volatility of the Malaysian government securities' benchmark terms.

"The decision to issue in a particular currency depends on the economic benefit that the currency offers. Cagamas compares which currency is the cheapest, which is dependent on the depth and breadth of the market. It will also consider the robustness of the derivative market in terms of cross-currency swaps and interest swaps," explains Chung Chee Leong, CEO of Cagamas. Malaysia sovereign wealth fund Khazanah Nasional's strategy is more complex. When it seeks flexibility in terms of repayment, it raises funds through bank financing. Otherwise, it issues Sukuk taking into consideration a few factors, namely, optimizing the asset liability, reducing interest rate and reducing currency risk. Timing is also very important to Khazanah Nasional as it does not want to issue when there are many competing deals.

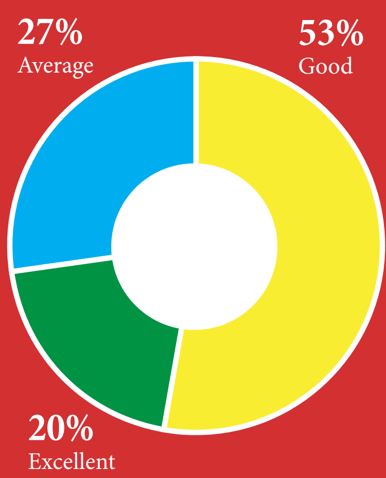
Equally, timing and flexibility are also very important to CMC Engineering, a non-listed construction company developing public infrastructure. As a result, it utilized the Investment Account Platform owned by a consortium of Islamic banks in Malaysia to raise RM12 million (US$3.03 million) to part-finance the telecommunication integration project for the Ho Chi Minh City Urban Railway System in Vietnam.

Quantum Solar Park Malaysia opted for Sukuk to fund a solar plant as Malaysia has more than three decades of experience in Islamic finance. However, the RM1 billion (US$252.52 million)) SRI Sukuk facility was issued at the project level instead of the corporate level, as Quantum Solar Park Malaysia wanted to ring-fence the solar project.

"Instruments like Sukuk are very well established. Regulators and stakeholders are all very familiar with Sukuk. The rates are also very attractive," explains Lee Choo Boo, the executive director of Quantum Solar Park Malaysia.

Alpha REIT, which invests in education-related assets, prefers to tap banks and therefore had not encountered any issues in raising funds, even though banks are taking a more cautious approach toward real estate. "Our focus is more on the structure of the financing as well as the cost associated with it," says Yap Tse-Juie, the head of finance at Alpha REIT Managers. "We are regulated by the SC [Securities Commission Malaysia] in terms of the cap on the borrowing that we are allowed to. At the moment, it is capped at 50% of our total assets under management. So, we really have to put in place effective capital management structures in order to boost our yields," he says.

Today's Funding and Capital-Raising Options for Issuers



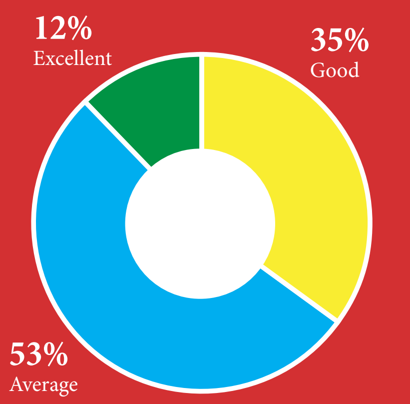

UOB
Putting customers first has made us Malaysia's best international bank
By ensuring world-class standards for our customers, we have set the benchmark for product range, service and management expertise.
As Malaysia's Best International Bank awarded by Asiamoney Country Awards 2017, we look forward to raising the bar once again by delivering industry-leading solutions that meet the goals of each and every customer.
Visit www.uob.com.my now to see how our solutions can help you meet your goals.
COUNTRY AWARDS 2017 ASIAMONEY
Photo by:
Lee Wen Chuan
UOB Malaysia
UOB 大华银行
RIGHT BY YOU
United Overseas Bank (Malaysia) Bhd (271809-K)

PRESENTATION: ISLAMIC FINANCE 2030-2050

NIK NORISHKY THANI
Executive Director/Country Head Islamic Banking, UOB Bank Malaysia

Key highlights:
- Current demographic trends point to a favorable future for Islamic finance
  - Over the next four decades, Islam is projected to outgrow all other religions; by 2050, Muslims will account for 2.8 billion out of the 9.3 billion people in the world.
- The world is becoming increasingly unequal: if trends since the 2008 financial crash persist, two-thirds of the world's wealth will be held by the top 1% by 2030.
- Regardless if in the future global poverty rates drop dramatically or increase, Islamic finance has the potential to play a major part.
- The building blocks for the future of the industry are mostly in place and can be developed together.
- Sustainability needs to be integrated in decision-making.
- Bite-sized business changes make a difference.
- Technology will be crucial in driving the changes.

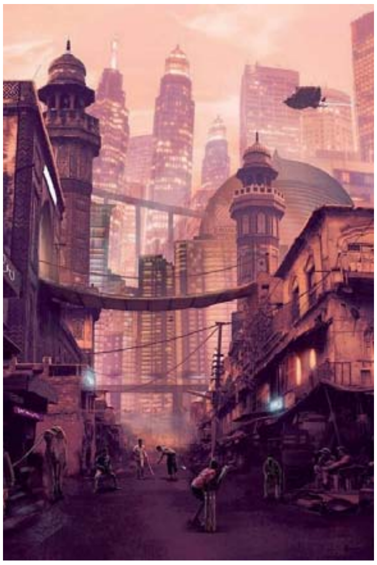
Islamic Finance 2030-2050



PROJECTING THE FUTURE

- In April 2015, The Pew Research Centre projected the world's total population to be 9.3 billion by 2050, most of the increase will come from developing countries
- Muslims, a comparatively youthful community with high fertility rates are projected to have a population of 2.8 billion by 2050. During the next four decades, Islam will grow faster than any other major religion
- In the US, Christians will decline from 3/4 of the population in 2010 to 2/3 in 2050. Judaism will no longer be the largest non-Christian religion. Muslims will be more numerous in the U.S. In Europe, Muslims will make up 10% of the overall population

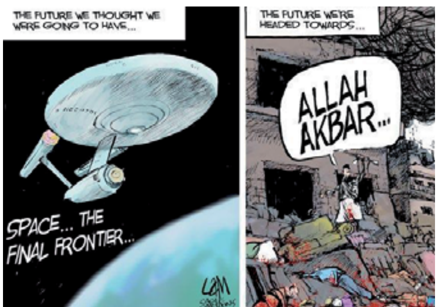
3
UOB



WEALTH & FOOD DISTRIBUTION

- According to The World Inequality Reports 2018 income inequality varies greatly across world regions. It is lowest in Europe and highest in the Middle East
- According to Oxfam 82% of money generated in 2017 went to the richest 1% of the global population while the poorest half saw no increase at all
- Last year Oxfam calculated that the world's eight richest individuals had as much wealth as the poorest half of the world. This year, it said 42 people now had as much wealth as the poorest half. Critics queried the figures but nonetheless it is clear the inequality is condemnable
- The UK House of Commons Library projected that if trends seen since the 2008 financial crash were to continue, then the top 1% will hold 2/3 of the world's wealth by 2030. Even taking the financial crash into account, and measuring their assets over a longer period, they would still hold more than half of all
- With more mouths to feed, the FAO reports food production by 2050 must increase 70% - a number that nets off food required for biodiesel
- Globally the rate of growth in yields of the major cereal crops has been steadily declining, from 3.2% per year in 1960 to 1.5 percent in 2000

4
UOB



GLASS HALF FULL?
The FAO also projects the 49% global urbanites today will increase to 70% and income levels will also multiply. But at the same time The FAO also concludes that income level can go either way and so too poverty

TO BOLDLY GO...

FUTURE ISLAMIC FINANCE

- In the optimistic growth scenario, the global poverty rate (USD 1.25 a day) standard falls sharply, from 21.3% in 2005 to 2.5% in 2050, and the number of people living in extreme poverty falls by 1.1 billion
- The alternative scenario assumes if the lagging regions (sub- Saharan Africa, the Near East and Latin America) do not transition to a high growth path. It results in 900 million people living in absolute poverty than in the optimistic scenario

5
UOB

IDEAS & BUILDING BLOCKS

The Islamic finance industry in either scenarios have the potential to play a major part. Even if 2030 - 2050 is not as what is being projected, the building blocks for the future of the industry are mostly already here, it is not even theoretical in almost all aspects. We can start developing them together today, in fact 'together' is the most important ingredient.

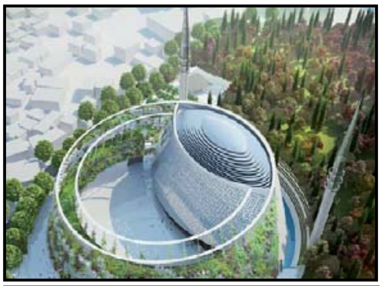
Modernisation **Sustainability** **Technology** **System & structure**

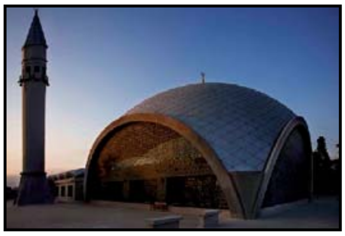
6
UOB

MODERNISATION

Wealth disparity notwithstanding, the more economically developed Muslim nations today have more effective strategies and means towards modernisation. At the turn of the 20th century, modernisation of Muslim nations were a mixed success at best. But long term investments in education and economic infra, countries such as Saudi, the UAE , Turkey, Malaysia are beginning to develop a knowledge culture that goes beyond traditional sciences

The plans for Mecca includes MRT, improved water distribution Zamzam water well, improvement in utilisation of Hajj meat (veterinarians, halal science) doubling the capacity for Hajj pilgrimage, pilgrim accommodation, residential housing etc





The classical age of Islam was renowned for its architecture, today architecture of mosques embraces new design ideas

ISLAM & SUSTAINABILITY

- Ever wondered why Islamic Finance exist but there are no other financing that merge religion with finance?
- The answer is not necessarily the religion in itself - otherwise almost all Muslims would shun conventional finance in the same way Muslims avoid pork. A large section of Islamic Law (Shariah) do not concern worship (which are immutable) but are meant for society in general - unlike other empires in history
- Islamic jurisprudence have specific mechanisms in place that maintains the immutable and the need to strike a balance with changing times. Largely this revolves around enhancing welfare or benefit (*maslahah*) and preventing harm (*mafsadah*)

BITE SIZED CHANGES

DOING GOOD AS A BUSINESS STRATEGY

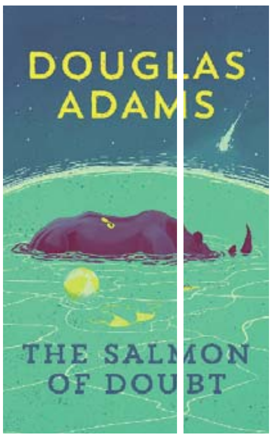
It is human nature to care for the wellbeing of our children whom one day will have children of their own. The beneficiaries of building such social capital will not just be our children but entire COMMUNITIES also prosper which translates into PROFITABILITY

EASIER SAID THAN DONE

- Proven methods for profitability and sustainability are long term investment to generate lower long term yield, bootstrap approach and value chain environment
- Sustainability need to be integrated in decision making. Bite sized changes regardless of business size makes a difference
- A conscious effort as an industry to evolve from the purely legalistic compliance of Shariah to the actual realisation of Shariah objectives (*maqasid*)

THE THREE RULES OF TECHNOLOGY

"I've come up with a set of rules that describe our reactions to technologies:
1. Anything that is in the world when you're born is normal and ordinary and is just a natural part of the way the world works.
2. Anything that's invented between when you're fifteen and thirty-five is new and exciting and revolutionary and you can probably get a career in it.
3. Anything invented after you're thirty-five is against the natural order of things."



TECHNOLOGY & ISLAMIC FINANCE

- As far as tech is concerned we barely scratched the surface
- Cost is one aspect the other is to actually embrace technology | to experiment | to innovate | have fun
- Drones to deliver replacement credit cards?
- Robot financial advisers? The I in AI is for Islamic
- VR when you actually prefer to talk to a person
- Islamic crypto currency backed by gold standard already exist. A promising sign but can an Islamic crypto currency truly meet the primary demand for crypto currency?

SYSTEM & STRUCTURES

- When Malaysia commenced Islamic banking, what followed the governing law of the time were piece meal adjustments until IFSA consolidated Islamic finance into a single Act
- Is it inconceivable that should the industry begin to move beyond compliance and reach the tipping point for actualising the intended outcomes of Shariah that a distinct financial and economic system with the relevant supporting structures would be deemed better suited for Islamic finance?
- Not entirely beyond our control but many factors outside the influence of Islamic finance need to fall into place

"We need to start imagining the future or it will get imagined for us, and the ways that it has been imagined thus far don't seem very attractive."

Mohsin Hamid

ASHRAF GOMMA ALI — *Director/Regional Head, Shariah and Governance, CIMB Islamic*
AZLEENA IDRIS — *Head, Legal, Kuwait Finance House (Malaysia) (Moderator)*
AHMAD RAMZANI RAMLI — *Vice-President, Equity Research, Kenanga Investment Bank*
NIK NORISHKY THANI — *Executive Director/ Country Head Islamic Banking, UOB Bank Malaysia*
NORAZUA MOHD MARZUKI — *Head, Islamic Finance, MUFG Bank (Malaysia)*

DEVELOPING VALUE-BASED BANKING IN MALAYSIA

We ask industry players to assess the development of Islamic finance and banking in Malaysia, including the adoption of benevolent, risk-sharing and Musharakah-based products and the implementation of initiatives such as sustainability and value-based intermediation. What is VBI, what does it mean for the industry and what needs to be done?

Over the past few years, one has observed the multiplication of concepts and initiatives supporting more ethical, responsible or moral ways of financing or achieving projects. Terms and expressions like environmental, social and governance; principles for responsible investment; socially responsible investment and value-based intermediation are now widely utilized alongside their respective acronyms ESG, PRI, SRI and VBI. But the proliferation of these ideas has created some confusion in the market that struggles to differentiate one from another.

"There are four pillars defining VBI: entrepreneurial mindset, community empowerment, good self-governance and promotion of best conduct," shares Azleena Idris, the head of legal at Kuwait Finance House — Malaysia.

"The whole idea of VBI is in maximizing benefit while minimizing harm, which is also what Islamic banking tries to achieve. Not harming the society is a requirement in Islam," affirms Ashraf Gomma Ali, the director/regional head of Shariah and governance at CIMB Islamic. Nevertheless, as the industry has been focusing on convincing people to leave interest-based finance, Islamic financial institutions have not prioritized the implementation of VBI until today.

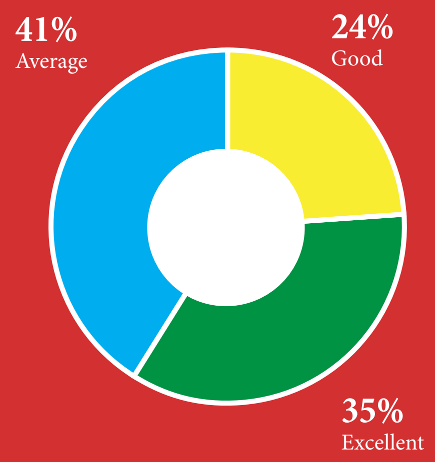
However, things are now moving. On the back of CIMB Islamic's initiative to implement VBI, the whole group has decided to follow the same path. "On the corporate side, we are evaluating our portfolio to see where the highest risk of negative impacts remains. We identified certain sectors, such as the agricultural and the chemical sectors, where there is a high risk of negative environmental impact. We are trying to mitigate that impact. The question is how we can still finance palm oil or timber projects for instance, while introducing some standards and if the company cannot meet these standards in the short term, how we can help the company in meeting those standards in the future," says Ashraf.

UOB Bank Malaysia is working on a program called the UOB Islamic banking community engagement program, encompassing three stages, namely community engagement, advisory and VBI. Through its branches, UOB Bank Malaysia will engage with communities on the kind of issues that concern them, particularly issues impacting SMEs. UOB Bank Malaysia will also provide classes to SMEs focusing on financial management, elaboration of a business plan and managing cash flow, among others, to help them in becoming bankable. Finally, UOB Bank Malaysia will also help these SMEs to be sustainable as "doing good should be a business strategy", according to Nik Norishky Thani, the executive director/country head of Islamic banking at UOB Bank Malaysia.

MUFG Bank (Malaysia), which follows the equator principles, a risk management framework launched back in 2003 for determining, assessing and managing environmental and social risk in project finance, has also introduced VBI in its strategy.

Due to the equator principles, MUFG Bank (Malaysia) takes into consideration the preservation of cultural heritage in the projects it works on, to the extent of preserving indigenous people living in surrounding areas of infrastructure projects for example. "With VBI, we refine the equator principles in the sense that we have to look at the outcome of the VBI," explains Norazua Mohd Marzuki, the head of Islamic finance at MUFG Bank (Malaysia).

Developing Value-Based Banking in Malaysia



Cagamas has played a significant role in housing the nation by making housing loans and financing more affordable and accessible to all Malaysians.

Cagamas Berhad, the National Mortgage Corporation of Malaysia, promotes home ownership and growth in the secondary mortgage market in Malaysia. Over the years, we have issued corporate bonds and sukuk to finance the purchase of housing loans and financing from primary financiers. The provision of liquidity at a reasonable cost makes financing home ownership that much easier. In the process, we:

- **issue competitively priced corporate bonds and sukuk with up to 20-year tenures that serve as benchmarks for other corporate lenders**
- **are the second-largest issuer of corporate bonds and sukuk after the government of Malaysia, and largest issuer of AAA-rated corporate bonds and sukuk in the Malaysian capital market**
- **are regarded by the World Bank as the most successful secondary mortgage liquidity facility model**
- **have Moody's Investors Service A3-rated multi currency funding programmes which are on par with Malaysia's sovereign ratings**
- **have concluded innovative and award-winning transactions including the world's first Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) and Sukuk Musharakah Residential Mortgage-Backed Securities (RMBS) as well as ASEAN's first Synthetic Securitisation of SME Loans**

Best Foreign Currency Bond Deal of The Year 2014 in Southeast Asia
2014
Cagamas RMB1.5 billion Offshore RMB Bond

Best Deal-Highly Commended, Malaysia
2014
Cagamas 3.8 billion Ringgit Multi-Tenor Sukuk

Best Renminbi (Offshore) Offering
2014
Cagamas RMB1.5 billion Offshore RMB Bond

Emas Status
2014
Cagamas Offshore Renminbi Medium Term Notes Issuance

Market Pioneer Award for the World's 1st RMB-bond by a Mortgage Corporation
2014
Cagamas RMB1.5 billion Offshore RMB Bond

Corporate Issuer of the Year
2015

Best Corporate Sukuk
2015
1 billion Ringgit Dual Tranche Sukuk Commodity Murabahah

Outstanding Contribution for the Development of Shariah-Compliant Mortgage Securitisation
2016

Best Local Currency Sukuk
2016
Cagamas 500 million Ringgit Commodity Murabahah Sukuk

Treasurrer of the Year – Malaysia
2016

Emas Status
2016
Cagamas USD2.5 billion Multicurrency Sukuk Issuance Programme

Islamic Finance Advocacy Award (Institutional)
2016

Top Trade Amout Overall
Top Trade Amount Conventional
Top Trade Amount Islamic
2016

Best Islamic Issuer Quasi-Sovereign
2017

Best Local Currency Sukuk
2017
375 million Ringgit Commodity Murabahah Sukuk

Top Bond Issuer - Conventional
Top Traded Amount - Overall
Top Traded Amount - Conventional
2018

For more information log in to
www.cagamas.com.my
or call **+603 2262 1800**

Cagamas
National Mortgage Corporation of Malaysia

IFN ASIA REPORT 2018

15:35 – 16:15

LAWRENCE OLIVER — *Deputy CEO, DDCAP Group (Moderator)*
DAUD VICARY ABDULLAH — *Managing Director, DVA Consulting*
ROZANI OSMAN — *Financial Sector Specialist, World Bank*
SHARIFAH BAKAR ALI — *General Manager, Group Business Development, UEM Group*
SIMON LORD — *Chief Sustainability Officer, Sime Darby Plantation*
STUART HUTTON — *Chief Investment Officer, Simply Ethical*

RESPONSIBLE, SUSTAINABLE AND GREEN FINANCE INITIATIVES

What is driving the demand for sustainable, responsible and green financial products, and how can issuers tap this burgeoning market? Regulatory frameworks, innovation, pricing and placement: what are the factors for success and what are investors looking for? Where and how does green Sukuk play a role? How will governance-driven investment make its mark in Malaysia?

As the world is becoming more eco-conscious, the demand for sustainable, responsible and green financial products has been growing. "Ten to 15 years ago, people were focusing on financial returns. Now, people want to understand the impact their money is making. People are asking where their money is going and what the impact of their investment is," shares Stuart Hutton, the chief investment officer at Simply Ethical.

"A study shows that about 72% of millennials are willing to pay a slight premium when they make an investment if this investment is sustainable," adds Rozani Osman, a financial sector specialist at the World Bank.

> *"Infrastructure is almost a natural asset class for the SRI and green sector"*

However, each market has different drivers and does not unfold at the same pace. In China, the top-down approach has been very successful, as the country has become one of the largest green bond markets. The Malaysian model, a blend of top-down and bottom-up approach, has also shown positive results.

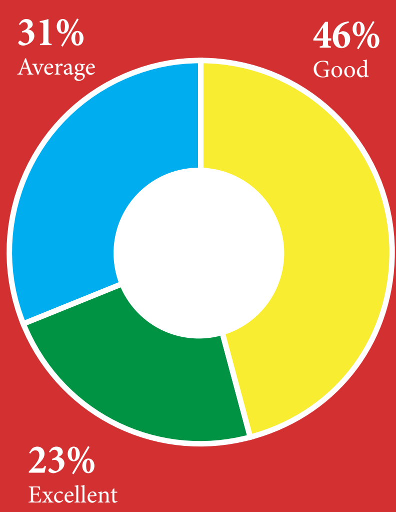
In Malaysia, innovation has been driven by issuers not regulators. Many do not know about green bond/Sukuk in Malaysia, but five green Sukuk and one green bond have already been issued so far, explains Rozani.

On the contrary, the level of awareness about green finance is high in Russia. However, there are no regulations in place and there have not been any green issuances.
This difference between Malaysia and Russia may be explained from a cultural perspective, says Rozani. In Malaysia, companies were competing to be the first in issuing green bond/Sukuk. In Russia, potential issuers want the authorities to regulate green bond issuances before they tap the market, but the regulator is not of the same opinion and believes that the rules in place are sufficient.

Infrastructure is almost a natural asset class for the SRI and green sector, according to Sharifah Bakar Ali, the general manager of the group business development of UEM Group, who says that annually, the ASEAN region needs to spend close to US$200 billion to meet infrastructure requirements. However, in 2015, the Asian Development Bank's statistics showed that ASEAN countries only spent 25% of the target. "If this continues, it will have an impact on the performance of these ASEAN economies," affirms Sharifah.

Due to the lower price of the barrel, governments in the region have asked the private sector to take its share of development expenditures. This led to important growth in public-private partnership projects. In this context, banks have played an active role in bridging the infrastructure financing gap through loans and financings.

Responsible, Sustainable and Green Finance Initiatives



16:00 – 18:00

KYRI ANDREOU — *Co-Founder and Director, ATA Plus*
MATTHEW J MARTIN — *Founder and CEO, Blossom Finance*
JOHNNY MAYO — *Business Consultant, SuperCharger Fintech Accelerator (Moderator)*
MUHAMMAD NOOR — *Co-Founder, Rohingya Project*
NICLAS NILSSON — *Founder and CEO, Capnovum*
ROBIN LEE — *CEO, HelloGold*
WAJAHAT GILANI — *Investment Data Developer, StrikeValuation*
UMAR MUNSHI — *Founder, Ethis Ventures*

IFN FINTECH HUDDLE

A special value-added format gathering fintech experts in their own fields to take the stage in a 75-minute interactive open dialogue. The Fintech Huddle is designed to allow these thought leaders to dive deep, debate and dissect and take questions from the audience on the thorniest and most pressing issues the industry faces in the wake of the fintech revolution and identify where opportunities lie and how they can be best capitalized.

Key highlights:

- Regulatory support is critical in building a positive and effective fintech ecosystem.
- At the moment, start-ups are not competing on a level-playing field.
- Highly challenging to raise funds including in Malaysia as the culture is very risk-averse.
- There is a lack of Muslim-focused angel investors/funds.
- Initial coin offerings (ICOs): could be an alternative for start-ups and it is an opportunity for everyone to invest in the next Google; but issuers need to practice responsible disclosure, especially if branded Islamic or Shariah compliant.
- It is hard for Islamic financial institutions to innovate unless they secure complete buy-in from shareholders and management due to structural inefficiencies.
- Blockchain could be a game-changer for Islamic finance.

Major takeaways:

"One of the most pressing issues facing the industry is whether or not regulatory frameworks can evolve and keep up with the development of fintech."

Kyri Andreou — Co-Founder and Director, ATA Plus

"Big institutions have to realize they don't have to act like start-ups – they have a lot of resources start-ups don't, so they should view start-ups as an opportunity to outsource innovation."

Umar Munshi — Founder, Ethis Ventures

"A lot of money and time are invested in big data but institutions are not seeing much returns because we forget that the context of big data is actually most important."

Wajahat Gilani — Investment Data Developer, StrikeValuation

"It is challenging to innovate with scale – it is hard to move across borders; until that is solved, it will be hard to keep up with innovation and fintech."

Niclas Nilsson — Founder and CEO, Capnovum

"It falls upon Islamic financial institutions to look at social problems such as the Rohingya crisis to bring fintech into the picture as a solution."

Muhammad Noor — Co-Founder, Rohingya Project

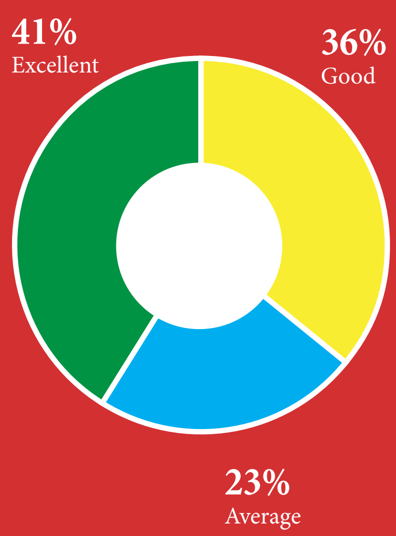
"Blockchain and technology surrounding it are like the internet and how it completely changed the way we use and share information. My prediction is that 30 years from now, the entire financial system will be completely changed and dependent upon blockchain. We are at a juncture point – we have the opportunity to replicate conventional structures using new fintech or the ability to use pure instruments that really represent the heart of the Shariah."

Matthew J Martin — Founder and CEO, Blossom Finance

"Proper ICOs are not different from taking a company to list – it is a lot of hard work if doing it properly. The headlines are just the tip of the iceberg."

Robin Lee — CEO, HelloGold

IFN Fintech Huddle



SPEAKER LIST

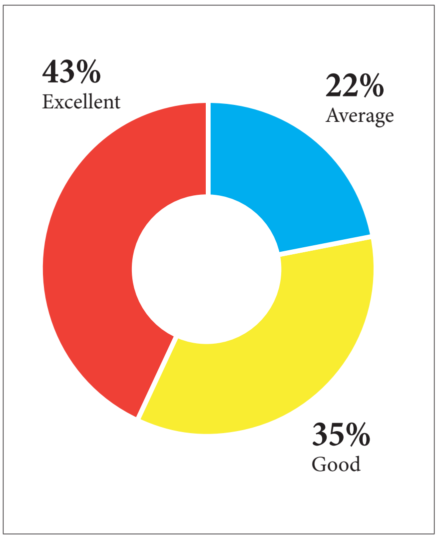
Name	Job Title	Company Name
ABDUL RAHMAN	Managing Partner	Abdul Rahman Law Corporation
AHMAD RAMZANI RAMLI	Vice-President, Equity Research	Kenanga Investment Bank
ARSALAAN AHMED	CEO	HSBC Amanah
ASHRAF GOMMA ALI	Director/Regional Head, Shariah and Governance	CIMB Islamic
ASHRAF MOHAMMED	Assistant General Counsel	Asian Development Bank
AZLEENA IDRIS	Head, Legal	Kuwait Finance House (Malaysia)
AZLIN AHMAD	Senior Associate	Herbert Smith Freehills
CHARANJEEV SINGH	Managing Director	NewParadigm Capital Markets
CHUNG CHEE LEONG	CEO	Cagamas
DAUD VICARY ABDULLAH	Managing Director	DVA Consulting
DIMA DJANI	Co-Founder	ALAMI
FARIDAH BAKAR ALI	Director and CFO	Khazanah Nasional
GOPAL KIRAN	Fintech Advisory Lead – Malaysia	EY
HAZWAN ALIF ABDUL RAHMAN	CEO	CMC Engineering
INDAR BARUNG	Head of Financing, Investment and Syndications	Sarana Multi Infrastruktur
IRWAN ABDALLOH	Head of Islamic Capital Market	Indonesia Stock Exchange
JOHNNY MAYO	Business Consultant	SuperCharger Fintech Accelerator
KHAIRUL NIZAM	CEO	Financial Accreditation Agency
KHALID HOWLADAR	Managing Director and Founder	Acreditus
KYRI ANDREOU	Co-Founder and Director	ATA Plus
LAWRENCE OLIVER	Deputy CEO	DDCAP Group
LEE CHOO BOO	Executive Director	Quantum Solar Park Malaysia
MASUMI HAMAHIRA	Advisor	MUFG Bank (Malaysia)
MATTHEW J MARTIN	Founder and CEO	Blossom Finance
MOHAMED DAMAK	Global Head of Islamic Finance	S&P Global Ratings
MOHAMMAD ALI ALLAWALA	CEO	Standard Chartered Saadiq
MOHD AMRI SOFIAN	Chief Corporate and Investment Officer	Danajamin Nasional
MOHSIN SHAIK SEHU MOHAMMED	Head of Investment Banking and Capital Markets	Maisarah Islamic Banking Service, Bank Dhofar
MUHAMMAD NOOR	Co-Founder	Rohingya Project
NICHOLAS EDMONDES	Partner	Trowers & Hamlins
NICLAS NILSSON	Founder and CEO	Capnovum
NIK NORISHKY THANI	Executive Director/ Country Head Islamic Banking	UOB Bank Malaysia
NORAZUA MOHD MARZUKI	Head, Islamic Finance	MUFG Bank (Malaysia)
RAFE HANEEF	CEO and Executive Director	CIMB Islamic
ROBIN LEE	CEO	HelloGold
ROZANI OSMAN	Financial Sector Specialist	World Bank
SHAMZANI HUSSAIN	Managing Director and Head of Islamic Banking – Corporate and Investment Banking	First Abu Dhabi Bank
SHARIFAH BAKAR ALI	General Manager, Group Business Development	UEM Group
SIMON CHEN	Vice-President - Senior Analyst, Financial Institutions Group	Moody's Investors Service
SIMON LORD	Chief Sustainability Officer	Sime Darby Plantation
STUART HUTTON	Chief Investment Officer	Simply Ethical
TAHIR ALI SHEIKH	Director and Head Islamic Advisory, Client Coverage - Group Wholesale Banking	CIMB Investment Bank
UMAR MUNSHI	Founder	Ethis Ventures
WAJAHAT GILANI	Investment Data Developer	StrikeValuation
YAP TSE-JUIE	Head of Finance	Alpha REIT Managers
YEOH TEIK LENG	Head, Structured Finance and Loan Markets, Capital Markets Group	AmInvestment Bank
ZAINAL IZLAN ZAINAL ABIDIN	Deputy Chief Executive	Securities Commission Malaysia

COMPANY LIST

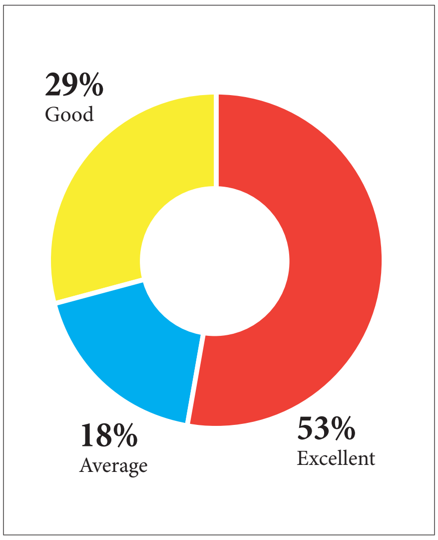
90 North Real Estate Partners
AAM Commodities
Abdul Rahman Law Corporation
Ableace Raakin
Ace Holdings
Acreditus
Adnan Sundra & Low
Affin Bank
Affin Hwang Capital
Afsha Shariah Advisory
Agrobank
AGS Advisory
AIA Public Takaful
Aifinco
Akhira Capital
Al Rajhi Bank
Alami
Al-Fateh Infiniti
Aliph Global Capital
Alkhair International Islamic
Alliance Investment Bank
Alpha One Ventures
Alpha Reit Managers
Alsadiq Consulting
Amana Bank
Amanahraya Trustees
Amanie Advisors
Ambank Islamic
Aminvestment Bank
Amundi Islamic Malaysia
Arus Capital
Asean Legal Alliance
Asian Development Bank
Ata Plus
Azmi & Associates
Bank Dhofar
Bank Islam Brunei Darussalam
Bank Islam Malaysia
Bank Muamalat Indonesia
Bank Muamalat Labuan
Bank Muamalat Malaysia
Bank Negara Malaysia
Bank Rakyat
Baton Global Consulting
Bedford Row Capital Advisors
Bill Morrisons
BIMB Securities
Blossom Finance
BNP Paribas Malaysia
British High Commission
Bursa Malaysia
C JJ & Associates
Cagamas
Calamander Capital
Capital Markets Malaysia
Capnovum
Cartel Global
Chemical Laboratory (M)
CIB Development
CIMB Investment Bank
CIMB Islamic Bank
Citibank
City University
Clifford Chance
CMC Engineering
CMC Group
CMO Asia
Commercial Leasing & Finance
Danajamin Nasional
Daz MC Securities INC
DDCAP Group
Deutsche Trustees Malaysia
Dhaka Bank
Discovery Trad & Tech
DVA Consulting
DZM Group
Eastspring Investments
Edulogy Management
Eiger Trading Advisors
Eigis Consulting GR
Elmangos
Employees Provident Fund
ERH Marketing (M)
Ernst & Young Advisory
Etiqa Insurance & Takaful
Exxec Intergrated (M)
EY
FAB Asia
Fariz Halim & Co (Falcolaw)
Financial Accreditation Agency
Finocracy Technology
First Abu Dhabi Bank
First Habib Modaraba
Firsthit Solutions
Fratelli Holdings
FWD Life Indonesia
FWU Malaysia
Genexus Advisory
GHL Epayments
Global Development Initiative
Global Rate
Globalshield
GMX Khazanah Capital Group
Great Eastern
Green World Money Master
Guidance Investments
Hellogold
Herbert Smith Freehills
Hifdzi Salmiah Kee Hanisah Co.
Hong Kong Daji
Hong Leong
Hong Leong Islamic Bank
HRM Consulting
HSBC Amanah Malaysia
HSBC Bank
Ideal Ratings
INCIEF
Indonesia Commodity & Derivatives Exchange
Indonesia Stock Exchange
Inland Revenue
Inland Revenue Board
Institut Darul Ridzuan
Inter-Pacific Securities
Islamic Fintech Alliance
ISRA
Isteligent Solution
Itramas Corporation
I-VCAP Management
J P Morgan
Japan Center for International
Japan Research Institute
Joseph & Co
JPPPL
JS Integrated Planning
Kaf-Seagroatt & Campbell
Kasturi Martabat
KDS Global
Kenanga Investment Bank
Kenanga Investors
Khalifah Group
Khazanah Nasional
Koperasi Angkatan Tentera
Kumpulan Wang Persaraan
Kuwait Finance House
Landbanc Property
Lanka Orix Finance
Lao-Syuen Development Co
Lee Hishammuddin Allen & Gledhil
Lee Perara & Tan
Legion Public Relations
LHDNM
Libra Invest
Lion Group
Llibf Ilum
Ltm Harvest Resources
M. Hifdzi Salmiah Kee Hanisah
Macquarie Bank
Malaysia Herbal Shop
Malaysia Rail Link
Malaysian Investment Banking Association
Maybank
MFPC
Midas Capital Alliance
MIDF Amanah Asset Management
Might
Minds
Ministry of Defense
Mission & Co
Mizuho Bank
Money Sense Advisory
Moody`s Investors Service
MUFG Bank
Muhibbah Engineering
Nafas
Newparadigm Capital Markets
Nomura Islamic Asset Management
Nurilham Consultant
OCBC Al-Amin Bank
OCBC Bank
OIC International Business Centre
Ommoney
Osman Consulting
Pacific Alliance Capital
Pacific Solar & Renewable Energy
Pan Malaysian Pools
Perbadanan Nasional
Phillip Mutual
Phillip Wealth Planners
PIDM
Plus
PMB Investment
Premier Finance Australia
PwC
Probiz Business Services
Prokhas
Prudential BSN Takaful
Quadrant Capital
Quantum Solar Park
Rahmat Lim & Partners
Rakuten Trade
RCM Engineering & Services
RFI Foundation
RHB Bank
RHB Investment Bank
RHB Trustees
Richard Pieris Finance
Robin Capital
Rohingya Project
Roosdiono & Partners
Runningstream
S&P Global Ratings
Safa Star
Sal Group
Sarana Multi Infrastruktur
Saturna
Saudi Fund for Development
SBI Islamic Fund II (Brunei)
SBI Ventures Malaysia
Securities Commission Malaysia
Shape Group of Companies
Shape Knowledge Services
Shathir Global Resources
Shearn Delamore & Co
Sime Darby Plantation
Simply Ethical
Singapore Exchange
SKVE Holdings
Social Islami Bank
SOCSO
Sophisticated Investor
Standard Chartered Bank
Standard Chartered Saadiq
State Street
Stellar Consulting Group
Supercharger Fintech Accelerator
Syntronic Malaysia
TA Securities Holdings
TAR University Collage
Tokio Marine Life Insurance
Trowers & Hamlins
TST Consultants
Twin Pavilion Properties
U Mobile
UEM Group
UGL
UITM
UITM Rembau
United Overseas Bank (M)
Universiti Malaysia Pahang
Universiti Malaysia Sabah
Universiti Putra Malaysia
Universiti Teknologi Petronas
University of Malaysia
UOB Islamic Asset Management
UTP
Valuecap
Vantage Five
Wahed Invest
Warga Biz
WM & Co
World Bank
World Vest Base
ZCA Capital

OVERALL EVALUATION

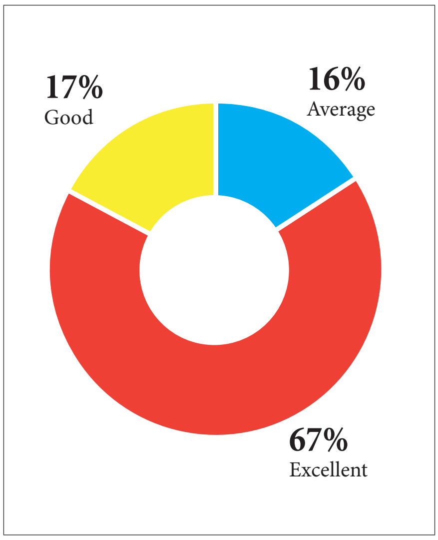
Pre-event Contact



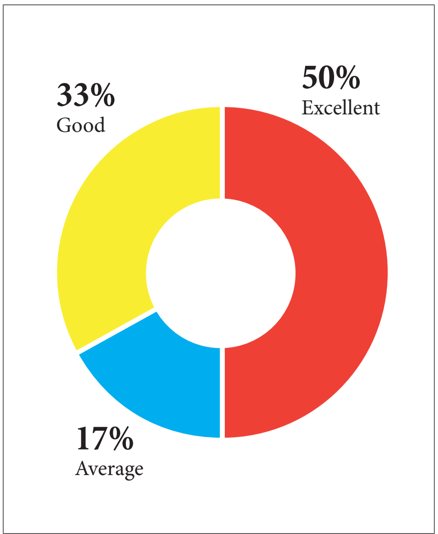
Venue & Facilities



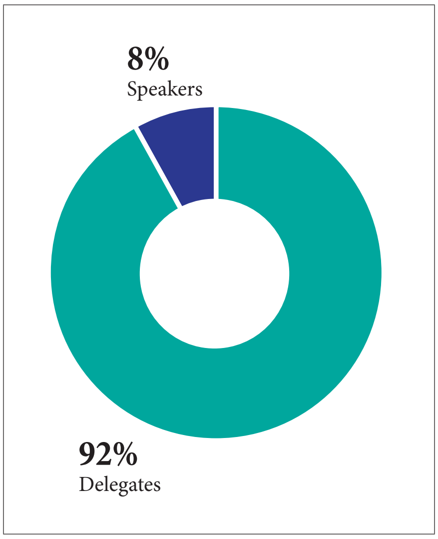
Overall Evaluation of the Event



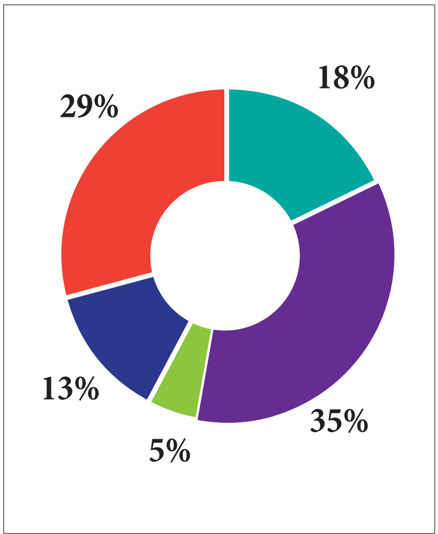
Overall Evaluation of the Speakers



Delegate Breakdown

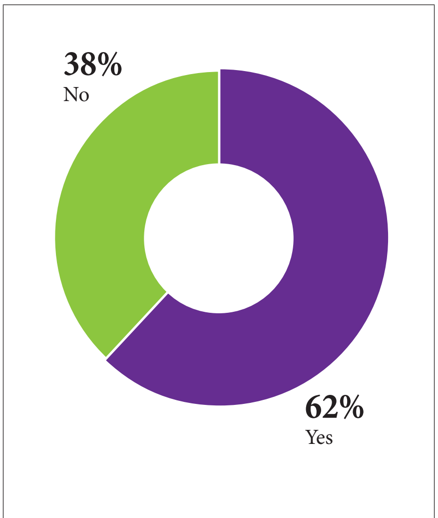


Delegate Job Title Breakdown

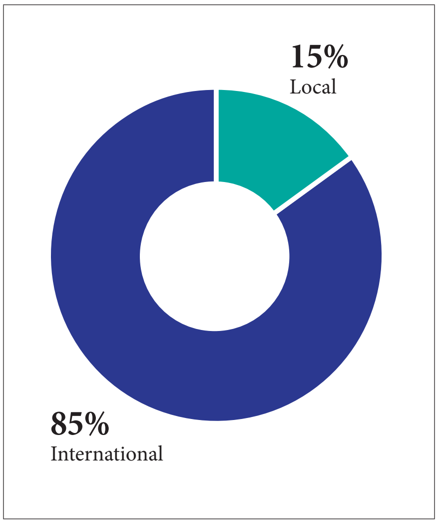


Board Level Management	164
Senior Management	201
Management	106
Executive	74
Others	30
Total	**575**

Delegates Who Would Like to Attend IFN Asia 2019



Delegate Breakdown (International & Local)



TESTIMONIALS

It was a pleasure meeting other panelists and learning from their rich experience. Look forward to staying in touch. Last but not the least, congratulations to the IFN team for organizing a very successful event.

ALI ALLAWALA
CEO, Standard Chartered Saadiq

I thought that we had a good session, which laid a good foundation for the rest of the day.

ASHRAF MOHAMMED
Assistant General Counsel, Asian Development Bank

Thank you for the invitation to speak, and congratulations on a forum very well organized! Glad to have had the time for knowledge-sharing.

HAZWAN ALIF ABDUL RAHMAN
CEO, CMC Engineering

Thank you for the invitation to speak at this event and for the very good organization and attendance.

MOHAMED DAMAK
Global Head of Islamic Finance, S&P Global Ratings

Thank you so much for inviting. I really enjoyed myself. The event was so well organized too. So grand. Well done!

SHARIFAH BAKAR ALI
General Manager, Group Business Development, UEM Group

Thank you for the kind message, job made very easy with a great set of panelists. I particularly enjoyed your explanation of Gen-Y behavior, it was very insightful.

ARSALAAN AHMED
CEO, HSBC Amanah

IFN ASIA REPORT 2018
TESTIMONIALS

It was my pleasure. Many thanks. I enjoyed it and felt the discussions were relevant.

DAUD VICARY ABDULLAH
Managing Director, DVA Consulting

A big thank you to your team is in order for a job well done.

ASHRAF GOMMA ALI
Director/Regional Head, Shariah and Governance, CIMB Islamic

Congratulations on yet another successful event! Thank you for giving us the opportunity to contribute to the event. We look forward to be of service at the next opportunity!

SIMON CHEN
Vice-President — Senior Analyst, Financial Institutions Group, Moody's Investors Service

It's always a pleasure to work with you and the team, and I thank you for inviting me to moderate the session. We thought that the event was extremely good and the attendance supports this view. The sessions were all very interesting and there was a very positive vibe throughout.

LAWRENCE OLIVER
Deputy CEO, DDCAP Group

A very well-organized and attended event. Interesting times ahead for Malaysia. Likewise, looking forward to working with the REDmoney team soon, thanks.

YEOH TEIK LENG
Head, Structured Finance and Loan Markets, Capital Markets Group, AmInvestment Bank

Well done to REDmoney for a well-organized event.

FARIDAH BAKAR ALI
Director and CFO, Khazanah Nasional

The Islamic finance story in ASEAN

The story of Islamic finance as understood by many people has Malaysia, Indonesia and the Middle East as its main characters. But closer reading reveals a more nuanced narrative, one that parallels the evolving economic story of a multi-faith region made up of countries with differing legal structures and at different stages of economic development: ASEAN.

"Sukuk is the Islamic finance's blue-eyed boy having largely delivered what was expected and certainly drawn attention for the industry. As the product gains mainstream awareness in the debt capital markets and as Sukuk structures evolve, the feasibility for new issuers improves," says Arsalaan (Oz) Ahmed, CEO of HSBC Amanah Malaysia. "The scale of the Sukuk market, though dwarfed by the conventional bond market, still remains relevant largely driven by a growing pool of investors for Sukuk."

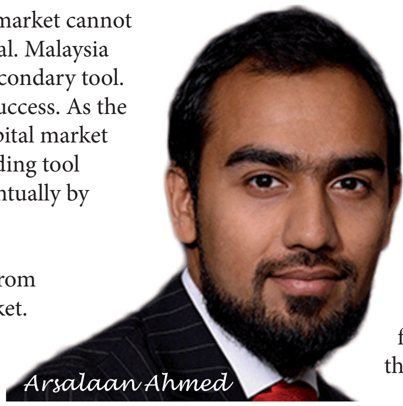
Access to a new pool of investors is always of strategic benefit to an issuer. Since the financial crisis, this has been even more pronounced but not just because of the access to investors and liquidity. The Sukuk market has shown it can be counter-cyclical or resilient at a time the bond market is struggling.

One only has to look back at the successful government of Indonesia Sukuk in 2009 that bucked the trend in the wake of the Lehman crash or the government of Malaysia Sukuk in 2010 and 2011 that shrugged off the European debt crises. Both deals were materially oversubscribed and priced well.

"Given all that context, the story is clear — Islamic finance gives ASEAN nations access to more capital in uncertain times and helps its citizens chart a better future without compromising their values. It's a story that deserves to be told"

"For those involved in the transaction, such as HSBC, a conventional bond would have had difficulty at those times. For ASEAN countries, particularly sovereigns, the Sukuk market cannot be ignored. It is a strategic tool to access capital. Malaysia uses it as a primary tool and Indonesia as a secondary tool. Both recent and regular issuers, both seeing success. As the ASEAN credit story builds and as usage of capital market grows, Sukuk will be a natural part of the funding tool evolution of issuers led by sovereigns and eventually by others," said Oz.

Moving to the opposite end of the spectrum from wholesale markets, we move to the retail market. Financial inclusion is becoming important in prudent policymaking for regulators. It is more broadly important for countries in terms of navigating uncertain times by increasing the number and amount of savings within the financial system.



Within the ASEAN region, there are Muslim-majority and Muslim-minority countries. The Muslim-majority countries naturally have to address the financial inclusion topic earlier. For Muslim-minority countries, when it comes to how one banks, faith-related considerations are a matter of values and not preference to a material number of Muslims. Islamic finance is a vehicle for non-Muslim countries to promote financial inclusion and thus greater integration within a country's systems and institutions.

"The leading example is the UK for supporting their Muslim-minority population; Singapore also has a good framework. Through a period of recovering from a global economic downturn, giving people an ability to access the financial system and see their prospects change is undoubtedly desirable. Exclusions based on faith, however, will undoubtedly cause friction and discontent. Although thus far the rationale has been focused on Muslim-minority countries adopting Islamic finance, there is still more to do in Muslim-majority countries. Particularly for Malaysia and Indonesia, a need to invest more into Islamic finance to ensure its offerings are on par with conventional offerings but within the industry's values is also important. This growth also supports the financial inclusion and societal integration benefits Islamic finance can help in," added Oz.

"All of these sound quite relevant but how easy is it really? Let us take an example in the Philippines. A country that has a Muslim minority, a very active issuer in the conventional bond market and one Islamic bank, Al Amanah, which has had challenges in being able to grow. How appealing would the time to build out Islamic finance locally be? That is for the country to decide. Part of that decision will be based on how easy it will be to implement. This is the third thread in regional examples to follow."

Between Malaysia, Indonesia and Singapore, there is a common law, civil law, developed, developing, Muslim-majority, Muslim-minority, island, mainland and archipelago countries. There are models and frameworks to follow. A lot of collective learning to share, adopt or build upon. Within Malaysia specifically, there are a raft of institutions, public, professional and academic setups to support countries develop Islamic finance.

To cut a long story short, using examples of those who went first, the Philippines can shorten their route to Islamic finance and likely have examples on how to address issues that will be faced along the way. This is true for the Philippines as much as it is true for other ASEAN countries.

"Given all that context, the story is clear — Islamic finance gives ASEAN nations access to more capital in uncertain times and helps its citizens chart a better future without compromising their values. It's a story that deserves to be told," concluded Oz.

Islamic finance will extend growth, expanding faster than conventional finance

In Moody's Investors Service's view, the growth in Islamic finance will continue to outstrip that of conventional assets across core Islamic finance markets in the coming years, as demand for Shariah compliant instruments rises.

SIMON CHEN
CFA, Vice President — Senior Analyst
simon.chen@moodys.com

Islamic banking penetration in the GCC increased to 45% of the total banking market as of September 2017 from 31% in 2008, led by Saudi Arabia (see Chart 1), while annual Sukuk issuance more than doubled to US$100 billion from US$42 billion. Growth of Islamic banking will also remain stable.

Growth in Islamic financing assets in 2018 will be supported by governments aiming to grow the Islamic finance industry domestically and globally, and by continued demand for Islamic products from individuals. Islamic issuers' penetration into Southeast Asia and North Africa will also drive growth.

> *"Growth in Islamic financing assets in 2018 will be supported by governments aiming to grow the Islamic finance industry domestically and globally"*

Globally, Saudi Arabia ('A1/Stable') remains the largest market for Islamic finance overall, with Islamic financing assets worth US$292 billion as of September 2017, while Oman ('Baa2/Negative') is the fastest-growing Islamic banking market, recording growth of 20% in the first nine months of 2017. This growth is driven largely by the country's late entry into Islamic banking.

Sukuk issuance will remain flat in 2018 following a record year in 2017, when it grew 17% to US$100 billion (see Chart 2), driven largely by GCC sovereigns. Moody's expects similar issuance in 2018, although the recovery in oil prices could lower financing needs. Corporate and asset-backed Sukuk activity was muted in 2017 because of more attractive conventional market opportunities and Moody's expects the same for 2018.

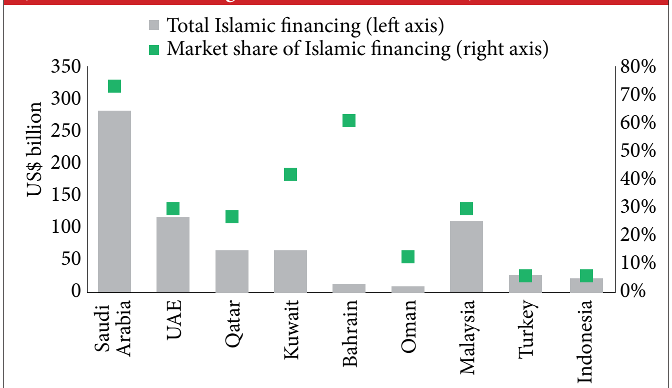
The legal proceedings of the Dana Gas case are still ongoing in the UAE. So far, this case has not had an impact on investor confidence in the Islamic finance industry in general and in Sukuk in particular. The English Court's ruling on the case should support Sukuk activity in 2018.

Malaysia and Indonesia remain key issuers (see Chart 3). Although Malaysia's share of annual sovereign Sukuk issuance fell to 22% in 2017 from 58% in 2010, it is the largest Islamic issuer with an estimated 44% of total sovereign Sukuk outstanding in 2017. Indonesia's share increased to 30% in 2016 from just under 10% in 2010, and is expected to continue to grow as the government seeks to develop the sector.

Finally, new entrants could partially make up for potentially lower sovereign Sukuk issuance in the GCC. In Africa, Nigeria issued its debut sovereign Sukuk in 2017, following issuances by Togo (unrated), Senegal ('Ba3 Stable'), South Africa ('Baa3' rating under review) and Cote d'Ivoire ('Ba3 Stable') in previous years. Elsewhere, Jordan ('B1 Stable') started issuing Sukuk in 2016, while Pakistan ('B3 Stable') and Turkey also raised relatively large volumes of funds from domestic and international Sukuk markets.

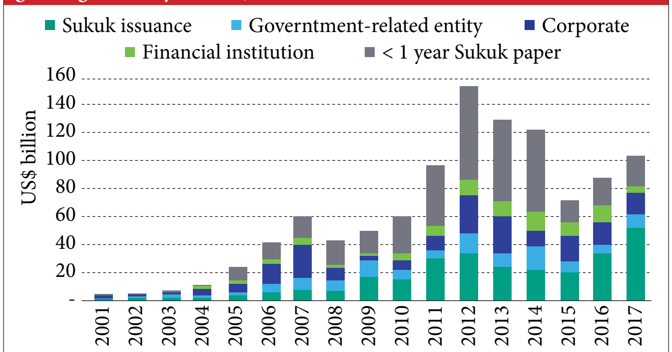
The Takaful sector continues to benefit from strong growth. It attracted gross premium contributions of US$14.9 billion in 2015

Chart 1: Key Islamic banking markets as of September 2017 (Saudi Arabia is the largest Islamic finance market)



Sources: Central bank data, banks' annual reports and Moody's Investors Service

Chart 2: Sukuk issuance in US$ billion (Global Sukuk issuance grew significantly in 2017)

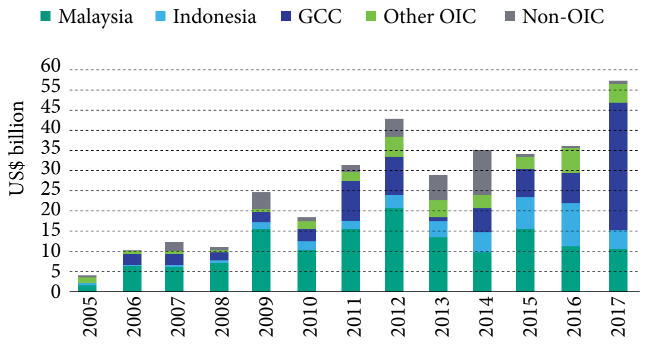


Sources: IFIS, Bloomberg and Moody's Investors Service and Moody's estimates it attracted over US$20 billion in 2017. This growth will likely continue in 2018 and over the medium term, spurred by strong prospects in Southeast Asia and North Africa.

GCC Islamic banks to maintain improved asset quality and profitability

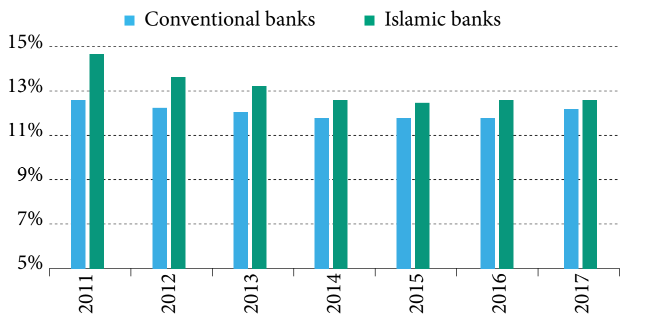
The credit fundamentals of Islamic banks operating in the GCC have converged with those of conventional peers over the past five years and they should maintain their improved asset quality and profitability in the coming year. However, the Islamic banks' still high loan concentration to the real estate sector and high asset growth remain key moderating factors.

Chart 3: Sovereign long-term Sukuk issuance by region, US$ billion (GCC sovereigns have driven the rise in sovereign Sukuk issuance)



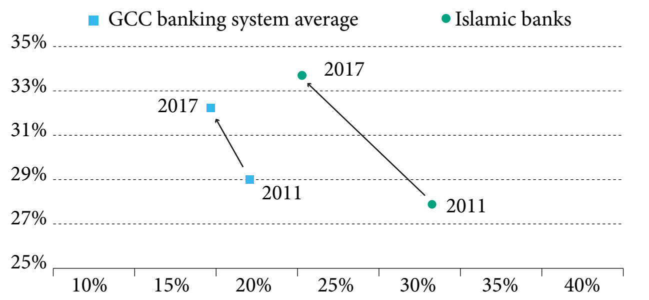
Sources: IFIS, Bloomberg and Moody's Investors Service

Chart 4: Tangible common equity ratio (tangible common equity/ total assets) (Islamic banks' resilient earnings generation capacity supports their capital buffers)



Sources: Banks' financial statements, Moody's Investors Service

Chart 5: Islamic banks' real estate and retail loans against GCC banking system (Islamic banks' real estate concentration has reduced, but remains significant)



Sources: Banks' financial statements, Moody's Investors Service

Islamic banks operating in the GCC have benefited from sustained growth in their franchises. Their solvency has improved, supported by efforts to reduce problem loans and by their sound profitability. While both Islamic and conventional banks in GCC countries reported non-performing loan (NPL) ratios of around 5% at the end of 2011, the ratio for Islamic banks declined to around 2.1% at the end of 2017 compared to 2.9% for conventional banks.

Moody's expects the Islamic banks' NPL ratios to remain low in the next few quarters, underpinned by three factors: their continued resolution of legacy impairments primarily related to the real estate sector, the lower new NPL formation as a result of their more selective and diversified credit growth and a significant denominator effect from stronger loan growth.

"Despite their stronger solvency metrics, Moody's believes that Islamic banks will continue to face higher asset risk than conventional banks, due to their high real estate concentration and rapid growth"

Moody's also anticipates that Islamic banks in the GCC will continue to report higher net profitability compared to their conventional peers. This reflects Moody's view that their lending margins will remain higher, supported by their favorable funding mix and the backdrop of rising interest rates.

GCC Islamic banks have also maintained higher capital adequacy than their conventional peers, although this gap has narrowed on the Islamic banks' stronger asset growth (see Chart 4), a trend that Moody's expects to continue.

Nevertheless, their capital buffers will remain supported by their strong profitability and provide a comfortable cushion to absorb potential losses.

Despite their stronger solvency metrics, Moody's believes that Islamic banks will continue to face higher asset risk than conventional banks, due to their high real estate concentration (see Chart 5) and rapid growth.

The conversation for opportunity

In a short time span, Malaysia has achieved the feat of positioning itself as one of the world's Islamic finance hubs. The GCC is naturally positioned to be a strong trading partner in this respect. While both Malaysia and the GCC have made strides in developing bilateral trade and promoting bilateral investment, there remains an ample opportunity to build a stronger partnership, with potential for both sides to benefit.


NICHOLAS EDMONDES
Partner
NEdmondes@trowers.com


ELIAS MOUBARAK
Partner
EMoubarak@trowers.com


ABDELHAK EL KINANY
Associate
AElKinany@trowers.com

To achieve this aim, a Framework Agreement on Economic, Commercial, Investment and Technical Cooperation was signed between Malaysia and the GCC. While there has not yet been a free trade agreement ratified between the two parties, it marked a united effort to enhance trade relations by opening more defined avenues for both parties to take appropriate steps and make arrangements for encouraging capital flows between them. Bilateral trade has significantly increased, exemplified by Malaysia's exports to the GCC increasing from US$2.66 billion in 2005 to US$4.65 billion a decade later.

Economic and policy-driven synergies

The appetite for fixed income assets in the GCC increased as oil prices decreased and sovereigns and corporates alike sought means to raise capital and close budget gaps in the changing economic climate. High-grade bond and Sukuk issuances were an opportunity to attract Asian investors who welcomed the increased supply as they sought to invest excess capital. This worked hand in hand with the GCC policy to 'look to the east', the goal being to expand trade relations with Asian countries and corporates.

Though Malaysia's largest trading partners have historically been the US, Singapore, China and Japan, it adopted the New Economic Model which aimed to shift trade relations toward the Middle East and Asia. Both Malaysia and the GCC share a linked indigenous background, being highly developed Muslim countries, with common interests in Islamic finance and the Halal food market and with both having relatively close proximity. The UAE in particular has been a viable partner for Malaysia, with its accessible and cost-effective offshore facilities and re-exporting links to the rest of the GCC. The UAE has also emerged as a large GCC investor in Malaysia.

As the global hub of Islamic finance, Malaysia has taken significant steps to develop its Islamic banking infrastructure and reputation. It now offers a set of diverse industry operators offering financial services from Islamic banks to fund management companies. It also has established Shariah advisory firms and institutions of higher education in Shariah finance, demonstrating ongoing investment in its human capital. While Asia is the most active region for Sukuk issuance, Malaysia continues to be first in setting the standard of innovation. Evidence of this can be found in Malaysia being the first country to adopt the green bond standards launched by the ASEAN Capital Markets Forum, with its Securities Commission issuing guidelines on sustainable and responsible investment (SRI) in response to the growth of SRI demand, and being the first issuer of a green Sukuk facility and an SRI Sukuk program. It is no surprise that Malaysia has been named the most developed Islamic finance market globally by Thomson Reuters in 2017, as it is the main driver of Sukuk issuance.

"The GCC has shown considerable interest in Malaysia, expanding on the amount of downstream oil and gas projects and having several commercial banks now operating in the country"

The GCC has shown considerable interest in Malaysia, expanding on the amount of downstream oil and gas projects and having several commercial banks now operating in the country. There is much to be said about investor confidence in Malaysia, as it continues to be an outlier in the current trend of South Asian countries experiencing an outflow of capital investment. This may be a by-product of its developed market and political stability. In a climate of rising interest rates, fixed income assets are a way for investors to diversify their portfolios to secure guaranteed returns. Concurrently, sovereigns and corporates may rush to issue bonds and Sukuk to lock in current interest rates as they seek to raise capital.

While most GCC Sukuk are issued in the US dollar, Malaysian Sukuk are issued in the ringgit. Any rise in LIBOR means a rise in the US dollar Sukuk rate which would not benefit ringgit Sukuk investors. However, Malaysia's central bank raised its benchmark interest rate early in 2018, the first raise since 2014, which indicates a strengthening economy. Given that the ringgit is widely believed to be undervalued compared to the US dollar, Malaysian Sukuk present an opportunity for the savvy investor to benefit from an increase in the value of the currency as well.

Our clients in the GCC are increasingly looking to invest in Malaysian sovereign and corporate Sukuk as well as looking at means of tapping into Malaysian pools of liquidity. In that regard, certain challenges remain, including the harmonization of Shariah and legal standards. Given the benefits to stakeholders if these challenges are resolved, one can be optimistic that these challenges will be overcome. This is one of the reasons Trowers & Hamlins, following numerous years of working with Malaysian clients on their activities in the GCC and beyond, became the first foreign law firm to set foot in Malaysia.

Islamic Solidarity Fund for Development

The Poverty Reduction Arm of the Islamic Development Bank Group

The Dana Gas saga: The legal perspective

The Dana Gas case was one of the most high-profile default cases in recent Islamic finance history. To recap, in 2007, Dana Gas PJSC (Dana Gas), through Dana Gas Sukuk Limited, raised US$1 billion through an issue of Shariah compliant Sukuk al Mudarabah due to mature in 2012. In 2012, Dana Gas was unable to meet its payment obligations, resulting in the restructuring of the outstanding Sukuk. Subsequently, in 2012, Dana Gas issued an US$850 million Sukuk Mudarabah instrument due to mature in 2017. The new Sukuk Mudarabah structure broadly preserved the same structure as that in the original Sukuk, and received the Shariah pronouncement of the Shariah scholars advising on the transaction.

AZLIN AHMAD
Senior associate, Herbert Smith Freehills
azlin.ahmad@hsf.com

The Dana Gas Sukuk documentation was governed by multiple laws, which is not uncommon for cross-border Sukuk issuances. For example, the trust deed, the trust certificates and the purchase undertaking were governed by English law, while some other transaction documents, including the Mudarabah agreement, were governed by the laws of the United Arab Emirates. Pivotal to this was the English law-governed purchase undertaking, which effectively obligated Dana Gas to pay the Sukukholders a pre-agreed exercise price upon the occurrence of, among others, non-payment under the Sukuk.

In 2017, Dana Gas announced it had received legal advice that "the Sukuk in its present form is not Shariah compliant and is therefore unlawful under UAE law" and that the restructuring of the Sukuk was necessary. It then secured injunctions from the Sharjah Federal Court and the English High Court of Justice in London, restraining the Sukukholders from taking any action against it under the Sukuk until a final determination had been made.

The Sukukholders claimed the announcement by Dana Gas triggered the operation of the purchase undertaking and the trustee's right (acting on behalf of the Sukukholders) to payment of the exercise price.

The English Court Decision

Action to enforce the purchase undertaking was commenced in England. In *Dana Gas PJSC v. Dana Gas Sukuk Ltd & Ors* [2017] EWHC 2928 (Comm), Dana Gas made a number of arguments as to why the purchase undertaking was unenforceable. Ultimately, the English High Court held it was governed by English law and was valid and enforceable under English law. The English High Court noted that as the purchase undertaking was, under English law, valid as an independent document, it was not compelled to take into consideration any public policy or legal concerns under the laws of the UAE, including any UAE law-governed documents ancillary to the purchase undertaking, such as the Mudarabah agreement.

Following this decision, a series of procedural court actions ensued. Dana Gas applied to vary the direction that the trial in the English action should deal with issues of both English and UAE law and unsuccessfully attempted to overturn the English court decision that the purchase undertaking was valid and enforceable. It also applied for the continuation of an injunction previously ordered by the Sharjah court in 2017, which restrained the defendants from enforcing the purchase undertaking. In the same action, one of the Sukukholders applied for an anti-suit injunction preventing Dana Gas from pursuing concurrent proceedings in the UAE. The Queen's Bench Division found that:

(a) the proceedings should remain in England and not be stayed

(b) the UAE-issued injunction restraining the trustee and creditors from enforcing the purchase undertaking should not be continued, and

(c) the application for an anti-suit injunction is allowed, prohibiting Dana Gas from pursuing concurrent proceedings in the UAE.

The UAE court decision

Parallel to the English court decisions, the Sharjah Federal Court of First Instance in the UAE instructed Dana Gas and all other parties to continue with the UAE proceedings. The Sharjah court also ordered that the English court decision should not be enforced in the UAE pending judgment by the UAE court on the enforceability of the English court decision in the UAE.

The court also suspended the English court decision barring Dana Gas from distributing cash dividends to its shareholders (despite the anti-suit injunction being granted in the UK) and ordered the suspension of any attempt to enforce the English decisions in the UAE.

It is noted that the terms of the purchase undertaking and Mudarabah agreement were not argued before the UAE courts and that matters determined by them were of a procedural nature.

Settlement

In May 2018, it was reported that Dana Gas had reached an amicable settlement with the Sukukholders to restructure the Sukuk. The terms are subject to the final approval of shareholders and existing Sukukholders. In addition, as part of the settlement, Dana Gas will seek to terminate the pending English and UAE legal proceedings on the lawfulness of the Sukuk.

Legal implications

(a) **Conflict of laws**
While the Dana Gas controversy was perceived by many to be a Shariah compliance issue, the UAE court decision has highlighted the potential implications in a transaction governed by multiple laws. The original assertion by Dana Gas that the Sukuk instrument was not Shariah compliant

was overshadowed by the conflict of laws issues arising from the parallel legal proceedings in England and the UAE. It is noted that the UAE and England are not party to any arrangements governing the mutual enforcement of judgments and are therefore not legally obliged to recognize the court judgment of the other country.

Conflict of laws is not a legal issue peculiar to the UAE, but potentially in situations where the various legal jurisdictions within a transaction lack reciprocity arrangements for the enforcement of judgments, undermining the effectiveness of an agreed choice of law. English law is traditionally the favored law of choice for international Sukuk transactions. However, while accepted by most investors, the risk remains within local shores (not just the UAE) that in an event of a conflict of laws, the local laws might prevail.

In the context of Dana Gas, the test would have laid in the successful enforcement of an English judgment in the UAE.

When dealing with multiple jurisdictions, it is key to ascertain that the underlying documents themselves are compliant with and enforceable under each material jurisdiction involved. In the case of Dana Gas, the potential enforcement issues within the UAE were already highlighted in their offering document.

It would have been interesting to have seen the final UAE court decision had this case been carried to completion.

(b) **Local courts**
The reluctance of the UAE courts to enforce the English judgment inevitably gives rise to the perception that a local court hearing a cross-border transaction dispute might be sympathetic to its own nationals and render decisions favoring the local counterparty. This risk is not confined just to the UAE. Most local courts retain the discretion to ascertain the compatibility of a foreign judgment with local public policies, hence a degree of uncertainty would always remain for any enforcement of a foreign judgment. The enforceability of the English judgment has not been considered in full by the UAE judiciary, and it is not known if the preliminary decision by the Sharjah court would have been upheld.

(c) **Shariah compliance**
Given that legal counsel generally does not have the capacity to advise on Shariah compliance, it is surprising that the announcement made by Dana Gas that the Sukuk instrument was not Shariah compliant was based on legal rather than Shariah scholarly advice.

Dana Gas did not elaborate why it considered the Sukuk to be non-Shariah compliant. This could be that subsequent to the original issuance of the Sukuk in 2007, concerns were raised on the permissibility of utilizing equity-like structures for fixed income instruments, with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), being the informal standard-setting body for Islamic financial instruments, ruling in 2008 that a fixed price undertaking to guarantee investment-type arrangements was not permitted under Shariah principles. AAOIFI viewed a fixed income debt instrument as inconsistent with investment-type arrangements where returns were, by nature, uncertain and should not be guaranteed. The restructured Dana Gas Sukuk instrument was accompanied by such a purchase undertaking, as a continuation to its original Sukuk structure which predated the AAOIFI ruling in 2008.

However, English courts have consistently declined from analyzing Shariah issues or any clauses purporting to import uncodified Shariah laws and principles within English law-governed documents, and have instead applied English law principles. This was not different in the case of the Dana Gas English court judgment.

As the merits of the English law judgment in Dana Gas were not discussed in the UAE courts, we are unable to conclude whether the UAE courts would have held differently. Contrary to popular belief, the UAE courts do not apply Shariah law in their commercial dealings and legislation, although some Shariah characteristics underpin UAE statutes. To illustrate, the imposition of interest, which is generally abhorred under Shariah, is permitted by the UAE courts. It is possible that the original assertion by Dana Gas that the Sukuk instrument was unlawful due to a lack of Shariah compliance would not have held water.

> *“Moving forward, parties may still wish to protect themselves by expressly waiving the right to rely on Shariah non-compliance to extricate themselves from an unfavorable transaction”*

The way forward

Moving forward, parties may still wish to protect themselves by expressly waiving the right to rely on Shariah non-compliance to extricate themselves from an unfavorable transaction. This language is already customarily found within most Sukuk transaction documents. Legal advice on the appropriate disclaimer language should be sought.

Parties should also consider expressly excluding references to Shariah standards or other similar references and terminology which may potentially create uncertainty and dilute the application of a chosen governing law or its interpretation.

Parties should also be more cautious in choosing governing law jurisdictions that are permitted to rely on Shariah principles, in the absence of any written law or established market practice expressly codifying these Shariah principles within federal legislation.

The industry has long called for local and international standardization of Shariah principles, which would mitigate similar claims in the future. Malaysia's Sukuk issuances are governed by stringent rules established by the regulators. Meanwhile, other countries such as the UAE are moving toward federal uniformity for Shariah transactions. The overall effect of this is yet to be seen in the global Islamic financing arena.

The role of Sukuk in sustainable development

In recent times, investors have renewed their attention to environmental preservation. This is evidenced by the growing interest in sustainable and responsible investment (SRI) instruments. The importance of environmental conservation and sustainability in Islam corresponds to the principal purposes of Shariah (Maqasid Shariah) which are intended to realize public benefit (Maslahah) and eliminate harm and destruction (Mafsadah).

CHUNG CHEE LEONG
President/CEO, Cagamas
info@cagamas.com.my

SRI is the concept of making an investment decision that is inclusive and considers the impact it has on the environment and social development in addition to financial returns. Hence, the SRI approach considers three criteria, ie environmental, social and governance factors.

With SRI gaining recognition and building up traction, green finance, which covers the financing of investments that would generate environmental benefits as part of their project strategies to achieve sustainable development for the future, has also made its way into the market.

From the Islamic finance perspective, the idea of green financing as a financial instrument for sustainable development plays an important role in the preservation and sustainability of the environment. The opportunity for Islamic finance to develop

> *“The future of green Sukuk in Malaysia is promising, given the government of Malaysia’s aspiration to position the country as the home for SRI and to support Malaysia’s Green Technology Master Plan which targets the country as a green technology hub by 2030”*

instruments and funding solutions that support the global demand for green projects is vast and consistent with the significant commonalities it shares with the SRI objectives.

Green Sukuk, a Shariah compliant SRI instrument that could be utilized for renewable energy and other environmental sustainability projects, is an important and commendable initiative. This is facilitated by the revised Sukuk guidelines by the Securities Commission Malaysia (SC) which states that the proceeds of SRI Sukuk can be used to preserve the environment and natural resources, conserve energy, promote the use of renewable energy and reduce greenhouse gas emissions.

In addition to being one of the major players of the global Islamic finance and Islamic capital market, Malaysia is also a signatory to the Paris Agreement on Climate Change and is committed to the UN Sustainable Development Goals. Thus, its position as a leader in the global Islamic capital market would encourage the development of sustainable investment assets in the country.

Malaysia has pioneered the issuance of the world's first green Sukuk in July 2017. It was issued under the SRI Sukuk framework as a result of a collaboration between the SC, Bank Negara Malaysia and the World Bank Group to facilitate the development of green financing and investor participation in SRI Sukuk.

> *"It would not take long for Cagamas to find a suitable program to support the SRI initiatives to help accelerate the growth of SRI investments in Malaysia"*

The aforementioned world's first green Sukuk facility was issued by Tadau Energy, a renewable energy and sustainable technology investment firm. The RM250 million Green SRI Sukuk Tadau facility was structured based on the Shariah principles of Istisnah (order sale) and Ijarah (leasing). Proceeds from the issuance were used to finance the construction of large-scale solar photovoltaic power plants in Kudat, Sabah.

The success of the Green SRI Sukuk Tadau issuance was quickly followed by the issuance of another green SRI Sukuk in October 2017. The issuance of a RM1 billion (US$251.75 million) green Sukuk facility by Quantum Solar Park Malaysia was to fund the construction of Southeast Asia's largest solar photovoltaic plant project in Kedah, Melaka and Terengganu and it is the world's largest green Sukuk issued to date.

Following these two issuances, the future of green Sukuk in Malaysia is promising, given the government of Malaysia's aspiration to position the country as the home for SRI and to support Malaysia's Green Technology Master Plan which targets the country as a green technology hub by 2030.

In addition, a number of incentives such as tax deductions on the issuance costs of SRI Sukuk and tax incentives for green technology activities are already in place to stimulate greater utilization of SRI instruments. The Green Technology Financing Scheme, for example, has a total fund allocation of RM5 billion (US$1.26 billion) to support the development of green technology. As such, further issuances are expected to support more SRI projects and to promote the country's position as a major player for Shariah compliant green instruments.

From the marketability perspective, green Sukuk could facilitate and increase participation of investors in the Sukuk market with its added appeal of having both ethical and socially responsible investment opportunities in addition to investment returns.

In spite of the positive trends for SRI Sukuk, there remain several challenges. Firstly, the small size of the secondary SRI Sukuk market due to the small number of investors holding Sukuk funds and other institutional investors which traditionally require a robust secondary market to meet their liquidity expectations. Secondly, there is an absence of a standard verification system for performance measurement of green Sukuk. Thirdly, SRI Sukuk may be exposed to a higher risk profile. This is because many environmentally-friendly projects involve a sophisticated degree of new technology due to the construction and operation of green technologies. Fourthly, the challenge of assuring investors that Sukuk proceeds will be used for projects with economic value while meeting accepted and credible SRI standards.

Cagamas, being the second-largest Sukuk issuer after the Malaysian government as well as the most prominent Sukuk issuer in the domestic market, could readily facilitate the liquidity needs of the green financing providers in the primary market. Hence, in view of the current pace of the SRI sector, Cagamas had recently embarked on an internal study to find the best possible ways to support the SRI initiatives. It would not take long for Cagamas to find a suitable program to support the SRI initiatives to help accelerate the growth of SRI investments in Malaysia.

In terms of issuance, Cagamas has been laying the initial groundwork to enable the issuance of SRI Sukuk. Cagamas has also initiated discussions with the relevant stakeholders to promote affordable housing and with potential financial institutions to identify and purchase assets that qualify under the green SRI framework. Additionally, Cagamas proactively and continuously engages with both local and foreign investors to widen its investor base and achieve competitively-priced funding and as a result, has identified investors with an interest and appetite to invest in SRI debt instruments. This approach would allow for the successful issuances of SRI Sukuk once the proper facilities have been established.


Explore a new era of opportunities with the right expertise.
The vision and ambition of ASEAN have brought a whole new era of investment and trade opportunities.
Thanks to the combination of our global network and over 150 years' experience in the region, ASEAN could be much closer than you think.
We have built long-lasting relationships across 95% of ASEAN's GDP and trade flows, to help clients like you uncover a world of opportunities.
Find out more at www.hsbcamanah.com.my/commercial
HSBC Amanah
Together we thrive
Issued by HSBC Amanah Malaysia Berhad (Company No. 807705-X)

Paving the way for financially viable companies to access the corporate bond market

Danajamin Nasional, Malaysia's first and only financial guarantee insurer, was established to ensure that non-'AAA'-rated financially viable companies can access the corporate bond market for their long-term financing needs.

Mandated by the authorities, Danajamin's existence was driven by the need to shore up confidence in the corporate bond market during the 2007/08 financial crisis.

The organization is accorded the 'AAA' rating by both RAM Rating Services and the Malaysian Rating Corporation. Danajamin aims to assist worthy companies based in Malaysia to acquire or build assets and grow their business so that they can increase their contribution to the nation's economy.

Danajamin's goal is also to help financially viable companies that appear less on the radar of commercial banks to tap financing through the corporate bond market.

Since its inception in 2009, Danajamin had successfully provided guarantees for RM9.4 billion (US$2.36 billion)-worth of bond/Sukuk programs issued by 35 companies across diversified sectors. This success story brought a market impact of more than RM20 billion (US$5.02 billion) through its risk-sharing collaboration with partner banks. The sectors include oil and gas, infrastructure and property development, a showcase of how well-positioned Danajamin is in facilitating a diversity of products and stimulating sustainable economic growth.

Last year, Danajamin took a major step forward in becoming the first financial guarantee insurer in the world to issue its own Sukuk. The inaugural issue of its sub-debt Sukuk Murabahah (commodity Murabahah) of RM500 million (US$125.49 million) was part of Danajamin's capital management initiatives.

The demand from investors was overwhelming and it was oversubscribed by three times. Danajamin closed the offer 4.8 times oversubscribed, a clear indication of investor confidence. "Danajamin is also cognizant on the need for sustainability through upholding the superior quality of our services and consistent delivery of our guarantees. Our customized issuances had succeeded in providing financial inclusion to emerging corporates or mid-market corporations – companies with revenue between RM50 million (US$12.55 million) to RM1 billion (US$250.97 million), who were not on the radar of the major lenders," said Mohamed Nazri Omar, the company's managing director and CEO.

Given the financial support extended to them, these mid-market companies can contribute productively through job and business opportunities as well as world-class public amenities.

Danajamin's recent issuances were underpinned by innovation to deliver rating diversity, financial inclusion and market development.

These key innovations include its first 'drop-off' structure that was applied to two transactions and its first credit enhancement facility via a guarantee that was applied to an affordable housing project in Kuala Lumpur.

For the first 'drop-off' transaction, Danajamin guaranteed a 19-year RM340 million (US$85.33 million) medium-term note program issued by Northern Gateway Infrastructure — a DRB-Hicom subsidiary.

This was a significant milestone for Danajamin as it marked two key structural innovations — its guaranteed construction risk after the project had been completed on a bond that had been previously issued by the company in 2013.

As a result, the company was awarded a concession by the government for the development of the Immigration, Customs, Quarantine and Security Complex at Bukit Kayu Hitam in Kedah. Meanwhile, Danajamin's inaugural credit enhancement facility issuance was the first structured transaction in Malaysia to monetize progress billings of a property development project.

Danajamin guaranteed a credit enhancement facility for Tranche 1 of the 12-year RM600 million (US$150.58 million) Sukuk Musharakah Islamic medium term note (IMTN) program issued by SkyWorld Capital — a sole-purpose vehicle wholly-owned by SkyWorld Development.

This first issuance was made against the progress billings of the SkyAwani 1 development project in Sentul, Kuala Lumpur — the group's first affordable housing project under the Rumah Mampu Milik Wilayah Persekutuan program.

"Our commitment to commercial sustainability is not limited to the development of the corporate bond market, but also supporting financially viable companies in achieving their business and commercial objectives," added Mohamed.

In October 2017, Danajamin collaborated with Bank Pembangunan Malaysia to co-guarantee the issuance of an 18-year RM639 million (US$160.37 million) senior Sukuk Murabahah by TRIplc Medical for the development of a new teaching hospital and medical academic center. The funds raised from the issuance will be used primarily to part-finance the development cost of the project, marking the company's contribution toward the development of the healthcare sector.

Driven by successful deals and toward the greater good for economic and social development, Mohamed affirmed that Danajamin will continuously help financially viable mid-market companies gain access to the corporate bond market with the emphasis to develop rating diversity in that market.

Mohamed believes that Danajamin's sustainability was built on trust and its ability to boost investor confidence. This foundation is further sustained by rating diversity and pricing transparency. "Our focus on innovation had delivered sustainable results and we achieved exemplary success in bringing back market confidence in lower-rated investment papers as we continue to work on identifying and assisting underserved corporations," he concluded.

Mohamed Nazri Omar

Introducing MUFG Bank

MUFG Bank is the new global brand for MUFG's core commercial banking subsidiary

New name aligns with the group brand and reflects bank's expanded services

Mitsubishi UFJ Financial Group (MUFG) recently announced that its core commercial banking subsidiary, the Bank of Tokyo-Mitsubishi UFJ, has changed its name to MUFG Bank as of the 1st April 2018. The change has also been reflected in Malaysia, as Bank of Tokyo-Mitsubishi UFJ (Malaysia) is now known as MUFG Bank (Malaysia).

The name MUFG Bank aligns with the MUFG Group brand and also reflects the significant steps the group has taken to provide its customers with a broader and more integrated range of financial services. MUFG Bank's president and CEO, Kanetsugu Mike, said the bank's business has successfully expanded globally, thanks to the trust and enduring client relationships developed over decades.

"Although the bank's name has changed, it's important to understand that our dedication to serving customers, and our unyielding focus on lasting relationships, will continue even as we seek to expand our client base worldwide," Mike said. "Our goal is to build on MUFG Bank's proud heritage as a trusted global bank while seamlessly providing innovative solutions to customers in a rapidly changing financial landscape."

MUFG Bank serves more than half a million corporate customers in around 50 countries and is committed to supporting its customers' growth by offering an extensive range of banking and investment products and services. MUFG Bank works in close collaboration with MUFG Group companies worldwide to deliver integrated solutions encompassing banking, trust banking, securities and leasing.

"Although the bank's name has changed, it's important to understand that our dedication to serving customers, and our unyielding focus on lasting relationships, will continue even as we seek to expand our client base worldwide"

"Since last July, we've made use of the phrase, 'We are from MUFG…' when making self-introductions," Mike added. "Now, with the new MUFG Bank name, we are better able to promote our 'MUFG' master brand and reinforce the group-oriented promotion of our business. It will allow us to fulfill our group's mission of being a foundation of strength committed to meeting the needs of customers, serving society and fostering shared and sustainable growth for a better world."

CMC Group's Islamic financing: Fintech meets project financing

The IFN Deals of the Year 2017 showcased a myriad of innovative transactions, taking Shariah financing to a new higher level. One such deal was CMC Group's fundraising via Islamic finance last year, leveraging on Bank Negara Malaysia's Investment Account Platform (IAP). DURGAHYENI MOHGANA SELVAM speaks to Hazwan Alif Abdul Rahman, CEO of the CMC Group, to bring you a breakdown of the deal.

CMC Group raised RM12 million (US$3.1 million) through the Islamic bank-mediated IAP to part-finance its first railway project outside Malaysia for the Ho Chi Minh line Metro project in Vietnam, which costs RM23 million (US$5.94 million). "[The] Overseas project has its own specific risks. This is why we wanted to explore a broader scheme of financing," explained Hazwan to IFN.

The IAP provided an avenue for CMC to create the restricted investment account which is a new asset class which will provide investors with new avenues to diversify their investment portfolio and to tap into various asset classes.

Structured along Wakalah and Tawarruq principles, 97.37% of the financing was participated by non-retail investors and 2.63% by retail investors. Profits of the financing shall be paid on a quarterly basis in-arrears, commencing at the end of the first quarter from the date of the disbursement; and the principal shall be paid on a quarterly basis for six quarters at RM2 million (US$516,802) per quarter.

Hazwan says that the challenges associated with the execution were typical risks associated with project financing such as delivery and currency fluctuation risks in terms of foreign exchange, which were all mitigated by CMC's experience in managing railway projects. As for the asset class, the platform was all online, which proved a challenge to new investors.

But it provided good exposure to investors, explained Hazwan, who also said that the process of raising funds via the IAP isn't easy. 'There was a lot of paperwork, but it provided discipline especially for us as we have plans to tap the capital market in future," he envisioned.

Introduced in 2016, the IAP uses crowdfunding to offer an investment account to investors, and aids the matching of investments with identified ventures or projects in need of funding.

CMC Group's financing

RM12 million

CMC group

26th July 2017

Issuer	Bank Islam Malaysia
Obligor	CMC Group
Size of issue	RM12 million (US$3.1 million)
Mode of issue	Restricted investment account via IAP
Tenor	18 months
Issuance price	Minimum RM5,000 (US$1,292.27)
Profit rate	6.3% per annum
Currency	Malaysian ringgit
Maturity date	18 months starting from July 2017
Governing law	Malaysian law
Legal advisor(s)/counsel	Kadir Andri & Partners
Listing	IAP
Rating	'a3' by RAM Ratings
Shariah advisor(s)	Shariah advisory board of Bank Islam Malaysia
Structure	• Wakalah under the Restricted investment account • Tawarruq under the term financing

Indonesia's Sukuk: Paving the way for green sovereign Islamic papers

February was a historical month for the global Islamic debt capital markets as the world's debut US dollar-denominated green sovereign Sukuk facility was launched by the Republic of Indonesia. The transaction comprised a US$1.25 billion five-year green Sukuk facility as well as a US$1.75 billion 10-year Sukuk tranche. DURGAHYENI MOHGANA SELVAM has the exclusive on the makings of this historical deal.

Both tranches of the Sukuk were structured based on the Shariah principles of Wakalah. "The Sukuk assets under this issuance consist of state-owned assets including land and buildings (51%) and project assets which are under construction or to be constructed (49%)," according to a document from Dubai Islamic Bank (DIB) as viewed by IFN.

Investor roadshows were conducted across key global financial hubs like Kuala Lumpur, Paris, London, Amsterdam and Dubai. "Paris and Amsterdam were considered due to the high concentration of socially responsible investors," explained the bank.

Initial price guidance was released at the 4.05% area for the green Sukuk tranche and 4.7% area for the 10-year Sukuk tranche, targeting an intraday execution. After around eight hours of bookbuilding, the final guidance was released at 3.75% for the five-year tranche and 4.4% for the 10-year tranche. "The transaction was in line with the Republic's ongoing objectives to strengthen the global Islamic financial market and commit to environmentally sustainable green funding," DIB expounded. Investors were from various regions around the world and included fund managers (FMs), insurance companies (Ins), pension funds (PFs), sovereign wealth funds (SWFs), central banks (CBs) and private banks (PBs).

The most populous Islamic nation in the world has initiated various efforts to accommodate the green Sukuk facility. Among them are the implementation of the Green Bond and Green Sukuk Framework, obtaining a second party opinion from the Center for International Climate Research and subsequently awarded the 'medium green' shading and consent on certain reporting and use of proceeds obligations.

The proceeds of the green Sukuk will be used to finance or refinance expenditure directly related to 'Eligible Green Projects' as defined in the framework, which include renewable energy, energy efficiency, waste to energy and waste management; resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction; sustainable management of natural resources; sustainable transport and agriculture; as well as green tourism and green buildings.

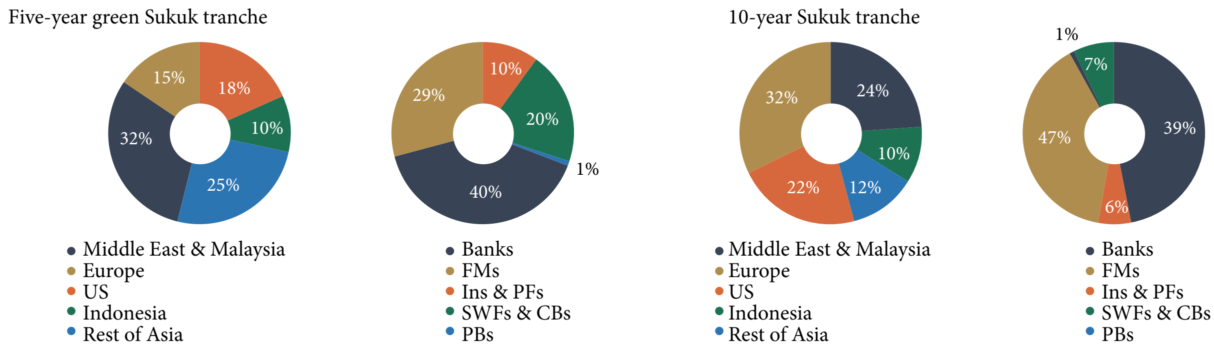
Republic of Indonesia's Sukuk

US$3 billion

February 2018

Issuer	Perusahaan Penerbit SBSN Indonesia III
Obligor	Republic of Indonesia
Size of issue	US$3 billion
Mode of issue	Senior, unsecured, Reg S, Rule 144A
Tenor	Green Sukuk: Five years Sukuk: 10 years
Issuance price	100%
Profit rate	Green Sukuk: 3.75% Sukuk: 4.4%
Maturity date	Green Sukuk: 1st March 2023 Sukuk: 1st March 2028
Joint bookrunners	DIB, CIMB, Citigroup, HSBC and Abu Dhabi Islamic Bank
Green structuring advisor	HSBC
Governing law	English and Indonesian
Legal advisor	Clifford Chance
Listing	NASDAQ Dubai and Singapore Exchange Securities Trading
Structure	Wakalah
Rating	Not rated
Shariah advisor(s)	CIMB Islamic Bank and Maybank Islamic
Structure	Wakalah Bi Al Istithmar
Distribution rate	1%

Chart 1: Breakdown of Indonesia's green sovereign Sukuk by geography and investor type



Source: Dubai Islamic Bank

Hascol Petroleum's ICP: Pakistan's foray into short-term papers

Just two months after its sovereign Sukuk success, Pakistan again made its name in the Islamic debt capital market landscape with the nation's first-ever Islamic commercial paper (ICP). Speaking to BankIslami Pakistan, the bank arranging the facility, DURGAHYENI MOHGANA SELVAM brings you the exclusive.

The issuance, floated by Hascol Petroleum, was for the amount of PKR1.5 billion (US$13.53 million), including a green shoe option of PKR500 million (US$4.51 million). The ICP was structured along the principles of Bai Salam and Wakalah due to the nature of the issuer's operations.

"The structures were used in view of the issuer's business model being an oil marketing company," BankIslami said. The Bai Salam structure is usually used when the advance is fully paid for a product that is only available on a future date.

The proceeds from the privately-placed paper will be used to cater to Hascol Petroleum's working capital requirement. The program has a tenor of one year, covering two tranches of six months each with a short-term rating of 'A-1' based on Hascol's entity rating of 'AA-' by JCR-VIS.

As the debut ICP in the South Asian nation, the bank faced a number of hurdles.

> *BankIslami is positive that there is healthy demand from the corporate sector for ICPs, and that an increase in Pakistani ICPs is a trend waiting to happen*

"Shariah structuring and the drafting of transaction documentation in line with the local laws and regulations were the major challenges," the bank expounded. The challenges were overcome through detailed deliberations and discussions between the arranger and the legal advisor.

The ICP received an overwhelming response from investors comprising mainly the country's leading asset management companies and mutual funds. An oversubscription exceeding 80% of the issue size was received for the paper, excluding the green shoe option.

With this paper, the floodgates for more ICPs in Pakistan have been opened. BankIslami is positive that there is healthy demand from the corporate sector for ICPs, and that an increase in Pakistani ICPs is a trend waiting to happen.

"The introduction of the ICP by BankIslami is aimed to broaden avenues for mutual funds and other institutional investors to invest in short-term/fixed income instruments in a Shariah compliant manner," the bank said.

Hascol Petroleum's ICP

PKR1.5 billion (US$13.53 million)

29th December 2017

Issuer and obligor	Hascol Petroleum
Size of issue	PKR1.5 billion (inclusive of a PKR500 million (US$4.51 million) green shoe option)
Mode of issue	Islamic commercial paper
Purpose	To finance working capital requirements
Tenor	One year
Profit rate	Six months KIBOR + 125bps
Currency	Pakistan rupees
Maturity date	29th June 2018
Lead manager and principal advisor	BankIslami Pakistan
Governing law	Pakistani law
Legal advisor(s)/counsel	Mohsin Tayebaly & Co
Listing	Not listed
Underlying assets	High-speed diesel inventory
Rating	'AA-/A-1' by JCR-VIS Credit Company
Shariah advisor(s)	BankIslami Pakistan
Structure	Bai Salam and Wakalah
Tradability	Non-tradable
Investor breakdown	23 mutual funds from six asset management companies