



# **RISK MANAGEMENT OF ISLAMIC BANKS & SUKUK INSTRUMENTS**

**14<sup>th</sup> & 15<sup>th</sup> April 2019 – Muscat, Oman**  
**26<sup>th</sup> & 27<sup>th</sup> August 2019 – Jakarta, Indonesia**

**26<sup>th</sup> & 27<sup>th</sup> November 2019 – Manama, Bahrain**

Ten years on from the Global Financial Crisis and in light of Basel III requirements, the ability of Islamic banks to implement a robust risk management discipline is considered one of the most important success factors in the Islamic banking industry. This course provides instruction in bank risk management entirely within an Islamic banking context. It provides in-depth analysis of contemporary risk management issues facing Islamic banks and shares leading solution methodologies to measure and manage several well-known risk management challenges.

Since Islamic banks increasingly rely on Sukuk instruments to fund their growth, the course also provides a thorough assessment of risks arising from originating and investing in Sukuk instruments. These risks derive from risk at the level of underlying assets, as well as risk transformation resulting from the rights and obligations embedded within Sukuk structures. Given the relevance of Sukuk to the treasury portfolios of Islamic banks, their treatment for capital adequacy purposes is also covered.

This course provides delegates with an invaluable opportunity to both understand how to manage risk in Islamic banks, and how to assess and mitigate risk arising from Sukuk instruments. The course will include a high level of interactive discussion, analysis of case studies, and thorough instruction in techniques which can be applied to manage bank risk and the risks inherent in Sukuk instruments.

## **KEY HIGHLIGHTS**

- Identify, measure and manage risk in Islamic banks at financial product and balance sheet levels with a focus on market and liquidity risks
- Examine why and how, specifically, Islamic banks require a strong ALM discipline
- Assess the key risks inherent in various types of Sukuk instruments, including credit, market and liquidity risks, and how they are mitigated in practice

# AGENDA

## Day 1: Risk Management of Islamic Banks

### Asset Liability Management in Islamic Banks

- What is ALM and why is it important?
- What are the main risks that ALM deals with?
- Why, specifically, do Islamic banks require a strong ALM discipline?
- How should Islamic bank assets be funded?

### Liquidity Risk Management in Islamic Banks

- Static liquidity gap analysis: method and shortcomings
- Dynamic liquidity gap analysis: simulation to quantify funding needs
- What is the role of liquidity stress testing and how can it be made useful?
- What can Islamic banks do to better manage their particular liquidity risks
- Basel III and liquidity ratios for Islamic banks

### Markup Risk Management in Islamic Banks

- Markup risk measurement approaches
  - Static re-pricing gap analysis
  - Dynamic earnings-at-risk analysis
  - Full simulation
- Markup risk management
  - Setting an ALM objective
  - Structural solutions versus hedging solutions
  - Managing markup risk and Displaced Commercial Risk (DCR) in Profit Sharing Investment Accounts (PSIA)

### Currency Risk Management in Islamic Banks

- How does currency risk arise in Islamic banks?
- How can it be managed simply without using hedging?
- Practical applications of Islamic treasury products to manage currency risk

## Day 2: Risk Management of Sukuk Instruments

### Overview of Sukuk

- What Sukuk are and what Sukuk are not
- How are Sukuk different to conventional bonds?
- Can Sukuk be traded? If so, what are the Shariah requirements?
- Are Sukuk on- or off-balance sheet?
  - Asset-backed Sukuk
  - Asset-based Sukuk

### Credit Risks in Sukuk instruments

- How does credit risk arise in Sukuk?
- Credit risk on the originator versus credit risk on the underlying assets
- Sukuk structuring and its impact on credit risk
  - Nature of the underlying assets
  - Repurchase undertaking
  - Liquidity facility
- What happens when risk is not accurately priced?

### Example 1:

*Pricing credit risk in a Sukuk Al-Ijarah with real estate underlying and a repurchase undertaking*

### Market Risks of Sukuk

- What is market risk and how does it arise in Sukuk?
- Does market risk arise only in traded Sukuk?
- Sukuk instruments which bear
  - currency risk
  - interest-rate risk
  - equity price risk
  - commodity price risk
- How can we accurately price market risk in Sukuk if they are not actively traded?

### Example 2:

*How to apply Value-at-Risk (VaR) to determine the price risk of commodity Murabahah Sukuk with security deposit*

### Liquidity Risks Arising from Sukuk

- What types of liquidity risk arise in Sukuk?
- Market liquidity risk in traded Sukuk
- Funding liquidity risk and MTN programs which use Sukuk for Balance Sheet funding
- Is the liquidity facility really necessary?

### Other Types of Risks

- Shariah non-compliance risk
- Operational risk
- Accounting and de-recognition risks
- Project completion risk
- Business risk

### Mitigation of Sukuk Risks

- Risk mitigation at the level of underlying assets
  - Cash collateralization
  - Credit quality and asset selection
  - Security packages
- Risk mitigation at the level of the Sukuk structure
  - Repurchase undertaking
  - Excess Spread
  - Liquidity facility
  - Over-collateralization and tranching
  - Role of Takaful

### Capital Charges for Sukuk Instruments

- Murabahah Sukuk
- Salam Sukuk
- Ijarah Sukuk
- Istisna Sukuk
- Mudarabah Sukuk
- Musharakah Sukuk
- Wakalah Sukuk

### Course Conclusion

## SPEAKERS



**Dr. Ken Baldwin**  
**Former Director**  
*Financial Policies &  
Planning, Islamic  
Development Bank*

Dr. Ken Baldwin has worked as a practitioner in banking and finance for over 25 years in senior positions spanning the front and middle offices. Having graduated from Oxford University with a first-class honors degree in Physics in 1989, he qualified as a Chartered Accountant with PWC, before joining UBS, and then later Credit Suisse, in derivatives risk and control functions based in London.

He gained a PhD in the microeconomic theory of risk sharing in Islamic contracts, and worked in the GCC for 15 years in Islamic retail and Islamic investment banks. Whilst at Abu Dhabi Islamic Bank, Dr. Ken built an ALM analytic technology platform capable of capturing liquidity and interest rate risks inherent in the many varied Islamic financing products used at retail and corporate levels. He then moved to take up the position of MENA Regional Head of Quantitative Analysis for Citigroup. At Citicorp, Dr. Ken worked on structuring complex products used by Gulf-regional corporations to hedge FX and interest risks. Still residing in Bahrain, Dr. Ken then joined Investcorp, where he worked on the risk due diligence of corporate private equity and real estate private equity transactions and portfolio management. After leaving Investcorp, he set up the risk management department for venture capital bank, providing Basel III compliance and deal analysis for the bank. He then operationalized a new Islamic investment bank as its Chief Operating Officer for 3 years, before his most recent industry role at the Islamic Development Bank, where he set up and ran a new department tasked with developing Financial Policies and Planning underpinned by robust financial analytic tools and methodologies designed specifically for the IDB. Dr. Ken is currently a senior university lecturer in finance in the UK. He has published quantitative finance articles in peer-reviewed academic journals including the Journal of Risk, and during his earlier career, taught CFA and FRM professional certifications as a pastime for the Bahrain Institute of Banking and Finance.

Ken is a British Muslim.

## Who Should Attend?

This course is designed to be of most benefit to:

- CFOs, heads of finance and finance officers
- CROs, risk managers, and risk analysts
- Compliance and audit professionals
- Treasurers, treasury managers and ALM professionals
- Capital market transaction origination and structuring teams
- Fixed income portfolio and other fund managers
- Credit administration managers and credit portfolio analysts
- Ratings agency analysts
- Bank and capital market regulators

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I am booking for the following dates & location:

☐ 14<sup>th</sup> & 15<sup>th</sup> April 2019 | Muscat, Oman

☐ 26<sup>th</sup> & 27<sup>th</sup> November 2019 | Manama, Bahrain

☐ 26<sup>th</sup> & 27<sup>th</sup> August 2019 | Jakarta, Indonesia

## BOOKING DETAILS

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\* Further attractive packages are available for groups of more than five. Please contact us directly.

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