

# SUKUK REPORT

A comprehensive study of the  
Global *Sukuk* Market

Published March 2016

5TH EDITION



السوق المالية  
الإسلامية الدولية  
International Islamic  
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*In the Name of Allah, the Most Gracious, the Most Merciful*

قال الله تعالى في كتابه العزيز:

Allah the Almighty said in the Holy Qur'an:

”يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ  
تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ....“ (النساء، آية ٢٩).

“O you who have believed, do not consume one another's  
wealth unjustly but only (in lawful) business by mutual consent....”

[Surah AN-Nisa (The Women) C 4 , V 29].

## ABOUT INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)

IIFM is a standard-setting organization for the Islamic Financial Services Industry focusing on standardization of Islamic financial contracts and product templates relating to the Capital & Money Market, Corporate Finance and Trade Finance segments of the industry.

IIFM plays its role in market unification by developing best practices at the global level and achieving *Shari'ah* harmonization through its efforts for creation of a robust, transparent and efficient Islamic finance industry. IIFM also contributes in the development of the industry by organizing a number of industry awareness seminars and workshops.

IIFM was founded in 2002 by the collective efforts of the Islamic Development Bank, Autoriti Monetari Brunei Darussalam, Bank Indonesia, Central Bank of Bahrain, Central Bank of Sudan and Bank Negara Malaysia (delegated to Labuan Financial Services Authority) as a neutral and non-profit organization. Besides the founding members, IIFM is also supported as members by certain regulatory and government bodies such as State Bank of Pakistan, Dubai International Financial Centre, Indonesia Financial Services Authority, National Bank of Kazakhstan, and by a number of international and regional financial institutions and other market participants.

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| Al Baraka Banking Group                              | Credit Agricole Corporate and Investment Bank | Kuwait Finance House                |
| Al Hilal Bank  | DDCAP Limited                                 | Labuan Financial Services Authority |
| Al Masraf - Arab Bank for Investment & Foreign Trade | Dubai International Financial Centre          | Malaysian Rating Corporation Berhad |
| Al Salam Bank  | Dubai Multi Commodities Centre                | NASDAQ Dubai                        |
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| Attijari Al Islami-Commercial Bank of Dubai          | Equitable Financial Solutions                 | National Bank of Fujairah           |
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| Bahrain Islamic Bank                                 | Euroclear                                     | National Bank of Kuwait             |
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| Bank Islam Brunei Darussalam                         | Indonesia Financial Services Authority        | Standard Chartered Saadiq           |
| Bank Islam Malaysia Berhad                           | International Investment Bank                 | State Bank of Pakistan              |
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All the information contained in this report has been obtained from sources considered to be reliable. The *Sukuk* case studies presented are based on the author's impression of the structure of the mentioned *Sukuk* on the basis of information derived from the prospectuses, term sheets and news briefs on the *Sukuk*. IIFM or the author/s makes no guarantee, representation or warranty as to its accuracy or completeness.

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## ABSTRACT

This research report analyses the growth and the development of international and domestic *Sukuk* issuances in recent years globally and shed light on the different *Sukuk* structures widely used in various jurisdictions active in issuing *Sukuk* for the purpose of achieving a deeper understanding of the mechanism of this most popular financial instruments in the Islamic Capital and Money Market.

The report concludes that *Sukuk* market growth particularly domestic short term *Sukuk* has dropped in 2015, due to Bank Negara Malaysia strategic decision to discontinue issuance of short term investment *Sukuk*, but over all trend remains encouraging. The entry of a number of new jurisdictions together with expansion of *Sukuk* issuances in established *Sukuk* countries is indication that *Sukuk* market will maintain its appeal and growth trajectory despite challenging global financial environment.

This research report provides invaluable information on the prospects and overview trends of the global *Sukuk* Market and highlights on major issuances around the globe. The report also highlights most common *Sukuk* structures being used at international and domestic level.

This report can be used as a benchmark by all the industry stakeholders and decision makers, in particular, in new jurisdictions as well as regions which have a high concentration of the worlds *Sukuk* issuances such as GCC countries and Asia, in their assessments of trends in the issuance of *Sukuk* across the globe.



## ACKNOWLEDGMENTS

This research report was supported and sponsored by Abu Dhabi Islamic Bank, Bank ABC Islamic, Labuan Financial Services Authority, Nasdaq Dubai, Noor Bank, and CIMB Islamic Bank. We are immensely thankful to these institutions for their commendable financial contribution which helped in improving the design & printing quality of this research report.

We would also like to show our gratitude and thanks to institutions for sharing their pearls of wisdom and knowledge with us during the course of preparing this research report. We are also grateful to individuals who provided insight, comments and expertise that greatly improved the report. We thank a number of the industry stakeholders who contributed in a way or another to the completion of this important work.

Indeed, this research report would not have seen light without the support and contribution of such institutions, individuals and the the stakeholders who provided us with invaluable information that helped us to complete this task through various stages.

We take this opportunity to express our profound gratitude and deep regards to the Central Bank of Bahrain (CBB) for its constant and continued support. We would also like to acknowledge and highly thank IIFM Board of Directors, Founding Members and Member institutions for their unwavering support to IIFM in its endeavours. Lastly, IIFM is grateful to its research team for their review and valuable contribution to this research report.

## CHAIRMAN'S FOREWORD

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

*In the Name of Allah, the Most Gracious, the Most Merciful*

*All praise is due to Allah Almighty Lord of mankind and all that exists. May peace and blessings of Allah Almighty be upon Prophet Muhammad, his family and all his companions.*



It gives me great pleasure to present to you the 5th edition of IIFM Global *Sukuk* Report 2015. Despite the increasing interest in *Sukuk* issuances globally there is a lack of authentic data availability for various markets. Not only does this report provide useful data, it also presents insightful analysis on key trends in the *Sukuk* market. I hope that you will find this report beneficial and easy to read. We look forward to your comments and feedback on the report which are important for us to continuously improve its quality.

Global *Sukuk* issuances of USD61 billion in 2015 reflect a 40% year-on-year decline. This headline reduction, caused by a strategic move by Malaysia to stop issuing short term *Sukuk*, masks the steady growth in sovereign, quasi sovereign and corporate *Sukuk* issuances from the rest of the world. *Sukuk* of longer tenors (up to 30 years) were issued by sovereigns in East Asia and quasi sovereigns in the GCC, an important development to create the yield curve. The first ever Socially Responsible Investing (SRI) *Sukuk* worth USD500 million were issued in November 2014 by International Finance Facility for Immunization, a World Bank linked entity. A second SRI *Sukuk* of USD200 million was issued by the same entity in September 2015. This reflects an interesting trend where Islamic finance and SRI have come together. Another interesting development is the opening up of the *Sukuk* market to retail investors in Bahrain and Indonesia.

The high volatility in *Sukuk* issuances globally is reflective of the concentrated nature of the market – 84% of the USD321 billion outstanding *Sukuk* belong to just three key markets – Malaysia, Saudi Arabia and the UAE. This is likely to change – but only gradually – as Indonesia, Turkey and other markets become more active.

The year 2016 has started on a negative note for the global financial market and real economy. Slowing economic growth in China, low commodity prices (especially oil) and other factors are likely to exert downward pressure on growth prospects for the year. Financial pressures on governments and corporates accordingly will compel them to consider alternative sources of funding, and *Sukuk* are an obvious option. At the same time, new jurisdictions continue to open up to Islamic finance. Taking a medium to long term view, there is reason to be optimistic about the *Sukuk* market prospects.

*Sukuk* commercial success should not lead us to ignore the underlying principles which are the differentiating factor with respect to conventional bonds. *Sukuk* are an innovative way to raise financing in a *Shari'ah* compliant manner with strong link to the real economy. The risk sharing nature of *Sukuk* is a hallmark of Islamic finance itself, which should not be compromised. Therefore, it is required from all stakeholders in the market, including International *Fiqh* (Jurisprudence) academies, regulators and *Shari'ah* boards to encourage the issuance of asset – backed *Sukuk* as well as all other related Islamic financial and banking products which are almost free from *Shari'ah* issues.

With these humble submissions I leave you with the 5th Edition of IIFM Global *Sukuk* Report published March 2016. Happy reading, and please provide us with your feedback.

**Khalid Hamad**  
Chairman – IIFM

## CEO'S MESSAGE

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

*In the Name of Allah, the Most Gracious, the Most Merciful*

*All praise is due to Allah Almighty Lord of mankind and all that exists. May peace and blessings of Allah Almighty be upon Prophet Muhammad, his family and all his companions.*



*Sukuk* is the flagship capital market instrument of the Islamic finance industry and has attracted a number of new issuers as well as expanded the investor base despite very challenging global economic environment. The ongoing innovation is changing the dynamics of the industry, especially, in the area of *Sukuk* market and the indications are that *Sukuk* will establish itself in the global arena as fundamentally strong instrument based on *Shari'ah* principles.

IIFM has continued to serve the Islamic financial industry through its standardization of Islamic financial contracts, product templates and explanatory memorandums relating to Islamic Capital & Money Market, Corporate Finance and Trade Finance. In addition, IIFM's yearly publication of *Sukuk* Report has firmly established itself as premium source of information on *Sukuk*. The reports provide immense value in terms of *Sukuk* issuance database analysis and numerous issues covered in it.

I am pleased to present this 5<sup>th</sup> Edition of the IIFM *Sukuk* Report to the stakeholders of the industry in particular governments, financial institutions, corporates and academia. This report is designed to further the understanding of global *Sukuk* structures and issuance trends based on a reliable data analysis on the *Sukuk* issuances for the period 2014 & 2015 in particular. The analysis covers all regions across the globe where *Sukuk* are issued, particularly in the region which has a high concentration of the *Sukuk* issuances.

This report provides information to the stakeholders to better assess *Sukuk* trends globally. In other words, the report pays special attention on the prospects and emerging trends of the global *Sukuk* Market as well as provide highlights on major issuances around the globe.

The publication of this report is made possible due to the cooperative endeavor from a number of institutions and individuals from different jurisdictions. They have put in their efforts and contributed to the successful completion of this report. I will like to acknowledge their contribution individually but the constraint of space restricts me from that. The motivation and commonality among the stakeholders of the research objective despite their belonging to divergent jurisdictions helped IIFM to complete this important task without obstructions. The varied information of the collaborating institutions which have been brought into this report, the issuance specific data and the detailed analysis make the report immensely valuable and unique.

I am very much thankful to Central Bank of Bahrain, Labuan FSA, Bank Indonesia, Autoriti Monetari Brunei Darussalam, Central Bank of Sudan, Capital Markets Board of Turkey and State Bank of Pakistan for their continued support and enriching the IIFM database with valuable *Sukuk* data information and verification.

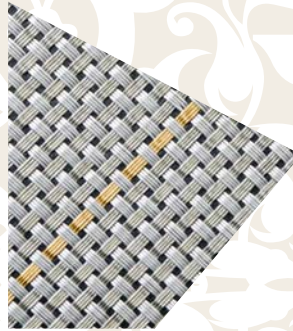
Profound gratitude to the IIFM Board of Directors and Members for their continued support. IIFM is successful due to the good will and contributions made by its member institutions which I am confident will continue in years to come. I am also thankful the IIFM research team for their tireless work, devotion and sincerity which has made this challenging task of *Sukuk* report publication possible.

It is my sincere hope that the readers will find this report useful and a key source of reference.

**Ijial Ahmed Alvi**  
CEO – IIFM

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## INTRODUCTION

Islamic finance has emerged as a viable alternative financial system globally. It has expanded dramatically to the extent that it has become part of G20 agenda.

*Sukuk* has clearly emerged as a key capital market instrument used by issuers ranging from sovereigns, quasi-sovereigns, financial institutions and corporates for project financing and infrastructure purposes etc. The investor base is also expanding and *Sukuk* has now become popular and obvious choice for retail investors also in a number of jurisdictions. *Sukuk* is considered to be the most appealing component of the activities constituting Islamic finance in general.

This 5th Edition of the *Sukuk* research report aims to highlight on the *Sukuk* issuances and its performances domestically as well as globally and thus creating better understanding and further development of this important fixed profile instrument of Islamic finance. Hence, the report provides information and relevant details of *Sukuk* issuances during the period of 2014 to 2015 with the objective of highlighting and analyzing the development of the *Sukuk* market during this period globally .

To deliver an accurate information on the global *Sukuk* issuances, verified data on various worldwide *Sukuk* issuances from 2001 to 2015 was collected. The focus in this practice is to collate data from writing materials relating to the topic of the research. This includes prospectuses, publications, articles, magazines, online research, and information service providers. Data collected was then filtered with respect to different criteria such as chronology, geographic distribution, issuer status, country of origin, etc. and depicted in the form of charts and tables for better understanding.

This research report is divided into five standalone chapters, in addition to this introduction and a conclusion. Chapter One discusses overview of the worldwide *Sukuk* issuances particularly over the period of 2014 to 2015 (Overview of the global *Sukuk* market). Chapter Two comprises case studies of recent developments in the *Sukuk* market (Selected international & domestic *Sukuk* issuances, prepared by IIFM). Chapter Three highlights on specific *Sukuk* issuances (contribution by institutions). Chapter Four comprises article contribution (written and prepared by institutions as well as jurisdictions). Chapter Five provides highlights on *Sukuk* market in selected IIFM member countries.

To conclude, the most important objective of this research report is to help the industry stakeholders particularly governments, Islamic financial institutions, corporates etc., to be able to make sound decisions with regard to *Sukuk* issuances as well as policy formulation. It's also the objective of the report to orient those interested in the *Sukuk* market to the nature of *Sukuk* field and how it can be useful for those who need to gain some basic as well as more in-depth knowledge and background on the level of research in this important field of the Islamic financial system.



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# CHAPTER I

---





A WEAVE OF UNIFICATION

## OVERVIEW OF THE GLOBAL *SUKUK* MARKET

### 1.1 *SUKUK* MARKET MAINTAINS ITS APPEAL

Since 2011 *Sukuk* market has maintained its growth trajectory and year 2012 and 2013 witnessed record *Sukuk* issuances at domestic as well as international level. However, during 2014 and more so in 2015 the *Sukuk* issuances entered into a phase which can be best described as consolidation phase where external forces such as on going uncertainties in the global financial system, sharp drop in oil price and possible up-ward revision in the reference rate has had its impact on *Sukuk* issuance to some extent. The other major event in 2015 was Bank Negara Malaysia (BNM) strategic decision to stop issuance of its Short Term *Sukuk* and shift of issuance focus from providing investment opportunities to liquidity management for Islamic banks.

Among the positives is continuation of *Sukuk* issuances from regular sovereign and quasi-sovereign issuers such as Bahrain, Islamic Development Bank, Indonesia, Turkey, Malaysia, Saudi Arabia, UAE, Brunei, Qatar etc. The *Sukuk* issuances from corporates and financial institutions has also shown signs of revival in these *Sukuk* issuance jurisdictions. Another positive development is the appeal of *Sukuk* as an alternative source of financing from new jurisdictions ranging from Europe, Asia, CIS and Africa and emerging sign of possible direct entry from North America.

The other essential element which will keep the growth potential of *Sukuk* alive is the types of issuers and it is indeed a good sign that there is diversity of *Sukuk* issuers and the market has moved from initial *Sukuk* issuances by financial institutions to issuers ranging from infrastructure development, aircraft financing, socially responsible investing, Takaful sector, Tier 1 & 2 capital enhancement purposes, fulfillment of general needs of corporate sector, sovereigns and sovereign wealth funds.

The continuation of longer tenor *Sukuk* issuances for tenor up to 30 years by sovereigns such as Malaysia and Indonesia as well as by quasi-sovereign entities in GCC is another positive development and will not only attract investment from investors with appetite for long term fixed income profile instrument but will also help in the creation of yield curve which is necessary for secondary market development.

The issuances of short term *Sukuk* by increasing number of jurisdictions from Far East, GCC & Africa as well as by entities such as International Liquidity Management Corporation (IILM), Kuwait Turk Participation Bank etc., is helping in fulfilling the short term liquidity requirements of Islamic financial institutions.

Another related development is increasing use of IIFM Unrestricted *Wakalah* Standard where a reference pool consisting of *Sukuk* portfolio is created to provide alternate liquidity management option to Islamic financial institutions; moreover, Central Bank of Bahrain has developed a short term liquidity product for Islamic retail banks based on IIFM Unrestricted *Wakalah* standard by using *Sukuk* portfolio which has resulted in providing level playing field to Islamic banks.

*Sukuk* is one of the main instrument used for liquidity management and IIFM standard based on collateral is another liquidity management arrangement which is now actively used by the market participants where *Sukuk* is generally used as an underlying security. Through this standard the institutions can use their idle *Sukuk* portfolio for creating liquidity, freed liquidity can be channeled to invest in new *Sukuk* issuances, enhancing the credit exposure or keeping this arrangement for contingency purposes.

During last few years, the investor base is continuing to show signs of widening and *Sukuk* investors now include fund managers, *Takaful* operators, high net worth individuals, corporate investors etc. The possible entry of sovereign wealth funds as investor will provide further boost to *Sukuk* market.

The entry of retail investors particularly in Indonesia and Bahrain has opened another stable investor base for *Sukuk* market. The low profit rates on bank deposits offered by financial institutions has resulted in shift of retail investors to *Sukuk* which is a healthy sign for *Sukuk* market.

As far as challenges are concerned, 2015 must be seen in the backdrop of a weakening global economy and tight supply of liquidity in the global financial system due to falling oil prices, fiscal deficits in oil producing countries, slowdown in China, tightening of credit market and the possibility of reference rate increase. The effect of this global slowdown has been felt in the *Sukuk* market to some extent but the major fall in International *Sukuk* issuances has been avoided due to continuation of issuances from existing jurisdictions plus entry of several new jurisdictions from Europe, Asia and Africa which has maintained the *Sukuk* appeal as a viable capital market

fixed profile instrument. The challenge is increasing the share of *Sukuk* issuances from corporate sector which is still slow to respond in most of the established as well as new *Sukuk* issuing jurisdictions.

On domestic front, in January 2015 Bank Negara Malaysia announced a strategic decision to discontinue issuing its short-term *Sukuk* which were used by both domestic and international investors as an investment opportunity rather than liquidity management. The decision has resulted into drop of around USD40 billion in short term *Sukuk* market. However, based on public information Bank Negara Malaysia (BNM) in January 2016 has already starting issuing Short Term *Murabahah Sukuk* with tenor of 9 & 12 months for liquidity management purposes; hence the sharp drop in *Sukuk* market during 2015 cannot be considered as negative for *Sukuk* market development.

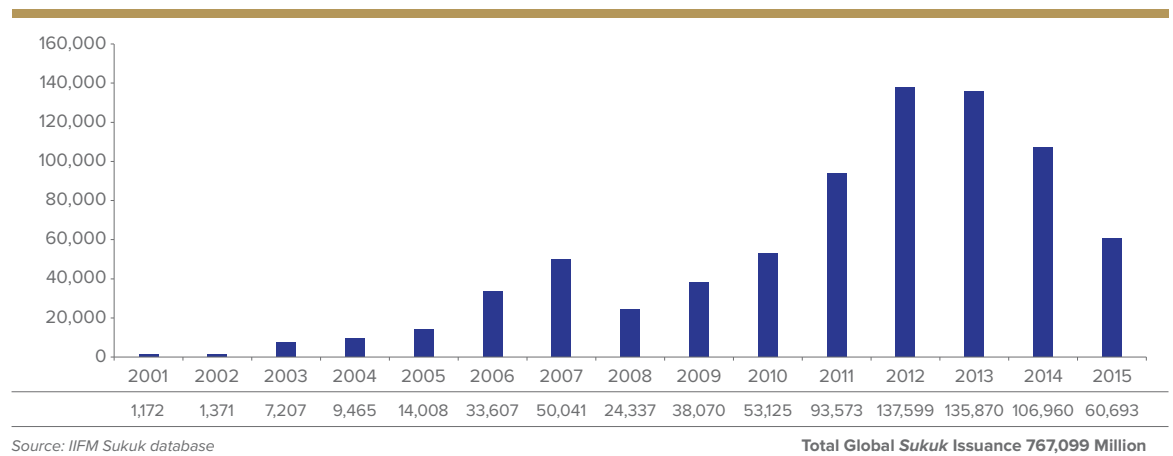
As per IIFM discussion with several market makers, the secondary market trading of *Sukuk* is taking place though limited and a number of *Sukuk* from various jurisdictions are trading at premium due to the demand from various investors such as retail, high net-worth, institutions, fund managers etc.,

## 1.2 GLOBAL *SUKUK* ISSUANCES

As illustrated in Chart 1A below, 2012 and 2013 were record years for global *Sukuk* issuances while in 2014 the *Sukuk* market slowed down to just over USD100 billion issuances. 2015 witnessed a major drop in issuances when only USD60.6 billion *Sukuk* were issued, a massive 43% fall compared to 2014. However, a large part of this decline is due to BNM policy decision to discontinue issuance of short-term investment *Sukuk* and this may not be taken as a reflection of weakness in the *Sukuk* market but a change of strategy. If BNM had continued its short term domestic *Sukuk* issuance as in 2014, then 2015 *Sukuk* issuances would have been around USD100 billion. Although there is a drop in short term *Sukuk* market due to BNM decision; however, the entry of other issuers such as power producing companies, project financing entities, corporates, quasi-sovereign as well as entry of several new jurisdictions and re-issuances by sovereign issuers have kept the *Sukuk* market active.

The Malaysian Short Term Ringgit denominated *Sukuk* although, have dropped considerably; however, it is interesting to note that Malaysian global sovereign & quasi-sovereign issuances of over one year tenor have actually increased from USD8.1 billion in 2014 to USD14.3 billion in 2015. As far as Malaysian corporate sector issuances are concerned there were 238 corporate issuances amounting to USD11.57bio in 2015 as against 211 issuances amounting to USD9.96bio in 2014.

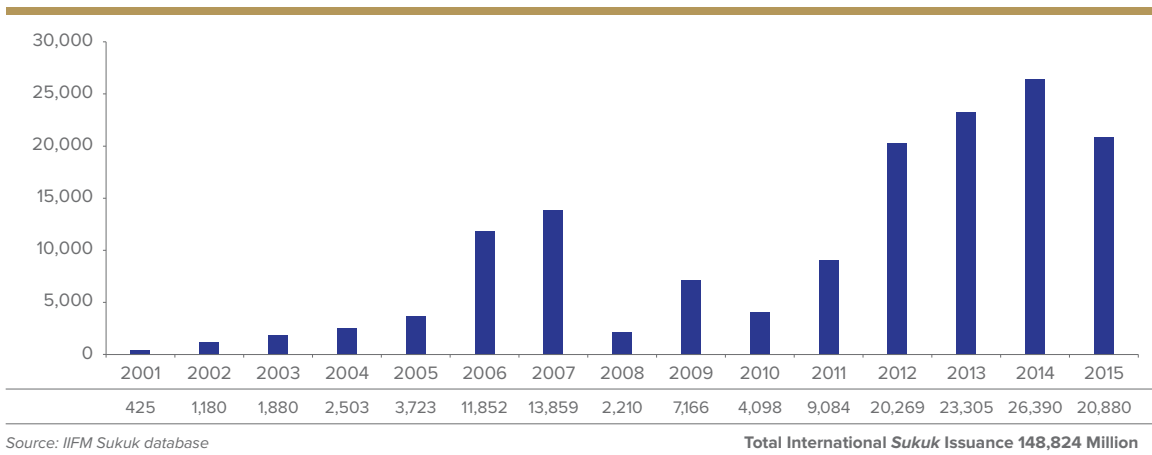
**CHART 1A: TOTAL GLOBAL *SUKUK* ISSUANCES (JAN 2001 - DEC 2015) - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**



**1.3 INTERNATIONAL SUKUK ISSUANCES**

Total international *Sukuk* issuances stood at USD20.88 billion in 2015 as against 2014 level of USD26.4 billion which was the highest ever value of issuances recorded since the inception of the *Sukuk* market.

**CHART 1B: TOTAL INTERNATIONAL SUKUK ISSUANCES - (JAN 2001 - DEC 2015) - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**



The decline in international *Sukuk* volume can partly be attributed to economic uncertainties in the global financial system. In addition, there were quite a few longer-term *Sukuk* that matured in 2014 that were not re-issued in

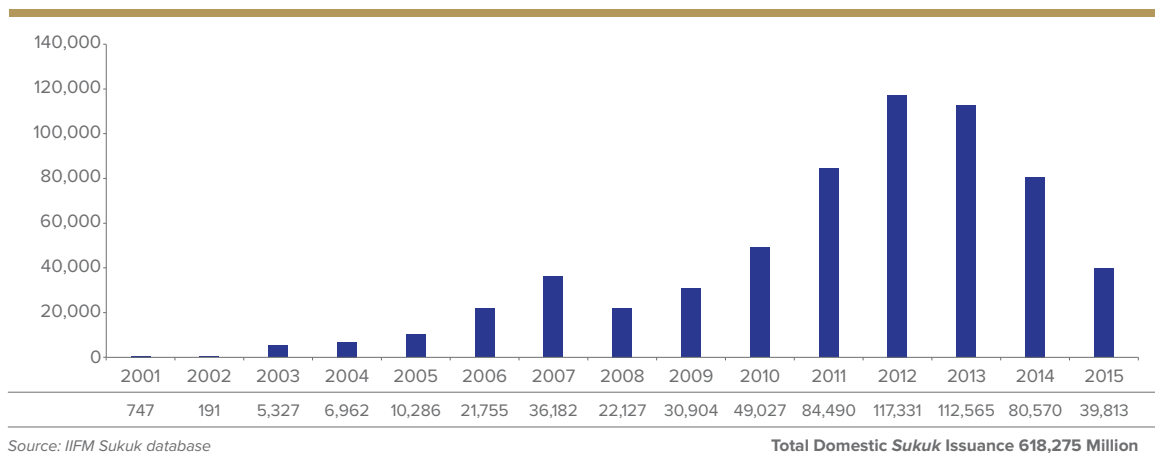
2015, for instance, those from General Electric (USD500 Million), Govt. of Dubai (USD1,250 Million), UAE based Tourism Development Investment Company (USD1,000 Million) etc.



#### 1.4 DOMESTIC *SUKUK* ISSUANCES

Chart 1C below shows that the major decline in global *Sukuk* issuances in 2015 has come from the domestic *Sukuk* issuances which fell from their 2014 level of USD80.57 billion to only USD39.8 billion, the biggest chunk of this coming from the Malaysian market.

**CHART 1C: TOTAL DOMESTIC *SUKUK* ISSUANCES (JAN 2001 - DEC 2015) - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**



If we analyze the domestic issuances ex-Malaysia, we actually see a marginal rise in the domestic *Sukuk* issuances from the rest of the world with domestic issuances ex-Malaysia standing at approximately USD13.5 billion in 2015 as against USD12.5 billion in 2014. Among the major emerging player in the domestic market is Indonesia which issued its largest domestic *Sukuk* issue worth USD2 billion in May 2015 and it is expected that the country will issue more. The Government of Bahrain doubled its domestic issuances from USD1.33 billion in 2014 to USD3 billion in 2015. Turkey almost quadrupled its local currency *Sukuk* issuances from USD252 million in 2014 to USD920 million in 2015. Furthermore, there were USD4.5 billion of domestic issues from the Kingdom of Saudi Arabia in 2015, a mixture of corporate and quasi-sovereign issuers, as compared to USD2.5 billion of domestic issues in 2014. UAE also remained active issuer of *Sukuk* during 2014 & 2015.

While the *Sukuk* market shows a decline in 2015, much of it came from the domestic *Sukuk* market and that too, mainly as an impact of Malaysia's cut down in short tenor issuances. A detailed note on the short term *Sukuk* market follows in section 1.5. Keeping in view the ever

increasing use of *Sukuk* as an alternative source of funding, not just among the traditional borrowers such as Malaysia and the GCC countries, but from all over the world including Europe, Africa and the US. We foresee a steady rate of growth in coming years, even though the effect of the slowing down of major economies may have its impact.

A few milestones achieved by the *Sukuk* market in the years 2014-2015 are as follows:

- Long term *Sukuk* were issued in record number of new jurisdictions, namely, South Africa, UK, Oman, Hong Kong, Ivory Coast, Senegal and Luxembourg.
- Socially responsible *Sukuk* were born as a new category of investment with the issue of *Sukuk* by World Bank linked IFFIm (International Finance Facility for Immunization) and Khazanah National in the form of Ihsan *Sukuk*.
- Emirates Airline issued USD913 million of *Sukuk* to finance its aircraft purchase in a first-of-its-kind financing arrangement.
- 30 year International *Sukuk* issuance by Malaysian Government as well as domestic issuances in Indonesia and Saudi Arabia.

The following table gives a clear picture on the hallmark Global *Sukuk* issues during 2014 and 2015:

**TABLE 1: SELECTED HALLMARK GLOBAL *SUKUK* ISSUANCES & TRENDS (USD500 MILLION OR >)**

| ISSUE YEAR | ISSUER  | ISSUANCE CURRENCY | MILLIONS USD OR USD EQUIVALENT | AVERAGE TENOR YEARS |
|------------|---|-------------------|--------------------------------|---------------------|
| 2015       | Axiata  | USD               | 500                            | 5                   |
| 2015       | Government of Oman                                  | OMR               | 647                            | 5                   |
| 2015       | Majid Al Futtaim                                    | USD               | 500                            | 10                  |
| 2015       | APICORP   | USD               | 500                            | 5                   |
| 2015       | Qatar Islamic Bank                                  | USD               | 750                            | 5                   |
| 2015       | Arab National Bank                                  | SAR               | 533                            | 10                  |
| 2015       | Jimah Energy Ventures                               | MYR               | 2,006                          | 5                   |
| 2015       | Islamic Development Bank                            | SAR               | 514                            | 5                   |
| 2015       | Garuda Indonesia                                    | USD               | 500                            | 5                   |
| 2015       | Government of Hong Kong                             | USD               | 1,000                          | 5                   |
| 2015       | Government of Indonesia                             | IDR               | 2,000                          | 10                  |
| 2015       | Dubai Islamic Bank                                  | USD               | 750                            | 5                   |
| 2015       | Noor Bank   | USD               | 500                            | 5                   |
| 2015       | Emirates Airlines                                   | USD               | 913                            | 10                  |
| 2015       | Government of Ras Al Khaimah                        | USD               | 1,000                          | 10                  |
| 2015       | Sharjah Islamic Bank                                | USD               | 500                            | 5                   |
| 2015       | Islamic Development Bank                            | USD               | 1,000                          | 5                   |
| 2015       | Petroliam Nasional                                  | USD               | 1,250                          | 5                   |
| 2015       | Government of Bahrain                               | BHD               | 660                            | 5                   |
| 2014       | The International Finance Facility for Immunisation | USD               | 500                            | 3                   |
| 2014       | Government of Pakistan                              | USD               | 1,000                          | 5                   |
| 2014       | FlyDubai  | USD               | 500                            | 5                   |
| 2014       | Bahrain Mumtalakat                                  | USD               | 600                            | 7                   |
| 2014       | DIFC Investments                                    | USD               | 700                            | 10                  |
| 2014       | Government of South Africa                          | USD               | 500                            | 6                   |
| 2014       | The Goldman Sachs                                   | USD               | 500                            | 5                   |
| 2014       | Government of Sharjah                               | USD               | 750                            | 10                  |
| 2014       | Government of Hong Kong                             | USD               | 1,000                          | 5                   |
| 2014       | Government of Indonesia                             | USD               | 1,500                          | 10                  |
| 2014       | Islamic Development Bank                            | USD               | 1,000                          | 5                   |
| 2014       | Kuveyt Turk Katilim Bankasi                         | USD               | 500                            | 5                   |
| 2014       | Emaar Malls   | USD               | 750                            | 10                  |
| 2014       | Khazanah Nasional Berhad                            | USD               | 500                            | 7                   |
| 2015       | National Commercial Bank                            | SAR               | 740                            | Perpetual           |
| 2015       | Riyad Bank  | SAR               | 1,070                          | Perpetual           |
| 2015       | Qatar Islamic Bank                                  | QR                | 550                            | Perpetual           |
| 2015       | Dubai Islamic bank                                  | USD               | 1,000                          | Perpetual           |
| 2014       | Al Hilal Bank                                       | USD               | 500                            | Perpetual           |

Source: IIFM *Sukuk* database

As seen among the hallmark issues, the year 2014/15 was mostly led by sovereigns and quasi-sovereigns in terms of issuance. The pace of corporate *Sukuk* issuance remains below expectation in most of the jurisdictions.

Non-Local Currency *Sukuk* (*Sukuk* issued in a jurisdiction by a foreign issuer) continued in 2014/2015, but were much lesser than the previous year. The table below lists the non-local currency hallmark *Sukuk* issues in 2014 - 2015.

**TABLE 2 SELECTED NON LOCAL CURRENCY SUKUK ISSUANCES**

| ISSUE YEAR | ISSUER                      | ISSUER COUNTRY | ISSUANCE CURRENCY | SUKUK TYPE | SUKUK STRUCTURE           | USD MN OR EQUIVALENT | TENOR (YEARS) |
|------------|-----------------------------|----------------|-------------------|------------|---------------------------|----------------------|---------------|
| 2015       | Cagamas Berhad              | Malaysia       | SGD               | Corporate  | <i>Sukuk Al Murabahah</i> | 116                  | 1             |
| 2015       | Kuveyt Turk Katilim Bankasi | Turkey         | MYR               | Corporate  | <i>Sukuk Al Ijarah</i>    | 188                  | 5             |
| 2015       | Government of Turkey        | Turkey         | MYR               | Sovereign  | <i>Sukuk Al Ijarah</i>    | 85                   | 5             |
| 2014       | Government of Turkey        | Turkey         | MYR               | Sovereign  | <i>Sukuk Al Ijarah</i>    | 188                  | 5             |

Source: IIFM Sukuk database

IIFM Islamic hedging standards will facilitate *Sukuk* issuers to issue *Sukuk* in other jurisdictions and protect the currency as well as rate of return volatility through risk mitigation products.

As has been the case since 2009, majority of *Sukuk* issued during 2014 & 2015 were based on fixed profit rates to take advantage of low reference yield benchmark. Floating rates tied to a benchmark have not been a common occurrence in the *Sukuk* market. The trend of fixed rate issuances is expected to continue unless there is a major change in reference rates though there is a likelihood that some issuers may opt to issue floating rate *Sukuk* to attract funds from financial institutions. Following are landmark Fixed Profit Rate *Sukuk* Issuances during 2014-15:

**TABLE 3: LANDMARK FIXED RATE SUKUK ISSUANCES (USD200 MILLION OR >, TENOR 1 YEAR >)**

| YEAR | ISSUER                      | TYPE OF SUKUK   | SUKUK ISSUANCE CURRENCY | INTERNATIONAL /DOMESTIC | SUKUK STRUCTURE            | MILLIONS USD OR EQUIVALENT | RATE OF RETURN | AVERAGE TENOR YEARS |
|------|-----------------------------|-----------------|-------------------------|-------------------------|----------------------------|----------------------------|----------------|---------------------|
| 2015 | Albaraka Turk               | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 250                        | 10.5           | 10                  |
| 2015 | Government of Oman          | Sovereign       | OMR                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 647                        | 3.5            | 5                   |
| 2015 | Government of Bahrain       | Sovereign       | BHD                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 530                        | 5              | 5                   |
| 2015 | Islamic Development Bank    | Quasi-Sovereign | SAR                     | Domestic                | <i>Sukuk Al Wakalah</i>    | 514                        | 1.83           | 5                   |
| 2015 | Benih Restu Berhad          | Corporate       | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 235                        | 4.62           | 10                  |
| 2015 | Garuda Indonesia            | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                        | 5.95           | 5                   |
| 2015 | TH Plantations Bhd          | Corporate       | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 233                        | –              | 5                   |
| 2015 | Dubai Islamic Bank          | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 750                        | 2.921          | 5                   |
| 2015 | Khazanah Nasional Berhad    | Sovereign       | MYR                     | Domestic                | <i>Sukuk Al Musharakah</i> | 824                        | 4.88           | 10                  |
| 2015 | Government Investment Issue | Sovereign       | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 6,824                      | 4.245          | 9.75                |
| 2015 | Danainfra Nasional Berhad   | Sovereign       | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 235                        | 5.05           | 30                  |
| 2015 | Prasarana Malaysia Berhad   | Sovereign       | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 259                        | 4.64           | 15                  |

Table continued on next page

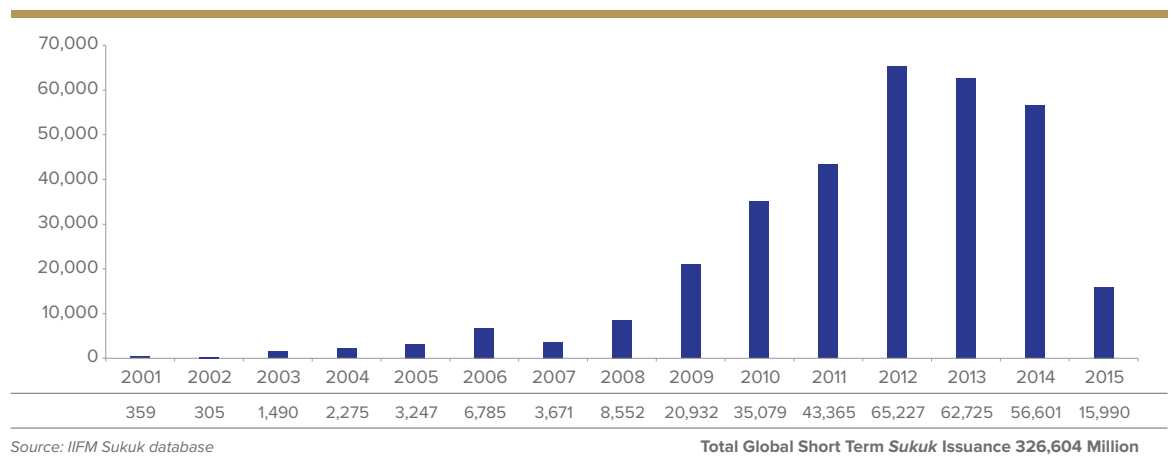
| YEAR | ISSUER                       | TYPE OF SUKUK   | SUKUK ISSUANCE CURRENCY | INTERNATIONAL /DOMESTIC | SUKUK STRUCTURE            | MILLIONS USD OR EQUIVALENT | RATE OF RETURN | AVERAGE TENOR YEARS |
|------|------------------------------|-----------------|-------------------------|-------------------------|----------------------------|----------------------------|----------------|---------------------|
| 2015 | Sharjah Islamic Bank         | Corporate       | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 500                        | 2.843          | 5                   |
| 2015 | Islamic Development Bank     | Quasi-Sovereign | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 1,000                      | 1.83           | 5                   |
| 2015 | Petroliam Nasional           | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 1,250                      | 2.707          | 5                   |
| 2015 | AmlIslamic Bank Berhad       | Corporate       | MYR                     | Domestic                | <i>Sukuk Al Musharakah</i> | 212                        | 4.45           | 5                   |
| 2014 | FlyDubai                     | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                        | 3.776          | 5                   |
| 2014 | Government of South Africa   | Sovereign       | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 500                        | 3.9            | 5.75                |
| 2014 | The Goldman Sachs            | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                        | 2.844          | 5                   |
| 2014 | Governement of Sharjah       | Sovereign       | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 750                        | 3.764          | 10                  |
| 2014 | Government of Senegal        | Sovereign       | CFA                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 200                        | 6.25           | 4                   |
| 2014 | Albaraka Turk                | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 350                        | 6.25           | 5                   |
| 2014 | Kuveyt Turk                  | Corporate       | USD                     | International           | <i>Hybrid Sukuk</i>        | 500                        |                | 5                   |
| 2014 | Government of United Kingdom | Sovereign       | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 340                        | 1.75           | 5                   |
| 2014 | Govt of Pakistan             | Sovereign       | PKR                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 471                        | 7.97           | 3                   |
| 2014 | Emaar Malls                  | Corporate       | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 750                        | 4.564          | 10                  |
| 2015 | Dubai Islamic bank           | Corporate       | USD                     | International           | <i>Sukuk Al Mudharabah</i> | 1,000                      | 6.75           | Perpetual           |
| 2014 | Al Hilal Bank                | Corporate       | USD                     | International           | <i>Sukuk Al Mudharabah</i> | 500                        | 5.5            | Perpetual           |

Source: IIFM Sukuk database

## 1.5 SHORT TERM *SUKUK* MARKET

Short term *Sukuk* with maturity of 1 year or less are essential in meeting liquidity needs of Islamic financial institutions. As shown in Chart 2A below, total 'global short term *Sukuk* issuance' since the inception of the *Sukuk* market stands at USD327 billion. It peaked at USD65 billion in the year 2012, declining marginally mimicking the trend in the global all-tenor *Sukuk* issuances (as shown in Chart 1A) in the years 2013 and 2014 before diving a massive 72% from USD56.6 billion to USD15.99 billion in 2015, mainly on the back of discounting of short term issuances by BNM.

**CHART 2A: TOTAL GLOBAL SHORT TERM *SUKUK* ISSUANCES (JAN 2001 - DEC 2015) - ALL CURRENCIES, TENOR 12 MONTHS OR LESS, IN USD MILLIONS**



Bahrain is the first jurisdiction which started issuing short term *Sukuk* in 2001 and maintained its share of regular *Sukuk* issuances. There are a number of other jurisdictions which have introduced such *Sukuk* program, Malaysia has been the value leader in the short tenor market. Its share of the total global short term *Sukuk* issuances' since inception has been almost 88%. On an year-on-year basis, its share of the total short term issuances has been over 95% between 2005 and 2012. Other constant names in the short term market had been

Sudan, Gambia, Brunei, Turkey, Indonesia and to some extent Pakistan and Saudi Arabia. The International Islamic Liquidity Management ( IILM ) started its short term issuances in the year 2013, moving some of the share of the International short term market in quasi-sovereign category. The government of Indonesia stepped up its *Sukuk* issuance while Turkey started issuing corporate as well as sovereign short term *Sukuk*. The following table shows the regional break-up of total short-term *Sukuk* issuance since 2001:

**TABLE 4 TOTAL GLOBAL SHORT-TERM *SUKUK* ISSUANCE – ALL CURRENCIES ≤ 12 MONTHS  
(JAN 2001 - DEC 2015)**

| <b>ASIA &amp; FAR EAST</b> | <b>NUMBER OF ISSUES</b> | <b>AMOUNT USD MILLIONS</b> | <b>% OF TOTAL VALUE</b> |
|----------------------------|-------------------------|----------------------------|-------------------------|
| Bangladesh                 | 4                       | 37                         | 0.01%                   |
| Brunei Darussalam          | 119                     | 7,579                      | 2.32%                   |
| Indonesia                  | 37                      | 2,437                      | 0.75%                   |
| Malaysia                   | 2,231                   | 288,513                    | 88.34%                  |
| Pakistan                   | 8                       | 141                        | 0.04%                   |
| Singapore                  | 3                       | 221                        | 0.07%                   |
| <b>Total</b>               | <b>2,402</b>            | <b>298,928</b>             | <b>91.53%</b>           |

| <b>GCC &amp; MIDDLE EAST</b> | <b>NUMBER OF ISSUES</b> | <b>AMOUNT USD MILLIONS</b> | <b>% OF TOTAL VALUE</b> |
|------------------------------|-------------------------|----------------------------|-------------------------|
| Bahrain                      | 275                     | 10,738                     | 3.29%                   |
| Oman                         | 1                       | 130                        | 0.04%                   |
| Saudi Arabia                 | 6                       | 1,301                      | 0.40%                   |
| United Arab Emirates         | 1                       | 100                        | 0.03%                   |
| Yemen                        | 1                       | 234                        | 0.07%                   |
| <b>Total</b>                 | <b>284</b>              | <b>12,502</b>              | <b>3.83%</b>            |

| <b>AFRICA</b> | <b>NUMBER OF ISSUES</b> | <b>AMOUNT USD MILLIONS</b> | <b>% OF TOTAL VALUE</b> |
|---------------|-------------------------|----------------------------|-------------------------|
| Gambia        | 210                     | 136                        | 0.04%                   |
| Sudan         | 13                      | 13,186                     | 4.04%                   |
| <b>Total</b>  | <b>223</b>              | <b>13,322</b>              | <b>4.08%</b>            |

| <b>EUROPE &amp; OTHERS</b> | <b>NUMBER OF ISSUES</b> | <b>AMOUNT USD MILLIONS</b> | <b>% OF TOTAL VALUE</b> |
|----------------------------|-------------------------|----------------------------|-------------------------|
| Turkey                     | 49                      | 1,851                      | 0.57%                   |
| <b>Total</b>               | <b>49</b>               | <b>1,851</b>               | <b>0.57%</b>            |
| <b>Grand Total</b>         | <b>2,958</b>            | <b>326,604</b>             | <b>100.00%</b>          |

Source: IIFM *Sukuk* database

The year 2015 saw a decline of over 70% in the short term *Sukuk* issuances due to the BNM decision to cut down on its short term issues. Due to this decision, as explained earlier, the domestic short term *Sukuk* issuance has dropped by around USD40 billion.

Chart 2B below shows the international short term *Sukuk* issuance since Jan 2001. The short term market has mainly been a domestic one, as can be seen in the chart

below. International issuances only picked up in 2013, reflecting the advent of IILM as well as issuances from Turkey, Indonesia and others. The international issuances between 2001 and 2007 belong almost entirely to the Govt. of Bahrain issuing short term USD *Sukuk* through the Central Bank of Bahrain, which it discontinued from 2008. The Govt. of Bahrain is still a prolific issuer in the short term market, but it mostly issues domestic currency *Sukuk*.

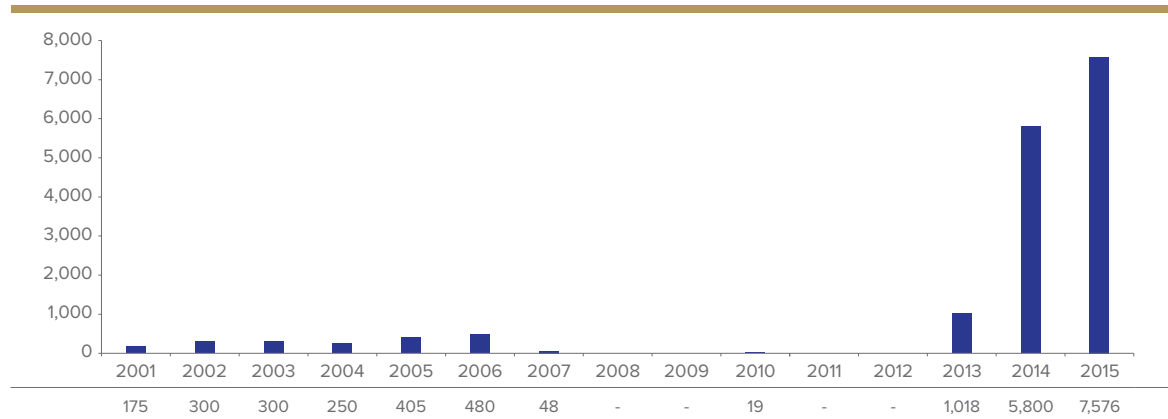
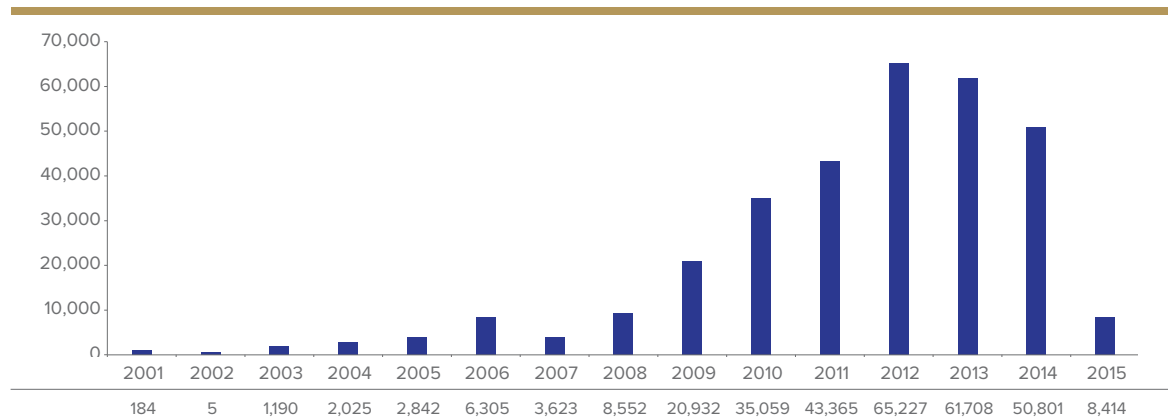
**CHART 2B: TOTAL INTERNATIONAL SHORT TERM *SUKUK* ISSUANCE ≤ 12 MONTHS (JAN 2001 – DEC 2015, USD MILLIONS)**Source: IIFM *Sukuk* databaseTotal International Short Term *Sukuk* Issuance 16,371 Million

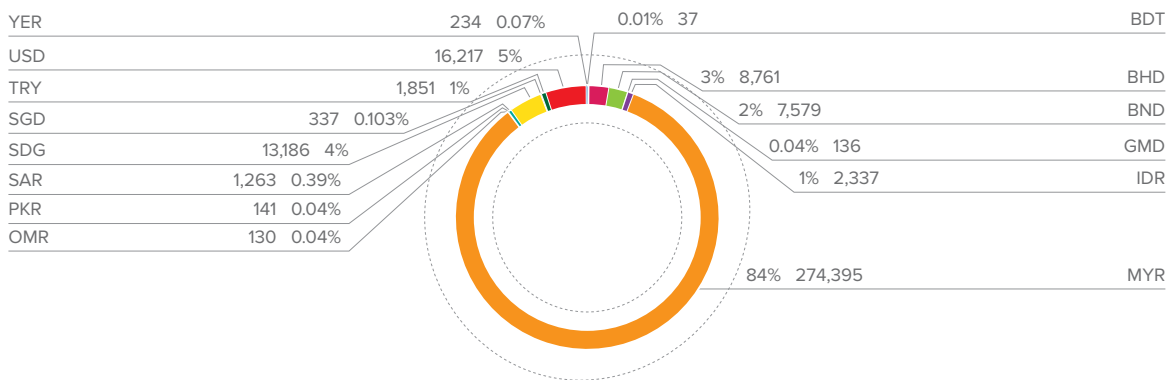
Chart 2C below shows that domestic short term issuances since inception exactly mimic Chart 2A, or global short term issuances, which is because domestic issuances on average have been over 80% of all short term issuances since 2001, except for in 2015 where their share of the total short term issuances fall to just over 50%. Historically, in the years 2008-2012, that is between the time that CBB stopped issuing international short term *Sukuk* (2007) and IILM started issuing international short term *Sukuk* (2013), the short term market was entirely, that is 100%, domestic.

**CHART 2C: TOTAL DOMESTIC SHORT TERM *SUKUK* ISSUANCE ≤ 12 MONTHS (JAN 2001 – DEC 2015, USD MILLIONS)**Source: IIFM *Sukuk* databaseTotal Domestic Short Term *Sukuk* Issuance 310,233 Million

In the year 2015, roughly 50% of the total domestic short term issuance of USD8.4 billion has still come from Malaysia, approximately USD2.6 billion from sovereign while USD1.6 billion from corporate issuers in Malaysia. This is in stark contrast to an issuance of USD45.6 billion of short term domestic sovereign issues in Malaysia in 2014; corporate issuance in 2014 was almost the same around USD1 billion in 2014 as well. The other 50% of the 2015 short term domestic issuance is claimed mainly by Bahrain, Turkey, Indonesia, Brunei, Saudi and few others. The Government of Bahrain more than doubled its domestic issuances from USD1.33 billion in 2014 to USD3 billion in 2015.

It is interesting to note that since the short term market is clearly dominated by domestic issues, and all domestic issuances are overshadowed by issuances in Malaysia, a currency-wise break-up of global short term issuances reveals a massive 84% share of issuances based in Malaysian Ringgit. Please see Chart 2D below:

**CHART2D: GLOBAL SHORT TERM SUKUK ISSUANCES ≤ 12 MONTHS, CURRENCY BREAK-UP (JAN 2001- DEC 2015, AMOUNT IN USD MILLIONS)**



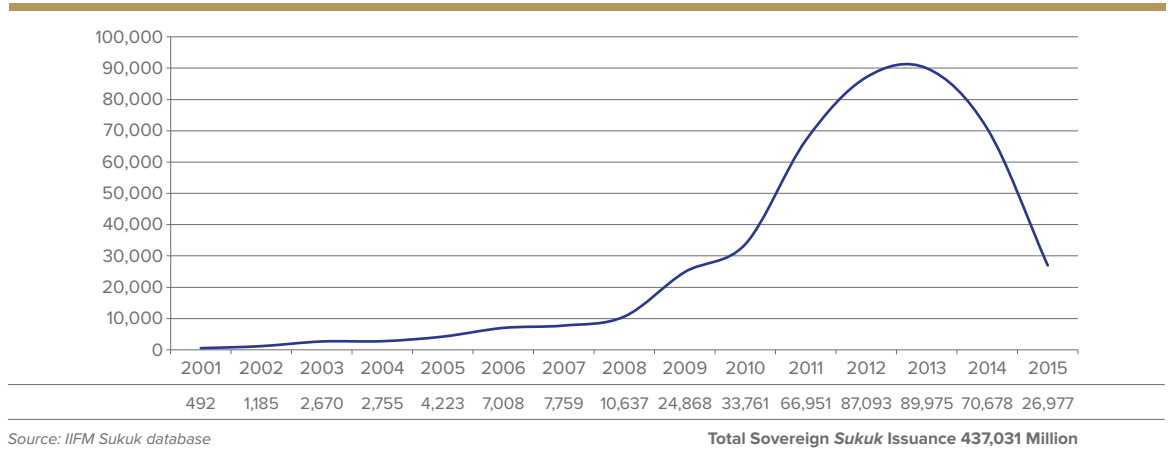
Source: IIFM Sukuk database



**1.6 DISTRIBUTION OF GLOBAL SUKUK ISSUANCE BY ISSUER STATUS**

The sovereign *Sukuk* provides strong foundation to the *Sukuk* market and they are leading the upward trend since the 2008 global financial crisis. As of end 2015, total sovereign *Sukuk* issuance since inception stands at USD437 billion, which is almost 57% of all global *Sukuk* issuances. Chart 3A below shows the trend of sovereign *Sukuk* issuances since the year 2001:

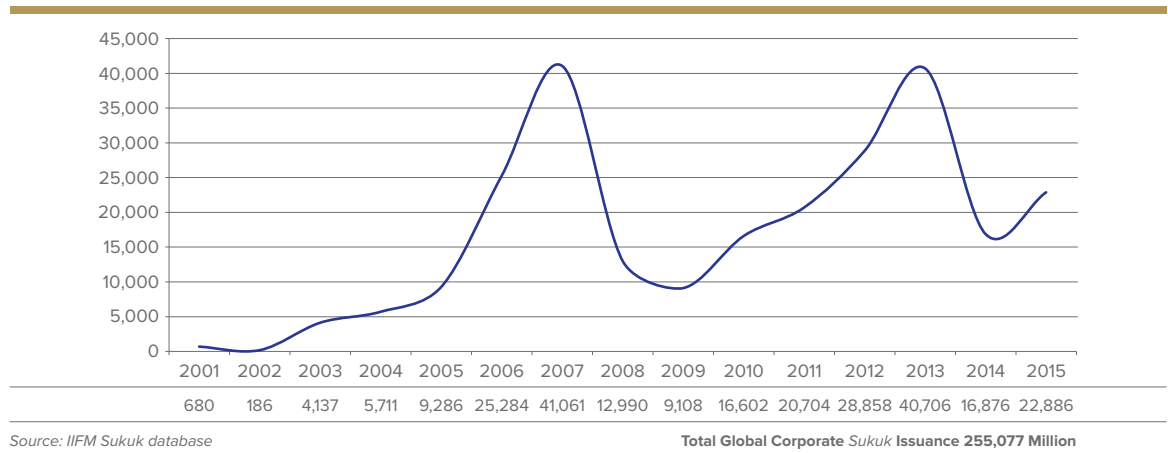
**CHART 3A GLOBAL SOVEREIGN SUKUK ISSUANCES (JAN 2001- DEC 2015) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS**



The trend line shows a steady increase in sovereign issuances which doubled between 2010 and 2011 from USD5.4 billion in 2010 to USD17.8 billion in 2011. The issuances peaked in the year 2013, before tapering off a little in 2014 and falling to almost half their value in 2015 due to BNM non-issuance of short term domestic *Sukuk*. The trend in the global sovereign issuances is

very heartening in the sense that it shows that the *Sukuk* market has a very strong base which is unwavering in the face of economic shocks. The challenge; however, is relatively low issuances by the corporate sector which needs to be addressed. The following chart 3B shows the global corporate issuances since 2001.

**CHART3B GLOBAL CORPORATE SUKUK ISSUANCES (JAN 2001- DEC 2015) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS**

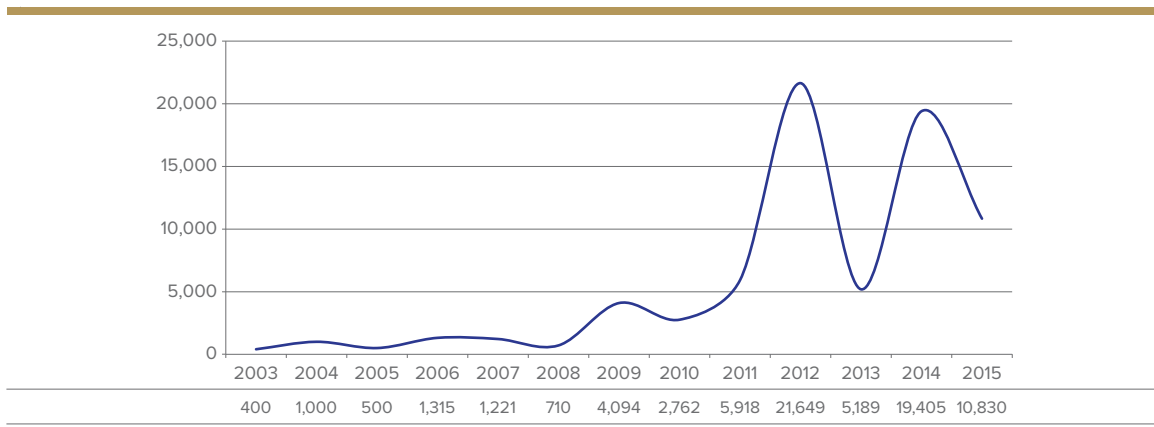


As can be seen, the corporate issuances peaked in 2007 and 2013 and dived almost 30% and 40% in the following years 2008 and 2014 respectively. This is typical of corporate sector response even in the conventional world as they are first to cut back on spending and expansion and development projects in the wake of an economic downturn. It is however heartening to note that corporate sector issuances have stabilized from 2014

to 2015, indicative of rising hope among the corporate sector and not a worsening of their outlook.

Chart 3C below shows the trend line for quasi-sovereign issuances since 2001. The quasi-sovereign issues also seem to be independent of economic cycles and consistent in terms of growth.

**CHART 3C GLOBAL QUASI-SOVEREIGN SUKUK ISSUANCES (JAN 2001- DEC 2015) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS**



Source: IIFM Sukuk database

Total Global Quasi-Sovereign Sukuk Issuance 74,992 Million

The quasi-sovereign issues between 2003 and 2011 mainly came from jurisdictions like Malaysian, Saudi Arabia, Bahrain, Indonesia, UAE as well as from Islamic Development Bank, World Bank etc. The sudden peak in 2012 came from large issuances from Malaysia based PLUS Berhad (almost USD9.7 billion), and two Saudi based entities Saudi Electricity Company (USD1.75 billion) and the General Authority of Civil Aviation (USD4 billion).

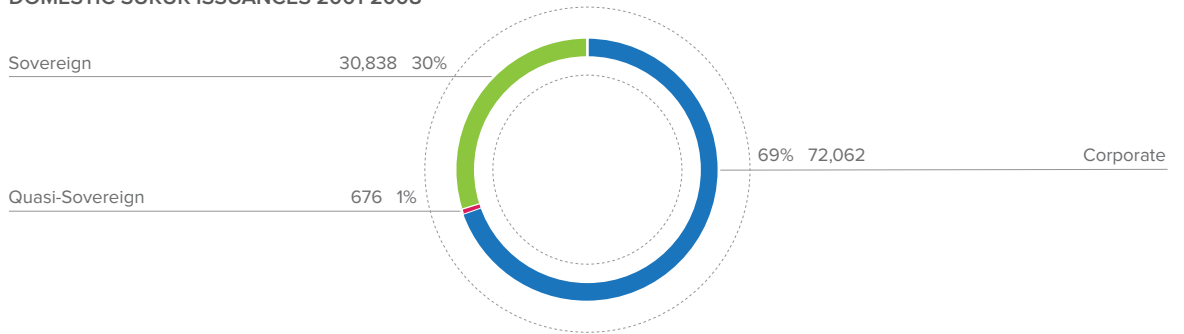
It is interesting to note that in both the international and domestic Sukuk markets the mix of sovereign/quasi-

sovereign and corporate issuers has been following a consistent pattern with the former rising in prominence gradually. While the sovereign sector increased in prominence steadily from 30% of total issuance value in 2001-2008 to 75% in the period 2013-2014, for the year 2015, the share of sovereign issuance falls to 58% of the total value of the domestic market. The reverse happened to the share of the corporate sector in the domestic Sukuk market. The share which was 69% in the inception years of 2001-2008, fell to just over 20% by 2014 and rose slightly again to 37% as the BNM withdrew its major chunk of short term domestic issuances.

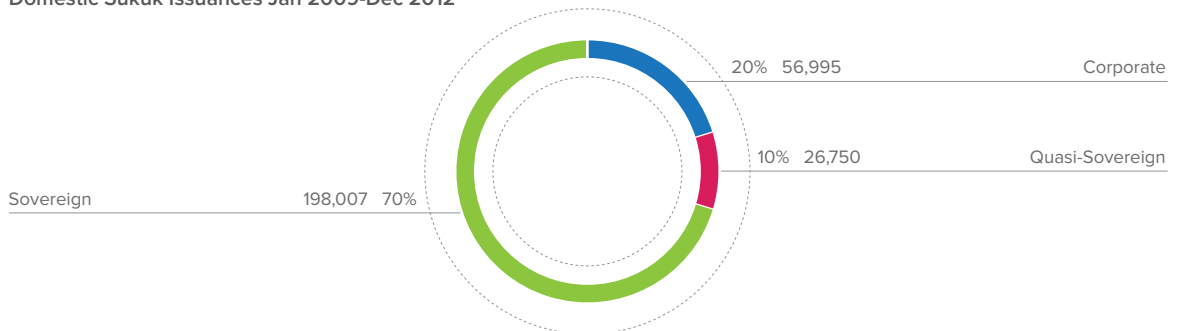
The four pie charts in Chart 3D give a clear picture of domestic *Sukuk* issuances:

**CHART 3D : DOMESTIC SUKUK ISSUANCES BY ISSUER STATUS - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**

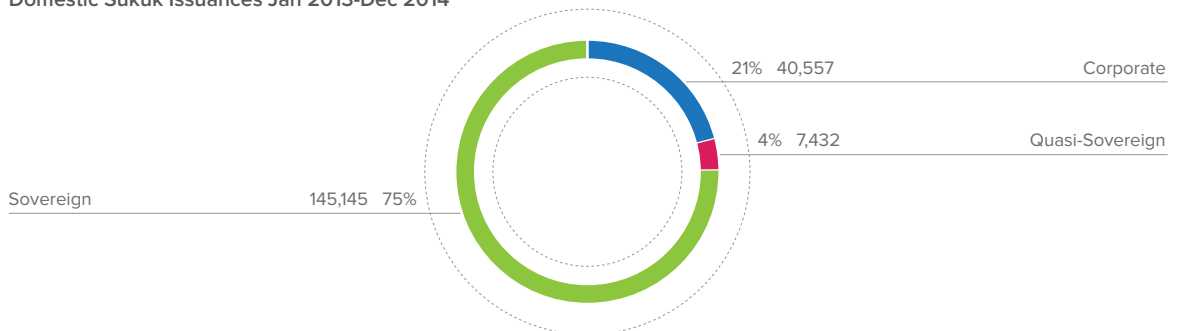
**DOMESTIC SUKUK ISSUANCES 2001-2008**



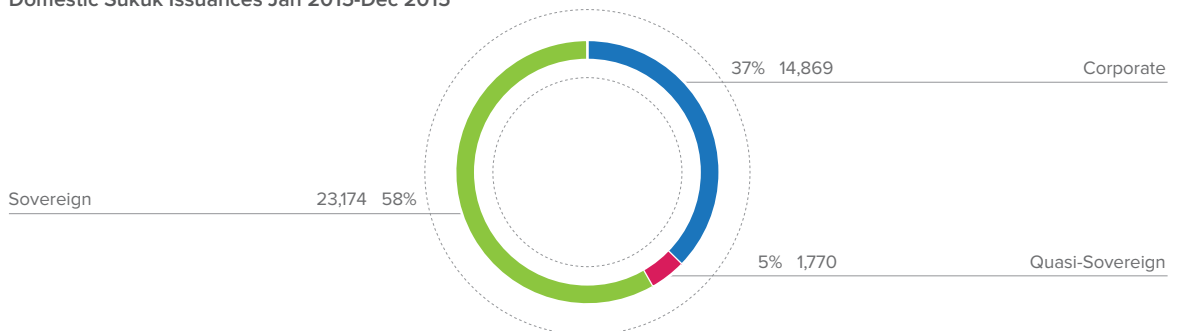
**Domestic Sukuk Issuances Jan 2009-Dec 2012**



**Domestic Sukuk Issuances Jan 2013-Dec 2014**



**Domestic Sukuk Issuances Jan 2015-Dec 2015**



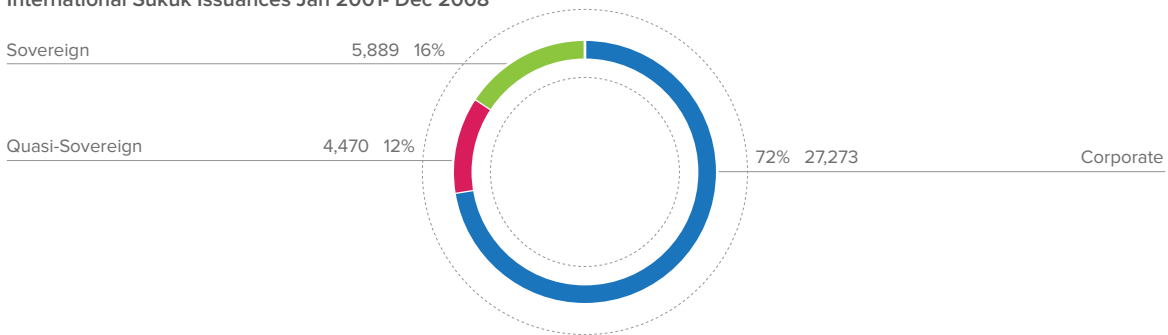
Source: IIFM Sukuk database

The pie charts in Chart 3E below show the respective shares of the sovereign, quasi-sovereign and corporate issuers in the international market for the same time periods as in Chart 3D. The share of sovereign/quasi-sovereign issuers in the international *Sukuk* market has

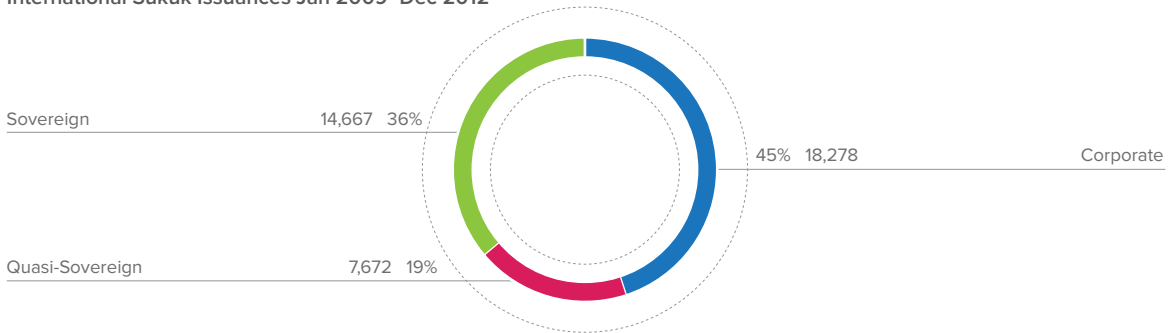
risen steadily from only 28% of the entire issuance in the period 2001-2008 to 66% in the period 2013-2014. From the period 2013-2014 to the year 2015, however, we spot a marked shift from sovereign to quasi-sovereign with the latter forming 43% of the entire international issues in 2015.

**CHART 3E: INTERNATIONAL SUKUK ISSUANCES BY ISSUER STATUS - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**

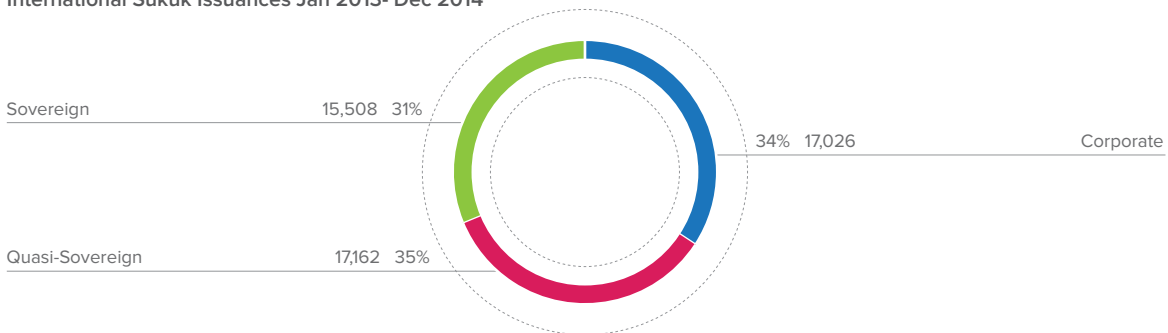
**International Sukuk Issuances Jan 2001- Dec 2008**



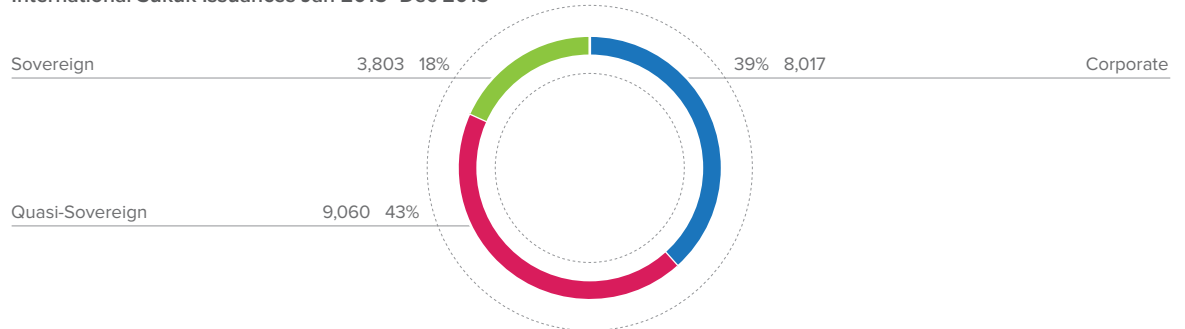
**International Sukuk Issuances Jan 2009- Dec 2012**



**International Sukuk Issuances Jan 2013- Dec 2014**



## International Sukuk Issuances Jan 2015- Dec 2015



Beside recent *Sukuk* issuances from regular as well as new jurisdictions it is helpful to note that a number of African countries are also entering the *Sukuk* market for development and infrastructure projects. Therefore, we can expect that the foundation has been laid for corporate issuers to follow suit in the new jurisdictions from which we have seen sovereign *Sukuk* in the last few years, such as UK, Luxembourg, South Africa and Hong Kong.

Following are lists of the Hallmark *Sukuk* Issuances in the Sovereign, Corporate and Quasi-Sovereign categories between Jan 2014 and Dec 2015:

**TABLE 5A: GLOBAL SOVEREIGN SUKUK ISSUANCES - SELECTED VALUE LEADERS (JAN 2014 – DEC 2015, USD200 MILLIONS, > 1 YEAR)**

| YEAR | ISSUER                       | NUMBER OF ISSUES | ISSUER COUNTRY       | SUKUK ISSUANCE CURRENCY | INTERNATIONAL/ DOMESTIC | STRUCTURE                  | AMOUNT (USD MILLION) | AVERAGE TENOR (YEARS) |
|------|------------------------------|------------------|----------------------|-------------------------|-------------------------|----------------------------|----------------------|-----------------------|
| 2015 | Government of Oman           | 1                | Oman                 | OMR                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 647                  | 5                     |
| 2015 | Pengurusan Air               | 1                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 202                  | 10                    |
| 2015 | Government of Hong Kong      | 1                | Hong Kong            | USD                     | International           | <i>Hybrid Sukuk</i>        | 1,000                | 5                     |
| 2015 | Jambatan Kedua               | 1                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 306                  | 10                    |
| 2015 | Government of Indonesia      | 1                | Indonesia            | IDR                     | Domestic                | <i>Sukuk Al Wakalah</i>    | 2,000                | 10                    |
| 2015 | Government of Malaysia       | 2                | Malaysia             | USD                     | International           | <i>Hybrid Sukuk</i>        | 1,500                | 20                    |
| 2015 | Danga Capital                | 2                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Musharakah</i> | 824                  | 10                    |
| 2015 | DanaInfra Nasional           | 2                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 470                  | 27.5                  |
| 2015 | Government of Ras Al Khaimah | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 1,000                | 10                    |
| 2015 | Prasarana Malaysia           | 1                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 259                  | 15                    |
| 2015 | Government of Bahrain        | 1                | Bahrain              | BHD                     | Domestic                | <i>Sukuk Al Salam</i>      | 660                  | 5                     |
| 2015 | Ivory Coast                  | 1                | ivory coast          | CFAF                    | Domestic                | <i>Sukuk Al Ijarah</i>     | 215                  | 5                     |
| 2014 | Government of Pakistan       | 1                | Pakistan             | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 1,000                | 5                     |
| 2014 | Government of Luxembourg     | 1                | Luxembourg           | Euro                    | International           | <i>Sukuk Al Ijarah</i>     | 220                  | 5                     |
| 2014 | Government of South Africa   | 1                | South Africa         | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 500                  | 5.75                  |
| 2014 | Governement of Sharjah       | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 750                  | 10                    |
| 2014 | Bank Pembangunan Malaysia    | 2                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 424                  | 17.5                  |
| 2014 | Government of Hong Kong      | 1                | Hong Kong            | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 1,000                | 5                     |
| 2014 | Government of Indonesia      | 1                | Indonesia            | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 1,500                | 10                    |
| 2014 | Government of Senegal        | 1                | Senegal              | CFA                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 200.5                | 4                     |
| 2014 | Government of Pakistan       | 1                | Pakistan             | PKR                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 472                  | 3                     |
| 2014 | Government of United Kingdom | 1                | United Kingdom       | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 340                  | 5.08                  |

Source: IIFM Sukuk database

TABLE 5B: GLOBAL CORPORATE SUKUK ISSUANCES - SELECTED VALUE LEADERS (JAN 2014 – DEC 2015, USD200 MILLIONS, &gt; 1 YEAR)

| ISSUE YEAR | ISSUER                   | NUMBER OF ISSUES | ISSUER COUNTRY       | SUKUK ISSUANCE CURRENCY | INTERNATIONAL /DOMESTIC | STRUCTURE                  | AMOUNT IN USD MN OR EQUIVALENT | AVERAGE TENOR (YEARS) |
|------------|--------------------------|------------------|----------------------|-------------------------|-------------------------|----------------------------|--------------------------------|-----------------------|
| 2015       | Albaraka Turk            | 1                | Turkey               | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 250                            | 10                    |
| 2015       | Axiata                   | 1                | Malaysia             | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                            | 5                     |
| 2015       | Majid Al Futtaim         | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                            | 10                    |
| 2015       | Qatar Islamic Bank       | 1                | Qatar                | USD                     | International           | <i>Sukuk Al Mudharabah</i> | 750                            | 5                     |
| 2015       | Arab National Bank       | 1                | Saudi Arabia         | SAR                     | Domestic                | <i>Hybrid Sukuk</i>        | 533                            | 10                    |
| 2015       | Almarai Company          | 1                | Saudi Arabia         | SAR                     | Domestic                | <i>Hybrid Sukuk</i>        | 427                            | 7                     |
| 2015       | SapuraKencana TMC        | 1                | Malaysia             | USD                     | International           | <i>Sukuk Al Murabahah</i>  | 200                            | 7                     |
| 2015       | Jimah Energy Ventures    | 1                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 2,006                          | 5                     |
| 2015       | K-Electric               | 1                | Pakistan             | PKR                     | Domestic                | <i>Sukuk Al Ijarah</i>     | 217                            | 7                     |
| 2015       | Garuda Indonesia         | 1                | Indonesia            | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                            | 5                     |
| 2015       | Dubai Islamic Bank       | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 750                            | 5                     |
| 2015       | Noor Bank                | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                            | 5                     |
| 2015       | Emirates Airlines        | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 913                            | 10                    |
| 2015       | Sharjah Islamic Bank     | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Ijarah</i>     | 500                            | 5                     |
| 2015       | Petroleum Nasional       | 1                | Malaysia             | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 1,250                          | 5                     |
| 2015       | AmlIslamic Bank          | 1                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Musharakah</i> | 212                            | 5                     |
| 2014       | FlyDubai                 | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                            | 5                     |
| 2014       | DIFC Investments         | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 700                            | 10                    |
| 2014       | Cagamas                  | 1                | Malaysia             | MYR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 219                            | 3                     |
| 2014       | Goldman Sachs            | 1                | USA                  | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                            | 5                     |
| 2014       | Albaraka Turk            | 1                | Turkey               | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 350                            | 5                     |
| 2014       | Kuveyt Turk              | 1                | Turkey               | USD                     | International           | <i>Hybrid Sukuk</i>        | 500                            | 5                     |
| 2014       | Emaar Malls              | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 750                            | 10                    |
| 2015       | National Commercial Bank | 2                | Saudi Arabia         | SAR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 1,007                          | Perpetual             |
| 2015       | Riyad Bank               | 1                | Saudi Arabia         | SAR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 1,070                          | Perpetual             |
| 2015       | Qatar Islamic Bank       | 1                | Qatar                | QR                      | Domestic                | <i>Sukuk Al Mudharabah</i> | 550                            | Perpetual             |
| 2015       | Saudi British bank       | 1                | Saudi Arabia         | SAR                     | Domestic                | <i>Sukuk Al Murabahah</i>  | 411                            | Perpetual             |
| 2015       | Dubai Islamic bank       | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Mudharabah</i> | 1,000                          | Perpetual             |
| 2014       | Al Hilal Bank            | 1                | United Arab Emirates | USD                     | International           | <i>Sukuk Al Mudharabah</i> | 500                            | Perpetual             |

Source: IIFM Sukuk database

TABLE 5C: GLOBAL QUASI-SOVEREIGN SUKUK - SELECTED VALUE LEADERS (JAN 2014 – DEC 2015, USD MILLIONS, &gt; 1 YEAR)

| ISSUE YEAR | ISSUER  | NUMBER OF ISSUES | ISSUER COUNTRY | SUKUK ISSUANCE CURRENCY | INTERNATIONAL /DOMESTIC | STRUCTURE                  | MILLIONS USD OR EQUIVALENT | AVERAGE TENOR (YEARS) |
|------------|---|------------------|----------------|-------------------------|-------------------------|----------------------------|----------------------------|-----------------------|
| 2015       | Arab Petroleum Investments Corporation              | 1                | Saudi Arabia   | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 500                        | 5                     |
| 2015       | Rantau Abang Capital                                | 1                | Malaysia       | MYR                     | Domestic                | <i>Sukuk Al Musharakah</i> | 353                        | 7                     |
| 2015       | The International Finance Facility for Immunization | 1                | United Kingdom | USD                     | International           | <i>Sukuk Al Murabahah</i>  | 200                        | 3                     |
| 2015       | Islamic Development Bank                            | 1                | Saudi Arabia   | SAR                     | Domestic                | <i>Sukuk Al Wakalah</i>    | 514                        | 5                     |
| 2015       | Islamic Development Bank                            | 1                | Saudi Arabia   | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 1,000                      | 5                     |
| 2014       | The International Finance Facility for Immunization | 1                | United Kingdom | USD                     | International           | <i>Sukuk Al Murabahah</i>  | 500                        | 3                     |
| 2014       | Bahrain Mumtalakat                                  | 1                | Bahrain        | USD                     | International           | <i>Hybrid Sukuk</i>        | 600                        | 7                     |
| 2014       | Islamic Development Bank                            | 1                | Saudi Arabia   | USD                     | International           | <i>Sukuk Al Wakalah</i>    | 1,000                      | 5                     |
| 2014       | Malaysia Airports Holdings                          | 2                | Malaysia       | MYR                     | Domestic                | <i>Sukuk Al Musharakah</i> | 525                        | Perpetual             |

Source: IIFM Sukuk database



## 1.7 ANATOMY OF INTERNATIONAL SUKUK ISSUANCES

The international *Sukuk* market, though it forms just under 20% of overall global *Sukuk* issuances since 2001, is the key driver of the *Sukuk* market. Denominated in USD and other stable currencies international *Sukuk* issues are now being issued in longer tenors of up to 30 years. While in recent years, sovereign and quasi-sovereign seem to be on the rise, historically since inception, roughly 47% of all international *Sukuk* issues have been in the corporate sector, which includes financial institutions, corporate and others.

A look at table 6 below shows that the UAE has been the clear volume and value leader in the international *Sukuk* market since inception. There have been a total of 81 *Sukuk* issues worth USD53.8 billion from the UAE since 2001. Together with Saudi Arabia, the two GCC countries command roughly over 50% of the entire international *Sukuk* issuances since inception. In the year 2015 also, roughly 32% of the international issues

came from the same two countries. Moreover, market share of jurisdictions like Turkey, Indonesia, Qatar etc., is steadily increasing.

Table 6 illustrates the regional break-up of the total international *Sukuk* issuance during the period Jan 2001 – Dec 2015.

**TABLE 6: REGIONAL BREAK-UP OF INTERNATIONAL SUKUK ISSUANCE (JAN 2001- DEC 2015)**

| ASIA & FAR EAST      | NUMBER OF ISSUES | AMOUNT USD MILLIONS | OF TOTAL % VALUE |
|----------------------|------------------|---------------------|------------------|
| China                | 1                | 97                  | 0.07%            |
| Hong Kong            | 4                | 2,196               | 1.48%            |
| Indonesia            | 11               | 8,003               | 5.38%            |
| Japan                | 3                | 190                 | 0.127%           |
| Malaysia             | 53               | 30,165              | 20.27%           |
| Pakistan             | 2                | 1,600               | 1.08%            |
| Singapore            | 4                | 711                 | 0.48%            |
| Total                | 78               | 42,961              | 28.87%           |
| GCC & MIDDLE EAST    | NUMBER OF ISSUES | AMOUNT USD MILLIONS | OF TOTAL % VALUE |
| Bahrain              | 99               | 7,860               | 5.28%            |
| Kuwait               | 13               | 2,127               | 1.43%            |
| Qatar                | 11               | 9,685               | 6.51%            |
| Saudi Arabia         | 39               | 23,218              | 15.60%           |
| United Arab Emirates | 81               | 53,819              | 36.16%           |
| Total                | 243              | 96,709              | 64.98%           |

Table continued on next page

| AFRICA             | NUMBER OF ISSUES | AMOUNT USD MILLIONS | OF TOTAL % VALUE |
|--------------------|------------------|---------------------|------------------|
| South Africa       | 1                | 500                 | 0.34%            |
| Sudan              | 1                | 130                 | 0.09%            |
| Total              | 2                | 630                 | 0.42%            |
| EUROPE & OTHERS    | NUMBER OF ISSUES | AMOUNT USD MILLIONS | OF TOTAL % VALUE |
| France             | 1                | 1                   | 0.00%            |
| Germany            | 1                | 55                  | 0.04%            |
| Luxembourg         | 3                | 280                 | 0.19%            |
| Turkey             | 17               | 5,716               | 3.84%            |
| United Kingdom     | 8                | 1,028               | 0.69%            |
| USA                | 5                | 1,367               | 0.92%            |
| Kazakhstan         | 1                | 77                  | 0.05%            |
| Total              | 36               | 8,524               | 5.73%            |
| <b>Grand Total</b> | <b>359</b>       | <b>148,824</b>      | <b>100.00%</b>   |

Source: IIFM Sukuk database

Table 7 gives a list of selected value leaders between Jan 2014 to Dec 2015 for *Sukuk* issues over 12 months. The largest of the value leaders, that is with issuance amounts of USD1 billion and above are sovereign and quasi-sovereign entities, namely the governments of Malaysia, Indonesia, Hong Kong, Ras Al Khaimah, Pakistan and the Islamic Development Bank. The only corporates with issues of USD1 billion and above are Malaysia based Petronas and UAE based Dubai Islamic Bank.

**TABLE 7: INTERNATIONAL SUKUK ISSUANCES - SELECTED VALUE LEADERS (JAN 2014 - JULY 2015, USD200 MILLION, TENOR > 1 YEAR)**

| ISSUE YEAR | ISSUER  | NUMBER OF ISSUES | ISSUER COUNTRY       | SUKUK ISSUANCE CURRENCY | TYPE OF SUKUK   | STRUCTURE                  | AMOUNTS IN MILLIONS USD | AVERAGE TENOR (YEARS) |
|------------|---|------------------|----------------------|-------------------------|-----------------|----------------------------|-------------------------|-----------------------|
| 2015       | Albaraka Turk                                       | 1                | Turkey               | USD                     | Corporate       | <i>Sukuk Al Wakalah</i>    | 250                     | 10                    |
| 2015       | Axiata  | 1                | Malaysia             | USD                     | Corporate       | <i>Sukuk Al Wakalah</i>    | 500                     | 5                     |
| 2015       | Majid Al Futtaim                                    | 1                | United Arab Emirates | USD                     | Corporate       | <i>Sukuk Al Wakalah</i>    | 500                     | 10                    |
| 2015       | Apicorp   | 1                | Saudi Arabia         | USD                     | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 500                     | 5                     |
| 2015       | Qatar Islamic Bank                                  | 1                | Qatar                | USD                     | Corporate       | <i>Sukuk Al Mudharabah</i> | 750                     | 5                     |
| 2015       | The International Finance Facility for Immunisation | 1                | United Kingdom       | USD                     | Quasi-Sovereign | <i>Sukuk Al Murabahah</i>  | 200                     | 3                     |
| 2015       | SapuraKencana                                       | 1                | Malaysia             | USD                     | Corporate       | <i>Sukuk Al Murabahah</i>  | 200                     | 7                     |
| 2015       | Garuda Indonesia                                    | 1                | Indonesia            | USD                     | Corporate       | <i>Sukuk Al Wakalah</i>    | 500                     | 5                     |
| 2015       | Government of Hong Kong                             | 1                | Hong Kong            | USD                     | Sovereign       | Hybrid <i>Sukuk</i>        | 1,000                   | 5                     |

Table continued on next page

| ISSUE YEAR | ISSUER  | NUMBER OF ISSUES | ISSUER COUNTRY       | SUKUK ISSUANCE CURRENCY | TYPE OF ISSUED SUKUK | STRUCTURE                         | AMOUNTS IN MILLIONS USD | AVERAGE TENOR (YEARS) |
|------------|---|------------------|----------------------|-------------------------|----------------------|-----------------------------------|-------------------------|-----------------------|
| 2015       | Dubai Islamic Bank                                  | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 750                     | 5                     |
| 2015       | Noor Bank   | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 500                     | 5                     |
| 2015       | Government of Malaysia                              | 2                | Malaysia             | USD                     | Sovereign            | <i>Hybrid Sukuk</i>               | 1,500                   | 20                    |
| 2015       | Emirates Airlines                                   | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Ijarah</i>            | 913                     | 10                    |
| 2015       | Government of Ras Al Khaimah                        | 1                | United Arab Emirates | USD                     | Sovereign            | <i>Sukuk Al Ijarah</i>            | 1,000                   | 10                    |
| 2015       | Sharjah Islamic Bank                                | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Ijarah</i>            | 500                     | 5                     |
| 2015       | Islamic Development Bank                            | 1                | Saudi Arabia         | USD                     | Quasi-Sovereign      | <i>Sukuk Al Wakalah</i>           | 1,000                   | 5                     |
| 2015       | PetroliaM Nasional                                  | 1                | Malaysia             | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 1,250                   | 5                     |
| 2014       | The International Finance Facility for Immunisation | 1                | United Kingdom       | USD                     | Quasi-Sovereign      | <i>Sukuk Al Murabahah</i>         | 500                     | 3                     |
| 2014       | Government of Pakistan                              | 1                | Pakistan             | USD                     | Sovereign            | <i>Sukuk Al Ijarah</i>            | 1,000                   | 5                     |
| 2014       | FlyDubai  | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 500                     | 5                     |
| 2014       | Bahrain Mumtalahat                                  | 1                | Bahrain              | USD                     | Quasi-Sovereign      | <i>Hybrid Sukuk</i>               | 600                     | 7                     |
| 2014       | DIFC Investments LLC (DIFCI)                        | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 700                     | 10                    |
| 2014       | Government of Luxembourg                            | 1                | Luxembourg           | Euro                    | Sovereign            | <i>Sukuk Al Ijarah</i>            | 220                     | 5                     |
| 2014       | Government of South Africa                          | 1                | South Africa         | USD                     | Sovereign            | <i>Sukuk Al Ijarah</i>            | 500                     | 5.75                  |
| 2014       | The Goldman Sachs Group, Inc.                       | 1                | USA                  | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 500                     | 5                     |
| 2014       | Gouvernement of Sharjah                             | 1                | United Arab Emirates | USD                     | Sovereign            | <i>Sukuk Al Ijarah</i>            | 750                     | 10                    |
| 2014       | Government of Hong Kong                             | 1                | Hong Kong            | USD                     | Sovereign            | <i>Sukuk Al Ijarah</i>            | 1,000                   | 5                     |
| 2014       | Government of Indonesia                             | 1                | Indonesia            | USD                     | Sovereign            | <i>Sukuk Al Wakalah</i>           | 1,500                   | 10                    |
| 2014       | Islamic Development Bank                            | 1                | Saudi Arabia         | USD                     | Quasi-Sovereign      | <i>Sukuk Al Wakalah</i>           | 1,000                   | 5                     |
| 2014       | Albaraka Turk                                       | 1                | Turkey               | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 350                     | 5                     |
| 2014       | Kuveyt Turk Katilim                                 | 1                | Turkey               | USD                     | Corporate            | <i>Hybrid Sukuk</i>               | 500                     | 5                     |
| 2014       | Government of United Kingdom                        | 1                | United Kingdom       | USD                     | Sovereign            | <i>Sukuk Al Ijarah</i>            | 340                     | 5                     |
| 2014       | Emaar Malls   | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Wakalah</i>           | 750                     | 10                    |
| 2014       | Khazanah Nasional Berhad                            | 1                | Malaysia             | USD                     | Quasi-Sovereign      | <i>Islamic Exchangeable Sukuk</i> | 500                     | 7                     |
| 2015       | Dubai Islamic bank                                  | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Mudharabah</i>        | 1,000                   | Perpetual             |
| 2014       | Al Hilal Bank                                       | 1                | United Arab Emirates | USD                     | Corporate            | <i>Sukuk Al Mudharabah</i>        | 500                     | Perpetual             |

Source: IIFM Sukuk database

### 1.8 ANATOMY OF DOMESTIC SUKUK ISSUANCES

The domestic market forms roughly over 80% of the entire *Sukuk* market. It is mainly a short tenor market, denominated in over 20 different currencies since 2001. Malaysia has been the dominant player, commanding almost 79% of the total domestic *Sukuk* market since inception with a total of 4,647 issues worth USD486.5 billion in 15 years. Despite discontinuing a major chunk of its short term issues since the first quarter of 2015, its share of the domestic market in 2015 still remains at 66% of the total issued amount. The other major regions for domestic issues in 2015 were Saudi Arabia, Bahrain, Indonesia, Brunei and Turkey, in order of value of *Sukuk* issuances.

Table 8A below shows a regional break-up of the domestic *Sukuk* issuance since inception. Saudi Arabia, Indonesia, Bahrain, Qatar, UAE, Sudan and Brunei all form between 1% to 6% of the domestic market.

**TABLE 8A: REGIONAL BREAK-UP OF DOMESTIC SUKUK ISSUANCE JAN 2001-DEC 2015**

| ASIA & FAR EAST      | NUMBER OF ISSUES | AMOUNT USD MILLIONS | % OF TOTAL VALUE |
|----------------------|------------------|---------------------|------------------|
| Bangladesh           | 4                | 37                  | 0.01%            |
| Brunei Darussalam    | 122              | 7,961               | 1.29%            |
| Indonesia            | 189              | 20,409              | 3.30%            |
| Malaysia             | 4,647            | 486,471             | 78.68%           |
| Maldives             | 1                | 3                   | 0.00%            |
| Pakistan             | 63               | 7,971               | 1.29%            |
| Singapore            | 12               | 788                 | 0.13%            |
| Total                | 5,038            | 523,640             | 84.69%           |
| GCC & MIDDLE EAST    | NUMBER OF ISSUES | AMOUNT USD MILLIONS | % OF TOTAL VALUE |
| Bahrain              | 241              | 12,552              | 2.03%            |
| Jordan               | 1                | 119                 | 0.02%            |
| Kuwait               | 1                | 332                 | 0.05%            |
| Oman                 | 2                | 777                 | 0.13%            |
| Qatar                | 10               | 13,665              | 2.21%            |
| Saudi Arabia         | 49               | 36,246              | 5.86%            |
| United Arab Emirates | 14               | 8,251               | 1.33%            |
| Yemen                | 2                | 253                 | 0.04%            |
| Total                | 320              | 72,194              | 11.68%           |
| AFRICA               | NUMBER OF ISSUES | AMOUNT USD MILLIONS | % OF TOTAL VALUE |
| Gambia               | 210              | 136                 | 0.02%            |
| ivory coast          | 1                | 215                 | 0.03%            |
| Nigeria              | 2                | 133                 | 0.02%            |
| Senegal              | 1                | 201                 | 0.03%            |
| Sudan                | 26               | 16,180              | 2.62%            |
| Total                | 240              | 16,864              | 2.73%            |
| EUROPE & OTHERS      | NUMBER OF ISSUES | AMOUNT USD MILLIONS | % OF TOTAL VALUE |
| Germany              | 1                | 123                 | 0.02%            |
| Turkey               | 56               | 5,454               | 0.88%            |
| Total                | 57               | 5,577               | 0.90%            |
| <b>GRAND TOTAL</b>   | <b>5,655</b>     | <b>618,275</b>      | <b>100.00%</b>   |

Source: IIFM Sukuk database

As mentioned before, the domestic market is mainly comprised of short term issuances of 12 months and under in tenor. In the years 2014 and 2015, biggest issues of USD2.5 billion and above all came from Bank Negara Malaysia with tenors of 3 months. However, value leaders for the two-year period in tenors above 12 months, a selected list of which is given in Table 8B

below, were the governments of Malaysia and Indonesia, Qatar Central Bank, National Commercial Bank and Riyad Bank from Saudi Arabia and Jimah Energy Ventures from Malaysia, each with issuances of above USD1 billion. While the sovereign issuers take the lead again, there is a good presence of the corporate sector also among the value leaders in the domestic market in these two years.

**TABLE 8B: DOMESTIC SUKUK ISSUANCES - SELECTED VALUE LEADERS (JAN 2014 - DEC 2015, USD200 MILLION, >1 YR )**

| ISSUE YEAR | ISSUER                     | NUMBER OF ISSUES | ISSUER COUNTRY | SUKUK ISSUANCE CURRENCY | TYPE OF ISSUED SUKUK | STRUCTURE                  | AMOUNT IN MILLIONS USD EQUIVALENT | AVERAGE TENOR (YEARS) |
|------------|----------------------------|------------------|----------------|-------------------------|----------------------|----------------------------|-----------------------------------|-----------------------|
| 2015       | Government of Oman         | 1                | Oman           | OMR                     | Sovereign            | <i>Sukuk Al Ijarah</i>     | 647                               | 5                     |
| 2015       | Arab National Bank         | 1                | Saudi Arabia   | SAR                     | Corporate            | <i>Hybrid Sukuk</i>        | 533                               | 10                    |
| 2015       | Almarai Company            | 1                | Saudi Arabia   | SAR                     | Corporate            | <i>Hybrid Sukuk</i>        | 427                               | 7                     |
| 2015       | Jimah Energy Ventures      | 1                | Malaysia       | MYR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 2,006                             | 5                     |
| 2015       | K-Electric                 | 1                | Pakistan       | PKR                     | Corporate            | <i>Sukuk Al Ijarah</i>     | 217                               | 7                     |
| 2015       | Islamic Development Bank   | 1                | Saudi Arabia   | SAR                     | Quasi-Sovereign      | <i>Sukuk Al Wakalah</i>    | 514                               | 5                     |
| 2015       | Genting Plantation         | 1                | Malaysia       | MYR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 232                               | 10                    |
| 2015       | TH Plantations             | 1                | Malaysia       | MYR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 233                               | 5                     |
| 2015       | Government of Indonesia    | 1                | Indonesia      | IDR                     | Sovereign            | <i>Sukuk Al Wakalah</i>    | 2,000                             | 10                    |
| 2015       | Danga Capital Berhad       | 2                | Malaysia       | MYR                     | Sovereign            | <i>Sukuk Al Musharakah</i> | 824                               | 10                    |
| 2015       | DanaInfra Nasional Berhad  | 2                | Malaysia       | MYR                     | Sovereign            | <i>Sukuk Al Murabahah</i>  | 470                               | 28                    |
| 2015       | Prasarana Malaysia         | 1                | Malaysia       | MYR                     | Sovereign            | <i>Sukuk Al Murabahah</i>  | 259                               | 15                    |
| 2015       | AmlIslamic Bank Berhad     | 1                | Malaysia       | MYR                     | Corporate            | <i>Sukuk Al Musharakah</i> | 212                               | 5                     |
| 2015       | Government of Bahrain      | 1                | Bahrain        | BHD                     | Sovereign            | <i>Sukuk Al Salam</i>      | 660                               | 5                     |
| 2015       | Ivory Coast                | 1                | Ivory Coast    | CFA Francs              | Sovereign            | <i>Sukuk Al Ijarah</i>     | 215                               | 5                     |
| 2014       | Cagamas Berhad             | 1                | Malaysia       | MYR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 219                               | 3                     |
| 2014       | Bank Pembangunan Malaysia  | 2                | Malaysia       | MYR                     | Sovereign            | <i>Sukuk Al Murabahah</i>  | 424                               | 17.5                  |
| 2014       | Government of Senegal      | 1                | Senegal        | CFA                     | Sovereign            | <i>Sukuk Al Ijarah</i>     | 200.5                             | 4                     |
| 2014       | Govt Of Pakistan           | 1                | pakistan       | PKR                     | Sovereign            | <i>Sukuk Al Ijarah</i>     | 471                               | 3                     |
| 2015       | National Commercial Bank   | 2                | Saudi Arabia   | SAR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 1,007                             | Perpetual             |
| 2015       | Riyad Bank                 | 1                | Saudi Arabia   | SAR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 1,070                             | Perpetual             |
| 2015       | Qatar Islamic Bank         | 1                | Qatar          | QR                      | Corporate            | <i>Sukuk Al Mudharabah</i> | 550                               | Perpetual             |
| 2015       | Saudi British bank         | 1                | Saudi Arabia   | SAR                     | Corporate            | <i>Sukuk Al Murabahah</i>  | 411                               | Perpetual             |
| 2014       | Malaysia Airports Holdings | 2                | Malaysia       | MYR                     | Quasi-Sovereign      | <i>Sukuk Al Musharakah</i> | 525                               | Perpetual             |

Source: IIFM Sukuk database

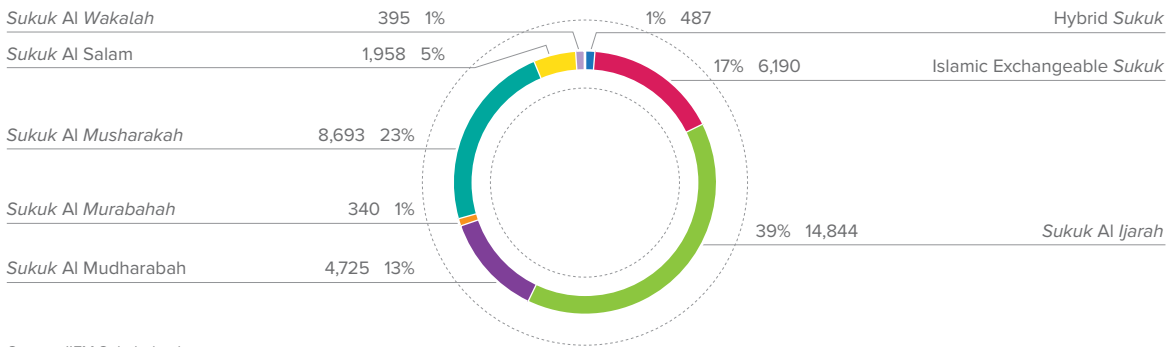
**1.9 STRUCTURAL BREAK-UP OF GLOBAL SUKUK MARKET**

The international and domestic markets are quite different from each other in terms of participants and characteristics. Therefore, the popularity of various *Sukuk* financing structures also differs between the two markets.

As far as the international *Sukuk* market is concerned, *Sukuk al Ijarah* has traditionally been the more popular structure for issuance. Chart 4A below shows how the share of *Ijarah* among *Sukuk* issues consistently increased from being 39% of total issuance in the period 2001-08, to 42% in 2013-14. In 2015 however, we see a sudden shift from *Ijarah* (14%) to *Wakalah* model (63%). USD13 billion or 63% of the total international *Sukuk* issuance in 2015 made use of the *Wakalah* model.

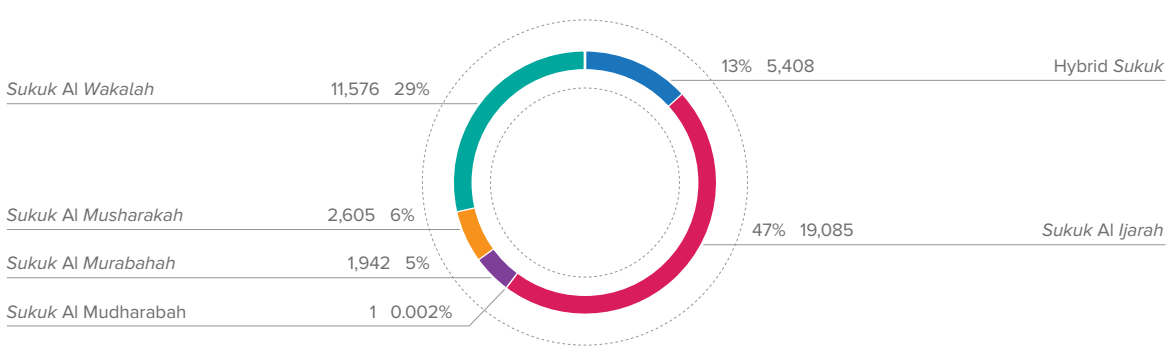
**CHART 4A: STRUCTURAL BREAK-UP OF INTERNATIONAL SUKUK ISSUANCES- ALL TENORS (USD MILLIONS)**

**International *Sukuk* Issuances Jan 2001- Dec 2008**



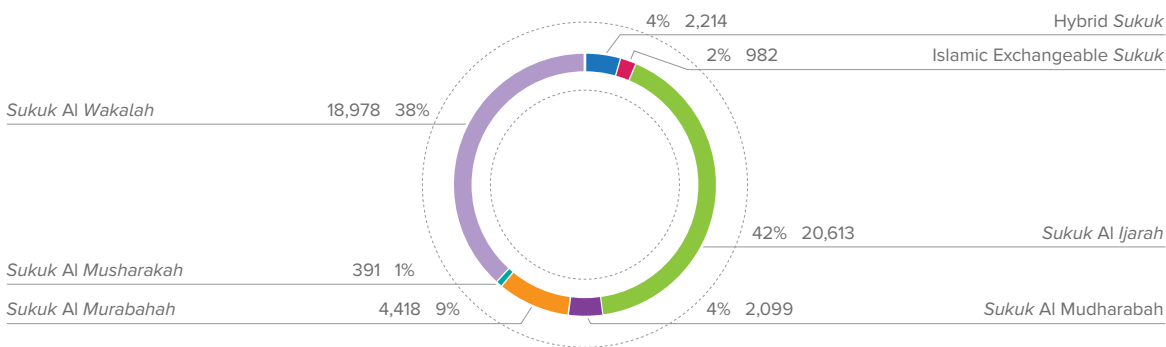
Source: IIFM Sukuk database

**International *Sukuk* Issuances Jan 2009- Dec 2012**



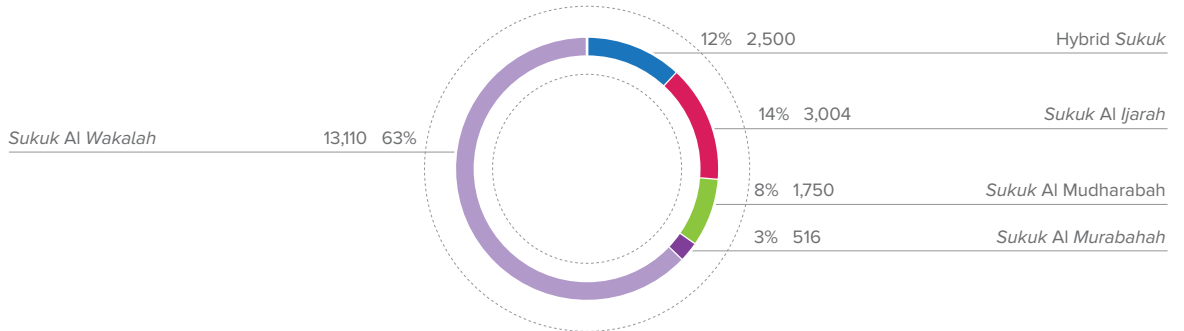
Source: IIFM Sukuk database

**International *Sukuk* Issuances Jan 2013- Dec 2014**



Source: IIFM Sukuk database

International *Sukuk* Issuances Jan 2015- Dec 2015

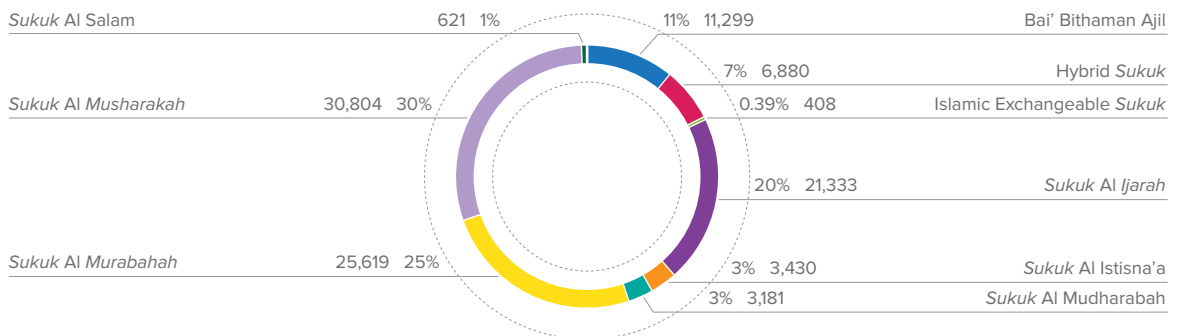


Source: IIFM Sukuk database

In the domestic market, as shown in chart 4B below, *Sukuk al Murabahah* has historically been and continues to be the most dominant structure for *Sukuk* issuance even in 2015. USD24 billion or 62% of total domestic issues in 2015 were based on the *Murabahah* structure.

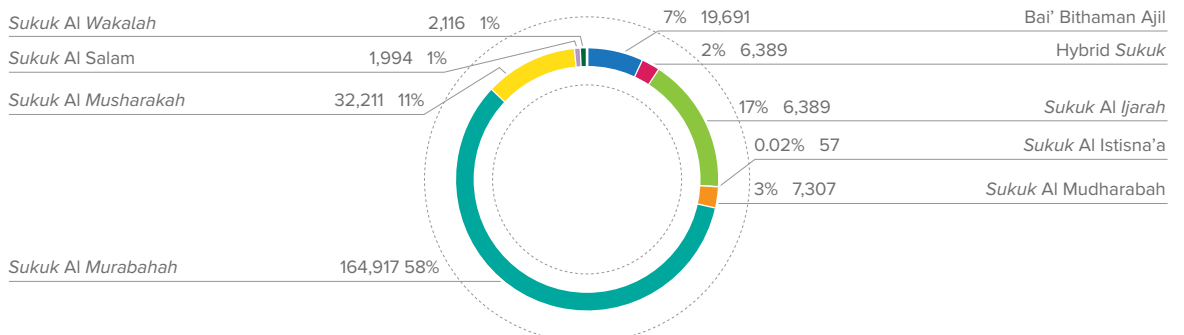
**CHART 4B: STRUCTURAL BREAK-UP OF DOMESTIC SUKUK ISSUANCES- ALL TENORS (USD MILLIONS)**

Domestic *Sukuk* Issuances Jan 2001- Dec 2008



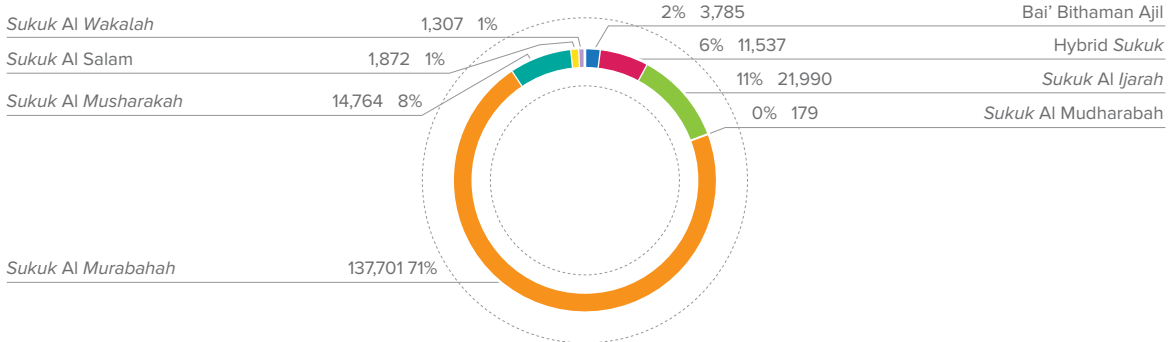
Source: IIFM Sukuk database

Domestic *Sukuk* Issuances Jan 2009- Dec 2012



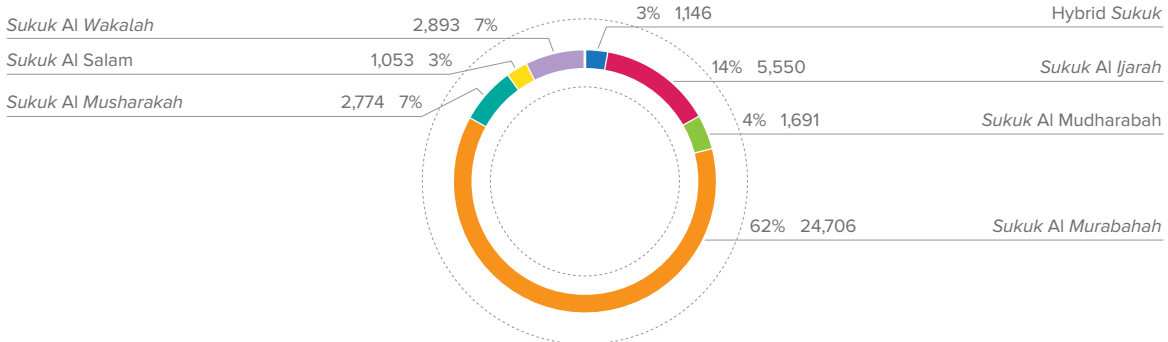
Source: IIFM Sukuk database

**Domestic Sukuk Issuances Jan 2013- Dec 2014**



Source: IIFM Sukuk database

**Domestic Sukuk Issuances Jan 2015- Dec 2015**



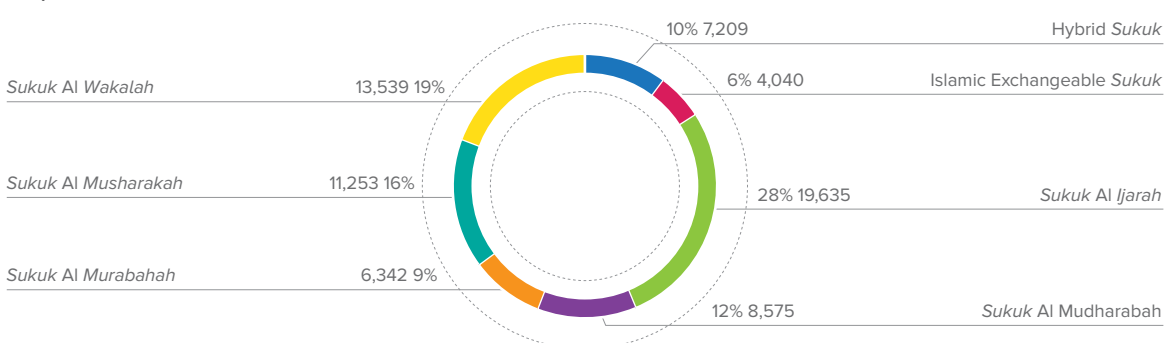
Source: IIFM Sukuk database

Chart 4C below shows the structural distribution of international Sukuk issuance by the type of issuer, i.e., sovereign, quasi-sovereign and corporate issuers for the whole period Jan 2001-2015. On an overall basis, it seems that Sukuk al Ijarah has historically been the favorite structure of international sovereign and corporate issuers while quasi-sovereign issuers seems to have favoured the Wakalah structure.

**Chart 4C: Structural Break-up of International Sukuk Issuances by Issuer- All Tenors (USD Millions)**

**CHART 4C: STRUCTURAL BREAK-UP OF INTERNATIONAL SUKUK ISSUANCES BY ISSUER- ALL TENORS (USD MILLIONS)**

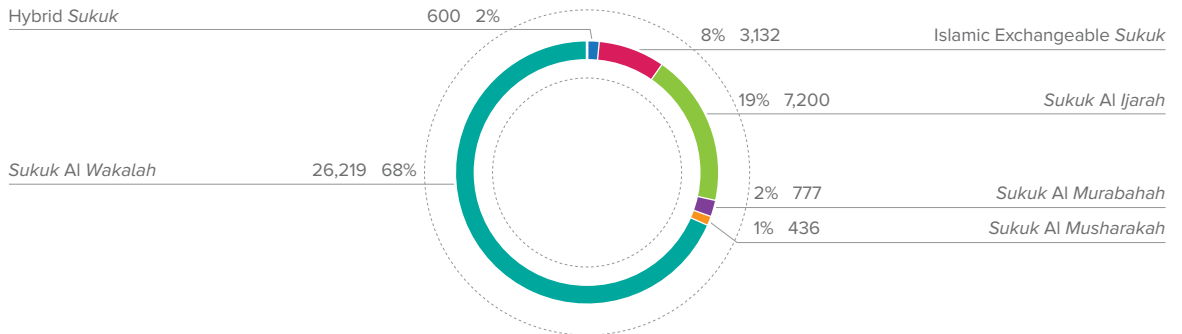
**Corporate Sukuk Issuances Jan 2001-Dec 2015**



Source: IIFM Sukuk database

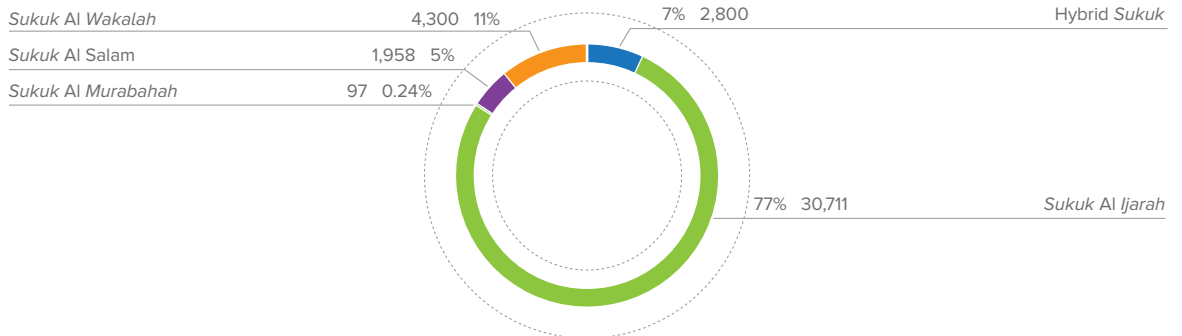


**Quasi-Sovereign *Sukuk* Issuances Jan 2001-Dec 2015**



Source: IIFM Sukuk database

**Sovereign *Sukuk* Issuances Jan 2001-Dec 2015**

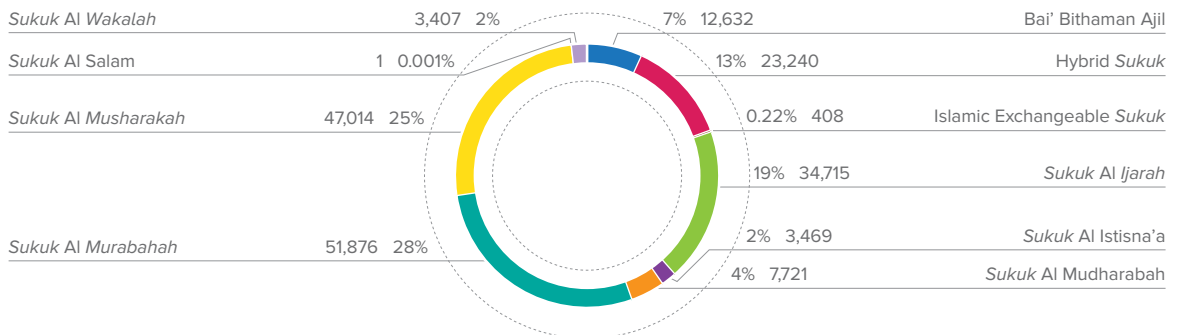


Source: IIFM Sukuk database

Similarly, as depicted in Chart 4D below, in the domestic market, on a historical basis, *Murabahah* has been the most favoured structure with the sovereign issuers. The corporate and quasi-sovereign issuers in the domestic market seem to favour both *Musharakah* and *Murabahah*.

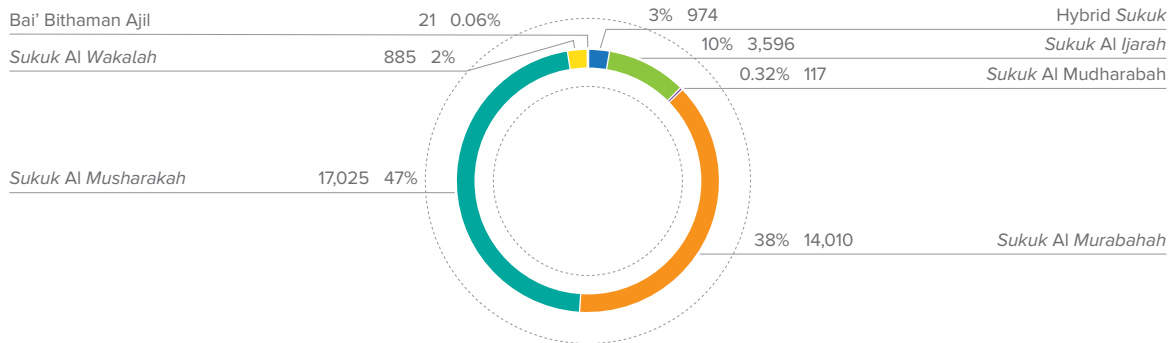
**CHART 4D: STRUCTURAL BREAK-UP OF DOMESTIC SUKUK ISSUANCES BY ISSUER STATUS (USD MILLIONS)**

**Corporate *Sukuk* Issuances Jan 2001-Dec 2015**



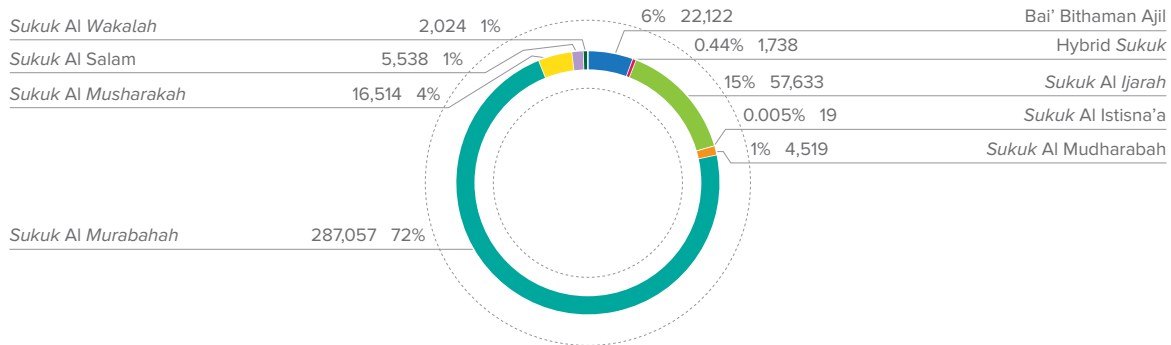
Source: IIFM Sukuk database

**Quasi-Sovereign Sukuk Issuances Jan 2001-Dec 2015**



Source: IIFM Sukuk database

**Sovereign Sukuk Issuances Jan 2001-Dec 2015**

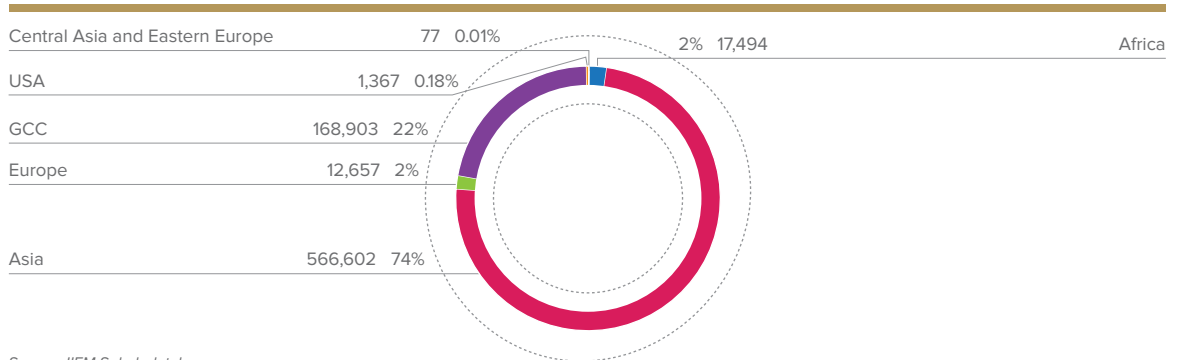


Source: IIFM Sukuk database

**1.10 GEOGRAPHICAL BREAK-UP OF GLOBAL SUKUK MARKET**

Asia continues to be the dominant player in the global *Sukuk* market. In terms of region, Asia accounts for 74% of global *Sukuk* issuances since inception of the market. The regional shares are depicted in chart 5A below. GCC is the second largest destination of *Sukuk*, however at 22% of global *Sukuk* issuance, it's a long way from Asia's share of the total market.

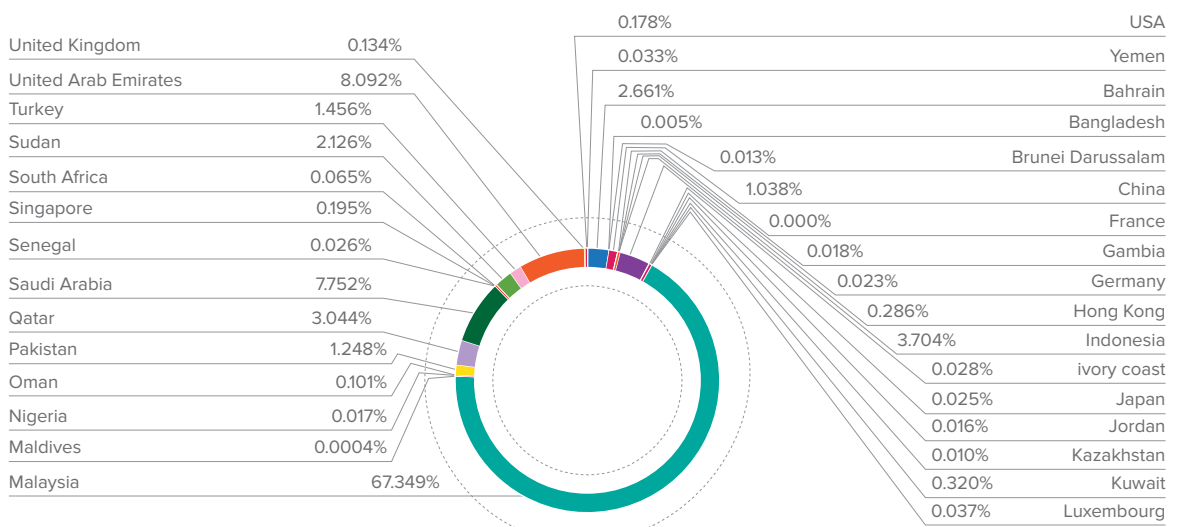
**CHART 5A : GLOBAL SUKUK ISSUANCE REGIONAL BREAK-UP- ALL TENORS (JAN 2001- DEC 2015, USD MILLIONS)**



Source: IIFM Sukuk database

Chart 5B below shows a further break-up of geographical distribution of global *Sukuk* issuance and we can clearly see that Malaysia is the reason for dominance of Asia in the *Sukuk* market. The country has to its credit slightly over 67% of the total global *Sukuk* issuances until end 2015. Few other issuers in order of their share in the global market are the UAE (8.1%), Saudi Arabia (7.8%), Indonesia (3.7%), Qatar (3.0%), Bahrain (2.76%) and Sudan (2.1%). While it is disconcerting to see one country claiming more than half of the issuance, it is also heartening to see that a total of 30 countries other than Malaysia among issuers of *Sukuk* with destinations as varied as China, Senegal, UK, USA, Pakistan, Yemen, Luxembourg and Nigeria.

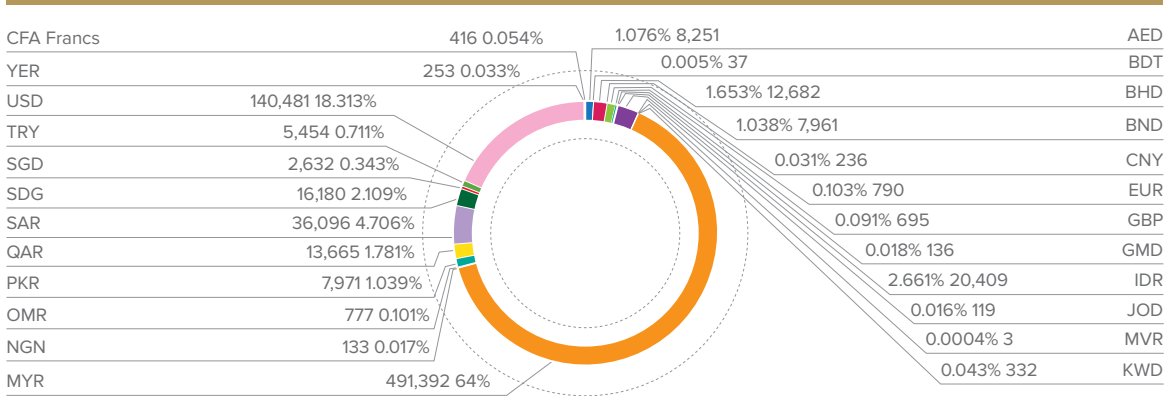
**CHART 5B GLOBAL SUKUK ISSUANCES COUNTRY WISE BREAKDOWN - ALL TENORS (JAN 2001- DEC 2015, USD MILLIONS)**



Source: IIFM Sukuk database

Chart 5C below shows a currency-wise break-up of the overall global *Sukuk* market. Mirroring the picture depicted in Chart 5B above, Malaysian Ringgit is the dominant currency as most of the Malaysian market is local currency based, even in 2015 when the BNM has stopped issuing a major chunk of its local currency short term issues. USD based issues are 18.3% of the entire global *Sukuk* issuance. Again, it is heartening to see that *Sukuk* have been issued in 22 different currencies apart from USD and the Malaysian Ringgit. As more and more sovereigns step up to provide liquidity in their local markets, we might see the significance of GCC and other Asian currencies rising over time.

**CHART 5C: GLOBAL *SUKUK* ISSUANCES CURRENCY BREAK-UP - ALL TENORS (JAN 2001- DEC 2015, USD MILLIONS)**



Source: IIFM *Sukuk* database

### 1.11 SUKUK MATURITIES 2014 THROUGH 2016

This section provides a snapshot of *Sukuk* matured in the year 2015 and about to mature in the coming two years in the international and domestic markets. Depending upon the economic and market conditions, it may represent additional liquidity being made available into the system as well as hint at prospective re-issuance in the pipeline.

Tables 9a, 9b and 9c show the picture in the international market. While only USD3 billion of *Sukuk* matured in the year 2015, redemptions in 2016 and 2017 will be quite sizeable at USD7.3 and USD9.9 billion respectively. In 2016, the biggest two individual *Sukuk* maturing come from the Government of Malaysia (USD1.2 billion) and Golden Assets of Indonesia (USD1 billion) while UAE based entities collectively account for almost USD2.9 billion of the total maturing *Sukuk*. For 2017, UAE based DP World has its USD1.5 billion *Sukuk* maturing. In fact almost USD8.3 billion of the USD9.9 billion of maturing *Sukuk* come from the GCC region.

**TABLE 9A: INTERNATIONAL SUKUK MATURED 2015, AMOUNT > USD100 MILLION**

| YEAR                 | ISSUER                     | ISSUER COUNTRY       | CURRENCY | ISSUE TYPE      | SUKUK STRUCTURE            | AMOUNT (USDM) | TENOR (YEARS) | MATURITY DATE |
|----------------------|----------------------------|----------------------|----------|-----------------|----------------------------|---------------|---------------|---------------|
| 2010                 | Abu Dhabi Islamic Bank     | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Musharakah</i> | 750           | 5             | 31-Oct-15     |
| 2010                 | Islamic Development Bank   | Saudi Arabia         | USD      | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 500           | 5             | 25-Oct-15     |
| 2010                 | Qatar Islamic Bank         | Qatar                | USD      | Corporate       | Hybrid <i>Sukuk</i>        | 750           | 5             | 5-Oct-15      |
| 2010                 | Khazanah Nasional Bhd      | Malaysia             | SGD      | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 441           | 5             | 4-Aug-15      |
| 2010                 | National Bank of Abu Dhabi | United Arab Emirates | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 155           | 5             | 29-Jun-15     |
| 2010                 | Dar Al Arkan               | Saudi Arabia         | USD      | Corporate       | <i>Sukuk Al Wakalah</i>    | 450           | 5             | 7-Jan-15      |
| Total Maturity Value |                            |                      |          |                 |                            | 3,046         |               |               |

Source: IIFM Sukuk database

TABLE 9B : INTERNATIONAL SUKUK MATURING 2016, AMOUNT &gt; USD100 MILLION

| ISSUE YEAR           | ISSUER                                  | ISSUER COUNTRY       | CURRENCY | ISSUE TYPE      | SUKUK STRUCTURE            | AMOUNT (USDM) | TENOR (YEARS) | MATURITY DATE |
|----------------------|---|----------------------|----------|-----------------|----------------------------|---------------|---------------|---------------|
| 2013                 | Golden Assets International Finance     | Indonesia            | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 1,000         | 3             | 11-Mar-16     |
| 2011                 | Abu Dhabi Commercial Bank               | United Arab Emirates | USD      | Corporate       | <i>Hybrid Sukuk</i>        | 500           | 5             | 30-Nov-16     |
| 2011                 | Kuveyt Türk Katılım Bankası             | Turkey               | USD      | Corporate       | <i>Hybrid Sukuk</i>        | 350           | 5             | 31-Oct-16     |
| 2011                 | Gulf Investment Corporation             | Kuwait               | MYR      | Corporate       | <i>Sukuk Al Wakalah</i>    | 254           | 5             | 3-Aug-16      |
| 2011                 | First Gulf Bank                         | United Arab Emirates | USD      | Corporate       | <i>Hybrid Sukuk</i>        | 650           | 5             | 2-Aug-16      |
| 2011                 | Almana Group                            | Qatar                | USD      | Corporate       | <i>Sukuk Al Wakalah</i>    | 215           | 5             | 28-Jul-16     |
| 2011                 | Government of Malaysia                  | Malaysia             | USD      | Sovereign       | <i>Sukuk Al Wakalah</i>    | 1,200         | 5             | 6-Jul-16      |
| 2011                 | HSBC Bank Middle East                   | United Arab Emirates | USD      | Corporate       | <i>Hybrid Sukuk</i>        | 500           | 5             | 2-Jun-16      |
| 2011                 | Islamic Development Bank                | Saudi Arabia         | GBP      | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 150           | 5             | 1-Jun-16      |
| 2011                 | Islamic Development Bank                | Saudi Arabia         | USD      | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 750           | 5             | 25-May-16     |
| 2011                 | Sharjah Islamic Bank                    | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Wakalah</i>    | 400           | 5             | 25-May-16     |
| 2011                 | Gulf Investment Corporation             | Kuwait               | MYR      | Corporate       | <i>Sukuk Al Wakalah</i>    | 197           | 5             | 1-Mar-16      |
| 2011                 | Emaar Properties                        | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Ijarah</i>     | 500           | 5.5           | 3-Aug-16      |
| 2007                 | Sharjah Electricity and Water Authority | United Arab Emirates | USD      | Quasi-Sovereign | <i>Sukuk Al Ijarah</i>     | 350           | 9             | 26-Feb-16     |
| 2006                 | Qatar Real Estate Investment Company    | Qatar                | USD      | Corporate       | <i>Sukuk Al Musharakah</i> | 270           | 10            | 18-Sep-16     |
| Total Maturity Value |   |                      |          |                 |                            | 7,286         |               |               |

Source: IIFM Sukuk database

TABLE 9C: INTERNATIONAL SUKUK MATURING 2017, AMOUNT &gt; USD100 MILLION

| YEAR                 | OBLIGOR   | ISSUER COUNTRY       | CURRENCY | ISSUE TYPE      | TYPE OF ISSUED SUKUK       | AMOUNT (USDM) | TENOR (YEARS) | MATURITY DATE WITH FORMULA |
|----------------------|---|----------------------|----------|-----------------|----------------------------|---------------|---------------|----------------------------|
| 2014                 | The International Finance Facility for Immunisation (IFFIm) | United Kingdom       | USD      | Quasi-Sovereign | <i>Sukuk Al Murabahah</i>  | 500           | 3             | 4-Dec-17                   |
| 2012                 | First Resources Limited                                     | Singapore            | MYR      | Corporate       | <i>Sukuk Al Musharakah</i> | 131           | 5             | 10-Dec-17                  |
| 2012                 | Golden Agri-Resources                                       | Indonesia            | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 481           | 5             | 19-Nov-17                  |
| 2012                 | Islamic Development Bank                                    | Saudi Arabia         | USD      | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 500           | 5             | 14-Oct-17                  |
| 2012                 | Qatar International Islamic Bank                            | Qatar                | USD      | Corporate       | Hybrid <i>Sukuk</i>        | 700           | 5             | 11-Oct-17                  |
| 2012                 | Qatar Islamic Bank  | Qatar                | USD      | Corporate       | <i>Sukuk Al Wakalah</i>    | 750           | 5             | 3-Oct-17                   |
| 2012                 | First Resources Ltd   | Singapore            | MYR      | Corporate       | <i>Sukuk Al Musharakah</i> | 189           | 5             | 31-Jul-17                  |
| 2012                 | Islamic Development Bank                                    | Saudi Arabia         | USD      | Quasi-Sovereign | <i>Sukuk Al Wakalah</i>    | 800           | 5             | 25-Jun-17                  |
| 2012                 | Dubai Islamic Bank  | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Ijarah</i>     | 500           | 5             | 30-May-17                  |
| 2012                 | Banque Saudi Fransi   | Saudi Arabia         | USD      | Corporate       | <i>Sukuk Al Wakalah</i>    | 750           | 5             | 22-May-17                  |
| 2012                 | Government of Dubai   | United Arab Emirates | USD      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 600           | 5             | 25-Apr-17                  |
| 2012                 | Saudi Electricity Company                                   | Saudi Arabia         | USD      | Quasi-Sovereign | <i>Sukuk Al Ijarah</i>     | 500           | 5             | 28-Mar-17                  |
| 2012                 | Majid Al Futtaim Properties                                 | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Wakalah</i>    | 400           | 5             | 7-Feb-17                   |
| 2012                 | First Gulf Bank   | United Arab Emirates | USD      | Corporate       | Hybrid <i>Sukuk</i>        | 500           | 5             | 18-Jan-17                  |
| 2012                 | Tamweel Funding   | United Arab Emirates | USD      | Corporate       | Hybrid <i>Sukuk</i>        | 300           | 5             | 18-Jan-17                  |
| 2012                 | Emirates Islamic Bank                                       | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Musharakah</i> | 500           | 5             | 18-Jan-17                  |
| 2007                 | DP World  | United Arab Emirates | USD      | Corporate       | <i>Sukuk Al Mudharabah</i> | 1,500         | 10            | 2-Jul-17                   |
| 2007                 | Maybank   | Malaysia             | USD      | Corporate       | <i>Sukuk Al Ijarah</i>     | 300           | 10            | 3-May-17                   |
| Total Maturity Value |   |                      |          |                 |                            | 9,900         |               |                            |

Source: IIFM Sukuk database

The three tables 10a, 10b and 10c provide the maturity profile of the domestic *Sukuk* market. USD12.7 billion of domestic *Sukuk* matured in the year 2015. The year 2016 and 2017 will see maturities of USD15.3 billion and USD18.6 billion respectively. While in 2015 *Sukuk* maturities were spread out quite evenly between the regions of Asia and GCC, for the years 2016 and 2017, roughly 63% and 56% of the total value of maturing *Sukuk* comes from Malaysia.

**TABLE 10A : DOMESTIC SUKUK MATURED 2015, AMOUNT > USD100 MILLION**

| YEAR                 | OBLIGOR                           | ISSUER COUNTRY | CURRENCY | ISSUE TYPE      | SUKUK STRUCTURE            | AMOUNT (USDM) | TENOR (YEARS) | MATURITY DATE |
|----------------------|-----------------------------------|----------------|----------|-----------------|----------------------------|---------------|---------------|---------------|
| 2013                 | BGSM Management Sdn Bhd           | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Musharakah</i> | 278           | 2.0           | 27-Dec-15     |
| 2013                 | Malakoff Power                    | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 134           | 2.0           | 17-Dec-15     |
| 2013                 | Government of Turkey              | Turkey         | TRY      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 1,039         | 2.0           | 21-Aug-15     |
| 2013                 | Central Bank of Bahrain           | Bahrain        | BHD      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 266           | 2.0           | 9-May-15      |
| 2013                 | Saudi Binladin Group              | Saudi Arabia   | SAR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 347           | 2.5           | 1-Oct-15      |
| 2013                 | Hazine Mustesarligi               | Turkey         | TRY      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 684           | 2.0           | 20-Feb-15     |
| 2013                 | Republic of Turkey prime Ministry | Turkey         | TRY      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 866           | 2.0           | 20-Feb-15     |
| 2013                 | Malakoff Power                    | Malaysia       | MYR      | Corporate       | Hybrid <i>Sukuk</i>        | 232           | 2.3           | 18-Apr-15     |
| 2012                 | Cagamas Berhad                    | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Ijarah</i>     | 188           | 3.0           | 21-Dec-15     |
| 2012                 | Celcom Transmission               | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 160           | 3.0           | 29-Aug-15     |
| 2012                 | Government of Indonesia           | Indonesia      | IDR      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 104           | 3.0           | 28-Jun-15     |
| 2012                 | Government of Pakistan            | Pakistan       | PKR      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 515           | 3.0           | 28-Jun-15     |
| 2012                 | Government of Pakistan            | Pakistan       | PKR      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 325           | 3.0           | 30-Apr-15     |
| 2012                 | AJIL Financial Services Company   | Saudi Arabia   | SAR      | Corporate       | Hybrid <i>Sukuk</i>        | 133           | 3.0           | 14-Apr-15     |
| 2012                 | Cagamas Berhad                    | Malaysia       | MYR      | Corporate       | Hybrid <i>Sukuk</i>        | 116           | 3.0           | 28-Mar-15     |
| 2012                 | Government of Indonesia           | Indonesia      | IDR      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 1,420         | 3.0           | 21-Mar-15     |
| 2012                 | Government of Pakistan            | Pakistan       | PKR      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 418           | 3.0           | 2-Mar-15      |
| 2012                 | Government of Malaysia            | Malaysia       | MYR      | Sovereign       | Bai' Bithaman Ajil         | 1,315         | 3.1           | 2-Mar-15      |
| 2011                 | Pengurusan Aset Air Berhad        | Malaysia       | MYR      | Quasi-Sovereign | <i>Sukuk Al Murabahah</i>  | 131           | 4.0           | 17-Jun-15     |
| 2010                 | PADIBERAS Nasional                | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Musharakah</i> | 129           | 5.0           | 7-Sep-15      |
| 2010                 | PTP                               | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 162           | 5.0           | 7-Sep-15      |
| 2010                 | Islamic Development Bank          | Saudi Arabia   | GBP      | Corporate       | <i>Sukuk Al Wakalah</i>    | 150           | 5.0           | 1-Jun-15      |
| 2010                 | Cagamas Berhad                    | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Ijarah</i>     | 157           | 5.0           | 27-Apr-15     |
| 2010                 | Danga Capital                     | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Musharakah</i> | 652           | 5.0           | 13-Apr-15     |
| 2008                 | Indonesian Government             | Indonesia      | IDR      | Sovereign       | <i>Sukuk Al Ijarah</i>     | 279           | 7.0           | 26-Aug-15     |
| 2008                 | Muhibbah Engineering              | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Mudharabah</i> | 126           | 7.0           | 15-Apr-15     |
| 2007                 | Saudi Electricity Company         | Saudi Arabia   | SAR      | Corporate       | Hybrid <i>Sukuk</i>        | 1,333         | 8.0           | 18-Jul-15     |
| 2007                 | Nucleus Avenue Malaysia           | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Musharakah</i> | 205           | 8.0           | 24-Apr-15     |
| 2004                 | Putrajaya Holdings Sdn Bhd        | Malaysia       | MYR      | Corporate       | <i>Sukuk Al Murabahah</i>  | 395           | 11.0          | 19-Apr-15     |
| 2003                 | Expressway Lingkaran              | Malaysia       | MYR      | Corporate       | Bai' Bithaman Ajil         | 211           | 12.0          | 28-Feb-15     |
| 2005                 | Maybank                           | Malaysia       | MYR      | Corporate       | Bai' Bithaman Ajil         | 263           | 10            | 24-Nov-15     |
| Total Maturing value |                                   |                |          |                 |                            | 12,733        |               |               |

Source: IIFM Sukuk database



TABLE 10B :DOMESTIC SUKUK MATURING 2016, AMOUNT &gt; USD100 MILLION

| YEAR | OBLIGOR                            | ISSUER COUNTRY       | CURRENCY | ISSUE TYPE      | TYPE OF ISSUED SUKUK | AMOUNT (USDM) | TENOR (YEARS) | MATURITY DATE |
|------|------------------------------------|----------------------|----------|-----------------|----------------------|---------------|---------------|---------------|
| 2013 | BGSM Management                    | Malaysia             | MYR      | Corporate       | Sukuk Al Musharakah  | 325           | 3.0           | 27-Dec-16     |
| 2013 | Qatar Central Bank                 | Qatar                | QAR      | Sovereign       | Sukuk Al Murabahah   | 137           | 3.0           | 10-Sep-16     |
| 2013 | Government of Malaysia             | Malaysia             | MYR      | Sovereign       | Sukuk Al Murabahah   | 1,251         | 3.0           | 22-Jul-16     |
| 2013 | Qatar Central Bank                 | Qatar                | QAR      | Sovereign       | Sukuk Al Murabahah   | 137           | 3.0           | 10-Jun-16     |
| 2013 | Cagamas Berhad                     | Malaysia             | MYR      | Corporate       | Hybrid Sukuk         | 147           | 3.0           | 28-May-16     |
| 2013 | Government of Pakistan             | Pakistan             | PKR      | Sovereign       | Sukuk Al Ijarah      | 433           | 3.0           | 28-Mar-16     |
| 2013 | Government of Pakistan             | Pakistan             | PKR      | Corporate       | Sukuk Al Ijarah      | 424           | 3.0           | 28-Mar-16     |
| 2013 | Perusahaan Penerbit SBSN Indonesia | Indonesia            | IDR      | Sovereign       | Sukuk Al Ijarah      | 1,567         | 3.0           | 27-Feb-16     |
| 2013 | UMW Holdings                       | Malaysia             | MYR      | Corporate       | Sukuk Al Musharakah  | 142           | 3.0           | 8-Feb-16      |
| 2013 | Malakoff Power                     | Malaysia             | MYR      | Corporate       | Hybrid Sukuk         | 232           | 3.3           | 18-Apr-16     |
| 2013 | Government of Sudan                | Sudan                | SDG      | Sovereign       | Sukuk Al Ijarah      | 753           | 3.0           | 2-Jan-16      |
| 2012 | Government of Malaysia             | Malaysia             | MYR      | Sovereign       | Bai' Bithaman Ajil   | 1,127         | 4.0           | 8-Aug-16      |
| 2011 | Manjung Island Energy              | Malaysia             | MYR      | Corporate       | Sukuk Al Ijarah      | 113           | 5.0           | 25-Nov-16     |
| 2011 | Government of Malaysia             | Malaysia             | MYR      | Sovereign       | Bai' Bithaman Ajil   | 1,333         | 5.0           | 14-Sep-16     |
| 2011 | Nakheel Group                      | United Arab Emirates | AED      | Corporate       | Sukuk Al Ijarah      | 1,034         | 5.0           | 25-Aug-16     |
| 2011 | SapuraKencana Petroleum            | Malaysia             | MYR      | Corporate       | Sukuk Al Mudharabah  | 158           | 5.0           | 5-Aug-16      |
| 2011 | Kencana Petroleum                  | Malaysia             | MYR      | Corporate       | Sukuk Al Mudharabah  | 167           | 5.0           | 5-Aug-16      |
| 2011 | Sarawak Energy                     | Malaysia             | MYR      | Corporate       | Sukuk Al Musharakah  | 165           | 5.0           | 23-Jun-16     |
| 2011 | Saudi International Petrochemical  | Saudi Arabia         | SAR      | Corporate       | Sukuk Al Mudharabah  | 480           | 5.0           | 18-Jun-16     |
| 2011 | Pengurusan Aset Air Berhad         | Malaysia             | MYR      | Quasi-Sovereign | Sukuk Al Murabahah   | 459           | 5.0           | 17-Jun-16     |
| 2011 | Government of Malaysia             | Malaysia             | MYR      | Sovereign       | Bai' Bithaman Ajil   | 1,322         | 5.5           | 1-Dec-16      |
| 2011 | Sudan Financial Services           | Sudan                | SDG      | Sovereign       | Hybrid Sukuk         | 286           | 5.0           | 1-May-16      |
| 2011 | Pengurusan Aset Air Berhad         | Malaysia             | MYR      | Quasi-Sovereign | Sukuk Al Murabahah   | 169           | 5.0           | 29-Apr-16     |
| 2011 | Cagamas Berhad                     | Malaysia             | MYR      | Corporate       | Hybrid Sukuk         | 131           | 5.0           | 24-Feb-16     |
| 2011 | First Investment Company           | Kuwait               | KWD      | Corporate       | Sukuk Al Wakalah     | 332           | 5.0           | 20-Feb-16     |
| 2011 | Pengurusan Aset Air Berhad         | Malaysia             | MYR      | Quasi-Sovereign | Sukuk Al Murabahah   | 329           | 5.0           | 8-Feb-16      |
| 2010 | Cagamas Berhad                     | Malaysia             | MYR      | Corporate       | Hybrid Sukuk         | 160           | 6.0           | 20-Oct-16     |
| 2009 | Khazanah Nasional                  | Malaysia             | MYR      | Quasi-Sovereign | Sukuk Al Musharakah  | 138           | 7.0           | 24-Apr-16     |
| 2007 | Nucleus Avenue Malaysia            | Malaysia             | MYR      | Corporate       | Sukuk Al Musharakah  | 205           | 9.0           | 24-Apr-16     |
| 2006 | Khazanah Nasional                  | Malaysia             | MYR      | Quasi-Sovereign | Sukuk Al Musharakah  | 565           | 10.0          | 8-Dec-16      |
| 2006 | Bank Pembangunan Malaysia          | Malaysia             | MYR      | Corporate       | Sukuk Al Murabahah   | 921           | 10.0          | 12-Apr-16     |
| 2003 | New Pantai Expressway              | Malaysia             | MYR      | Corporate       | Bai' Bithaman Ajil   | 128           | 13.0          | 31-Oct-16     |
|      | Total Maturing value               |                      |          |                 |                      | 15,271        |               |               |

Source: IIFM Sukuk database

TABLE 10C: DOMESTIC SUKUK MATURING 2017, AMOUNT &gt; USD100 MILLION

| YEAR                 | OBLIGOR  | ISSUER COUNTRY | CURRENCY | ISSUE TYPE      | SUKUK STRUCTURE     | AMOUNT (USDM) | TENOR (YEARS) | MATURITY DATE |
|----------------------|--|----------------|----------|-----------------|---------------------|---------------|---------------|---------------|
| 2014                 | Cagamas Berhad                                 | Malaysia       | MYR      | Corporate       | Sukuk Al Murabahah  | 219           | 3.0           | 3-Nov-17      |
| 2014                 | Government of Pakistan                         | Pakistan       | PKR      | Sovereign       | Sukuk Al Ijarah     | 472           | 3.0           | 25-Jun-17     |
| 2014                 | Govtment of Pakistan                           | pakistan       | PKR      | Sovereign       | Sukuk Al Ijarah     | 471           | 3.0           | 20-Jun-17     |
| 2014                 | Government of Malaysia                         | Malaysia       | MYR      | Sovereign       | Sukuk Al Murabahah  | 1,246         | 3.5           | 23-Nov-17     |
| 2014                 | Bank Rakyat                                    | Malaysia       | MYR      | Corporate       | Sukuk Al Musharakah | 174           | 3.0           | 24-Mar-17     |
| 2014                 | SME Bank Berhad                                | Malaysia       | MYR      | Corporate       | Sukuk Al Wakalah    | 183           | 3.0           | 20-Mar-17     |
| 2014                 | Government of Indonesia                        | Indonesia      | IDR      | Sovereign       | Sukuk Al Ijarah     | 1,664         | 3.0           | 5-Mar-17      |
| 2014                 | Qatar Central Bank                             | Qatar          | QAR      | Sovereign       | Sukuk Al Murabahah  | 1,921         | 3.0           | 16-Jan-17     |
| 2013                 | BGSM Management                                | Malaysia       | MYR      | Corporate       | Sukuk Al Musharakah | 328           | 4.0           | 27-Dec-17     |
| 2013                 | Malakoff Power                                 | Malaysia       | MYR      | Corporate       | Hybrid Sukuk        | 232           | 4.3           | 18-Apr-17     |
| 2013                 | Government of Sudan                            | Sudan          | SDG      | Sovereign       | Sukuk Al Ijarah     | 312           | 4.0           | 2-Jan-17      |
| 2012                 | UEM Land Holdings                              | Malaysia       | MYR      | Corporate       | Sukuk Al Murabahah  | 196           | 5.0           | 21-Dec-17     |
| 2012                 | Imtiaz Sukuk                                   | Malaysia       | MYR      | Corporate       | Sukuk Al Musharakah | 228           | 5.0           | 23-Nov-17     |
| 2012                 | HSBC Amanah                                    | Malaysia       | MYR      | Corporate       | Sukuk Al Wakalah    | 162           | 5.0           | 28-Sep-17     |
| 2012                 | Celcom Transmission                            | Malaysia       | MYR      | Corporate       | Sukuk Al Murabahah  | 320           | 5.0           | 29-Aug-17     |
| 2012                 | Central Bank of Bahrain                        | Bahrain        | BHD      | Sovereign       | Sukuk Al Ijarah     | 424           | 5.0           | 17-Jul-17     |
| 2012                 | Cagamas Berhad                                 | Malaysia       | MYR      | Corporate       | Sukuk Al Ijarah     | 132           | 5.0           | 13-Jul-17     |
| 2012                 | Olayan Group                                   | Saudi Arabia   | SAR      | Corporate       | Hybrid Sukuk        | 173           | 5.0           | 25-Jun-17     |
| 2012                 | Johor Corporation                              | Malaysia       | MYR      | Corporate       | Sukuk Al Wakalah    | 125           | 5.0           | 14-Jun-17     |
| 2012                 | Government of Indonesia                        | Indonesia      | IDR      | Sovereign       | Sukuk Al Ijarah     | 104           | 5.0           | 27-Apr-17     |
| 2012                 | Saudi British Bank                             | Saudi Arabia   | SAR      | Corporate       | Sukuk Al Murabahah  | 400           | 5.0           | 28-Mar-17     |
| 2012                 | Government of Indonesia                        | Indonesia      | IDR      | Sovereign       | Sukuk Al Ijarah     | 209           | 5.0           | 21-Mar-17     |
| 2012                 | Government of Malaysia                         | Malaysia       | MYR      | Sovereign       | Bai' Bithaman Ajil  | 1,157         | 5.1           | 29-Mar-17     |
| 2011                 | Manjung Island Energy                          | Malaysia       | MYR      | Corporate       | Sukuk Al Ijarah     | 164           | 6.0           | 25-Nov-17     |
| 2011                 | Pengurusan Aset Air                            | Malaysia       | MYR      | Quasi-Sovereign | Sukuk Al Murabahah  | 492           | 6.0           | 17-Jun-17     |
| 2010                 | Am Islamic Bank                                | Malaysia       | MYR      | Corporate       | Sukuk Al Musharakah | 179           | 7.0           | 20-Sep-17     |
| 2010                 | Celcom Transmission                            | Malaysia       | MYR      | Corporate       | Sukuk Al Ijarah     | 254           | 7.0           | 1-Sep-17      |
| 2010                 | Saudi Electricity Company                      | Saudi Arabia   | SAR      | Corporate       | Hybrid Sukuk        | 1,867         | 7.0           | 5-May-17      |
| 2007                 | Projek Lebuhraya Utara-Selatan                 | Malaysia       | MYR      | Corporate       | Sukuk Al Musharakah | 1,059         | 10.0          | 27-Dec-17     |
| 2007                 | Hijrah Pertama                                 | Malaysia       | MYR      | Corporate       | Sukuk Al Ijarah     | 866           | 9.3           | 30-Jan-17     |
| 2007                 | Pakistan Water and Power Development Authority | Pakistan       | PKR      | Sovereign       | Sukuk Al Ijarah     | 133           | 10.0          | 15-Jul-17     |
| 2007                 | Government of Malaysia                         | Malaysia       | MYR      | Sovereign       | Sukuk Al Musharakah | 870           | 10.0          | 15-Jun-17     |
| 2007                 | Nucleus Avenue Malaysia                        | Malaysia       | MYR      | Corporate       | Sukuk Al Musharakah | 205           | 10.0          | 24-Aug-17     |
| 2006                 | Projek Lebuhraya Utara-Selatan                 | Malaysia       | MYR      | Corporate       | Bai' Bithaman Ajil  | 171           | 11.0          | 16-Jun-17     |
| 2003                 | SKS Power                                      | Malaysia       | MYR      | Corporate       | Sukuk Al Istisna'a  | 1,471         | 13.3          | 11-Mar-17     |
| Total Maturing value |  |                |          |                 |                     | 18,583        |               |               |

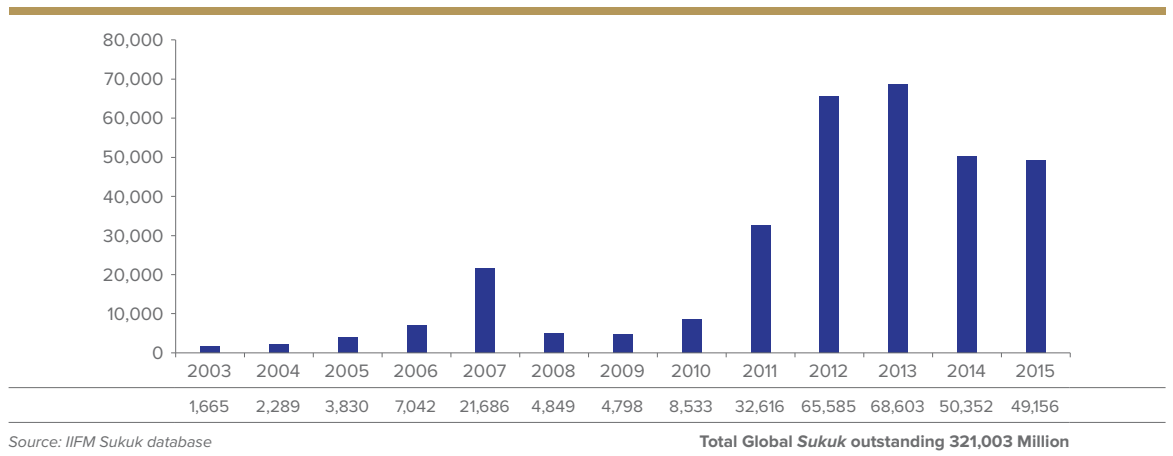
Source: IIFM Sukuk database

**1.12 SUKUK OUTSTANDING**

On the back of record *Sukuk* issuances particularly during 2012 to 2013 period the outstanding *Sukuk* issuances have reached around USD321bio which indicate growing interest in *Sukuk*; however, the supply and demand gap remains to be bridged. Most of the issuances that has taken place over the last five years amounting to USD266bio have come from 2011 to 2015 period.

Following tables provide the clear picture on outstanding *Sukuk* covering both International as well as domestic *Sukuk*:

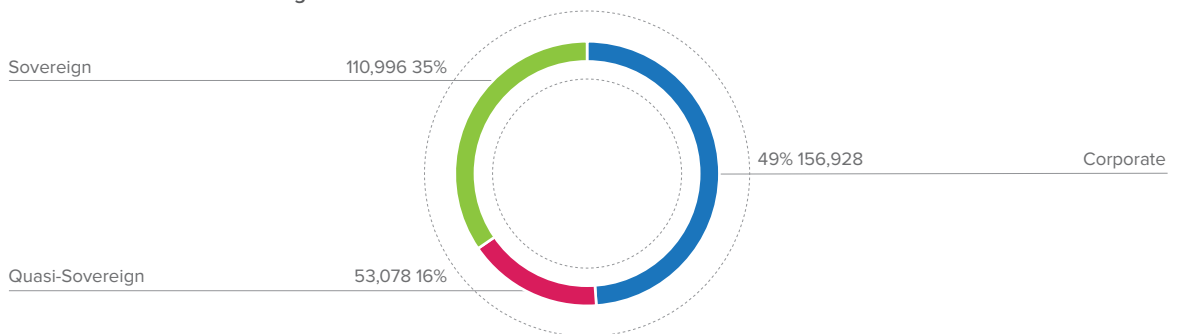
**CHART 6A -TOTAL GLOBAL SUKUK OUTSTANDING AS OF 31ST DECEMBER 2015**



If we combine the Sovereign issuances with the Quasi Sovereign Issuers , the breakdown becomes 50 -50 between All Sovereigns and Corporate

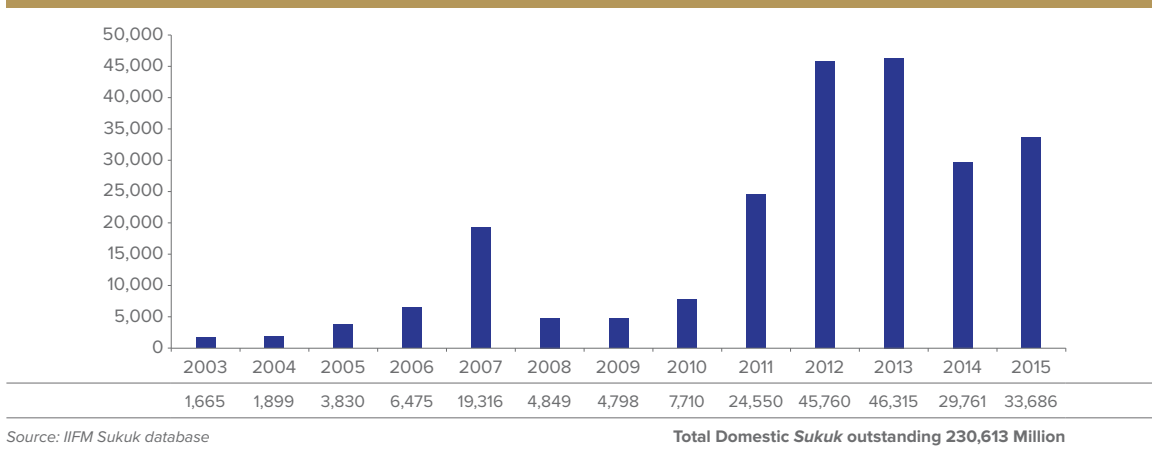
**CHART 6B – TOTAL GLOBAL SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31ST DEC 2015**

Total Global *Sukuk* outstanding as of 31st December 2015



Interesting to note that the past issues having maturities ranging from 1 year to 5 years that matured in 2014 and 2015 were either not refinanced or issuance declined.

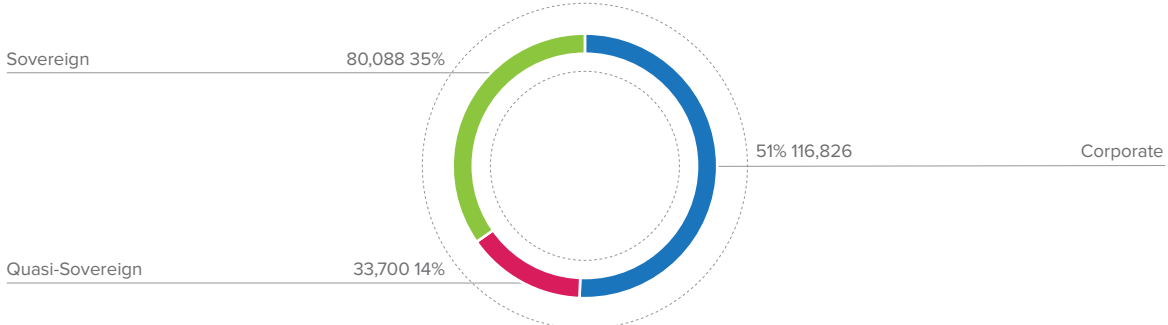
**CHART 6C -TOTAL DOMESTIC SUKUK OUTSTANDING AS OF 31ST DECEMBER 2015**



Once again, by combining the Sovereign with Quasi Sovereign issuers, the outstanding Sukuk split is 50-50 between all Sovereign and Corporate

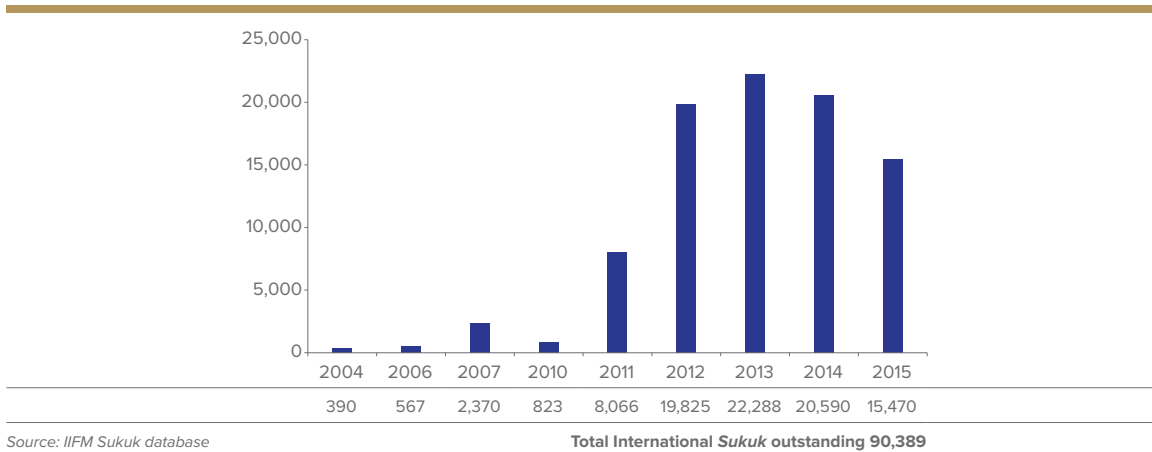
**CHART 6D – TOTAL DOMESTIC SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31 DEC 2015**

Total Domestic Sukuk outstanding as of 31st December 2015



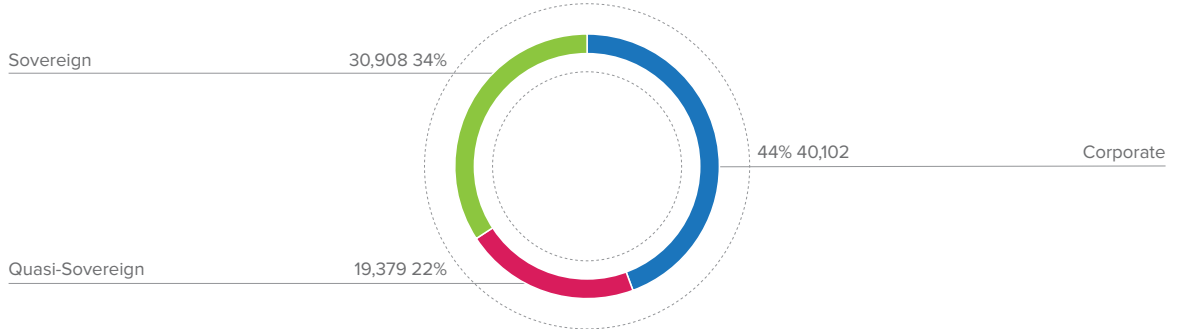
Very much similar pattern to the Domestic outstanding Sukuk. However, the reduction in 2014 was not that bad but the year 2015 saw a reduction in volume by almost 25% from that of 2014

**CHART 6E TOTAL INTERNATIONAL SUKUK OUTSTANDING AS OF 31ST DECEMBER 2015**



**CHART 6F – TOTAL INTERNATIONAL SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31ST DEC 2015**

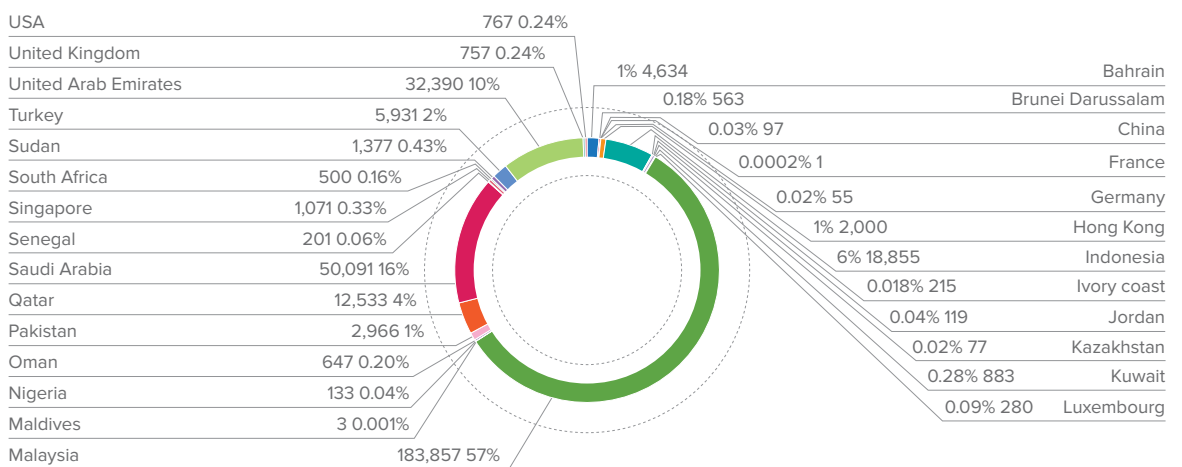
Total International *Sukuk* outstanding as of 31st December 2015



Source: IIFM Sukuk database

Of the total volume of Global *Sukuk* outstanding from a country perspective, 93% is represented by just 5 countries , Malaysia 57% , Saudi Arabia 17% , UAE 10% , Indonesia 6% & Qatar 4%. Right behind them are Turkey 2% , Bahrain & Hong Kong with 1% each

**CHART 6G - COUNTRY WISE BREAKDOWN OF SUKUK OUTSTANDING AS OF 31 DEC 2015**



Source: IIFM Sukuk database



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# CHAPTER II

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AIMING FOR PERFECTION





## CASE STUDIES: RECENT DEVELOPMENTS IN THE *SUKUK* MARKET (SELECTED INTERNATIONAL AND DOMESTIC *SUKUK* ISSUANCES)

### 2.1 INTERNATIONAL SOVERIGN *SUKUK* ISSUANCES IN THE NEW JURISDICTIONS 2014/2015

There has been a strong growth momentum in the sovereign *Sukuk* market. Previously such momentum was only led by domestic (and mostly short-term) sales in Bahrain, Malaysia, Indonesia, Sudan and Turkey. Recently, however, we saw many more sovereigns enter the picture with longer term *Sukuk* denominated in hard currencies such as the US Dollar, British Pound and Euro. There have been 16 long term sovereign issues in 2014 and 2015 totaling approximately USD10.4 billion coming from destinations as diverse as Indonesia, Turkey, UAE, Pakistan, UK and Hong Kong.

A total of 5 issues amounting to USD3 billion have come from new sovereign countries, namely, UK, South Africa, Hong Kong and Luxembourg, in that chronological order. Hong Kong has been the value leader among new sovereigns who issued an inaugural *Sukuk* in 2014 and then tapped the *Sukuk* market again, as recent as May 2015, taking its combined issuance to two billion-dollar *Sukuk* in two years.

| SOVEREIGN ISSUER | ISSUE DATE | AMOUNT IN<br>(USD MILLION) | TENOR      | CURRENCY<br>OF ISSUE | STRUCTURE | RATING BY S&P |
|------------------|------------|----------------------------|------------|----------------------|-----------|---------------|
| Hong Kong        | May-15     | 1,000                      | 5 years    | USD                  | Wakalah   | AA+           |
| Luxembourg       | Oct-14     | 220                        | 5 years    | EUR                  | Ijarah    | AAA           |
| Hong Kong        | Sep-14     | 1,000                      | 5 years    | USD                  | Ijarah    | AA+           |
| South Africa     | Sep-14     | 500                        | 5.75 years | USD                  | Ijarah    | BBB-          |
| UK               | Jun-14     | 339.5                      | 5 years    | GBP                  | Ijarah    | AAA           |
|                  |            | 3,059.5                    |            |                      |           |               |

IIFM *Sukuk* database

Moody's Investor Service, in a report on sovereign *Sukuk* published in 2014 commented on the entry of these new sovereigns into the *Sukuk* issuance market in the following words: "All three (*UK, Hong Kong and South Africa*) are major non-Islamic countries, and the transactions indicate a significant change in potential size, depth and liquidity of this market."

As seen in the table above, UK was the first new sovereign to come to market in June 2014, with Hong Kong and South Africa closely following suit. Britain's issuance attracted orders of 2.3 billion GBP on a face value of GBP 200 million while Hong Kong's inaugural issuance attracted USD4.7 billion on a face value of USD1 billion, both issues hugely oversubscribed. The South African *Sukuk* was oversubscribed by over 4 times with

an order book of USD2.2 billion. Luxembourg's *Sukuk*, which was also the first Euro-dominated sovereign *Sukuk*, was oversubscribed by over two times. The second issue from Hong Kong priced at a lower cost than the first issue was oversubscribed by two times as well. The trend shows that demand for well-rated sovereign *Sukuk* far outstrips the supply at present.

All these sovereign *Sukuk* issues from 2014/15 are quite similar in terms of tenor and structure. Almost all of them were issued with 5 yr maturity, except South Africa which was issued for 5 and three-quarters of a year. All except the second issue from Hong Kong have been based on the *Ijarah* structure. Hong Kong based its second *Sukuk* offering on a *Wakalah* structure. In a press release issued by the Hong Kong Monetary Authority,

the Financial Secretary commented on the structure in the following words: “Compared with *Ijarah* structure of the inaugural *Sukuk* which requires underlying tangible assets of at least 100% of issuance amount, this latest structure (*Wakalah*) allows the use of substantially less tangible assets...”.

In most cases, new sovereigns are entering the market in order to tap the liquidity in the Middle East and Asian region and to build stronger investment links with the

Gulf countries in particular. Hong Kong and UK, which are existing capital market hubs as far as the conventional capital market is concerned, are also driven by the desire to ensure their share of the rapidly growing Islamic capital market. The investor profile of *Sukuk* subscribers shows that the new sovereigns were indeed successful in tapping liquidity in the Middle East and Asian region. The following is the proportion of subscription received by each *Sukuk* from the Middle East and Asian region:

| <b>Sukuk Issue</b> | <b>% Allocation to Investors in Middle East and Asia</b> |
|--------------------|--|
| Hong Kong (2015)   | 42% to Middle East and 43% To Asia                       |
| Luxembourg         | 61% to Middle East (MENA) and 19% to Asia                |
| Hong Kong (2014)   | 36% to Middle East and 47% to Asia                       |
| South Africa       | 59% to Middle East and Asia combined                     |
| UK                 | 37% to Middle East and 24% to Asia                       |

Market participants across the globe are hailing the coming of sovereigns; especially new AAA rated ones to the *Sukuk* market, as it paves the way for corporates to come in on the back of the sovereigns in those countries. That might provide the volume and diversity in issuances that the Islamic capital market has been missing for so long.

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## 2.2 DOMESTIC SOVEREIGN *SUKUK* ISSUANCES IN NEW JURISDICTIONS

Africa has been a regular player in the *Sukuk* market since Sudan and Gambia started meeting their domestic financing needs through *Sukuk* financing. Sudan is clearly the value leader accounting for almost 95% of the dollar value of *Sukuk* issuance so far; however, Gambia has been a regular issuer as well. Nigeria entered the market with two domestic sovereign *Sukuk* in October 2013, one of them based on the *Ijarah* model and the other on *Murabahah*, together amounting to USD133 million. In the most recent past, the year 2014/2015, we have seen domestic debut sovereign issues from two African countries, namely, Senegal and Ivory Coast. It is a welcome development for geographical diversity of the *Sukuk* market. A snapshot of the two *Sukuk* is given below. Detailed case study of the Senegal *Sukuk* issue follows in Section 2.1.1.

| SOVEREIGN ISSUER | ISSUE DATE | AMOUNT IN<br>(USD MILLION) | TENOR   | CURRENCY OF<br>ISSUE | STRUCTURE |
|------------------|------------|----------------------------|---------|----------------------|-----------|
| Ivory Coast      | Jan 2015   | 215                        | 5 years | CFA-Francs           | Ijarah    |
| Senegal          | July 2014  | 168                        | 4 years | CFA-Francs           | Ijarah    |

*IIFM Sukuk database*

The two West African nations, Senegal and Cote D'Ivoire (i.e. Ivory Coast), are Members of the West African Economic and Monetary Union, known as: WAEMU or UEMOA, which include, Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, and Togo. The primary objective of the two countries, Senegal and Cote D'Ivoire, for the *Sukuk* issuance is to finance their infrastructure and development project needs as the case in many countries across the globe that have pursued this direction.

The 100 billion CFA Franc issue by Senegal is the first major *Sukuk* issued by a West African nation. It carries a tenor of 4 years and a profit rate of 6.25%.

The 150 billion CFA Franc issue from Ivory Coast is part of a 300 billion CFA Franc *Sukuk* program arranged by the Islamic Corporation for Private Sector Development (ICD) to be issued in two equal phases. This first tranche has a tenor of 5 years and carries a profit rate of 5.75%. 56% of the Ivory Coast *Sukuk* was allocated to West Africa while Middle Eastern and North African investors accounted for 38% and 6% of the total.

The growing momentum of *Sukuk* issuances from the West African countries as well as other part of the African continent demonstrates an increased awareness of the Islamic finance system in all parts of the world as well as a growing trust and enthusiasm in the feasibility of *Sukuk* financing.

### 2.1.1 SENEGAL STATE SUKUK CASE STUDY

#### ABSTRACT

Senegal became the first West African country to launch a major *Sukuk* when it tapped the market in 2014 with a 100 billion CFA Franc *Sukuk* issue. The *Sukuk* carries a profit rate of 6.25% and matures in 4 years.

The *Sukuk* was issued using the well known and established *Ijarah* structure, using Government assets as the basis for *Ijarah*.

#### SUKUK SUMMARY

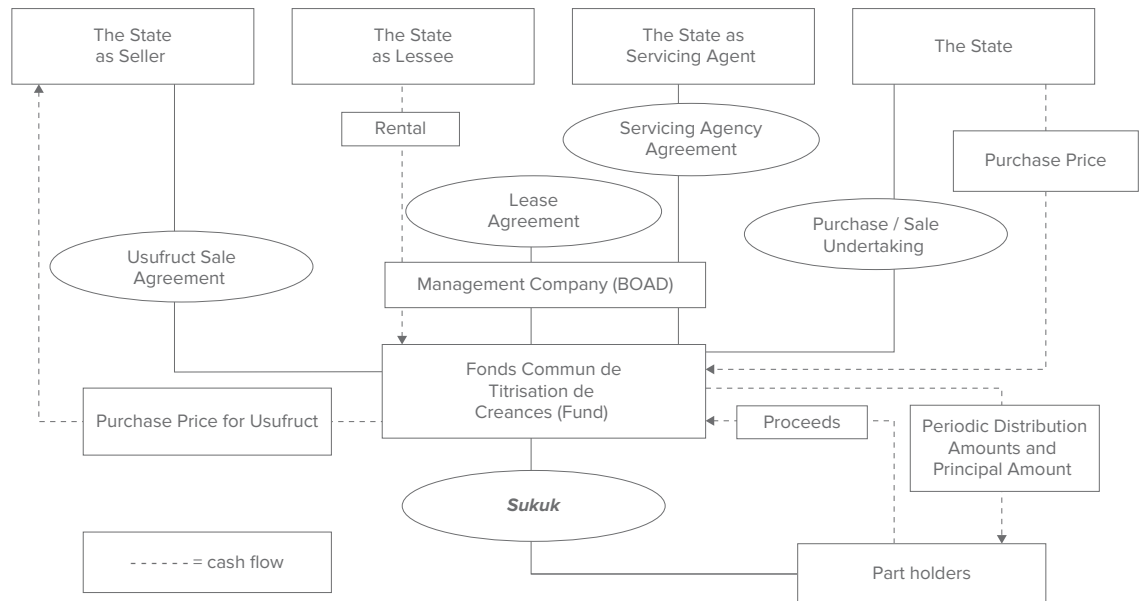
|                         |   |
|-------------------------|---|
| <b>Issuer SPV</b>       | FCTC <i>Sukuk</i> Etat du Senegal                                 |
| <b>Structure type</b>   | <i>Ijarah</i>   |
| <b>Issue size</b>       | CFA Franc 100 billion (approx USD168 million)                     |
| <b>Issue Date</b>       | 18 July 2014  |
| <b>Maturity date</b>    | 18 July 2018  |
| <b>Profit Rate</b>      | 6.25%   |
| <b>Fix or Variable</b>  | Fixed   |
| <b>Return frequency</b> | Semi-annual   |
| <b>Arrangers</b>        | Islamic Corporation for Private Sector Development (ICD) and Citi |

#### SUKUK STRUCTURE AND CASH FLOWS

*Sukuk al Ijarah* refers to an Islamic security for the buying and leasing of assets by the investors to the issuer and such *Sukuk* represents the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors. In the case of Senegal *Sukuk* issue, the assets earmarked for the issuance of the *Sukuk* are three building complexes belonging to the government, specifically mentioned in the prospectus.

Set out below is the structure diagram and brief explanation of the structure and principal cash flows of the Senegal *Sukuk*:

## STRUCTURE DIAGRAM

*SUKUK AL IJARAH*

## DIAGRAM EXPLANATION

## Parties to the Structure

The following are parties to the structure:

- The Issuer or SPV, FCTC *Sukuk* Etat du Senegal, which also acts as Lessor under the Lease or *Ijarah* Agreement.
- The Management Company, BOAD TITRISATION, which will manage the cash flows related to the Lease or *Ijarah* Agreement.
- The State of Senegal, acting as Seller, Lessee as well as Obligor.

## Transaction Flow:

- The State of Senegal acting through the Ministry of Finance, in its capacity as the “Seller” will sell the usufruct (the “*Sukuk* Assets”) for a term of 99 years in certain assets described clearly in the Prospectus to the SPV (FCTC) pursuant to a purchase agreement.
- Under the Lease Agreement the Management Company will lease the *Sukuk* Assets to the State.

The Lessee will pay periodic lease rental equal to the Periodic Distribution Amounts clearly laid out in the Prospectus.

- Pursuant to the Purchase Undertaking, the State irrevocably undertakes, at any time after the Closing Date, to purchase, upon the Management Company exercising its option in accordance with the Purchase Undertaking all of the Management Company’s rights, title and interest in and to the *Sukuk* Assets at the Exercise Price on an “as is” basis.
- Pursuant to the Sale Undertaking, the Management Company irrevocably undertakes to the State that it will be obliged to sell and transfer all of its rights, title and interest in the *Sukuk* Assets then held by it to the State at the applicable Exercise Price at the time of termination.
- Under a letter of guarantee, the State guarantees that it will meet its payment obligations under the Lease Agreement and the Purchase Undertaking.

### PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

1. the Purchase Agreement for the underlying assets executed between the SPV (FCTC) as Purchaser and the State of Senegal acting through the Ministry of Finance as Seller.
2. the Lease (*Ijarah*) Agreement between the SPV as Lessor and the State as Lessee.
3. the Purchase and Sale Undertakings which facilitate the payment of Exercise price at the time of termination.

### CONCLUSION

*Sukuk* provide opportunity for countries such as Senegal and other countries worldwide to fund their development and investment projects through a more diversified investor base. The process of issuing *Sukuk* also helps develop the legal and administrative infrastructure in these countries which increase transparency and economic scrutiny that boosts investor confidence in these economies.

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### 2.3 KHAZANAH IHSAN *SUKUK* – SOCIAL IMPACT *SUKUK*

#### SOCIAL IMPACT BONDS (SIBs)

Social impact bonds (SIBs) are contractual commitments in the public sector to help improve social outcomes, which will eventually result in public sector savings. In a typical SIB, investors pay for the project at the start, and then receive payments based on the results achieved by the project. Rather than focusing on inputs (e.g. number of doctors) or outputs (e.g. number of operations), SIBs are based on achieving social ‘outcomes’ (e.g. improved health). The outcomes are predefined and measurable.

Social impact bonds are a relatively new concept worldwide. The first ever SIB was issued in September 2010 by the UK government in order to finance a prisoner rehabilitation program. The US, specifically New York City, followed suit by launching a similar prisoner rehabilitation program in 2012. SIB programs have since been announced in Canada, Belgium, the Netherlands, Germany and Australia, both at the national government level as well as local and state government levels, however, UK has taken leadership with 15 such programs now in place across the country.

#### ABSTRACT ON KHAZANAH IHSAN *SUKUK*

The Securities Commission Malaysia (SC) launched its Sustainable and Responsible Investment (SRI) *Sukuk* Framework in August 2014 in order to facilitate the financing of socially responsible investment initiatives. The SC has set up this SRI *Sukuk* framework in response to the rising trend of green bonds and social impact bonds globally to finance a wide range of sustainable activities such as those addressing the needs of the country like infrastructure and small businesses. It is also in order to satiate investors’ demand for a wider range of Islamic fixed income investment products. Among the projects deemed eligible for the SRI *Sukuk*, are environmentally friendly ones that promote renewable energy or reduce greenhouse emissions, or improve the quality of life for society. Educational projects fall under the community and economic development category.

The RM 1 billion Khazanah Ihsan *Sukuk* Program is the first program approved by the SC Malaysia under its SRI Framework. Khazanah has issued a RM 100 million tranche in May 2015 for a tenor of 7 years. The inaugural issuance proceeds termed as the ‘First *Sukuk* Ihsan’ will be used to fund schools under the Yayasan AMIR (YA) Trust School Program identified for 2015. YA is a not-for-profit foundation incorporated by Khazanah to improve accessibility of quality education in Malaysian Government schools through a public-private partnership with the Ministry of Education. As at the end of 2014, the Yayasan AMIR Trust Schools Program has a total of 30 schools in Kuala Lumpur, Johor and Sarawak, and impacts the lives of more than 20,000

students nationwide. The prospectus of the Ihsan *Sukuk* provides that further issuances or tranches of the Ihsan *Sukuk* can be made at anytime without approval from existing *Sukuk* holders during the 25 year tenor of the established *Sukuk* Program.

The Ihsan *Sukuk* is considered another milestone in product innovation in the Islamic capital market from Malaysia. The Ihsan *Sukuk* was priced at par to yield 4.3% p.a. The social impact of this “Pay-for-Success” structure is measured using a set of predetermined Key Performance Indicators (“KPIs”) which are assessed over a five-year observation timeframe. If at maturity the KPIs are fully met, *Sukuk* holders will forgo or contribute up to 6.22% of the nominal value due under the *Sukuk*, which in effect will reduce the yield by 80 bps to 3.5% p.a. The adjustment is considered as part of *Sukuk*-holders’ social obligation to recognize the positive social impact generated by the Trust School Program. If KPIs are not or partially not met, *Sukuk* holders will receive up to the nominal value due under the *Sukuk* as agreed at issuance. In this respect, the Ihsan *Sukuk* structure is different from typical conventional social impact bonds that tend to reward investors when the related project is successful while investors get only the nominal value of their investments back if the project is unsuccessful. In case of Ihsan *Sukuk*, investors buying into the *Sukuk* will need to be really committed to the school project as the *Sukuk* will reduce returns if KPIs are met. In that sense it represents corporate responsibility at its best.

The *Ihsan Sukuk* also allows *Sukuk*-holders to convert their investment into a donation at any point during the tenor by waiving the principal, as a way of gifting the amount to the schools. Investors will get a tax exemption from the government.

Also, if the KPIs is met then the investor will have a tax voucher from the government to offset the reduced returns.

The *Sukuk* were rated AAA by RAM Ratings on the back of Khazanah's creditworthiness as obligor. RAM issued a separate 'Landmark Deal Report' in April 2015 to explain the mechanism behind rating of SIBs in general and the *Ihsan Sukuk* in particular. It explains that the rating in no way indicates the likelihood of the SRI project undertaken through the *Ihsan Sukuk* meeting its KPIs.

### SUKUK SUMMARY

|                         |   |
|-------------------------|---|
| <b>Issuer SPV</b>       | Ihsan <i>Sukuk</i> Berhad   |
| <b>Obligor</b>          | Khazanah Nasional Berhad  |
| <b>Structure type</b>   | <i>Wakalah</i> bil Istithmar  |
| <b>Issue size</b>       | RM 100 million, out of a total of RM 1 billion <i>Sukuk</i> program |
| <b>Issue Date</b>       | June 2015   |
| <b>Maturity date</b>    | June 2022   |
| <b>Return</b>           | 4.3% p.a.   |
| <b>Fix or Variable</b>  | Fixed   |
| <b>Return frequency</b> | Annual  |
| <b>Book Runners</b>     | CIMB Investment Bank Berhad   |
| <b>Listing</b>          | Not listed  |
| <b>Rating</b>           | Rated AAA by RAM Rating Services Berhad                             |

### OBLIGOR BACKGROUND

Khazanah is the strategic investment fund of the Government entrusted to manage the commercial assets held by the Government and to undertake domestic and foreign investments. Khazanah was incorporated in September 1993. Save for one share owned by the FLC, all of the ordinary share capital of Khazanah is owned by the Minister of Finance which in turn is owned by the Government.

The principal activity of Khazanah is investment holding. The primary objectives of Khazanah are: (a) to manage the investments entrusted to it by the Government; and (b) to undertake new investments where there are strategic opportunities, in new sectors and in new markets. Khazanah has investments in over 50 major companies involved in various sectors such as financial institutions,

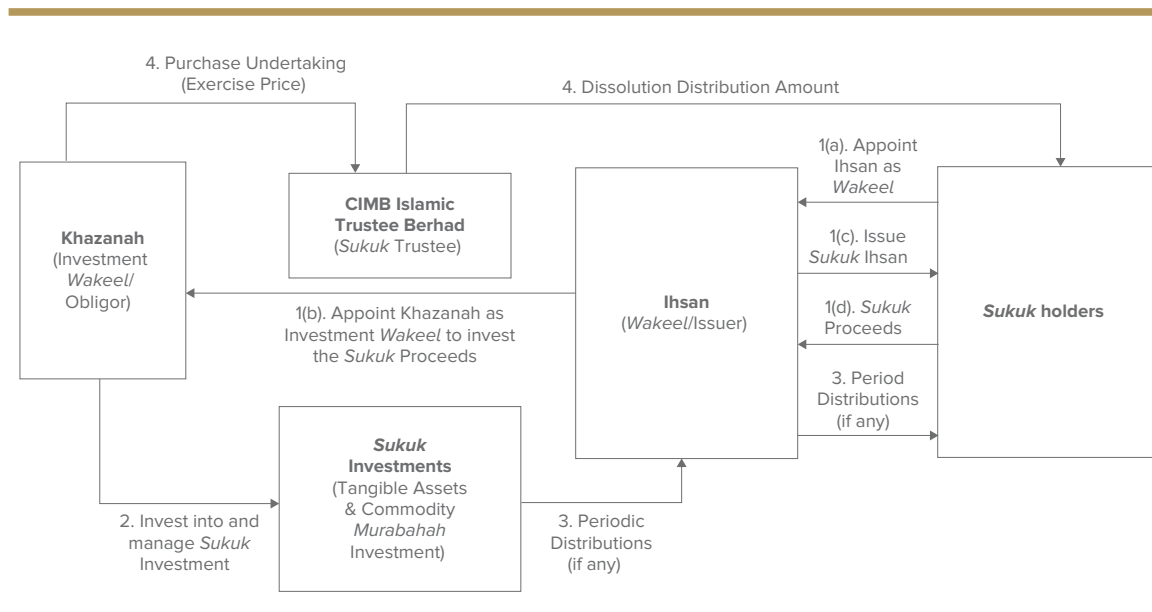
healthcare, infrastructure and construction, media and communication, leisure and tourism, property, power, agriculture, innovation technology and life sciences as well as transportation and logistics. Historically, substantially all of the companies Khazanah invested in were incorporated in Malaysia and conducted their principal business activities within Malaysia. However, since 2005 Khazanah has acquired substantial business interests outside Malaysia as well. Khazanah has been issuing a wide range of government secured *Sukuk*, *Shari'ah*-compliant Exchangeable Trust Certificates, and *Shari'ah*-compliant medium term *Sukuk* under the Ringgit-Denominated (as well as Multi-currency) Islamic Securities Issuance Program which started issuing *Sukuk* in 1999.



### **SUKUK STRUCTURE AND CASH FLOWS**

Set out below is the structure diagram and brief explanation of the structure and principal cash flows of the Khazanah Ihsan *Sukuk*:

#### **STRUCTURE DIAGRAM**



### **SUKUK STRUCTURE**

The Ihsan *Sukuk* is based on *Sukuk Al Wakalah Bil Istithmar*. These are certificates that represent projects or activities that are managed on the basis of investment agency by appointing an agent to manage the operation on behalf of the certificate holders.

#### **PARTIES TO THE SUKUK**

The following are parties to the structure:

- Ihsan *Sukuk* Berhad as Issuer and *Wakil*
- CIMB Islamic Trustee Berhad, as Trustee. This is not a special purpose vehicle created for the purpose of this *Sukuk*, it is an existing subsidiary of CIMB Group.
- Khazanah as sub-*wakeel* or “Investment *Wakil*” for managing and investing the *Sukuk* proceeds and as Obligor for payments and distributions of the *Sukuk*

#### **TRANSACTION FLOW**

The following is a description of the structure in detail:

- Ihsan, as the Issuer, declares a trust over the *Sukuk* Proceeds and over the *Sukuk* Investments.
- Pursuant to a *Wakalah* agreement between the *Sukuk* Trustee and Ihsan, the Trustee, CIMB Islamic Trustee Berhad, will appoint Ihsan to act as its agent (*Wakil*)

to invest the *Sukuk* Proceeds in *Sukuk* Investments. Ihsan, in turn will appoint Khazanah as the sub-*wakeel* or agent on its behalf (**Investment *Wakil***) to invest the *Sukuk* Proceeds.

Khazanah in the capacity of Investment *Wakil* will invest the *Sukuk* Proceeds into an investment portfolio comprising of: (i) *Shari’ah*-compliant tangible assets; and (ii) *Shari’ah*-compliant commodities purchased and sold under the principle of *Murabahah*.

At the point of initial investment, the Investment *Wakil* must invest at least 33% of the *Sukuk* Proceeds into the Tangible Assets, however it does not need to be maintain it throughout the tenure of the *Sukuk* Ihsan. The only thing the Investment *Wakil* has to ensure is that Tangible Assets should form a component of the total *Sukuk* Investments at all times.

- Khazanah (in the capacity of the Obligor) will grant a purchase undertaking (**Purchase Undertaking**) to the *Sukuk* Trustee whereby on a Scheduled Dissolution Date or the Dissolution Declaration Date, whichever is the earlier, Khazanah will purchase the Tangible Assets at the Exercise Price. Upon exercise of the Purchase Undertaking and then full payment of all amounts due and payable under the *Sukuk* Ihsan,

the relevant trust in respect of the Trust Assets will be dissolved and the relevant *Sukuk* Ihsan held by the *Sukuk*-holders will be cancelled.

- In case of a Dissolution Event, The *Sukuk* Trustee is entitled to enforce its rights under the Transaction Documents, requiring Khazanah to purchase the Tangible Assets and pay the Exercise Price under the Purchase Undertaking, and pay the outstanding amounts of the Deferred Sale Price under the commodity *Murabahah*). The *Sukuk* Trustee will use the proceeds thereof to redeem the *Sukuk* Ihsan at the Dissolution Distribution Amount.
- The KPIs for the First *Sukuk* Ihsan will be evaluated prior to the maturity date of the First *Sukuk* Ihsan by an independent auditor to be appointed from time to time being either Ernst & Young, KPMG, PricewaterhouseCoopers or Deloitte. The Independent Auditor will provide a KPI Evaluation Report to the *Sukuk* Trustee and depending upon whether or not the KPIs are met, the nominal value of the Dissolution Distribution Amount payable to the *Sukuk* holders will be kept at par or reduced accordingly.

#### PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

- Trust deed
- *Wakalah* Bil Istithmar Agreement
- Purchase Undertaking

#### CONCLUSION

The Khazanah Ihsan *Sukuk*, while fairly typical in terms of *Shari'ah* structure as it makes use of the commonly used *Wakalah* model, it is quite innovative in terms of its social responsibility structure. It takes the concept of Social Impact Bonds/*Sukuk* a step further with two unique features as described above – the one which offers reduction in redemption amount and therefore the yield to investors in the event the project is successful; and the other that provides investors the option to convert their investment into a donation.

The Khazanah Ihsan *Sukuk* was priced in line with the Khazanah's non-SRI seven year offerings which were yielding 4.3-4.4% at the time of issue. Due to the tight pricing as well as the unique structure which offers a reduction in yield, the *Sukuk* was only slightly oversubscribed with about RM 133 million worth of orders. The CFO of Khazanah Nasional in a statement acknowledged that it is challenging to get fixed income managers to accept a step-down yield, however that it is a "... feel-good *Sukuk* for investors who want to give back to society." So it is in fact heartening to see that the issue was fully subscribed through one day of book-building.

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## 2.4 EMIRATES AIRLINE - EXPORT CREDITS GUARANTEE SUKUK

### ABSTRACT

The Emirates Airline issued a USD913 million *Ijarah* based *Sukuk* in March 2015 in order to fund acquisition of aircraft for its fleet. The *Sukuk* was issued to fund purchase of four Airbus A380-800 to be delivered between April and July 2015, and is part of a larger plan to purchase USD107.5 billion worth of aircrafts from Boeing and Airbus over a period of time.

Emirates Airline is an established player in the international *Sukuk* market with already two USD based *Sukuk* issues since 2005 worth a total of USD1.5 billion. This new issue has taken its share of the dollar based *Sukuk* market to almost USD2.5 billion.

The Emirates Airline (Khadrawy Limited) *Sukuk* has a tenor of 10 years and provides a profit rate of 2.471% per annum. It has the benefit of a guarantee by Her Britannic Majesty's Secretary of State acting by the Export Credits Guarantee Department of the UK Government (ECGD), currently being called the UK Export Finance or UKEF, although the prospectus of Emirates *Sukuk* uses the term ECGD Guarantee for the arrangement. The ECGD Guarantee makes this *Sukuk* issue the world's first *Sukuk* financing supported by UKEF and also the largest ever capital markets offering in the aviation space with an export credit agency guarantee. Incidentally, the transaction has also been credited as the first *Sukuk* financing used to pre-fund aircraft acquisition, and the first *Sukuk* financing for this type of aircraft, that is, for the A380.

The *Sukuk* certificates have been issued pursuant to Regulation S and Rule 144 A under the US Securities Act of 1933.

### SUKUK SUMMARY

|   |   |
|---|---|
| <b>Issuer SPV</b>                       | Khadrawy Limited  |
| <b>Structure type</b>                   | <i>Ijarah</i>   |
| <b>Issue size</b>                       | USD913 million  |
| <b>Issue Date</b>                       | 31-March-2015   |
| <b>Maturity date</b>                    | 31-March-2025   |
| <b>Return</b>                           | 2.471%  |
| <b>Fix or Variable</b>                  | Fixed   |
| <b>Return frequency</b>                 | Quarterly, in March, June, September and December   |
| <b>Pricing = Spread over mid-swaps,</b> | 90 bps over the interpolated mid swap rate  |
| <b>Book Runners</b>                     | Long list of lead managers: Citigroup, HSBC, JP Morgan, NBAD, ADIB, Dubai Islamic Bank, Standard Chartered and Emirates Capital |
| <b>Listing</b>                          | London Stock Exchange, NASDAQ Dubai   |
| <b>Rating</b>                           | Not rated   |
| <b>ISIN RegS</b>                        | XS1203164782  |

### INSTITUTION BACKGROUND

Emirates Airline is the national airline for the Emirate of Dubai, with rights to operate domestic and commercial air services since 1985. The airline is a subsidiary of The Emirates Group, which is wholly owned by the government of Dubai's Investment Corporation of Dubai. It is the largest airline in the Middle East, operating over 3,300 flights per week from its hub at Dubai International Airport, to more than 148 cities in 78 countries across six continents.

Emirates is the world's biggest international carrier, the seventh largest airline in the world in terms of revenue, and the largest airline in the Middle East in terms of revenue, fleet size, and passengers carried. The airline is also the fourth-largest airline in the world in terms of international passengers carried. The company operates four of the world's longest non-stop commercial flights. Emirates Airlines operates a mixed fleet of Airbus and Boeing and is an industry bellwether for aircraft purchases, having purchased 200 aircraft in 2013 alone.

### GUARANTOR BACKGROUND

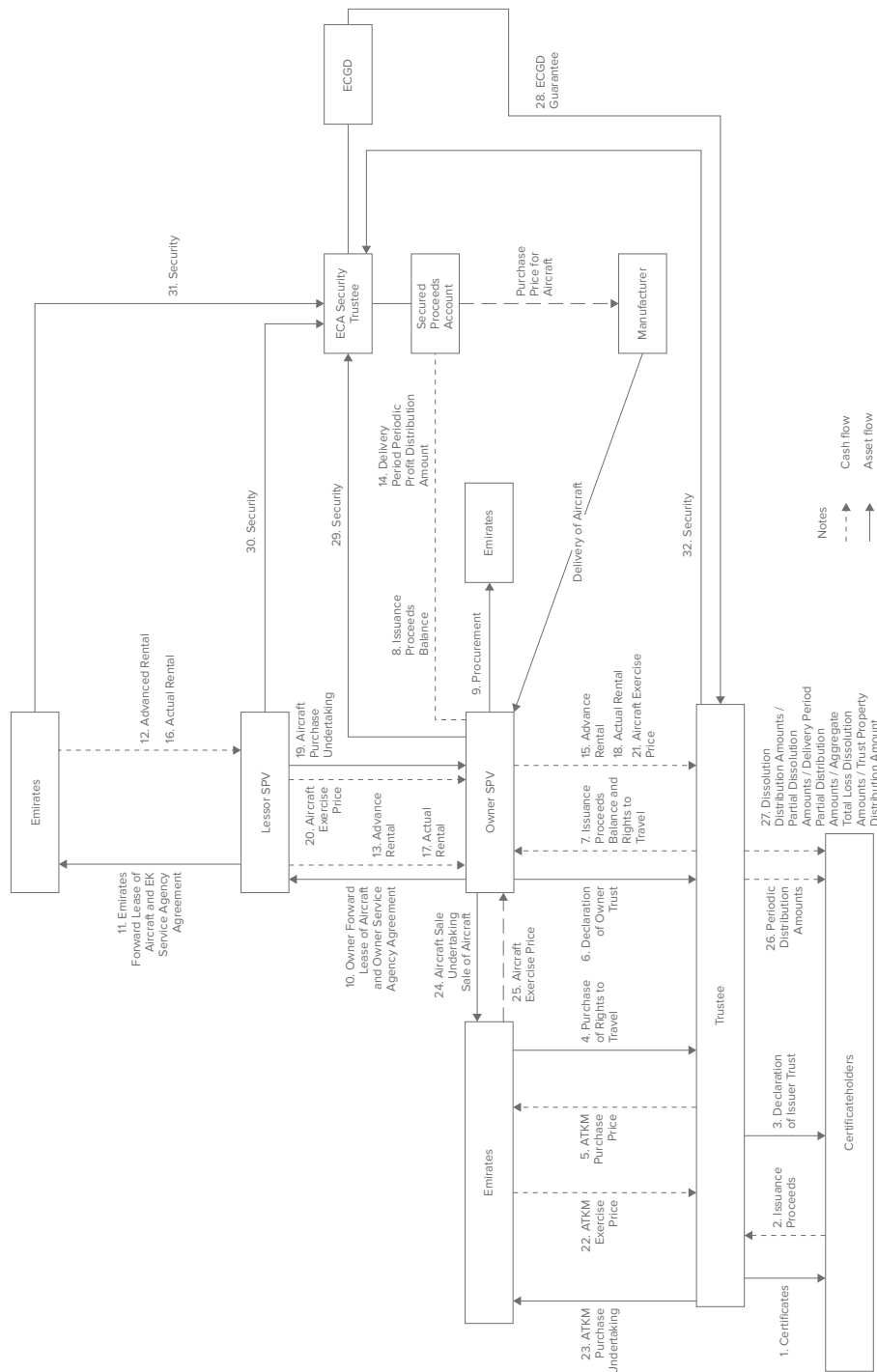
The Export Credits Guarantee Department (currently operating as "UK Export Finance") ("ECGD" or the "Guarantor") is the United Kingdom's export credit agency. ECGD is a British government department reporting to the Secretary of State for Business, Innovation and Skills. ECGD contracts on behalf of the Secretary of State and its liabilities are discharged by funds provided by Parliament or charged on the consolidated fund of the United Kingdom. An obligation of ECGD under a validly executed guarantee will therefore constitute an obligation of the United Kingdom.

The UK has been keen to establish itself as the centre of global Islamic finance. "UKEF expects to incorporate the *Sukuk* guarantee into its standard product range so that it's available for future transactions in other sectors."

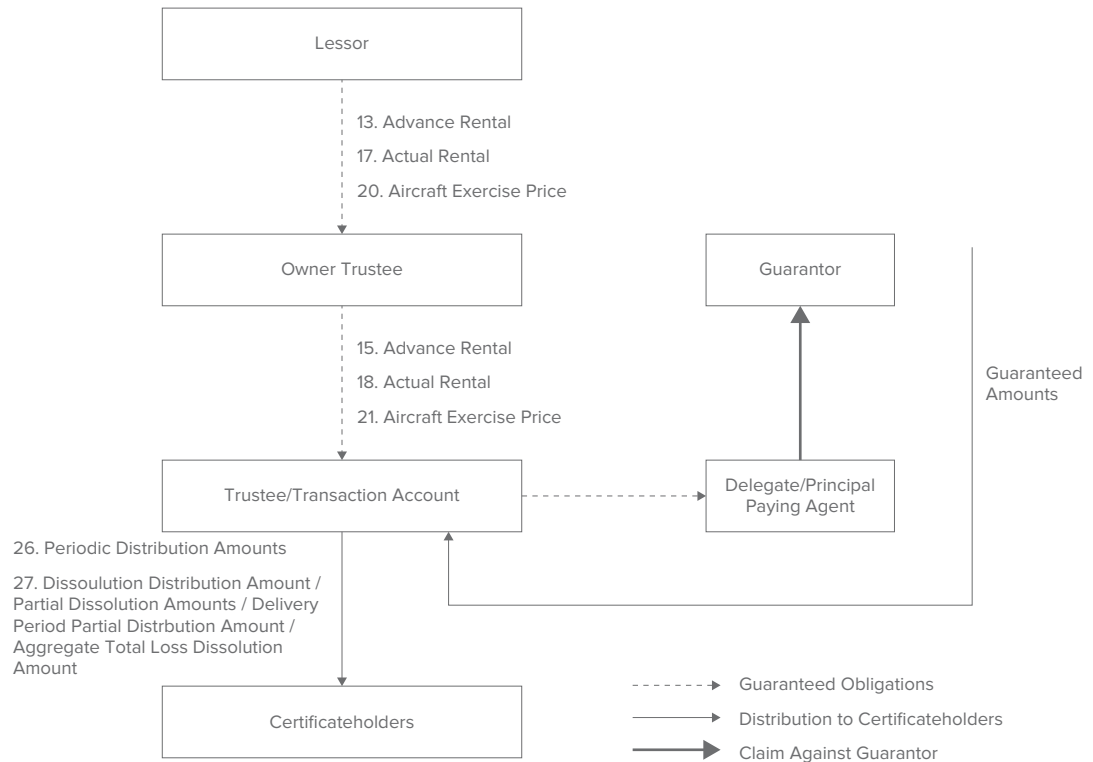
**SUKUK STRUCTURE AND CASH FLOWS**

Set out below is the structure diagram and brief explanation of the structure and principal cash flows of the Emirates Sukuk:

**STRUCTURE DIAGRAM**



## ECGD GUARANTEE



## SUKUK STRUCTURE

The Emirates Airline *Sukuk* is based on *Ijarah wa Istisna'a*. *Ijarah* is buying and leasing of assets by the investor to the issuer. *Istisnaa'* is a sale contract by way of order for certain product with certain specifications and certain mode of delivery and payment either in cash or deferred.

In the Emirates *Sukuk* structure, the procurement of aircraft from the Manufacturer is executed by way of *Istisnaa* while the periodic cash flows are generated through an *Ijarah* model.

## DIAGRAM EXPLANATION

### Parties to the Structure

The Emirates *Sukuk* structure is different from the previous *Ijarah Sukuk* structures we have seen so far. It can even be called complex, as it uses three special purpose vehicles (SPVs) in order to effectively execute both the *Ijarah* and *Istisna'a* legs of the structure. The following are parties to the structure:

- Khadrawy Limited, constituted as the Issuer/Trustee,
- Khadrawy Aircraft Limited, incorporated as the Owner Trustee (Owner SPV in the diagram), and
- Khadrawy Leasing Limited, incorporated as the Lessor (Lessor SPV in the diagram).
- Emirates Airline, which acts as Lessee under the Emirates Forward Lease Agreement and also as the Seller under the Purchase of Services Agreement.
- The UK Export Finance (UKEF), the Guarantor under the ECGD Guarantee.

While in most *Ijarah* structures, the Issuer declaration of Trust is signed between the Trustee (who is also the sole SPV) and the originator, in this particular *Sukuk* issue, the Issuer declaration of Trust has been drawn up between the two SPVs, the Trustee and the Owner Trustee. There is a separate declaration of Trust between the Trustee and Emirates.

**Transaction Flow:**

- The Trustee issues Certificates to Certificateholders in consideration for the Issuance Proceeds and declares a trust in favour of the Certificateholders over the **Issuer Trust Assets**.
- Pursuant to the Purchase of Services Agreement, Emirates (as Seller) sells and transfers on the Closing Date to the Trustee (as Purchaser) all of the Rights to Travel in consideration for the ATKM Purchase Price. The "Rights to Travel" form the usufruct under this structure and have been measured as ATKM or Available Tonnes Kilometre – a measure of overall capacity multiplied by distance used commonly in the airline industry. The ATKM Purchase Price comprises both the initial ATKM amount paid by the Trustee to Emirates on the Closing date, as well as the ATKM on-Demand amounts payable as four installments later on at the time of the Delivery of each of the four specified aircrafts.
- Pursuant to the Owner Declaration of Trust, the Trustee contributes to the Owner SPV the Issuance Proceeds Balance and all of its interest, rights, benefits and entitlements, present and future, in and to the Rights to Travel and the Owner SPV uses such assets to: (a) credit the Secured Proceeds Account with the Issuance Proceeds Balance; (b) procure the acquisition of Specified Aircraft pursuant to the terms of the Procurement Agreement using funds from the Secured Proceeds Account and the Rights to Travel; (c) lease such Specified Aircraft to the Lessor SPV. In summary, the Issuance Proceeds Balance is held in the Secured Proceeds Account from the Closing Date, and the Rights to Travel (once transferred) are held on trust by the Owner SPV, pending application of both in accordance with the Transaction Documents in connection with the procurement of the four Specified Aircrafts.
- The Owner SPV will lease each Specified Aircraft to the Lessor SPV under the relevant Owner Forward Lease Agreement. The Lessor SPV will then sub-lease each Leased Aircraft to Emirates under the relevant EK Forward Lease Agreement.
- The Issuance Proceeds Balance will be credited to the Secured Proceeds Account pending its application for the purchase of Specified Aircraft expected to be delivered during the Delivery Period in accordance with the Owner Trust Transaction Documents. The 'Scheduled Delivery Dates' of the specified aircrafts are set out in the Prospectus and fall between April 2015 and July 2015.

**Periodic Distributions:**

- During the Delivery Period, the Periodic Profit Distribution Amounts are expected to be funded by advance rental payments under the Owner Forward Lease Agreements. Emirates is obliged under the EK Forward Lease Agreements to pay the same amount of advance rental to the Lessor SPV as the Lessor SPV is required to pay to the Owner SPV under the Owner Forward Lease Agreements. The obligation to pay initial advance rental payment amounts on the Closing Date, which in aggregate are equal to the first Periodic Distribution Amount, under the Owner Forward Lease Agreements will be satisfied by Emirates paying the corresponding initial advance rental payment amounts under the EK Forward Lease Agreements to the Secured Proceeds Account on the Closing Date. The obligation to pay further advance rental payment amounts and actual rental payment amounts under the Owner Forward Lease Agreements shall be satisfied by Emirates paying the amounts to the Transaction Account on the first Periodic Distribution Date and second Periodic Distribution Date, as applicable.
- To the extent that delivery of the Specified Aircraft follows the Scheduled Delivery, on Periodic Distribution Dates, an amount equal to the relevant portion of the first Periodic Profit Distribution Amount corresponding to the three Specified Aircraft which have delivered shall be paid as 'Actual Rental' while an amount equal to the relevant portion of the first Periodic Profit Distribution Amount corresponding to the fourth Specified Aircraft not yet delivered shall be payable by way of a further advance rental payment under the Owner Forward Lease Agreement.



- If a Specified Aircraft is not delivered prior to the first Periodic Distribution Date as expected, the relevant portion of the Periodic Profit Distribution Amount attributable to such Specified Aircraft not so delivered will be funded by a further advance rental payment in place of actual rental.
- Under the Owner Forward Lease Agreements, and in accordance with the Scheduled Delivery of Aircrafts, the Lessor SPV is also obliged to pay initial advance rental amounts on the relevant Delivery Date, an amount equal to the equity portion of the price payable to the Manufacturer for the Specified Aircraft. Emirates is obliged to pay the same to the Lessor SPV on the relevant Delivery Date under the relevant EK Forward Lease Agreements. The Lessor SPV's obligation to pay to the Owner Trustee, and Emirates' obligation to pay to the Lessor SPV in this case will be satisfied by Emirates paying such amount directly to the Manufacturer on the relevant Delivery Date. The Trustee will partially redeem the Certificates on each Periodic Distribution Date at the relevant Periodic Principal Distribution Amount in accordance with a Periodic Principal Distribution Schedule specified in the Prospectus. The outstanding principal amount of the Certificates shall be reduced by the relevant Periodic Principal Distribution Amount. The Certificates will be finally redeemed on the Scheduled Dissolution Date upon payment of the aggregate of the final Periodic Principal Distribution Amounts and the final Periodic Profit Distribution Amount.
- Following the Delivery Period End Date, by which time all four aircrafts should be delivered, actual rental amounts equal to the Periodic Distribution Amounts payable on the Certificates on each Periodic Distribution Date thereafter shall be payable by Emirates to the Lessor SPV under the EK Forward Lease Agreement, and by the Lessor SPV to the Owner Trustee under the Owner Forward Lease Agreements. There will be no need for any advance rental payments once all aircrafts have been duly delivered.

#### **UK Export Finance Guarantee (ECGD Guarantee) and Associated Risk Factor:**

The UK Export Finance, represented by its old name ECGD, acts as the Guarantor of all the payments flowing from the Lessor SPV to the Owner Trustee SPV and from the Owner Trustee SPV to the transaction account, namely, the advance rentals, the actual rentals and the aircraft purchase prices. According to the Prospectus, the obligations of the Guarantor under the ECGD Guarantee constitute the obligations of the United Kingdom. The sum of the Guaranteed Amounts guaranteed by the Guarantor under the terms of the ECGD Guarantee will be equal to the amounts due under the Certificates. As a matter of current United Kingdom law, it is uncertain whether payments under the ECGD Guarantee would be subject to deduction of, or withholding, on account of United Kingdom income tax, which is currently 20 per cent. Under the terms of the ECGD Guarantee, if the Guarantor determines that United Kingdom tax should be withheld from a payment made by the Guarantor under the ECGD Guarantee, it is likely that the Trustee will not receive the full amount of the Guaranteed Amounts payable under the ECGD Guarantee. As a result, the Trustee will not be able to distribute to the Certificateholders the full amount of Guaranteed Amounts and Certificateholders will suffer a shortfall in expected payments.

#### **PRINCIPAL TRANSACTION DOCUMENTS**

The principal transaction documents are:

- the Purchase of Services Agreement between the Trustee as the Purchaser and Emirates as the Seller.
- the ATKM Purchase Undertaking by Emirates
- the declaration of trust between the Trustee, Khadrawy Aircraft Limited (the "Owner Trustee") and Emirates
- the ECGD Guarantee;
- the Paying Agency Agreement;
- the Issuer Declaration of Trust

### GEOGRAPHIC DISTRIBUTION OF INVESTORS

The Emirates *Sukuk* certificates were subscribed by 45 global institutional investors,

- 39% allocated to Middle East and Asia,
- 32% to Europe
- 29% to the United States.

By investor type,

- 47% were allocated to fund managers,
- 38% to banks
- 15% to insurance companies and pension funds.

### CONCLUSION

The Emirates *Sukuk* provides a refreshing change from the typical *Ijarah* or *Wakalah* based models which raise funds through *Sukuk* using an existing portfolio of assets

set aside for the purpose. The Emirates *Sukuk* is in fact closer in spirit to some infrastructure *Sukuk*, as it results in creation of new assets – specifically, building and procurement of new aircraft for its fleet – the usufruct from which is securitized to generate periodic cash flows. For that reason alone, we feel that the structure deserves credit for innovation. The *Sukuk* also has the distinction for providing ‘testing ground’ to the UKEF in order to debut its new structure for providing guarantees to *Sukuk*. The UK sovereign guarantee provided the much needed boost to the otherwise unrated *Sukuk*. It was well received and attracted interest from a diverse group of Islamic and conventional investors from around the globe. The *Sukuk* attracted orders exceeding USD3.2 billion, recording an oversubscription of 3.6 times.

### REFERENCES

- Prospectus of Emirates *Sukuk* (Khadrawy Limited).
- Official website of UK Export Finance <https://www.gov.uk/government/organisations/uk-export-finance/about>
- Wikipedia on Emirates Airline [www.en.wikipedia.org/wiki/Emirates](http://www.en.wikipedia.org/wiki/Emirates)
- News Item titled “Emirates Airline flies flag for *Sukuk*” dated March 1, 2015 at [www.thenational.ae/business/banking/emirates-airline-flies-flag-for-Sukuk#full](http://www.thenational.ae/business/banking/emirates-airline-flies-flag-for-Sukuk#full)
- News item titled “Emirates set to close \$913m *Sukuk*” dated March 31, 2015 from Arab News
- News item titled “Emirates issues \$913m certificates to fund acquisitions” dated March 30, 2015 from Gulf News
- News item titled “Emirates set to close USD913 million *Sukuk*, marking a world’s first...” dated March 30, 2015 from WAM Emirates News Agency.
- Press release from Clifford Chance titled “Clifford Chance Advises on the Emirates Airline USD913 million *Sukuk*...” dated April 2, 2015 from official website of Clifford Chance.
- Profile summary of Khadrawy Limited on [www.Sukuk.com](http://www.Sukuk.com)
- News item titled “UK Backing for Islamic Bonds Just starting with Emirates Deal”, dated March 15, 2015 on Bloomberg
- News item titled “UK Government Guarantees its first Islamic Bond for Emirates”, dated 30 March 2015 on [www.telegraph.co.uk](http://www.telegraph.co.uk)
- News item titled “Emirates first to test UKEF *Sukuk* Structure”, dated 19 Feb 2015 from [www.globalcapital.com](http://www.globalcapital.com)

## 2.5 SULTANATE OF OMAN SOVEREIGN *SUKUK*

### ABSTRACT

The Sultanate of Oman is the latest of the GCC countries to tap the *Sukuk* market for its funding needs. The Sultanate issued its debut sovereign *Sukuk* through the Ministry of Finance in November 2015 valued at OMR 250 million at a profit rate of 3.5% per annum. The issue was originally valued at OMR 200 million and offered to sophisticated /institutional investors through a uniform price auction procedure. The oversubscription from investors led the Ministry of Finance to expand the program by 25% to OMR 250 million.

The *Sukuk* was issued using the well known and established *Ijarah* structure, using Government assets as the basis for *Ijarah*. It has been rated A1 by Moody's in line with the long-term issue rating of the Sultanate of Oman.

### *SUKUK* SUMMARY

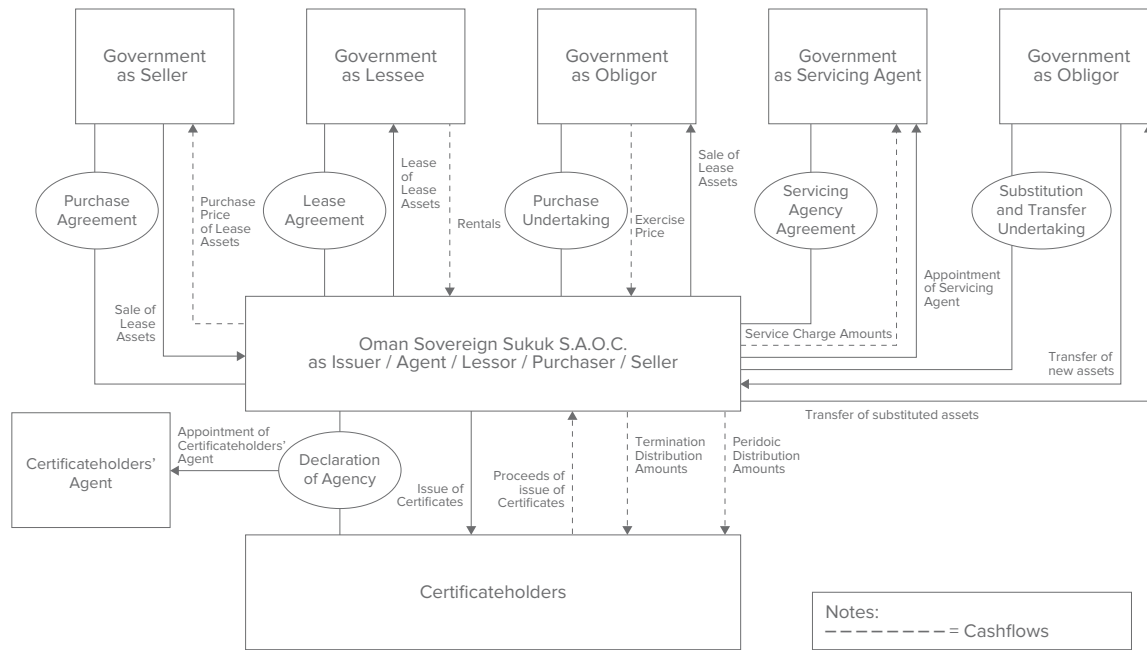
|   |   |
|---|---|
| <b>Issuer SPV</b>                       | Oman Sovereign <i>Sukuk</i> S.A.O.C     |
| <b>Structure type</b>                   | <i>Ijarah</i>                           |
| <b>Issue size</b>                       | OMR 250 million (approx USD650 million) |
| <b>Issue Date</b>                       | 03-November-2015                        |
| <b>Maturity date</b>                    | 03-November-2020                        |
| <b>Profit Rate</b>                      | 3.5% per annum                          |
| <b>Fix or Variable</b>                  | Fixed                                   |
| <b>Return frequency</b>                 | Semi-annual                             |
| <b>Pricing = Spread over mid-swaps,</b> | Through uniform price auction           |
| <b>Book Runners</b>                     | Bank Muscat and Standard Chartered      |
| <b>Listing</b>                          | Muscat Securities Market (MSM)          |
| <b>Rating</b>                           | A1 by Moody's                           |

### *SUKUK* STRUCTURE AND CASH FLOWS

The *Sukuk* is *Sukuk Al Ijarah* which refers to an Islamic security for the buying and leasing of assets by the investors to the issuer and such *Sukuk* shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors.

In the case of this Sultanate of Oman *Sukuk Al Ijarah*, the Asset earmarked for the issuance of the *Sukuk* is a plot of land located in Duqm provided by the Sultanate of Oman Ministry of Housing. Set out below is the structure diagram and brief explanation of the structure and principal cash flows of the *Sukuk*:

**STRUCTURE DIAGRAM**



**DIAGRAM EXPLANATION**

**Parties to the Structure**

The following are parties to the structure:

- a. The Issuer or SPV, Oman Sovereign Sukuk S.A.O.C. which also acts as lessor under the Lease or *Ijarah* Agreement.
- b. The Government of the Sultanate of Oman, represented by Ministry of Finance, acting as Seller, Lessee as well as Obligor.

**Transaction Flow:**

1. On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer, which will use such proceeds of the issue of the Certificates to pay to the Seller (Government of Oman) as the purchase price payable under the Purchase Agreement for the Assets, the aggregate value of which shall be equal to such purchase price.
2. The Assets to be purchased by the Issuer on the Issue Date will consist of the Lease Assets that are currently owned by the Seller. Under the Substitution and Transfer Undertaking, the Government may substitute or replace the Lease Assets with assets the identity of which may be determined by the

Government in its sole and absolute discretion, provided that the value of such is not less than the value of the substituted or replaced Lease Assets and that such assets comprise land, buildings and/or leasehold interests used for Shari'a-compliant purposes.

3. The Issuer will, with effect from the Issue Date, lease the Assets (the Lease Assets) to the Lessee. Prior to each Periodic Distribution Date, the Lessee will pay to the Issuer an amount reflecting the rental due in respect of the Lease Assets which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose.
4. On the Scheduled Termination Date, the Issuer and the Certificateholders' Agent will have the right to require the Government of Oman as Obligor, pursuant to the unconditional and irrevocable undertaking of the Obligor under the Purchase Undertaking, to purchase the Lease Assets from the Issuer for an amount equal to the exercise price which is payable by the Obligor to the Issuer and is intended to fund the Termination.

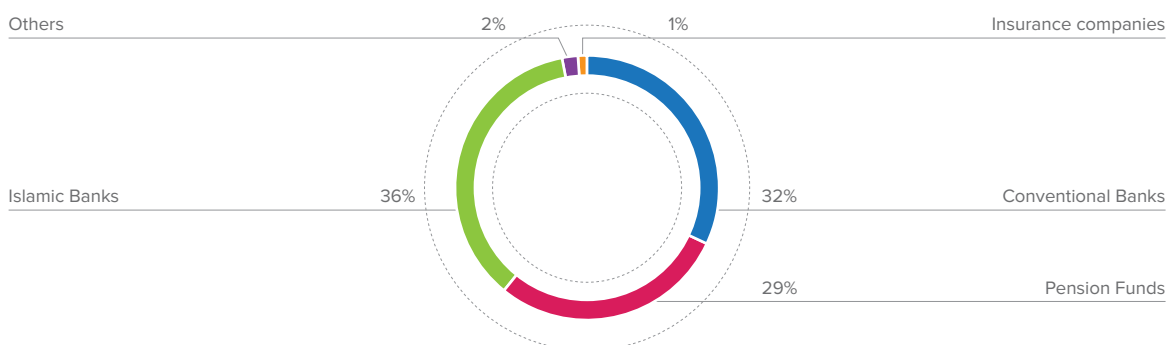
### PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

1. the Purchase Agreement for the underlying assets executed between the SPV as Purchaser and the Government as Seller.
2. the Lease Agreement between the SPV as Lessor and the Government of Oman as Lessee.
3. the Purchase Undertaking by the Government of Oman in capacity of Obligor whereby it irrevocably and unconditionally agrees to purchase back the underlying assets from the SPV at the time of termination.

### GEOGRAPHIC DISTRIBUTION OF INVESTORS

Initial orders for the Oman Sovereign *Sukuk* were received from 23 institutions, representing a mix of conventional and Islamic institutions, totaling OMR 336 million. The oversubscription led to the issue managers increasing the overall issue size from OMR 200 million to OMR 250 million. Final allotment was to 22 institutions. The issue was placed entirely in Oman. The total allocation by investor type is as follows:



### CONCLUSION

The Oman Sovereign *Sukuk* marks the successful entry of another GCC nation into the *Sukuk* sphere. According to a statement by the Ministry of Finance, the *Sukuk* was launched in response to a demand for investment avenues by local Islamic financial institutions, Islamic funds and *Takaful* operators. The *Sukuk* is an important step towards meeting that need, and also supports the Government of Oman's stated objective of developing its capital markets.

### REFERENCES

1. Prospectus of Oman Sovereign *Sukuk*.
2. Information provided by Bank Muscat, the lead managers of the Oman Sovereign *Sukuk* issue.
3. Profile summary of Oman Sovereign *Sukuk* on [www.Sukuk.com](http://www.Sukuk.com)
4. Press release titled "AMJ advises on Oman's debut sovereign *Sukuk*" dated November 4, 2015 from official website of Al Busaidy Mansoor Jamal & Co. (AMJ)
5. News item titled "Oman's first sovereign *Sukuk* issue attracts strong orders" dated October 25, 2015 from [www.reuters.com](http://www.reuters.com)
6. Press release titled "Trowers & Hamlin advises Omani Government on its first ever sovereign *Sukuk*" dated November 10, 2015 from the official website of Trowers & Hamlin
7. News item titled "Oman's debut sovereign *Sukuk* opens on Oct 8" dated October 4, 2015 from Emirates 24/7 [www.emirates247.com](http://www.emirates247.com)

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# CHAPTER III

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STRIVING FOR GREATER TRANSPERANCY



## SELECTED *SUKUK* ISSUANCES (CASE STUDY CONTRIBUTION)

### 3.1 PETROLIAM NASIONAL BERHAD (PETRONAS) *SUKUK*

By Mohamad Safri Shahul Hamid, Senior Managing Director / Deputy Chief Executive Officer, CIMB Islamic Bank

#### ABSTRACT

This case study aims to highlight the successful USD1.25 billion issuance (“PETRONAS *Sukuk*”), structured as a *Sukuk Al Wakalah*, by Petroliam Nasional Berhad (“PETRONAS”) - a multinational oil and gas company based in Malaysia.

The *Wakalah* structure has been adopted for various issuances previously and as such is a ‘tested and proven’ *Shari’ah* structure. For PETRONAS *Sukuk*, the underlying assets comprised of commodities and a refinery owned by PETRONAS. This gave PETRONAS assurance regarding the acceptability of the structure by investors and flexibility in terms of the choice of the underlying assets for the transaction.

The offerings of the *Sukuk* and Guaranteed Notes which were simultaneously issued along with the *Sukuk*, at a collective size of USD5.0 billion represented the largest G3 issuance from Southeast Asia till-date and also was PETRONAS’ first offering since its USD4.5 billion dual-tranche offering in August 2009. Order books for the offerings for Asia and Europe at USD12.0 billion reflected the scarcity value of issuances from PETRONAS, global investors’ confidence on the strong credit fundamentals of PETRONAS, and the globally-accepted Islamic structure of *Wakalah*. The Offerings were rated A- by S&P, and A1 by Moody’s respectively.

#### TRANSACTION SUMMARY

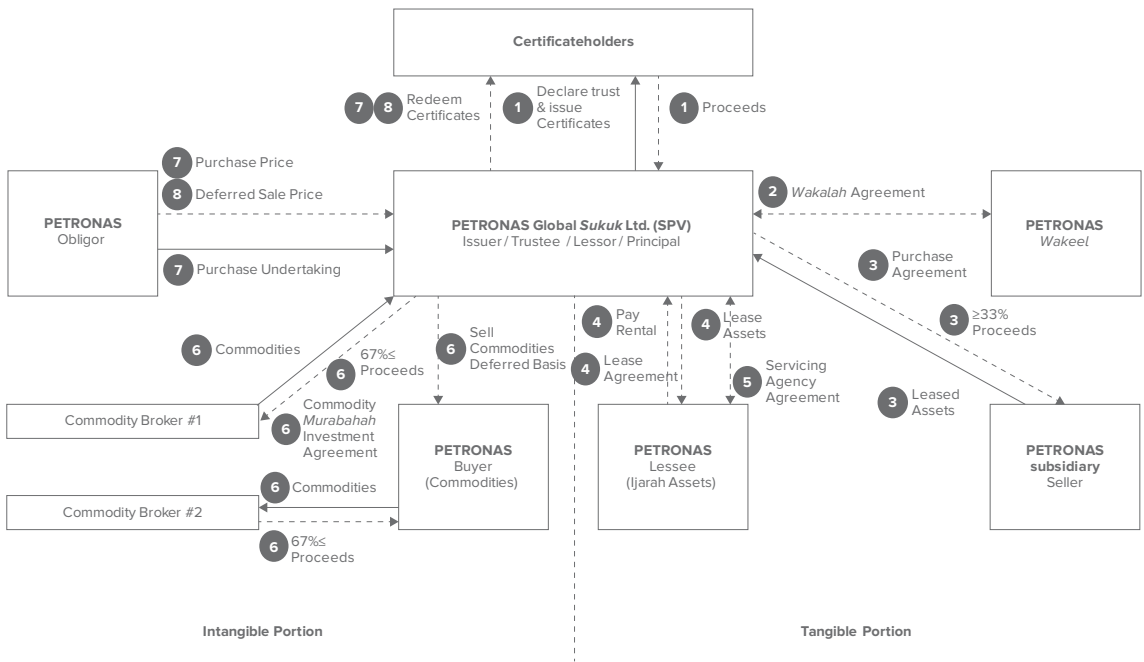
|                                    |   |
|------------------------------------|---|
| <b><i>Sukuk</i> Issuer</b>         | <b>PETRONAS Global <i>Sukuk</i> Ltd. (“PGSL”)</b>         |
| <b><i>Sukuk</i> Obligor</b>        | Petroliam Nasional Berhad (“PETRONAS”)                    |
| <b>Structure type <i>Sukuk</i></b> | <i>Wakalah</i>  |
| <b>Rating</b>                      | A- by S&P, A1 by Moody’s                                  |
| <b>Issue size</b>                  | USD1.25 billion   |
| <b>Issue Date</b>                  | 18 March 2015   |
| <b>Maturity date</b>               | 18 March 2020   |
| <b>Tenure</b>                      | 5 years   |
| <b>Yield</b>                       | 2.707%  |
| <b>Spread to Treasury</b>          | 1.10%   |
| <b>US Treasury</b>                 | 1.607%  |
| <b>Issue Price</b>                 | 100%  |
| <b>Issue Format</b>                | Rule 144a / Reg S (including to Malaysian residents)      |
| <b>Governing Law</b>               | English Law (with certain agreements under Malaysian Law) |

**INSTITUTION BACKGROUND**

PETRONAS is a leading multinational oil and gas company with operations in over 65 countries. Established in 1974 under the Malaysian Companies Act 1965, PETRONAS is wholly-owned by the Government of Malaysia. As of January 1, 2015, Malaysia had approximately 23.2 Barrel of Oil Equivalent (BOE) of

oil and gas comprising 6.0 billion barrels of crude oil (including condensates) and 103.9 trillion standard cubic feet of natural gas. PETRONAS is the largest oil and gas producer in Malaysia, and PETRONAS’ share of oil and gas production accounted for more than 73.5% of the total Malaysian production in 2014.

**STRUCTURE**



### TRANSACTION STEPS

#### Step Description

On the Closing Date, the Certificateholders pay the issue price (the “*Sukuk* Issue Amount”) in respect of the Certificates to the Trustee, and the Trustee:

- (a) Uses no more than 67 per cent of the *Sukuk* Issue Amount to purchase Commodities and sell such Commodities to PETRONAS (the “Buyer”) pursuant to the Commodity *Murabahah* Investment Agreement. In return for purchasing the Commodities, PETRONAS pays the Aggregate Deferred Sale Price one Business Day prior to the relevant Dissolution Date on the terms of the Commodity *Murabahah* Investment Agreement; and
  - (b) Uses no less than 33 per cent of the *Sukuk* Issue Amount as the purchase price to acquire certain assets from PETRONAS Penapsian (Melaka) Sdn. Bhd. (the “Seller”) pursuant to the Purchase Agreement, and leases the assets (the “Leased Assets”) to PETRONAS pursuant to the Lease Agreement.
- 1** PETRONAS Global *Sukuk* Ltd. (“SPV”) declares a trust over certain *Shari’ah*-compliant assets (“*Wakalah* Portfolio”) and issues Certificates representing the Certificateholders’ proportionate beneficial ownership and interest in the *Wakalah* Portfolio (“*Wakalah Sukuk*”).
  - 2** The SPV appoints PETRONAS as its agent pursuant to the *Wakalah* Agreement to manage the *Wakalah* Portfolio, which consists of:
    - a) Leased Assets: PETRONAS is to ensure that the value of the Leased Assets during the life of the Certificates would always be at least 33% of the nominal value of the *Wakalah Sukuk*; and
    - b) Commodities: The payment obligations for the commodities.
  - 3** The SPV applies a portion ( $\geq 33\%$ ) of the Certificates Issue Amount received from the Certificateholders to purchase beneficial ownership in certain *Shari’ah* compliant assets from a fully owned subsidiary of PETRONAS through a Purchase Agreement. Note: PETRONAS may, at its discretion, from time to time exchange/substitute the existing assets with other *Shari’ah*-compliant leasable assets.
  - 4** The SPV leases the Leased Assets to PETRONAS for a predetermined rental amount and rental period pursuant to a Lease Agreement. On each periodic distribution date, the SPV would use the rentals to make payments of the periodic distribution amounts.
  - 5** The SPV appoints PETRONAS as servicing agent pursuant to the Servicing Agency Agreement to manage the Leased Assets.
  - 6** The SPV applies the remaining portion ( $\leq 67\%$ ) of the Certificate Issue Amount received from the Certificateholders to purchase *Shari’ah* commodities from commodity broker 1 and then sell to PETRONAS pursuant to the Commodity *Murabahah* Investment Agreement to be paid on a deferred payment basis (spot price + profit). PETRONAS sells the same commodities either directly or through its agent to another commodity broker 2.
  - 7** PETRONAS undertakes to purchase the Leased Assets from the SPV pursuant to the Purchase Undertaking upon maturity or early dissolution.
  - 8** At maturity or upon early dissolution, PETRONAS would also pay the outstanding deferred sale price to the SPV. The SPV would then pay the Certificateholders to redeem the outstanding *Wakalah Sukuk*.

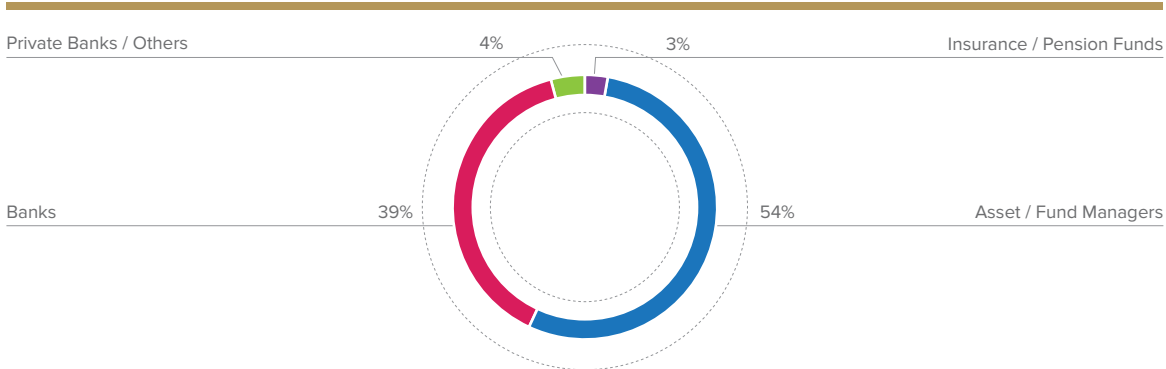
**PRINCIPAL TRANSACTION DOCUMENTS**

The key documents for the above structure are as follows:

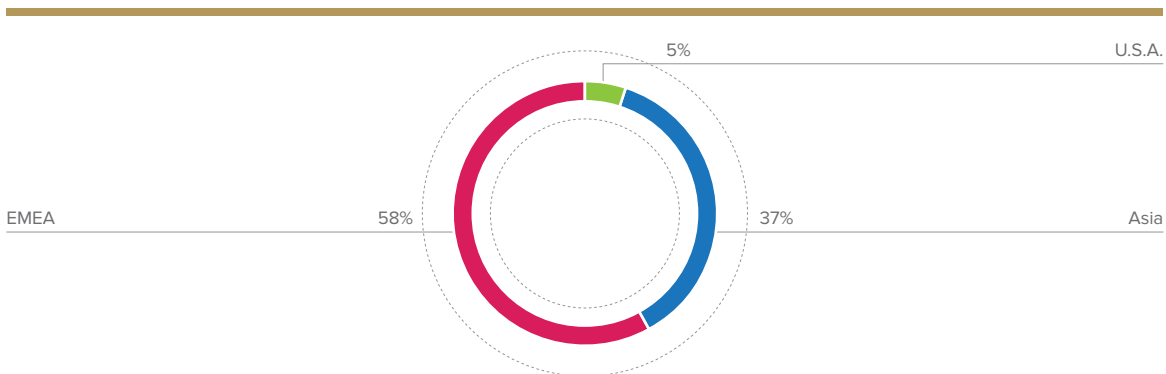
- 1. Declaration of Trust
- 2. Agency Agreement
- 3. Costs Undertaking
- 4. Purchase Agreement
- 5. *Wakalah* Agreement
- 6. Lease Agreement
- 7. Servicing Agency Agreement
- 8. Sale Undertaking
- 9. Purchase Undertaking
- 10. Substitution Undertaking
- 11. Commodity *Murabahah* Investment Agreement

**GEOGRAPHIC DISTRIBUTION OF INVESTORS**

**DISTRIBUTION BY INVESTOR TYPE**



**DISTRIBUTION BY GEOGRAPHY**



### CONCLUSION

From a commercial standpoint, the PETRONAS *Sukuk* was notable as it was remarkably completed within a compressed timeline. The mandate was announced in the late afternoon of 4 March 2015 to arrange a series of fixed income investors meetings in Asia, Middle East, Europe and the U.S., with offerings of Guaranteed Notes and Trust Certificates to follow subject to market conditions. The roadshow commenced on 5 March 2015 with a launch luncheon in Kuala Lumpur, followed with group presentations and investors meetings in financial capitals covering Singapore, Hong Kong, Abu Dhabi, Dubai, London, Boston, Los Angeles and New York – completed within a space of six days. With strong investors' demand, a final price guidance of UST+115 bps (+/-5bps) was released for the 5-year tranche at Asia close/London mid-day, which had translated to healthy order books as mentioned in the earlier section.

Structurally, PETRONAS' *Sukuk* issuance has reinforced the fact that the *Wakalah* structure is a plausible structure for various companies to adopt. By incorporating a Commodity *Murabahah* leg, the requirement for tangible assets is minimised. As such, the *Wakalah* structure is able to 'free up' PETRONAS' assets for future *Sukuk* issuances. Moreover, the *Wakalah* structure does not require that the original identified assets to be locked-up for the entire duration of *Sukuk* and thus provides PETRONAS with the flexibility of being able to replace or substitute the original assets with other qualified, *Shari'ah*-compliant assets during and throughout the tenure of the *Sukuk*.

### 3.2 THE ARAB PETROLEUM INVESTMENTS CORPORATION (APICORP) *SUKUK*

*By Ahsan Ali, Managing Director, Head of Islamic Origination, Standard Chartered Bank, Dubai*

#### INSTITUTION BACKGROUND

The Arab Petroleum Investments Corporation (“APICORP”) is a multilateral development bank focused on fostering the development of the Arab world’s oil and gas industries. It was established in 1975 by the 10 member states of the Organisation of Arab Petroleum Exporting Countries (OAPEC). APICORP’s vision is to transform the Arab energy industry into a powerful force for the region’s economic progress. Driven by this vision, the company seeks to make equity investments and provide project finance, trade finance, advisory services and research to the energy industry. APICORP has developed significant expertise in the hydrocarbon sector over the last 40 years, with majority of its assets located within the GCC region.

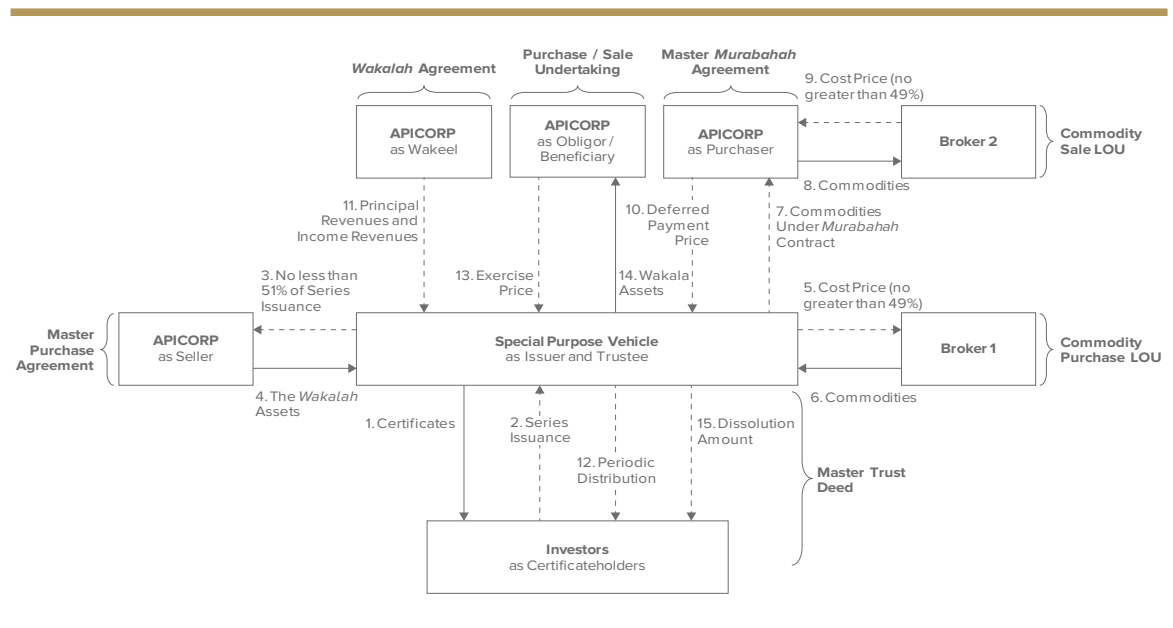
In September 2015, APICORP issued USD500 million trust certificates under its recently established USD3 billion *Sukuk* programme. The purpose of setting up the programme is to establish a suitable platform to diversify its funding sources, position its credit closer to its supranational peers, establish itself as a regular issuer, and over time aim to lower its cost of funding. Furthermore, the programme will help APICORP to more effectively deliver its mandate to foster the development of the Arab energy sector by mitigating some of the cyclicity of the markets.

#### TRANSACTION SUMMARY

|                               |  |
|-------------------------------|--|
| <b>Issuer</b>                 | APICORP <i>Sukuk</i> Limited   |
| <b>Obligor</b>                | Arab Petroleum Investments Corporation   |
| <b><i>Sukuk</i> Structure</b> | <i>Sukuk Al Wakalah</i>  |
| <b>Issue Size</b>             | USD500 million   |
| <b>Obligor Rating</b>         | Aa3 Stable by Moody’s  |
| <b>Tenor</b>                  | 5 years  |
| <b>Format</b>                 | Reg S only   |
| <b>Pricing Date</b>           | 19 October 2015  |
| <b>Maturity Date</b>          | 28 October 2020  |
| <b>Reoffer Spread</b>         | 5 year Mid Swaps + 100bps  |
| <b>Profit Rate</b>            | 2.383% p.a.  |
| <b>Listing</b>                | Irish Stock Exchange and Nasdaq Dubai (Nasdaq Dubai subsequent to issuance)  |
| <b>Governing Law</b>          | English  |
| <b>Programme Arranger</b>     | Standard Chartered Bank  |
| <b>Global Coordinators</b>    | Goldman Sachs International and Standard Chartered Bank  |
| <b>Joint Lead Managers</b>    | Emirates NBD Capital, First Gulf Bank, Goldman Sachs International, NCB Capital Company, Noor Bank and Standard Chartered Bank |
| <b>Co-Managers</b>            | Qatar First Bank   |

### STRUCTURE DIAGRAM AND DESCRIPTION

Set out below is a simplified structure diagram and description of the principal cash flows relating to the *Sukuk* programme.



1. The *Sukuk* programme, established by a special purpose vehicle, APICORP *Sukuk* Limited (the “Issuer”), allows for the issuance of trust certificates (the “Certificates”) in series (each a “Series”). The Issuer will issue the Certificates in Series to investors (the “Certificateholders”) in return for cash (the “Issuance Proceeds”).
2. The Trustee will, pursuant to the terms of the Master Trust Deed and a Supplemental Trust Deed, declare a trust in favour of the relevant Certificateholders over, among other things, the Issuance Proceeds and the assets in which the Issuance Proceeds are invested.
3. On the issue date of each Series of Certificates, the Trustee shall apply at least 51% of the Issuance Proceeds of the Series to acquire tangible assets (*ijara* Contracts, tangible *Sukuk*, *Shari'ah* compliant shares etc.) from APICORP. The remaining proceeds shall be utilized by the Trustee to acquire intangible assets (*Murabahah* receivables, intangible *Sukuk* etc.) and/or enter into a commodity *Murabahah* investment with APICORP.
4. Pursuant to the *Wakalah* Agreement, the Trustee will appoint APICORP to act as its agent (“*Wakil*”). The *Wakil* shall receive a fee in consideration of acting as agent and will be responsible, among others for (i) managing the relevant *Wakalah* assets in accordance with the investment plan, (ii) use its reasonable endeavours to ensure the timely receipt of all *Wakalah* asset revenues and (iii) notify the Trustee of the existence of any Impaired *Wakalah* asset;
5. If there is a shortfall between the revenue amounts collected and the periodic distribution amounts payable to the Certificateholders and the reserve amounts (as described below) are not sufficient to cover such shortfall, the *Wakil* may provide to the Trustee a *Shari'ah* compliant funding in an amount equal to the remaining shortfall (a “Liquidity Facility”).
6. Any excess between the revenues generated by the *Wakalah* assets over the periodic distribution amounts payable to the Certificateholders will be retained as reserve and shall be applied to cover any shortfall in future periodic distribution amounts.

7. Pursuant to a Purchase Undertaking, APICORP has undertaken to purchase all or part of the *Wakalah* assets (as the case may be from the Trustee at the relevant exercise price upon (i) a Dissolution Event, (ii) at the scheduled maturity date or (iii) at the Put Right Date (if applicable). The Purchase Undertaking shall also provide the Trustee the right to substitute impaired *Wakalah* Assets with new eligible *Wakalah* Assets.
8. Pursuant to a Sale Undertaking, the Trustee has granted APICORP the following rights:
- oblige the Trustee to sell the *Wakalah* assets to APICORP at the relevant exercise price upon the occurrence of (i) a tax event or (ii) an optional dissolution right (if applicable);
  - oblige the Trustee to substitute certain *Wakalah* assets with new eligible *Wakalah* assets;
  - Following delivery of any Certificates to be cancelled, oblige the Trustee to transfer all or part of the *Wakalah* assets (as the case may be) to APICORP;

#### EFFECTIVE EXECUTION STRATEGY

The joint lead managers pre-identified high quality demand providing APICORP with the necessary comfort to open books at a time when GCC issuers remained on the sidelines waiting for a revival of market sentiment.

Initial pricing thoughts were released at London open and strong early momentum enabled books to cross the USD650 mn mark within a few hours of announcement. By London afternoon, books were in excess of USD800 million and APICORP was able to tighten spreads further. The strength of the orderbook enabled APICORP to price intra-day and establish its issuance as one of the largest inaugural supranational *Sukuk* issue size of USD500 million.

#### GEOGRAPHICAL DISTRIBUTION OF THE INVESTORS

Investors' interest was balanced across regions and investor types. Over 40 investors participated garnering an orderbook size of over USD800 million. Distribution statistics were as follows:

#### Distribution by Investor Type:

|                            |     |
|----------------------------|-----|
| ▪ Banks                    | 57% |
| ▪ Fund Managers            | 18% |
| ▪ Insurance/Pension/Agency | 24% |
| ▪ Others                   | 1%  |

#### Investor by Geography:

|               |     |
|---------------|-----|
| ▪ Middle East | 80% |
| ▪ Europe      | 11% |
| ▪ Asia/Other  | 9%  |

#### A LANDMARK TRANSACTION

APICORP's debut issuance represents an impressive outcome as the transaction not only re-opened the GCC primary markets after a hiatus of over 4 months, but also successfully established APICORP's issuance as one of the largest inaugural supranational *Sukuk* issuance. It was 1.7x oversubscribed with management "delighted" by the level and quality of interest from investors, as well as the pricing.

APICORP achieved all of its intended objectives with its debut offering and showcased its superior credit standing by pricing at the tight end of guidance and successfully took a step forward in positioning its credit alongside other similarly rated multilateral development banks. Moreover, APICORP's issuance is the first debut issuance from the GCC to be executed intra-day despite the challenging market back drop.

The successful transaction provides APICORP with more diversified sources of funding, extends its debt maturity profile, and in time is hoped to reduce its overall cost of financing. It also enables APICORP to more effectively deliver against its mandate to foster the development of the Arab energy sector, by extending attractive financing terms to its clients and partners, as well as improving the corporation's ability to participate in financing strategic energy-related projects, which may not immediately attract the commercial banks.



### 3.3 PAKISTAN MOBILE COMMUNICATIONS LIMITED (PMCL) – AIRTIME BASED *SUKUK AL MUSHARAKAH*

*By Shaikh Muhammad Asif, Assistant Vice President, Islamic Financial Advisory Services, Shari'ah Audit & Advisory, Meezan Bank Limited*

#### INTRODUCTION:

Pakistan's *Sukuk* market has made a modest contribution towards the world of *Sukuk* in terms of volume. However, in terms of innovation with worldwide acceptance, Pakistan's *Sukuk* market has contributed a lot by introducing innovative structures. As of writing these lines, the market is preparing for the launch of country's first Musharakah, (Shirkat-ul-Aqd) based *Sukuk* without any profit ceiling or capping. Regulatory restrictions coupled with Shari'ah limitations positively contribute towards development of such innovative Shari'ah structures.

Pakistan Mobile Communication Limited (PMCL) *Sukuk* was Pakistan's first airtime based *Sukuk*. Unlike its other structured alternatives this airtime *Sukuk* was backed by underlying ownership in airtime (represented by prepaid cards) and the performance was directly linked with the sale of airtime in the local market. The following case study will highlight the salient features of the Pakistan's first airtime based *Sukuk*, local currency denominated amounting to PKR 6.9 Billion or the equivalent of USD65.8 million, issued in December 2014. The proceeds were utilized to finance PMCL's on-going capital expenditure with specific focus on its rural network expansion and upgradation in line with the development mandate of the GuarantCo. Ltd., an international development finance institution which has the mandate to support development of infrastructure projects as well as promote capital markets development in lower and lower-middle income countries. Being the largest operator in Pakistan's highly competitive telecom sector, network expansion and upgradation were essential to PMCL's long term strategy of maintaining its leadership position in the market. The *Sukuk* was offered with floating rate ranging over the period of upto 5 years inclusive of 2 years grace period on principal portion. *Sukuk* investors will receive 3 months KIBOR plus 88 bps for the period, with return to be distributed on quarterly basis depending upon the sale of desired number of prepaid cards in the market.

#### BASIC INFORMATION:

|                          |   |
|--------------------------|---|
| <b>Issuer</b>            | Pakistan Mobile Communications Limited (PMCL)   |
| <b>Structure Type</b>    | Purchase followed by agency to Sell   |
| <b>Issue Size</b>        | PKR 6,900 million   |
| <b>Tenor</b>             | Up to five (5) years inclusive of two (2) years grace period on principal portion from the first Drawdown date.     |
| <b>Issue Date</b>        | December 22, 2014   |
| <b>Maturity Date</b>     | December 21, 2019   |
| <b>Return</b>            | Base Rate (3 Months KIBOR) plus 88 bps  |
| <b>Fixed or Variable</b> | Variable  |
| <b>Return Frequency</b>  | Quarterly depending upon the sale of desired number of cards  |
| <b>Investment Agent</b>  | Meezan Bank Limited   |
| <b>Tradability</b>       | Yes (provided at least 33% of the outstanding value of <i>Sukuk</i> representing unsold prepaid cards at all times) |
| <b>Listing</b>           | Option of listing over the counter  |
| <b>Rating</b>            | AA- / A1 of the company by PACRA (The Pakistan Credit Agency Limited)   |

**COMPANY BACKGROUND:**

Pakistan Mobile Communications Limited (PMCL) is the subsidiary of IWCPCL (International Wirelss Communication Pakistan Ltd) which is the subsidiary of world’s leading telecommunication company Vimpel Com Netherlands. PMCL is a leading Telecommunication company of Pakistan providing Voice & Data services throughout the country with largest subscribers i.e. more than 35 million and coverage area with more than 8500 cell sites. PMCL was incorporated in December 1990, as a private limited company and subsequently

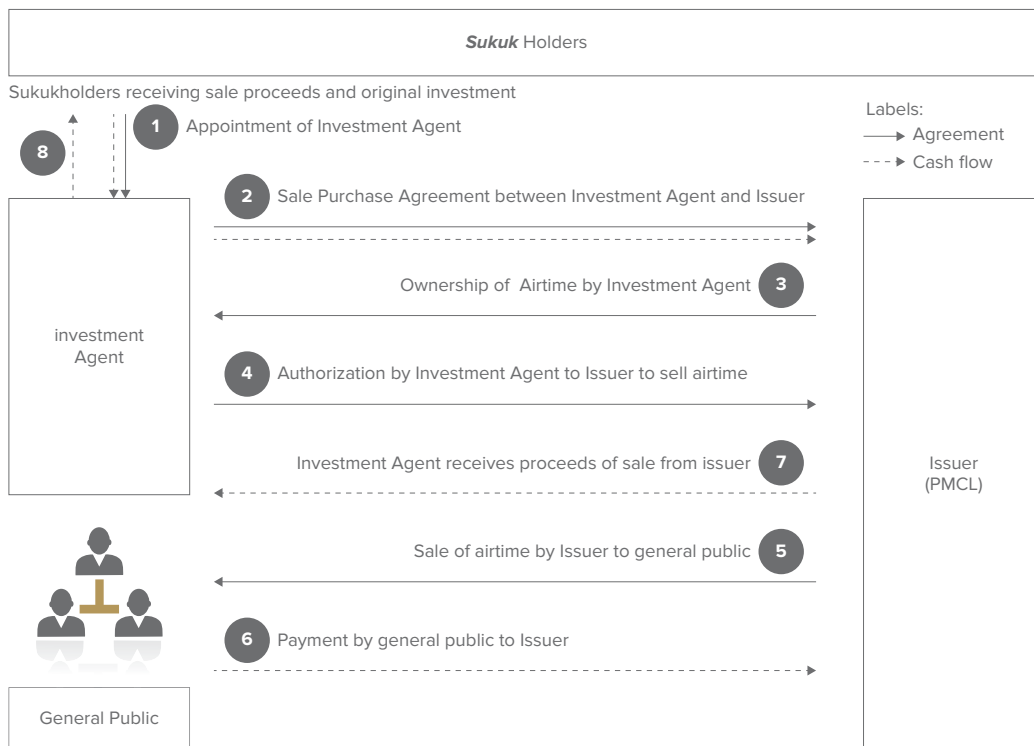
commenced commercial operations in August 1994. In March 2005, the Company was converted from a private limited company to an unlisted public limited company.

The company is constantly making investments in its infrastructure, Plant & Equipments and softwares for modernization of network technology and to market latest products of the telecom industry to remain competitive in the market.

**SUKUK STRUCTURE AND DIAGRAM:**

The structure diagram of the subject *Sukuk* transaction is as follows:

**STRUCTURE DIAGRAM:**



**DIAGRAM EXPLANATION:**

1. At the outset, the Investment Agent is appointed to act on behalf of the Islamic Financiers (Prospective *Sukuk* Holders).
2. On behalf of Islamic Financiers, the Investment Agent initially enters into a Sale Purchase Agreement, whereby the Investment Agent (as Purchaser), on behalf of Islamic Financiers, agree to purchase airtime (including voice calls, messages and other related services represented by identified prepaid card) from PMCL (as Seller) at a price discounted from its face value (*Sukuk* proceeds) from time to time during the Availability Period.
3. The Investment Agent, on behalf of *Sukuk* Holders, takes the ownership of the airtime (including voice calls, messages and other related services) represented by identified quantity and serial numbers of prepaid cards.
4. Under the Agency Agreement, the Investment Agent, on behalf of *Sukuk* Holders, authorizes the Issuer (PMCL) to sell the specified quantity of prepaid cards, at their respective face value, during each sales period (quarterly) to generate the required payment including principal and / or profit for that sale period as per the desired schedule.
5. The Issuer (PMCL) on behalf of *Sukuk* Holders sells airtime (represented by prepaid cards) to general public in the market. In case the actual sales generate excess amount of said required payment, the excess amount shall be either utilized to purchase further prepaid cards from the Issuer (PMCL) or to pay incentive fees to the issuer. However, in case PMCL, being the agent to sell the airtime to general public, couldn't sale the required quantity of prepaid cards to generate the required payment as per the schedule then PMCL, at its sole discretion, may provide the shortfall amount from its own as on account payment which will be immediately adjusted at the subsequent quarterly payment date.
6. Up on sale of airtime prepaid cards to general public, the Issuer (PMCL) receives the payment.
7. The Investment Agent receives the proceeds from sale of airtime (represented by prepaid cards) from PMCL for onward payment to *Sukuk* Holders. The required payment includes principal and / or profit as per the schedule.
8. *Sukuk* Holders receive the payment including principal and / or principal from the Investment agent at the end of the relevant sale period.

**UNDERTAKINGS:**

1. In order to cover the event of default, there is a unilateral Undertaking by PMCL to buy back the unsold quantity of prepaid airtime cards from the Investment agent at the initial discounted price at which the Investment agent purchased airtime (represented by prepaid cards).
2. To provide the prepayment option to PMCL, there is a unilateral Undertaking by the Investment Agent to sell the required airtime (represented by prepaid cards) at a price that will be mutually agreed at the time of executing such sale.

**SHARI'AH TECHNICAL ASPECTS:**

- a. **Tradability of Airtime *Sukuk*:** In order to allow the tradability of *Sukuk* certificates, it is ensured that at least 33% of outstanding value of *Sukuk* certificates represent the unsold airtime (represented by prepaid cards) at times.
- b. **Purchase Undertaking:** There is no undertaking involved whereby the issuer, in capacity of agent, undertakes to buy back the unsold airtime (represented by prepaid cards) which agent fails to sell to general public.

**Principal Transaction Documents:** The principal transaction documents include the following:

1. Investment Agency Agreement (Between Investment Agent and Financiers)
2. Sale and Purchase Agreement (Between PMCL and Investment Agent)
3. Syndicated Agency Agreement (Between PMCL and Investment Agent)
4. Undertaking by PMCL (By PMCL in favor of Investment Agent)
5. Undertaking to PMCL (By Investment Agent in favor of PMCL)
6. *Sukuk* Issue Agreement (Among PMCL, Investment Agent and Contributing *Sukuk* Holders)
7. Deed of Accession (Movables)
8. Deed of Accession (Receivables / Collection)

**GEOGRAPHICAL DISTRIBUTION OF INVESTORS:**

The *Sukuk* was only offered to Pakistani Investors.

**TRADING OPPORTUNITIES IN THE SECONDARY MARKET:**

The *Sukuk* has an option of being traded in “Over The Counter” market subject to approval of regulatory authorities.

**CONCLUSION:**

The *Sukuk* was well received by local investors mainly full-fledged Islamic Banks or Islamic windows of conventional banks. It also paves the way for other telecom companies to finance their capital expenditure and expansion plans by utilizing their services like airtime other than normal *Ijarah* based sale and lease back structure which is commonly used across the globe.

### 3.4 THE INTERNATIONAL FINANCE FACILITY FOR IMMUNIZATION (IFFIm) *SUKUK*

*By Michael Bennett, Head of Derivatives and Structured Finance, World Bank*

#### SUMMARY OF TRANSACTION

In December 2014, the International Finance Facility for Immunization (“IFFIm”) issued a truly landmark transaction in Islamic finance – a \$500 million “Vaccine *Sukuk*” for which the proceeds are used to support life-saving health and immunization programmes in the poorest countries of the world. The issue was one of the largest debut *Sukuk* issued by a supranational entity, as well as the first fully “socially responsible” *Sukuk* issuance in the international capital markets. In September 2015, IFFIm returned to the *Sukuk* market with a second “Vaccine *Sukuk*” issuance for \$200 million.

#### BACKGROUND ON IFFIm

IFFIm, established in 2006, finances immunization and vaccine procurement programs in many of the poorest countries of the world. IFFIm is supported by nine sovereign donors that have made legally binding pledges to pay USD6.3 billion over up to 20 years. IFFIm raises funds in the international capital markets in order to front-load its ability to use the long-term donor pledges more quickly to support its life-saving mission.

The World Bank is IFFIm’s Treasury Manager, responsible for all of its financial management, including its fund raising and asset management, under the direction of IFFIm’s Board of Directors. The World Bank has

helped IFFIm raise approximately USD5 billion since 2006, through bond issues in the international capital markets as a way of accelerating the availability of funds granted by donor countries over long-term horizons for immunization programs and health system strengthening by Gavi, the Vaccine Alliance.

It is estimated that with IFFIm funding, Gavi has been able to vaccinate approximately 100 million additional children with life-saving vaccines from 2006 to 2015. For the period from 2016 to 2020, it is estimated IFFIm will contribute to 300 million additional children being vaccinated with life-saving vaccines leading to 770,000 lives saved.

#### IFFIm – SOVEREIGN DONORS (AS OF DECEMBER 31, 2014):

| Donor           | Pledged Amount (in USD Million) |
|-----------------|---------------------------------|
| United Kingdom  | 2,980                           |
| France          | 1,719                           |
| Italy           | 635                             |
| Norway          | 264                             |
| Australia       | 256                             |
| Spain           | 240                             |
| The Netherlands | 114                             |
| Sweden          | 38                              |
| South Africa    | 20                              |

#### COUNTRIES CURRENTLY ELIGIBLE FOR GAVI VACCINE AND HEALTH SYSTEM STRENGTHENING PROGRAMMES (AS OF DECEMBER 31, 2015):

Afghanistan, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Cote d’Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, India, Kenya, Korea DPR\*, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Nigeria, Pakistan, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, South Sudan, Tajikistan, Tanzania, Togo, Uganda, Vietnam, Yemen, Zambia, and Zimbabwe

(\* GAVI does not use funds generated by IFFIm to support this country’s immunization programmes).

### THE “VACCINE *SUKUK*”

IFFIm’s Vaccine *Sukuks* provide investors with a socially responsible investment that will help protect tens of millions of children in poor countries against preventable diseases. The transactions mark the first time an issuer has accessed the international *Sukuk* market to raise funding for a purely charitable purpose. Investing in the Vaccine *Sukuk* was not, however, an act of charity by the investors. The *Sukuk* were rated Aa1 by Moody’s, due primarily to the strength of the financial support IFFIm receives from its nine sovereign donors, and the profit rate of the *Sukuk* was consistent with such a well-rated obligation issued by a supra national entity.

Through these transactions, IFFIm was able to successfully diversify its investor base, with the majority of the order books for both issuances coming from new and primarily Islamic investors in the Middle East and Asia. Prior to its inaugural Vaccine *Sukuk*, IFFIm’s investor base had been largely concentrated in the United States, Europe, Australia and Japan.

The landmark transactions were a tremendous success, bringing a new supranational entity to Islamic capital markets and paving the way for other supranationals to access the international *Sukuk* market. IFFIm has extended the boundaries of *Shari’ah* finance by launching the largest ever *Sukuk Al Murabahah* as well as the largest inaugural *Sukuk* from a supranational to date. Moreover, the transactions brought together two completely different but rapidly growing fields of fields - Islamic finance and “socially responsible investing” - for the first time.

The inaugural Vaccine *Sukuk* was recognized as a landmark for the market, being named 2014 Social Impact Deal of the Year from Islamic Finance News, Best Supranational *Sukuk* for 2014 from EMEA Finance, the 2015 Innovation in Islamic Finance Award from Euromoney, and the top Achievement in Transformational Finance by the Financial Times.

### TERMS OF THE INAUGURAL VACCINE *SUKUK*:

|                      |  |
|----------------------|--|
| Issuer:              | IFFIm <i>Sukuk</i> Company Limited   |
| Obligor:             | IFFIm  |
| Issue Type:          | Senior, Unsecured Trust Certificates   |
| Issue Rating:        | Aa1 (Moody’s)  |
| Issue Date:          | December 4, 2014   |
| Maturity Date:       | December 4, 2017   |
| Amount:              | USD500 million   |
| Profit Rate:         | USD3 month LIBOR + 15 bps (quarterly)  |
| Governing Law:       | English  |
| Global Coordinator:  | Standard Chartered Bank  |
| Joint Lead Managers: | Barwa Bank, CIMB, NCB Capital, National Bank of Abu Dhabi, Standard Chartered Bank |
| Co-Lead Managers:    | Bank Islam Brunei Darussalam and Union National Bank                               |

**TERMS OF THE SECOND VACCINE*****SUKUK*:**

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|                      |  |
|----------------------|--|
| Issuer:              | IFFIm <i>Sukuk</i> Company II Limited  |
| Obligor:             | IFFIm  |
| Issue Type:          | Senior, Unsecured Trust Certificates   |
| Issue Rating:        | Aa1 (Moody's)  |
| Issue Date:          | September 29, 2015   |
| Maturity Date:       | September 29, 2018   |
| Amount:              | USD200 million   |
| Profit Rate:         | USD3 month LIBOR + 14 bps (quarterly)  |
| Governing Law:       | English  |
| Global Coordinator:  | Standard Chartered Bank  |
| Joint Lead Managers: | Emirates NBD, Maybank, NCB Capital, National Bank of Abu Dhabi,<br>Standard Chartered Bank |
| Co-Lead Managers:    | Credit Agricole and Morgan Stanley   |

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**CONCLUSION**

In the aggregate, the two Vaccine *Sukuk* raised \$700 million, on orders of well over \$1 billion, in less than one year. This high level of demand shows the appetite of investors for this innovative type of product that offers investors both economic and social returns.

### 3.5 GOLDMAN SACHS *SUKUK*

By Hani Ibrahim, Head of Debt Capital Markets - QInvest

#### INSTITUTION BACKGROUND

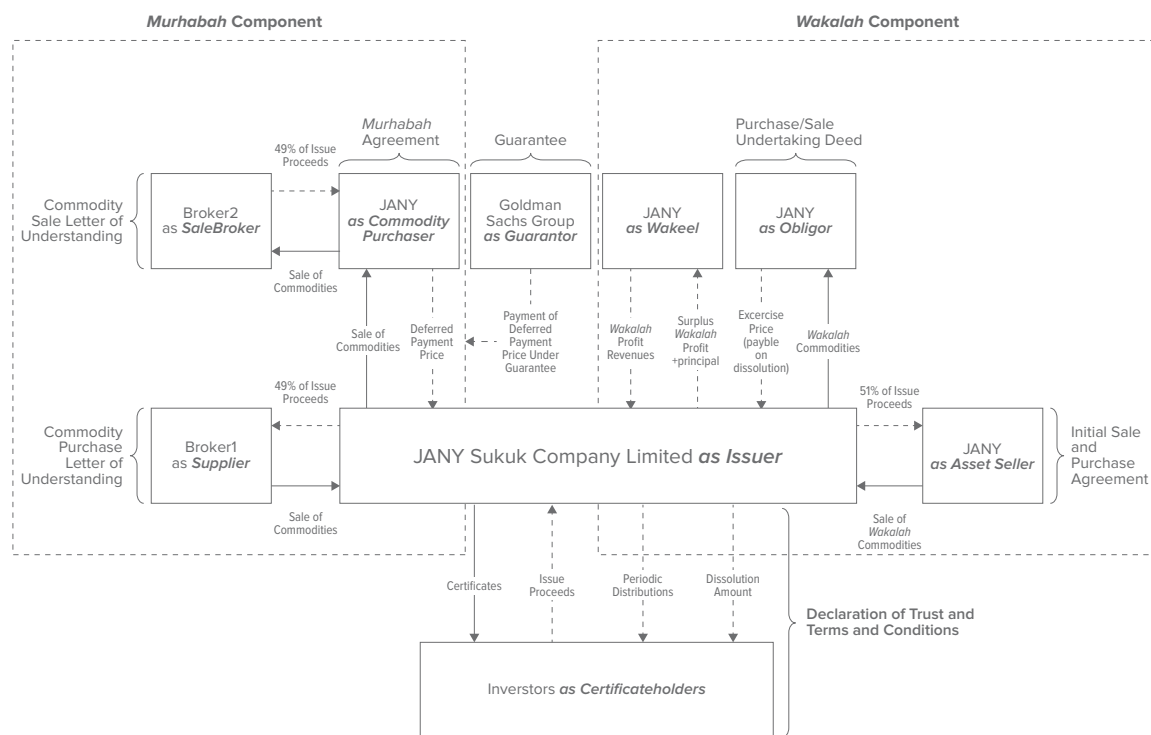
J. Aron & Company (“JANY”), which has been part of the Goldman Sachs Group (“GS Group”) for 30+ years, is the group’s commodities trading entity and an integral part of the GS Group. JANY is a wholly owned indirect subsidiary of GS Group. GS Group, the guarantor of the *Sukuk*, is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

#### TRANSACTION SUMMARY

|                               |   |
|-------------------------------|---|
| <b>Issuer</b>                 | JANY <i>Sukuk</i> Company Limited   |
| <b>Obligor</b>                | J. Aron & Company   |
| <b>Country of Transaction</b> | United States of America  |
| <b>Issue Type</b>             | <i>Sukuk Al Wakalah</i>   |
| <b>Issue Size</b>             | USD500 million  |
| <b>Issue Rating</b>           | A- (S&P) / A (Fitch)  |
| <b>Pricing Date</b>           | 16 September 2014   |
| <b>Issue Date</b>             | 23 September 2014   |
| <b>Tenor</b>                  | 5-year  |
| <b>Maturity</b>               | 23 September 2019   |
| <b>Profit Rate</b>            | 2.844%  |
| <b>Issue Format</b>           | Reg S only  |
| <b>Listing</b>                | Luxembourg Stock Exchange’s Regulated Market  |
| <b>Governing Law</b>          | English Law   |
| <b>Joint Lead Managers</b>    | Goldman Sachs International, Abu Dhabi Islamic Bank, Emirates NBD Capital, National Bank of Abu Dhabi, NCB Capital Company, QInvest |



**STRUCTURE DIAGRAM AND DESCRIPTION**



**TRANSACTION OVERVIEW AND PARTIES**

- The Issuer (a Cayman incorporated SPV) issued the certificates and applied the proceeds of the issuance in accordance with the *Wakalah* arrangements described below
- J. Aron & Company (“JANY”), which has been part of the GS Group for 30+ years, is the group’s commodities trading entity and an integral part of the GS Group. JANY is a wholly owned indirect subsidiary of GS Group
- JANY applied the *Wakalah* capital on behalf of the Issuer to invest (i) in a portfolio of *Shari’ah* compliant commodities (*Wakalah* commodities); and (ii) in *Shari’ah* compliant commodities to be on-sold for a deferred payment price under a *Murabahah* Agreement

**WAKALAH COMPONENT**

- 51% of the proceeds of the issuance of the certificates were invested under a *Wakalah* arrangement whereby JANY undertook to: (i) convey to the Issuer a

beneficial interest in a portfolio of *Shari’ah* compliant commodities; and (ii) endeavour to generate a return by trading the commodities in a *Shari’ah* compliant manner

- JANY entered into a purchase undertaking and the Issuer entered into a sale undertaking whereby JANY will acquire the beneficial interest in the *Wakalah* commodities at the early dissolution or maturity date of the certificates
- The purchase price of the *Wakalah* commodities acquired under the purchase undertaking or sale undertaking will be the market value of the commodities at the time of sale
- Certificateholders will forego the return of any surplus funds in respect of the *Wakalah* portfolio which exceed the amounts payable by the Issuer. Any such surplus funds will be retained by JANY as an incentive fee for its performance as *Wakil* under the *Wakalah* arrangement

**MURABAHAH COMPONENT**

- 49% of the proceeds of the issuance of the certificates were applied by the Issuer to acquire commodities from a third party broker
- The Issuer entered into a *Murabahah* transaction with JANY whereby the Issuer sold the commodities to JANY in return for a deferred payment

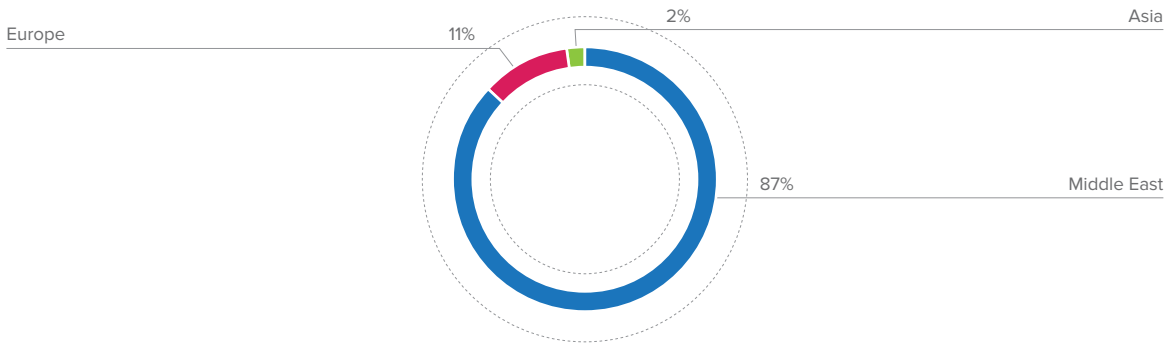
**GUARANTEE**

- Goldman Sachs Group guaranteed the deferred payment price under the *Murabahah* Agreement
- The certificates are rated A-/A by S&P/Fitch, respectively, identical to the ratings of The Goldman Sachs Group, based on the guarantee

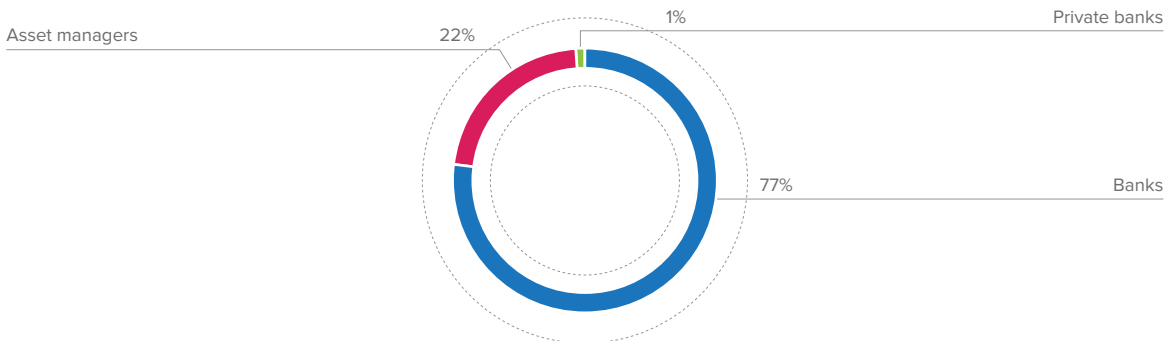
**DEMAND AND PRICING**

- Initial price thoughts were released at 6am London time on 16 September 2014. The orderbook grew quickly to over USD1.4bn within only 4 hours of books opening. This allowed Goldman Sachs to tighten guidance to MS+90-95bps
- The book continued its momentum as books went subject at 11am London time, closing at USD1.5bn
- Strong demand allowed Goldman Sachs to price at the lower end of the revised range: MS+90bps. This equated to a profit rate of 2.844% and a spread over US treasuries of 106bps

**DISTRIBUTION BY GEOGRAPHY**



**BY TYPE**



The final orderbook of USD1.5bn was made up of 36 accounts. The book was underpinned by a high quality investor base. The deal saw significant participation from the Middle East, with 87% of the book being booked by Middle East investors, which also attracted strong dedicated Islamic accounts

- The remainder was taken up by European and Asian investors
- Banks (both Islamic and conventional) made up the largest investor type and anchored the book from the outset
- Asset managers made up a significant portion of the remainder of the book

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## FOR INVESTORS

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Equities, fixed income, alternative asset classes

### Regulation

International standards of governance and transparency

### Settlement

Links with international CSDs make securities transfers easy



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# CHAPTER IV

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SUCCESS IN HARMONY

## ARTICLE CONTRIBUTION

### 4.1 LISTINGS UNDERPIN THE GLOBAL GROWTH OF THE *SUKUK* SECTOR

*By Hamed Ali, Chief Executive, Nasdaq Dubai*

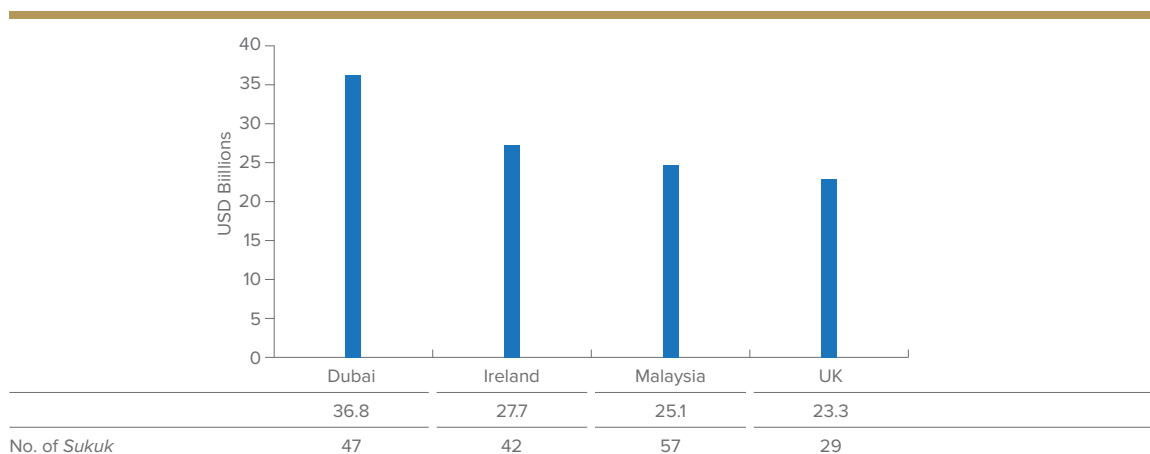
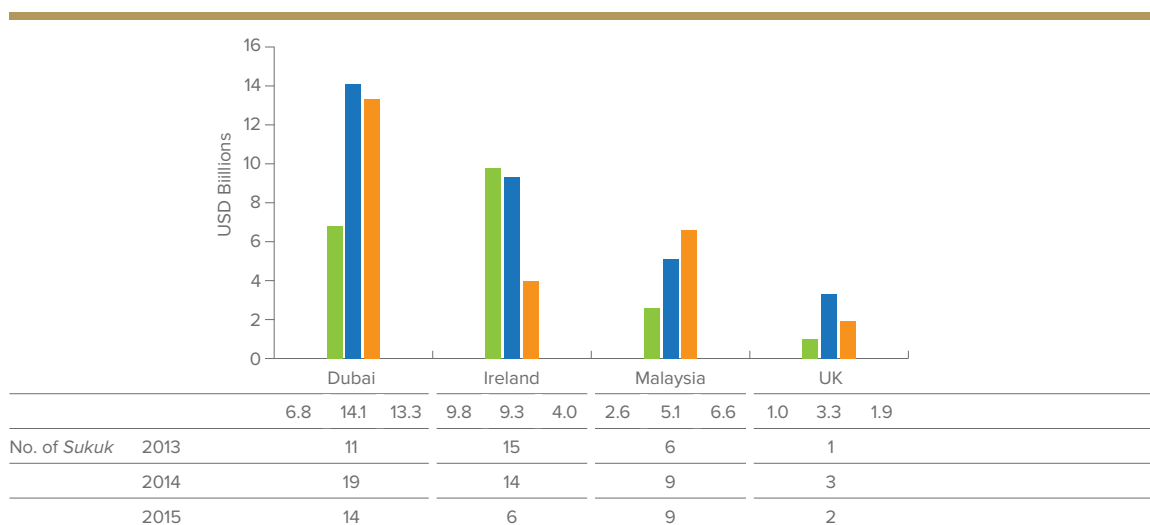
Though new *Sukuk* issuance has shown a strong upward trend overall in recent years, the amount coming on stream in any given period has proved highly cyclical, as with any asset class. One feature of the *Sukuk* market has shown great consistency however, even as the amount of issuance has fluctuated. That is the strong appetite among issuers to list their securities on a leading stock exchange. This is a welcome development as it underpins investor confidence in the market as it expands regionally and internationally.

Listings that came on to Nasdaq Dubai up to mid-November in 2015 totaled USD13.3 billion, very close to the USD13.4 billion that listed during the much more active issuance year of 2014. While this partly reflects the growth in the relative importance of Nasdaq Dubai as a *Sukuk* listing centre, compared to other listing venues, it also demonstrates the growing awareness among issuers of the many advantages that a listing provides. This does not only apply to new issuances; the exchange has also succeeded in attracting listings of issuances that were made in previous years.

Four markets dominate the *Sukuk* listing landscape - Dubai, Ireland, Malaysia and the UK. Currently these centres host a total of 139 *Sukuk* with a total nominal value of USD84 billion (counting dual listings once only).

Dubai has emerged as the leader by value with USD36.8 billion, of which 93%, or USD34.1 billion, is listed on Nasdaq Dubai, and the rest on Dubai Financial Market. Next is the Irish Stock Exchange at USD27.7 billion; followed closely by Kuala Lumpur together with Labuan International Financial Exchange in Malaysia with a total of USD25.1 billion; and then the London Stock Exchange at USD23.3 billion.

In 2015 so far, Nasdaq Dubai's new listings of USD13.3 billion have exceeded those of the other three main listing centres combined, which have attracted a total of USD12.5 billion.

**CHART: SUKUK LISTING CENTRES BY NOMINAL VALUE****CHART: NEW ADMISSIONS OF SUKUK****CHANGING TRENDS**

The expansion of the *Sukuk* market globally has been reflected in the rapidly growing breadth and diversity of Nasdaq Dubai's issuer base. In 2012, the exchange attracted two *Sukuk* listings, both from UAE issuers, one a free zone and the other a property company. The following year the number of listings jumped to 10, valued at USD6.12 billion. Again, all the issuers were UAE-based, but there was a widening of the industries they represented, to include utilities, transport, finance, property and education.

Then in 2014 a striking new trend emerged, which helped to more than double the value of new listings on the exchange over 2013. This was the arrival of non-UAE and major sovereign issuers. Of the 18 listings worth USD13.4 billion that joined Nasdaq Dubai's market in 2014, no less than 11 came from overseas. These issuers included the Islamic Development Bank, representing 53 countries. It was hardly a surprise to see such an organization listing Islamic products. But so too did the government of Hong Kong, not a traditional player in Islamic finance, which listed its first ever *Sukuk* issuance.



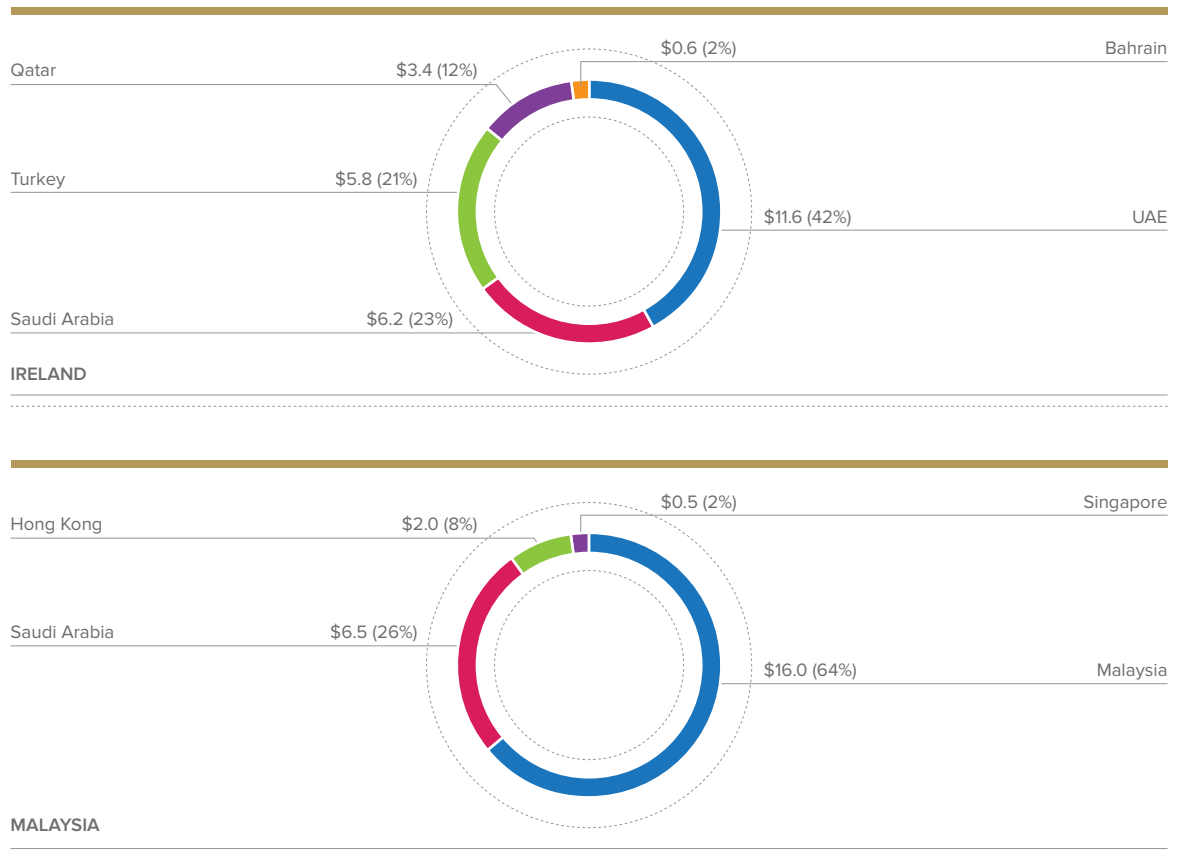
This welcome pattern has continued in 2015. Of 16 listings so far, seven have been from overseas. These comprise the government of Indonesia, the world’s most populous Muslim country, a second issuance from Hong Kong, and a listing by the International Finance Corporation (IFC), part of the World Bank group, among the continuing stream of UAE issuers. Nasdaq Dubai’s market thus reflects the dynamics of the global *Sukuk* market, in which sovereigns have increased their share of issuance in recent years relative to private issuers, and more entities in non-Islamic countries are choosing to support the asset class as issuers.

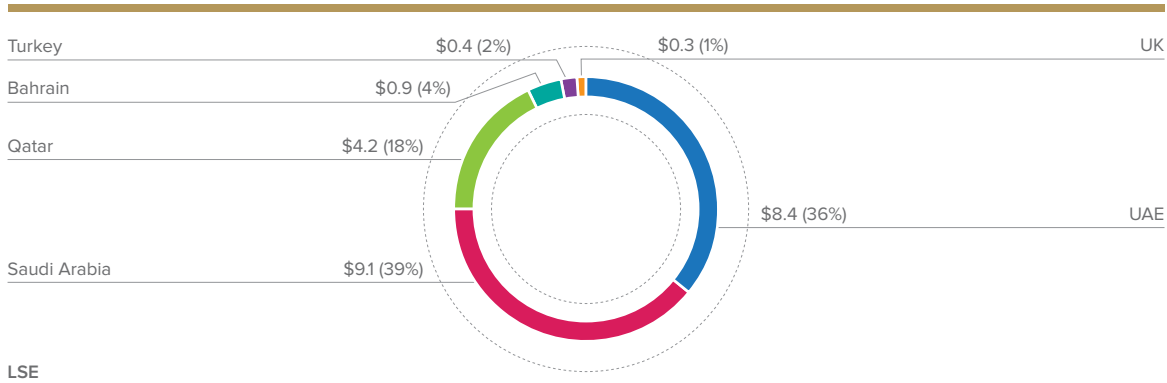
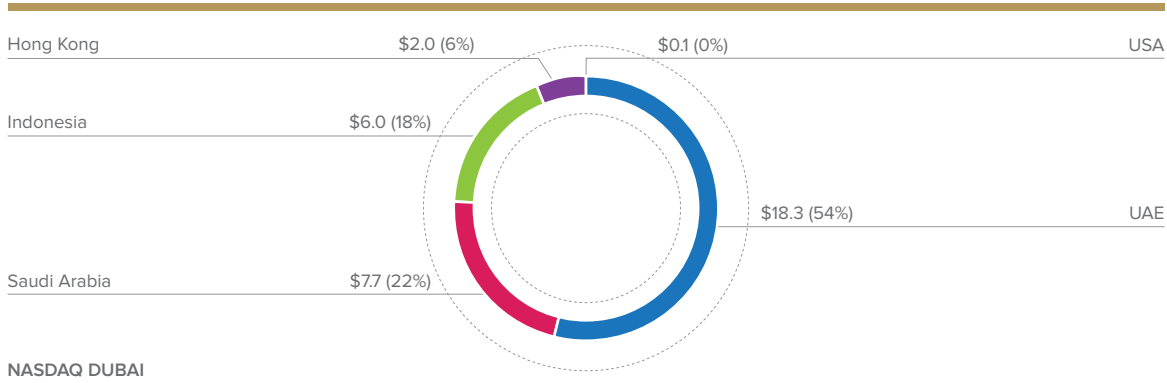
An analysis of the average size of current listings on the top four markets puts the UK at USD802 million from its

29 listings, with Nasdaq Dubai next at USD792 million from its 43 listings. Ireland is at USD659 million from 42 listings, while the Malaysian average size is much lower at USD440 million from 57 listings.

The smaller Malaysian figure may reflect the nature of its *Sukuk* market, which more than any other is dominated by domestic issuers. Eighty-four percent of *Sukuk* listed in Malaysia come from Malaysian entities, compared to just 63% on Nasdaq Dubai coming from the UAE. The UK has just one domestically issued *Sukuk*, launched by the government in 2014, and Ireland none, reflecting the very recent entry of these two markets into the Islamic finance sector.

**CHART: ORIGIN OF SUKUK LISTED ON TOP MARKETS (USD BILLIONS)**





Another difference between Malaysia’s market and the other three top markets is that 67% of the number of issuances listed on it are denominated in the country’s national currency, the ringgit; while on the other three markets the currency of every single listing is the US dollar – except for the UK government’s *Sukuk*, listed in London, which is in sterling.

Many issuers who come to Nasdaq Dubai are seeking international investors for their *Sukuk*, and we believe the same is true of many issuers who have listed in London and Dublin. This explains their choice of the dollar, as international investors often prefer dollar-denominated assets to local currency assets.

The arrival in the market of more sovereign issuers in recent years has markedly increased average issue size on Nasdaq Dubai. The average sovereign issuance on the exchange is USD1.14 billion, with the largest being USD2 billion and the smallest USD500 million. The average size of corporate issuances by contrast is USD593 million, ranging between USD1.5 billion and USD200 million.

**LISTING BENEFITS**

As well as selecting the most appropriate currency, issuers seeking international investors require global visibility for their *Sukuk*. They also seek high regulatory standards, which provide comfort to investors who may not be very familiar with the issuing entity. On both counts, a listing on an international exchange gives issuers a big advantage.

Issuers on Nasdaq Dubai tell us that the publicity they gain from a listing is a significant factor in their decision to come to the exchange. It can include a high-profile bell-ringing ceremony at which a senior executive of the issuer opens the Nasdaq Dubai market above the trading floor, supported by senior officials of the exchange and other prominent Dubai figures. As well as media interviews and a press release, the exchange also arranges a prominent welcome message for the *Sukuk* on the giant Nasdaq Tower in Times Square, New York.

Regulatory oversight for Nasdaq Dubai issuers is provided by the Dubai Financial Services Authority

(DFSA), the international regulator inside the Dubai International Financial Centre (DIFC) where Nasdaq Dubai is based. Half-yearly financial statements and other material disclosures must be made to the public, which makes the *Sukuk* a more attractive investment for many purchasers than an unlisted security where no disclosures are required.

Issuers seek an efficient, flexible and streamlined listing process. With several international exchanges to choose from, they are able to demand a competitive service. Indeed some list their issuance on more than one exchange. Eight Nasdaq Dubai listings are shared with Bursa Malaysia, 12 with the London Stock Exchange, and 16 with the Irish Stock Exchange, for example.

Nasdaq Dubai has honed its procedures accordingly to meet issuers' requirements, while maintaining its high international standards. The exchange is aware that the

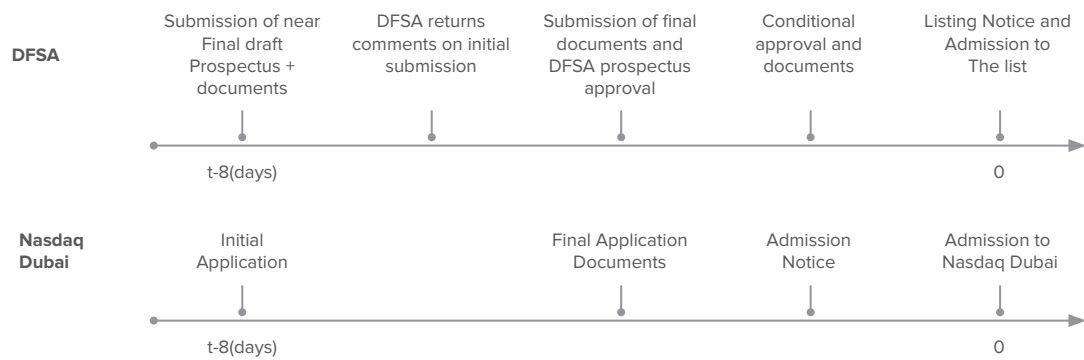
date of issuance and listing, as well as the issue size, must often be decided at a late stage for commercial reasons, and is able to respond to fast-moving circumstances.

From the outset, the exchange works closely with the issuer and its advisors. A near final draft prospectus (if required) and other relevant documents are typically submitted to the DFSA eight days before listing, with an initial admission application being made to Nasdaq Dubai at about the same time.

This gives a breathing space for any comments by regulator and exchange to be addressed, in good time for final approval for listing and admission to the market to be received by the issuer shortly before the listing date.

In the case of sovereign issuers, as well as *Sukuk* that have already been listed on a recognized exchange, no prospectus is required for a Nasdaq Dubai listing.

**CHART: SUKUK INDICATIVE TIMELINE FOR LISTING ON NASDAQ DUBAI**



*Timeline may vary based upon application for listing and trading*

## LISTING LANDSCAPE

Most *Sukuk* are not listed on any exchange. In many cases, this is for good reasons. The tenor may be too short; there may be little point in listing an instrument that will expire in three months time. Or the amount raised may be too small; the cost of listing could be difficult to justify for a capital raise of just a few million dollars. Many issuers also believe there is little to gain from listing an issuance aimed only at domestic investors.

But as the *Sukuk* market continues to mature and globalise, with increasing participation by international issuers seeking international investors, and more substantial issue sizes, the number of issuances that benefit from a listing will continue to increase. Twenty-one per cent of one of the Indonesian government's *Sukuk* was sold to investors based in the US, which is not a traditional market for Islamic products. American investors also bought more than 30% of a *Sukuk* issued by a prominent UAE company that listed on Nasdaq Dubai in 2015. More than 45% of another 2015 UAE issuance went to European and Asian investors. Without doubt, it is easier to reach such investors with an instrument that is listed on an internationally recognised exchange. We also believe that issuers seeking primarily domestic investors will increasingly see the value of a listing, as the sector as a whole moves towards an exchange-based environment.

## 2015 SUKUK LISTING CASE STUDIES

### Government of Hong Kong

This was the second *Sukuk* to be listed on the exchange by the government of the Hong Kong Special Administrative Region, following its inaugural *Sukuk* listing in September 2014.

#### Transaction Details

|                   |               |
|-------------------|---------------|
| Issuance Value    | USD1 billion  |
| Listing Date      | 4th June 2015 |
| Tenor             | 5 years       |
| Over Subscription | 2 times       |
| Rate              | 1.89%         |

As the only international exchange in the Muslim world, Nasdaq Dubai is well placed to provide increasing support to the *Sukuk* sector. Its location in the GCC, which provides a major portion of *Sukuk* issuers as well as investors, has helped to make the exchange an increasingly popular choice for listings. The ecosystem of Islamic finance specialists based in the UAE, including scholars, bankers and lawyers, adds depth to the Dubai listing infrastructure. This critical mass is a key element of the drive by Dubai to become the global capital of the Islamic economy, under an initiative announced in January 2013 by Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President and Prime Minister, and Ruler of Dubai.

Since that announcement, GCC as well as international issuers have increasingly chosen Dubai as their *Sukuk* listing venue. We believe this trend will continue. As the market expands, opportunities will arise for Nasdaq Dubai to take further steps to develop the sector in collaboration with market participants. Bringing *Sukuk* trading on exchange, and encouraging retail interest in the asset class, are just two of the exciting possibilities that lie ahead.

### Government of Indonesia

This was one of four *Sukuk* totaling USD6 billion listed on the exchange by the government of Indonesia during the year.

#### Transaction Details

|                   |               |
|-------------------|---------------|
| Issuance Value    | USD2 billion  |
| Listing Date      | 31st May 2015 |
| Tenor             | 5 years       |
| Over Subscription | 3.4 times     |
| Rate              | 4.325%        |

## 4.2 THE MAKING OF A PERFECT STORM FOR GCC SUKUK

*By Ibrahim Bitar, Head of Trading, Noor Bank*

The divergence in the *Sukuk* market conditions between the beginning and end of 2015 has been as contrasting as anything observed since the onset of the financial crisis. The trading year began strongly with diverse offerings, ranging from debut senior names to a repeat Tier 1 issuer, all being easily absorbed by the market. By June, GCC US Dollar credit supply was less than \$10 billion while the redemptions were approximately \$4 billion. Summer saw lighter trading volumes but no different to anything experienced in previous holiday periods, and investors seeking higher yields drove valuations to higher levels. By September, GCC *Sukuk* had reached quite expensive levels versus other comparable emerging markets. In 2013 the Saudi Electric Company 2023 *Sukuk*, for example, had traded flat to 30 bps inside the equally rated Chinese State Oil Company CNOOC 2023 issue. By the third quarter of 2015 it had reached 80 bps inside CNOOC 2023.

The major contributors to the relatively expensive GCC *Sukuk* valuations were demand and supply forces. On the demand side, plentiful liquidity at GCC banks drove deposit and interbank rates to excessive lows and, in the process, dragged *Sukuk* yields lower with them. Regional investors, including retail, facing low deposit rates invested into the higher yielding *Sukuk* to chase profits. On the supply side, GCC issuers, who had plenty of capital and alternate cheap bank financing options, didn't rollover maturing *Sukuk* that were issued in 2009-2010 when market funding was needed. As a result regional investors were accumulating cash with fewer *Sukuk* options to re-invest into.

As the market entered the fourth quarter the environment changed quickly and dramatically. GCC governments, facing lower oil revenues, sticky existing expenditure plans and rising new expenses for regional conflicts, initially withdrew deposits from GCC banks and eventually borrowed from the banks to fund their rising fiscal deficits. As an example, Saudi Arabia is forecast to have borrowed \$36 billion in local currency by the year end, and is expected to borrow a similar amount in 2016. This dynamic is not restricted to Saudi Arabia.

The double whammy of GCC governments withdrawing deposits and borrowing from banks has sucked out the large liquidity surpluses from the banking sector. Interbank deposit rates rose significantly for most GCC

banks and lending rates rose accordingly in a "crowding out" of the private sector. Customers correspondingly increased the profit rates expected on their deposits as they realised that they finally held some bargaining power, after several years of declining deposit returns. Exacerbating the change in market conditions, and the reduced liquidity, has been the increase in non-performing loans from small to medium enterprises, who have been struggling from the impact of commodity price shocks.

The abrupt move from plentiful to scarce liquidity had negative consequences for the region's asset prices. At the time of writing, regional equity indices are down 30% from their 2015 peaks. Such a drop in asset prices has a negative effect on GCC consumer confidence and spending through the wealth effect. The *Sukuk* market, which seemed short on supply at the close of the third quarter, struggled to digest the three new regional issues when they came to market, in quick succession, early in the fourth quarter.

Adding to the pressures, the stronger US Dollar, which all GCC currencies except Kuwait are pegged to, has had a negative impact on the economies as it has made GCC exports more expensive. In the UAE, where tourism is a substantial contributor to the economy, hotel occupancy rates have dropped and retail spending has been declining.

The large surpluses enjoyed by several GCC countries have declined, or evaporated, and accumulated reserves have been tapped to fund government expenditure programmes. This has prompted S&P to downgrade Saudi Arabia's credit rating, and the IMF has suggested that, at the current level of spending, Saudi Arabia will have used all of its excess reserves by 2020. Other governments are under imminent credit rating reviews. GCC earnings have understandably deteriorated as the price of oil remains the main driver of the region's growth. As the second and third order effects work through the economies, we are likely to see a vicious cycle of lower earnings, reduced employment and less spending until an equilibrium is reached.

What strategy should investors pursue as we head into 2016? There will be good investment opportunities as the region emerges from this contracting environment. In managing through this period, a good idea is to ladder a portfolio of high quality *Sukuk* with a 12 month maturity. Cash hasn't looked this good since 2008. It would also be a good idea to familiarize yourself with *Sukuk* from other regions in order to provide some diversity from GCC exposures.

DISCLAIMER: THIS IS NOT INVESTMENT ADVICE

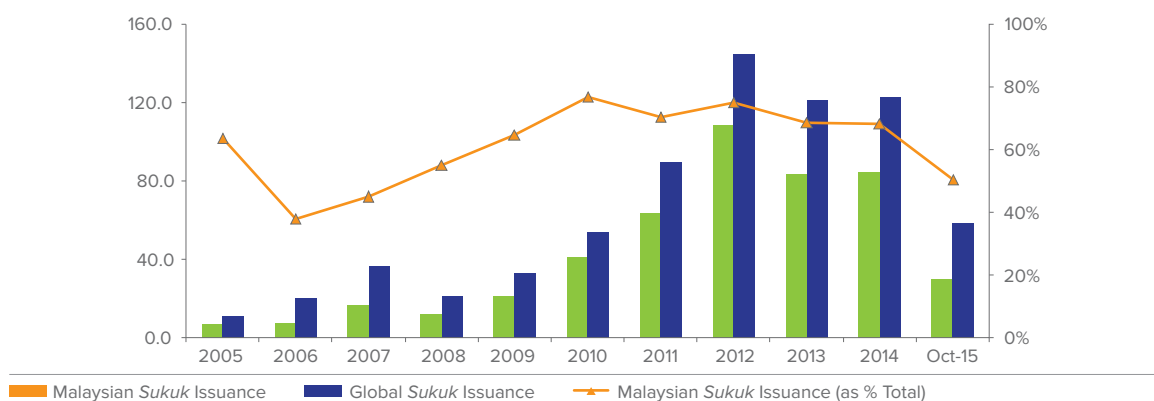
### 4.3 SUKUK MARKET ANALYSIS

By Ram Rating Services Berhad

A decade of growth only marks the beginning for the *Sukuk* market, which has been propelling Islamic finance into the mainstream global financial system. Outstanding global *Sukuk* had grown to more than USD280.0 billion by end-October 2015, from a little over USD20.0 billion ten years ago, when issuance had been concentrated around just a handful of issuers. In this publication, RAM Ratings reviews the global *Sukuk* landscape vis-a-vis how Malaysia - as the world's largest *Sukuk* market – has performed, and what to expect as 2015 draws to a close.

As a leader in the development of the *Sukuk* market, Malaysia's success is attributable to the Government and the regulators' concerted efforts to turn the country into an Islamic financial centre. Driven by this, Malaysia reinforced its dominance over global *Sukuk* issuance with a 51% share (equivalent to USD29.4 billion) as at end-October 2015; the GCC followed with 29% (equivalent to USD16.9 billion). Historically, both markets have been accounting for 70%-80% of global *Sukuk* issuance.

**CHART 1: GLOBAL SUKUK ISSUANCE (FROM 2005 TO END-OCTOBER 2015)**



Source: Zawya

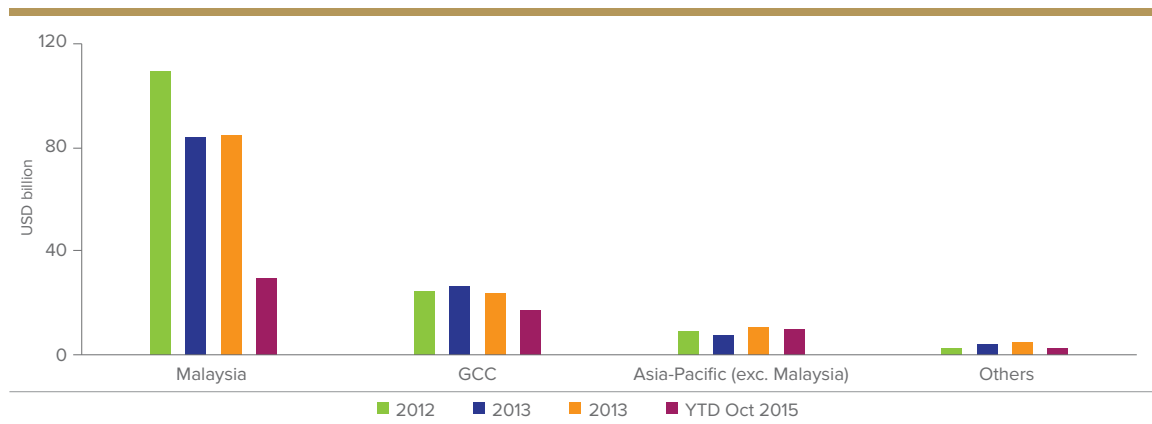
#### 1) GLOBAL REVIEW: SUKUK ISSUANCE IN 2015

##### A) GLOBAL SUKUK ISSUANCE BY REGION

In tandem with the global economic slowdown that started in 2012, *Sukuk* issuance from Malaysia and the GCC have been trending downwards amid tumbling oil prices and - particularly for Malaysia - the impact of depreciating currencies. The after-effects have been felt more by Malaysia as Bank Negara Malaysia (BNM) decided to halt the issuance of Islamic securities

in 1H 2015. The proliferation of alternative liquidity-management products in the market had reportedly been the reason for the central bank's action.<sup>1</sup> Nonetheless, BNM has resumed the issuance of Islamic securities, which summed up to USD131.0 million as at end-October 2015.

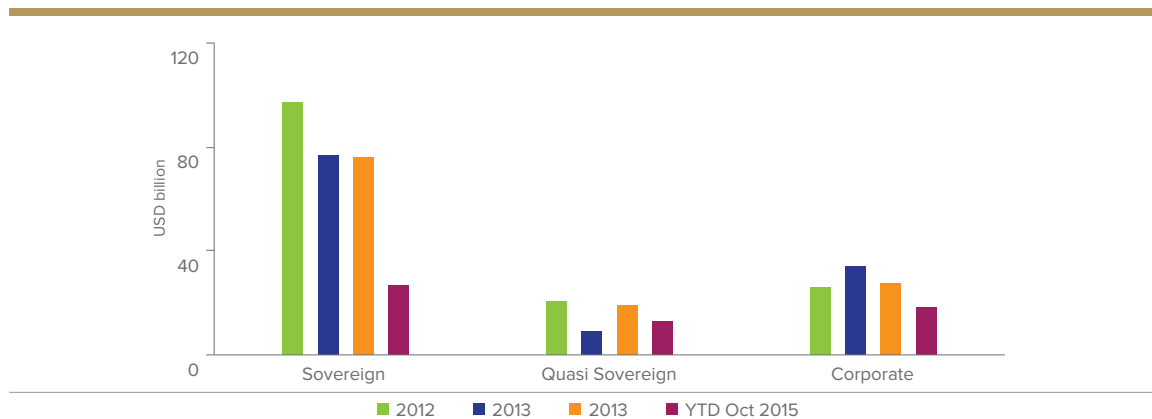
<sup>1</sup>Source: Bloomberg, 14 July 2015

**CHART 2: GLOBAL SUKUK ISSUANCE BY REGION**

Source: Zawya

**B) GLOBAL SUKUK ISSUANCE BY TYPE OF ISSUER**

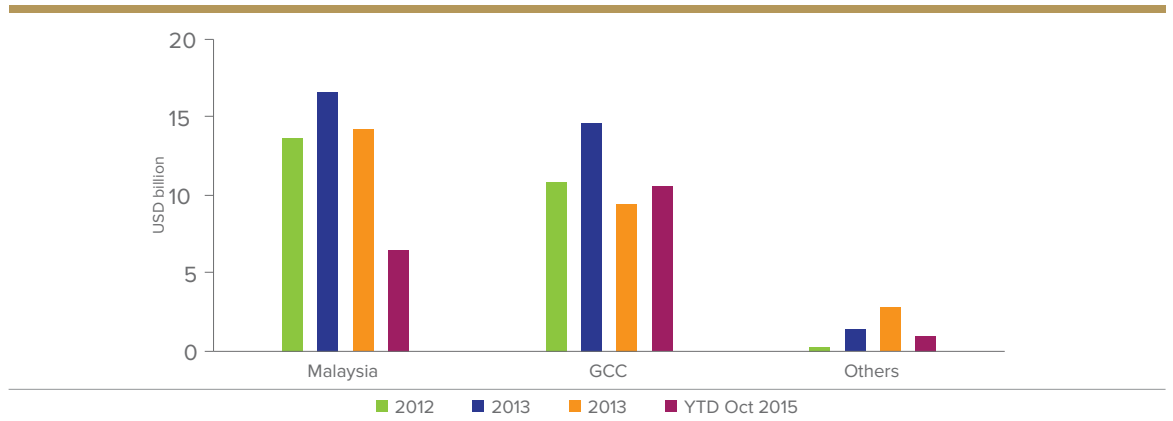
In 2014, non-Islamic countries stepped-up the issuance of *Sukuk*, supported by the debut of sovereign issues from the United Kingdom, Hong Kong, Senegal and South Africa. This trend continued through 2015, i.e. Hong Kong's second *Sukuk* issue in May, followed by the debut of Oman and the Ivory Coast in October and November, respectively. The value propositions offered by *Sukuk* underline its attractiveness as an alternative funding solution, for the diversification of investor base and to take advantage of the increasing demand for *Shari'ah*-compliant assets.

**CHART 3: GLOBAL SUKUK ISSUANCE BY TYPE OF ISSUER**

Source: Zawya



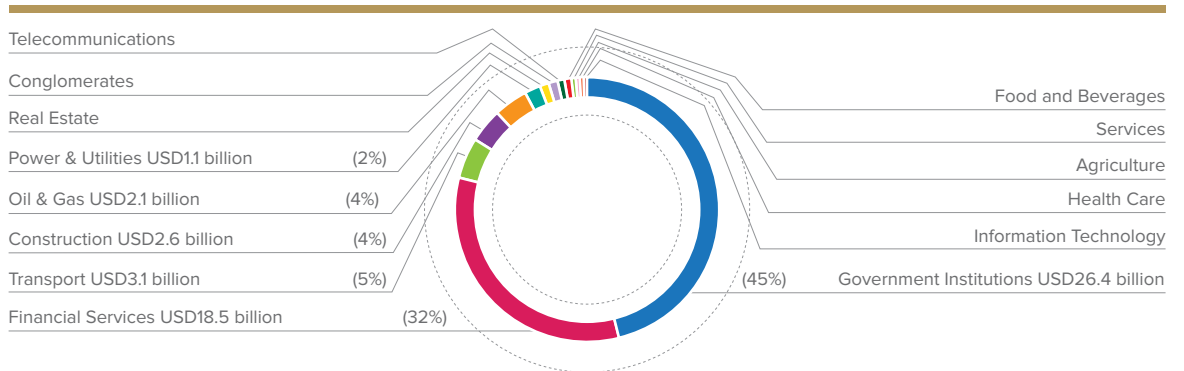
**CHART 4: CORPORATE SUKUK ISSUANCE BY REGION**



Source: Zawya

In an emerging *Sukuk* market, the availability of sovereign *Sukuk* issues acts as a catalyst in creating a benchmark yield curve to promote greater issuance from the corporate sector. As at end-October 2015, corporate *Sukuk* issuance had steadily grown to approximately 31% (equivalent to USD18.3 billion) of global *Sukuk* issuance. Given the weakening of the ringgit, the value of Malaysia’s corporate *Sukuk* had shrunk to 36% or USD6.5 billion of the total corporate issuance value, compared to the GCC’s 59% or USD10.6 billion. At the same time, global *Sukuk* from the corporate sector is dominated by issuers from the financial services, construction, transport and power & utilities sectors, which in turn come under the umbrella of infrastructure development.

**CHART 5: GLOBAL SUKUK ISSUANCE BY SECTOR (AS AT END OCTOBER 2015)**



Source: Zawya

## 2) MALAYSIA: 2015 RATING REVIEW

Over the past 25 years, RAM Ratings' portfolio of rated private debt securities (PDS) had grown to USD234.0 billion as at end-October 2015. Of this, about USD125.0 billion or 53% comprised *Sukuk* encompassing many pioneer structures that have contributed to the breadth and diversity of *Sukuk* products in the Malaysian bond market. In 2015, RAM Ratings' portfolio of rated foreign entities expanded to include Turkey's largest Islamic bank, Kuveyt Turk Katilim Bankasi AS, which issued a RM2.0 billion *Sukuk Wakalah* programme through its funding conduit, KT Kira Sertifikalari Varlik Kiralama AS. To date, RAM Ratings cumulative portfolio of rated foreign issuers and/or related credit assessments include 31 foreign entities from 15 countries. While market conditions still influence decisions on issuance and timing, the success of cross-border *Sukuk* issues has been largely driven by Malaysia's strong regulatory initiatives as well as the availability of a supportive tax and legal framework

Following the introduction of Malaysia's sustainable and responsible investment (SRI) guidelines in August 2014, Khazanah National Berhad had been the first corporate to respond with its RM1.0 billion SRI *Sukuk*. The first RM100.0 million 7-year tranche was issued in June 2015 and was fully subscribed by a diverse investor group that included foundations, corporates, banks, pension funds and asset-management companies.<sup>2</sup> The AAA rating assigned by RAM Ratings reflects the credit strength of Khazanah as the ultimate obligor under the financing structure. Other notable issuers include infrastructure and utility companies that have raised *Sukuk* to fund their ongoing infrastructure projects and/or to refinance their existing borrowings, as well as Islamic financial institutions tapping the *Sukuk* market to fulfil their capital requirements.

Against the backdrop of the slowing domestic economy and the ringgit's tumble, RAM Ratings has stress tested its portfolio of rated entities. Based on this, we have concluded that the stress tests have exerted a minimal impact on their credit profiles. Even though foreign-currency debts make up a large proportion of their debt profiles (i.e. about half of the rated corporates), the downside risks are mitigated by the natural hedge in the form of foreign-currency assets and/or earnings

while credit quality (i.e. some 90% of RAM Ratings-rated issuers are rated AA and above) is supported by moderate leverage and strong liquidity<sup>3</sup>.

## 3) ESTIMATES FOR 2016

Malaysian Budget 2016 provides tax deductions on the issuance cost of qualified Islamic securities as well as SRI *Sukuk*, in line with the government's aspiration of turning Malaysia into a global Islamic financial centre. In the interest of promoting innovative structures, the SRI *Sukuk* issued by Khazanah has become a landmark issue and has propelled Malaysia ahead of the curve vis-a-vis encouraging the development of new asset classes that have distinctive features not found in conventional bonds. With the stimulus measures for SRI *Sukuk* in projects such as wind- and solar-powered generation or affordable housing, the Government has been encouraging the private sector to play a more prominent role.

The development of innovative structures that meet the varied needs of issuers and the expansion of the range of supporting assets have mapped out the growth trajectory for *Sukuk*. The market has welcomed an array of perpetual, subordinated tier-1 and tier-2 *Sukuk* issues from financial institutions, with a view to supporting their capital ratios and complying with global capital structures (i.e. Basel III). In particular, infrastructure projects in Malaysia form the bedrock in efforts to deepen its *Sukuk* market. Projects committed to under the Economic Transformation Programme, the 11<sup>th</sup> Malaysia Plan and Budget 2015 are expected to shore up *Sukuk* issuance in Malaysia in the near term. Meanwhile, future *Sukuk* issuance in the GCC will be aimed at supporting the infrastructure development of Saudi Arabia, Bahrain and Kuwait.<sup>4</sup>

Relative to conventional bonds, the global *Sukuk* market has great potential for growth. The outstanding value of global bonds summed up to around USD80.0 trillion as at end-2014, compared to USD281.8 billion of outstanding *Sukuk* as at end-October 2015. As Islamic finance achieves greater inclusion among international players (i.e. by issuers and investors), we expect the growth of the *Sukuk* market to remain resilient and become an instrumental mainstream funding option.

<sup>2</sup>Source: Khazanah's press release dated 4 June 2015, Khazanah issues world's first Ringgit-denominated sustainable and responsible investment *Sukuk*.

<sup>3</sup>Source: RAM Ratings' press release dated 19 October 2015, RAM Ratings shares 2016 sectoral outlook at investor briefing.

<sup>4</sup>Source: RAM Ratings' Regional Commentary: GCC Focus, November 2015.

#### 4.4 EUROPEAN PERSPECTIVES ON THE GROWTH OF THE ISLAMIC CAPITAL MARKET

By DDCAP Group

##### INTRODUCTION

The Islamic Financial Market continues to outgrow and outpace its conventional counterparts despite the economic slowdown globally. According to the TheCityUK 2015 Islamic Finance Report, the global demand for Islamic financial services, as measured by *Shari'ah* compliant assets, has increased by 12% in 2014 to a record \$2trillion and tripled even in the face of the post economic crisis since the 2007/2008 period.

Indeed, the growth of *Shari'ah* compliant assets during this period was no coincidence, as the demand for products such as *Sukuk* and *Sukuk* funds was predicated on the availability of a more resilient alternative to conventional finance after the problems encountered in the conventional space which led to the 2007/2008 economic crisis.

Within this context, *Sukuk* continue to play an active role in the Islamic finance space with increasing demand and interest from sovereigns, multilateral agencies and corporates for their financing needs. The importance of *Sukuk* cannot be under emphasised as investors and issuers view it as a platform to manage liquidity, provide asset and infrastructure financing in the real economy and, lastly, as diversification to achieve insulation from the volatility of other asset classes.

*Sukuk* have in recent times become dominant in the development of the Islamic capital market. The demand has been driven largely by increasing awareness that *Sukuk* is a valuable source of liquidity for sovereigns, quasi-sovereign and corporate issuers. The last three years has seen this dominance in real terms with *Sukuk* issuances surpassing the USD100 billion mark and the addition of sovereign issuers from both Muslim and non Muslim jurisdictions.

The issuance of the first Ijara *Sukuk* by the United Kingdom government in 2014 in the amount of GBP200 Million followed by the governments of Luxembourg EUR200 Million, Senegal XOF100 Billion, Hong Kong USD1 Billion and South Africa USD500 Million puts the above issuance statistics into context. Although, the vast majority of *Sukuk* issuances are still in the domain

of sovereign and quasi-sovereign, there are strong indications that, with increasing awareness, the market anticipates demand coming from the corporate sector as well, including Europe where there has been a tightening of liquidity overall in the conventional markets and hence a re-appraisal of other forms of funding.

Unsurprisingly, the traditional "*Sukuk*" markets of Malaysia, Saudi Arabia, Bahrain, and Dubai, although slightly subdued recently; still represent collectively the highest levels of *Sukuk* issuance in the world. Dubai recently surpassed Malaysia in *Sukuk* issuance due in part to the Malaysian Central Bank's (Bank Negara Malaysia (BNM)) decision to stop issuing short dated *Sukuk* (up to three month maturities), as the BNM believed there was sufficient liquidity in the country's Islamic capital markets, and that their issuances were being primarily used by foreign banks to manage their liquidity needs, therefore doing little to improve the liquidity needs of the domestic market. Given the growing familiarity and utilisation over many jurisdictions, *Sukuk* are likely to become a key component of the financial landscape in both developed and emerging markets. Factors contributing to this development include the ongoing requirements for infrastructure financing globally and sovereign liquidity needs. (*Sukuk* instruments are ideally placed to close this funding gap)

### SUKUK FUNDS:

*Sukuk* funds generally represent a universe of Islamic debt capital market instruments used by a wide range of investors to manage liquidity and diversification in their respective portfolios. The Islamic funds market as a whole experienced a modest growth of 5% and the number of funds increased by 11% according to the latest Thomson Reuters Global Asset management outlook 2015 (TR). Interestingly, 2014 saw the lowest volume of redemptions of funds since 2008, USD127 million compared to the USD315 million recorded in 2013.

In 2014, Saudi Arabia and Malaysia accounted for 69% of total Assets under Management (AUM) with the balance being shared primarily in other traditional fund management domiciles such as Jersey, Luxembourg and Ireland. The growth of the *Sukuk* market has spurred the development of Islamic funds which have gained prominence as part of an overall Islamic portfolio. Indeed, according to Thomson Reuters, *Sukuk* and equity funds were the most preferred asset classes for both investors and fund managers with a split almost equally between the two asset classes. However, the report pointed out a preference for *Sukuk* funds due partly to the 2014 milestones wherein 19 jurisdictions tapped the *Sukuk* market offerings for diversification and yield arbitrage purposes. The ability of *Sukuk* funds to provide liquidity and the perceived lower risk parameters attached to them has appealed to smaller investors and become increasingly attractive to fund managers as well.

Additionally, the Thomson Reuters report noted that *Sukuk* funds performed well in most key Islamic markets, pushing up overall performance from -4.6% in 2013 to 2.44% in 2014. This was reflected in markets such as Pakistan (best performer) with 26 funds recording a 12.5% growth as at year-end in 2014 and Indonesia with 44 funds, recording 3.6%. However, the world's biggest *Sukuk* funds market, Malaysia, reported a decline of -2.8% in its performance. This was due predominantly to the devaluation in its currency (Ringgit) against the US dollar. The 10 *Sukuk* funds in the GCC recorded a similar level of growth as Indonesia in 2014, with both regions recording a 3.3% growth in 2014 as compared to the 0.56% recorded in the preceding year. Even in the face of volatilities, specifically the plunge in oil prices in

recent times in the GCC states, the dollar peg allowed for an overall satisfactory performance in the region.

*Sukuk* funds have been increasing in scale as the market for *Sukuk* has widened, however, *Sukuk* has been hampered somewhat despite its growth in general. Highest rated *Sukuk* (particularly sovereign paper), for instance, may qualify as high quality liquid assets "HQLA" for regulatory capital calculation purposes, yet they are often in short supply in the fund universe, as indeed they are across the marketplace, as they are often held by financial institutions to maturity outside of this space. HQLA, according to the IFSB are defined as "assets unencumbered by liens and other restrictions on transfer which can be converted into cash easily and immediately, with little or no loss of value, including under the stress scenario. The assets are required to meet fundamental and market-related characteristics, particularly in terms of low risk, ease and certainty of valuation, and low volatility".

In addition to the challenge of the composition of *Sukuk* funds, there are two other challenges often seen as a hindrance to the growth and development of *Sukuk* funds. Of these, the first is location. Two of the most active locations for both issuance and listing of *Sukuk* and *Sukuk* funds are the Malaysian and Saudi Arabian markets. There is, on occasion, deemed to be a certain level of reticence by international investors to invest as they view these domiciles as not suitable for the risk profile of their investment portfolios. Secondly, none of the GCC Sovereign Wealth or Pension Funds has seriously considered allocation to Islamic Funds, in general, or to *Sukuk* Funds, in particular, as being a major component of their asset allocation strategy. Presence of this class of institutional investor is helpful as it offers additional comfort to other investors along with helping to provide the much needed impetus for further Industry growth through the potential scale of their investment appetite. The recent announcement by Malaysia's Employee Provident Fund to set up an entirely Shari'a Compliant pension fund could be a positive model for other countries and jurisdictions like the GCC to employ in the development of the Industry.

The evolution of the *Sukuk* market has resulted in Islamic capital market investors being offered opportunities to diversify within their portfolios. Investment in *Sukuk* funds has contributed to such diversification as the composition of these funds can typically be structured to satisfy most investor appetite; from broadening of their geographical exposure through to enabling access to investment grade paper. Despite the challenges of the prevailing market cycle, the *Sukuk* market is likely to continue as the growth area within the Islamic capital markets and the likelihood of concomitant growth in volumes of *Sukuk* in issuance is similarly assured.

#### THE EUROPEAN PERSPECTIVE:

Historically, the speed of development of the Islamic capital market in terms of *Sukuk* issuances has often been driven by the key dominant jurisdictions of Malaysia and the GCC. More recently there has been a gradual and sustained effort in Europe to promote Islamic finance particularly in the UK, Luxembourg and Ireland.

In this regard, the UK has arguably been by far the most pro-active, due in part to London's pre-eminent status and role in global finance, plus its historical links with the core Shari'a finance markets of the GCC and Malaysia, alongside meeting the needs of Britain's own Muslim population. The UK was recently identified as an important destination for Islamic finance with the country given an index value of 16.2 (above the global average of 10.3) in the latest ICD Thomson Reuters Islamic Finance Development Report. This figure represents the value given to important global centres of Islamic finance based on their offerings in terms of education and research, governance, corporate social responsibility and awareness. The UK was the highest ranked non majority Muslim country.

The *Sukuk* market is an essential part of the Islamic finance market, and London as a major centre for international bonds is an important centre for the issuance and trading of *Sukuk*. The outstanding value of international bonds issued in the UK at the end of 2014 was USD3.3 trillion representing about 15% of the global total and second only to the US. London is also the leading centre for international bond trading with an estimated 70% of secondary market turnover.

As already noted, the UK became the first western country to issue a sovereign *Sukuk* in 2014. The UK government sold £200 million *Sukuk*, maturing in 2019. This debut sovereign *Sukuk* was oversubscribed over eleven times with strong demand and orders amounting to approximately £2.3 billion from both domestic and international investors. The *Sukuk* was allocated to a wide array of investors including sovereign wealth funds, central banks, local and foreign financial institutions. It was listed on the London Stock Exchange (LSE) which is a key global venue for the issuance of *Sukuk* having been involved with 57 listings with a total value of USD51 billion. In terms of global *Sukuk* listings, the Nasdaq Dubai Report revealed that in June 2015, there was a change in the dynamics of *Sukuk* listings in the traditional centres of Malaysia, Ireland and London. The Dubai Exchange (comprising of both the Nasdaq Dubai and Dubai Financial Market) had total current listings of USD36.7 billion ahead of Malaysia's Bursa Malaysia and the Labuan Free Trade Zone (USD26.6 billion), the Irish Stock Exchange (USD25.7 billion), and the London Stock Exchange (USD25.1 billion) respectively.

The UK Sovereign *Sukuk* was issued by the British government with a number of objectives in mind. These objectives included not only the opening up of alternative sources of funding at an all-in cost equivalent to conventional gilts, thereby ensuring value for money to the British public and taxpayers, but the provision of an HQLA, which could be utilised by domestic Islamic banks as part of their regulatory liquidity and capital requirements. A further objective was to set a precedent that demonstrated to the corporate sector that a proven platform and infrastructure is in place in the United Kingdom so that *Sukuk* can be issued comparably to conventional bonds, thereby paving the way for *Sukuk* to become an instrument of choice for raising corporate finance.

Two major developments followed quickly after the UK sovereign *Sukuk* issuance. One significant milestone for *Sukuk* market development was the UKEF (UK Export Finance) announcement of its provision of guarantees for Shari'a compliant financings involving British exporters. In March 2015 it was announced that UKEF would provide a guarantee in support of the USD913 million *Sukuk* issued by Dubai's Emirates Airline. This was a "triple first" in its

own right. Not only were they the first *Sukuk* certificates guaranteed by an export credit agency (ECA); it was the largest debt capital markets offering, conventional or Islamic, in the aviation sector with an ECA guarantee to date and, lastly, it was the first time a *Sukuk* had been issued to raise finance prior to delivery of an aircraft. This has had a demonstrable effect on the issuance of “buyer credits” with ECA backing for exporters wishing to provide medium term funding to markets within the Organization of Islamic Conference (“OIC”) countries as part of their overall project bids. Given that the UKEF guarantee ranks parri passu with that of the UK government, this sophomore issue further reinforced the commitment of the government to deepening the Islamic capital market, through encouragement of regular or recurrent issues by major European and international issuers.

The second development was initiated in late 2014 through further innovation, wherein the International Finance Facility for Immunization (IFFIm) tapped the international capital markets to raise finance to accelerate the availability of funds for immunization programs and health systems through GAVI, the Vaccine Alliance.

IFFIm currently has nine sovereign donors, the UK being one of them, having pledged £1.63 billion, or 46% of total pledges over a twenty-three year period. Alongside the UK’s donations are those of several other European governments. In late November 2014, IFFIm issued its inaugural *Sukuk*, raising USD500 million for GAVI. Deemed to be the first benchmark sized *Sukuk* primarily focused on social impact; it provided institutional investors with a socially responsible investment opportunity that will help vaccinate and protect tens of millions of children against preventable diseases. This *Sukuk* was listed on the LSE and was oversubscribed with global interest from a wide investor base.

Underpinning the UK Government’s ambition to become a key player in Islamic finance in the Western world is a supportive architecture which has acted as an enabler to ensure this objective is realised. For example the numerous leading law firms and professional service firms, with a specialisation in all aspects of Islamic finance, in the City of London has greatly added to

the ability of advising and structuring Islamic financial products globally from the UK.

Collectively, Europe has also become an important listing destination for international *Sukuk* for both Asian and Middle Eastern firms seeking to widen their investor base and simultaneously promote secondary market activity in *Sukuk*. This feature has often been missing in traditional *Sukuk* markets where the securities tend to be held to maturity. European exchanges including the LSE, the Irish Stock Exchange (ISE) and the Luxembourg Stock Exchange (LuxSE) have been able to attract Islamic issuers with their efficient and transparent listing processes and market liquidity profiles.

With respect to funds, Europe has seen a steady growth of Islamic funds domiciled within the European Union (“EU”). According to the Malaysia International Islamic Financial Centre’s (“MIIFC”) report on Islamic Finance in Europe, there are approximately USD14 billion in Assets under Management (“AUM”) in the EU as at 2014. This accounts for approximately 20% of the global aggregate of Shari’a compliant AUM, up from 12% in 2012.

Generally, the appeal of European domiciles for fund management lies in the attractive combination of tax benefits, regulatory sophistication, operational efficiency and diversification. All of the above factors contribute to a universe of choices for fund and asset managers in their mission to satisfy their customers’ preferences. More importantly, where these factors are lacking in other asset managers immediate local or regional markets, it persuades them to approach the European markets for their investment portfolio needs.

As alluded to earlier, the traditional fund management domiciles in Europe such as Luxembourg, the Channel Islands and Ireland, have tended to be amongst the favoured locations for the incorporation of Islamic funds and offer provision of ancillary services for local regulatory requirements. Distribution of many of these funds has largely come from London and other core, Islamic financial hubs where there is a huge depth of experienced local and international firms available to ensure successful distribution on a global basis.

## CONCLUSION

The future development of the *Sukuk* fund market from a European perspective remains dependent upon the volume of new, global *Sukuk* issuance by all types of market issuers i.e. Sovereign, Supranational and corporates. However, given the ever-growing international reach and the apparent mainstreaming of *Sukuk* in Europe, along with the enabling environment already in place and the industry focus of numerous international governments, the prospects of further issuance, listings and wider market development looks extremely promising. Often previously referred to as predominantly a feature of the South East Asian and GCC markets, there are now increasing signs that both the Islamic capital market and its *Sukuk* funds subsector have found a complimentary and expanding platform in Europe.

Most importantly, in the UK and in wider Europe, the demand for infrastructure development continues to grow rapidly and the need for alternative and efficient sources of funding for significant, national projects cannot be over emphasised and *Sukuk* funds may have a part to play in the provision of such funding. In the UK, Islamic finance has played an important role that is illustrated by its inclusion in the financing arrangements and solutions utilised in the development of infrastructure and infrastructure related projects around London including providing development finance for The Shard; London Gateway and the Olympic Village, the re-development of Chelsea Barracks and regeneration of Battersea Power Station. Currently, the domestic footprint of the projects deemed relevant to Islamic investment and funding is growing and, with the proactive support of the British government is ultimately likely to result in the UK Islamic capital markets providing a financial platform for regeneration, development and project funding across the British Isles.

## 4.5 SUKUK RATING CRITERIA - FITCH RATINGS

*Bashar Al Natoon, Global Head of Islamic Finance, Fitch Ratings*

### INTRODUCTION

Fitch Ratings has a dedicated Rating *Sukuk* Criteria which applies to originator-backed (also called asset-based) *Sukuk* structures, in which investors rely upon obligor direct support features and contractual commitments built into the *Sukuk* documentation. The criteria does not apply to asset-backed *Sukuk*, which rely on the underlying collateral. Asset-backed arrangements (i.e., where the underlying assets that serve as the only credit support) would typically be rated according to established Structured Finance criteria, including analysis of the extent to which *Sukuk* holders would have recourse to the *Sukuk* assets on the insolvency of the originator. The below is an overview of the Rating *Sukuk* Criteria.

### KEY SUKUK RATING DRIVERS

**Rating Benchmarked to IDR:** In the case of originator-backed/asset-based *Sukuk*, Fitch looks through the structure of the *Sukuk* at the obligor/originator/issuer of the transaction. *Sukuk* often require the creation of a special purpose vehicle (SPV) and the transfer of assets underlying the *Sukuk* by the entity seeking to raise finance (the originator) to the SPV. The rating is benchmarked to the rating of the originator, and in the case of a senior unsecured obligation, the rating would typically be in line with the originator's Fitch Issuer Default Rating (IDR). It is also possible for *Sukuk* documentation to be structured as subordinated, short-term or secured claims, and will be rated as such in accordance with Fitch's established criteria, with such ratings being benchmarked to the IDR of the financial institution, corporate or sovereign.

**Full Recourse to Originator:** Fitch's analytical assumption under these criteria dictate that the structure of the *Sukuk* and the underlying transaction(s) provides for full recourse to the originator – as with a conventional bond issue, rating of the *Sukuk* is driven solely by the originator's rating. *Sukuk* analysis and ratings will reflect Fitch's view that the default of these senior unsecured obligations under the legal structure and *Sukuk* documentation would reflect default of the entity in accordance with Fitch's rating definitions.

**Lack of Legal Precedents:** There remains a lack of legal precedent in terms of effective enforcement in many jurisdictions where *Sukuk* issuance is prevalent. As such, it remains uncertain whether certificate holders will be able to enforce their contractual rights in local courts. Similarly,

any opinion from *Shari'ah* scholars may not be enforced by international and local courts as well (Islamic Law).

**No Standard Structure:** *Sukuk* do not have a standard structure and each structure may involve differing underlying contractual arrangements. As a result, each structure has to be reviewed individually to assess whether it fits with the criteria. Fitch believes that these instruments can be rated, and although the contractual structures add to the apparent complexity, the agency's current rating methodologies and rating scales can accommodate this.

### ANALYTICAL APPROACH OVERVIEW

Fitch's analytical assumption under the criteria follows that the structure of the *Sukuk* and the underlying transaction(s) provides for full irrevocable recourse to the originator – as with a conventional bond issue, the rating of the *Sukuk* is driven solely by the originator's rating, which is the case for rated *Sukuk* under this criteria.

The *Sukuk* analysis and rating should take into account the *Sukuk* legal structure and documentation, reflecting Fitch's view that the originator's contractual commitments under such *Sukuk* are senior unsecured obligations, and default on the *Sukuk* would reflect default of the originator entity in accordance with Fitch's rating definitions. Fitch also considers an originator's intention to support *Sukuk* and its obligations under the documentation. Hence Fitch's rating for the certificates reflects the agency's expectation that an originator would stand behind its obligations.

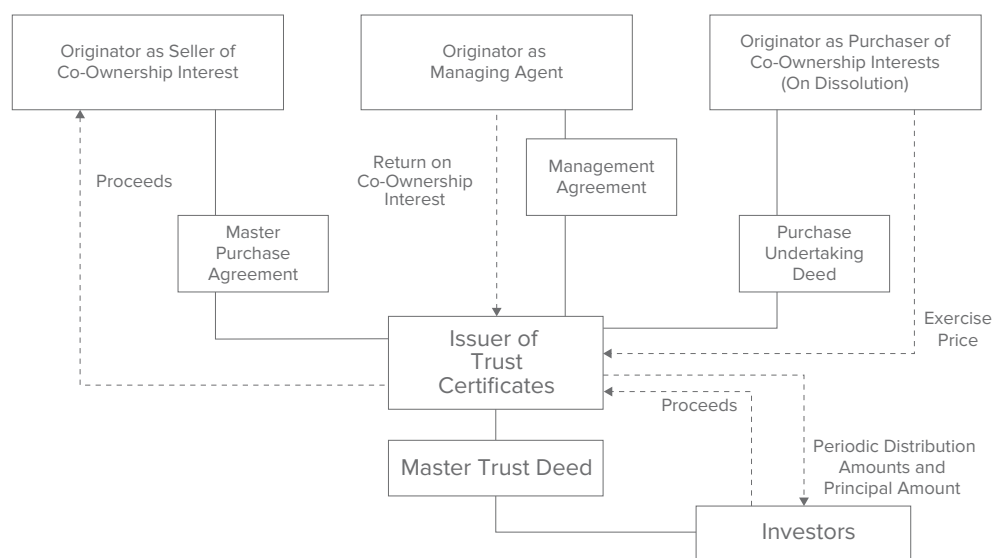


In a typical international *Sukuk* structure, an originator places well-defined, identifiable asset(s) (which in the case of a financial institution would be a pool of transactions) into a single purpose SPV, the shares of which are usually held in a charitable trust. The SPV in

turn enters into a separate “declaration of trust” in favour of the *Sukuk* holders. This is sometimes expressed as a declaration of agency. In return, the SPV receives the proceeds of the *Sukuk* issue.

### SIMPLIFIED EXAMPLE OF A SUKUK TRANSACTION

FIGURE: STRUCTURE DIAGRAM AND CASHFLOWS



Source: Fitch

Fitch needs to know that an originator’s obligations under its undertaking to purchase will be its direct, irrevocable and unsecured obligations and will at all times rank *pari passu* with its other unsecured obligations. Investors can therefore take comfort that the legal structures and originator’s obligations under its undertaking to purchase will rank *pari passu* with its unsecured obligations.

The *Sukuk* holders will not have any rights of enforcement against the trust assets, as their rights are limited to enforcement against the originator of its obligation to purchase the assets pursuant to the terms of the purchase undertaking.

Investors are entitled to receive distributions representing a proportion of the returns generated by the assets, which continue to be managed by the originator. Transaction documents typically indicate a benchmark

rate of return. Upon maturity of the agreement, the originator is responsible for repurchasing the assets, which results in the return of the principal payment to investors.

While the investor shares in the returns generated by the underlying assets, one’s risk relating to the underlying assets has, to date, typically been contractually limited. The documentation usually incorporates a purchase undertaking, whereby the originator is committed irrevocably to repurchase the assets on maturity or any dissolution event (or earlier, in the event of any dissolution or default by the originator), covering in full the outstanding principal and periodic distributions during the life of a *Sukuk* or at any dissolution event. The basis on which the repurchase price is set may vary according to the *Sukuk* structure.

It should be noted that the nature of the underlying assets will vary depending on the nature of the originator. For example, an Islamic bank would transfer a portfolio of financing transactions, whereas a sovereign or corporate may transfer just one asset, for example, a property generating a rental stream. Typically, where the underlying assets are a mixture of *Ijarah* and *Murabahah* contracts, according to *Shari'ah*, there should be a percentage limit on the *Murabahah* content of the portfolio. This is because *Murabahah* revenues (receivables) are regarded as debt, which under sharia cannot be traded.

Fitch will monitor the evolution of *Sukuk* structures, towards an increasing acceptance of originator-backed *Sukuk*, or towards an increased focus on asset-backed *Sukuk* with greater reliance on the underlying assets and cash flows. Where this leads Fitch to modify its approach, the agency will communicate the reasons for, and the consequences of such modifications to market participants.

#### CRITERIA LIMITATIONS

Fitch's *Sukuk* analysis, as with a conventional bond issue, is driven solely by the originator's rating, in addition to the clarity and strength of the contractual documentation binding the originator to the *Sukuk*. Without the necessary documentation, in line with Fitch

criteria, *Sukuk* could be considered subordinated, or Fitch may choose not to rate the notes at all.

#### LEGAL STATUS AND GOVERNING LAW

*Sukuk* issued on the international capital markets are typically governed by English law and subject to the jurisdiction of the courts of England (or other recognised international law and jurisdiction), but part of the documentation and any judgement would also be governed and reviewed by the courts where the originator is domiciled – and would be subject to local law restrictions on enforceability. While these courts would ordinarily act in accordance with local commercial law. -

Recoveries, even under commercial law, may also be subject to delays depending on the efficiency of the local legal system. However, these risks also apply to conventional bonds issued in the same country and are already reflected in the IDR of the originator.

#### SHARI'AH COMPLIANCE

Ratings assigned to *Sukuk* do not imply any confirmation that the *Sukuk* are *Shari'ah*-compliant. This responsibility lies with the *Shari'ah* board of the lead manager/originator, which will have issued a fatwa prior to the launch of the *Sukuk*. Fitch will assess non-compliance with *Shari'ah* if it has credit implications. This may mean that the *Sukuk* are not rateable under these criteria.

#### 4.6 INSIGHT INTO ISLAMIC FINANCE OPPORTUNITIES IN CANADA

By Jeffrey Graham, Partner, Head of National Financial Services Regulatory Practice, Borden Ladner Gervais LLP

Canada is widely considered to have one of the most effective and safest financial systems in the world, according to the (World Economic Forum). Canada is also in the top 5 five countries in terms of investor protection (World Bank). In addition, Canada has a mature, competitive and well-regulated asset management sector, which has remained buoyant (along with the Canadian economy generally) despite the pressures caused by recent economic turmoil.

Within Canada, Toronto is its Canada's financial services capital and one of North America's premier financial centres. Other Canadian cities with significant financial, sectors include are Montreal, Vancouver, and Calgary.

Recently, Thomson Reuters has issued a report entitled Canada Islamic Finance Outlook 2016. The report provides a comprehensive overview of the various opportunities for growth of Islamic asset management and the development of a *Sukuk* market in Canada. Thomson Reuters notes that Canada's asset managers have a wealth of international experience, including working in responsible and Islamic investing that positions them well to capture a share of the estimated USD23 billion in assets across the largest OIC markets that are projected by Thomson Reuters to be managed using a combination of both Islamic and Environmental, Social and Governance methodologies. This is in addition to the USD558 million in potential domestic Muslim assets that could seek out an expanded asset class universe for Islamic funds offered in Canada including from UCITS funds. An Islamic fund universe in Canada that attracts non-Muslims could be even larger, at USD2.04 billion according to estimates of Thomson Reuters.

With respect to *Sukuk*, Thomson Reuters notes that Canada has the opportunity to look to foreign sources of capital including *Sukuk* markets to make the needed infrastructure investments that totals C\$172 billion (USD130 billion), 9 percent of Canada's GDP. In addition to this infrastructure funding need, Canada's corporations could benefit from diversifying their sources of funding through international *Sukuk*. To catalyze this opportunity both in infrastructure and the corporate sector and to position Toronto as a North American Islamic finance

hub, it would be useful for the federal or a provincial government to issue a debut sovereign *Sukuk*. Given Canada's strong economy and AAA credit rating, coupled with the need by Islamic financial institutions across the globe to increase their high quality liquid assets to meet new Basel III requirements, it would likely find significant demand.

#### OVERVIEW OF ASSET MANAGEMENT REGULATION

In Canada, as a result of the division of powers between the federal and provincial/territorial governments, for the most part, securities regulation, including the regulation of Islamic asset management, is a matter of provincial and territorial jurisdiction.

Islamic asset managers purchasing securities for funds that they manage or offering securities in those funds to Canadian investors must do so on the basis of a prospectus or in reliance on a prospectus exemption. The exemption most frequently used among the capital raising exemptions in Canada is the accredited investor exemption. This exemption is available in respect of sales of securities to qualified entities and individuals that are deemed sufficiently sophisticated that they do not require the protection that prospectus disclosures are intended to provide.

Islamic asset managers, and those distributing Islamic securities to asset managers, may be subject to several types of registration under Canadian securities law.

There is a significant national instrument adopted by all provinces/territories that establishes registration requirements and exemptions, and sets out the categories of registration; the proficiency, capital, insurance and other basic requirements for registration; and the ongoing requirements regarding internal controls and systems, financial condition and reporting, dealing with clients and handling client accounts.

Persons who are in the business of trading in securities are required to be registered as a dealer in each Canadian jurisdiction where purchasers reside. Accordingly, an Islamic asset manager that is not registered as a dealer is generally not permitted to contact and deal directly with prospective clients.

This means that an Islamic asset manager wishing to distribute securities in Canada of a fund that it manages, or a Canadian asset manager wishing to purchase securities for portfolios it manages, must generally do so through an appropriately registered dealer.

Where securities are being privately placed, the dealer registration requirement may be satisfied through the use of an exempt market dealer (EMD). An EMD is permitted to trade in the exempt market in securities being distributed under a prospectus exemption, or with persons or companies to whom a security may be distributed under a prospectus exemption (e.g., trading with an accredited investor).

A second dealer category is that of an investment dealer that, unlike an EMD, may trade in virtually any security with any client, including retail clients, provided that the securities offered are covered by a prospectus (subject to know-your-client and trade suitability requirements).

In addition, a non-Canadian dealer that is appropriately registered or licensed in its home jurisdiction may make a filing to rely on the international dealer exemption in

a Canadian jurisdiction, which would allow it to place foreign securities (i.e., securities issued by issuers established outside of Canada) to permitted clients (a subset of accredited investors), provided a number of other conditions are met.

Canadian securities laws require a person or company engaging in, or holding itself out as engaging in, the business of advising others in respect of the buying, selling or investing in securities, including Islamic securities, to be registered as an adviser in the local jurisdiction where advice is received.

A non-Canadian firm that is registered or exempt from registration in its home jurisdiction may make a filing to rely on the international adviser exemption provided, among other conditions, that it acts as an adviser to permitted clients and does not advise on securities of Canadian issuers unless that advice is incidental to its advice on a foreign security.

Canadian securities laws require a person that directs or manages the business, operations or affairs of an investment fund to be registered as an investment fund manager (IFM). There is an exemption from this requirement to the extent that, among other conditions, the securities of the fund that the IFM manages are distributed only to certain permitted clients and certain other filings are made with the applicable securities regulators.

#### **SELECTED ISLAMIC ASSET MANAGEMENT ACTIVITIES**

Islamic mutual funds have been created in Canada by taking advantage of the global and the Canadian regional Dow Jones Islamic Market Index (DJIMI).

Currently, the most successful Islamic mutual fund in Canada is the Global Iman Fund. The fund is offered by Global Growth Assets ([www.globalgrowth.ca](http://www.globalgrowth.ca)), a Toronto-based subsidiary of the Global family of companies, based in Toronto.

The Global Imam Fund is an ethical global equity fund that is *Shari'ah*-compliant. It is for investors interested in including ethical or socially responsible holdings in their portfolios. It is also for investors looking for capital appreciation through investments that adhere to Islamic financial investment principles. The fund avoids certain kinds of businesses or sectors, such as alcohol, tobacco, pork-related products, financial services, weapons and defense, entertainment, and gambling. An investor in the fund would have a moderate risk tolerance and a medium- to long-term investment horizon. The fund is rated in Canada by Morningstar as a three-star fund and is sold by several top financial institutions, including top investment advisors and other independent financial advisors.

Less public than the mutual fund structure noted above, are a number of private investment funds in Canada that invest on a *Shari'ah*-compliant basis. There are many examples. One recent structure has been the creation of Islamic mortgage investment corporations (MIC). Under a MIC, income earned on its investments can be flowed to shareholders without the imposition of Canadian corporate tax. The stated purpose of the MIC by the government of Canada was “to enhance the marketability of mortgages issued on residential properties in Canada and improve the effectiveness of the contribution of the private sector to the financing of housing in Canada.”

In addition, there are investment advisers based at leading Canadian financial institutions such as the

Canadian Imperial Bank of Commerce, Scotiabank and the Royal Bank of Canada who offer *Shari'ah*-compliant investment programs to their clients.

Outside of Canada, another leading Canadian bank, Bank of Montreal, owns an asset management firm, Pymfords International, that offers clients *Shari'ah*-based investment strategies from its London England location. In Malaysia, Manulife Financial offers a number of private retirement schemes consisting of the Manulife PRS Growth Fund, the Manulife PRS Moderate Fund, the Manulife PRS Conservative Fund, and corresponding *Shari'ah*-compliant funds.

#### PROSPECTS FOR SUKUK

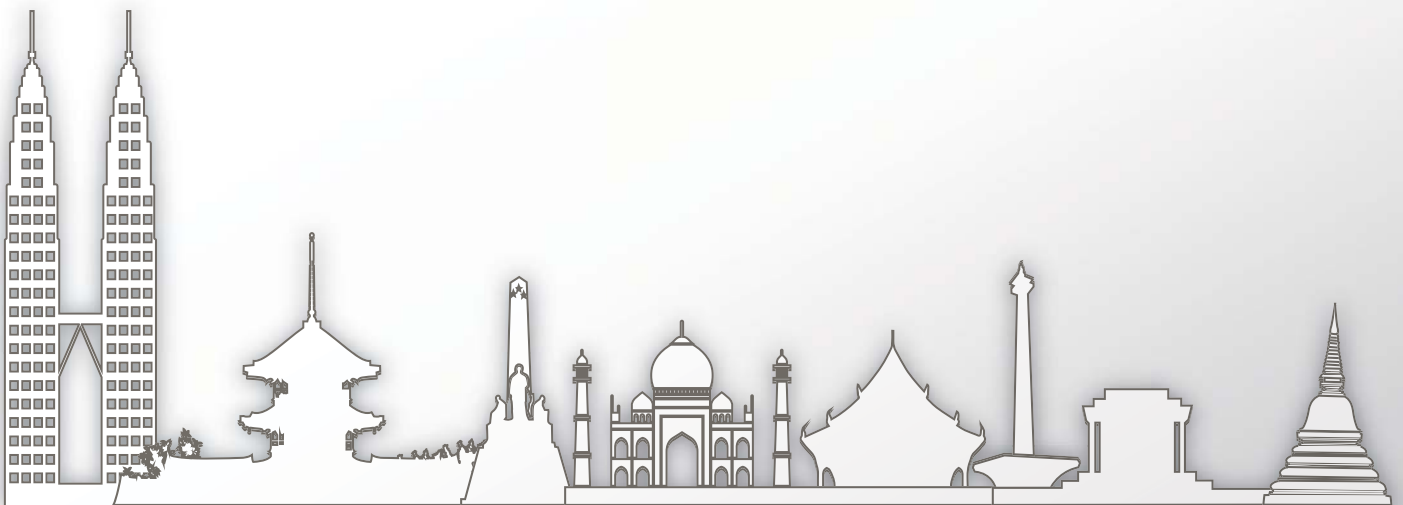
To date no Canadian issuer, sovereign or corporate, has issued *Sukuk*. However, it is very likely that in 2016 one or more Canadian sovereign or sub sovereign entities, or corporates, will in fact access the global Islamic capital markets through the issuance of *Sukuk*. While governments in Canada may need to modify modestly their legislative authority to accommodate some of the features that are inherent in the most common *Sukuk* structures (e.g., *Ijarah*, *Wakalah*) and provide international investors with comfort that revenue streams will be treated in an equivalent manner to payments made in respect of conventional instruments, there is no reason to believe that such administrative challenges will not be met. Corporates that would be eligible to access the *Sukuk* market have the ability to implement international strategies that either minimize or eliminate the need to consider potentially Canadian legal requirements.

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# CHAPTER V

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STEERED BY GUIDING PRINCIPLES





## SUKUK MARKET IN SELECTED IIFM MEMBER COUNTRIES

### 5.1 GOVERNMENT OF BAHRAIN SUKUK ISSUANCES

*Short and Long term Salam and Ijarah Sukuk (Domestic and International) by Central Bank of Bahrain (CBB)*

#### INTRODUCTION

The Kingdom of Bahrain is one of the countries which have made great strides in launching new Islamic financial products in an innovative manner. It was one of the first governments in the world to start a sovereign *Sukuk* program, as early as 2001. Since then it has been quite active in the *Sukuk* market and issues short and long term instruments at regular intervals. As much as 21% of Bahrain's government total assets raised by the Central bank of Bahrain are fulfilled through Islamic instruments. It is therefore an important element in helping the government address its deficits and plan for future development.

#### 1. SUKUK AL SALAM

Started in June 2001 and having 177 issues to-date, *Sukuk Al Salam* account for the bulk of the Government's short term Islamic financing needs. *Sukuk Al Salam* are an instrument based on sale and purchase contracts. These securities are collateralised by a commodity (Residue Gas). They are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee.

#### 2. SUKUK AL IJARAH

##### 2.1 Short term Ijarah Sukuk

Short term *Ijarah Sukuk* was first issued in August 2005 (125 issues to date). These *Sukuk* are issued on

a monthly basis and have a 6-month (182 days) maturity. *Ijarah Sukuk* is an instrument which takes the form of Islamic leasing contracts. The *Ijarah Sukuk* are based on assets owned by the Government of Bahrain. They are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee.

##### 2.2 Long term Ijarah Sukuk (Domestic)

Long term *Ijarah Sukuk* were first issued in September 2001 (21 issues to date) upon the request of the Ministry of Finance. It's based on assets owned by the Government of Bahrain.

**Features of long term local Ijarah Sukuk issuance are as follows:**

- In issuing these instruments the Government of Bahrain sells an asset to the investors who will buy it before renting back to the Government at a predetermined rental rate, via a rental contract.
- The Government will also issue a binding promise to buy back the asset at its par value at the end of the rental period.
- Ministry of Finance chooses the asset which is to be used for a new issue.
- A prospectus is prepared which gives details on the issue amount, currency, rental return, issue date and maturity date.
- On the date of the rental return, the CBB will transfer the return amount to the participating institutions' respective accounts (semi-annually).
- The settlement of the resulting transactions takes place by debiting the participating banks' Real Time Gross Settlement (RTGS) system accounts with the CBB.
- The issue date is normally two business days after the tender date.
- The CBB issues a press release with information about the allotment result, including the issue number, issue and maturity date, amount allotted, expected return and total tenders received.

**Auction procedure for Sukuk Al Salam and Ijarah Sukuk issuance is as follows:**

- Invitation letters which contain details on a forthcoming issue are circulated to the institutions entitled to participate.
- The institutions submit a tender bid to the CBB indicating the quantity they would like to acquire through the Scripless Securities Settlement System (SSSS).
- Tenders are then allotted pro-rata to interested institutions according to their quantity contributions.
- The system notifies the participating institutions of the result of the tender allotment.

### 2.3 LONG TERM IJARAH SUKUK (INTERNATIONAL)

The auction procedure for long term international *Ijarah Sukuk* issuance is as follows:

- The CBB sends invitations for lead managers to submit their offers for arranging and handling the issue.
- The CBB evaluates the tender offers received according to their competitiveness, price range, total fees, rating of the banks, etc.
- The CBB selects one or more banks to further negotiate the conditions of the offer.
- The CBB appoints the Clearing and Trust Agents, the external legal advisor, the exchanges...etc
- Bids are received through book building conducted by the underwriters during road shows.
- The CBB then allocates the securities to the participants on a pro-rata basis.
- International *Ijarah Sukuk* were first issued in June 2009 (2 issues to date).

FIGURE 1: CBB'S LONG TERM IJARAH SUKUK (LOCAL AND INTERNATIONAL)

| Issue No        | Issue Date | Maturity Date | Return Rate               | Issue Amt.    | Return Date      |
|-----------------|------------|---------------|---------------------------|---------------|------------------|
| Issue No. LI/1  | 04-Sep-01  | 04-Sep-06     | 5.250%                    | \$100 million | 04-Mar<br>04-Sep |
| Issue No. LI/2  | 27-Feb-02  | 27-Feb-05     | 4.250%                    | \$70 million  | 27-Aug<br>27-Feb |
| Issue No. LI/3  | 29-Aug-02  | 29-Aug-07     | 4.000%                    | \$80 million  | 28-Feb<br>28-Aug |
| Issue No. LI/4  | 19-Nov-02  | 19-Nov-05     | 3.000%                    | \$50 million  | 19-May<br>19-Nov |
| Issue No. LI/5  | 27-Feb-03  | 27-Feb-06     | 3.000%                    | \$80 million  | 27-Aug<br>27-Feb |
| Issue No. LI/6  | 02-Apr-03  | 02-Apr-08     | 3.750%                    | \$100 million | 02-Oct<br>02-Apr |
| Issue No. LI/7  | 27-May-03  | 27-May-08     | %<br>60 B.P Over 6m LIBOR | \$250 million | 27-Nov<br>27-May |
| Issue No. LI/8  | 15-Dec-03  | 15-Dec-06     | %<br>30 B.P Over 6m LIBOR | \$50 million  | 15-Jun<br>15-Dec |
| Issue No. LI/9  | 30-Jun-04  | 30-Jun-09     | %<br>45 B.P Over 6m LIBOR | \$250 million | 30-Jun<br>30-Dec |
| Issue No. LI/10 | 20-Jul-04  | 20-Jul-14     | 5.125%                    | BD40 million  | 20-Jan<br>20-Jul |
| Issue No. LI/11 | 28-Feb-05  | 28-Feb-10     | 4.500%                    | BD30 million  | 28-Feb<br>28-Aug |
| Issue No. LI/12 | 21-Nov-05  | 21-Nov-11     | 5.600%                    | \$230 million | 21-May<br>21-Nov |
| Issue No. LI/13 | 03-Oct-07  | 03-Oct-12     | %<br>30 B.P Over 6m LIBOR | BD95 million  | 03-Apr<br>03-Oct |
| Issue No. LI/14 | 20-Mar-08  | 20-Mar-13     | %<br>75 B.P Over 6m LIBOR | \$350 million | 20-Sep<br>20-Mar |
| Issue No. LI/15 | 17-Jun-09  | 17-Jun-14     | 6.247%                    | \$750 million | 17-Dec<br>17-Jun |
| Issue No. LI/16 | 24-Sep-09  | 24-Sep-12     | 3.75%                     | BD165 million | 24-Mar<br>24-Sep |
| Issue No. LI/17 | 07-Apr-11  | 07-Apr-16     | 5.50%                     | BD200 million | 07-Oct<br>07-Apr |
| Issue No. LI/18 | 22-Nov-11  | 22-Nov-18     | 6.273%                    | \$750 million | 22-May<br>22-Nov |
| Issue No. LI/19 | 17-Jul-12  | 17-Jul-17     | 4.300%                    | BD160 million | 17-Jan<br>17-Jul |
| Issue No. LI/20 | 13-May-13  | 13-May-15     | 1.450%                    | BD100 million | 13-Nov<br>13-May |
| Issue No. LI/21 | 08-Jan-15  | 08-Jan-18     | 3.000%                    | BD100 million | 08-Jul<br>08-Jan |
| Issue No. LI/22 | 19-Jan-15  | 19-Jan-25     | 5.500%                    | BD250 million | 19-Jul<br>19-Jan |
| Issue No. LI/23 | 09-Jul-15  | 09-Jan-25     | 5.000%                    | BD200 million | 09-Jan<br>09-Jul |

Source: Central Bank of Bahrain

### **ISLAMIC STANDING FACILITIES OFFERED BY THE CBB AGAINST THE IJARAH SUKUK: ISLAMIC SUKUK LIQUIDITY INSTRUMENT (ISLI)**

The mechanism of the Islamic *Sukuk* Liquidity Instrument (ISLI) which was launched in June 2008 is based on Sale and Purchase transactions meant to help Islamic banks in managing their liquidity. It involves three separate *Sukuk* sale and purchase transactions requiring the existence of three parties, namely the *Sukuk* owner (the bank in need of liquidity), the intermediary bank (the market maker) and the Central Bank of Bahrain (CBB) which offers the liquidity.

The *Sukuk* shall be sold and then repurchased according to the following which involve 3 parties:

- Bank A (Seller): sells the *Sukuk* to Bank B (Market Maker) and receives the liquidity needed; should be any CBB-Licensed bank which invests in eligible *Sukuk*.
- Bank B (Market Maker) sells the *Sukuk* to the CBB the 1st purchaser/2nd seller should be any CBB-Licensed bank that brokers the sale of *Sukuk*.
- The CBB the second purchaser which offers required liquidity.
- The undertaking bank (bank A) : at maturity, the Central Bank of Bahrain (CBB) sells back the *Sukuk* to Bank A (the first seller and owner of the *Sukuk*).

### **CBB WAKALAH FACILITY**

The *Wakalah* facility was launched in March 2015 to allow Islamic retail banks to place their excess liquidity with the Central Bank for one week. The agreement of the *Wakalah* Facility has been developed, based on a standard contract of the International Islamic Financial Market (IIFM). Retail Islamic banks appoint the CBB as an agent (*Wakil*) to invest cash on behalf of the bank (*Muwakkil*). The *Wakil* will invest these funds in the investment portfolio allocated in advance, and contains Islamic *Sukuk* and BHD Cash. The current duration of the *Wakalah* is one week and is available for Islamic retail banks every Tuesday.

### **CONCLUSION**

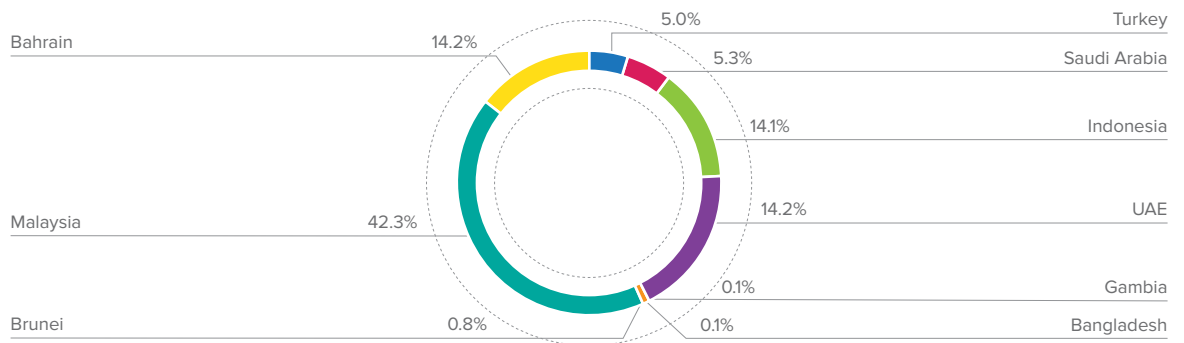
Although Bahrain's sovereign *Sukuk* issuances are meant primarily for the domestic market, the long track record and the high frequency of issuance make it among the active countries in this space. With nearly a quarter of the government's financing needs being met through *Sukuk* we can expect continued activity in the near and medium term future. Having a sophisticated *Sukuk* issuance program in place the Kingdom serves as a role model for other countries which are debuting into the arena.

**5.2 MALAYSIA – A KEY JURISDICTION FOR SUKUK ISSUANCES**

By Labuan FSA

Malaysia represents one of the key markets driving the overall growth of the global *Sukuk* market. Malaysia has evolved into a multicurrency *Sukuk* issuance marketplace with issuances in US Dollar, Chinese Renminbi, Singapore Dollar and Japanese Yen. In the first quarter of 2015, Malaysia sustained its position as the leading issuer of *Sukuk*. Issuances from Malaysia accounted for 42.3% of total issuances, followed by the United Arab Emirates (18.2%), Bahrain (14.2%) and Indonesia (14.1%), respectively.

**SUKUK ISSUANCES BY COUNTRY (1Q2015)**

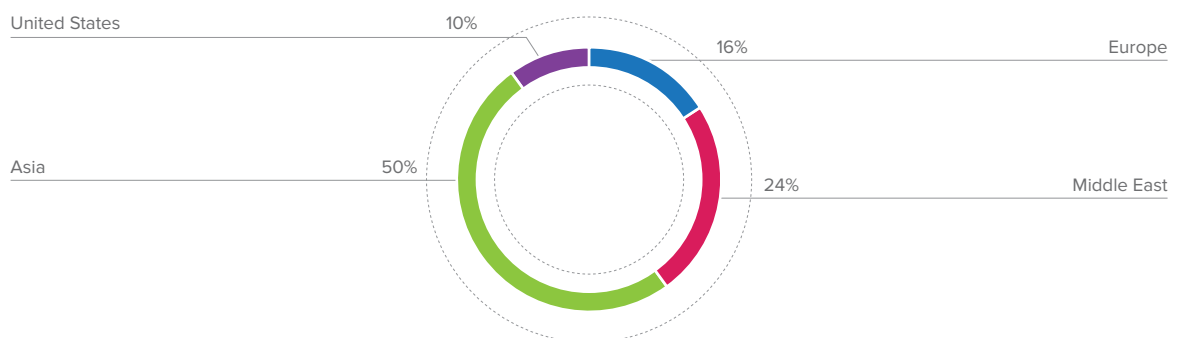


Source: *Global Sukuk, Report 1Q 2015, Malaysia International Islamic Financial Centre (MIFC)*

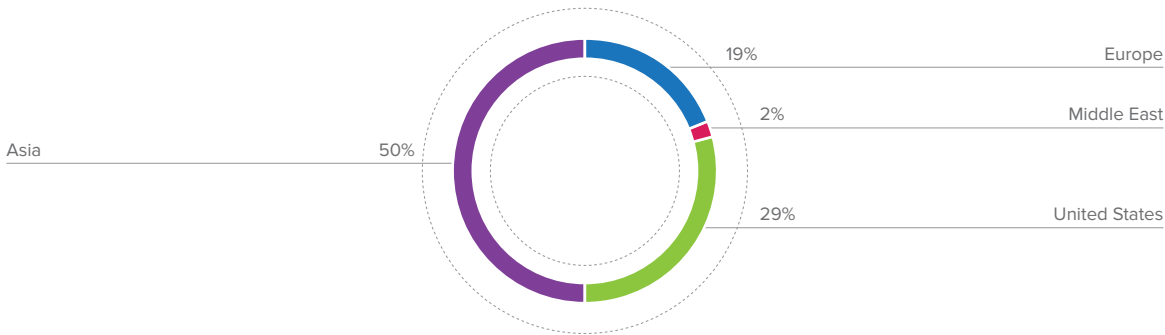
Malaysia continued to lead the issuance of sovereign *Sukuk* in the global market. The Government of Malaysia issued the world's first 30-year sovereign *Sukuk* in April 2015 based on the principle of *Wakalah bi al-Istithmar*. The offering marked Malaysia's fourth US dollar-denominated sovereign global *Sukuk* issuance, following its successful global *Sukuk* issuances in 2002, 2010 and 2011. The issuance consists of a USD1 billion 10-year (due 2025) and USD500m 30-year benchmark

Trust Certificates (due 2045). The *Sukuk* trust certificates were issued by Malaysia Sovereign *Sukuk* Bhd, a special-purpose vehicle established by the Malaysian Government. The proceeds of the *Sukuk* will be used by the issuer to invest in the purchase of an asset pool consisting of *Ijarah* assets, the right to participate in the provision of transportation services in Malaysia, and *Shari'ah*-compliant commodities.

**GEOGRAPHICAL DISTRIBUTION OF MALAYSIA'S SOVEREIGN SUKUK 2015 10 YEAR TRANCHE**



30-YEARS TRANCHE



Source: Sukuk.com (<https://www.Sukuk.com/Sukuk-new-profile/malaysia-sovereign-Sukuk-bhd-4035/>)

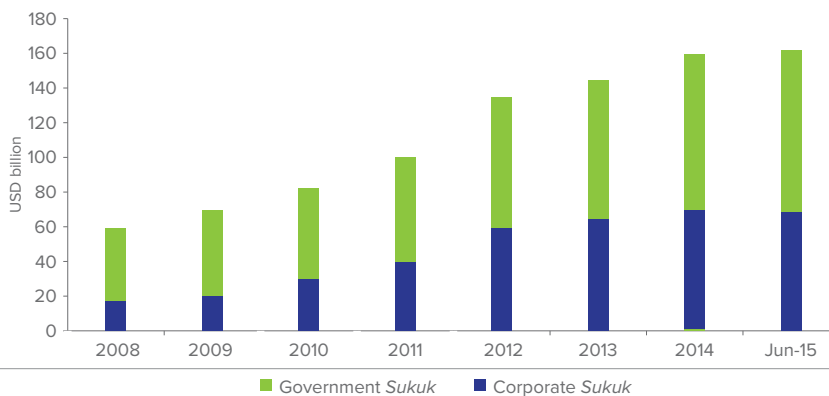
The Malaysian *Sukuk* market, including local currency and foreign currency denominated *Sukuk*, reached USD161.3 billion at end June 2015, an increase from USD58.8 billion in 2008 on compounded annual growth of 16.8%. Malaysia’s government *Sukuk* market has exhibited impressive growth over the years. At end June 2015, the total outstanding amount of Malaysia’s government *Sukuk* reached USD67.4 billion, an increase from USD15.8 billion in 2008. In addition, the share of government *Sukuk* to Malaysia’s aggregate *Sukuk* market increased from a share of 26.8% in 2008 to 41.8% at end June 2015.

*Sukuk* reached USD93.9 billion at end June 2015, more than double the amount of USD43.0 billion in 2008, including USD5 billion worth of foreign currency denominated *Sukuk*. Malaysia’s local currency corporate *Sukuk* now dominate the local currency corporate bond market with a share of about 72% of the total market.

The local currency corporate *Sukuk* market of Malaysia is dominated by three major industries. Financial firms, including banks, accounted for the largest share at 28%. Firms involved in transportation, logistics and telecommunications industries followed with 26%. Energy and utility companies (electricity, oil, gas, and water) constituted an aggregate share of 20%.

The corporate *Sukuk* market in Malaysia also continued to exhibit steady growth. Total outstanding corporate

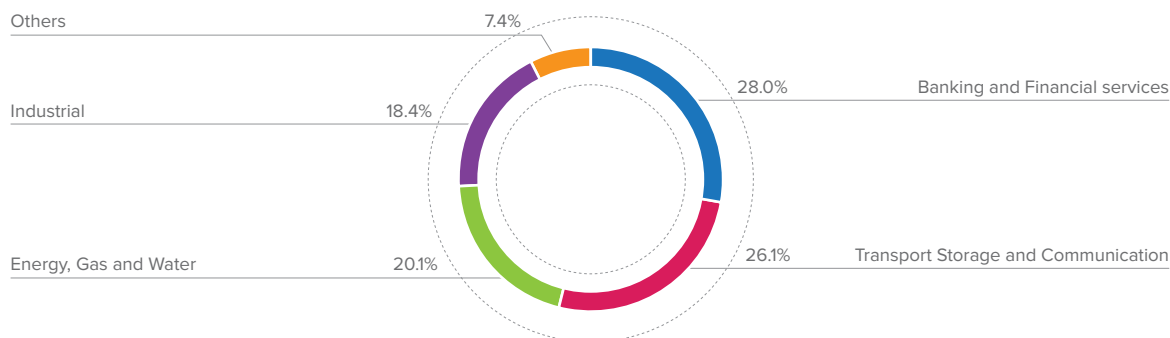
SUKUK OUTSTANDING IN MALAYSIA



Note: Data includes local currency and foreign currency Sukuk

Source: Asia Bond Monitor September 2015, Asian Development Bank

### LCY CORPORATE SUKUK ISSUER PROFILE IN MALAYSIA



Notes: 1. LCY= local currency 2.Data as of end-June 2015

Source: Asia Bond Monitor September 2015, Asian Development Bank

#### COMPREHENSIVE AND CONDUCTIVE INFRASTRUCTURE FOR SUKUK MARKET

The growth of the *Sukuk* market in Malaysia is a testament to Malaysia's vast experience in Islamic finance, given its established regulatory infrastructure in facilitating the development of the *Sukuk* market, including origination, listing, reporting, trading and settlement system. In addition, Malaysia has a strong *Shari'ah* governance framework that comprises the *Shari'ah* Advisory Councils (SAC) of Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC). BNM and SC are key institutions that provide regulatory guidance in the development of Islamic finance in Malaysia.

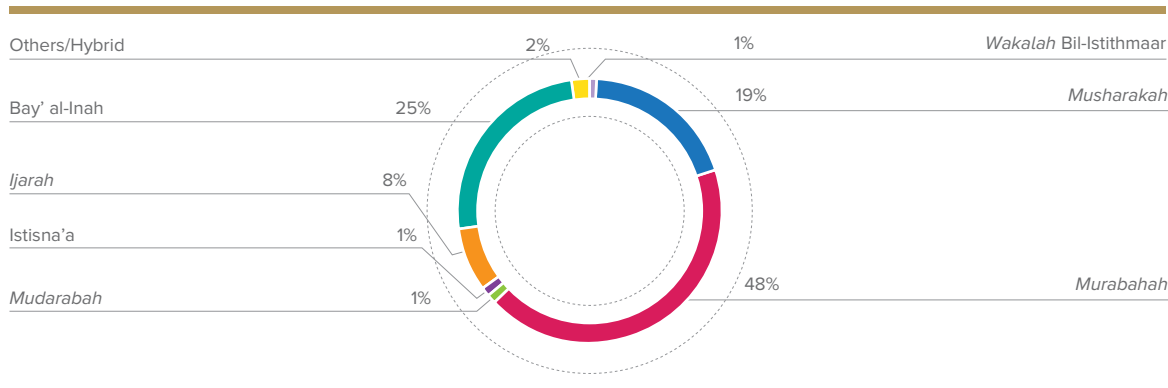
Complementing Malaysia's Islamic finance infrastructure is Labuan International Business and Financial Centre (IBFC). Labuan IBFC is Malaysia's international business and financial centre that has its own dedicated legislation,

*Shari'ah* governance and fiscal incentives for *Shari'ah*-compliant financial transactions including *Sukuk* issued in Labuan, Malaysia. Labuan IBFC serves as a gateway for cross-border *Sukuk* issuances in the Asia Pacific region and internationally.

#### FACILITATING INNOVATION IN SUKUK MARKET

Malaysia's lead in the development of Islamic finance is not only manifested in the volume of issuance, but also in the innovation of a variety of *Shari'ah*-compliant products to cater for a wider investor base. Over the years, *Sukuk* structures in Malaysia have evolved from debt-based principles (*Murabahah*) to lease-based (*ijarah*), profit-sharing (*musharakah*), manufacturing contract-based (*istisna'a*) and hybrid structures based on combinations of *Shari'ah* contracts. At end June 2015, Malaysia's local currency *Sukuk* were characterized by a wide distribution of *Shari'ah* principles, including *Wakalah* Bil Istithmaar. More recently, innovation in *Sukuk* is driven by the

**COMPOSITION OF THE LCY SUKUK MARKET IN MALAYSIA**



Notes: 1. LCY= local currency 2. Data includes government and corporate Sukuk 3. Data as of end-June 2015

Source: Asia Bond Monitor September 2015, Asian Development Bank

growing demand for Islamic finance to embrace the true objectives of *Shari'ah* (*maqasid al-Shari'ah*), to ensure that the core values embedded in the *maqasid al-Shari'ah* are reflected in the *Sukuk* instruments. This includes incorporating sustainable values towards the environment and society by ensuring Islamic finance incorporate environment, social and governance (ESG) principles and are accessible to a larger segment of the society. Another driver of innovation in the *Sukuk* market is the desire to link the *Sukuk* instruments to the real sector especially through wider use of risk-sharing structures.

In 2014, the SC introduced the sustainable and responsible investment (SRI) *Sukuk* to facilitate the financing of sustainable and responsible investment initiatives. The introduction of a framework for SRI *Sukuk* is intended to address shifts in investor demographics, growing concerns over environmental and social impact of business and stronger demand from the marketplace for governance and ethical conduct. Furthermore, it seeks to meet the demand of both retail and institutional investors for access to a wider range of investment products and to facilitate greater participation in the *Sukuk* market. The guidelines also allow the proceeds from the issuance of an SRI *Sukuk* to be channelled towards developing waqf (endowment) assets, hence linking SRI with socially oriented agenda benefiting the society at large. The *Shari'ah* aspects of the SRI

*Sukuk* guidelines were carefully designed to ensure the universality of its application. Sovereign wealth fund Khazanah Nasional was the first issuer under this framework, raising RM100 million seven-year *Sukuk* via a special purpose vehicle Ihsan *Sukuk* in June 2015.

**REGULATORY ENHANCEMENTS AND INCENTIVES**

Continuous enhancements to the regulatory framework have been made in the endeavour to further promote the development of Islamic finance, in particular the *Sukuk* market in Malaysia. In 2014, the SC announced revisions to the guidelines for the issuance of private debt securities and *Sukuk* in Malaysia. Effective 1 January 2015, subject to existing *Sukuk* guidelines, unrated *Sukuk* may be traded while for rated *Sukuk*, the issuer may opt to discontinue the credit rating of the *Sukuk*. This is expected to further increase the depth and liquidity in the *Sukuk* market.

In June 2015, the SC implemented the Lodge and Launch Framework for wholesale products. This initiative is expected to significantly reduce the time-to-market for wholesale products, including *Sukuk*, from the current approval timeframe of 14-21 days. The Lodge and Launch Framework enables wholesale products to be launched once all required information is submitted via the SC's online system.

In October 2015, the Government of Malaysia



announced further tax incentives for the development of the *Sukuk* market in Malaysia. As part of the efforts to promote the issuance of SRI *Sukuk* and to establish Malaysia as a regional hub for SRI *Sukuk* issuance, tax deduction would be given for five years on the issuance costs of SRI *Sukuk* approved by the SC. In addition, tax deductions have been extended for another three years on additional issuance costs of retail bonds and retail *Sukuk* under the principles of *Mudarabah*, *Musharakah*, *Istisna'a*, *Murabahah* and *Bai' Bithaman Ajil* based on *tawarruq* as well as retail *Sukuk* under the principles of *Ijarah* and *Wakalah*.

It is envisaged that the progressive development of the

*Sukuk* market in Malaysia underpinned by innovation, regulatory, *Shari'ah* and financial infrastructure as well as fiscal incentives would contribute towards building deeper, more liquid, efficient and effective global *Sukuk* market. The dynamism of the *Sukuk* market would facilitate the expansion of inter-regional investment flows and strengthen financial stability which would contribute towards a global growth process and financial stability that will be mutually reinforcing.

### 5.3 SUKUK DEVELOPMENT IN INDONESIA

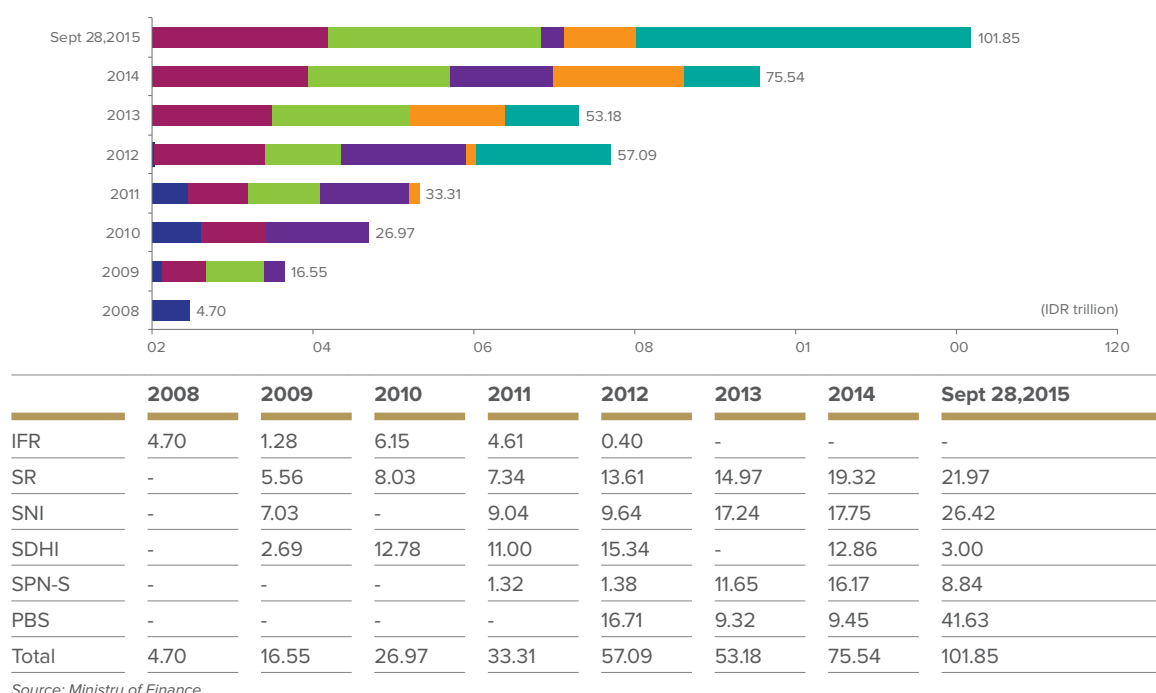
By Bank Indonesia

#### SUKUK PROFILE

*Sukuk* in Indonesia was firstly issued in 2002 by PT. Indosat (telecommunication company) which was a corporate *Sukuk* based on a *Mudharabah* contract with a value of USD17.5 million. The next *Sukuk* issuance came out simultaneously in 2005 and 2007, both based on an *Ijarah* contract, with respective values of USD28.5 million and USD40 million. Lately, the *Sukuk* market is dominated by the government *Sukuk* (namely SBSN or *Sukuk Negara*), both the tradable and non tradable ones. The former consists of Islamic Fixed Rate (IFR) *Sukuk*, Islamic Treasury Bills (SPN-S), Project Based *Sukuk* (PBS) and Retail *Sukuk* (SR) whilst the latter is Pilgrimage *Sukuk* (SDHI). SBSN is also available in USD denomination called the global *Sukuk* (*Sukuk Negara Indonesia/SNI*).

Historically, the first SBSN was issued in 2008 namely IFR *Sukuk* followed by SR, SNI and SDHI in 2009 and lately PBS and SPN-S came across in 2011. Since then, Indonesia has become a regular issuer and keeps its status through innovative structures and products. As of 28 September 2015, the total issuance of *Sukuk* negara was Rp369.18 trillion and total outstanding was Rp288.50 trillion, consisted of Rp256.03 trillion tradable series and Rp32.20 trillion non-tradable series (see figure 1). Particularly, the total outstanding of SPN-S was Rp8.84 trillion, PBS was the highest one with Rp41.63 trillion and SR was Rp21.97 trillion. Meanwhile, SDHI was noted Rp3 trillion and SNI was Rp26.42 trillion. With these amounts, the government *Sukuk* serves approximately 12.5% of the total government securities, 11% of them are tradable and the rests are non tradable *Sukuk*.

FIGURE 1. SUKUK NEGARA TOTAL ISSUANCE



Source: Ministry of Finance

### SUKUK ISSUANCE

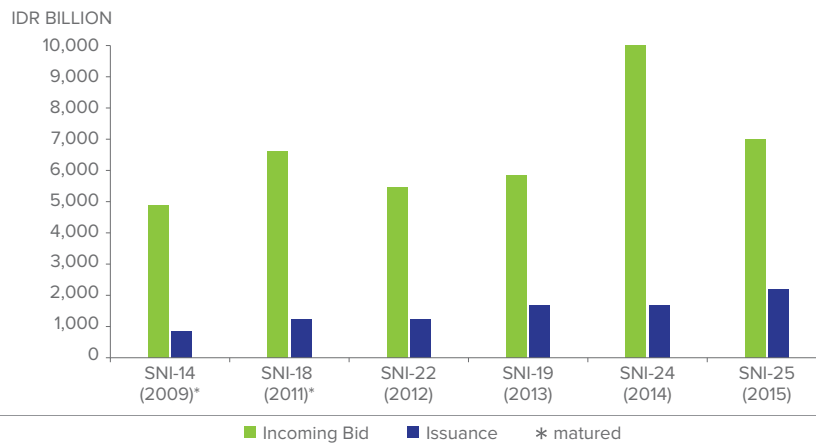
A strong government support is the main key success factor for the Indonesian *Sukuk* market. Particularly, the Indonesian government: (i) provides a legal certainty for investors (principle amount and coupon payment are guaranteed), (ii) gives conscious efforts to support and develop the Islamic financial markets and, (iii) provides an alternative of investment for financial institutions. Such an initial corporate *Sukuk* issuance above has triggered the Indonesian Capital Market Supervisory Agency and Financial Institutions (Bapepam-LK) to release Bapepam-LK regulation number IX.A.13 in 2006 regarding the issuance of Islamic securities. This legal basis went further when the parliament approved the Sovereign *Sukuk* Law (Act number 19 year 2008 on *Sukuk*). With this Act, the government of Indonesia has a strong legal basis to: (i) issue *Sukuk* Negara (SBSN), (ii) use state owned-assets as underlying transaction of SBSN, and (iii) establish a SPV for sovereign *Sukuk* issuance. Moreover, according to the Law, SBSN is aimed to finance the Indonesian State Budget (APBN), including project financing. Particularly, the issuance of SBSN utilizes state owned-assets, in the form of fixed assets such as government's land and building, under construction assets such as projects, and services, as its underlying transaction.

In issuing *Sukuk*, the government of Indonesia establishes a Special Purpose Vehicle (SPV) called Perusahaan Penerbit SBSN (PP SBSN) Indonesia that is

legally acted as the issuer as well as trustee. The role of PP SBSN Indonesia is important in facilitating specific transactions to meet *Shari'ah* principles. Furthermore, PP SBSN is a separate legal entity and 100% owned by the government of Indonesia and operates under the direction of the Indonesian government. In the issuance process, PP SBSN acts as an issuer while government of Indonesia is the obligor of the *Sukuk* meaning that the government of Indonesia is responsible for the payment of both coupon and principle of the *Sukuk*.

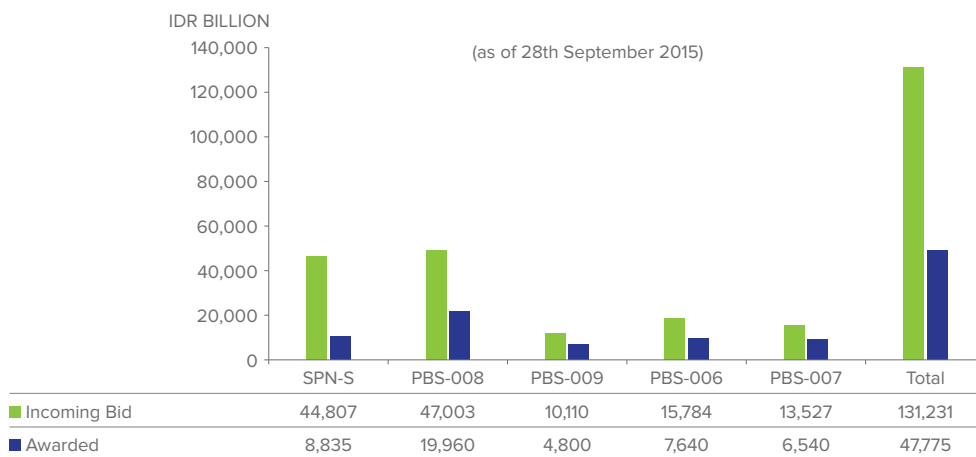
In the primary market, SBSN performed quite excellent, demonstrated by oversubscribed trend in each issuance. The SNI (global *Sukuk*) series for the international market has been in a steady trend of oversubscribed since 2009 albeit missing the market in 2010 (see figure 2). Meanwhile, in the domestic market, SR series also perform out of expectation in which the issuance size is always upsized due to the high demand. *Sukuk* auction also accomplishes an outstanding performance for example, up to 28 September 2015, *Sukuk* auction attracted much higher incoming bid compared to the awarded bid, Rp131,348 trillion to Rp47,785 trillion, albeit the increasing issuance target compared to the previous year target (see figures 3 and 4). The oversubscribed trend in the primary market shows increasing appetite for SBSN in both international and domestic markets despite the global financial instability in last few years.

FIGURE 2. SUKUK NEGARA: GLOBAL ISSUANCE



Source: Ministry of Finance

FIGURE 3. SUKUK NEGARA IN 2015 AUCTION



Source: Ministry of Finance

**FIGURE 4. AUCTION PARTICIPATION IN SUKUK NEGARA**

| <b>I. BANK</b>                |   |
|-------------------------------|---|
| 1                             | Citibank N.A.   |
| 2                             | Deutsche Bank AG                                      |
| 3                             | J.P. Morgan Chase Bank, N.A.                          |
| 4                             | PT. Bank BNP Paribas Indonesia                        |
| 5                             | PT. Bank BRISyariah                                   |
| 6                             | PT. Bank Central Asia, Tbk                            |
| 7                             | PT. Bank CIMB Niaga, Tbk                              |
| 8                             | PT. Bank Internasional Indonesia, Tbk                 |
| 9                             | PT. Bank Mandiri (Persero), Tbk                       |
| 10                            | PT. Bank Negara Indonesia (Persero), Tbk              |
| 11                            | PT. Bank Negara Indonesia Syariah                     |
| 12                            | PT. Bank OCBC NISP, Tbk                               |
| 13                            | PT. Bank Permata, Tbk                                 |
| 14                            | PT. Bank Rakyat Indonesia (Persero), Tbk              |
| 15                            | PT. Bank Syariah Mandiri                              |
| 16                            | PT. Bank Pan Indonesia, Tbk                           |
| 17                            | Standard Chartered Bank                               |
| 18                            | The Hongkong and Shanghai Banking Corporation Limited |
| <b>II. SECURITIES COMPANY</b> |   |
| 1                             | PT. Bahana Securities                                 |
| 2                             | PT. Danareksa Sekuritas                               |
| 3                             | PT. Mandiri Sekuritas                                 |
| 4                             | PT. Trimegah Securities, Tbk                          |

Source: Ministry of Finance

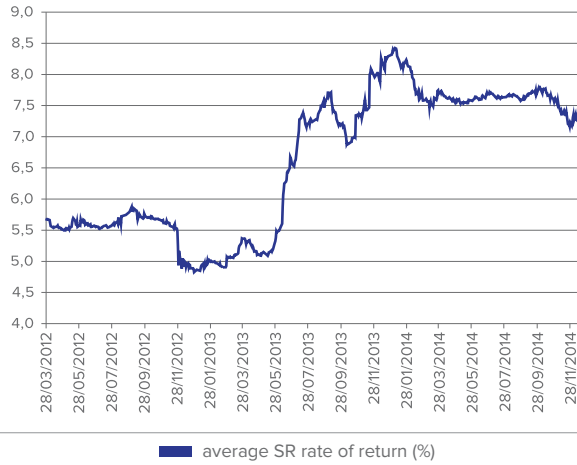
#### IMPROVING THE CURRENT CONDITION AND SUKUK RATE OF RETURN IN THE MARKET

In the secondary market, SBSN is not as liquid as the Indonesian conventional sovereign bond. It is shown in the smaller supply of SBSN than the conventional bond as well as the “buy and hold” type of investors. However, the government of Indonesia improves these conditions by building up the supply and educating the investors. Fortunately, the recent data shows that such an effort works well as indicated by the increasing of an average volumes of trading. For instance, it was only Rp554.86 billion in 2013 and Rp789.28 billion in 2014, but now it reaches Rp1,385 billion in 2015.

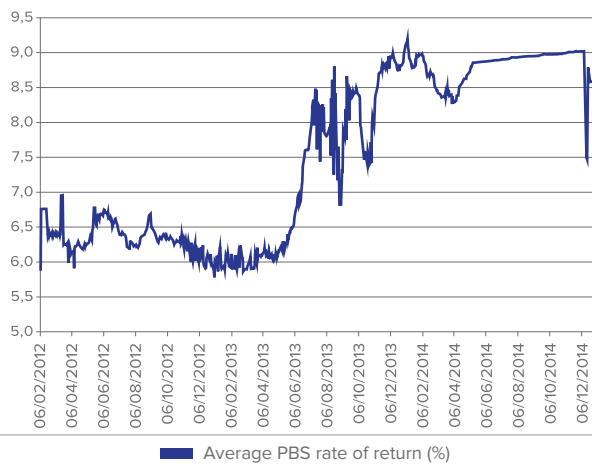
In 2013, the government of Indonesia started issuing project financing *Sukuk* to directly funding the

government projects, especially public infrastructures and other strategic projects. Thus far, project financing SBSN had funded the construction of infrastructure projects including double track railway, roads, bridges, Islamic universities, and hajj accommodation. The volumes of issuances have also increased each year from Rp800 billion in 2013, Rp1.5 trillion in 2014, to become Rp7.1 trillion in 2015. An amount of Rp13.7 trillion is in the pipeline for 2016. This reveals that the project-based *Sukuk* may come as one of the most favorable types of *Sukuk* for the government of Indonesia because it corresponds to the broader programs of accelerating the infrastructure development.

GRAPH 1. RATE OF RETURN OF SR

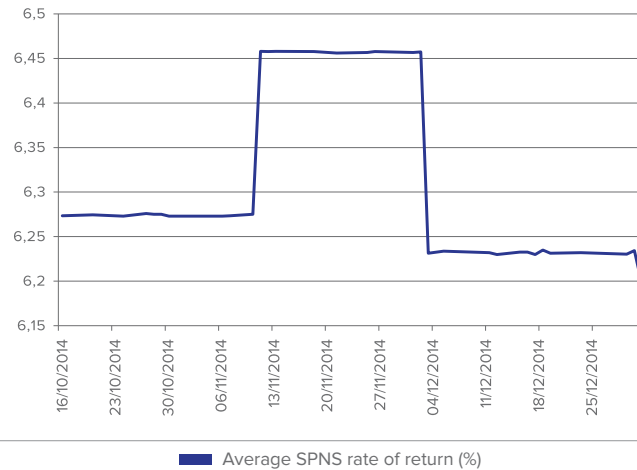


GRAPH 2. RATE OF RETURN OF PBS

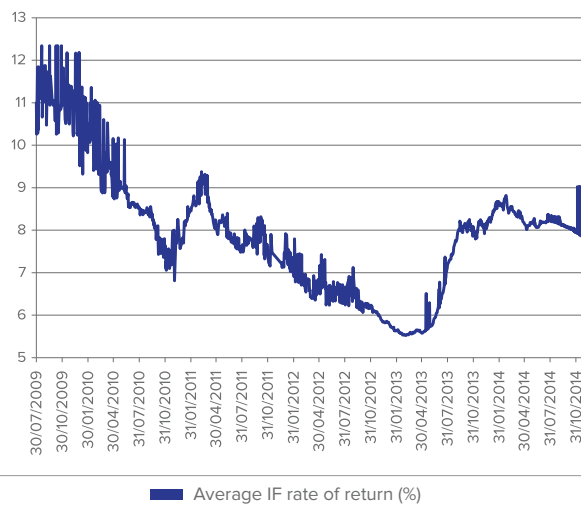


However, the rate of return of the SBSN is quite promising as shown in graphs 1-4 below. Rate of return of *Sukuk* retail (SR) and PBS *Sukuk* tended to go up within 2012-2014 ranging from 4% - 9% per year and the increasing trend was clearly found in 2013. These facts show that the performance of *Sukuk* projects is quite robust and investors should take into account these achievements in their *Sukuk* investment decision in Indonesia.

GRAPH 3. RATE OF RETURN OF SPN-S



GRAPH 4. RATE OF RETURN OF IFR



### CORPORATE SUKUK

On the other hand, corporate *Sukuk*, despite its coming out as the *Sukuk* initiator in the country, is still left behind the government one. Per September 2015, total issuance was Rp14.5 trillion (USD1.45 billion) or 11.8% increase from January 2015 with total number of issuance of 80. In addition, the outstanding corporate *Sukuk* was Rp8.28 trillion (USD0.82 billion) or 16.6% increase from January 2015 with total number of issuance of 41. With these achievements, corporate *Sukuk* only dominates 0.62% of the total domestic *Sukuk*. Amongst all corporate *Sukuk* issuers, Bank BNI Syariah, Bank International Indonesia (BII), Bank Mumalat Indonesia (BMI), Adira Multifinance

and National Electric Company (PLN) are the most well-known ones.

Meanwhile, for investors, the Indonesian *Sukuk* (including this corporate *Sukuk*) promises some advantages such as: (i) *Shari'ah* compliant instrument (based on DSN verdict), (ii) tax incentive for both issuers and investors particularly lower rate of income tax and tax neutrality for an SPV, (iii) flexibility in portfolio management, (iv) broader investors base, (v) greater transparency (full disclosure to investors and prohibition of excessive leveraging) and, (vi) government guarantee.

Lastly, Garuda (The National Airline of Indonesia) issued its global *Sukuk* amounted USD500 million in May 2015 offering 5.95% coupon rate and gained an almost USD2 billion bid. The *Sukuk* has successfully attracted investors from middle east countries (56%), asia (32%) and europe (12%) with composition of 52% banks, 29% corporates and 19% fund managers. Taken into account that this Garuda global *Sukuk* is the first time ever state owned company *Sukuk* in Indonesia without any guarantee from the government, Garuda becomes the first company in Asia Pacific issuing *Sukuk* for business operations.

### SUKUK STRUCTURE

Regarding *Sukuk* contracts, based on the National Sharia Board (DSN) verdict number 32/DSN-MUI/IX/2002, the permissible *Sukuk* contracts are *Mudabahah*, *Murabahah*, *Musharakah*, *Salam*, *Istisna'a* and *Ijarah*. However,

in practices, mixed contracts are commonly found particularly sale and lease back *Sukuk*, sale and buy back *Sukuk*, etc. In SBSN, there are at least three *Sukuk* structures which are *Ijarah* sale and lease back, *Ijarah al khadamat* and, *Ijarah* asset to be leased (see table 1 below). Each structure differs from one another on the type of underlying transaction and/or the combination of several types of underlying transactions. An *Ijarah* sale and lease back structure makes a use of 100% land and/or building (fixed assets). On the other hand, *Al Wakalah* employs a combination of 51% land and/or building (fixed assets) together with 49% infrastructure projects (under construction assets). An *Ijarah* asset to be leased structure utilizes the same combination as *Al Wakalah* but it does not specified fixed percentage for each type of asset. Finally, *ijarah al-khadamat* structure is specifically designed for hajj fund *Sukuk*.

TABLE 1. STRUCTURE OF SBSN

|   | Ijarah Sale and Lease Back                       | Ijarah al-Khadamat  | Ijarah Asset to be Leased                              |
|---|--|---|--|
| <b>Classification on AAOIFI Shari'ah Standards 17</b> | Certificates of ownership in leased assets (3/1) | Certificates of ownership of described future services (3/24) | Certificates of ownership of assets to be leased (3/1) |
| <b>Underlying Asset</b>                               | State-Owned Assets                               | Hajj Services   | Infrastructure Projects                                |
| <b>Coupon</b>   | Fixed rate                                       | Fixed rate  | Fixed rate   |
| <b>Tradability</b>                                    | Tradable   | Non-tradable  | Tradable   |
| <b>Issuance Method</b>                                | Bookbuilding Auction                             | Private Placement   | Auction  |
| <b>Series of Sukuk Negara</b>                         | IFR,SNI,SR,SPN-S                                 | SDHI  | PBS, SR  |

TABLE 2. DESCRIPTION OF SBSN

|                        | IFR  | SR   | SNI  | SPN-S   | SDHI  | PBS  |
|------------------------|--|--|--|---|---|--|
| <b>Series</b>          | Islamic Fixed Rate(IFR)  | Retail <i>Sukuk</i> (SR)   | <i>Sukuk</i> Negara Indonesia (SNI)  | Islamic T-Bills (SPN-S)                               | Hajj Fund <i>Sukuk</i> (SDHI)                 | Project Based <i>Sukuk</i> (PBS)                             |
| <b>Aqad</b>            | <i>Ijarah</i> Sale & Lease Back  |  |  |   | <i>Ijarah</i> al-Khadamat                     | <i>Ijarah</i> Asset to be Leased                             |
| <b>Underlying</b>      | State Owned Assets   |  |  |   | Hajj Services                                 | Government Projects  |
| <b>Coupon rate</b>     | Fixed Rate   |  |  |   |   |  |
| <b>Tradability</b>     | Tradable   |  |  |   | Non-tradable                                  | Tradable   |
| <b>Issuance Method</b> | Bookbuilding Auction   | Bookbuilding   | Bookbuilding   | Auction   | Private Placement                             | Auction  |
| <b>Characteristics</b> | IDR <i>Sukuk</i> for wholesale investors.Mid to long term tenors, semi annual coupon | IDR <i>Sukuk</i> for retail Indonesian investors, monthly coupon payment | USD denominated <i>Sukuk</i> , issued in international market,semi annual coupon | IDR <i>Sukuk</i> mature in 6 months, discounted basis | Private placement, short term, monthly coupon | IDR <i>Sukuk</i> mid to long term tenors, semi annual coupon |



These facts show that the government of Indonesia has dedicated its resources to innovate the *Sukuk* structures, not only for product development but also for maximizing the utilization of state owned-assets or state budget projects as the underlying transaction. The structures above have complied with AAOIFI *Shari'ah* standard 17, have underlying of government projects or assets, promise fixed rate return, can be traded in the secondary market (except the *Ijarah al khadamat*) and, have three issuance methods namely book building, auction and private placement. Moreover, such structures had also been legalized by the National *Shari'ah* Boards in its series of fatwa as well as by international *Shari'ah* scholars including Sheikh Nizam Yaquby, Dr. Mohammed Ali Elgari, Dr. Muhammad Imran Usmani, Dr. Abdul Sattar Abu Ghuddah, Dr. Nazih Hammad, Dr. Hussein Hamid Hasan, and Dr. Shafaai Musa.

Technically, the *Sukuk* auction is conducted regularly, 1-2 times a month for IFR, SPN-S and PBS, and it is only available for auction participants. Meanwhile, the book building is arranged once a year through selling agents (commercial banks and securities companies) and it is available for SR only. Finally, the private placement is for SDHI under bilateral agreement between ministry of finance and ministry of religion and SDHI is non tradable in the secondary market (see table 2 above).

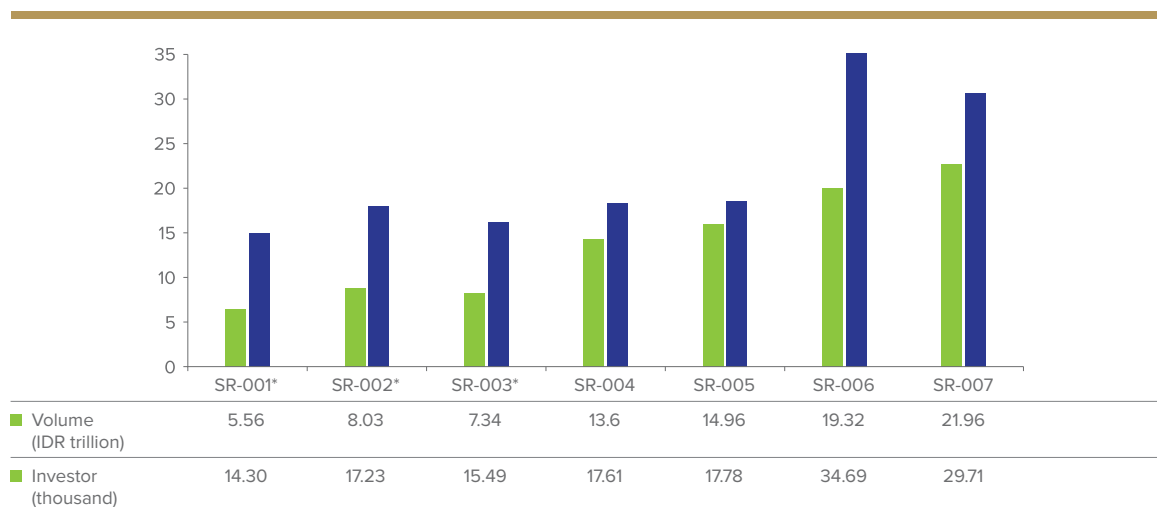
#### TAPPING THE DOMESTIC AND GLOBAL SUKUK MARKET

Despite the potential of *Sukuk*, stakeholders (including regulators) need to further develop the Indonesian *Sukuk* market, particularly to:

- Deepening the Islamic financial markets (increasing variety of instruments, number of market players/investors and transactions)
- Socializing and educating public on the benefit of Islamic securities
- Improving regulation on *Sukuk* market trading including repo transactions.
- Engaging *Sukuk* in various government projects.

Amongst others, widening investor base and product diversification are key drivers for such a market development. Different types of investors indeed need different instrument. Thus far, Indonesia has issued several innovative products to serve various investors both in the domestic and global *Sukuk* markets. For example is the retail *Sukuk* which brings Indonesia as one of few *Sukuk* issuers in the world having retail *Sukuk* (SR) in its domestic market. In fact, SR-007 (2015) was sold to more than 29,000 investors with the total volumes of Rp21.96 trillion, while SR-004 (2012) was issued with the amount of Rp13.6 trillion and was sold to more than 17,000 investors (see figures 5 and 6).

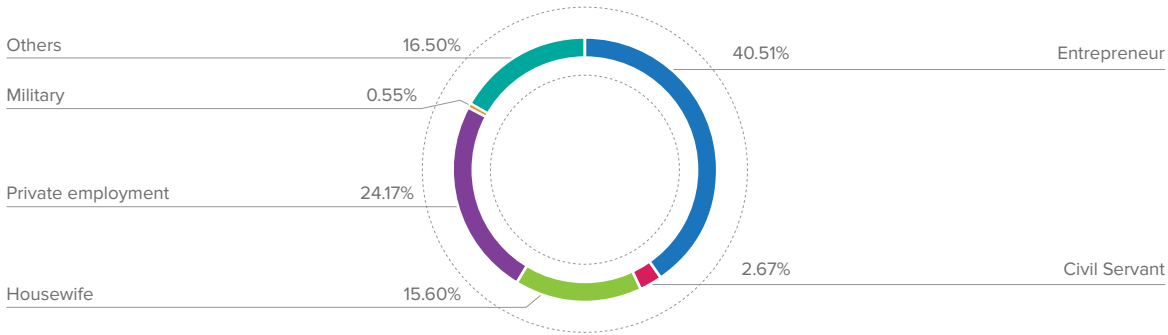
FIGURE 5. SUKUK NEGARA RETAIL (SR SERIES)



Source: Ministry of Finance

\*matured series

**FIGURE 6. SR-007: DISTRIBUTION BY PROFESSION**

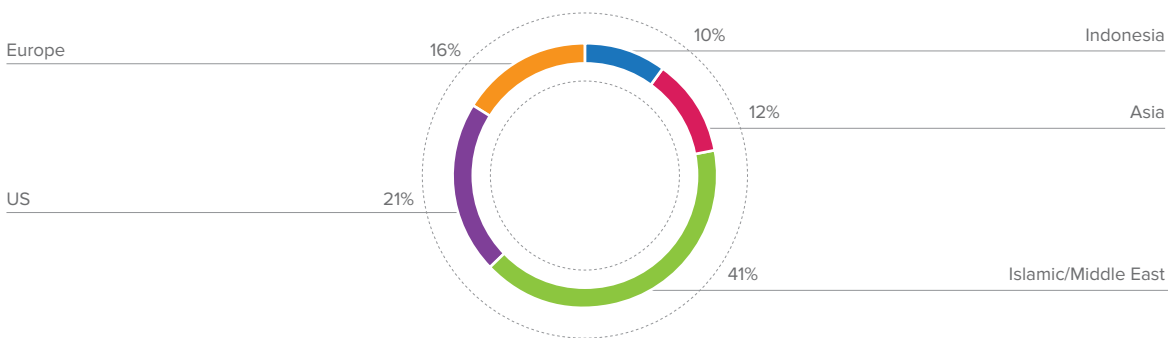


Source: Ministry of Finance

The latest series, SR-007, is the largest SR that has ever been issued by the government. It used *Ijarah* Asset to be Leased structure with 3 years tenure and successfully attracted more than 29 thousand retail investors. As such, Indonesia is now one of the leading sovereign *Sukuk* issuers in the international market and has contributed 20% of the global sovereign *Sukuk* issuance. Further, to fulfill the demand from foreign investors, the government of Indonesia has regularly issued Global

*Sukuk* (SNI). The latest series, SNI-25 (2015), successfully attracted USD6.8 billion order book and was issued at values of USD2 billion. It is also the largest ever single-tranche USD *Sukuk* from Asia. The SNI-25 was part of Trust Certificate Issuance Program, issued in 2012, with the total values of USD6 billion (see figure 7 and table 3). This program is listed in Singapore Stock Exchange and Nasdaq Dubai, and is the largest Islamic bond ever listed in Dubai by sovereign issuer.

**FIGURE 7. SNI-25: DISTRIBUTION BY REGION**



Source: Ministry of Finance

TABLE 3. SUKUK NEGARA:GLOBAL ISSUANCE(2009-2014)

|                      | SNI --14 (2009)*                  | SNI-18 (2011)  | SNI-22(2012)                         | SNI-19(2013)                            | SNI-24(2014)                             |
|----------------------|-----------------------------------|----------------|--------------------------------------|---|--|
| <b>Format</b>        | 144 A/Reg S                       | 144 A/Reg S    | Islamic GMTN Program,<br>Reg S/144 A | Islamic GMTN<br>Program,<br>Reg S/144 A | Islamic GMTN<br>Program,<br>Reg S /144 A |
| <b>Tenor</b>         | 5 years                           | 7 years        | 10 years                             | 5.5 years                               | 10years                                  |
| <b>Issue date</b>    | 23-Apr-09                         | 21-Nov-11      | 21-Nov-12                            | 17-Sep-13                               | 10-Sep-14                                |
| <b>Maturity date</b> | 23-Apr-14                         | 21-Nov-18      | 21-Nov-22                            | March 15,2019                           | 10-Sep-24                                |
| <b>Coupon</b>        | 8.80%p.a                          | 4.00%p.a       | 3.30%p.a                             | 6.125%p.a                               | 4.35%p.a                                 |
| <b>Structure</b>     | <i>Ijarah</i> Sale and Lease Back |                |                                      |   | <i>Wakalah</i>                           |
| <b>Orderbook</b>     | USD4.76 billion                   | USD6.5 billion | USD5.3 billion                       | USD5.7 billion                          | USD10 billion                            |
| <b>Issue size</b>    | USD650 million                    | USD1 billion   | USD1 billion                         | USD1.5 billion                          | USD1.5 billion                           |

Source: Ministry of Finance

\*matured series

## 5.4 BRUNEI DARUSSALAM SOVEREIGN SUKUK MARKET

*By Autoriti Monetari Brunei Darussalam*

The Autoriti Monetari Brunei Darussalam (AMBD) has issued its 123<sup>rd</sup> *Sukuk* worth USD25 million on 8<sup>th</sup> October 2015. With this issuance, the Brunei Government has issued over USD9.055 billion worth of short-term *Sukuk Al Ijarah* securities since its maiden offering on April 6, 2006.

The Government *Sukuk Al-Ijarah* issuances, for the period of September 2014 to September 2015 are as follows:

| Year | Series | Issuance Date | Tenor (Months) | Amount (BND)   |
|------|--------|---------------|----------------|----------------|
| 2014 | 109    | 04-Sep-14     | 91             | 100,000,000.00 |
|      | 110    | 18-Sep-14     | 182            | 100,000,000.00 |
|      | 111    | 16-Oct-14     | 91             | 100,000,000.00 |
|      | 112    | 6-Nov-14      | 91             | 100,000,000.00 |
|      | 113    | 20-Nov-14     | 182            | 100,000,000.00 |
|      | 114    | 18-Dec-14     | 273            | 100,000,000.00 |
| 2015 | 115    | 12-Feb-15     | 273            | 100,000,000.00 |
|      | 116    | 26-Mar-15     | 91             | 100,000,000.00 |
|      | 117    | 16-Apr-15     | 364            | 100,000,000.00 |
|      | 118    | 14-May-15     | 182            | 100,000,000.00 |
|      | 119    | 11-Jun-15     | 91             | 100,000,000.00 |
|      | 120    | 30-Jul-15     | 182            | 100,000,000.00 |
|      | 121    | 20-Aug-15     | 273            | 100,000,000.00 |
|      | 122    | 10-Sep-15     | 91             | 100,000,000.00 |
|      | 123    | 08-Oct-15     | 364            | 25,000,000.00  |
|      | 124    | 19-Nov-15     | 182            | 100,000,000.00 |

### **Quasi-Sovereign Sukuk**

No Quasi-Sovereign *Sukuk* being issued during the period of September 2014 to September 2015.

### **Corporate Sukuk**

No Corporate *Sukuk* being issued during the period of September 2014 to September 2015.

### **Secondary Market Trading**

No secondary market trading activities in Q3 2015.

**MOVING FORWARD**

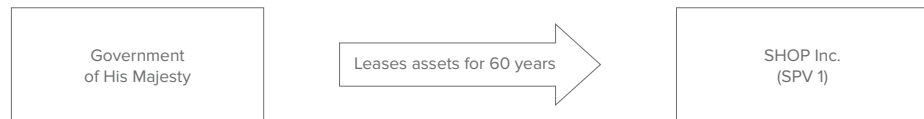
Longer term Brunei Government *Sukuk Al-Ijarah* issuances, extending the Brunei Government *Sukuk Al-Ijarah* to the secondary market and increasing the investors for the *Sukuk* are planned to be introduced in the very near future.

**ANNEX 1: STRUCTURE FOR THE GOVERNMENT SUKUK AL-IJARAH**

**LEASING OF ASSETS TO SUKUK HOLDING PROPERTIES**

As shown in Figure 1 below, the Government of His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam leases assets to *Sukuk* Holding Properties Inc. (SHOP Inc.), the first SPV, for a period of 60 years.

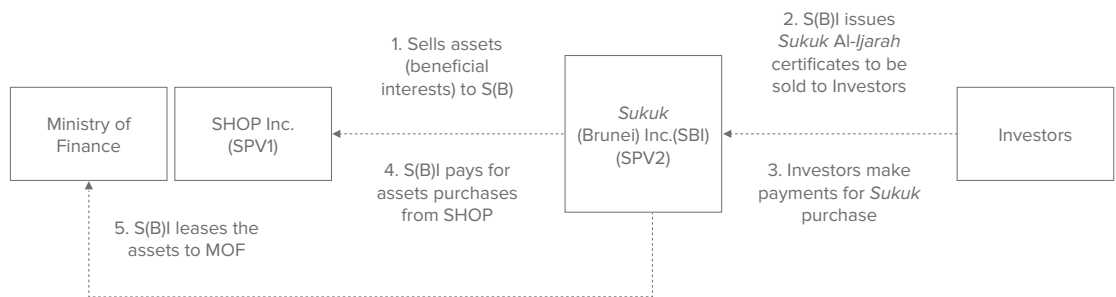
**FIGURE 1: PROCESS FLOW PRIOR TO THE ISSUANCE OF SUKUK AL-IJARAH**



**WORKFLOW OF ISSUANCE OF GOVERNMENT SUKUK AL-IJARAH**

As illustrated in Figure 2, SHOP Inc. will sell the asset to a second SPV known as *Sukuk* (Brunei) Inc. [S(B)]. S(B) will then issue *Sukuk Al-Ijarah* certificates and sold to the investors, whereby S(B) offers to issue not more than B\$100 million *Sukuk* with an underlying property of not less than that value. S(B) will then pay for the assets purchases to SHOP Inc. S(B) then leases the said asset to the Government, through the Ministry of Finance at an agreed rental fee for a pre-determined period.

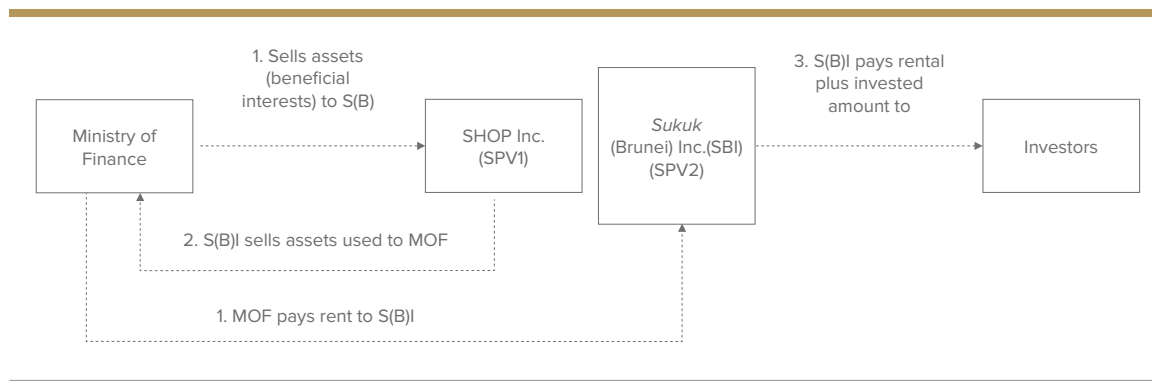
**FIGURE 2: PROCESS FLOW FOR THE ISSUANCE OF SUKUK AL-IJARAH**



### WORKFLOW OF REDEMPTION OF GOVERNMENT *SUKUK AL-IJARAH*

As illustrated in **Figure 3**, during the redemption process, MoF will pay the rental fee of the lease to S(B)I. S(B)I will then sell the asset used to the Government through MoF allowing S(B)I to get the principal amount. The rental and principal from the *Sukuk* issuance will be returned back to the investors by S(B)I. Finally, MoF will return back the asset used to SHOP Inc. as Hibah (gift). The assets will be used again in the future for other issuances.

**FIGURE 3: PROCESS FLOW FOR THE REDEMPTION OF *SUKUK AL-IJARAH***



**5.5 SUKUK ISSUANCES IN SUDAN**

By: Osama Elnour Mohamed, Research & Statistic Section, SFS  
 Aymen Gurashi Ahmed, Research & Statistic Section, SFS.

**BACKGROUND INFORMATION**

After the implementation of Islamic banking system in Sudan in 1983 the monetary authorities found themselves restricted to the direct tools for liquidity management ( administrative and quantitative tools), so there was an urgent need for alternative Islamic instruments instead of the traditional ones.

So after a great effort continued for a year and a half the Higher *Shari'ah* Supervisory Board and expert from the IMF found the first generation of *Sukuk*, Central Bank *Musharakah* Certificates (CMCs) and Government *Musharakah* Certificates (GMCs).

To manage the issuance of these *Sukuk* the Central Bank of Sudan was having two options either to manage it through one of its departments or establish a company to do the job, and eventually established Sudan Financial Services Company in 1998.

**TYPES OF SUKUK STRUCTURES:**

**CHART1: CENTRAL BANK MUSHARAKAH CERTIFICATE & GOVERNMENT MUSHARAKAH CERTIFICATE**

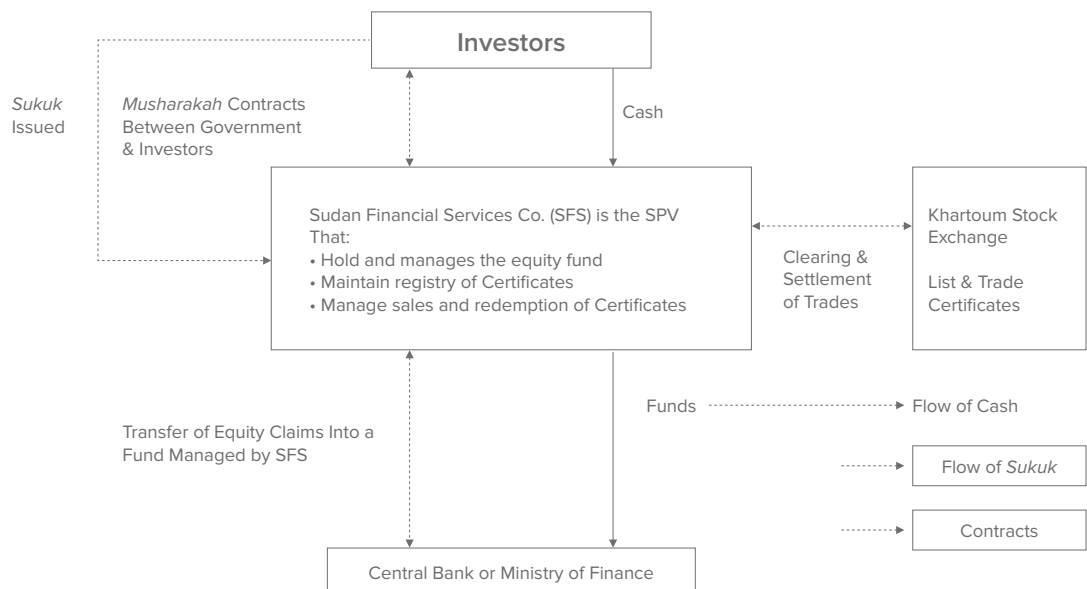


CHART 2: GOVERNMENT INVESTMENT CERTIFICATE

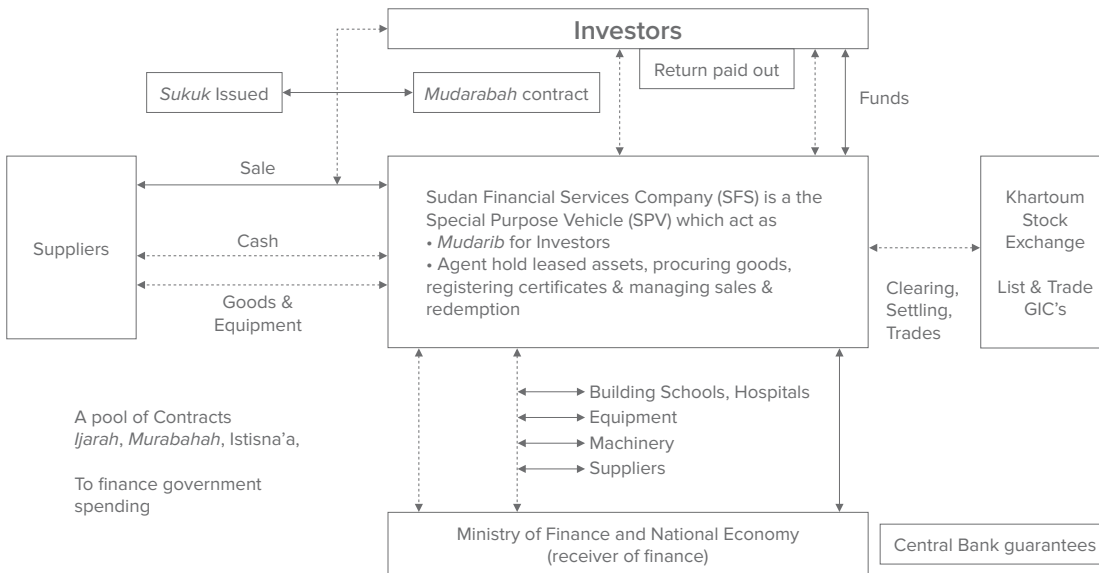
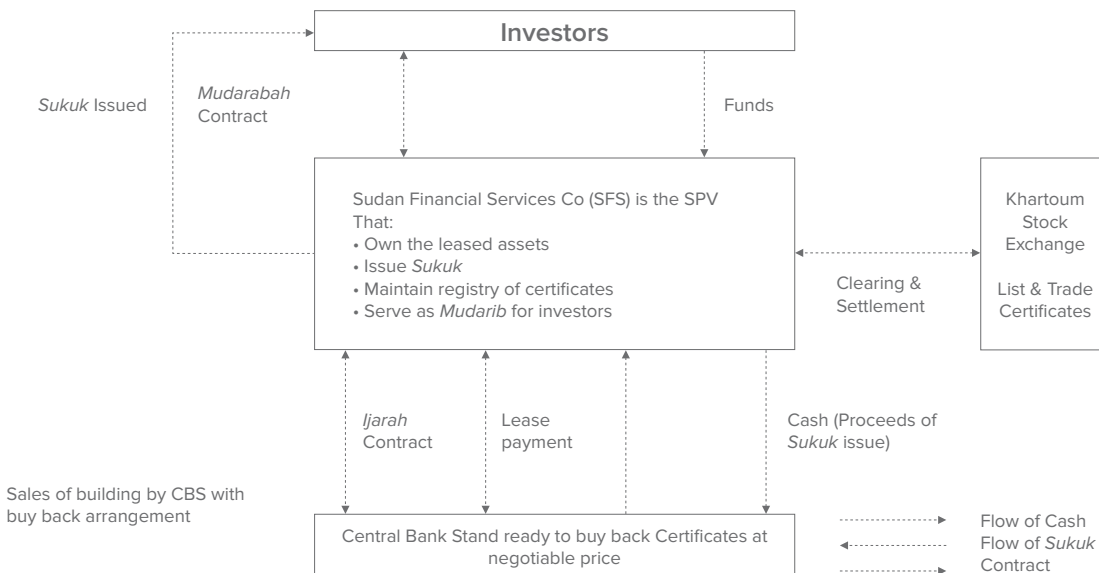


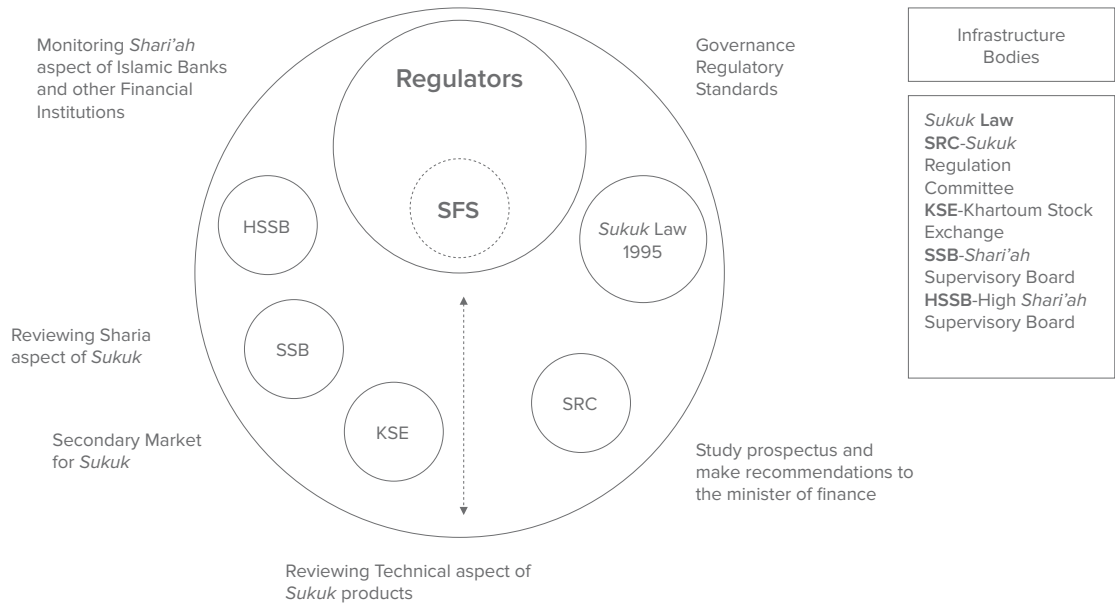
CHART 3: CENTRAL BANK IJARAH CERTIFICATES





## LEGAL AND REGULATORY FRAMEWORK

CHART 4: SUKUK REGULATORY FRAMEWORK

**INCENTIVES:**

Main Merits and Characteristics:

1. The certificate is legal and its fulfills all the requirements of legal contracts. The higher *Shari'ah* Supervisory Board for the Banking system and financial Institutions has given a *Fatwa* (Ruling) underlining the legality of this certificate.
2. Has a Low investment **risks**.
3. Has high profitability compared with other investment opportunities.
4. Can be presented as first class collateral for banking finance.
5. It can be feasibly liquidated as it can be traded at any time and easily in Khartoum Stock Exchange.

**SEGMENT FOCUS:**

- 1) Managing liquidity at the macro economy level by using contractionary or expansionary open market operations to control liquidity within the ambit of Islamic *Shari'ah*.
- 2) Contributing in filling part of fiscal deficit in the public budget which was usually financed by borrowing from the Central the Bank.
- 3) Allocating real savings for Government financing to meet spending on development and infrastructural projects.
- 4) Mitigating inflationary effects, by providing stable and real financing for the Government in the form of commodities and services.

**SECONDARY MARKET ACTIVITY:**

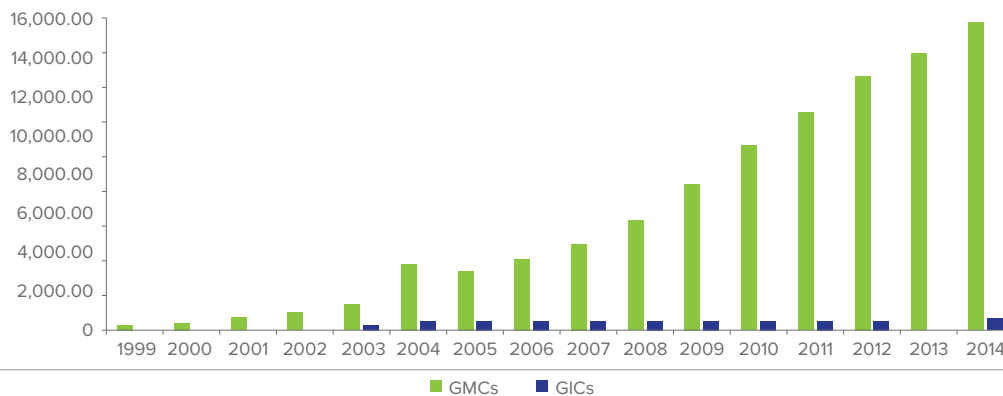
The total value of traded *Sukuk* in Khartoum Stock Exchange (KSE) during the year 2014 amounted to 5,455.8 SDG million i.e. represent 94.7% of total value traded, as the number of executed transactions for Islamic *Sukuk* during the year 2014 reached 22,002 deals which represented a 97% of total executed deals, and table (1) below shows more other indicators.

**TABLE (1): TRADED SUKUK: SECONDARY MARKET INDICATORS**

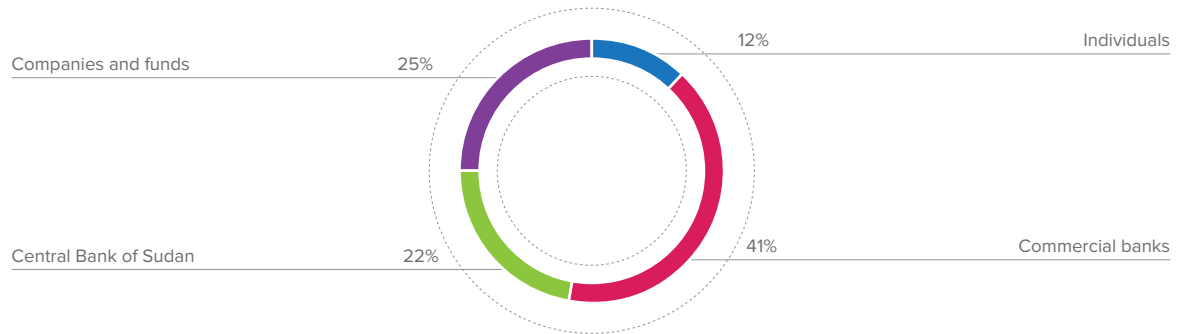
| ITEM                          | 2014                      |
|-------------------------------|---------------------------|
| Number of traded shares       | 175,035,760               |
| Number of traded <i>Sukuk</i> | 10,686,716                |
| The total value traded        | 5,761.7 ( SDG Millions)   |
| Number of Transactions        | 22,670                    |
| Number of listed companies    | 65                        |
| Market capital                | 13,501.1 ( SDG Millions)  |
| Primary Market                | 23,948.09 ( SDG Millions) |

Source: Khartoum Stock Exchange

**THE DEVELOPMENT OF SUKUK ISSUANCE ;**



Since the first issuance in 1999, the Government *Musharakah* Certificates (GMCs) has been growing rapidly, the demand depends on high profitability, free risk , short- term maturity (one year), in addition to high liquidity, which is match with objectives of investors. On the other hand, growth of Government Investment Certificates ( GICs ) is not as favorable as (GMCs) and showed sluggish development due to long-term duration (2-6 years) and stability of profit. In 2013 , the (GMCs) outstanding increased by 8.5 % from previous year , reaching SDG 14,131 million ,while the (GICs) outstanding decreased due to zero issuance while some of the *Sukuk* has reached its maturity.

**GOVERNMENT SUKUK OWNERSHIP:****VALUE IN MILLION SDG**

From the above Diagram, it is clear that the commercial banks have the largest share of the *Sukuk* at a rate of 41%, followed by companies and funds by 25%, the Central Bank of Sudan by 22%, and finally 12% of individuals.

## 5.6 SUKUK MARKET IN TURKEY

*By Capital Markets Board of Turkey*

Islamic finance is a trending phenomenon and has a growing importance in the global financial system as it continues to take attention of countries from all over the world. Growing attention to Islamic finance in the last more than 25 years, stems both from being an alternative to traditional finance and the huge capital accumulation in Islamic countries.

Turkey is internationally recognized as being one of the top emerging markets and has a dynamic and strong growth market that offers a wide range of promising investment opportunities. Particularly due to its geographical and political position, it is believed that Istanbul can be an international financial center as it is bridging both east and west.

Especially in terms of capital markets, it is accepted that Turkey has a great potential. So in compliance with national effort to develop the securities market in Turkey, enhancing Islamic side of the capital markets is also very crucial for Turkey in terms of diversifying the range of products and more importantly in order to reach more investors nationally and globally. As the role and importance of Islamic finance in Turkey evolves, development efforts should be focused on capital markets instruments as well as banking sector services.

In order to develop regulatory framework for private Turkish *Sukuk*, important milestones has been completed in the last couple of years. The first *Sukuk* (it is named as lease certificates in Turkey) regulation was introduced in 2010 and designed basically to enable interest-free financing and investment in the form of a a leasing (*Ijarah*) transaction. In the first regulation "Asset Leasing Company" (ALC) was contemplated as an issuer to fulfill the SPV's role for issuances. Following in 2011, tax inequalities on *Ijarah Sukuk* compared to conventional products were solved. At the end of 2012 new capital market law came into effect and regulation regarding *Sukuk* issues has been entirely changed in parallel to new Capital Market Law.

With the new Capital Market Law, ALC has been counted as a "Capital Market Institution" which makes ALCs regulated and supervised by Capital Markets Board (CMB) extra protection and confidence for investors has been brought.

Main points regulated in the new Capital Market Law regarding *Sukuk* and ALCs are as follows:

- All kinds of assets and rights can be subject to the issuance.
- ALC cannot deal with any other activity except the ones indicated in its articles of association and no real rights may be established in favor of third persons on the assets and rights it holds except those permitted in its articles of association.
- ALC cannot lease or transfer these assets and rights against the interests of *Sukuk* holders. Until *Sukuk* have been redeemed, the assets and rights taking place in the portfolio of ALC cannot be pledged other than for the purpose of collateral, cannot be put up as collateral, cannot be attached even for the purpose of collecting public receivables, cannot be included in the bankruptcy estate and cannot be subject to any cautionary injunction even when the management or audit of the issuer is transferred to public institutions.
- In the event that the issuer cannot fulfill its obligations arising from *Sukuk* in due time, its management or audit is transferred to public institutions, its permission of activity is cancelled or it goes bankrupt, the income generated from the assets in its portfolio shall be used primarily in the payments to be made to *Sukuk* holders. CMB is authorized to take all kinds of measures for the purpose of protecting the rights of *Sukuk* holders.

- CMB given the authority to determine,
  - principles and procedures concerning the establishment of ALC, its articles of association, activity principles,
  - types and qualities of the assets and rights ALC can take over and the keeping of the records related to them,
  - ALC's management, liquidation and termination principles.
- Lease certificates based on independent contractor agreement (*istisna Sukuk*)
- Combination of those above mentioned and any other structure accepted by CMB
- In the new Communiqué “one ALC one issue rule” has been annulled since the new

The most important novelty about *Sukuk* is the preliminary measures prescribed in the event of default or in cases such as the transfer of originator's management to public institutions. CMB, in these cases has broad authority to take all measures necessary to protect the rights of investors.

Law gives CMB the authority to determine types and qualities of the assets and rights ALC can take over and keeping of records related to them. So in the new Communiqué it is regulated that all rights and responsibilities relating to these underlying assets and rights are to be monitored and reported separately for each issuance. This will effectively eliminate the commingling risk with regard to ALC's assets.

Following the new Law, new *Sukuk* Communiqué has been prepared by taking into account both new Law provisions and demands expressed by the sector. New *Sukuk* Communiqué “Communiqué Nr. III-61/1” has been enacted on 7th June 2013. In this Communiqué there are many crucial novelties regulated when compared to former Communiqué which are as follows:

- For lease certificates based on ownership and independent contractor agreement (*ijarah and istisna*), the issue amount has been restricted to %90 of the underlying asset's fair value.
- Circumstances that necessitate the determination of market value of assets and rights are stated clearly according to International Valuation Standards by appraisal firms entitled by CMB
- The founders of ALC has been re-designed since ALC is counted as a capital market institution in the new Law. According to the Communiqué ALC can be founded by;
  - Banks
  - Investment firms of certain capacity
  - Mortgage finance institutions
  - Listed real-estate investment companies
  - First and second group corporations as defined in CMB's corporate governance communiqué
  - Corporations with investment grade rating note
  - State owned enterprises (51% owned by Treasury)
- Lastly in order to prevent conflict of interests between ALC and the originator, independent board member requirement has been regulated and for important decisions like affirmative vote of the independent member is required.
- First of all the Communiqué widened the scope of underlying assets and defined them as any kind of rights and assets.
- This asset diversity is provided to lay the groundwork for other *Sukuk* structures designed in the new Communiqué. While the old Communiqué III/43 was only regulating *ijarah Sukuk*, this new Communiqué is regulating 5 more internationally well-known *Sukuk* structures in addition to *ijarah Sukuk*. The lease certificates designed and the *Sukuk* structures inspired are counted below but not limited to :
  - Lease certificates based on ownership (covered *ijarah-Wakalah Sukuk*)
  - Lease certificates based on management agreements (asset based *ijarah-Wakalah Sukuk*)
  - Lease certificates based on partnership (*Musharakah and Mudarabah Sukuk*)
  - Lease certificates based on purchase and sale (*Murabahah Sukuk*)

By the new regulations, the 3 important pillars of financing which are effective, reliable and flexible are realized. So the new regulations has become compatible with all kinds of financing from retail to infrastructure projects.

#### Private Sukuk Issues

| (2011-2015/09) | Issue Amount * (USD Mil.) | Average Maturity (Year) |
|----------------|---------------------------|-------------------------|
| Cross border   | 2,669                     | 5,01                    |
| Domestic       | 1,402                     | 0,78                    |
| <b>Total</b>   | <b>4,071</b>              |                         |

\* According to exchange rate at the date of 26/11/2015

#### Sovereign Sukuk Issues

| (2011-2015/09) | Issue Amount (USD Mil.) | Average Maturity (Year) |
|----------------|-------------------------|-------------------------|
| Cross border   | 3,750                   | 6,83                    |
| Domestic       | 3,964                   | 2,14                    |
| <b>Total</b>   | <b>7,714</b>            |                         |

\* According to exchange rate at the date of 26/11/2015

In line with effective, reliable and flexible regulatory framework, volume of private sector *Sukuk* issues has increased dramatically. The amount of Turkish *Sukuk* issued by both government and private sector markets was around 2 billion USD in 2012, reached to around 4 billion USD in 2014 and 2.1 billion USD in 2015 until September.

As for listing *Sukuk* in Borsa İstanbul, *Sukuk* to be offered to public must be listed and traded in the Borsa İstanbul. On the other hand *Sukuk* to be sold to qualified investors may be listed and traded by qualified investors only. In addition to those, Islamic Development Bank's (IDB) *Sukuk* which are already being traded on London, Dubai and Malaysia stock exchanges have also been listed Borsa İstanbul. This listing is an important landmark as it highlights İstanbul's place as a financial center in the global financial markets.

## 5.7 SUKUK MARKET IN PAKISTAN<sup>1</sup>

By State Bank of Pakistan

### OVERVIEW

Pakistan joined the global *Sukuk* market with issuance of its first international sovereign *Sukuk* of USD600 million in 2005. In the domestic *Sukuk* market the first *Sukuk* was issued in 2006, and since then *Sukuk* amounting to nearly Rs. 726 billion have been issued. The emergence of *Sukuk* market has helped Islamic banks to diversify their asset mix by providing them an attractive investment avenue besides improving their profitability and earning.

**TABLE 1: STATUS WISE SUKUK ISSUANCE IN PAKISTAN**

|                  | Number of issues | Amount in billion Rs |
|------------------|------------------|----------------------|
| Privately Placed | 82               | 693.7                |
| Listed           | 6                | 32.0                 |
| <b>Total</b>     | <b>88</b>        | <b>725.7</b>         |

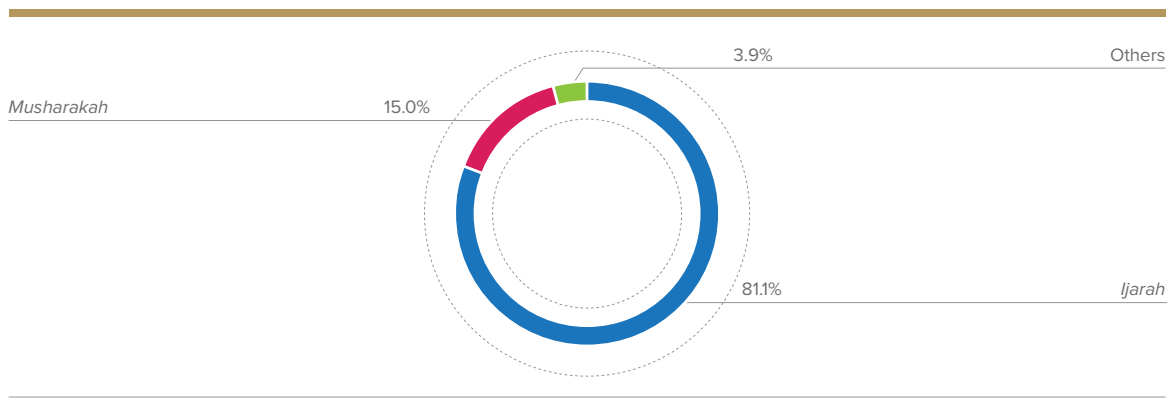
### OVERALL SUKUK MARKET

Overall 88 *Sukuk* have been issued in the domestic market up to June 2015, with 15 of them being Government of Pakistan (GoP) *Ijarah Sukuk* and remaining 73 being issued by corporate or quasi-sovereign entities. The *Sukuk* in Pakistani market till now are in the medium term ranging between 3-7 years. Most of the *Sukuk* issued in Pakistan are privately placed, however, since the last two years few corporate *Sukuk* have been listed at the stock exchange which have attracted good response from retail investors (see **Table 1**).

#### a) Commonly Used *Sukuk* Structures:

In terms of *Sukuk* structure the most widely used structure is *Musharakah* (47 issues) followed by *Ijarah* (24 issues). However, in terms of value, *Ijarah* dominates the *Sukuk* market with more than 81 percent value of total *Sukuk* issues (see **Figure 1**). One of the main reasons for *Ijarah* having such high value is that all GoP *Sukuk* are *Ijarah* based and these sovereign *Sukuk* are generally larger in value compared to other *Sukuk* issued in Pakistan.

**FIGURE 1: MODE WISE BREAKUP OF DOMESTIC SUKUK**

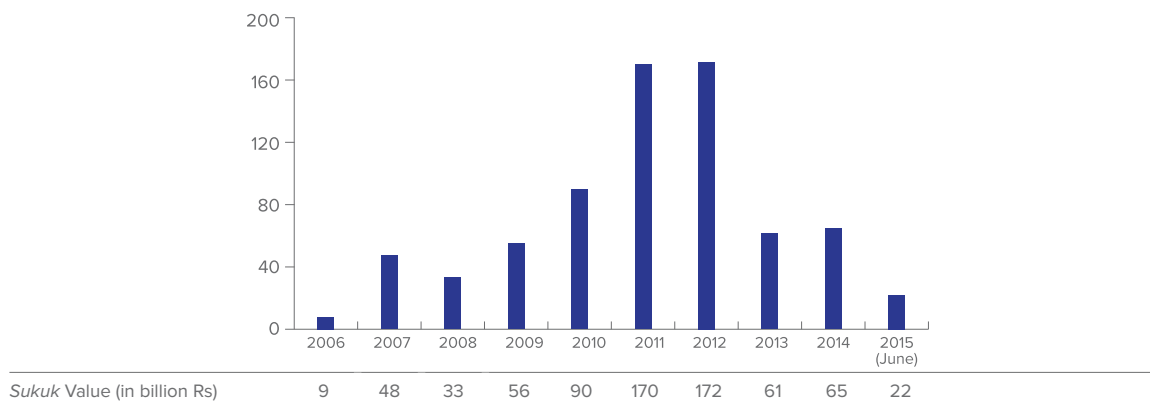


<sup>1</sup>All analysis in this note is based on data as of end June 2015

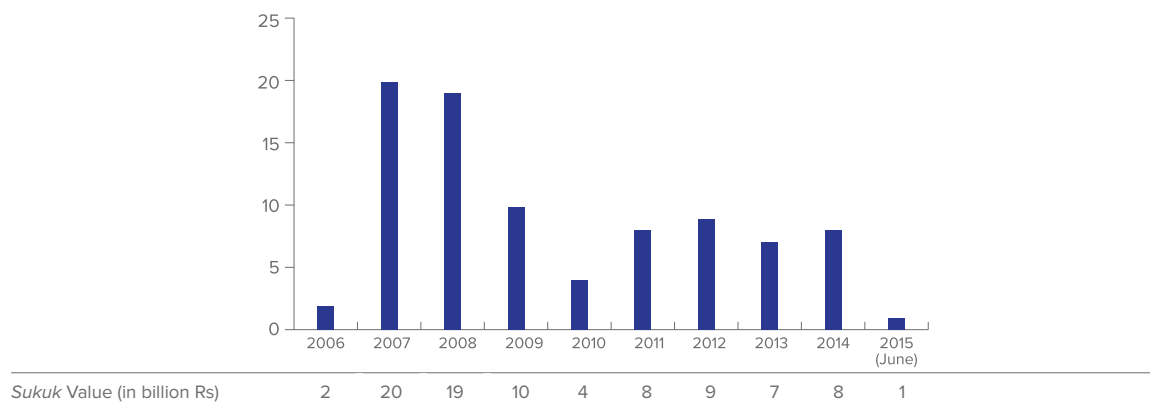
### b) Chronological Development of Pakistan Sukuk Market:

Year wise breakup of *Sukuk* issuances reveals that the domestic *Sukuk* market witnessed considerable buoyancy in terms of value from the period 2010 to 2012. This impetus was mainly due to a series of *Sukuk* issuance by the GoP during the period (see **Figure 2**). However, since 2013 the momentum in the domestic *Sukuk* market has slowed down and this is again mainly due to relatively lower issuance of GoP *Ijarah Sukuk*.

**FIGURE 2: YEAR WISE DOMESTIC SUKUK SUMMARY**



### NUMBER OF SUKUK ISSUES





It is pertinent to note that in terms of number of issues, limited issues have been witnessed in the domestic *Sukuk* market since 2010. This is mainly because corporate *Sukuk* issuance have witnessed considerable decline and most of the issuances have come in the form of sovereign *Sukuk* i.e. GoP *Ijarah Sukuk* which are lower in number.

**TABLE 2: ENTITY WISE & YEAR WISE BREAKUP OF SUKUK VOLUME  
(PERCENT SHARE IN TOTAL SUKUK AMOUNT)**

|             | CORPORATE | SOVEREIGN | QUASI-SOVEREIGN |
|-------------|-----------|-----------|-----------------|
| 2006        | 7.2       | 0.0       | 92.8            |
| 2007        | 55.5      | 0.0       | 44.5            |
| 2008        | 48.6      | 14.0      | 37.4            |
| 2009        | 43.3      | 29.0      | 27.7            |
| 2010        | 27.1      | 55.7      | 17.2            |
| 2011        | 15.9      | 72.7      | 11.4            |
| 2012        | 11.5      | 79.3      | 9.2             |
| 2013        | 10.7      | 78.5      | 10.8            |
| 2014        | 11.0      | 78.3      | 10.7            |
| (June) 2015 | 10.7      | 75.9      | 13.4            |

**c) Entity Wise Sukuk Issuance in Pakistan:**

Entity wise distribution reveals that corporate *Sukuk* had major share in total *Sukuk* issuances in Pakistan till 2009 when a structural shift from corporate to sovereign *Sukuk* took place; corporate *Sukuk* issuances declined and several GoP *Sukuk* have been issued since then; sovereign *Sukuk* at present has a major share of nearly 76 percent in total value of *Sukuk* issued in the country (see **Table 2**).

**GOP IJARAH SUKUK:**

Pakistan Domestic *Sukuk* Company Limited (PDSCCL), a public sector company, has been issuing GoP *Ijarah Sukuk* in the domestic market since 2008. Analysis of

GoP *Sukuk* shows that since issuance of first *Sukuk* of this series, there have been 15 auctions of GoP *Sukuk* (up to June 2015) amounting above Rs 550 billion (nearly 76 percent of the overall *Sukuk* issuance). In terms of subscription amount, all issues except four (1<sup>st</sup>, 2<sup>nd</sup>, 6<sup>th</sup> and 10<sup>th</sup>) were oversubscribed (see **Table 3**). Of late State Bank of Pakistan (SBP) has been allowed buying or selling of these *Sukuk* from the industry on deferred payment basis (Bai Muajjal) through open market operations. This has provided the central bank a *Shari'ah* compliant monetary management tool. Moreover, the government has used this instrument to secure funding from Islamic banking industry in recent past.

**TABLE 3: AUCTION SUMMARY OF 3 YEARS IJARAH SUKUK BY THE GOVERNMENT OF PAKISTAN  
- AS OF END JUNE 2015, RS BILLIONS**

|                                      | AUCTION DATE | ISSUE DATE | TARGET AMOUNT | AMOUNT OF SUKUK   |
|--------------------------------------|--------------|------------|---------------|-------------------|
| GOP <i>Ijarah Sukuk</i> - 1          | 15/9/2008    | 26/9/2008  | 10,000.00     | 6,522.50          |
| GOP <i>Ijarah Sukuk</i> - 2          | 20/12/2008   | 29/12/2008 | 10,000.00     | 6,000.00          |
| GOP <i>Ijarah Sukuk</i> - 3          | 5/3/2009     | 11/3/2009  | 10,000.00     | 15,325.00         |
| GOP <i>Ijarah Sukuk</i> - 4          | 5/9/2009     | 17/9-2009  | 10,000.00     | 14,396.00         |
| GOP <i>Ijarah Sukuk</i> - 5          | 8/11/2010    | 15/11/2010 | 40,000.00     | 51,837.00         |
| GOP <i>Ijarah Sukuk</i> - 6          | 13/12/2010   | 20/12/2010 | 40,000.00     | 37,174.00         |
| GOP <i>Ijarah Sukuk</i> - 7          | 1/3/2011     | 7/3/2011   | 45,000.00     | 47,539.70         |
| GOP <i>Ijarah Sukuk</i> - 8          | 9/5/2011     | 16/5/2011  | 45,000.00     | 45,803.70         |
| GOP <i>Ijarah Sukuk</i> - 9          | 20/12/2011   | 26/12/11   | 50,000.00     | 70,269.10         |
| GOP <i>Ijarah Sukuk</i> - 10         | 23/2/2012    | 2/3/2012   | 50,000.00     | 38,123.90         |
| GOP <i>Ijarah Sukuk</i> - 11         | 23/4/2012    | 30/4/2012  | 25,000.00     | 29,632.00         |
| GOP <i>Ijarah Sukuk</i> - 12         | 20/6/2012    | 28/6/2012  | 25,000.00     | 48,765.80         |
| GOP <i>Ijarah Sukuk</i> - 13         | 11/9/2012    | 18/9/2012  | 45,000.00     | 47,017.80         |
| GOP <i>Ijarah Sukuk</i> - 14         | 26/3/2013    | 28/3/2013  | 43,000.00     | 43,018.00         |
| GOP <i>Ijarah Sukuk</i> - 15         | 20/6/2014    | 25/6/2014  | 49,000.00     | 49,537.00         |
| <b>Total GOP <i>Ijarah Sukuk</i></b> |              |            |               | <b>550,961.50</b> |

#### INTERNATIONAL SUKUK BY THE GOVERNMENT OF PAKISTAN:

Pakistan has so far tapped the international market twice; first in 2005 followed by second international *Sukuk* in 2014 (see **Table 4**). The first international sovereign *Sukuk* of USD600 million in 2005 was listed at Luxemburg stock exchange. This *Sukuk* offered semi-annual floating rate of return (LIBOR+ 220 bps), that attracted an overwhelming response of around USD1.2 billion. Pakistan's second international *Sukuk* of worth US \$ 1 billion had a profit rate of 6.75 percent and it also received overwhelming response of investors as depicted by USD2.3 billion subscription which is five times of the targeted amount USD500 million.

**TABLE 4: INTERNATIONAL SUKUK BY THE GOVT. OF PAKISTAN**

| Auction                                    | Issue Date | Maturity Date | Amount of <i>Sukuk</i> |
|--|------------|---------------|------------------------|
| Pakistan First International <i>Sukuk</i>  | Jan-05     | Jan-10        | USD600 million         |
| Pakistan Second International <i>Sukuk</i> | Nov-14     | Nov-19        | USD1,000 million       |

### LEGAL AND REGULATORY FRAMEWORK

The domestic corporate *Sukuk* market is regulated by the Securities and Exchange Commission of Pakistan (SECP). It is encouraging to note that SECP has over the years taken some important measures for improving the domestic corporate *Sukuk* market. In 2008, the Religious Board for Mudarabas of SECP approved the conceptual framework for issuance of *Sukuk* by Mudarabas<sup>2</sup>. Of late SECP has issued Regulations for Issuance of *Sukuk*, 2015 aimed at facilitating issuers besides providing comfort to *Sukuk* investors. Moreover, SECP also recently established a dedicated Islamic finance department. Going forward, steps like these are likely to help increase issuance of *Sukuk* in the country and spur interest of both local and foreign investors in the domestic *Sukuk* market.

### SECONDARY MARKET ACTIVITY:

The demand of *Sukuk* in the domestic market has generally remained overwhelming as it has provided an attractive investment avenue to Islamic financial institutions. However, due to limited investment avenues for Islamic financial institutions, *Sukuk* holders generally tend to keep *Sukuk* till maturity. Owing to this the secondary market of *Sukuk* in Pakistan is still relatively inactive.

### PROSPECTS OF PAKISTAN SUKUK MARKET:

*Sukuk* market in Pakistan provides opportunity for both government and corporations to raise funds in a *Shari'ah* compliant manner. Specifically, given that Pakistan has identified the country's infrastructure needs in its Medium Term Development Framework, financing for carrying out such developmental projects can be achieved through issuance of *Sukuk*.

However the industry needs to address challenges like lack of short term and long term *Sukuk* of high quality, absence of secondary market for tradability, identification of assets for sovereign *Sukuk* and disclosure of usage of *Sukuk* proceedings to fully exploit the potential of *Sukuk*. The expansion and progression of *Sukuk* industry requires coordinated efforts from all stake holders including issuers, regulators and investors for increasing depth of the *Sukuk* market.

Given the commitment of government for promotion of Islamic banking and finance in the country, and various steps taken by the high level Steering Committee for promotion of Islamic banking in Pakistan for supporting Islamic capital markets in the country, going forward the *Sukuk* market in Pakistan is likely to grow further.

<sup>2</sup>[http://www.secp.gov.pk/circulars/pdf/cir\\_2008/cir\\_06.pdf](http://www.secp.gov.pk/circulars/pdf/cir_2008/cir_06.pdf)

## CONCLUSION

During the 2014 and 2015 period the global *Sukuk* market has continued to evolve and remain attractive to existing as well as to several new jurisdictions. One of the major change in 2015, which resulted in decline of short term domestic *Sukuk* market, was the Bank Negara Malaysia's (BNM) strategic decision to discontinue investment type short term *Sukuk*.

The key drivers of the *Sukuk* market during the last two years remain: entry of new jurisdictions and issuers, issuance of Tier 1 and 2 *Sukuk* (Basel III compliant *Sukuk*), longer tenor *Sukuk* issuances by sovereign and quasi-sovereign (30 years *Sukuk*), Infrastructure *Sukuk*, *Takaful Sukuk* and relatively larger volume of Retail *Sukuk* particularly in Indonesia and Bahrain. There is a slow down in *Sukuk* issuances in currency other than issuer's home jurisdiction, perpetual *Sukuk*, and *Takaful Sukuk*. The encouraging development is that the investor base has broadened coupled with the greater participation from a number of regions.

The years 2012 to 2013 remain as the record years in terms of volume of global *Sukuk* issuances while in 2014 the issuance depicted the downward trend though slightly over 100bio *Sukuk* were issued. As per recent public information BNM, in January 2016, has started issuing short term *Sukuk* of up to one year tenor directed towards liquidity management. If BNM had not discontinued the short term *Sukuk* then the global *Sukuk* issuances would have been around USD100 bio.

The demand for *Sukuk* from the Islamic jurisdictions in the GCC countries, including Bahrain, UAE, Saudi Arabia, Qatar as well as Malaysia, Indonesia, Turkey,

Pakistan, Sudan, Brunei, Islamic Development Bank etc., remain the main force in maintaining the *Sukuk* appeal and growth. Further impetus to international *Sukuk* market is provided by the recent entry of Oman, United Kingdom, Luxembourg, Hong Kong, South Africa, several West African countries and the World Bank/IMF related entities.

In recent years, several Islamic jurisdictions mentioned above regularly issue benchmark *Sukuk* in domestic as well as international markets. Moreover, several jurisdictions, including from Africa have followed the strategy adopted by Bahrain (year 2001) and by regularly floating Short Term to medium *Sukuk* to support the liquidity and investment requirements of Islamic Institutions based in its jurisdiction. The entry of IILM in short term international *Sukuk* market is a positive development and is providing an alternative liquidity management avenue to institutions which are active in short term market and looking for highly rated securities. Turkey is another jurisdiction which is emerging as issuer of Short Term *Sukuk* and Bank Kuyvet Turk has also taken the role of regular Short Term *Sukuk* issuer.

*Sukuk* is firmly emerging as one of the main alternative source of funding, not just in the Islamic markets, but with greater interest from Europe, African continent, Asia and the CIS countries. The market has witnessed many benchmark *Sukuk* issuances such as *Sukuk* issued by Garuda Indonesia, Jimah Energy Venture, Bahrain Mumtalakat, National Commercial Bank, International Finance Facility for Immunization, Khazanah Nasional, Islamic Development Bank and many others.

Continuous innovation together with more debut *Sukuk* issuances and the refinancing of maturing *Sukuk* is likely to maintain the *Sukuk* volume trajectory, though the external global economic slow down may weigh on *Sukuk* market in 2016; however, overall direction remains positive. Moreover, the trend of *Sukuk* issuances on fixed profit rate is expected to continue in 2016 which is also helping the development of the *Sukuk* secondary market, which is evident from the *Sukuk* market country report from Turkey, Indonesia and others. There is a likelihood that due to changes in reference rate some issuers may opt for floating profit rate *Sukuk* again, but the volume of such *Sukuk* is expected to remain low in a near term.

The trend of *Sukuk* issuances in non-local currency, for example, issuer based in Turkey floating a Malaysian Ringgit *Sukuk* or Malaysian *Sukuk* issuance in Singapore Dollar or Chinese Yuan etc., is continuing and this positive development will further contribute in the development of *Sukuk* market.

The share of sovereign and quasi-sovereign in domestic market for the period 2013 to 2014 was 79% and it dropped to 63% during the year 2015 which indicates that the corporate sector in some jurisdictions is slowly picking up and this shift is likely to assist the robust growth of *Sukuk* market.

The share of sovereign and quasi-sovereign in international market in 2013-2014 period was 66% and it dropped to 61% in 2015 which indicates that the corporate *Sukuk* issuance has taken 4% share in the

international *Sukuk* market though the pace is still slow and requires more momentum.

Since inception Malaysia has been the top issuer of combined Domestic and International issuances of USD516 Billion, UAE with USD62 Billion, Saudi Arabia with USD59 billion and Indonesia with USD28 Billion. Malaysia due to its deep capital market continues to maintain its lead over its peers from the Far East and GCC; however, the increase in issuances from Turkey, Saudi Arabia, Indonesia, UAE, Qatar, Bahrain etc., may reduce the Malaysian market share in coming years.

In terms of the most widely used structure by issuers in international market in 2015, *Wakalah* structure has replaced *Ijarah* structure and has taken over as the most popular and widely used structure with the market share of 63%, followed by *Sukuk Al Ijarah*, Hybrid *Sukuk* and *Sukuk Al Mudharabah* structures market share of 14% 12% and 8% respectively.

At domestic level during 2015 *Sukuk Al Murabahah* remained the dominant structure with the market share of 62%, though there is a drop of 9% as compared to 2014. *Sukuk Al Ijarah* and *Sukuk Al Musharakah* structures have market share of 14% and 7% respectively. The interesting change is the increase in use of *Mudharabah* structure to 4% in 2015. The reason for the high level of *Murabahah Sukuk* issuances in domestic market seems to be the credit intensiveness of this structure. Efforts need to be made to increase the share of other structures such as *Sukuk Al Mudharabah*.

The year 2014 was a record year in terms of International *Sukuk* issuances and the year closed at USD26 billion *Sukuk* issuances as compared to the 2013 International *Sukuk* issuance of USD23 billion which again broke the 2007 pre-financial crisis record of USD13.80 billion. The year 2015 closed at USD20 billion international *Sukuk* issuances which is USD6 billion less than 2014 *Sukuk* issuances, this indicates weakness due to global economic uncertainties. As of 2015, the International outstanding *Sukuk* are USD90 billion, which is showing signs of improvement but still not matching the demand.

There were several landmark *Sukuk* issuances from Malaysia, Qatar, Turkey, UAE, Saudi Arabia, Indonesia, Bahrain etc., this indicates that the *Sukuk* market has fully emerged from the declining trend witnessed in 2008 and 2009. Further double digit growth prospects are intact for the next coming years based on existing *Sukuk* issuance pipeline.

As far as the domestic *Sukuk* market is concerned, Malaysia has maintained its dominating share in terms of both volume and value. Malaysia remains as the largest domestic *Sukuk* issuer with 78.68%, though the countries like Indonesia, UAE, Qatar, Saudi Arabia and Turkey are emerging as potential leaders, plus Senegal, Ivory Coast, Gambia etc., are the recent entrants of the domestic *Sukuk* market. Bahrain has also kept its presence felt in *Sukuk* issuances and has seen several landmark issuances.

The domestic *Sukuk* market in a number of jurisdictions is becoming active, particularly Indonesia, Turkey and Pakistan. Central banks are providing avenues to Islamic

banks and other investors to invest their surplus liquidity in government *Sukuk* programs designed to provide a level playing field to the Islamic institutions.

The total outstanding Domestic *Sukuk* as of end 2015 stood at USD231 billion, which is lower than previous estimates mainly due to the BNM strategic decision of discontinuation of investment type Short Term *Sukuk*. Going forward, it is expected that the figure will improve as sovereigns, quasi sovereigns and corporates in various jurisdictions are getting more active in *Sukuk* issuances.

Malaysian Ringgit takes the first spot mainly due to its strong and a deep local fixed income market. The Malaysian market attracted some GCC institutions, Supra National Agencies and Japanese institution to raise their funding needs in Malaysian Ringgit. These institutions took advantage of the fine pricing due to local demands and the attractive currency swap rates that achieved a lower yield as well as to diversify its investors base.

However, US Dollars continues to be the favored currency for attracting international investors around the globe. It is likely to that developments of local currency *Sukuk* in the coming years as increase more OIC countries develop their domestic *Sukuk* market. This trend is taking shape with Indonesia, Turkey, Pakistan and the GCC countries issuing local currency *Sukuk*. Sovereign or sovereign linked entities currently dominate issuance in these countries and this flow will continue, since the sovereign needs to fund its budget, setup the local benchmark curves as well as to fund infrastructure projects.

Cross border International *Sukuk* maturities in 2015 were relatively light as the medium term new issuances in 2009 to 2011 was quite subdued as the market was yet to come out from the global financial crisis woes. However, around USD17.20 billion *Sukuk* will be maturing during the 2016 and 2017 period and need to be replaced. It is expected that these maturities will be replaced by existing as well as by relatively new entrants.

Short term *Sukuk* with maturity of 1 year or less are essential in the development of Islamic Inter-bank market and they play a key role in the liquidity management of the financial institutions. Although there is a drop in domestic short term *Sukuk* issuances due to the BNM decision, Malaysia remains the leader in domestic short term *Sukuk* issuances followed by Sudan, Bahrain and Brunei. Indonesia and Turkey are showing signs of playing a leading issuance role in this type of *Sukuk* and countries to watch in the coming years. Entry of IILM in short term international *Sukuk* market is also helping the development of short term *Sukuk* market.

Asia will continue to dominate the *Sukuk* issuance in the short term due to its deep local currency fixed income market with Malaysia and Indonesia being the driving force in that region. However, It is likely to that GCC and Middle East slice of the pie will get larger with heavy future funding needs due to a healthy pipeline of infrastructure projects coupled with greater participation from corporates in issuing *Sukuk*.

With the changing game plan in Europe due to the financial crisis and Basel III requirements coupled with liquidity in the *Sukuk* market, it will be encouraging if The European corporate sector starts issuing *Sukuk*. In the last two years *Sukuk* issuances from UK, Luxembourg, South Africa, Hong Kong and several others have contributed in strengthening the *Sukuk* market.

Finally, *Sukuk* market progression is quite impressive; however, in order to maintain orderly growth and robust and transparent *Sukuk* market, there are several challenges which need to be addressed and the role of standard setting bodies, particularly IIFM will be critical as issues facing the *Sukuk* primary and secondary market needs to be addressed through harmonization of practices and guidelines as well as standard documentation for certain *Sukuk* structures.

## GLOSSARY

### (A) GENERAL ISLAMIC FINANCE TERMS

| TERM                       | MEANING  |
|----------------------------|--|
| <b>Shari'ah</b>            | Is often referred to as Islamic law. It is the rulings contained in and derived from The Holy Qur'an and the <i>Sunnah</i> (i.e. sayings and living example of the Prophet Muhammad (peace be upon him)). These cover every action performed by an individual or a society. It is primarily concerned with a set of values that are essential to Islam and the best manner of their protection. The essential values of the <i>Shari'ah</i> include those of faith, life, intellect, lineage, property, fulfillment of contracts, preservation of ties of kinship, honoring the rights of one's neighbor. It also includes sincerity, trustworthiness and moral purity and so forth. |
| <b>Aqd</b>                 | A bilateral contract, agreement etc.   |
| <b>Aqd al-Muawadah</b>     | Contract of exchange in which compensation is given against the goods or services received.  |
| <b>Al-bai`</b>             | Sale contract.   |
| <b>Bai` al-'Inah</b>       | Sale contract followed by repurchase by the seller at a different price.   |
| <b>Bai al-Salam</b>        | <b>Advance purchase.</b> Sale contract based on order of certain asset with certain specifications. Full payment is made in cash at the time of conclusion of the contract, whereas the delivery of the asset is deferred to a specified time.   |
| <b>Bai al-Wafa</b>         | Buyback, sale and repurchase, a contract with the condition that when the seller pays back the price of goods sold, the buyer returns the goods to the seller.   |
| <b>Faqih</b>               | Is a Muslim Jurist who gives rulings on various juristic issues in the light of the Qur'an and the <i>Sunnah</i> of Prophet Muhammad (peace be upon him).  |
| <b>Fatwa</b>               | It is a religious decree. A ruling made by a qualified <i>Shari'ah</i> scholar on a particular issue. It is an opinion that addresses either a specific problem of interest to a particular person or a matter of public concern.  |
| <b>Fiqh</b>                | Refers Islamic jurisprudence. It covers all aspects of life - religious, political, social, commercial, and economic. <i>Fiqh</i> is based primarily on interpretations of the Holy Qur'an and the <i>Sunnah</i> of Prophet Muhammad (peace be upon him) etc.  |
| <b>Fiqh al-mu 'aamalat</b> | It is Islamic commercial jurisprudence, jurisprudence of financial transactions or the rules of transacting in a <i>Shari'ah</i> -compliant manner.  |
| <b>Ijarah</b>              | Lease or service contract that involves benefit/usufruct of certain asset or work for an agreed payment within an agreed period.   |



|  |   |
|--|---|
| <b><i>Ijarah muntahia bi al-Tamlik</i></b> | Lease contract which ends with acquisition of ownership of the asset by the lessee.   |
| <b><i>Istisna'a</i></b>                    | <b>Advance purchase of goods or buildings.</b> It is a sale contract by way of order for a certain product with certain specifications and certain mode of delivery and payment (either in cash or deferred)  |
| <b><i>Murabahah</i></b>                    | Sale contract with a disclosure of the asset cost price and profit margin to the buyer.   |
| <b><i>Mudarabah</i></b>                    | Profit sharing contract. It is an investment partnership, whereby the investor provides capital to the entrepreneur in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The entrepreneur loses only his share of the expected income.               |
| <b><i>Mudarib</i></b>                      | Entrepreneur of a <i>Mudarabah</i> joint venture contract.  |
| <b><i>Musharakah</i></b>                   | Profit and loss sharing contract. It is an investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested.   |
| <b><i>Murtahin</i></b>                     | A party who asks for collateral.  |
| <b><i>Musawamah</i></b>                    | Bargain on price. Sale contract without the disclosure of the asset cost price and profit margin to the buyer   |
| <b><i>Muwakkil</i></b>                     | The principal/investor who appoints the agent ( <i>Wakil</i> ) to carry out a specific job on his behalf.   |
| <b><i>Rabb al-Mal</i></b>                  | Owner of capital (the investor) in <i>Mudarabah</i> joint venture contract.   |
| <b><i>Ra's-al-Mal</i></b>                  | The capital. The money or property which an investor invests in a profit-seeking venture contract.  |
| <b><i>Rahin</i></b>                        | Chargor   |
| <b><i>Shari'ah Scholar</i></b>             | The Islamic <i>Shari'ah</i> scholar is an individual who is well-versed with the necessary knowledge of the <i>Shari'ah</i> teachings and principles.   |
| <b>A <i>Shari'ah</i> compliant product</b> | The product meets the requirements of <i>Shari'ah</i> . In other words, this is the term used in Islamic finance to indicate that a financial product or activity that complies with the requirements of the <i>Shari'ah</i> .  |
| <b>A <i>Shari'ah</i> board</b>             | Is the committee of well-versed Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of <i>Shari'ah</i> compliant products. It is recommended the scholars of a <i>Shari'ah</i> board to be well-versed and competent in <i>Shari'ah</i> and its approaches to economics and finance. |

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|--------------------------------|---|
| <b>A Shari 'ah advisor</b>     | Is an independent Islamic trained scholar that advises Islamic institutions on the compliance of the products and services with the <i>Shari'ah</i> . |
| <b>Wa'ad</b>                   | Promise/undertaking. Such as a promise to buy or sell certain goods in a certain quantity at a certain time in future at a certain price.             |
| <b>Wakalah</b>                 | Agency. A contract of agency in which one party appoints another party to perform a certain task on its behalf.                                       |
| <b>Wakil</b>                   | In a <i>Wakalah</i> contract, a representative/agent, who acts on behalf of the principal/investor.   |
| <b>Wakalah bi al-istithmar</b> | Agency contract for investment.   |

#### (B) SUKUK REPORT FIFTH EDITION GLOSSARY

|                        |  |
|------------------------|--|
| <b>Sukuk</b>           | An 'Arabic term for financial certificate. It is defined as "Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity".   |
| <b>Al-Ijarah Sukuk</b> | An Islamic certificate for the buying and leasing of assets by the investors to the issuer and such <i>Sukuk</i> shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors.   |
| <b>Istisna'a Sukuk</b> | Are certificates of equal value issued with the aim of mobilizing funds to be employed for the production of goods so that the goods produced come to be owned by the certificate holders. (This type of <i>Sukuk</i> has been used for the advance funding of real estate development, major industrial projects or large items of equipment such as: turbines, power plants, ships or aircraft (construction/manufacturing financing). |
| <b>Mudarabah Sukuk</b> | Are certificates that represent project or activities managed on the basis of <i>Mudarabah</i> by appointing one of the partners or another person as the <i>Mudarib</i> for the management of the operation. (It is an investment partnership between two entities whereby one entity is mainly a provider of capital and the other is mainly the manager)  |
| <b>Murabahah Sukuk</b> | Are certificates of equal value issued for the purpose of financing the purchase of goods through <i>Murabahah</i> so that the certificate holders become the owners of the <i>Murabahah</i> commodity. (This is a pure sale contract based <i>Sukuk</i> , which based on the cost plus profit mechanism).   |

|   |  |
|---|--|
| <b>Musharakah Sukuk</b>                                     | Are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, financing a business activity etc., on the basis of any of partnership contract so that the certificate holders become the owners of the project. ( <i>Musharakah Sukuk</i> is an investment partnership between two or more entities which together provide the capital of the <i>Musharakah</i> and share in its profits and losses in pre-agreed ratios) |
| <b>Salam Sukuk</b>  | Are certificates of equal value issued with the aim of mobilizing <i>Salam</i> capital/mobilizing funds so that the goods to be delivered on the basis of <i>Salam</i> come to be owned by the certificate holders.  |
| <b>Corporate Sukuk</b>                                      | Is a <i>Sukuk</i> issued by a corporation as opposed to those issued by the government. It is a major way for companies to raise funds in order to expand its business or for a specific project.  |
| <b>Convertible or exchangeable Sukuk</b>                    | Convertible or exchangeable <i>Sukuk</i> certificates are convertible into the issuer's shares or exchangeable into a third party's shares at an exchange ratio, which is determinable at the time of exercise with respect to the going market price and a pre-specified formula.   |
| <b>Domestic Sukuk or the purpose of this report)</b>        | A <i>Sukuk</i> issued in local currency.   |
| <b>Global Sukuk (For the purpose of this report)</b>        | Both international and domestic <i>Sukuk</i> .   |
| <b>Hybrid Sukuk</b>   | Hybrid <i>Sukuk</i> combine two or more forms of Islamic financing in their structure such as <i>Istisna'a</i> and <i>Ijarah</i> , <i>Murabahah</i> and <i>Ijarah</i> etc.   |
| <b>International Sukuk (For the purpose of this report)</b> | A <i>Sukuk</i> issued in hard currency such as USD.  |
| <b>Quasi-sovereign Sukuk</b>                                | Are <i>Sukuk</i> issued by a public sector entity that is like sovereign <i>Sukuk</i> . It may carry explicit or implicit government guarantee.  |
| <b>Sovereign Sukuk</b>                                      | Are <i>Sukuk</i> issued by a national government. The term usually refers to <i>Sukuk</i> issued in foreign currencies, while <i>Sukuk</i> issued by national governments in the country's own currency are referred to as government <i>Sukuk</i> .   |





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As the world's most prolific arranger of Islamic bonds, or sukuk, CIMB Islamic has delivered and pioneered a myriad of groundbreaking and "world-first" sukuk solutions for our clients, including corporates, sovereigns and supranational agencies, enabling them to achieve their diverse and unique objectives.

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- ▶ Malaysia's first sustainable and responsible investment (SRI) Sukuk by Khazanah to fund Yayasan AMIR's Trust Schools Programme (2015)
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- ▶ The Government of Hong Kong's inaugural global US Dollar sukuk - world's first USD-denominated global sukuk by a AAA-rated sovereign (2014)
- ▶ The Government of the United Kingdom's inaugural global sukuk - world's first Pound Sterling-denominated sovereign sukuk (2014)
- ▶ The Republic of Indonesia back-to-back global US Dollar sukuk (2015 & 2014), world's first quasi-project finance asset-based sovereign sukuk (2014) and the first 10-year global US Dollar sukuk by the Republic of Indonesia (2014)
- ▶ The Republic of Turkey's inaugural 10-year global US Dollar sukuk (2014)
- ▶ Bank of Tokyo-Mitsubishi UFJ's Japanese Yen sukuk - world's first Yen-denominated sukuk (2014)
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*\* CIMB was ranked First on Bloomberg 2014 Global Sukuk League Table (Ranked No.1 – Bloomberg 2015 YTD Global Sukuk League Table)*

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