

Sukuk- the most rapidly growing and widely accepted Islamic finance structure

November 16, 2014

Disclaimer

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Introduction: What is a Sukuk

By practice

- Sukuk is a Shariah compliant capital market instrument / finance structure that is used by the Originator to raise fund from regional and international investors
- It typically pays a fixed or floating rate of profit to the investor, and is redeemed in a pre-prescribed tenor
- Due to its nature, it can be comparable in some cases to conventional asset backed securities

Conceptually

- “Sakk” is the Arabic word for certificate and “Sukuk” is the plural of it.
- Sukuk is a generic term and can literally and conceptually be used to denote any kind or form of certificate
- As an Islamic finance structure though, these certificates represent financial claim towards the underlying (an asset- tangible or intangible or business operation) proportionate to the beneficial ownership of the Sukuk holder
- The concept of Sukuk dates back to early Islamic civilization but only recently it has re-emerged as a modern Islamic finance structure

Introduction: Sukuk and Loans market considerations

	Sukuk	Loans
Advantages	<ul style="list-style-type: none"> ✓ Diversification of investor base away from banks (fund managers, private banks, insurers, corporates and central banks) ✓ Attractive maturity terms are available ✓ Provides rating agencies and creditors with proof of ability to diversify funding, having access to capital markets on a regular basis ✓ Ability to fund in large size given deep investor base ✓ Easy to replicate for subsequent transactions 	<ul style="list-style-type: none"> ✓ Quicker execution timeframe than a Sukuk ✓ Lower upfront costs compared to Sukuk (ie. Legal fees, roadshows, etc..) ✓ Can be conducted with no ratings ✓ Modification process is more flexible compared to a Sukuk ✓ No public reporting requirements ✓ Able to utilise appetite from domestic banks
Limitations	<ul style="list-style-type: none"> ? Expensive to prepay in early years (no free call option) ? Issuance is subject to market conditions ? Execution risk could be higher in volatile market conditions vs. loan (targeting core relationship banks) ? Higher upfront costs (ratings, legal fees, etc..), although can be mitigated by establishing a Sukuk/ Trust Certificate Programme ? Work required to acquire credit ratings ? Modification process is more difficult (but far less frequently required) than a bank debt 	<ul style="list-style-type: none"> ? Less diversification of investor base and thus might restrict future lending commitments from banks ? Uses secured capacity ? May include less flexible covenants (including maintenance-based covenants) ? Generally limited to short-to-medium term debt

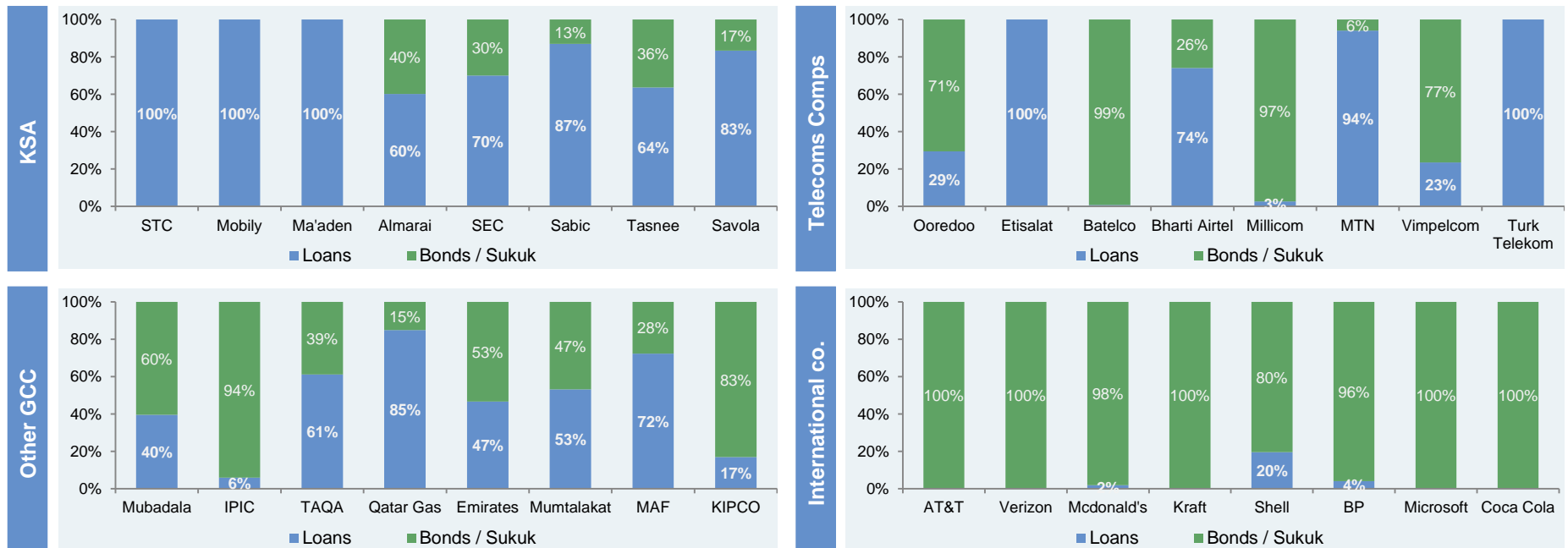
Introduction: Currently evolving Funding mix

A shift from Loans to Debt Capital Markets (Sukuk & Bonds)

Funding alternatives

- Liquidity in the bank loan market has reduced post the credit crisis, which has prompted global borrowers to shift financing from loans to Sukuk & bonds
- Sukuk & Bonds markets have allowed corporates to extend tenors beyond the traditional 5-year sweet spot of the syndicated loan market
- Aggressive pricing levels have been achieved in the Sukuk & Bonds markets on the back of large investor demand, providing corporates with the opportunity to invest and fund their capital expenditure/acquisitions by raising cheap senior funding or capital without having to raise dilutive equity

Current funding mixes (loans vs bonds/sukuk)



Source: Bloomberg

Introduction: Benefits of a Sukuk/ Trust Certificate Programme vs. a Standalone issuance

A short lead time required prior to an issue is beneficial to tap the Sukuk & bond markets

Overview

Funding flexibility

- Allows issuer to issue multiple tranches at the same time (based on the same programme documentation)
- Also provides issuer with the flexibility to issue different kinds of notes (fixed rate, floating rate, callable, putable, full flexibility over currencies of denomination – USD, SAR, G8 and non-core currencies etc - and tenors etc.)

Significant cost efficiencies

- Once established, the programme helps reduce the costs of subsequent drawdowns
- Cost saving benefits are typically better realised if multiple tranches per annum are issued, compared to a standalone issue
- If execution is delayed, documentation of a Programme does not go stale for purposes of Reg S or domestic issuance

Speed of execution

- All documents (trust deed, programme agreement, form of subscription agreement) are negotiated at the time of the establishment of the programme, so negotiation at the time of each issuance is minimised
- An up-to-date programme can allow issuance in as little as 1 week
- Avoids the requirement for new issuance approvals at the time of each issue
- Reduces execution risk, and provides access to “reverse enquiry” and private placement market

International profile

- Demonstrates funding flexibility and ability to raise attractive funding in the international capital markets
- Enhances issuer’s profile in the international investor community and enhances transaction visibility

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Size considerations for a Programme or a Standalone issuance

Programme may be upsized at a future date in case maximum capacity has been reached

A. Programme Size

B. Tenor considerations

C. Coupon format

D. Pricing thoughts

E. Syndicate Structure

Considerations

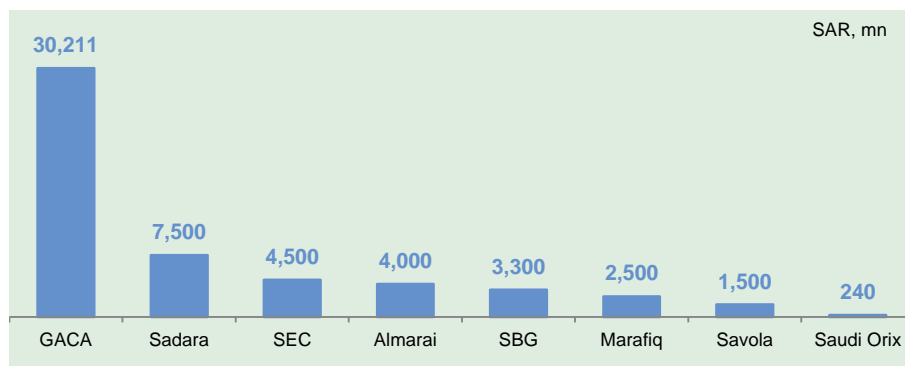
- The size of a Programme or a Standalone issuance is generally a function of a message to the market, setting the amount of financing the issuer is targeting to raise in upcoming 2-3 years or at once
- The size of the programme or issuance will also be driven by the size of suitable identified assets to be tied to the Sukuk structure
- Issuer will have the flexibility to increase the Programme size at any point, in accordance with the terms of the Programme Agreement, should it wish to raise further debt out of the debt capital markets upon raising the maximum indicated size, particularly for M&A driven activities

Domestic SAR Market

Overview

- Issuer is able to raise a minimum of SAR 3-4bn from either the public or private placement market at a single execution window
- High demand for SAR capital market instruments is evident as investors are keen to put their cash to work
- This follows (i) demand for high quality assets, (ii) restrictions on investment outside of Saudi Arabia, (iii) limitations on KSA banks investing outside of the KSA, (iv) yield opportunities for excess liquidity limited to SAMA placement, and (v) stringent investment restrictions on fund managers

Domestic SAR supply since 2012 (till early 2014)

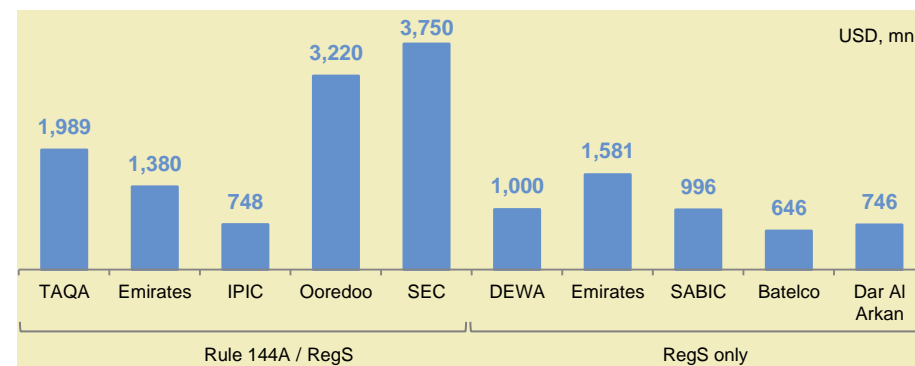


International markets

Overview

- Issuer is able to raise a minimum of USD 1,000 – 1,500mn at a single execution window from the RegS only or Rule 144A / RegS markets
- Demand for USD capital market instruments in the Emerging Markets and the GCC remain high, with core anchor accounts still keen to put their cash to work, with ample liquidity in Sukuk market
- Demand depends on the Issuer's credit story, business/ industry profile and shareholders

Corporate supply by GCC issuers since 2012 (till early 2014)



Tenor considerations

Funding is achievable across all durations, subject to Issuer's preferences

A. Programme Size

B. Tenor considerations

C. Coupon format

D. Pricing thoughts

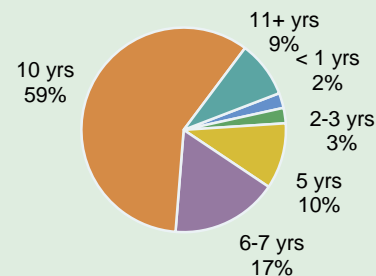
E. Syndicate Structure

Domestic SAR Market

Overview

- Issuer is able to extend its maturity profile by tapping long-term durations (i.e. 10-years and potentially longer)
- The majority of domestic SAR issuers targeted the 10-year duration of the curve, extending maturity profiles whilst receiving strong demand from the local investor base
 - 59% of issuers targeted the 10-year tenor (skewed by the jumbo sized issuance of GACA)
- By excluding GACA, 10-year duration takes 36% of total issuances since 2012, followed by 7-year and 5-year duration, taking up 26% and 16% of total supply, respectively
- Issuer may contemplate a long-dated issuance (ie. 15-years plus), although this will require a sizeable pricing premium to compensate investors for the lack of swap market and increase in duration

Distribution of Domestic SAR Issuance since 2012



Source: Bond Radar, domestic SAR offerings, 2012-2014 (Feb)

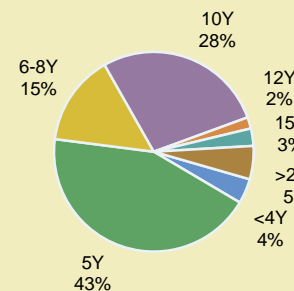
International markets

Overview

- Majority of large sized Rule 144A/Reg S offerings were issued via dual- or triple-tranches since 2012, combining a 10-year tranche with a 5- and/or a 30-year offering
- 10-year is an existing investor sweet spot for a Rule 144A / Reg S USD benchmark transaction, as evidenced by both MENA- and CEEMEA-based issues during 2012-2013
- A 5-year tranche will allow Issuer to take advantage of strong Middle Eastern and Asian demand, particularly Islamic investors, and accordingly achieve the most aggressive pricing
- A 30-year tranche may also be envisaged, although subject to reverse enquiries, and will be mainly driven by international accounts and selected Saudi investors

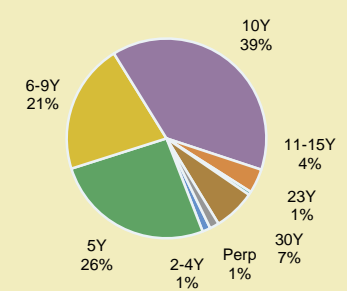
Distribution of international USD issuance since 2012

GCC-based issues



Source: Bond Radar, International USD offerings, 2012-2014 (Feb)

CEEMEA-based issues



Coupon format and Currency considerations

A Programme will provide Issuer with flexibility to issue in both FRN and fixed format

A. Programme Size

B. Tenor considerations

C. Coupon format

D. Pricing thoughts

E. Syndicate Structure

Domestic SAR Market

Overview

- Both fixed and floating rate notes are achievable in the SAR domestic market
- The majority of issuances in the SAR domestic market were issued in a floating rate format, although this has been skewed by the GACA jumbo c.SAR 30bn supply
- By excluding GACA's jumbo issuance, Floating rate notes comprise 89% of total SAR domestic issues since 2012
- A floating rate note will mitigate investors' concerns around the expectation of rising yield environment
- That said, demand from investors may be affected by (i) lack of swap market, and (iii) the need for special approvals, hence investors may expect an attractive yield pick-up to invest in fixed long-dated instruments

Distribution of Domestic SAR Issuance since 2012 (till early 2014)



Source: Bond Radar, J.P. Morgan, domestic SAR offerings, 2012-2014 (Feb)

International markets

Overview

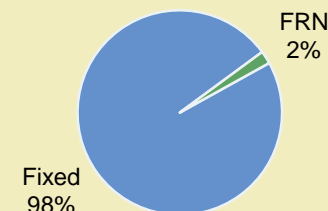
Currency considerations:

- An international Trust Certificate Programme will allow Issuer to tap into various currencies and markets, providing the flexibility to tap into SAR domestic issuances should arbitrage opportunities arise

Coupon format:

- The majority of international USD issuances, both from the GCC and the broader Emerging Markets, have comprised of fixed rate notes
- On the back of the uncertainty witnessed around the US Tapering event, a significant amount of international investors have shown interest in floating rate note instruments, particularly on short-to-medium term durations
- In 2013, two financial institutions out of the GCC have issued in floating rate notes (QNB and ADCB – both 3-years)

Distribution of international USD Issuance by GCC borrowers since 2012



Source: Bond Radar, International USD offerings, 2012-2014 (Feb)

Indicative Pricing analysis and levels for Issuer

Aggressive funding levels achievable in both the domestic and international markets

A. Programme Size

B. Tenor considerations

C. Coupon format

D. Pricing thoughts

E. Syndicate Structure

Domestic SAR Market

Domestic SAR- Key Issuances

Issue Date	Issuer	Issuer Rating Mdys/S&P/Fi	Size (SAR m)	Maturity	Margin (bp)
01/14	SEC	A1/AA-/AA-	4,500	01/54 (Put 24)	3mS+70
05/13	Marafiq	-- / -- / --	2,500	05/33 (Put 18)	6mS+85
04/13	Sadara	-- / -- / --	7,500	12/28 (Put 18)	6mS+95
05/12	Tasnee	-- / -- / --	2,000	05/19	6mS+105
01/12	GACA	-- / -- / --	15,000	01/22	2.500%
10/11	Satorp Sukuk	--/--/--	3,750	10/25 (WAL 10)	6mS+95
07/11	Sipchem Sukuk	--/--/--	1,800	07/16	3mS+175
04/10	SEC	A1/AA-/AA-	7,000	05/30 (Put 17)	3mS+95
12/09	IBRD	Aaa/AAA/AAA	1,000	12/14	2.450%
06/09	SEC	A1/AA-/AA-	7,000	06/29 (Put 14)	3mS+160

Pricing Considerations for a new SAR Sukuk by Issuer

- For a new SAR issue, investors' pricing methodology will be expected to use recent domestic SAR comparables,
- Pricing of existing financing arrangements, banking relationship, shareholders, credit rating and market appetite/ liquidity are the factors that dictate pricing
- Benchmarking 3-month vs 6-month Saibor: Investors have recently shown interest and more appetite for floating rate instruments priced over 6-months Saibor

International markets

USD secondary market- Key Issuances

Issuer	Rating	Maturity	Amount (mn)	CPN (%)	Yield (%)	Price (Bid)	Z-spread (bps)
SEC Sukuk	A1/AA-/AA-	Apr-17	\$500	2.665	1.967	102.35	+101
SEC Sukuk	A1/AA-/AA-	Apr-22	\$1,250	4.211	4.141	100.50	+167
SEC Sukuk	A1/AA-/AA-	Apr-23	\$1,000	3.473	4.146	94.75	+147
SEC Sukuk	A1/AA-/AA-	Apr-43	\$1,000	5.060	5.618	92.00	+210
Sabic	A1/A+/A+	Nov-15	\$1,000	3.000	1.292	103.50	+81
Sabic	A1/A+/A+	Oct-18	\$1,000	2.625	2.733	99.50	+118
Qtel Sukuk	A2/A/A+	Dec-18	\$1,250	3.039	3.011	100.13	+140
Qtel	A2/A/A+	Feb-21	\$1,000	4.750	3.831	105.63	+157
Qtel	A2/A/A+	Feb-23	\$1,000	3.250	4.398	91.50	+168
Qtel	A2/A/A+	Oct-25	\$750	5.000	4.900	100.88	+190
Qtel	A2/A/A+	Jan-28	\$500	3.875	5.111	87.75	+187

Pricing considerations for a new USD Sukuk by Issuer

- For a new USD issue, investors' pricing methodology will be expected to use recent comparables, SWAP rates for comparable tenor and other USD alternate investment opportunities
- Pricing of existing financing arrangements, banking relationship, shareholders, credit rating of the issuer and of the sovereign and market appetite/ liquidity are the factors that dictate issue pricing

Syndicate Structure Considerations

A. Programme Size

B. Tenor considerations

C. Coupon format

D. Pricing thoughts

E. Syndicate Structure

Considerations

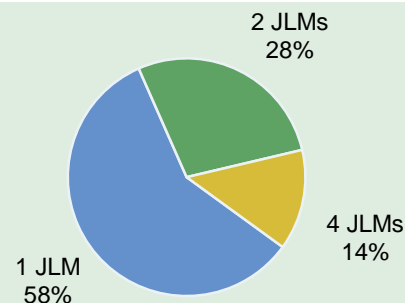
- It refers to appointing number of banks as arranger or book runners
- Syndicate structure i.e. deciding number of banks and defining their roles depends upon the size of issuances and the target investors base/ market
- Expertise of the banks must be evaluated with respect to their relationship with the investors and market presence
- For complicated project financing and for Shariah structures, structuring capability of the banks is also important

Domestic SAR Market

Overview

- The majority of domestic SAR market issuers have hired 1 or 2 Joint Lead Managers since 2012
- 58% of issuances were conducted via 1 JLM, although this statistic is skewed by the Jumbo GACA issuance of SAR 15,211 million in year 2012

Number of active bookrunners – SAR domestic issuances since 2012



Source: Bloomberg, Dealogic
Criteria: 2012 – 2014YTD (Feb) SAR domestic issues

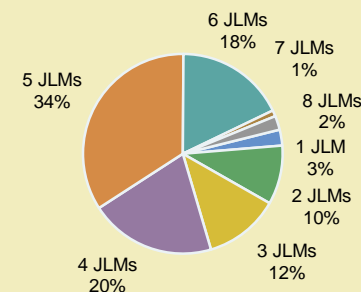
International markets

Overview

- Typically, issuers in the international markets would appoint 2-3 reputable international banks to act as joint lead managers and bookrunners
- This allows issuers to maximize investor reach, have joint views on key decisions and have maximum support in terms of secondary market liquidity
- The two to three banks will lead the different work streams jointly with each taking the lead on one work stream to ensure efficient execution (documentation, Sukuk structuring, investor presentation / marketing and logistics)

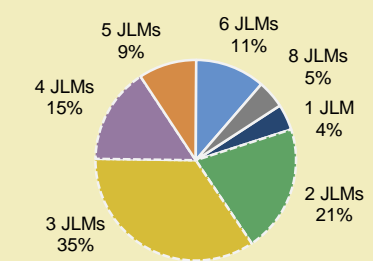
Distribution of international USD issuance since 2012

GCC-based issues



Source: Bloomberg, Dealogic
Criteria: 2012 – 2014YTD (Feb) USD international issues

CEEMEA GRE and Corp issues

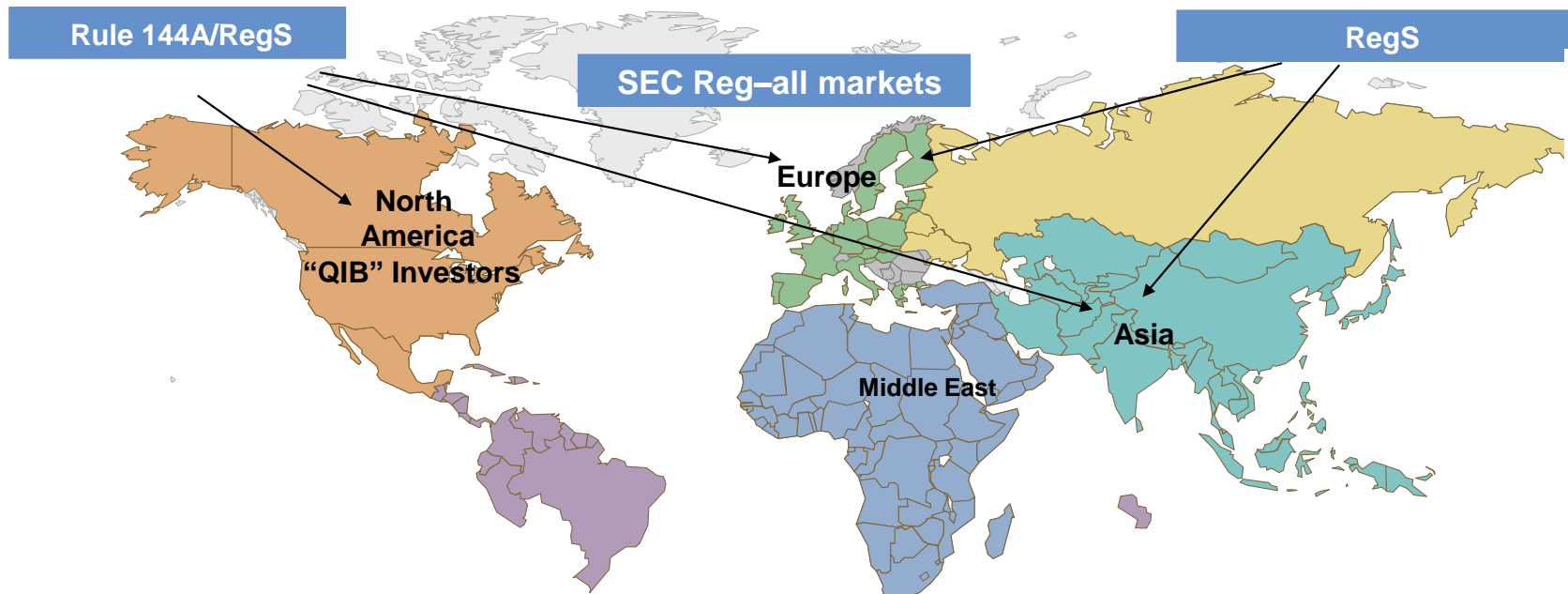


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Documentation formats considerations for International issuances

Reg S / Rule 144A / SEC Registered



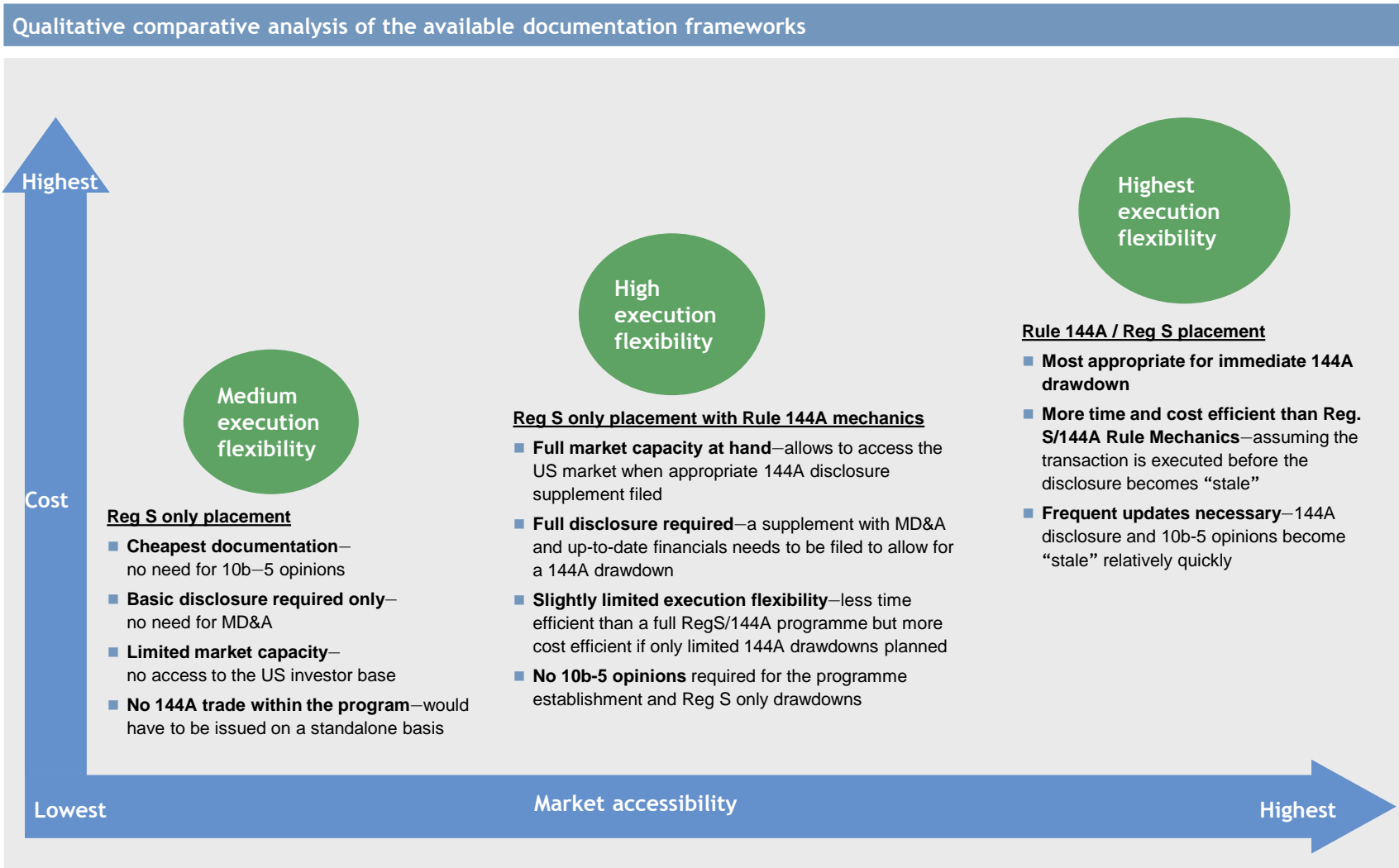
Reg S vs. 144A

- The 144A/Reg S market provides issuers with a number of benefits:
 - High investor liquidity
 - Represents largest and most influential international investor base and provides access to the largest pool of EM investors
 - Increased future financing flexibility
- SEC have utilized the 144A/Reg S market to raise USD 3.75bn since 2012, extending its redemption profile with 5-, 10- and 30-year tranches
- Sabic raised c.USD 3bn via the RegS only market, via USD and EUR tranches

Key characteristics

Issuance	Regulation S only	Rule 144A/Regulation S	Registered
Ratings	Preferred but not required	Ratings typically required	Minimum two required
Deal size	Medium	Deep market capacity	Deepest market capacity
Tenors	3- to 10- years	5-, 10- and 30-years	5- to 30- years
Target investors	Offshore US, Europe, Asia and Middle East (fund managers, asset managers, commercial banks, central banks, pension funds and insurance)	US institutional (QIBs), , and (fund managers, asset managers, commercial banks, central banks, pension funds and insurance)	retail and institutional, , and (fund managers, asset managers, commercial banks, central banks, pension funds, insurance and retail)
Legal opinions	10b-5 legal opinion not required	2x 10b-5 legal opinion required	2x 10b-5 legal opinion required
Prospectus	Adequate disclosure driven by investor needs	Comprehensive disclosure and due diligence	Onerous disclosure and due diligence requirement
Registration Statement	N/A	N/A	Yes

Key differences between various documentation formats



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Marketing Format Recommendations for a Domestic SAR Issuance

Private Placement vs. Public Offering Under the CMA Rules and Regulations

	Private Placement	Public Offering
Regulatory Requirements	<ul style="list-style-type: none"> ✓ Limited CMA involvement <ul style="list-style-type: none"> ▪ 10-day notice period, prior to the start of formal marketing efforts ✓ No Tadawul listing required 	<ul style="list-style-type: none"> ✗ Formal CMA review process, with extensive CMA involvement ✗ CMA takes up to 45 days to provide comments on the application for listing after all application requirements have been completed (<i>although a shorter timeframe may be envisaged for Issuer</i>) ✗ Tadawul listing required
Investor Base and Appetite	<ul style="list-style-type: none"> ✗ Does not allow for the participation of retail investors ✓ Provides access to all major investors, limited loss of incremental liquidity 	<ul style="list-style-type: none"> ✓ Allows for the participation of retail investors ✗ The potential upside with respect to investor diversification/appetite in a Public Offering may be limited
Pricing Efficiency	<ul style="list-style-type: none"> ▪ Pricing dynamics are largely similar for both offering formats 	<ul style="list-style-type: none"> ▪ Pricing dynamics are largely similar for both offering formats
Timeframe	<ul style="list-style-type: none"> ✓ Launched within 5-6 weeks ✓ Issuer retains a much higher control over the timeline 	<ul style="list-style-type: none"> ✗ Relatively protracted timeline vs. a Private Placement ✗ Resource intensive ✗ Typically takes a significant long period to finalise
Disclosure Requirements	<ul style="list-style-type: none"> ✓ Less documentary /disclosure requirements 	<ul style="list-style-type: none"> ✗ Extensive disclosure/documentary requirements ✗ On-going disclosure requirements for a Public Offering
Transaction Expenses	<ul style="list-style-type: none"> ✓ Lower legal counsel and other costs 	<ul style="list-style-type: none"> ✗ Higher Legal counsels fee quotes as more time will be dedicated to meet CMA filing requirements ✗ Others costs (media announcements, etc.) will be higher for public offers

Required Approvals and Regulatory Requirements

Internal approvals

Shareholders approvals

- Establishing a Sukuk Programme or an issuance should be authorized in the company's by-laws
- If not, a general assembly to adopt a resolution for issuance is required

Board approval

- The board will need to authorize the management to take all needed actions for the Programme or an issuance
- The board may, in certain cases, need to approve the utilization of assets that might be needed for some Sukuk structures

External approvals

Compliance with the corporate law

- Under the current corporate law, a company cannot issue debt papers in a value that exceed the paid in capital

CMA

- If the issuance is public, CMA will need to approve the issuance. Extensive CMA requirements are expected to be met in order to launch a publicly listed SAR capital market transaction
- If private, the CMA will need to be notified (with draft prospectus filed) and it has a 10 day non-objection period to raise any questions concerning the issuance

Shari'ah Board Approval

- The Sukuk structure will require a Shari'ah Pronouncement / Fatwa

Public offering overview (cont'd)

Requirements that majorly differ from private placements

General requirements	
Offeror	<ul style="list-style-type: none"> ■ Saudi Arabian Joint Stock Company
Draft prospectus in Arabic	<ul style="list-style-type: none"> ■ This is one of the most time consuming requirements, since in many cases the OC/Programme needs to be produced in English and Arabic to allow all parties to review
Disclosures by the company and the company's directors (board members)	<ul style="list-style-type: none"> ■ There are certain declarations that need to be signed by the company and also each of its Directors. In the private placements, only the company needs to sign some declarations ■ The Issuer needs to appoint two representatives, one of whom must be a director and the other a senior executive, to act as representatives before the CMA
Underwriting	<ul style="list-style-type: none"> ■ The CMA requires public offerings to be underwritten. Different arrangements and fees will need to be negotiated and agreed. Sukuk transactions require settlement underwriting only which is softer than equity underwriting ■ Underwriting commitment letters must be dated, signed, and must specify expiration date
Initial and on-going reporting and disclosure	<ul style="list-style-type: none"> ■ Particulars of any commissions, discounts, brokerages or other non-cash compensation granted by the Issuer or any member of the issuer's group within the two years immediately preceding the application for listing in connection with the issue or sale of any securities, together with the names of any of the directors, proposed directors, senior executives, promoters or experts who received any such payment or benefit ■ All end-of-year and interim financial statements in addition to any major development in the business need to be published on Tadawul once the offer is public
Fees to the authority	<ul style="list-style-type: none"> ■ Submission fees, reviewing fees, and fees dependent on the notional value of the Sukuk must be paid to the CMA as the CMA specifies
Working capital statement	<ul style="list-style-type: none"> ■ The auditors will require to issue a statement confirming that the company has enough working capital for the next 12 months
Consolidate financials	<ul style="list-style-type: none"> ■ CMA will require consolidated financial statements for at least the last 3 years for the Issuer (and subsidiaries if applicable) and the latest interim financial statements since the date of the last annual report ■ Published audited accounts covering at least 3 financial years, prepared in accordance with SOCPA standards ■ Most recent audited accounts must have ended no more than 6 months prior to the date of approval of the prospectus
Corporate Governance	<ul style="list-style-type: none"> ■ The issuer must comply with the corporate governance code of the CMA, i.e. independent board members, committees etc in order to obtain approval on the application for listing

Public offering overview (cont'd)

Requirements that majorly differ from private placements

Prospectus requirements	
Legal due diligence report	<ul style="list-style-type: none">■ Required as per Article 19 of the Listing Rules■ Needs to be prepared by the Issuers legal counsel
Financial due diligence report	<ul style="list-style-type: none">■ Required as per Article 19 of the Listing Rules■ Needs to be prepared by the Financial Due Diligence Advisor
Market and industry overview	<ul style="list-style-type: none">■ The CMA usually requires such a section to be included
Transaction expenses	<ul style="list-style-type: none">■ Total transaction expenses are required to be mentioned in the Prospectus
Allocation method	<ul style="list-style-type: none">■ Likely required to protect any retail investors (i.e. a 'bottom-up' allocation methodology)■ Procedures and time limits for allocation and delivery of the debt instruments■ Although in practice is not very applicable for debt transactions especially if the general public will not be actively participating and money will not be received upfront similar to equity offerings (i.e. with application itself).
Offer period	<ul style="list-style-type: none">■ Also part of the requirements
Details of waivers	<ul style="list-style-type: none">■ A section detailing all requirements that have been waived by the CMA■ If Issuer believes that disclosure of any matter required by the Rules is considered "unduly detrimental to the Issuer", and its omission would not mislead investors, the Issuer may apply for a waiver from the relevant requirement■ If such a waiver is applied, Issuer must provide the CMA on a confidential basis a statement of the required information together with the reasons why the Issuer believes that the information should not be disclosed■ If the CMA approves the waiver application, the CMA may at any time require that an announcement containing the information required to be disclosed by Issuer to it for dissemination

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Sukuk Structure Considerations

Various Sukuk structures may be utilized by Issuer

	Ijara Sukuk	Wakala bil Istithmaar Sukuk	Mudaraba (equity partnership) + Murabaha Sukuk
Brief Description	<ul style="list-style-type: none"> Based on beneficial sale and lease back of unencumbered leasable assets An offshore SPV based Ijara trust certificates could be contemplated in the context of a private placement Assets being leased should have an economic useful life greater than the lease period and there should not be any legal impediment for the transfer of title/beneficial interest in the assets 	<ul style="list-style-type: none"> Sukuk representing a structured investment by Sukukholders in an existing business activity or cash flow yielding assets of the Issuer Structure is based on sale of beneficial ownership of a pool of future cash flows that the Issuer derives through a particular business segment The aggregate market value (typically in PV context) of the future flows from these contracts should be consistent with the targeted issuance size and sufficient to fund the intended coupon payments 	<ul style="list-style-type: none"> A combination of Mudaraba and commodity Murabaha 51% of Sukuk proceeds are used to invest in business activity of the Issuer and the remaining 49% is invested in commodity based Murabaha transactions Murabaha assets are introduced into the structure in the event cash flow generating business activity may not be sufficient to support the entire Sukuk issuance
Special Purpose Vehicle ("SPV")	<ul style="list-style-type: none"> Generally required as asset rights and benefits needs to be vested with a separate entity that will act as Trustee or Agent in a fiduciary capacity 	<ul style="list-style-type: none"> Was required in previous domestic issuances for Shariah purposes May be possible to structure the Sukuk without an SPV as per recent precedents 	<ul style="list-style-type: none"> Not Required A financial institution can act as the Sukukholders Agent
Underlying Assets	<ul style="list-style-type: none"> Market value of the leased assets need to be equal to the size of the proposed issuance 	<ul style="list-style-type: none"> Long term cash flow generating business activity of the Issuer (i.e. connection charges) 	<ul style="list-style-type: none"> Long term cash flow generating business activity of the Issuer (i.e. connection charges) Commodity based Murabaha assets Murabaha assets share typically limited to 49% to ensure tradability
KSA Precedence	<ul style="list-style-type: none"> SEC REG-S USD Sukuk SEC 144A / RegS USD Sukuk Significant sovereign/corporate regional and global precedence (UAE, Bahrain, Qatar, Pakistan and Malaysia) 	<ul style="list-style-type: none"> SEC (I,II & III) Sukuk SABIC Saudi Orix Sukuk Ooreedo USD Sukuk (based on airtime) Etisalat/Axiata Sukuk (based on airtime) 	<ul style="list-style-type: none"> GACA Sukuk

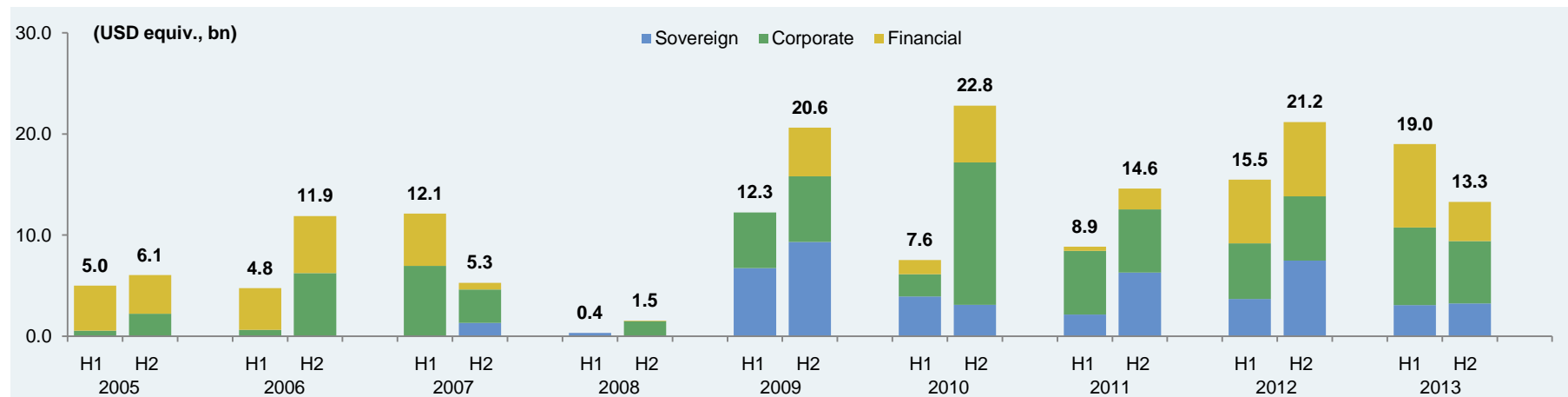
Agenda

Debt Capital Markets Considerations	4
Commercial Considerations	9
International Programme or Issuance – Documentation Considerations	15
Domestic SAR Programme or Issuance – Documentation Considerations	18
Sukuk Structure Considerations	23
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MENA debt capital markets

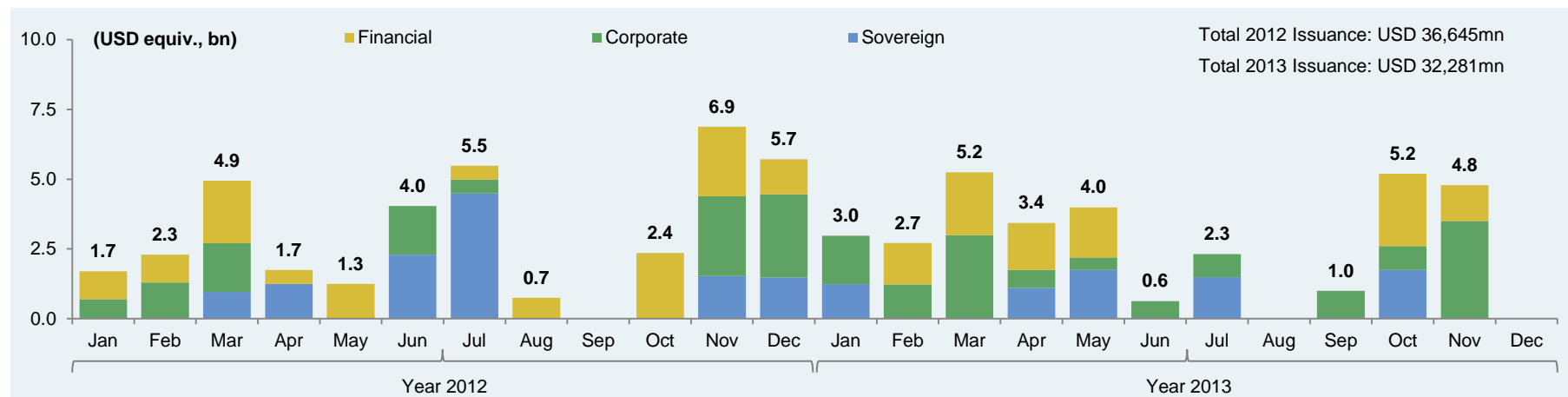
Robust supply over number of years

International MENA bond activity – 2005 to 2013



Note: Excludes equity linked Sukuk, ABS, MBS and issuance maturing in less than 18 months Issuance in \$, £ and € only

International MENA bond activity – 2012 to 2013



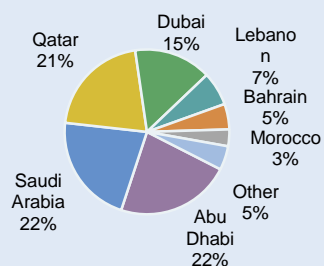
Note: Excludes equity linked Sukuk, ABS, MBS and issuance maturing in less than 18 months Issuance in \$, £ and € only

MENA debt capital markets:

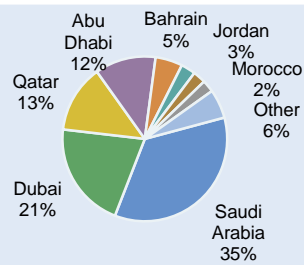
Distribution of MENA Bond Issuance

By Country of Issuance

Year 2012

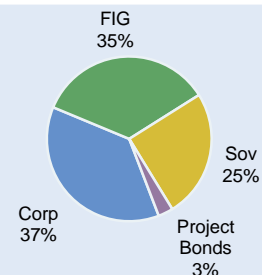


Year 2013

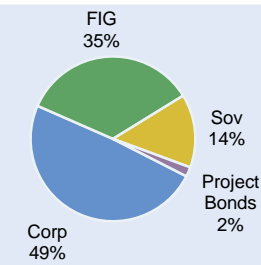


By Issuer Type

Year 2012

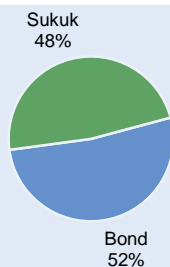


Year 2013



By Issuance Type – Islamic vs Conventional

Year 2012

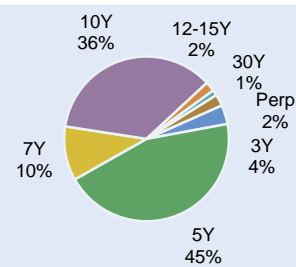


Year 2013

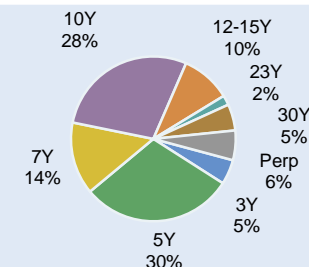


By Tenor

Year 2012

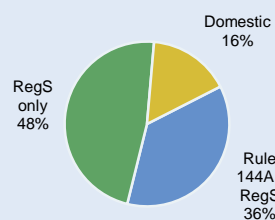


Year 2013

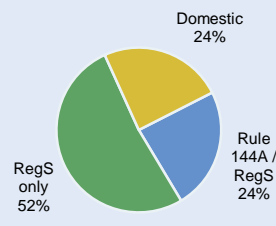


By Market – RegS, Domestic and Rule 144A

Year 2012

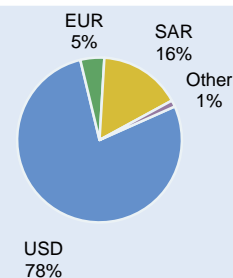


Year 2013

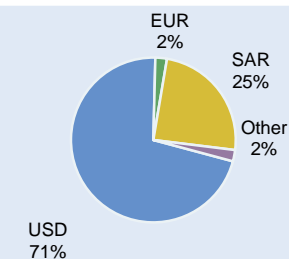


By Currency of Denomination

Year 2012



Year 2013

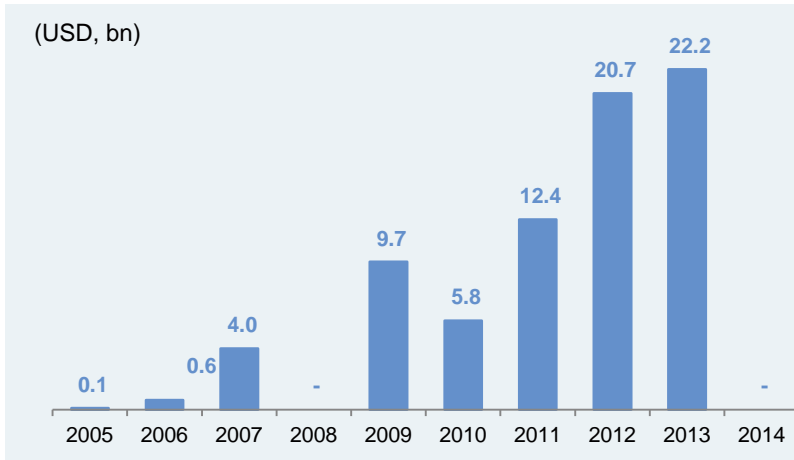


Source: Dealogic, Bond Radar; includes all currencies, for issues above USD 250mn

International Sukuk Market

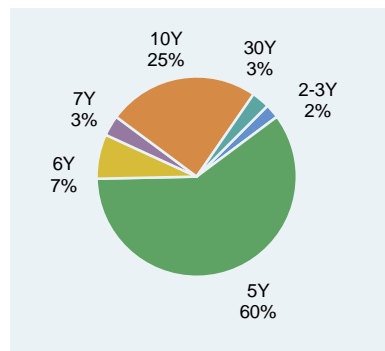
Increased supply witnessed in the international markets, particularly from the GCC

International USD Sukuk issuance (USDbn eqv.)

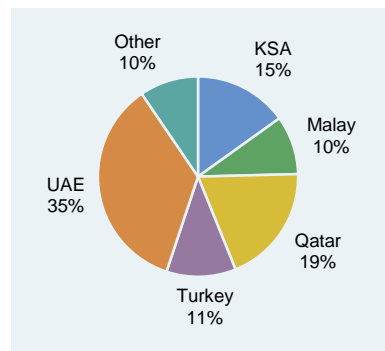


Distribution of Int'l USD Sukuk issuances (since 2012)

By Tenor



By Country



Source: Bloomberg

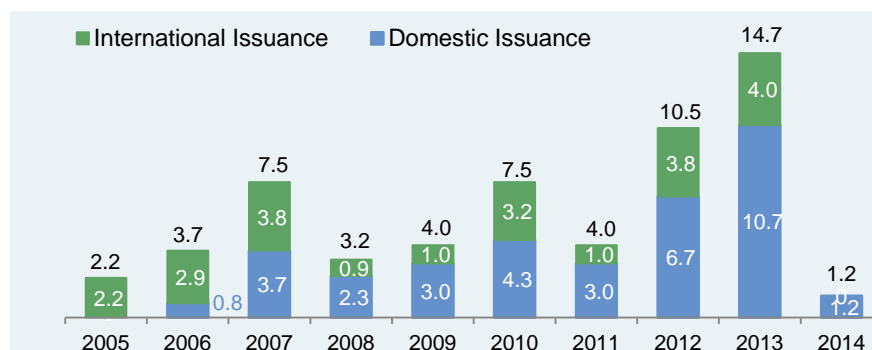
Recent international USD Sukuk issuance

Issue Date	Issuer	Issuer Rating Mdys/S&P/Fi	Size (USD, mn)	Maturity	Profit Rate
03-Dec-13	Ooredoo	A2/A/A+	\$1,250	Dec-18	3.039%
03-Dec-13	Aldar	Ba2/BB/-	\$750	Dec-18	4.348%
25-Nov-13	Dar Al Arkan	-/B+/-	\$300	Nov-16	5.750%
21-Nov-13	GEMS Education	-/-/-	\$200	PerpNC18	12.000%
21-Oct-13	RAK Capital	-/A/A	\$500	Oct-18	3.297%
10-Oct-13	Republic of Turkey	Baa3/-/BBB-	\$1,250	Oct-18	4.557%
08-Oct-13	Al Hilal Bank	A1/-/A+	\$500	Oct-18	3.267%
17-Sep-13	Republic of Indonesia	Baa3/BB+/BBB-	\$1,500	Mar-19	6.125%
15-Aug-13	Al Baraka	-/-/-	\$200	Feb-15	6.000%
04-Jun-13	IsDB	Aaa/AAA/AAA	\$1,000	Jun-18	1.535%
24-May-13	Dar Al Arkan	-/B+/-	\$450	May-18	5.750%
07-May-13	Albaraka Turk	-/B/-	\$200	May-23	7.750%
02-May-13	Turkiye Finans	-/-/BBB	\$500	May-18	3.950%
16-Apr-13	Sharjah Islamic Bank	-/BBB+/BBB+	\$500	Apr-18	2.950%
08-Apr-13	SEC	A1/AA-/AA-	\$1,000	Apr-43	5.060%
08-Apr-13	SEC	A1/AA-/AA-	\$1,000	Apr-23	3.473%
28-Mar-13	Bank Asya	Ba3/-/-	\$250	Mar-23	7.500%
27-Mar-13	IsDB	Aaa/AAA/AAA	\$700	Mar-18	0.546%
20-Mar-13	Dubai Islamic Bank	-/-/-	\$1,000	PerpNC19	6.250%
19-Mar-13	Emirates (Medjool)	-/-/-	\$1,000	Mar-23	3.875%
05-Mar-13	DEWA	-/BBB/-	\$1,000	Mar-18	3.000%
30-Jan-13	Gov't of Dubai	-/-/-	\$750	Jan-23	3.875%
29-Jan-13	Sime Darby Global Bhd	A3/A/A	\$400	Jan-18	2.053%
29-Jan-13	Sime Darby Global Bhd	A3/A/A	\$400	Jan-23	3.290%

Saudi Arabian capital markets

Provides alternative medium-term funding at aggressive funding levels

Saudi Arabian bond issuance (USDbn eqv.)



Overview

- The Saudi market displays a favourable demand/supply imbalance for new bond/Sukuk issuances, with huge cash balances and investment appetite witnessed across investor segments in the domestic market (government agencies/banks and insurers/corporates and pension funds), chasing a limited pool of issues, and limited sensitivity to prevailing levels of volatility in USD markets
- Tenors in the SAR market have typically been in the range of the 3-7 year area, with a few longer-dated exceptions for government-sponsored project-finance related issuances / quasi-sovereign issuances, with Sukuk becoming the predominantly favoured format
- Strong market conditions prompted domestic issuers to raise SAR 36bn in 2013 via the capital markets, with a number of deals expected to launch in Q1 2014 post SEC's SAR4.5bn issue

Saudi Arabian Domestic Capital Market Issuance

Issue Date	Issuer	Issuer Rating Mdys/S&P/Fi	Size (SAR m)	Maturity	Margin (bp)
01/14	SEC	A1/AA-/AA-	4,500	1/24	3mS+70
12/13	SHB (Tier 2)	-- / -- / --	2,500	12/23 (Call 18)	6mS+155
12/13	SABB (Tier 2)	-- / -- / --	1,500	12/20 (Call 18)	6mS+140
11/13	Riyad Bank	-- / -- / --	4,000	11/20	3mS+68
09/13	GACA	-- / -- / --	15,211	10/23	3.21%
09/13	Almarai	-- / -- / --	1,700	Perpetual	6mS+200
07/13	SBG Sukuk Ltd	-- / -- / --	1,000	07/14	2.500%
05/13	Marafiq	-- / -- / --	2,500	05/33	6mS+85
04/13	SBG Sukuk	-- / -- / --	1,300	04/15	3mS+170
04/13	Almarai	-- / -- / --	787	03/20	6mS+100
04/13	Almarai	-- / -- / --	513	03/18	6mS+90
04/13	Sadara	-- / -- / --	7,500	12/28	6mS+95
01/13	Savola	-- / -- / --	1,500	01/20	6mS+110
12/12	Saudi Orix	-- / -- / --	240	12/15	3mS+165
12/12	BSF Sub.	Aa3/A/A	1,900	12/19	3mS+110
11/12	SHB Sub.	A1/-/A-	1,400	11/19	6mS+115
08/12	SBG Sukuk Ltd	-- / -- / --	1,000	08/13	2.500%
06/12	Olayan Group	-- / -- / --	650	06/17	3mS+150
05/12	Tasnee	-- / -- / --	2,000	05/19	6mS+105
04/12	Ajil Cayman	-- / -- / --	500	04/15	3mS+80
03/12	SABB (Tier 2)	Aa3*/-A/A	1,500	03/17	3mS+120
03/12	Almarai	-- / -- / --	1,000	03/19	6mS+100
01/12	GACA	-- / -- / --	15,000	01/22	2.500%
12/11	KEXIM	A1/A/A+	750	12/16	3mS+170
10/11	Satorp Sukuk	--/-/-	3,750	10/25 (WAL 10)	6mS+95
07/11	SBG Sukuk Ltd	--/-/-	1,000	07/12	2.500%
07/11	Sipchem Sukuk	--/-/-	1,800	07/16	3mS+175
03/11	Bank Al-Jazira (T2)	A3/-/A-	1,000	03/21 (Call 16)	6mS+170
10/10	APICORP	A1/-/-	2,000	10/15 (Put 13)	3mS+110
07/10	SBG Sukuk Ltd	--/-/-	700	04/11	3.000%