



السوق المالية  
الإسلامية الدولية  
International Islamic  
Financial Market

# IIFM SUKUK REPORT

JULY 2019 | 8th EDITION



A Comprehensive Study of the Global Sukuk Market



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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah  
The Most Gracious, The Most Merciful.

عَنْ عَبْدِ اللَّهِ بْنِ عَمْرٍو قَالَ:  
قَالَ رَسُولُ اللَّهِ (صلى الله عليه وسلم)  
"لَا يَحِلُّ سَلْفٌ وَبَيْعٌ وَلَا شَرْطَانِ فِي بَيْعٍ  
وَلَا رِبْحٌ مَا لَمْ تَضْمَنْ وَلَا بَيْعٌ مَا لَيْسَ عِنْدَكَ."  
(رواه الترمذي وأبوداود والنسائي)

*'Abdullah bin 'Amr said: 'The Messenger of Allah  
(peace be upon him) said:*

*"It is not permissible to transact a loan combined with a sale,  
or to stipulate two conditions in one transaction, or to make a  
profit on something that is not under your control, or to sell  
something that you do not possess."*

*(Narrated by Al-Tirmidhi, Abu Dawud and Al-Nasaa'i)*

## About IIFM

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

IIFM which is based in Manama and hosted by the Central Bank of Bahrain (CBB), was established in 2002 under the Royal Decree No.(23) Year 2002 of the Kingdom of Bahrain as a neutral and non-profit infrastructure development institution, by the collective efforts of the Islamic Development Bank, Autoriti Monetari Brunei Darussalam (formerly Ministry of Finance Brunei Darussalam), Bank Indonesia, Bank Negara Malaysia (delegated to Labuan Financial Services Authority), Central Bank of Bahrain (formerly Bahrain Monetary Agency) and the Central Bank of Sudan.

Besides the founding members, IIFM is also supported by certain regulatory and government bodies such as Dubai International Financial Centre Authority, State Bank of Pakistan, The National Bank of Kazakhstan and by a number of international and regional financial institutions active in Islamic finance as well as other market players.

In advancing its mission to create a robust, transparent and efficient Islamic financial market, IIFM promotes at the global level unification, best practices and Shari'ah harmonization through introducing and developing Shari'ah compliant standard financial contracts. It also contributes in creating industry awareness by organizing specialized seminars and technical workshops in many jurisdictions as well as publishing research reports.

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Central Bank of Bahrain



Labuan Financial Services Authority



Islamic Development Bank



Central Bank of Sudan



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 First Abu Dhabi Bank  
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 Securities & Commodities Authority (UAE)  
 Standard Chartered Bank  
 State Bank of Pakistan  
 Sudan Financial Services Company  
 The National Commercial Bank  
 United Gulf Bank  
 Ziraat Participation Bank

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All the information contained in this research 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. While every effort has been made to ensure its accuracy, 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 examines the development, structural preferences and drivers of the international and domestic Sukuk market in recent years, with a special focus on 2018.

The report aims to provide in depth analysis to create deeper understanding of Sukuk, which remains the most popular financial instrument of the Islamic finance industry.

The Sukuk market remained on the stable footing and the developed Sukuk market such as Malaysia, Saudi Arabia and UAE had a reasonably active Sukuk issuances while Mali and Morocco are the two new jurisdictions which has issued sovereign Sukuk in the domestic market. As in previous years, the bulk of domestic issuances in 2018 have been by sovereign and quasi sovereign entities, which has kept the global Sukuk market on a steady growth path.

In recent years, the preferred structures were Murabahah and Wakalah modes in the case of both international and domestic Sukuk, which is a change from the preference for structures requiring more tangible assets in earlier years. These preferences have contributed to the development of the Sukuk market; however, a right balance in diversification is necessary for creation of a more robust market.

The report also provides an overview of the trends and prospects of the Sukuk market and highlights major global issuances during 2018.

The report can be used by industry stakeholders in their assessment of trends in the issuance of Sukuk, globally, in new issuers and also regions which have a high concentration of Sukuk issuances, such as the GCC and the Far East.



# Acknowledgment

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This research report was supported and sponsored by Bank ABC Islamic, Abu Dhabi Islamic Bank, Labuan FSA and DDCAP Group.

We would like to express gratitude 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 enhanced the report. We thank all the industry stakeholders who have contributed to the completion of this important project. Certainly, this research report would not have seen light without the support and contributions of these institutions, individuals and the industry stakeholders who provided us with invaluable information, which assisted IIFM secretariat in completing this task through its various stages.

We seize 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 thank the IIFM Board of Directors, Founding Members and Members institutions for their unwavering and unreserved support to IIFM in its Islamic industry's development endeavors. Lastly, IIFM is thankful to its research team for their review of and valuable contribution to this research report.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

All praise is due to Allah, Lord of the worlds, praise that befits Your Majesty and Sovereignty. Peace and blessings be upon the Prophet of mercy, Muhammad, his family, his noble Companions, and all those who follow them with righteousness until the Day of Judgment.

## CHAIRMAN'S FOREWORD



**Khalid Hamad**  
Chairman – IIFM

It is with pleasure that I present to you the latest Edition of much awaited annual Sukuk Report published by IIFM as an additional service and its effort in the development of the industry. The Report contains key statistics & trend analysis based on a comprehensive and verified Sukuk issuance data from various markets which are generally not available in a consolidated form in one place. Moreover, the Sukuk Case Studies, Articles and Country Focus Reports make this publication unique and at the same time, a very comprehensive study.

The key finding of the report is that the global Sukuk issuances during 2018 stood at USD 123.2 billion, which is a modest increase of around 5.5% over 2017 issuances of USD 116.7 billion. The longer tenor Sukuk issuances supported by sovereigns continue to grow and entry of Mali and Morocco are among the positive development of the year. The other positive developments are issuance of Green Sukuk, Sukuk issuance to support SME sector and FinTech or blockchain related Sukuk.

There is an increasing need for addressing the various challenges which come with the growth of any financial product and should be tackled by creating greater transparency, robustness and harmonization in the documentation and product structures through strong standards. In this regard, IIFM's current initiative of documentation standardization of Sukuk Al Ijarah and Sukuk Al Mudarabah will address some of the critical issues including the ones which surfaced by certain defaulted and restructured Sukuk such as Dana Gas. Moreover, the standardized Sukuk documentation will help in reducing the cost and creating efficiency in Sukuk issuance process which will assist in the expansion of Sukuk market as well as encouraging Corporates and SME Sectors to issue Sukuk.

Finally, Sukuk's 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 and I hope that in future we can achieve a balance between asset backed and asset based Sukuk issuances.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

All perfect praise is due to Allah, and Allah's Peace and Blessings be upon His Final Messenger, his pure family, his noble Companions, and all those who follow them with righteousness until the Day of Judgment.

## CEO'S MESSAGE



**Ijlal Ahmed Alvi**  
CEO – IIFM

The Islamic financial services industry is progressing and in recent years a number of new jurisdictions have entered the industry through the issuance of either domestic or international Sukuk. Moreover, Sukuk has attracted a number of new issuers while some major issuers use dual tranche offering (Sukuk and conventional Bond) so that both Shari'ah compliant and conventional investors can participate in the issuance.

The ongoing innovation is changing the dynamics of the industry, especially, in the area of Fin-tech and blockchain and the Sukuk market will benefit from these technological advancements. It is also pleasing to note that new issuances also include environmentally friendly Green Sukuk, Socially Responsible Sukuk and Sukuk with some blockchain element.

I am pleased and honoured to present this 8th Edition of the IIFM Sukuk Report to the stakeholders of the industry in particular governments, financial institutions, corporates and academia. The report provides in-depth analysis, historical & current trends, case studies, country reports and other information in form of articles which is not readily available.

The primary objective of this report is to provide information on Sukuk developments while keeping away from market related challenges and issues as those will be tackled through IIFM Sukuk standardization efforts which are currently in progress.

The publication of this report is made possible due to the cooperation from a number of institutions and individuals from different jurisdictions which is a key stimulus for IIFM to publish this report annually. I will like to acknowledge their contribution individually, but the constraint of space restricts me from doing that. My thanks to Central Bank of Bahrain, Securities Commission Malaysia, Bank Indonesia, Central Bank of Sudan, Capital Market Board of Turkey, Monetary Authority of Brunei and State Bank of Pakistan for their continued support and enriching the IIFM database with valuable Sukuk data information and verification.

I must place on record my profound gratitude to the Central Bank of Bahrain, IIFM Board of Directors, Sponsors of this report and Members for their continued support. I am also thankful to IIFM research team for their tireless efforts and devotion which has made this publication possible. It is my sincere hope that the readers will find this report useful and a key source of reference.

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# Introduction

Islamic finance has firmly established in a number of jurisdictions across the globe while, as the case previous years, Sukuk has maintained its positive growth pattern. In 2018 Sukuk remained attractive to issuers as well as a wide range of investors in various regions, financial hubs and new entrants. Sukuk listing and inclusion by major Index providers has made this important instrument not only more appealing, but the preferred capital market driver of the industry.

The key objectives of this report is to highlight Sukuk issuances and its performance domestically as well as internationally, to create better understanding so that this important fixed instrument keep its leading role in the development of Islamic finance industry. The report provides information and relevant details of Sukuk issuances during 2018 and it also sheds light on factors which have aided the development of Sukuk market since inception.

To deliver accurate information and to carry out analysis on global Sukuk issuances, the Sukuk issuance data is key element and IIFM, as a neutral standard setting organization, is privileged to have a support from regulators of major Sukuk issuance jurisdictions like Malaysia, Indonesia, Pakistan, Turkey, Brunei, Bahrain, Sudan etc., in Sukuk data verification process for the January 2001 to December 2018 period. Moreover, IIFM also followed the practice of collating data from research and relevant literature, this includes prospectuses, publications, articles, magazines, online research, and information service providers. IIFM has also managed to include in its database some of the Sukuk issued on private placement basis particularly from Indonesia. The collected Sukuk issuance Data 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 stand alone chapters, in addition to this introduction and a conclusion. Chapter One gives an overview of worldwide Sukuk issuances over the period of January 2001 to December 2018. Chapter Two is an IIFM article series on Shari'ah rulings and regulations for Sukuk issuance. Chapter Three highlights selected Sukuk issuance case studies. Chapter Four comprises articles (written and prepared by institutions and jurisdictions). Chapter Five looks at the Sukuk market in selected IIFM member countries.

In conclusion, the essential objective of this research report is to enable industry stakeholders, particularly governments and Islamic financial institutions, to make sound decisions with regard to Sukuk issuances and policy formulation. The report also aims to orient those interested in the Sukuk Market with the nature of the Sukuk field and the level of research that has been conducted on it.



# Chapter One





# OVERVIEW OF THE GLOBAL SUKUK MARKET

## 1.1 Sukuk Market in Upward Trend

The aim of this Chapter is to provide analysis and trends in the Global Sukuk market during the year 2018. Moreover, the report also aims to cover the recent developments which are shaping up the Sukuk market.

The Global Sukuk market closed the year with a modest growth due to higher commodity prices particularly Oil and continuation of increase in Sovereign Sukuk issuances, stable Corporate Sukuk issuances in certain jurisdictions and healthy Sukuk issuance pipeline for 2019. Sukuk continued to gain attention from new issuers as well as increasing investor base which is an encouraging development. During the year Sukuk were issued, as a viable alternative source of financing for infrastructure development, project financing, corporate general-purpose needs, capital adequacy, budgetary requirements, liquidity management purpose etc.

The interesting developments are growing interest in Green & SRI Sukuk issuance to support financing to Small & Medium Enterprise (SME) and Sukuk issuance via blockchain.

There were several events during 2018 which can be noted as landmark events such as UK based Al Rayan Bank's public issuance of Sterling (GBP) 250 million securitized Sukuk, Indonesia based Blossom Finance smart Sukuk and African Finance Corporation USD 150 million Sukuk. The new sovereign entrant issuers are Morocco and Mali and both the issuances were in local currencies. Moreover, the continued interest from well established sovereign, quasi sovereign and financial institutions issuers such as Governments of Bahrain, Indonesia, Turkey, Pakistan, Oman, Saudi Arabia, United Arab Emirates and Islamic Development Bank which has kept the Sukuk market active.

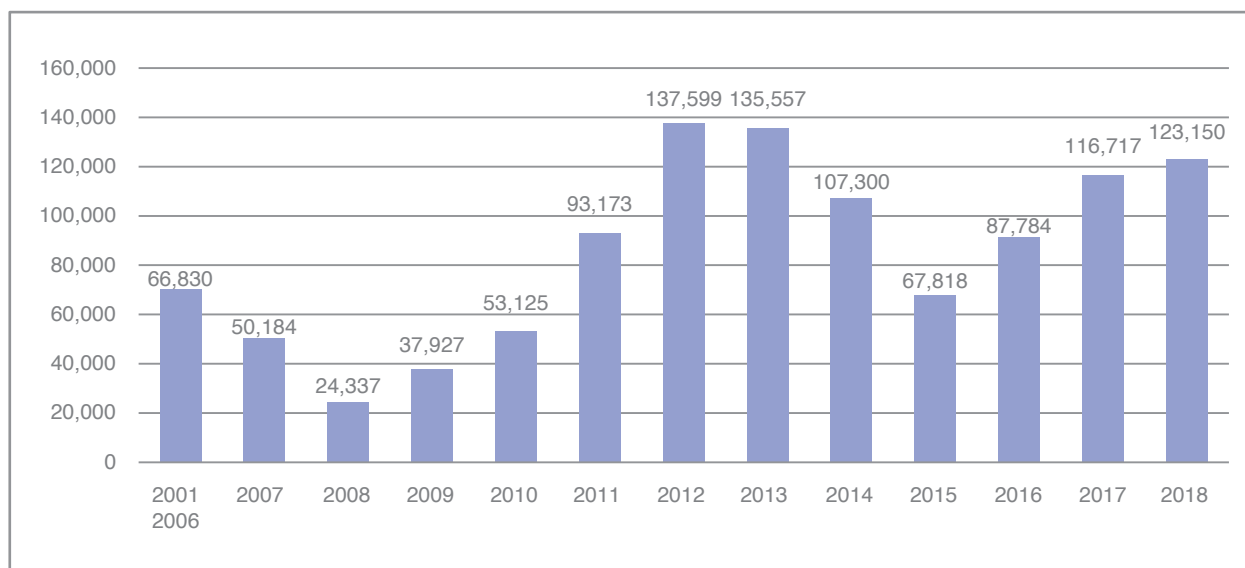
Saudi Arabia, last year's new issuer, continue to provide support in keeping the growth trajectory of Sukuk issuance intact.

The issuances of short term Sukuk by number of jurisdictions from Far East, GCC, Africa, Asia, IILM, Kuvet Turk Participation Bank have achieved an impressive growth of around 90% in the short term Sukuk issuances during 2018 which is very helpful for Islamic financial institutions' liquidity management requirements.

## 1.2 Global Sukuk Issuances

Total global issuance amounted to USD 123.15 billion in 2018. As illustrated in Chart 1A on the next page, global Sukuk issuance has shown a modest increase of +5% from USD 116.7 billion in 2017 to USD 123.15 billion in 2018. The steady issuance volume during 2018 was mainly due to sovereign Sukuk issuances from Asia, GCC, Africa and certain other jurisdictions while Malaysia continue to dominate the Sukuk market though share of countries like Indonesia, UAE, Saudi Arabia and to some extent from Turkey increased as well.

Chart 1A: TOTAL GLOBAL SUKUK ISSUANCES (JAN 2001 - DEC 2018)  
- ALL TENORS, ALL CURRENCIES, IN USD MILLIONS



Total Global Sukuk Issuance USD 1,101,502 Millions

Source: IIFM Sukuk database

The following Table 1 gives a clear picture on the selected value leaders Global Sukuk issuances during 2018:

Table 1: Selected Value Leaders - Global Sukuk Issuances and Trends (USD 500 Million or >, Tenor > 1 Year)

Issue Year	Issuer	Number of Issues	Issuance Currency	USD Million or Equivalent	Tenor (Years)
2018	Abu Dhabi Islamic Bank (ADIB)	1	USD	750	Perpetual
2018	Al Hilal Bank	1	USD	500	5
2018	Aldar Properties	1	USD	500	7
2018	Central Bank of Qatar	1	QAR	906	5
2018	Dar Al Arkan Real Estate Development	1	USD	500	5
2018	Dubai DP World	1	USD	1000	10
2018	Dubai Islamic Bank	1	USD	1000	5
2018	Emirates Airline	1	USD	600	10
2018	FAB Sukuk Company Limited	1	USD	650	5
2018	Government of Indonesia	2	USD	3000	8
2018	Government of Indonesia	1	IDR	596	3
2018	Government of Malaysia	17	MYR	15,036	11
2018	Government of Sharjah	1	USD	1,000	10
2018	Government of Bahrain	1	USD	1,000	7
2018	Islamic Development Bank (IsDB)	1	EURO	738	5
2018	Islamic Development Bank (IsDB)	2	USD	2,550	5
2018	Ministry of Finance Oman	1	USD	1,500	7
2018	Ministry of Finance Saudi Arabia	11	SAR	8,854	5
2018	Ministry of Finance Saudi Arabia	1	USD	2,000	10
2018	Ministry of Treasury and Finance of Turkey	2	TRY	1,247.27	2

Table Continued on next page.

2018	Noor Bank	1	USD	500	5
2018	Saudi Arabian Mining Company (MA'ADEN)	1	SAR	945	7
2018	Saudi Electricity Company	2	USD	2,000	8
2018	Tabreed Sukuk	1	USD	500	7
2018	Tenaga Nasional Berhad	1	USD	750	10
2018	Turkish Ministry of Finance	1	EURO	622	2

Source: IIFM Sukuk database

As seen among the hallmark issuances, the year 2018 was once again led by sovereigns and quasi-sovereigns in terms of issuance. The pace of Corporate and FIs Sukuk issuances, especially in countries outside of Malaysia continues to drag.

The Dana Gas Sukuk legal battle with its creditors finally ended during 2018 where the company has paid USD 235 million on redemptions, profit payments and early participation fees. The size of the restructured Sukuk issued on Ijarah basis is reduced to USD 530 million from USD 700 million with three-year life, maturing in October 2020 at profit rate of 4% per annum. Although the corporate Sukuk market was initially had a negative impact when the legal battle started but gradually confidence was restored; however, the episode had a negative effect on investor confidence which is now gradually restored with insertion of specific clauses in the documentation so that such event is not repeated again. Moreover, IIFM's current under development Sukuk Al Ijarah documentation standard will also help in providing greater transparency, robust documentation, legal certainty and Shari'ah harmonization.

A standardized mechanism for Shari'ah compliant foreign currency hedging, developed jointly by IIFM& ISDA, is facilitating the issuers to issue Sukuk in other jurisdictions without exposing the Sukuk holders to foreign exchange and rate of return mismatch risk.

The year 2009 trend of fixed rate Sukuk issuances has continued in 2018 while 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 as the indication from developed countries central banks is pointing toward hold or event decrease in bench mark rates.

Following are landmark Fixed Profit Rate Sukuk Issuances during 2018:

Table 2: Landmark Fixed Rate Sukuk Issuances (USD 200 Million or >, Tenor > 1 Year

Issue Year	Issuer	Type of Issued Sukuk	Issuance Currency	International Domestic	Sukuk Structure	USD Million or Equivalent	Rate of Return	Tenor (Years)
2018	Senaat Investment Holding Company	Corporate	USD	International	Sukuk Al Murabahah	300	4.76	7
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	200	3.88	7
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	313	4.06	10
2018	NMC Healthcare	Corporate	USD	International	Sukuk Al Murabahah	400	6.00	5
2018	Tenaga Nasional Berhad	Corporate	USD	International	Hybrid Sukuk -Wakalah /Murabahah	750	4.98	10
2018	Ministry of Finance Oman	Sovereign	USD	International	Sukuk Al Mudarabah /Wakalah	1,500	5.93	7
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	629	3.68	5

Table Continued on next page.

2018	Tabreed Sukuk	Corporate	USD	International	Sukuk Al Ijarah	500	5.50	7
2018	Federal Government of Nigeria	Sovereign	NGN	Domestic	Sukuk Al Ijarah	270	16.47	7
2018	Abu Dhabi Islamic Bank (ADIB)	Fls	USD	International	Sukuk Al Mudharabah	750	7.13	Perpetual
2018	Aldar Properties	Corporate	USD	International	Hybrid Sukuk -Wakalah /Murabahah	500	4.75	7
2018	Saudi Electricity Company	Corporate	USD	International	Sukuk Al Ijarah	800	4.22	6
2018	Saudi Electricity Company	Corporate	USD	International	Sukuk Al Ijarah	1,200	4.72	10
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	740	3.5	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	417	3.62	7
2018	Al Hilal Bank	Fls	USD	International	Hybrid Sukuk -Wakalah /Murabahah	500	4.38	5
2018	Islamic Development Bank (IsDB)	Quasi-Sovereign	USD	International	Sukuk Al Wakalah	1,300	3.39	5
2018	XL Axiata	Corporate	IDR	Domestic	Sukuk Al Ijarah	401	8.5	2
2018	DP World Dubai	Quasi-Sovereign	USD	International	Sukuk Al Mudharabah	1,000	4.84	10
2018	Ministry of Finance Saudi Arabia	Sovereign	USD	International	Hybrid Sukuk -Murabahah/ Mudharabah	2,000	4.30	10
2018	Central Bank of Qatar	Sovereign	QAR	Domestic	Sukuk Al Wakalah	270	3.75	3
2018	Central Bank of Qatar	Sovereign	QAR	Domestic	Sukuk Al Wakalah	324	4.25	5
2018	Central Bank of Jordan	Sovereign	JOD	Domestic	Sukuk Al Murabahah	212	5.47	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	608	3.44	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	338	3.79	10
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	567	3.5	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	260	3.62	7
2018	Medco Power Indonesia	Corporate	IDR	Domestic	Sukuk Al Wakalah	426	10.75	7
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	614	3.4	5
2018	Central Bank of Qatar	Sovereign	QAR	Domestic	Sukuk Al Wakalah	906	4.25	5
2018	Central Bank of Qatar	Sovereign	QAR	Domestic	Sukuk Al Wakalah	467	4.5	8
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	905	3.4	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	1,026	3.4	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	203	3.5	7
2018	Noor Bank	Fls	USD	International	Sukuk Al Wakalah	500	4.47	5
2018	Government of Bahrain	Sovereign	USD	International	Sukuk Al Ijarah	1,000	6.88	7
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	702	3.25	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	500	3.45	7
2018	Emirates Airline	Corporate	USD	International	Sukuk Al Ijarah	600	4.50	10
2018	Islamic Development Bank (IsDB)	Quasi-Sovereign	USD	International	Sukuk Al Wakalah	1,250	3.10	5

Table Continued on next page.

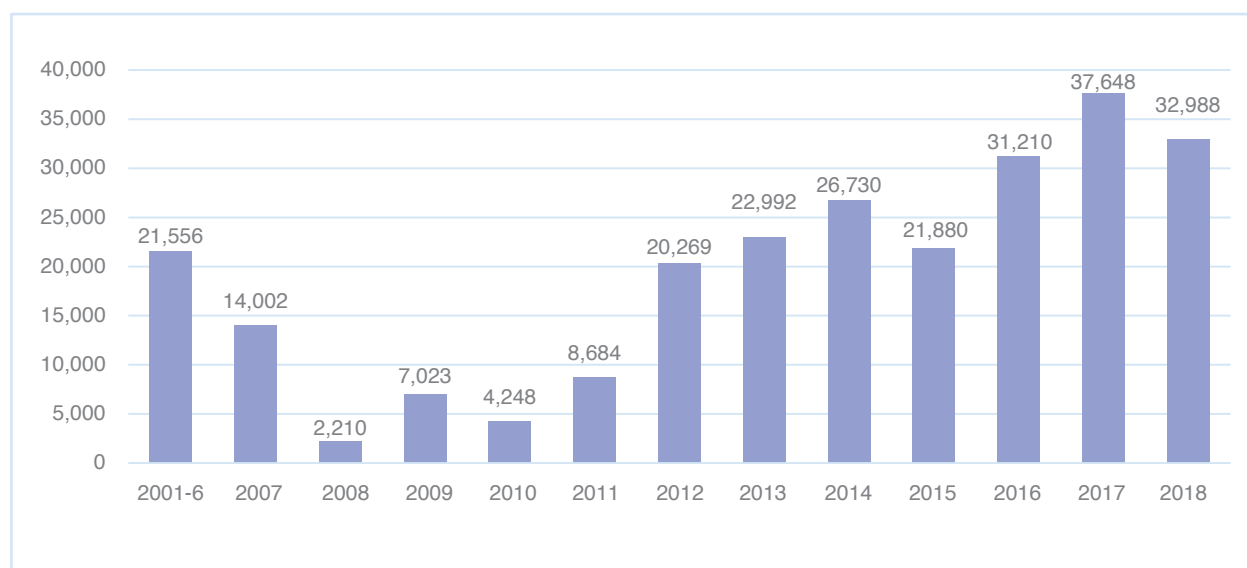
2018	Dar Al Arkan Real Estate Development	Corporate	USD	International	Hybrid Sukuk -Ijarah/Murabahah	500	6.88	5
2018	Central Bank of Qatar	Sovereign	QAR	Domestic	Sukuk Al Wakalah	243	3.95	5
2018	Government of Sharjah	Sovereign	USD	International	Hybrid Sukuk	1,000	4.23	10
2018	FAB Sukuk Company Limited	Corporate	USD	International	Sukuk Al Wakalah	650	3.63	5
2018	Dubai Islamic Bank	Fls	USD	International	Sukuk Al Ijarah	1,000	3.63	5
2018	Albaraka Turk	Fls	USD	International	Sukuk Al Mudharabah	205	10.00	Perpetual
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	1,450	3.25	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	459	3.45	7
2018	Saudi Arabian Mining Company (MA'ADEN)	Quasi-Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	945	135	7
2018	Government of Mali	Sovereign	CFA	Domestic	Sukuk Al Ijarah	285	6.25	7
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	1,114	3.25	5
2018	Ministry of Finance Saudi Arabia	Sovereign	SAR	Domestic	Hybrid Sukuk -Murabahah/ Mudharabah	405	3.85	10
2018	Central Bank of Bahrain	Sovereign	BHD	Domestic	Sukuk Al Ijarah	266	4.8	3

Source: IIFM Sukuk database

## 1.3 International Sukuk Issuances

Total international Sukuk issuances stood at USD 32.98 billion in 2018 which translate into a decrease of USD 4.66 billion or negative 14% from 2017 level of USD 37.64 billion – which means that the year 2017 was the best year where highest value of Int'l Sukuk issuance recorded since the inception of the Sukuk market.

Chart 1B: TOTAL INTERNATIONAL SUKUK ISSUANCES - (JAN 2001 - DEC 2018)  
- ALL TENORS, ALL CURRENCIES, IN USD MILLIONS



Total International Sukuk Issuance USD 251,440 Millions

Source: IIFM Sukuk database



Although they were sovereign, quasi-sovereign, corporate and financial institutions Sukuk issuances mainly from GCC and Malaysia but the volumes could not surpass the previous year volume.

There were no Non-Local Currency Sukuk – Sukuk issued in a jurisdiction by a foreign issuer – during 2018 though this type of issuance is required for growth of Sukuk market.

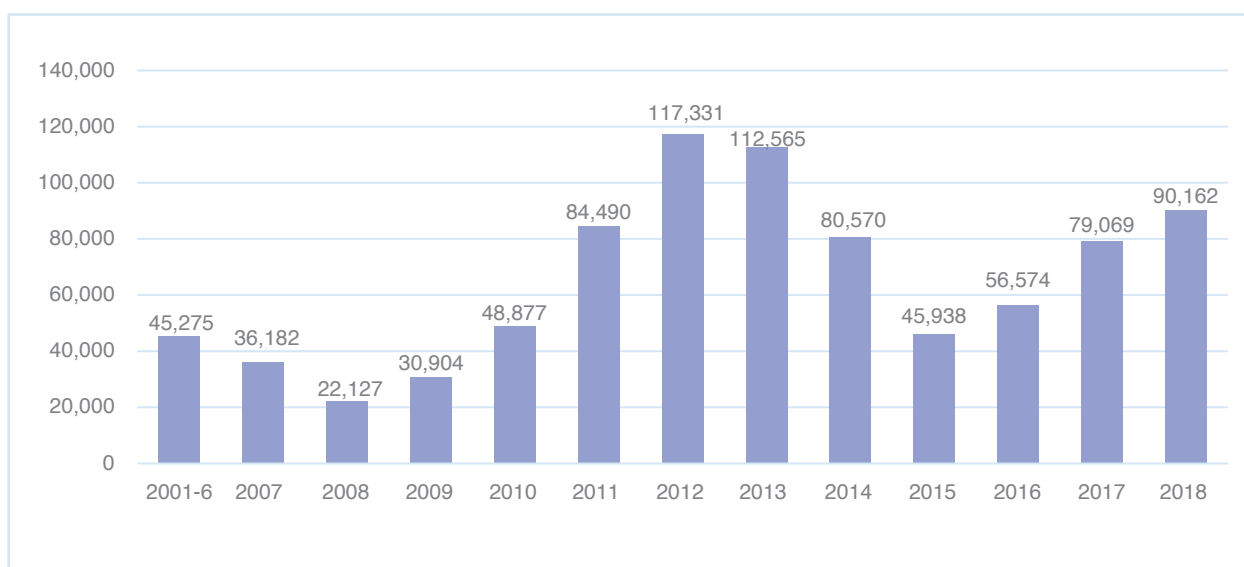
A few milestones achieved in the international Sukuk market in the year 2018 are as follows:

- a) Al Rayan Bank UK GBP 250 million Hybrid Securitized Sukuk
- b) Abu Dhabi Islamic Bank USD 750 million Perpetual Sukuk
- c) Saudi Electric Company USD 2 billion Sukuk Al Ijarah
- d) Turkish Ministry of Finance EURO 622 million Sukuk Al Ijarah
- e) Government of Bahrain USD 1 billion Sukuk Al Ijarah
- f) Government of Indonesia USD 3 billion Sukuk Al Wakalah issuances

## 1.4 Domestic Sukuk Issuances

Chart 1C below shows the domestic Sukuk issuances have increased from their 2017 level of USD 79.06 billion to USD 90.16 billion or positive 14%, the biggest chunk of this increase is coming from the Malaysian market contribution of USD 48.6 billion followed by Saudi Arabia USD 14.2 billion, Indonesia 13.5 billion and Turkey USD 6.8 billion.

Chart 1C: TOTAL DOMESTIC SUKUK ISSUANCES (JAN 2001 - DEC 2018)  
- ALL TENORS, ALL CURRENCIES, IN USD MILLIONS



Total Domestic Sukuk Issuance USD 850,062 Millions

Source: IIFM Sukuk database

If we analyze the domestic issuances ex-Malaysia, there was a marginal rise in the domestic Sukuk issuances from the rest of the world with domestic issuances ex-Malaysia standing at approximately USD 41 billion in 2018 as against USD 37 billion in 2017. Among the major players in the domestic market outside of Malaysia are Saudi Arabia, Indonesia and Turkey.

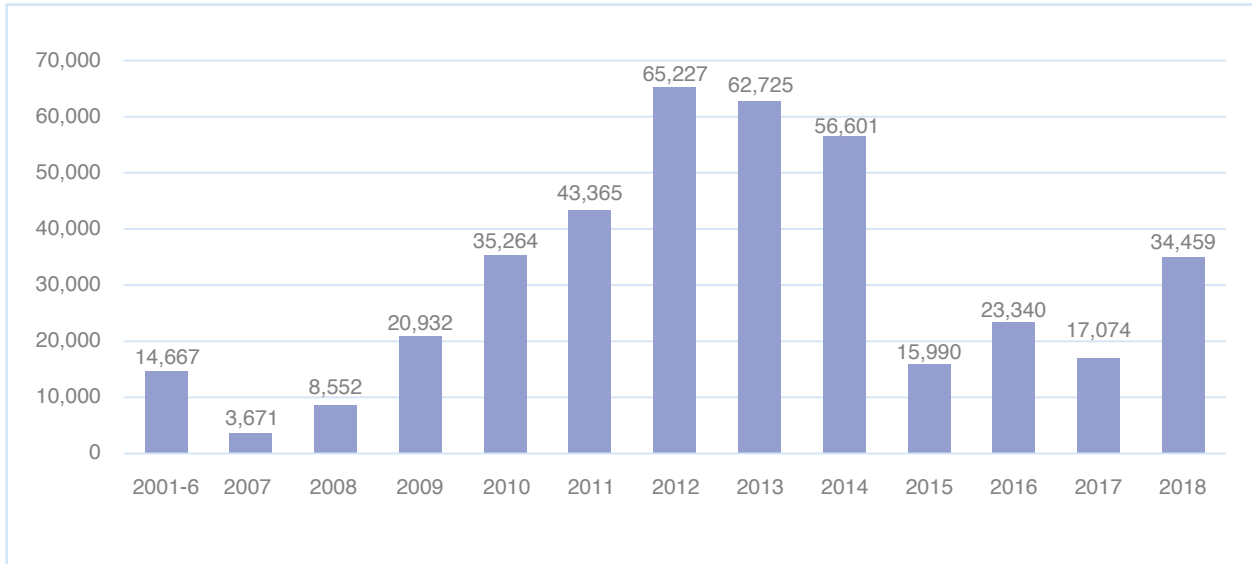
A few milestones achieved in the domestic Sukuk market in the year 2018 are as follows:

- Government of Malaysia domestic Sovereign Sukuk issuances of USD 16 billion
- Government of Saudi Arabia domestic Sovereign Sukuk issuances of USD 11.4 billion
- Indonesian corporate entity XL Axiata Sukuk domestic currency issuance of USD 401 million
- Saudi Arabia Corporate entity Saudi Arabian Mining Company Hybrid domestic Sukuk issuance of USD 945 million

## 1.5 Short Term Sukuk Market

Short term Sukuk with maturity of 1 year or less are indispensable 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 USD 401 billion. During 2018 short term Sukuk issuance was USD 34.45 billion against 2017 issuance of USD 17.07 billion which translate into a massive jump of USD 17.38 billion or positive 101% of short term Sukuk issuances from IILM and a number of jurisdictions led by Malaysia as a major short term Sukuk issuer.

Chart 2A: TOTAL GLOBAL SHORT TERM SUKUK ISSUANCES (JAN 2001 - DEC 2018)  
- ALL CURRENCIES, TENOR 12 MONTHS OR LESS, IN USD MILLIONS



Total Global Short Term Sukuk Issuance USD 401,869 Millions

Source: IIFM Sukuk database

Malaysia has been the clear value leader in the short tenor Sukuk market and its market share of the total 'global short term Sukuk issuances' from 2001-2018 is slightly reduced to 85.20% (USD 342 Billion) against market share of 86% (USD 318 billion) for 2001-2017 period. Other regular issuers in the short term market had been Indonesia, Sudan, Gambia, Bahrain, Brunei and to some extent Turkey, however this group of issuers have formed around 14.8% of the total short term market since the beginning.

The International Islamic Liquidity Management (IILM), also based in Malaysia, started its short term issuances in the year 2013, moving some of the share of the short term market from Malaysian sovereign category to quasi-sovereign category. The government of Indonesia stepped up its Sukuk issuance while Turkey started issuing FIs (Financial Institutions) as well as sovereign short term Sukuk. However, even with the advent of new issuers, Malaysia's share of the short term Sukuk market including IILM during 2018 remain dominant with the total market share of around 73.34%.

The following table shows the regional break-up of total short-term Sukuk issuance since 2001:

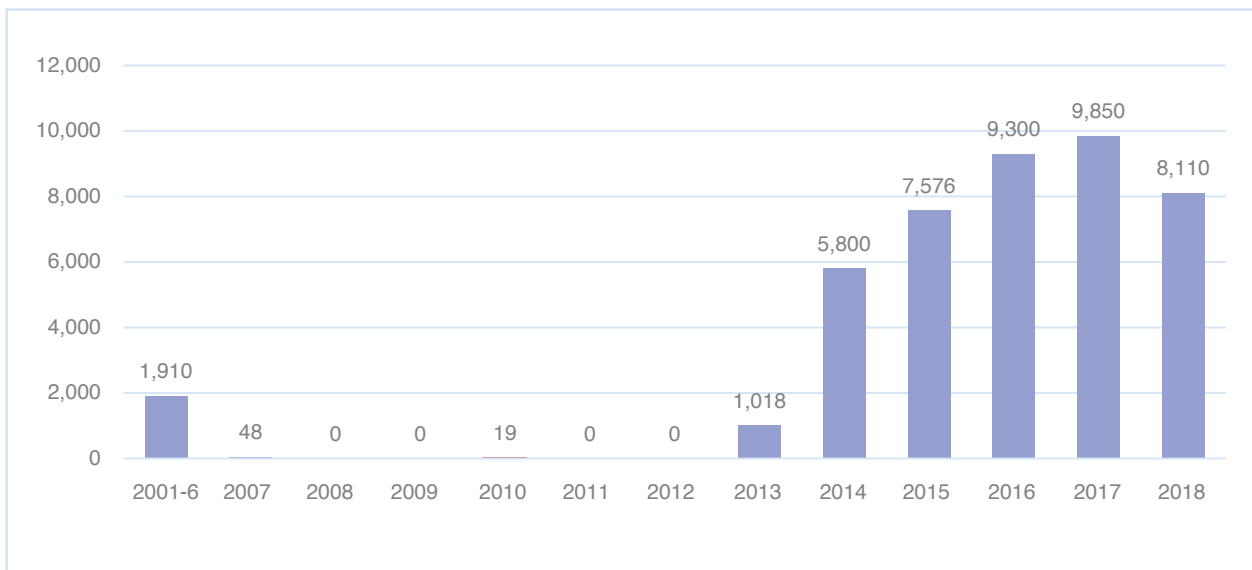
Table 3: Total Global Short Term Sukuk Issuances – All Currencies ≤ 12 Months (Jan 2001 – Dec 2018)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Brunei Darussalam	136	8,571	2.13%
Bangladesh	4	37	0.01%
Indonesia	77	7,759	1.93%
Malaysia	2,864	342,384	85.20%
Pakistan	8	141	0.04%
Singapore	3	221	0.05%
<b>Total</b>	<b>3,092</b>	<b>359,113</b>	<b>89.4%</b>
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	340	15,995	3.98%
Oman	1	130	0.03%
Saudi Arabia	6	1,301	0.32%
United Arab Emirates	1	100	0.02%
Yemen	1	234	0.06%
<b>Total</b>	<b>349</b>	<b>17,760</b>	<b>4.4%</b>
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	252	365	0.09%
Sudan	21	16,520	4.11%
<b>Total</b>	<b>273</b>	<b>16,885</b>	<b>4.2%</b>
Europe & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	265	8,112	2.02%
<b>Total</b>	<b>265</b>	<b>8,112</b>	<b>2.02%</b>
<b>Grand Total</b>	<b>3,979</b>	<b>401,869</b>	<b>100%</b>

Source: IIFM Sukuk database

Chart 2B below shows the international short term Sukuk issuance since Jan 2001. The short term market has mainly been a domestic one till 2013, as can be seen in the chart below. International issuances (hard currency issuances) only picked at the advent of IILM which is now regularly issuing USD based short term Sukuk for the purpose of liquidity management. The international issuances between 2001 and 2007 belong almost entirely to the Government of Bahrain issuing short term USD Sukuk through the Central Bank of Bahrain (CBB), which it discontinued from 2008. The Government of Bahrain is still a prolific issuer in the short-term market, but it only issues domestic currency Sukuk.

CHART 2B: TOTAL INTERNATIONAL SHORT TERM SUKUK ISSUANCE ≤ 12 MONTHS  
(JAN 2001 – DEC 2018, USD MILLIONS)

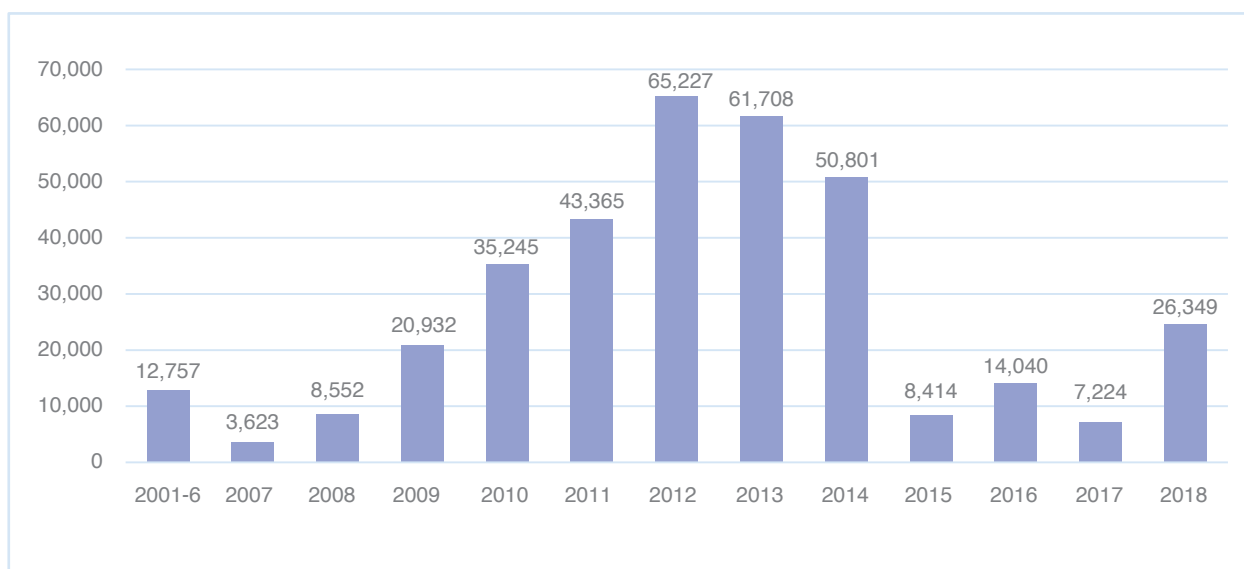


Total International Short Term Sukuk Issuance 43,631Millions

Source: IIFM Sukuk database

Chart 2C on the next page shows that domestic short-term issuances where there is a marked improvement of USD 19.125 billion in 2018 as compare to USD 7.22 billion in 2017 which is mainly due to issuances from Malaysia. 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), during this period the short-term market was entirely local currency, that is 100%, domestic.

Chart 2C: TOTAL DOMESTIC SHORT TERM SUKUK ISSUANCE  $\leq$  12 MONTHS  
(JAN 2001 – DEC 2018, USD MILLIONS)



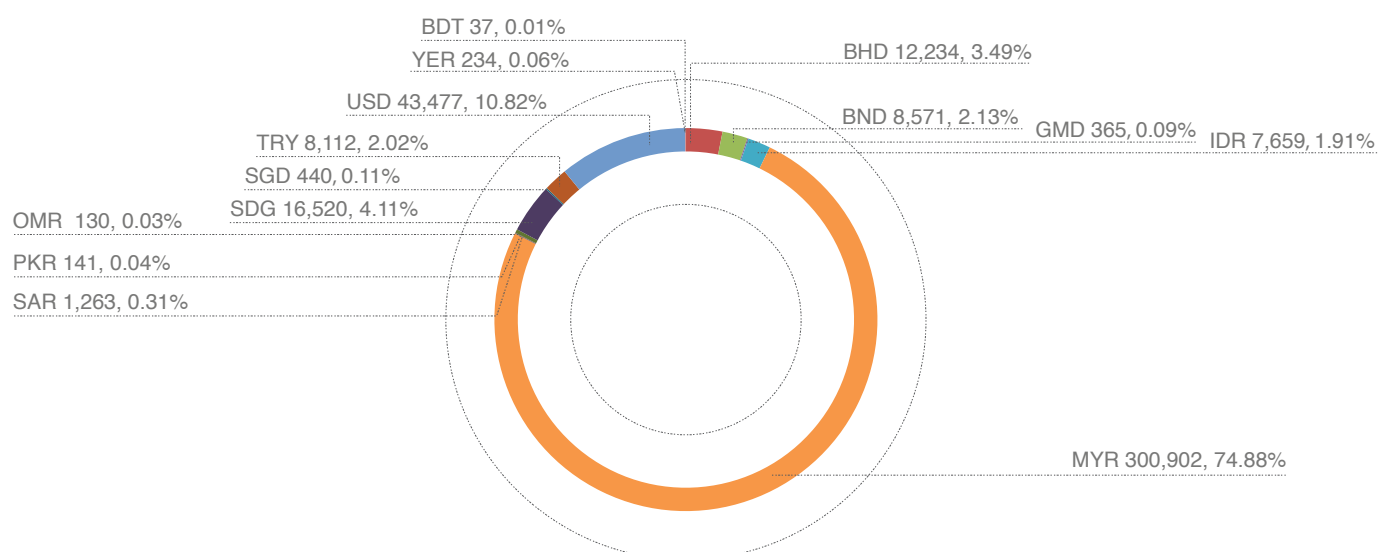
Total Domestic Short Term Sukuk Issuance 358,238 Millions

Source: IIFM Sukuk database

It is interesting to note that during 2001-2014 period, the short term market was clearly dominated by domestic issues and all domestic issuances were overshadowed by issuances from Malaysia. However, starting 2015 the short term market started balancing where the market share of International Short Term Sukuk reached around 25% of total issuances in 2018.

The currency wise break-up of issuances is explained in Chart 2D (A) below:

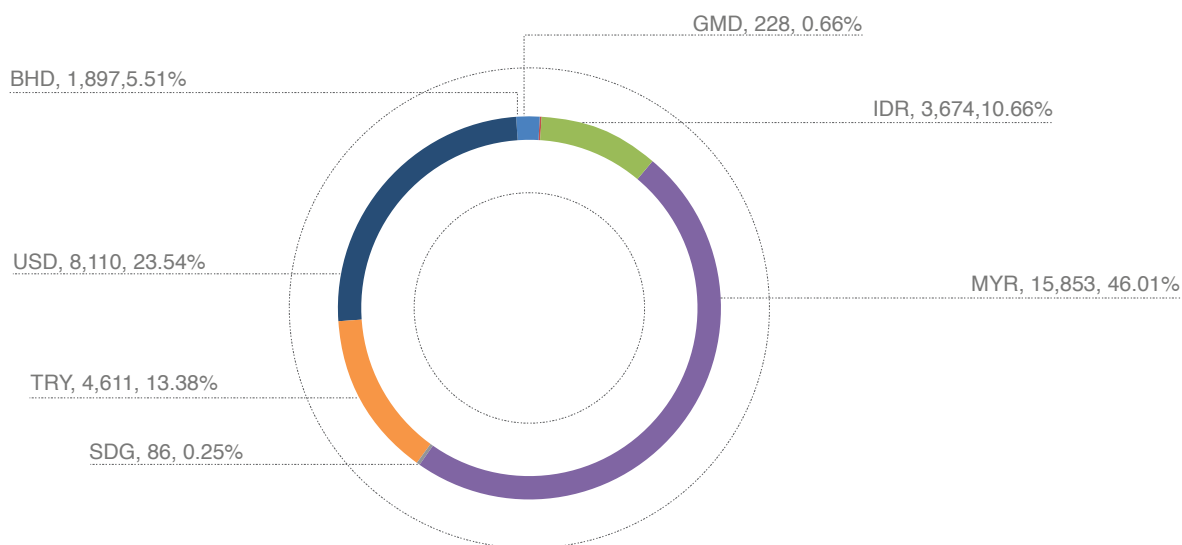
Chart 2D (A): GLOBAL SHORT TERM SUKUK ISSUANCES  $\leq$  12 MONTHS, CURRENCY BREAK-UP  
(JAN 2001- DEC 2018, AMOUNT IN USD MILLIONS)



Source: IIFM Sukuk database

As explained in Chart 2D (B) below is the snap short of the global short term market during 2018 where Malaysian Ringgit again leads the currency break-up with market share of around 46.01% followed by US Dollar, Turkish Lira, Indonesian Rupiah and others.

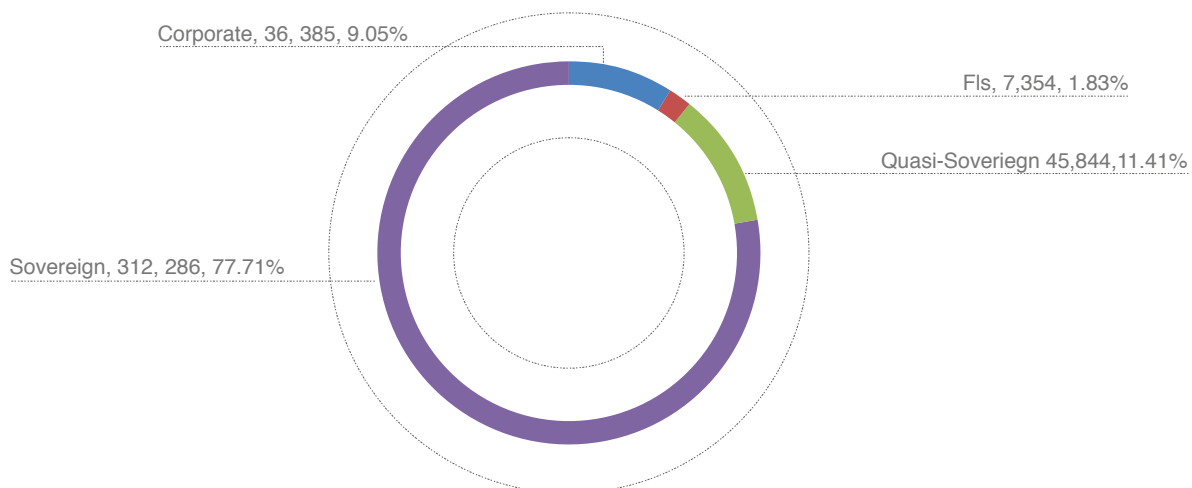
Chart 2D (B): GLOBAL SHORT TERM SUKUK ISSUANCES ≤ 12 MONTHS, CURRENCY BREAK-UP (JAN 2018- DEC 2018, AMOUNT IN USD MILLIONS)



Source: IIFM Sukuk database

Chart 2E (A) below presents the short term Sukuk issuances since inception by Sovereign, Quasi Sovereign, Corporate, and Financial Institutions. Sovereign issuances maintain leading the pack followed by quasi sovereign which explain why support from the governments is so critical especially in the development of short term Sukuk market.

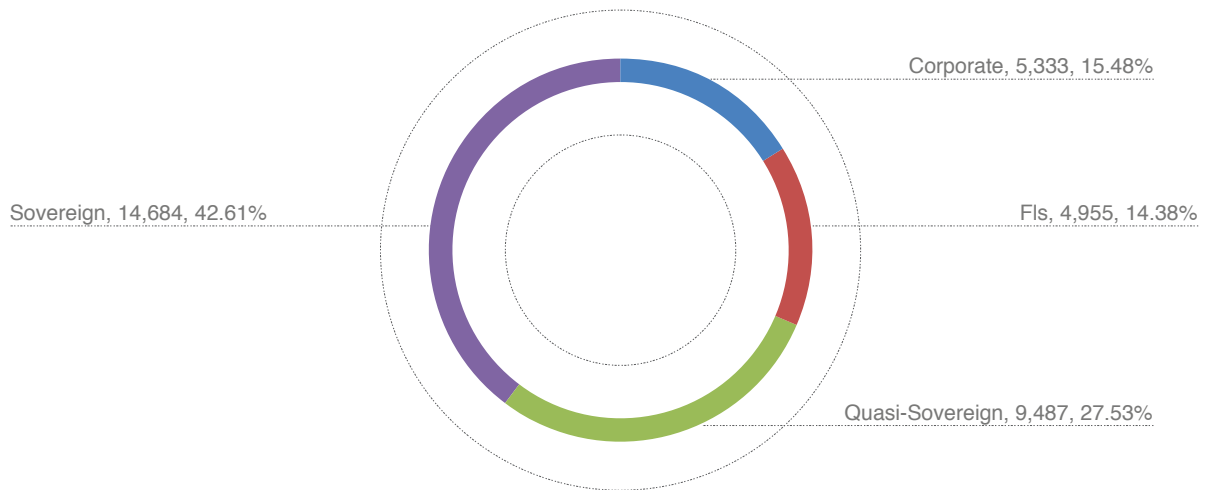
Chart 2E (A):GLOBAL SHORT TERM SUKUK ISSUANCES ≤ 12 MONTHS, ISSUER TYPE (JAN 2001- DEC 2018, AMOUNT IN USD MILLIONS)



Source: IIFM Sukuk database

Chart 2E (B) below provides information on issuances from Sovereign, Quasi Sovereign, Corporate and FIs during 2018.

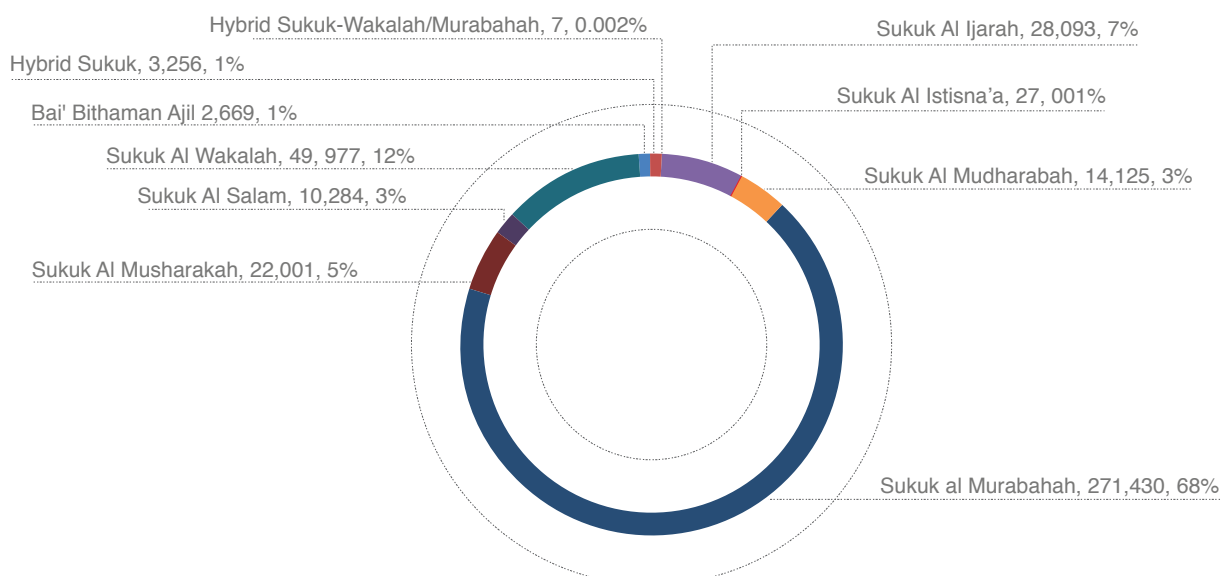
Chart 2E (B): GLOBAL SHORT TERM SUKUK ISSUANCES ≤ 12 MONTHS, ISSUER TYPE (JAN 2018- DEC 2018, AMOUNT IN USD MILLIONS)



Source: IIFM Sukuk database

Chart 2F (A) below provides information on structure break-up of issuances since inception where Murabahah structure lead the pack.

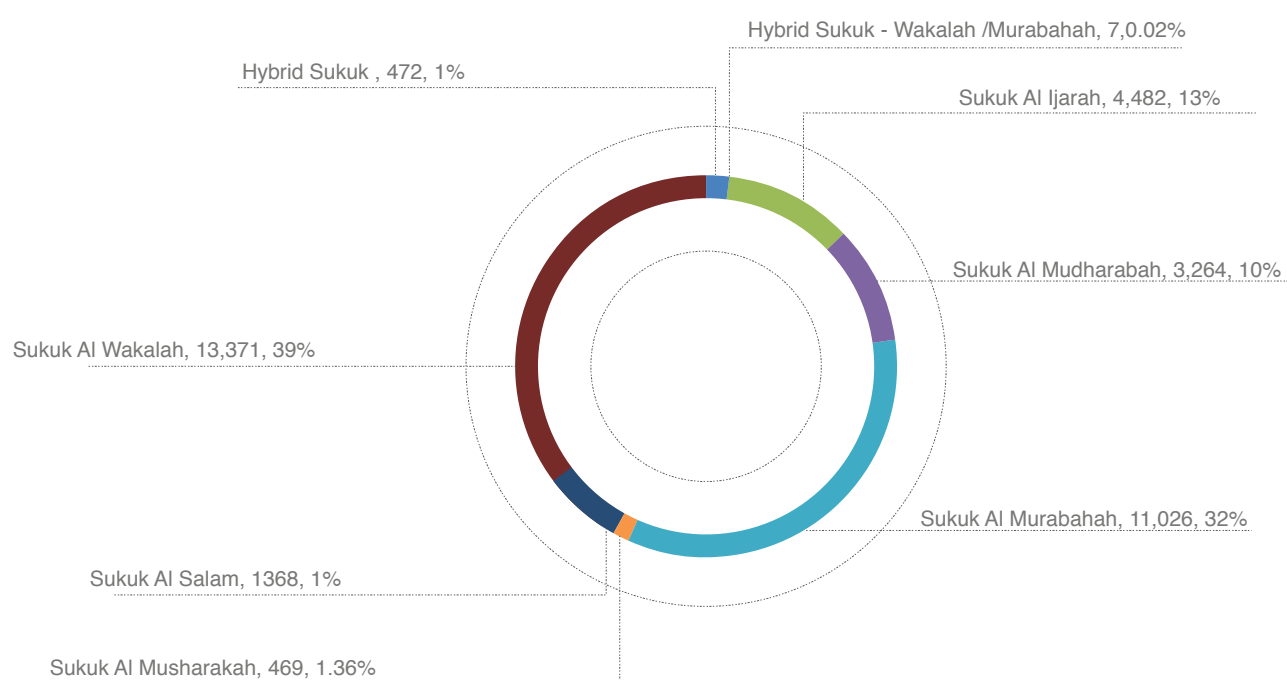
Chart 2F (A):GLOBAL SHORT TERM SUKUK ISSUANCES ≤ 12 MONTHS, STRUCTURE BREAK-UP (JAN 2001- DEC 2018, AMOUNT IN USD MILLIONS)



Source: IIFM Sukuk database

Chart 2F (B) below provides information on structure break-up during the year 2018 where Wakalah structure has taken a more dominant role though generally Sukuk issued under Wakalah structure involves Ijarah and Murabahah which means that the share of Murabahah and Ijarah could be higher on overall basis.

Chart 2F (B): GLOBAL SHORT TERM SUKUK ISSUANCES  $\leq$  12 MONTHS, STRUCTURE BREAK-UP (JAN 2018- DEC 2018, AMOUNT IN USD MILLIONS)



Source: IIFM Sukuk database

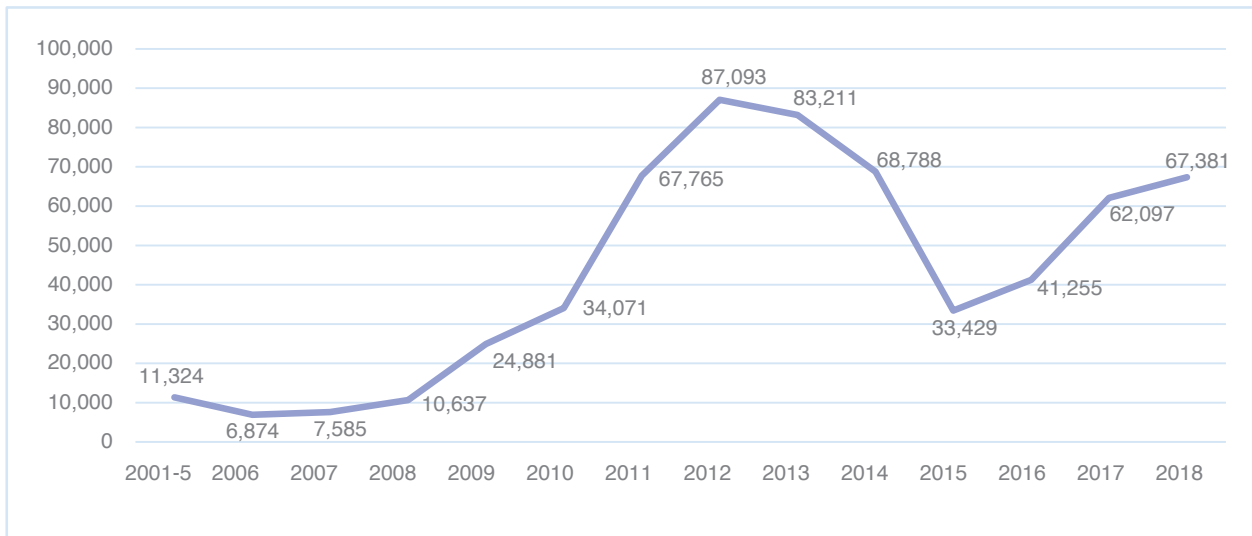
## 1.6 Distribution of the Global Sukuk Issuance by Issuer Status

Over all sovereign Sukuk issuances are the main contributor of the global Sukuk market growth and there is a pickup in sovereign issuances in 2018, as indicated by IIFM in its previous report, the sovereign issuers led by Saudi Arabia, Indonesia, Malaysia, Turkey continue to provide a strong foundation to the Sukuk market.

As of end 2018, total sovereign Sukuk issuance since inception stands at USD 606.3 billion, which is around 55% of all global Sukuk issuances. Chart 3A on the next page shows the trend of sovereign Sukuk issuances since the year 2001.



Chart 3A: GLOBAL SOVEREIGN SUKUK ISSUANCES (JAN 2001- DEC 2018) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS

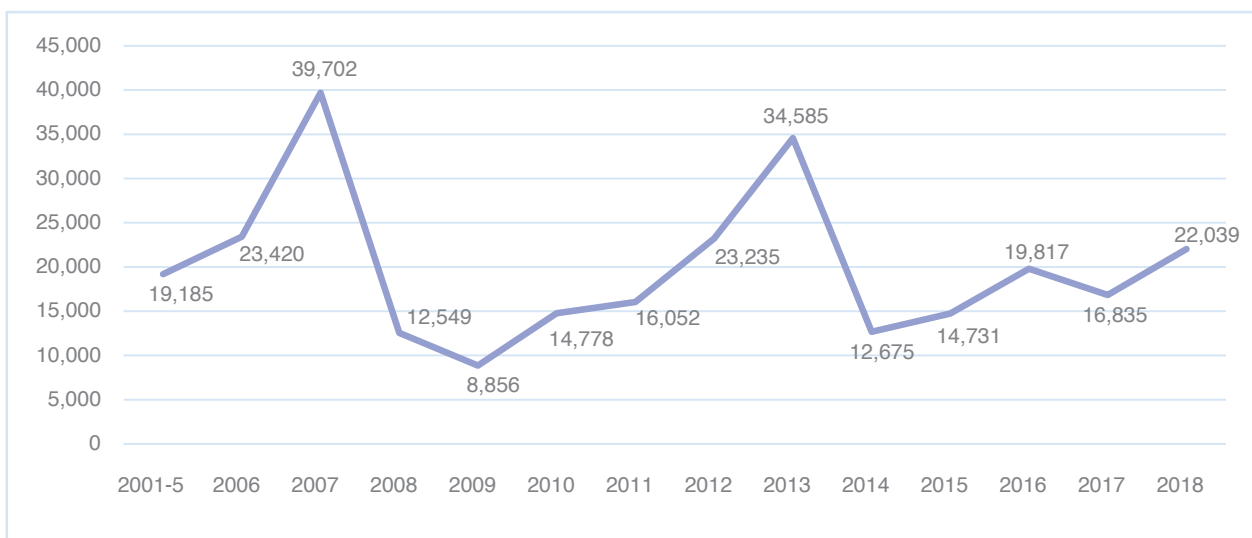


Total Sovereign Sukuk Issuance USD 606,391Millions

Source: IIFM Sukuk database

The trend in the global sovereign issuances is encouraging in the sense that it shows that the Sukuk market has a strong base which is unwavering in the face of economic shocks. However, the issuances in the corporate sector seems to follow the economic cycle, going up in good economic conditions and slumping during economic slowdowns. The following Chart 3B shows the global corporate issuances where there is up-stick of USD 5.20 billion or 30% in 2018 as compared to 2017.

Chart 3B: GLOBAL CORPORATE SUKUK ISSUANCES (JAN 2001- DEC 2018) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS



Total Corporate Sukuk Issuances USD 278,459 Millions

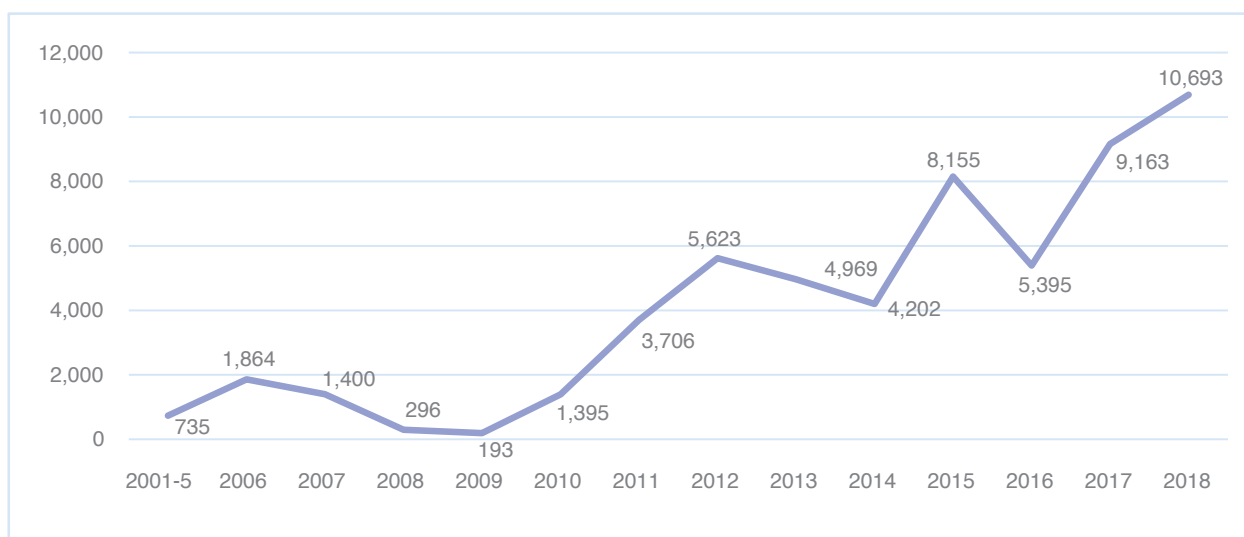
Source: IIFM Sukuk database

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. The factor in slow pick-up of Corporate Sukuk issuances except Malaysia is governing law, structural preferences and other issues in various OIC countries including GCC region and this aspect needs to be tackled by all stakeholders including Islamic standard setting organizations especially IIFM, AAOIFI and IFSB.

During 2018 the corporate sector issuances have shown an up stick which indicate the potential of corporate sector, as the case in Malaysia, to eventually become a major issuer of Sukuk at least in the well established Islamic jurisdictions.

Chart 3C below shows the trend line for FIs (Financial institutions issuances since 2001):

Chart 3C: GLOBAL FIs SUKUK ISSUANCES (JAN 2001- DEC 2018) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS



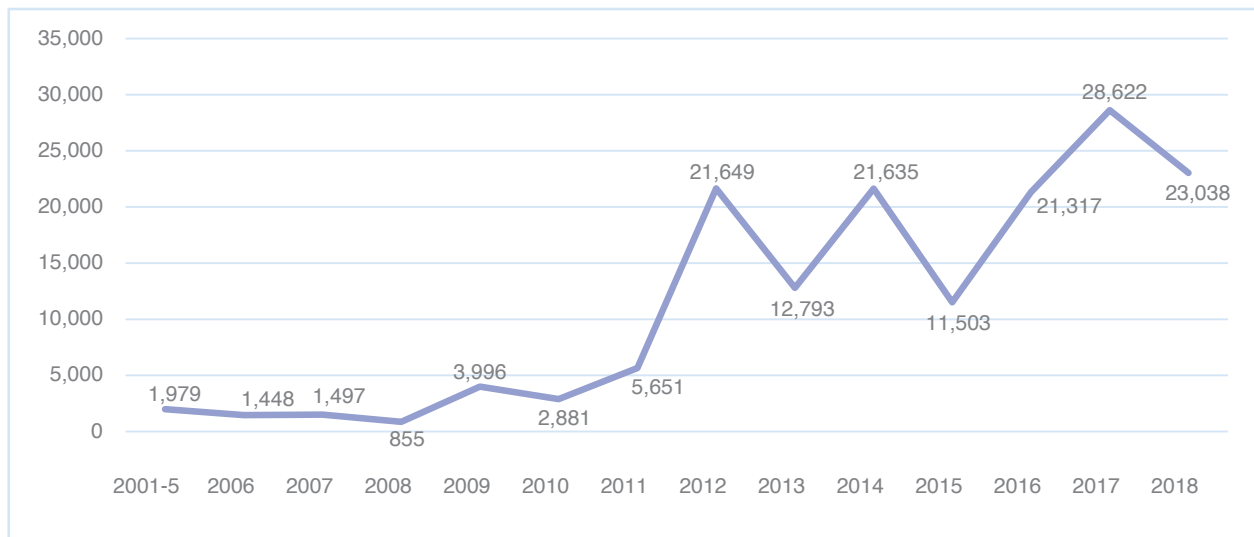
Total FIs Sukuk Issuance USD 57,789 Millions

Source: IIFM Sukuk database

The FIs (Financial Institutions) are active Sukuk issuers since inception and initially the issuances were on the floating profit rate basis which suited the balance sheet management of the FIs; however, starting 2010 FIs became more active as an issuer for not only liquidity management purposes but also to meet the Basel Capital Adequacy requirements by issuing Tier 1 (Perpetual) & Tier 2 Sukuk. During the year a number of FIs based in various jurisdictions have mostly issued Tier 1 Sukuk.

Chart 3D on the next page 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 and the issuances generally are from power sector, energy, aviation, financial, infrastructure development sectors while Khazanah Nasional of Malaysian government is the only sovereign wealth fund which is active issuer or participant in Sukuk market.

Chart 3D: GLOBAL QUASI-SOVEREIGN SUKUK ISSUANCES (JAN 2001- DEC 2018) ALL TENOR, ALL CURRENCIES, IN USD MILLIONS



Total Global Quasi Sovereign Sukuk Issuance USD 158,864 Millions

Source: IIFM Sukuk database

The quasi-sovereign issues between 2003 and 2011 mainly came from the Finance Ministry of the Malaysian government, Khazanah Nasional, and the Saudi based Islamic Development Bank (IsDB). Since then a number of quasi-sovereign from various jurisdictions including such as Malaysia based PLUS Berhad, Saudi Electricity Company, DP World, Saudi Aramco, Tenaga Nasional Berhad, Arab Petroleum, Saudi Arabian Mining Company etc.

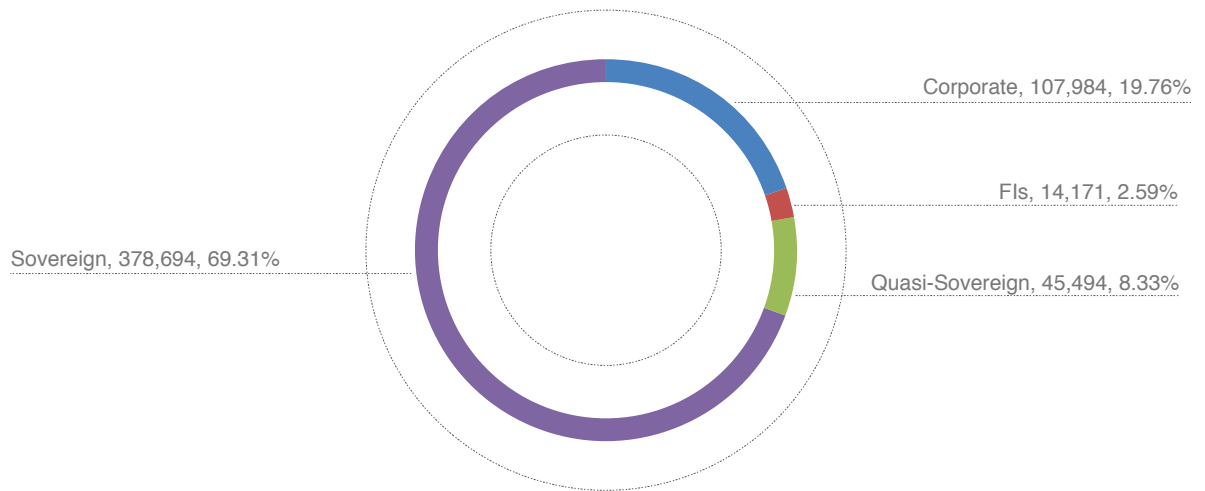
IsDB lead pack of multilateral issuers while World Bank, African Finance Corporation, Khazanah Nasional etc., have issued Sukuk to fund their activities while Malaysian based International Islamic Liquidity Management Corporation is a regular and only issuer of Short Term Int'l Sukuk.

It is interesting to note that in both the international and domestic Sukuk markets, the mix of sovereign/quasi-sovereign, corporate and FIs issuers has been following a consistent pattern though in 2018 the share of quasi-sovereign has dropped by USD 4.248 billion as compare to 2017.

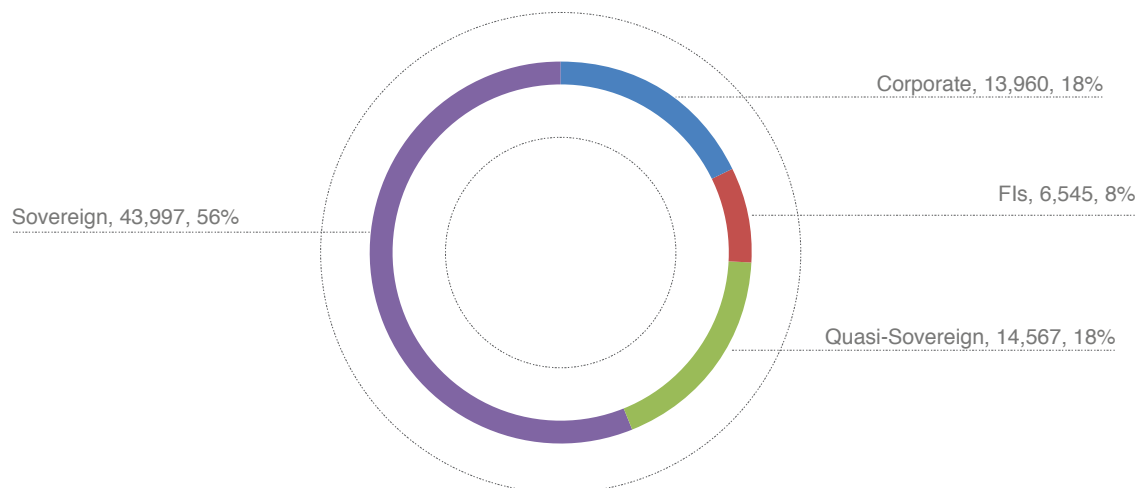
The three (3) pie charts in Chart 3E (On next page) give a clear picture of domestic Sukuk issuances:

Chart 3E: DOMESTIC SUKUK ISSUANCES BY ISSUER STATUS - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS

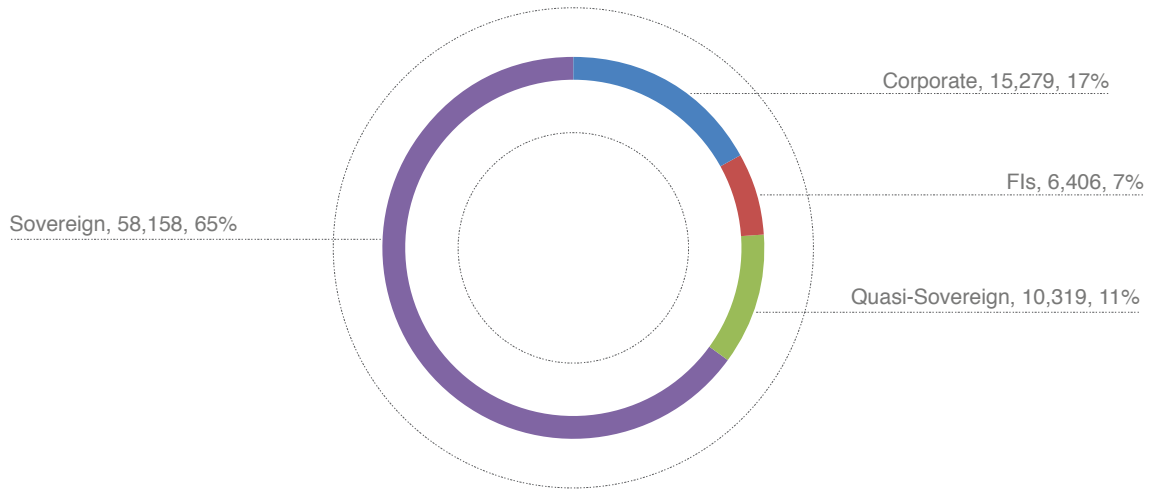
DOMESTIC SUKUK ISSUANCES Jan 2010-Dec 2016



DOMESTIC SUKUK ISSUANCES Jan 2017- Dec 2017



DOMESTIC SUKUK ISSUANCES Jan 2018- Dec 2018

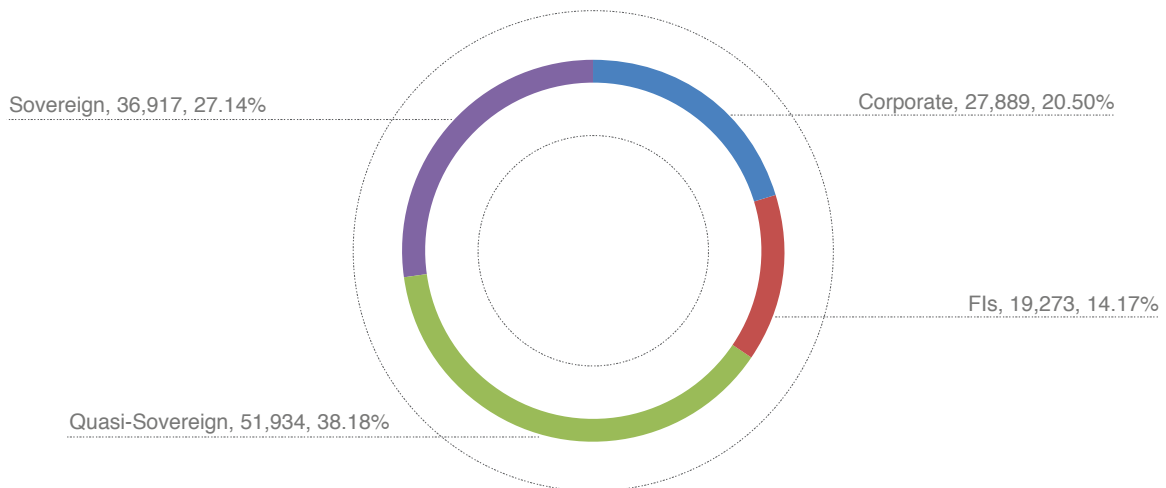


Source: IIFM Sukuk database

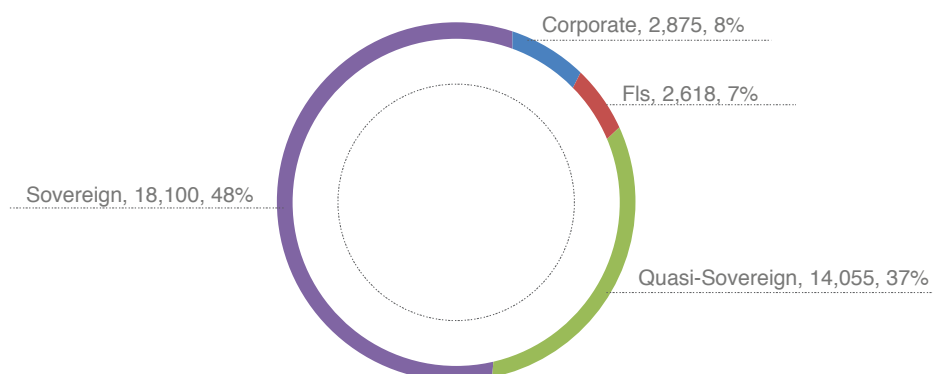
The pie charts in Chart 3F below show the respective shares of the sovereign, quasi-sovereign, corporate and FIs issuers in the international market. The share of sovereign & quasi-sovereign issuers has maintained their dominance in issuance of International Sukuk during 2018 with share of 67% as compared to 65% for the period 2010-2016. During 2018 pleasantly corporate and FI sectors share have risen to 20% and 13% respectively as compared to only 8% and 7% respectively last year.

Chart 3F: INTERNATIONAL SUKUK ISSUANCES BY ISSUER STATUS - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS

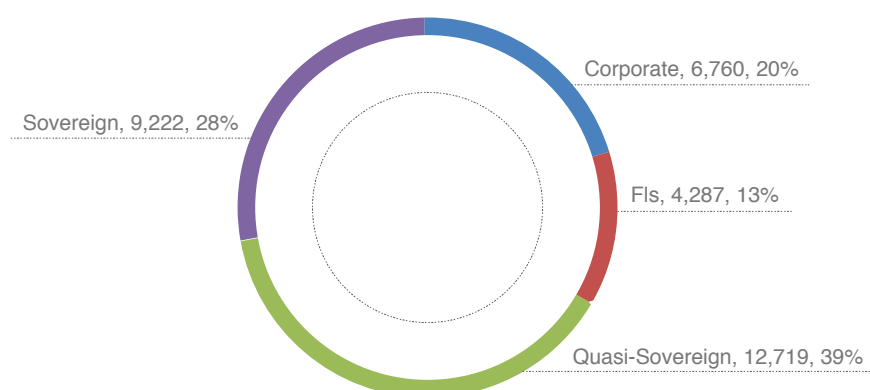
International Sukuk Issuances Jan 2010- Dec 2016



## International Sukuk Issuances Jan 2017- Dec 2017



## International Sukuk Issuances Jan 2018- Dec 2018



Source: IIFM Sukuk database

It is expected that due to the tighter economic and geo-political conditions in different parts of the world, the growth in Sukuk market will continue to be driven by sovereign and quasi-sovereign issuers though looking at 2019 International corporate & FI Sukuk pipeline the signs are encouraging that their share will hopefully increase.

Following are lists of the Hallmark Sukuk Issuances in the Sovereign, Quasi-Sovereign, corporate, and FIs categories during 2018:

Table 4A: Global Sovereign Sukuk Issuances - Selected Value Leaders (2018, USD 200 Millions or >, Tenor >1Year)

Issue Year	Issuer	Number of Issues	Issuer Country	Issuance Currency	International/ Domestic	Sukuk Structure	USD Million or Equivalent	Tenor (Years)
2018	Government of Malaysia	19	Malaysia	MYR	Domestic	Sukuk Al Murabahah	16,009	12
2018	Ministry of Treasury and Finance of Turkey	4	Turkey	TRY	Domestic	Sukuk Al Ijarah	1,923	2
2018	Turkish Ministry of Finance	1	Turkey	EURO	International	Sukuk Al Ijarah	622	2
2018	Ministry of Finance Saudi Arabia	19	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	11,447	6
2018	Ministry of Finance Oman	1	Oman	USD	International	Sukuk Al Mudarabah/Wakalah	1,500	7
2018	Federal Government of Nigeria	1	Nigeria	NGN	Domestic	Sukuk Al Ijarah	270	7
2018	Ministry of Finance Saudi Arabia	1	Saudi Arabia	USD	International	Hybrid Sukuk -Murabahah/ Mudharabah	2,000	10
2018	Central Bank of Jordan	1	Jordan	JOD	Domestic	Sukuk Al Murabahah	212	5
2018	Government of Bahrain	1	Bahrain	USD	International	Sukuk Al Ijarah	1,000	7
2018	Central Bank of Gambia	1	Gambia	GMD	Domestic	Sukuk Al salam	220	1
2018	Government of Sharjah	1	United Arab Emirates	USD	International	Hybrid Sukuk	1,000	10
2018	Government of Indonesia	2	Indonesia	USD	International	Sukuk Al Wakalah	3000	8
2018	Government of Mali	1	Mali	CFA	Domestic	Sukuk Al Ijarah	285	7
2018	Central Bank of Bahrain	1	Bahrain	BHD	Domestic	Sukuk Al Ijarah	266	3
2018	Central Bank of Qatar	5	Qatar	QAR	Domestic	Sukuk Al Wakalah	2,210	5
2018	Government of Indonesia	8	Indonesia	IDR	Domestic	Sukuk Al Ijarah	2,665	2

Source: IIFM Sukuk database

Table 4B: Global Corporate Sukuk Issuances - Selected Value Leaders (2018, USD 200 Millions or >, Tenor > 1Year)

Issue Year	Issuer	Number of Issues	Issuer Country	Issuance Currency	International/ Domestic	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)
2018	Senaat Investment Holding Company	1	United Arab Emirates	USD	International	Sukuk Al Murabahah	300	7
2018	Sarawak Energy Berhad	1	Malaysia	MYR	Domestic	Sukuk Al Musharakah	243	15
2018	NMC Healthcare	1	United Arab Emirates	USD	International	Sukuk Al Murabahah	400	5
2018	Tenaga Nasional Berhad	1	Malaysia	USD	International	Hybrid Sukuk -Wakalah /Murabahah	750	10
2018	Tabreed Sukuk	1	United Arab Emirates	USD	International	Sukuk Al Ijarah	500	7
2018	Lontar Papyrus Pulp & Paper Industry	1	Indonesia	IDR	Domestic	Sukuk Al Mudharabah	497	5
2018	Aldar properties	1	United Arab Emirates	USD	International	Hybrid Sukuk -Wakalah /Murabahah	500	7
2018	XL Axiata	1	Indonesia	IDR	Domestic	Sukuk Al Ijarah	401	2
2018	Tenaga Nasional Berhad	2	Malaysia	MYR	Domestic	Sukuk Al Wakalah	730	18
2018	Yinson TMC SDN BHD	1	Malaysia	MYR	Domestic	Sukuk Al Mudharabah	231	100
2018	Fortune Premiere Sdn Bhd	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	219	7

Table Continued on next page.

2018	Medco Power Indonesia	1	Indonesia	IDR	Domestic	Sukuk Al Wakalah	426	7
2018	Cagamas Berhad	1	Malaysia	MYR	Domestic	Hybrid Sukuk	608	4
2018	DAMAC Real Estate Development Limited	1	United Arab Emirates	USD	International	Hybrid Sukuk -Ijarah/Murabahah	400	5
2018	UMW Holdings Berhad	1	Malaysia	MYR	Domestic	Sukuk Al Musharakah	268	100
2018	MMC Corporation Berhad	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	243	10
2018	Emirates Airline	1	United Arab Emirates	USD	International	Sukuk Al Ijarah	600	10
2018	Dar Al Arkan Real Estate Development	1	Saudi Arabia	USD	International	Hybrid Sukuk -Ijarah/Murabahah	500	5

Source: IIFM Sukuk database

Table 4C: Global FIs Sukuk Issuances - Selected Value Leaders (2018, USD 150 Millions or >, Tenor > 1Year)

Issue Year	Issuer	Number of Issues	Issuer Country	Issuance Currency	International/ Domestic	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)
2018	Islamic Development Bank (ISDB)	1	Saudi Arabia	USD	International	Sukuk Al Wakalah	471	5
2018	AFFIN Islamic Bank Berhad	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	195	10
2018	Abu Dhabi Islamic Bank (ADIB)	1	United Arab Emirates	USD	International	Sukuk Al Mudharabah	750	Perpetual
2018	Al Hilal Bank	1	United Arab Emirates	USD	International	Hybrid Sukuk -Wakalah /Murabahah	500	5
2018	Noor Bank	1	United Arab Emirates	USD	International	Sukuk Al Wakalah	500	5
2018	Dubai Islamic Bank	1	United Arab Emirates	USD	International	Sukuk Al Ijarah	1,000	5
2018	Albaraka Turk	1	Turkey	USD	International	Sukuk Al Mudharabah	205	Perpetual
2018	Al Rayan bank	1	United Kingdom	GBP	International	Hybrid Sukuk -Ijarah/Musharakah	351	3
2018	First Abu Dhabi Bank	1	United Arab Emirates	USD	FIs	Sukuk Al Wakalah	650	5

Source: IIFM Sukuk database

Table 4D: Global Quasi-Sovereign Sukuk Issuances - Selected Value Leaders (2018, USD 150 Millions or >, Tenor > 1Year)

Issue Year	Issuer	Number of Issues	Issuer Country	Issuance Currency	International/ Domestic	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)
2018	DanaInfra Nasional Berhad	12	Malaysia	MYR	Domestic	Sukuk Al Murabahah	2,494	12
2018	Islamic Development Bank (ISDB)	1	Saudi Arabia	EURO	International	Sukuk Al Wakalah	738	5
2018	Lembaga Pembiayaan Perumahan Sektor Awam	4	Malaysia	MYR	Domestic	Sukuk Al Murabahah	1,071	11
2018	Islamic Development Bank (ISDB)	2	Saudi Arabia	USD	International	Sukuk Al Wakalah	2,550	5
2018	DP World Dubai	1	United Arab Emirates	USD	International	Sukuk Al Mudharabah	1,000	10
2018	Prasarana Malaysia Berhad	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	292	25
2018	Pengurusan Air SPV Bhd	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	174	5

Table Continued on next page.



2018	MKD Kencana Sdn Bhd	2	Malaysia	MYR	Domestic	Sukuk Al Murabahah	389	6
2018	Danga Capital Berhad	2	Malaysia	MYR	Domestic	Sukuk Al Musharakah	852	15
2018	Saudi Arabian Mining Company (MA'ADEN)	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk Murabahah/ Mudharabah	945	7
2018	Khazanah Nasional Bhd	1	Malaysia	USD	International	Sukuk Al Wakalah	321	5
2018	Saudi Electricity Company	2	Saudi Arabia	USD	International	Sukuk Al Ijarah	2,000	8

Source: IIFM Sukuk database

## 1.7 Anatomy of International Sukuk Issuances

The international Sukuk market, though it forms just under 19.5% of overall Global Sukuk issuances since 2001, is the real attraction and driver of the Sukuk market from global perspective. Denominated in USD and other stable currencies, the international Sukuk issues are being issued in longer tenors which include up to 30 years, perpetual and indications are that the industry will witness the issuance of Sukuk with 50 years tenor. The international Sukuk with medium to long term tenors-maintained growth in volume during 2018 while the size of international short term Sukuk mainly from IILM was stable.

In recent years, sovereign and quasi-sovereign issuances are on the rise and forms bulk of Sukuk market though during 2018 Corporate and FI issuers have performed better as compare to 2017.

A look at table 5A below shows us that UAE with 28.26% has maintained its volume and value leader position in the international Sukuk market closely followed by Malaysian 25.32% while share of Saudi Arabia 18.82%, Indonesia 6.6%, Bahrain 4.55% and Turkey 3.88% is gradually rising. Together with Saudi Arabia, Qatar, Oman & Bahrain, the five GCC countries command over 59.34% of the entire international Sukuk issuances since inception. Table 5B for the year 2018 also highlights that around 59.20% of the international issues came from these countries. Malaysia also has a formidable presence in the international market commanding around 27.83% closely followed by Saudi Arabia and UAE with 25.34% and 25.04% share respectively of all international issuances while Indonesia continue to improve its share which stood at 9.40%.

Table 5A illustrates the regional break-up of the total international Sukuk issuance during the period Jan 2001 – Dec 2018:

Table 5A: Regional Break-up of International Issuances (Jan 2001 - Dec 2018)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
China	1	97	0.04%
Hong Kong	5	3,196	1.27%
Indonesia	18	16,603	6.60%
Japan	3	190	0.08%
Malaysia	107	63,653	25.32%
Pakistan	4	3,600	1.43%
Singapore	4	711	0.28%
<b>Total</b>	<b>142</b>	<b>88,050</b>	<b>35.02%</b>

Table Continued on next page.

GCC & MIDDLE EAST			
	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	102	11,430	4.55%
Kuwait	17	3,327	1.32%
Oman	5	4,219	1.68%
Qatar	18	11,845	4.71%
Saudi Arabia	59	47,324	18.82%
United Arab Emirates	109	71,054	28.26%
<b>Total</b>	<b>310</b>	<b>149,199</b>	<b>59.34%</b>
AFRICA			
	Number of Issues	Amount USD Millions	% of Total Value
Nigeria	1	150	0.06%
South Africa	1	500	0.20%
Sudan	1	130	0.05%
<b>Total</b>	<b>3</b>	<b>780</b>	<b>0.31%</b>
Europe & OTHERS			
	Number of Issues	Amount USD Millions	% of Total Value
France	1	1	0.00%
Germany	3	206	0.08%
Luxembourg	3	280	0.11%
Turkey	24	9,762	3.88%
United Kingdom	10	1,719	0.68%
USA	5	1,367	0.54%
Kazakhstan	1	77	0.03%
<b>Total</b>	<b>47</b>	<b>13,411</b>	<b>5.33%</b>
<b>Grand Total</b>	<b>502</b>	<b>251,441</b>	<b>100%</b>

Source: IIFM Sukuk database

Table 5B below shows the regional break-up of International issuances during 2018:

Table 5B: Regional Break-up of International Issuances Jan 2018 - Dec 2018

ASIA & FAR EAST			
	Number of Issues	Amount USD Millions	% of Total Value
Indonesia	3	3,100	9.40%
Malaysia	17	9,181	27.83%
<b>Total</b>	<b>20</b>	<b>12,281</b>	<b>37.23%</b>
GCC & MIDDLE EAST			
	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	1	1,000	3.03%
Oman	1	1,500	4.55%
Qatar	4	410	1.24%
Saudi Arabia	9	8,359	25.34%
United Arab Emirates	15	8,260	25.04%
<b>Total</b>	<b>30</b>	<b>19,529</b>	<b>59.20%</b>

Table Continued on next page.

AFRICA	Number of Issues	Amount USD Millions	% of Total Value
-	-	-	-
<b>Total</b>	-	-	-
Europe & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	2	827	2.51%
United Kingdom	1	351	1.06%
Total	3	1,178	3.57%
<b>Grand Total</b>	<b>53</b>	<b>32,988</b>	<b>100%</b>

Source: IIFM Sukuk database

Table 6 below gives a list of selected value leaders of Sukuk issuances in 2018. The largest of the value leaders, that is with issuance amounts of USD 600 million and above include sovereign, quasi-sovereign, corporate, and FI entities namely the governments of Bahrain, Indonesia, Sharjah, Turkey, Pakistan, Saudi Arabia, Oman and the Islamic Development Bank. In 2018 the corporate & FI issuances of USD 500 million and above are Abu Dhabi Islamic Bank, Emirates Airlines, Dubai Islamic Bank, Aldar Properties, DP World etc.

Table 6: International Sukuk Issuances - Selected Value Leaders (2018, USD 150 Millions or >, Tenor > 1 Year)

Issue Year	Issuer	Number of Issues	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)
2018	Turkish Ministry of Finance	1	Turkey	EURO	Sovereign	Sukuk Al Ijarah	622	2
2018	Senaat Investment Holding Company	1	United Arab Emirates	USD	Corporate	Sukuk Al Murabahah	300	7
2018	Islamic Development Bank (ISDB)	1	Saudi Arabia	EURO	Quasi-Sovereign	Sukuk Al Wakalah	738	5
2018	NMC Healthcare	1	United Arab Emirates	USD	Corporate	Sukuk Al Murabahah	400	5
2018	Tenaga Nasional Berhad	1	Malaysia	USD	Corporate	Hybrid Sukuk -Wakalah /Murabahah	750	10
2018	Islamic Development Bank (ISDB)	1	Saudi Arabia	USD	FIs	Sukuk Al Wakalah	471	5
2018	Ministry of Finance Oman	1	Oman	USD	Sovereign	Sukuk Al Mudarabah /Wakalah	1,500	7
2018	Tabreed Sukuk	1	United Arab Emirates	USD	Corporate	Sukuk Al Ijarah	500	7
2018	Abu Dhabi Islamic Bank (ADIB)	1	United Arab Emirates	USD	FIs	Sukuk Al Mudharabah	750	Perpetual
2018	Aldar Properties	1	United Arab Emirates	USD	Corporate	Hybrid Sukuk -Wakalah /Murabahah	500	7
2018	Saudi Electricity Company	2	Saudi Arabia	USD	Quasi-Sovereign	Sukuk Al Ijarah	2,000	8
2018	Al Hilal Bank	1	United Arab Emirates	USD	FIs	Hybrid Sukuk -Wakalah/Murabahah	500	5
2018	Islamic Development Bank (ISDB)	2	Saudi Arabia	USD	Quasi-Sovereign	Sukuk Al Wakalah	2,550	5
2018	Dubai DP World	1	United Arab Emirates	USD	Quasi-Sovereign	Sukuk Al Mudharabah	1,000	10
2018	Ministry of Finance Saudi Arabia	1	Saudi Arabia	USD	Sovereign	Hybrid Sukuk -Murabahah/ Mudharabah	2,000	10
2018	DAMAC Real Estate Development Limited	1	United Arab Emirates	USD	Corporate	Hybrid Sukuk -Ijarah/Murabahah	400	5

Table Continued on next page.

2018	Government of Bahrain	1	Bahrain	USD	Sovereign	Sukuk Al Ijarah	1,000	7
2018	Emirates Airline	1	United Arab Emirates	USD	Corporate	Sukuk Al Ijarah	600	10
2018	Dar Al Arkan Real Estate Development	1	Saudi Arabia	USD	Corporate	Hybrid Sukuk -Ijarah/Murabahah	500	5
2018	Government of Sharjah	1	United Arab Emirates	USD	Sovereign	Hybrid Sukuk	1,000	10
2018	First Abu Dhabi Bank	1	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	650	5
2018	Government of Indonesia	2	Indonesia	USD	Sovereign	Sukuk Al Wakalah	3000	8
2018	Dubai Islamic Bank	1	United Arab Emirates	USD	Fls	Sukuk Al Ijarah	1,000	60
2018	Albaraka Turk	1	Turkey	USD	Fls	Sukuk Al Mudharabah	205	Perpetual
2018	Al Rayan Bank	1	United Kingdom	GBP	Fls	Hybrid Sukuk -Ijarah/Musharakah	351	3
2018	Khazanah Nasional Berhad	1	Malaysia	USD	Quasi -Sovereign	Sukuk Al Wakalah	321	5

Source: IIFM Sukuk database

## 1.8 Anatomy of Domestic Sukuk Issuances

The domestic market forms around 80.5% of the entire Sukuk market. The domestic market consists of longer tenor as well as short term Sukuk denominated in over 26 different currencies where Governments of Morocco and Mali are the new entrants in 2018. Malaysia has continued its domination with market share of 71.34% of the total domestic Sukuk market for 2001 to 2018 period though it has lost around 2% of market share if compared with 2001 to 2017 period. The other major jurisdictions for domestic issuances in 2018 were Saudi Arabia, Bahrain, Indonesia, Brunei, Qatar and Turkey.

There is a rise in domestic Sukuk issuance in countries other than Malaysia and jurisdictions like Indonesia, Saudi Arabia, Turkey are playing an active role in issuance for liquidity management, project financing, meeting budgetary requirements and other purposes. Indonesia continued to issue large size domestic Sukuk for retail investors and this model is being looked at by several other countries including Bahrain.

Table 7A below a regional break-up of the domestic Sukuk issuance since inception:

Table 7A: Regional Break-up of Domestic Issuances Jan 2001 - Dec 2018

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.004%
Brunei Darussalam	161	10,257	1.21%
Indonesia	388	62,889	7.40%
Malaysia	6,248	606,468	71.34%
Maldives	2	10	0.00%
Pakistan	85	12,523	1.47%
Singapore	12	788	0.09%
Sri Lanka	2	5	0.001%
<b>Total</b>	<b>6,902</b>	<b>692,976</b>	<b>81.52%</b>

Table Continued on next page.

GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	313	19,453	2.29%
Jordan	4	483	0.06%
Kuwait	1	332	0.04%
Oman	5	1,070	0.13%
Qatar	22	16,816	1.98%
Saudi Arabia	110	70,492	8.29%
United Arab Emirates	15	8,324	0.98%
Yemen	2	253	0.03%
<b>Total</b>	<b>472</b>	<b>117,223</b>	<b>13.79%</b>
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	321	383	0.05%
Ivory Coast	2	460	0.05%
Nigeria	4	714	0.08%
Mali	1	285	0.03%
Morocco	1	105	0.01%
Senegal	2	445	0.05%
Sudan	35	19,516	2.30%
Togo	1	245	0.03%
<b>Total</b>	<b>367</b>	<b>22,152</b>	<b>2.61%</b>
Europe & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	348	17,711	2.08%
<b>Total</b>	<b>348</b>	<b>17,711</b>	<b>2.08%</b>
<b>Grand Total</b>	<b>8,089</b>	<b>850,062</b>	<b>100%</b>

Source: IIFM Sukuk database

Table 7B below shows a regional break-up of the domestic Sukuk issuance during 2018:

Table 7B: Regional Break-up of Domestic Issuances Jan 2018 - Dec 2018

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Brunei Darussalam	12	675	0.75%
Indonesia	159	13,576	15.06%
Malaysia	627	48,636	53.94%
Maldives	1	6	0.01%
Pakistan	6	192	0.21%
Sri Lanka	1	2	0.00%
<b>Total</b>	<b>806</b>	<b>63,087</b>	<b>69.97%</b>

Table Continued on next page.

GCC & MIDDLE EAST			
	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	22	2,163	2.40%
Jordan	1	212	0.23%
Oman	1	130	0.14%
Qatar	6	2,399	2.66%
Saudi Arabia	38	14,243	15.80%
United Arab Emirates	1	73	0.08%
<b>Total</b>	<b>69</b>	<b>19,219</b>	<b>21.32%</b>
AFRICA			
	Number of Issues	Amount USD Millions	% of Total Value
Gambia	111	247	0.27%
Nigeria	1	270	0.30%
Mali	1	285	0.32%
Morocco	1	105	0.12%
Sudan	6	87	0.10%
<b>Total</b>	<b>120</b>	<b>994</b>	<b>1.10%</b>
Europe & OTHERS			
	Number of Issues	Amount USD Millions	% of Total Value
Turkey	187	6,862	7.61%
<b>Total</b>	<b>187</b>	<b>6,862</b>	<b>7.61%</b>
<b>Grand Total</b>	<b>1,182</b>	<b>90,162</b>	<b>100%</b>

Source: IIFM Sukuk database

As mentioned before, the domestic market comprised of longer tenor as well as short term issuances of 12 months and under. In the year 2018, the selected domestic value leaders given in Table 7C below, are from Malaysia, Indonesia, Saudi Arabia and Turkey.

Table 7C: Domestic Sukuk Issuances - Selected Value Leaders (2018, USD 200 Millions or >, Tenor > 1 Year)

Issue Year	Issuer	Number of Issues	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)
2018	Government of Malaysia	19	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	16,009	12
2018	Ministry of Treasury and Finance of Turkey	4	Turkey	TRY	Sovereign	Sukuk Al Ijarah	1,923.20	2
2018	DanaInfra Nasional Berhad	4	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	1,084	13
2018	Government of Indonesia	8	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	2,665	3
2018	Sarawak Energy Berhad	1	Malaysia	MYR	Corporate	Sukuk Al Musharakah	243	15
2018	Ministry of Finance Saudi Arabia	19	Saudi Arabia	SAR	Sovereign	Hybrid Sukuk -Murabahah/ Mudharabah	11,447	6
2018	Lembaga Pembiayaan Perumahan Sektor Awam	4	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	1,071	11
2018	Federal Government of Nigeria	1	Nigeria	NGN	Sovereign	Sukuk Al Ijarah	270	7
2018	Lontar Papyrus Pulp & Paper Industry	1	Indonesia	IDR	Corporate	Sukuk Al Mudharabah	497	5

Table Continued on next page.

2018	XL Axiata	1	Indonesia	IDR	Corporate	Sukuk Al Ijarah	401	2
2018	Central Bank of Qatar	5	Qatar	QAR	Sovereign	Sukuk Al Wakalah	2,210	5
2018	Tenaga Nasional Berhad	2	Malaysia	MYR	Corporate	Sukuk Al Wakalah	730	18
2018	Central Bank of Jordan	1	Jordan	JOD	Sovereign	Sukuk Al Murabahah	212	5
2018	Yinson TMC SDN BHD	1	Malaysia	MYR	Corporate	Sukuk Al Mudharabah	231	100
2018	Prasarana Malaysia Berhad	1	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	292	25
2018	Fortune Premiere Sdn Bhd	1	Malaysia	MYR	Corporate	Sukuk Al Murabahah	219	7
2018	Medco Power Indonesia	1	Indonesia	IDR	Corporate	Sukuk Al Wakalah	426	7
2018	Cagamas Berhad	2	Malaysia	MYR	Corporate	Hybrid Sukuk	608	4
2018	MKD Kencana Sdn Bhd	1	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	207	5
2018	UMW Holdings Berhad	1	Malaysia	MYR	Corporate	Sukuk Al Musharakah	268	100
2018	Central Bank of Gambia	1	Gambia	GMD	Sovereign	Sukuk Al Salam	220	1
2018	MMC Corporation Berhad	1	Malaysia	MYR	Corporate	Sukuk Al Murabahah	243	10
2018	Danga Capital Berhad	2	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Musharakah	852	15
2018	Saudi Arabian Mining Company (MA'ADEN)	1	Saudi Arabia	SAR	Quasi-Sovereign	Hybrid Sukuk -Murabahah/ Mudharabah	945	7
2018	Government of Mali	1	Mali	CFA	Sovereign	Sukuk Al Ijarah	285	7
2018	Central Bank of Bahrain	1	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	266	3

Source: IIFM Sukuk database

## 1.9 Structural Break-up of Global Sukuk Market

In terms of Sukuk structure, characteristics and participants, there is a difference between international and domestic Sukuk markets hence the requirement and popularity of various Sukuk financing structures also differs between the two markets.

As far as the international Sukuk market is concerned, Sukuk Al Wakalah, is most used structure since 2015. Chart 4A on the next page shows the share of Wakalah among Sukuk issuances made up around 50.77% during 2010-2016 period. The share of Sukuk Al Ijarah continue to decline, as mentioned in the last Sukuk report, though in 2018 its share improved to 17% as compared to 12% in 2017

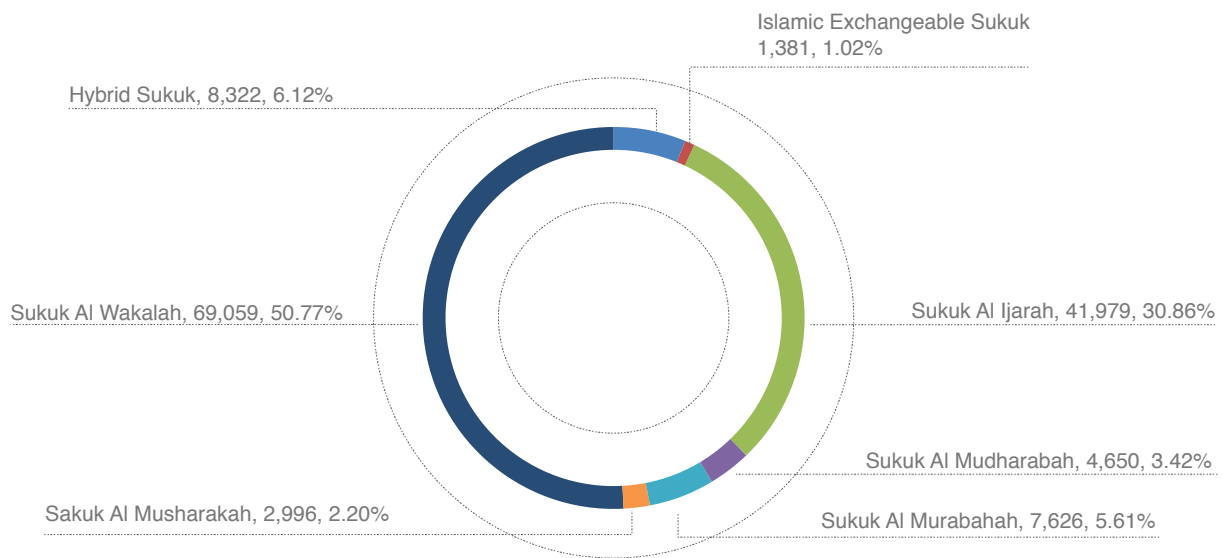
2015 is the year when the sudden & major shift from Ijarah to Wakalah model took place and this continued in 2018 where Sukuk Al Wakalah share stood at USD 16.57 billion (50%) of the total international issuances. In 2017 the Issuance by Saudi Arabia's 9.00 billion Sukuk led to the introduction of new hybrid structure consisting of Mudharabah and Murabahah and in 2018 the share of this structure in case of international Sukuk issuance dropped to 6% as compared to 24% of total Sukuk issuances achieved last year.

In terms of structure the Sukuk Al Wakalah is generally combination of Ijarah with Murabahah and is like a hybrid structure. The Sukuk Al Wakalah provides flexibility in structuring and the issue of shortage of available assets is reduced.

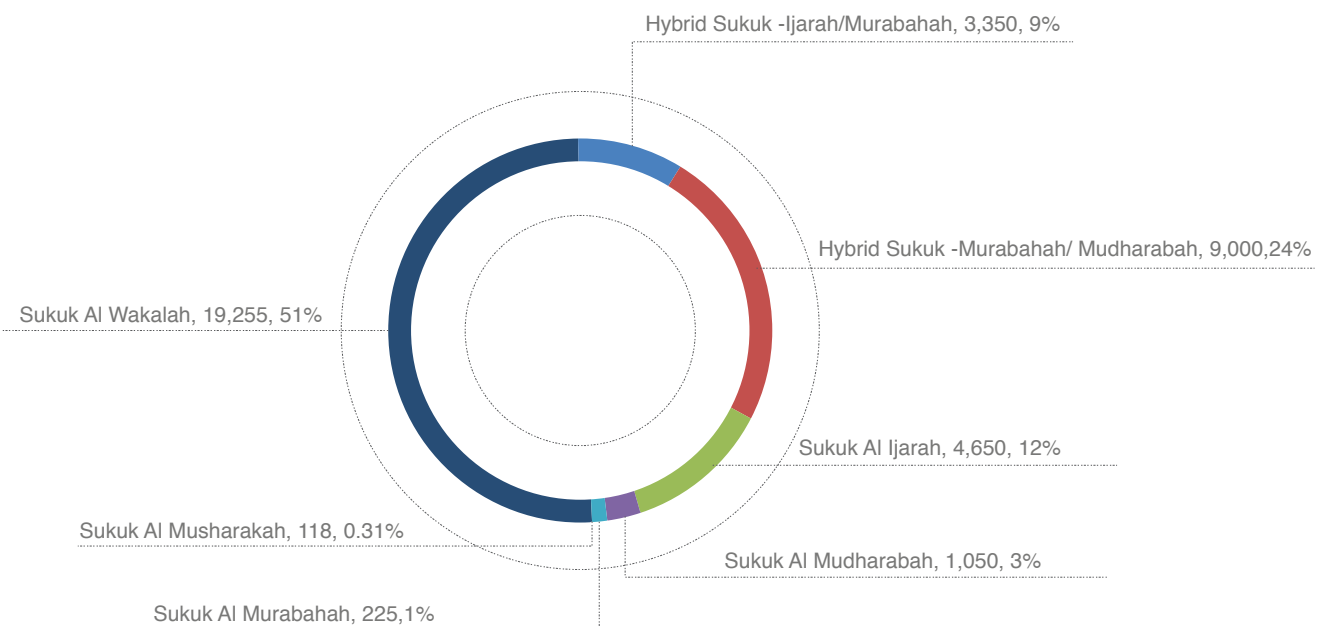
From the industry’s development point of view over reliance on one structure needs to be collectively assessed by the industry.

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

International Sukuk Issuances Jan 2010- Dec 2016

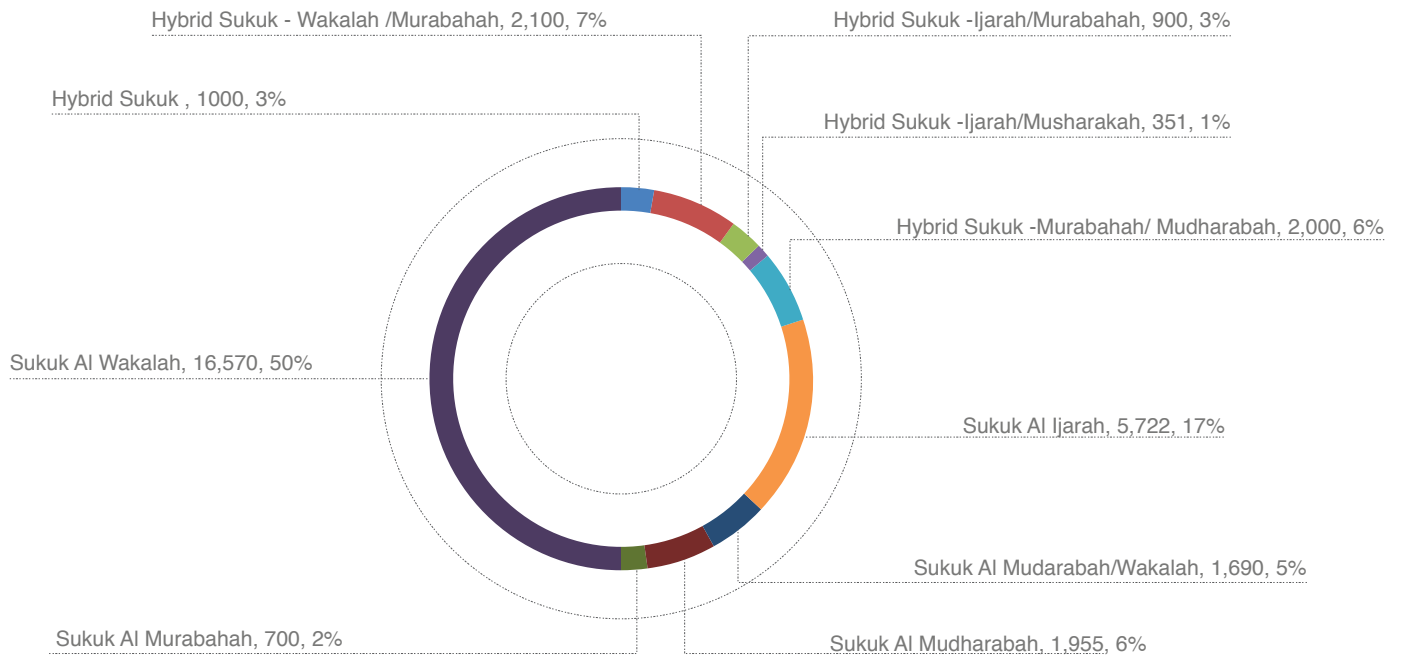


International Sukuk Issuances Jan 2017- Dec 2017





## International Sukuk Issuances Jan 2018- Dec 2018

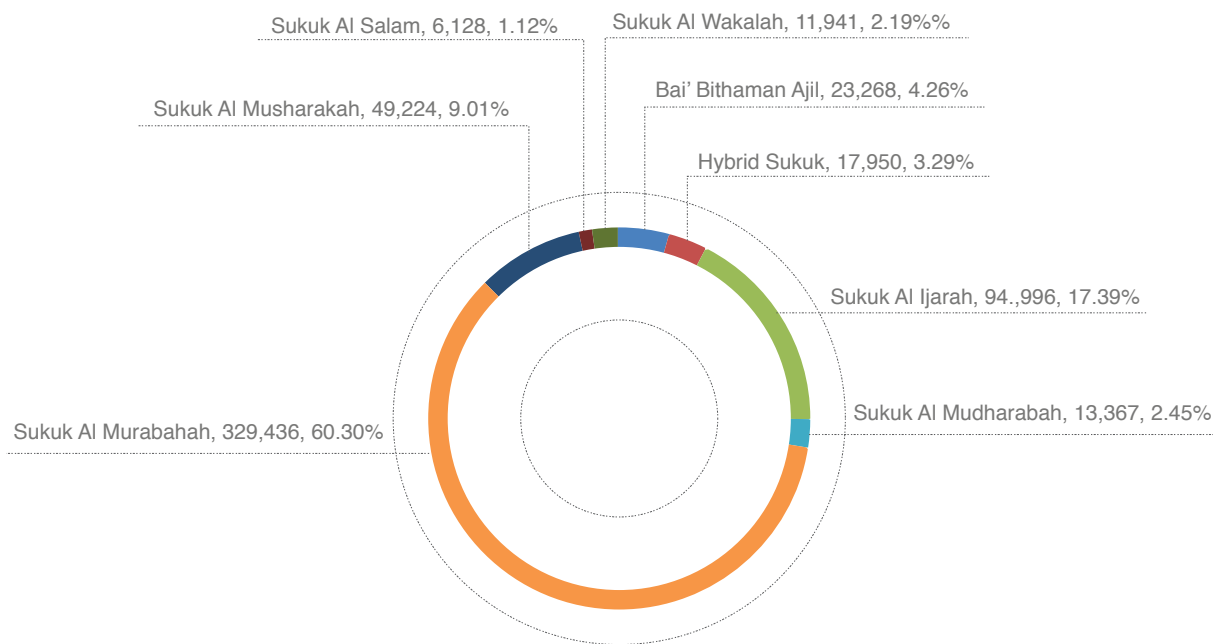


In the domestic market, as shown in chart 4B on the next page, Sukuk AI Murabahah has historically been and continues to be the most dominant structure for Sukuk issuance even in 2017 where around USD 23.6 billion or 30% of total domestic issuances were based on the Murabahah structure. As the case in International Sukuk issuance a new hybrid Sukuk – Murabahah & Mudarabah was added by Saudi Arabia and due to large issuances the share in 2017 works out to be USD 14.2 billion or 24%.

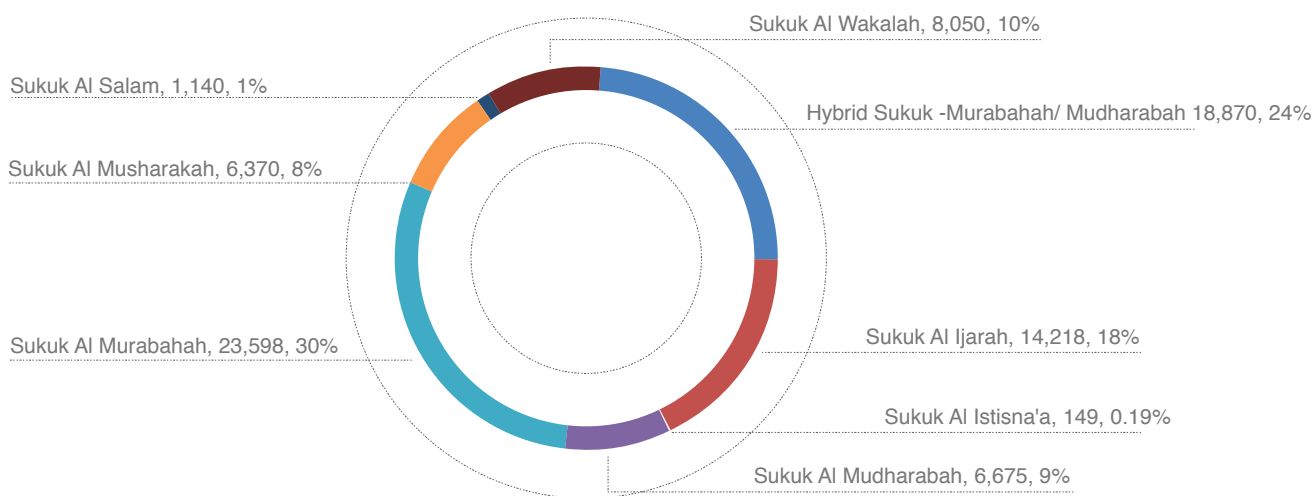
In 2018 Ijarah, Mudharabah and Wakalah is also part of the structural mix which is desirable from the diversity point of view.

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

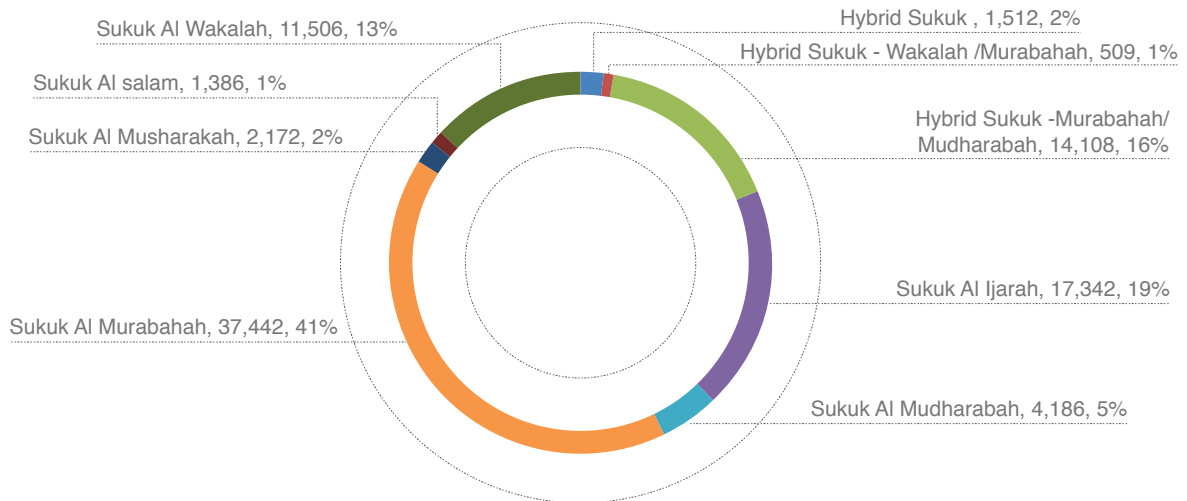
DOMESTIC SUKUK ISSUANCES Jan 2010-Dec 2016



DOMESTIC SUKUK ISSUANCES Jan 2017-Dec 2017



DOMESTIC SUKUK ISSUANCES Jan 2018-Dec 2018



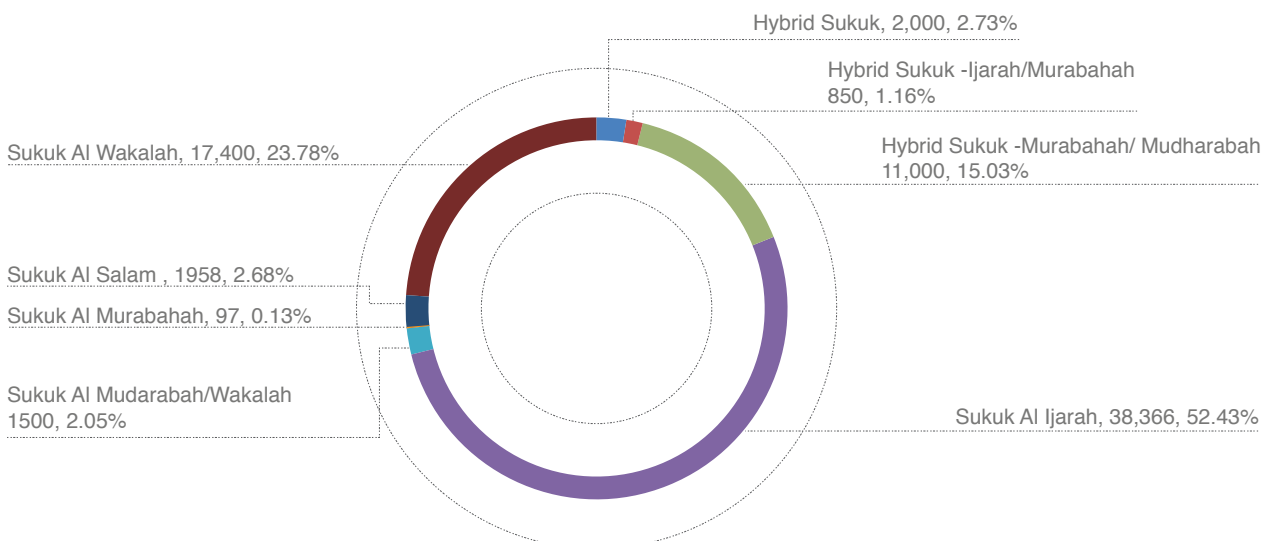
Source: IIFM Sukuk database

Chart 4C below shows the structural distribution of international Sukuk issuance by the type of issuer, i.e., sovereign, quasi-sovereign, corporate and FIs issuers for the entire period Jan 2001-2018. On an overall basis, it seems that Sukuk Al Ijarah was historically been the favorite structure of international issuers. However, in recent years, Wakalah and Ijarah are the two most preferred structures by most of the issuers except quasi sovereign where Sukuk Al Wakalah share increased to 92% followed by Sukuk Al Mudhrabaha share of 8%.

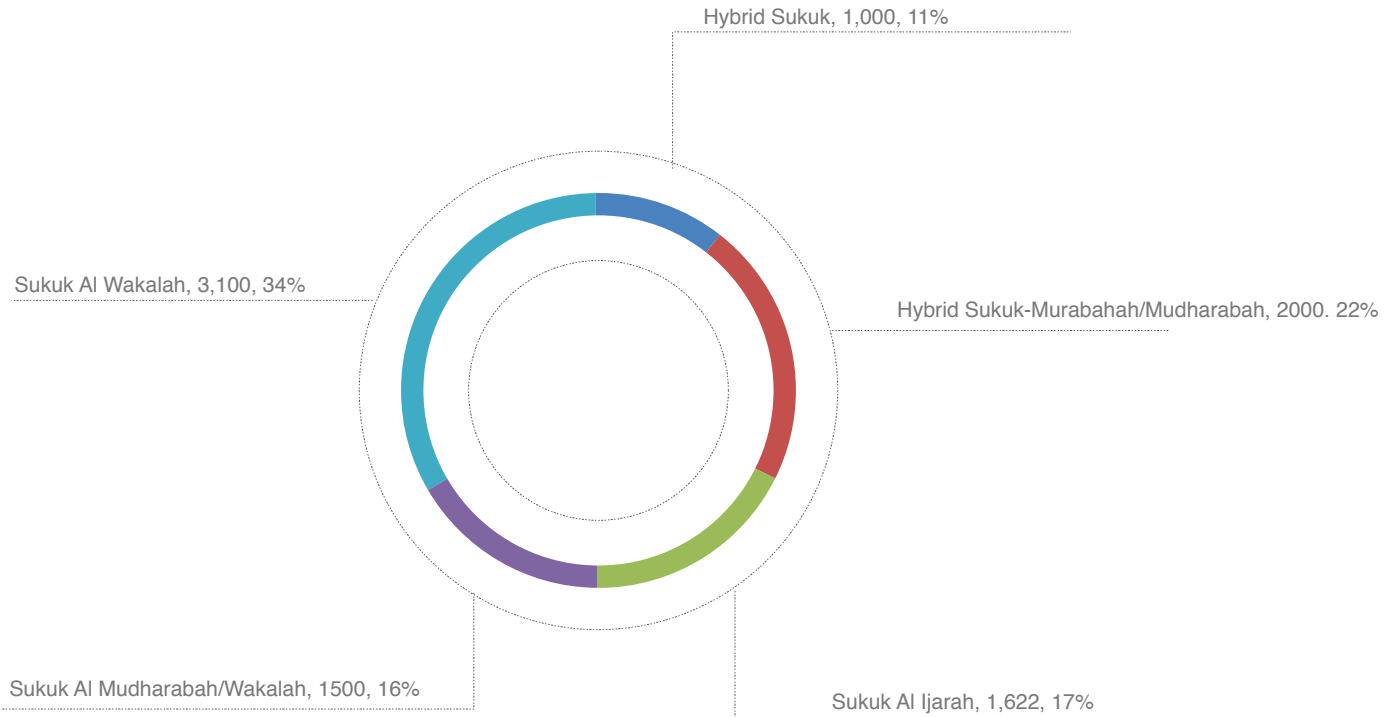
Islamic Exchangeable Sukuk is an other innovative structure and Khazanah Nasional of Malaysia has taken lead in issuing this type of Sukuk including in 2018 and perhaps this model need to be replicated by issuers in other jurisdictions also.

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

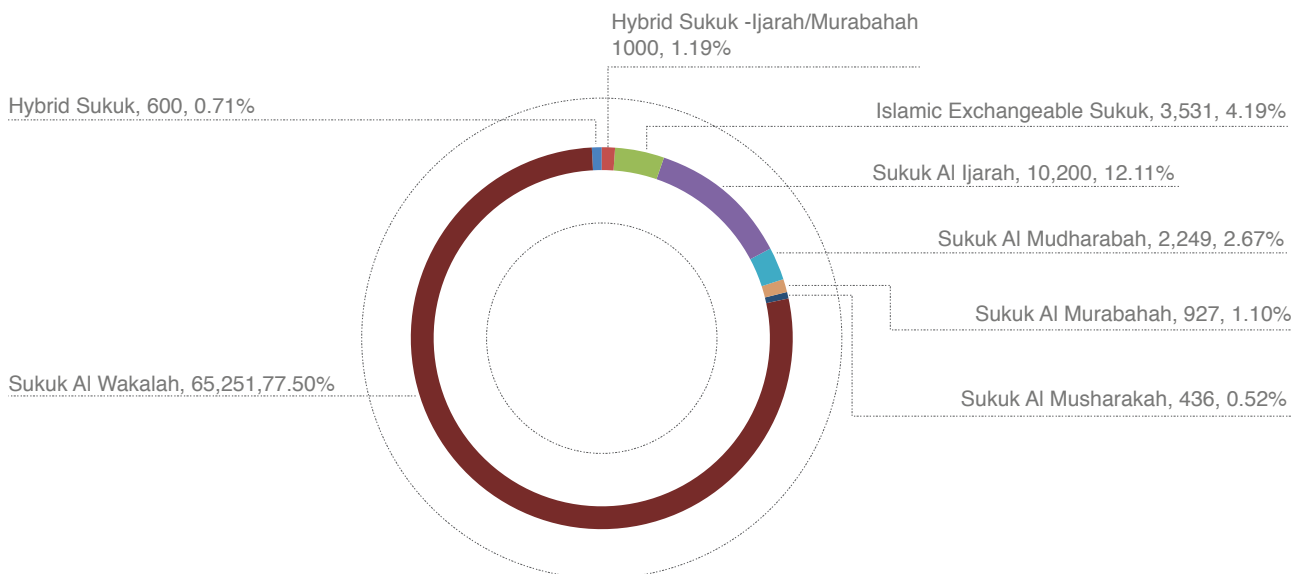
Sovereign Sukuk Issuances Jan 2001-Dec 2018



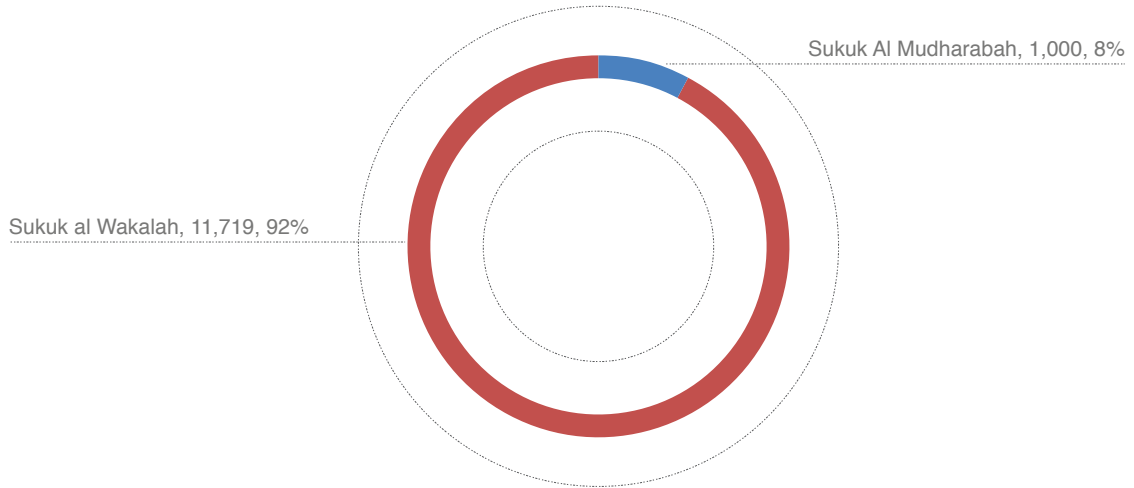
Sovereign Sukuk Issuances Jan 2018-Dec 2018



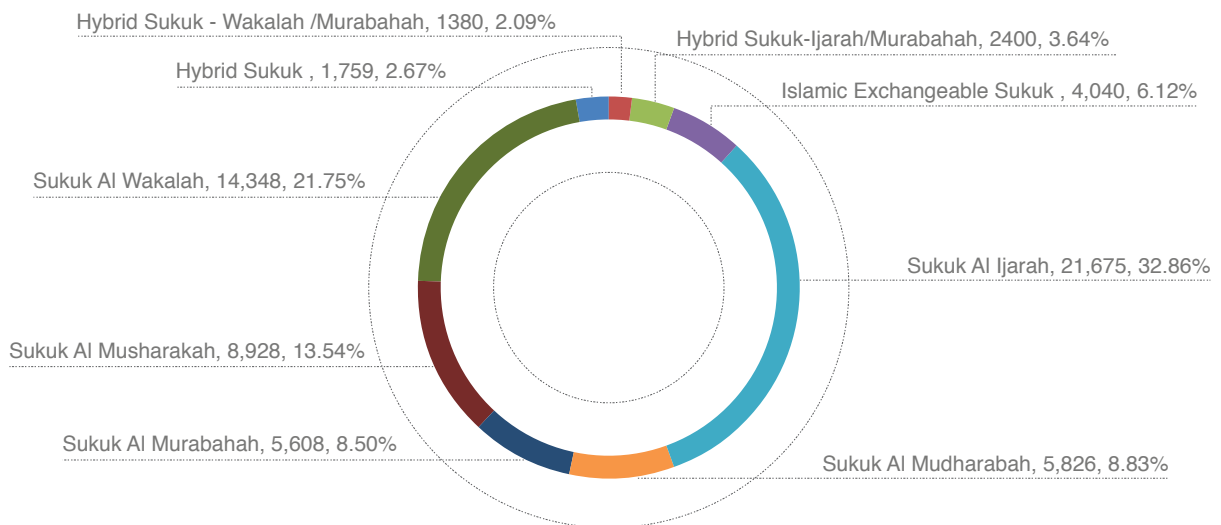
Quasi-Sovereign Sukuk Issuances Jan 2001-Dec 2018



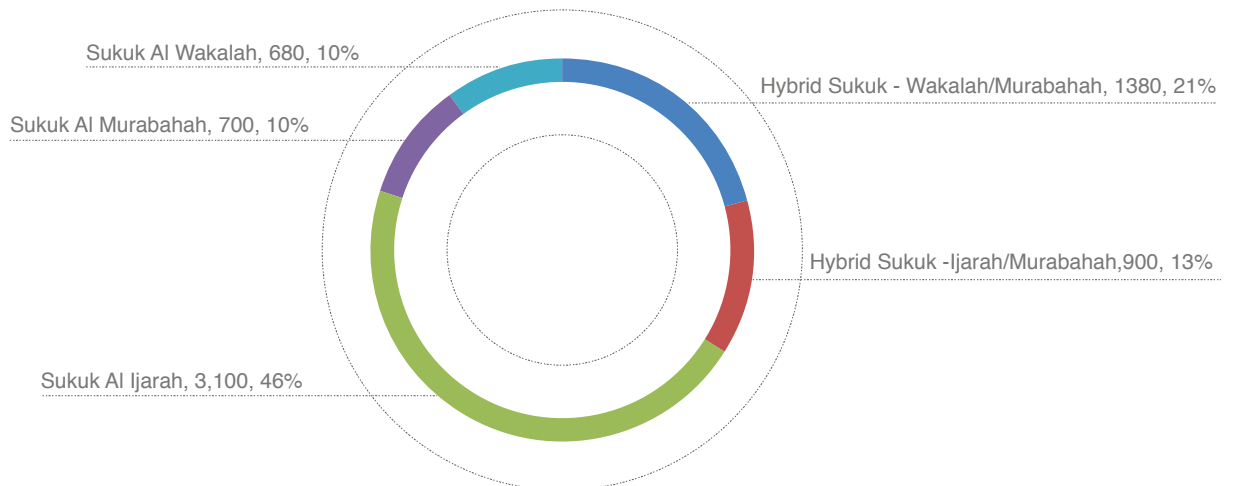
Quasi-Sovereign Sukuk Issuances Jan 2018-Dec 2018



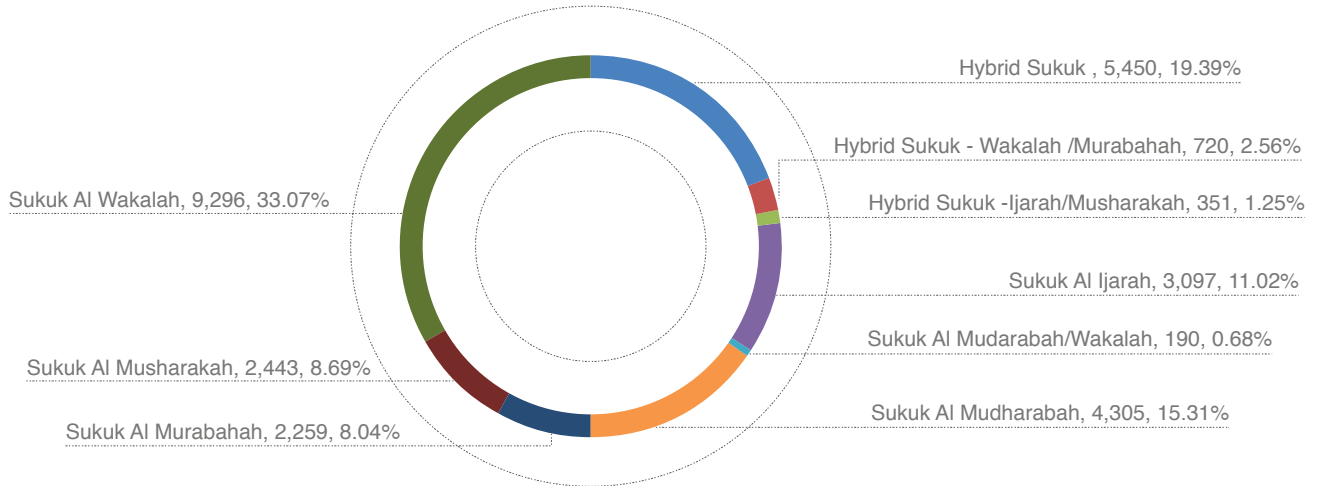
Corporate Sukuk Issuances Jan 2001-Dec 2018



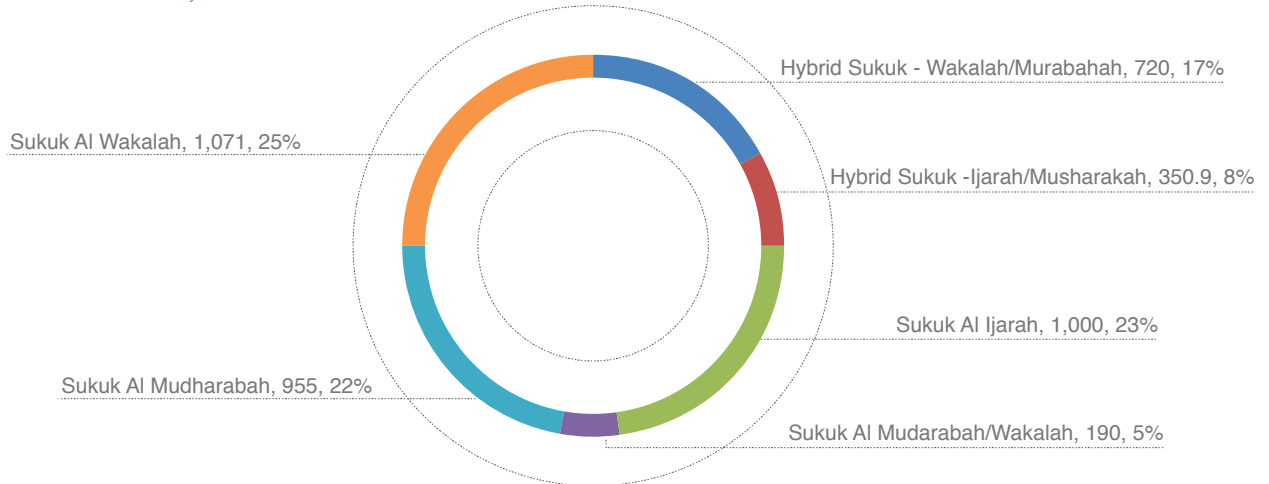
Corporate Sukuk Issuances Jan 2018-Dec 2018



Fls Sukuk Issuances Jan 2001-Dec 2018



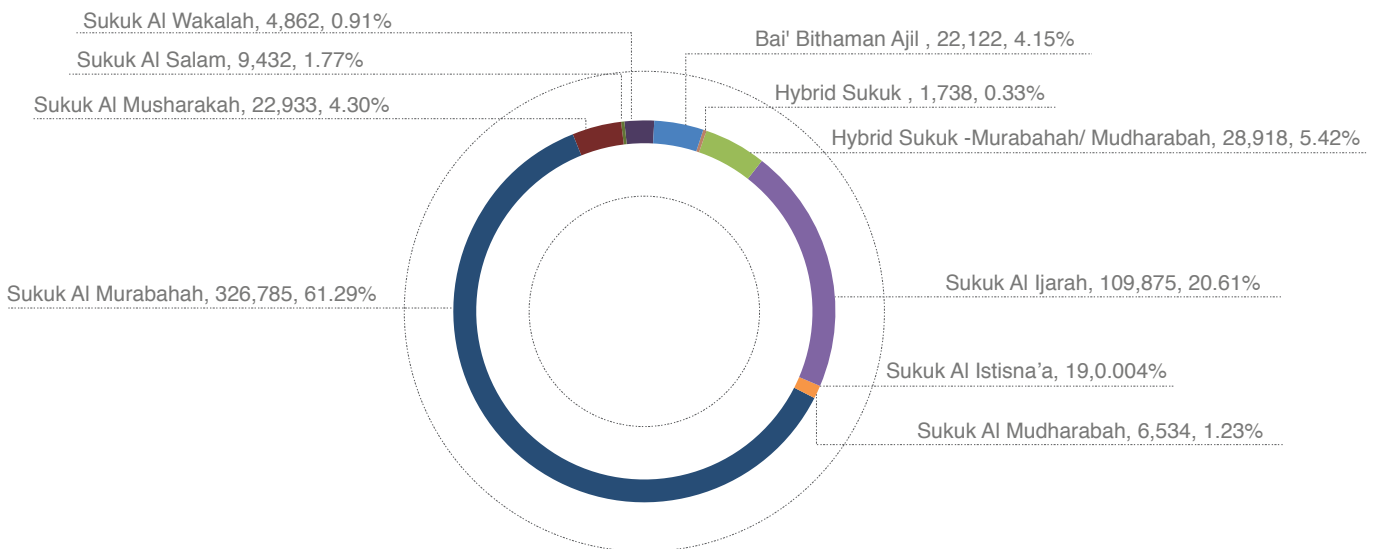
Fls Sukuk Wakalah Issuances Jan 2001-Dec 2018



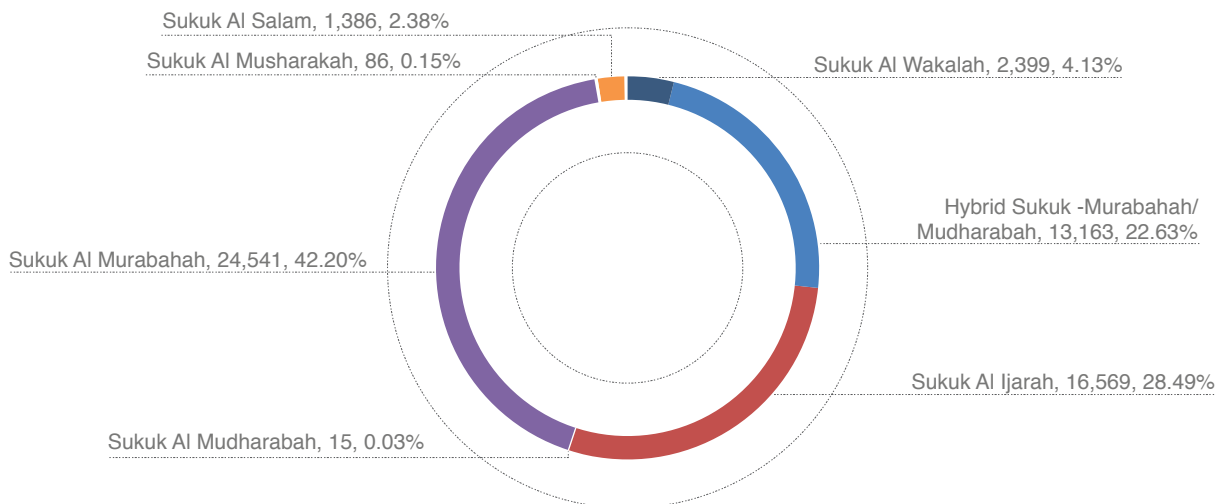
Similarly, as depicted in Chart 4D below, in the domestic market, on a historical basis, Murabahah has been the most favoured structure with all the issuers namely sovereign, quasi-sovereign, corporate and FIs. The quasi-sovereign, corporate, & FIs issuers in domestic markets also use Musharakah, Mudharabah, Ijarah, & Wakalah quite extensively while sovereign issuers tend to use Murabahah more than any other structure perhaps due to structuring ease and credit intensiveness of Sukuk Al Murabahah. Saudi Arabia is the only jurisdiction where sovereign has used the Hybrid Sukuk – Mudarabah & Murabahah.

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

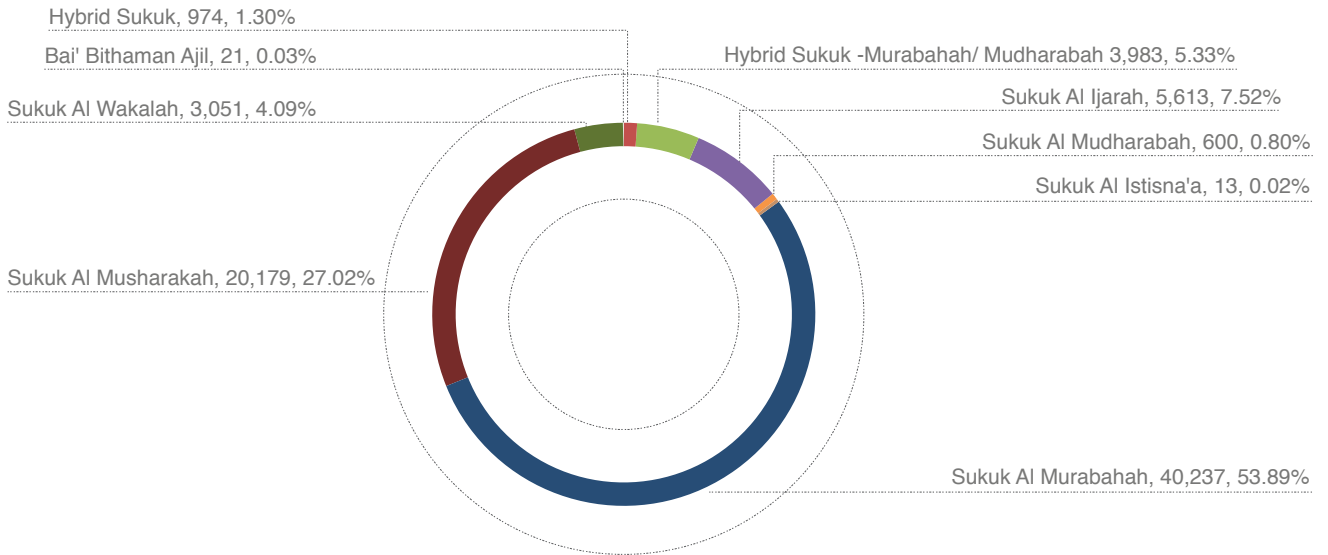
Sovereign Sukuk Issuances Jan 2001-Dec 2018



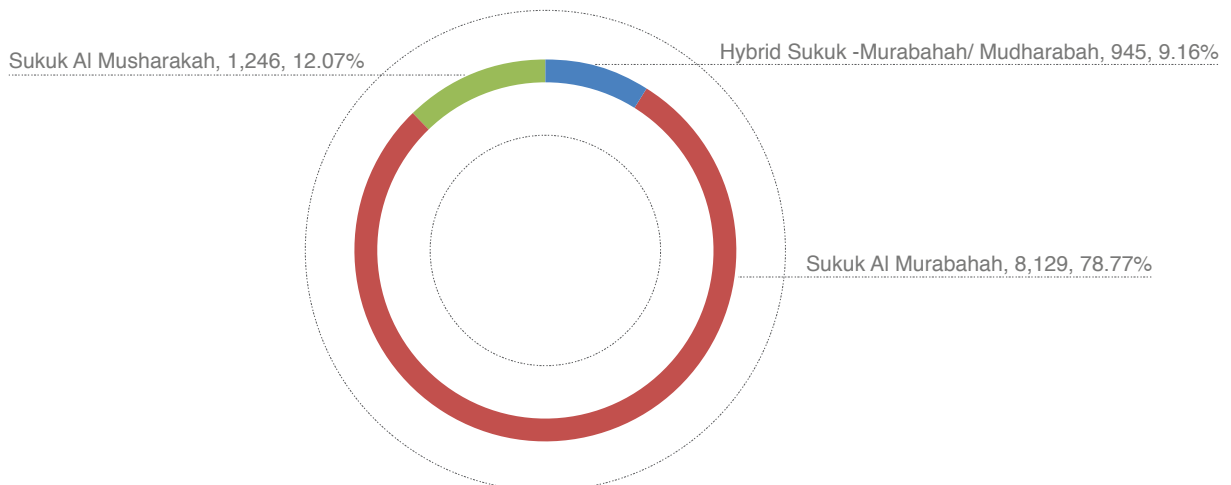
Sovereign Sukuk Issuances Jan 2018-Dec 2018



Quasi-Sovereign Sukuk Issuances Jan 2001-Dec 2018

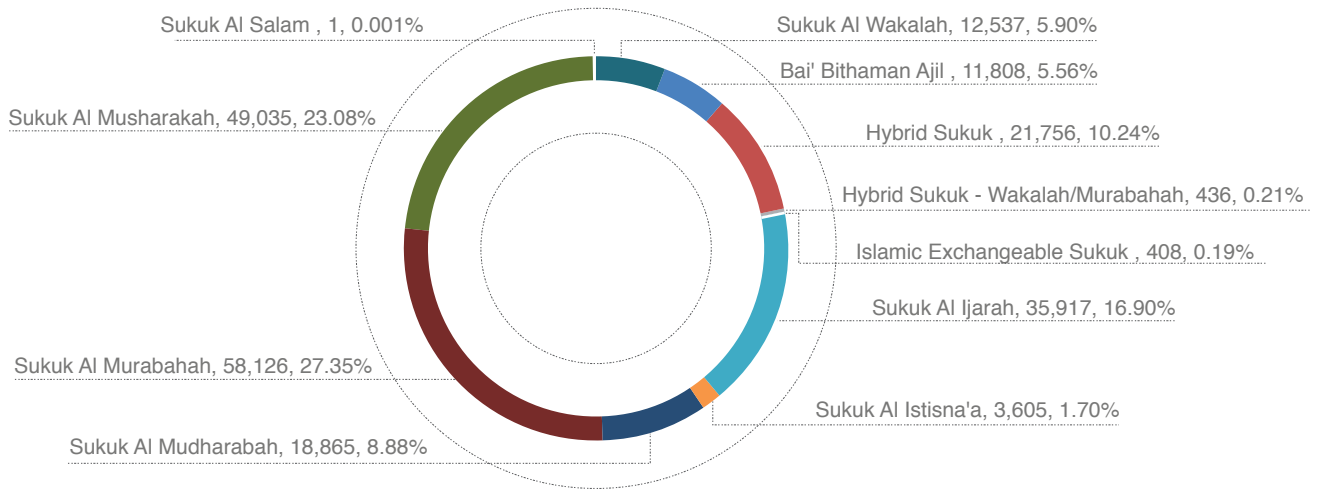


Quasi-Sovereign Sukuk Issuances Jan 2018-Dec 2018

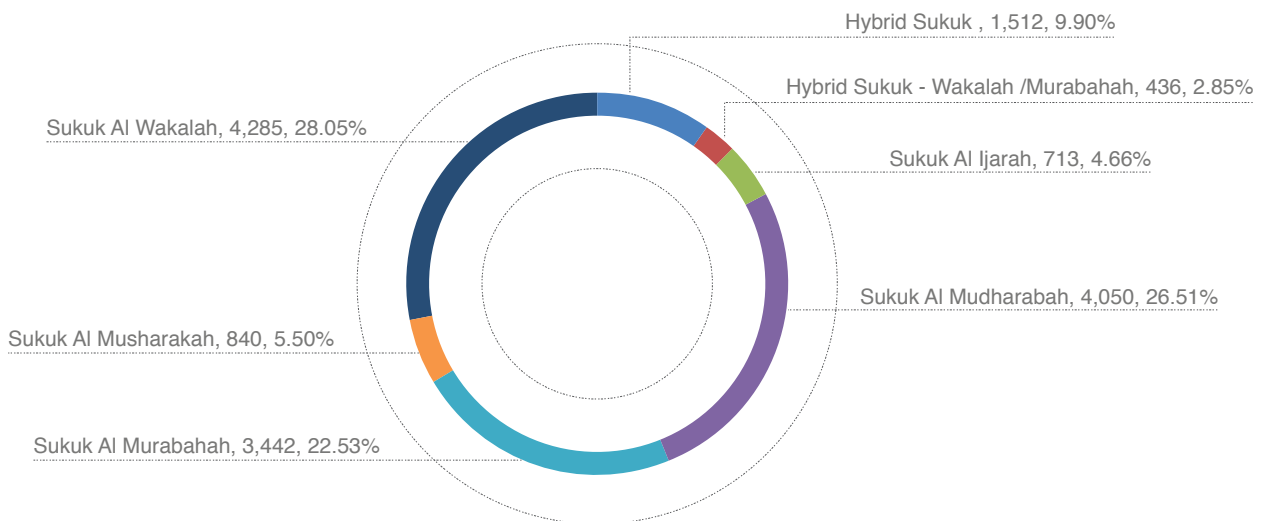




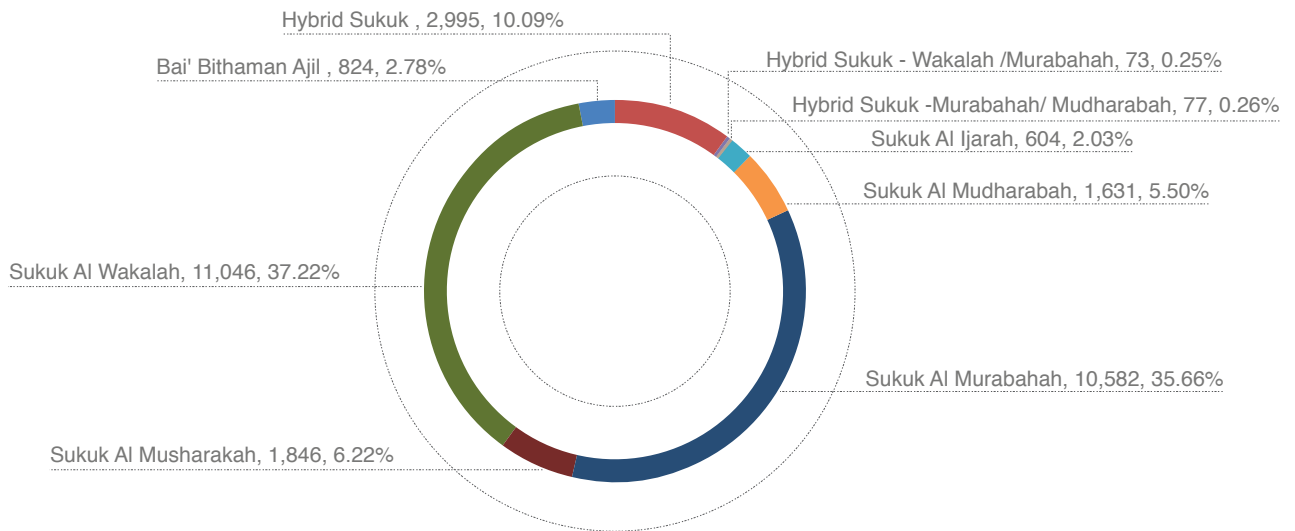
Corporate Sukuk Issuances Jan 2001-Dec 2018



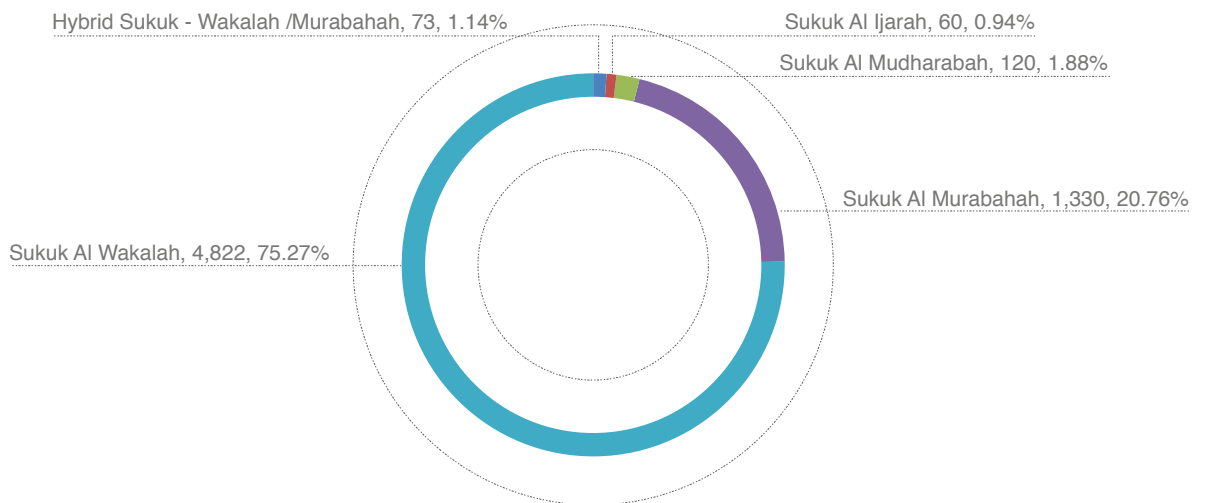
Corporate Sukuk Issuances Jan 2018-Dec 2018



Fls Sukuk Issuances Jan 2001-Dec 2018



Fls Sukuk Issuances Jan 2018-Dec 2018



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 69.98% of global Sukuk issuances since inception of the market. The regional market shares are depicted in Chart 8 below. GCC is the second largest destination of Sukuk issuance with market share 24.19% and it continues to be one of the key region driving the Sukuk market.

Among the jurisdictions Malaysia is a market leader and a dominant player in terms of issuances with market share of 60.84% as of 2018. Other jurisdictions in order of their approximate share in the global market are the UAE (7.21%), Saudi Arabia (10.7%), Indonesia (7.22%), Bahrain (2.8%), Qatar (2.6%) and Turkey (2.49%). The number of jurisdictions who are directly or indirectly issuing Sukuk are increasing year-over-year which in turn is keeping the Sukuk market progressive.

Table 8: Regional Break-up of Global Issuances Jan 2001 -Dec 2018

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.003%
Brunei Darussalam	161	10,257	0.003%
China	1	97	0.01%
Hong Kong	5	3,196	0.29%
Indonesia	406	79,492	7.22%
Japan	3	190	0.02%
Malaysia	6,355	670,121	60.84%
Maldives	2	10	0.001%
Pakistan	89	16,123	1.46%
Singapore	16	1,498	0.14%
Sri Lanka	2	5	0.00%
<b>Total</b>	<b>7,044</b>	<b>781,026</b>	<b>69.98%</b>
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	415	30,883	2.80%
Jordan	4	483	0.04%
Kuwait	18	3,658	0.33%
Oman	10	5,290	0.48%
Qatar	40	28,661	2.60%
Saudi Arabia	169	117,816	10.70%
United Arab Emirates	124	79,378	7.21%
Yemen	2	253	0.02%
<b>Total</b>	<b>782</b>	<b>266,422</b>	<b>24.19%</b>

Table Continued on next page.

AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	321	383	0.03%
Ivory Coast	2	460	0.04%
Nigeria	5	864	0.08%
Mali	1	285	0.03%
Morocco	1	105	0.01%
South Africa	1	500	0.05%
Senegal	2	445	0.04%
Sudan	36	19,646	1.78%
Togo	1	245	0.02%
<b>Total</b>	<b>370</b>	<b>22,932</b>	<b>2.08%</b>
Europe & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
France	1	1	0.0001%
Germany	3	206	0.02%
Luxembourg	3	280	0.03%
Kazakhstan	1	77	0.01%
Turkey	372	27,472	2.49%
United Kingdom	10	1,719	0.16%
USA	5	1,367	0.12%
<b>Total</b>	<b>395</b>	<b>31,122</b>	<b>2.49%</b>
<b>Grand Total</b>	<b>8,591</b>	<b>1,101,502</b>	<b>100%</b>

Source: IIFM Sukuk database

Chart 5A below shows a currency-wise break-up of the overall global Sukuk market. Malaysian Ringgit is the dominant currency as the Malaysian market is mostly local currency based. Sukuk issuance denominated in USD are 21.86% of the entire global Sukuk market. It is heartening to see that Sukuk have been issued in 26 different currencies apart from USD and the Malaysian Ringgit (total around 26 currencies). As more and more sovereigns step up to provide liquidity in their local markets, we can clearly see the significance of GCC, Indonesia, Turkey, Pakistan and other Asian currencies rising over time.

Chart 5A: GLOBAL SUKUK ISSUANCES CURRENCY BREAK-UP - ALL TENORS (JAN 2001- DEC 2018, USD MILLIONS)

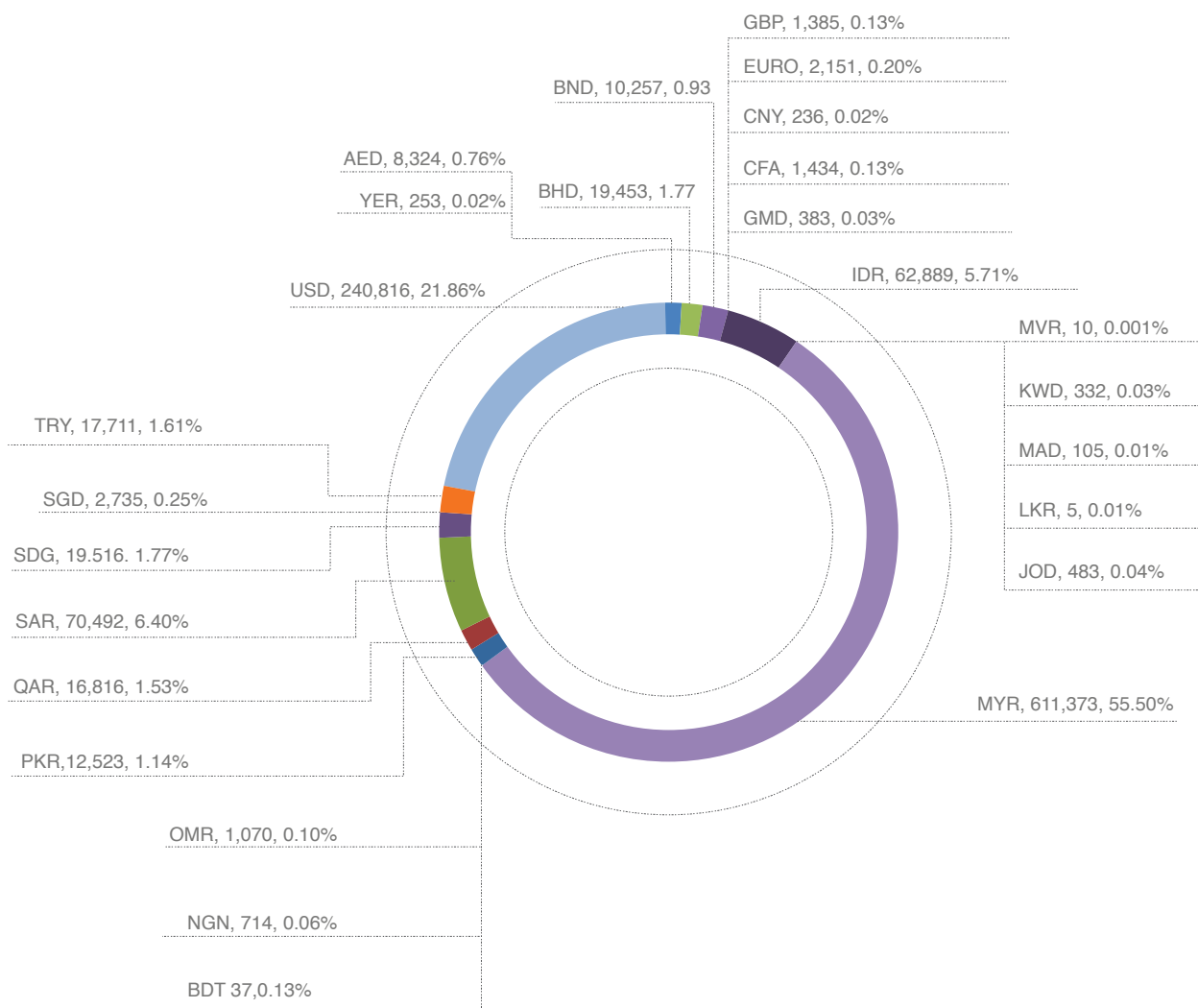
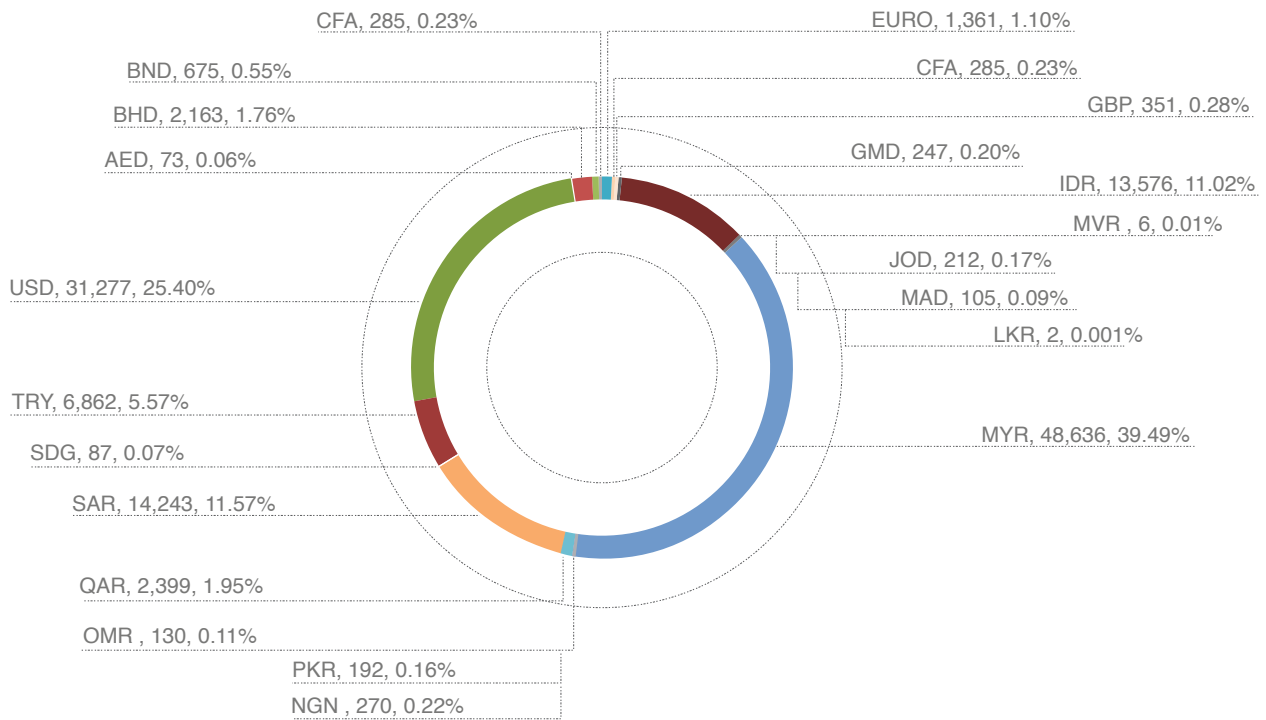


Chart 5B: GLOBAL SUKUK ISSUANCES CURRENCY BREAK-UP - ALL TENORS  
(JAN 2018- DEC 2018, USD MILLIONS)



Source: IIFM Sukuk database

## 1.11 Sukuk Maturities 2018 through 2020

This section provides a snapshot of Sukuk matured in the year 2018 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 maturity picture in the international market. The Sukuk maturity in 2018 works out to be USD 17.84 billion, redemptions in 2019 and 2020 will also be quite sizeable at USD 15.37 billion and USD 10.50 billion respectively. In 2018, the biggest individual Sukuk maturity comes from IsDB USD 1 billion, Abu Dhabi Islamic Bank USD 1 billion, Government of Turkey 2.75 billion, Government of Qatar 2 billion, Government of Bahrain 1 billion and Government of Indonesia 1 billion.

TABLE 9A: International Sukuk Matured 2018, Amount  $\geq$  USD 100 Million

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2016	Al Hilal Bank Sukuk Company LTD	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	225	3	13-Dec-18
2015	International Finance Facility for Immunisation (IFFIm)	United Kingdom	USD	Quasi -Sovereign	Sukuk Al Murabahah	200	3	17-Sep-18
2013	Aldar Properties	United Arab Emirates	USD	Corporate	Sukuk Al Ijarah	750	5	3-Dec-18
2013	Ooredoo Q.S.C	Qatar	USD	Corporate	Sukuk Al Murabahah	1,250	5	3-Dec-18
2013	Dar Al Arkan Real Estate Development	Saudi Arabia	USD	Corporate	Hybrid Sukuk	300	5	25-Nov-18
2013	Majid Al Futtaim	United Arab Emirates	USD	Corporate	Sukuk Al Mudharabah	500	5	24-Oct-18
2013	Khazanah Nasional Berhad	Malaysia	SGD	Quasi -Sovereign	Islamic Exchangeable Sukuk	482	5	24-Oct-18
2013	Ras al Khaimah	United Arab Emirates	USD	Sovereign	Sukuk Al Ijarah	500	5	21-Oct-18
2013	Turkish Treasury	Turkey	USD	Sovereign	Sukuk Al Ijarah	1,250	5	10-Oct-18
2013	Al Hilal Bank	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	500	5	8-Oct-18
2013	Golden Agri-Resources	Indonesia	MYR	Corporate	Sukuk Al Murabahah	154	5	5-Aug-18
2013	Islamic Development Bank (IsDB)	Saudi Arabia	USD	Quasi -Sovereign	Sukuk Al Wakalah	1,000	5	1-Jul-18
2013	Islamic Development Bank (IsDB)	Saudi Arabia	Euro	Quasi -Sovereign	Sukuk Al Wakalah	330	5	1-Jun-18
2013	Dar Al Arkan Real Estate Development	Saudi Arabia	USD	Corporate	Hybrid Sukuk	450	5	24-May-18
2013	Based on Ownership	Turkey	USD	Corporate	Sukuk Al Ijarah	500	5	2-May-18
2013	Sharjah Islamic Bank	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	500	5	9-Apr-18
2013	Dubai Electricity and Water Authority (DEWA)	United Arab Emirates	USD	Quasi -Sovereign	Sukuk Al Ijarah	1,000	5	5-Mar-18

Table Continued on next page.

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2013	Sime Darby Berhad	Malaysia	USD	Corporate	Sukuk Al Ijarah	400	5	29-Jan-18
2013	Sime Darby Berhad	Malaysia	USD	Corporate	Sukuk Al Ijarah	400	5	24-Jan-18
2013	Sime Darby Berhad	Malaysia	USD	Corporate	Sukuk Al Ijarah	400	5	24-Jan-18
2012	Abu Dhabi Islamic Bank (ADIB)	United Arab Emirates	USD	Fls	Hybrid Sukuk	1,000	6	12-Nov-18
2012	Government of Turkey	Turkey	USD	Sovereign	Sukuk Al Ijarah	1,500	6	26-Mar-18
2012	Government of Qatar	Qatar	USD	Sovereign	Sukuk Al Ijarah	2,000	6	11-Jul-18
2012	Emirates Islamic Bank	United Arab Emirates	USD	Fls	Sukuk Al	500	6	11-Jul-18
2011	Central Bank of Bahrain	Bahrain	USD	Sovereign	Sukuk Al Ijarah	750	7	22-Nov-18
2011	Government of Indonesia	Indonesia	USD	Sovereign	Sukuk Al Ijarah	1,000	7	21-Nov-18
	<b>Total Maturity Value</b>					<b>17,841</b>		

Source: IIFM Sukuk database

TABLE 9B: International Sukuk Maturing 2019, Amount > USD 100 Million

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2017	Al Hilal Bank	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	100	2	7-Aug-19
2016	Government of Bahrain	Bahrain	USD	Sovereign	Sukuk Al Ijarah	450	3	17-May-19
2014	Government of Pakistan	Pakistan	USD	Sovereign	Sukuk Al Ijarah	1,000	5	3-Dec-19
2014	FlyDubai	United Arab Emirates	USD	Corporate	Sukuk Al Wakalah	500	5	26-Nov-19
2014	Drake & Scull	United Arab Emirates	USD	Corporate	Sukuk Al Murabahah	120	5	12-Nov-19
2014	Government of Luxembourg	Luxembourg	Euro	Sovereign	Sukuk Al Ijarah	220	5	7-Oct-19
2014	The Goldman Sachs Group, Inc.	USA	USD	Corporate	Sukuk Al Wakalah	500	5	23-Sep-19
2014	Government of Hong Kong	Hong Kong	USD	Sovereign	Sukuk Al Ijarah	1,000	5	11-Sep-19
2014	Islamic Development Bank (IsDB)	Saudi Arabia	USD	Quasi-Sovereign	Sukuk Al Wakalah	1,000	5	17-Jul-19
2014	Government of Turkey	Turkey	MYR	Sovereign	Sukuk Al Ijarah	188	5	30-Jun-19
2014	Albaraka Turk	Turkey	USD	Corporate	Sukuk Al Wakalah	350	5	30-Jun-19
2014	Kuveyt Turk Katilim Bankasi A.S (KFH-Turkey)	Turkey	USD	Fls	Hybrid Sukuk	500	5	26-Jun-19
2014	Government of United Kingdom	United Kingdom	GBP	Sovereign	Sukuk Al Ijarah	340	5	25-Jun-19
2014	Dar Al Arkan Real Estate Development	Saudi Arabia	USD	Corporate	Sukuk Al Wakalah	400	5	27-May-19
2014	Damac Properties	United Arab Emirates	USD	Corporate	Sukuk Al Ijarah	650	5	9-Apr-19
2014	Bumitama Agri Ltd	Singapore	MYR	Corporate	Sukuk Al Musharakah	153	5	18-Mar-19

Table Continued on next page.



Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2014	Islamic Development Bank (IsDB)	Saudi Arabia	USD	Quasi-Sovereign	Sukuk Al Wakalah	1,500	5	6-Mar-19
2014	Islamic Development Bank (IsDB)	Saudi Arabia	USD	Quasi-Sovereign	Sukuk Al Wakalah	1,500	5	28-Feb-19
2014	Dubai Investments Park	United Arab Emirates	USD	Quasi-Sovereign	Sukuk Al Wakalah	300	5	20-Feb-19
2014	Malaysia Export-Import Bank (Mexim)	Malaysia	USD	Sovereign	Sukuk Al Wakalah	300	5	10-Feb-19
2013	Perusahaan Penerbit SBSN Indonesia	Indonesia	USD	Sovereign	Sukuk Al Ijarah	1,500	6	17-Mar-19
2013	Dubai Islamic Bank	United Arab Emirates	USD	Fls	Sukuk Al Murabahah	1,000	6	19-Mar-19
2012	Emaar Properties	United Arab Emirates	USD	Corporate	Sukuk Al Ijarah	500	7	18-Jul-19
2012	Jebel Ali Free Zone	United Arab Emirates	USD	Corporate	Sukuk Al Wakalah	650	7	19-Jun-19
2012	Khazanah Nasional Berhad	Malaysia	USD	Quasi-Sovereign	Sukuk Al Musharakah	358	7	21-Mar-19
2006	East Cameron Gas Company	USA	USD	Corporate	Sukuk Al Musharakah	167	13	15-Jun-19
2006	FEC Cables (M) SdnBhd	Malaysia	USD	Corporate	Sukuk Al Murabahah	130	13	14-Jun-19
	<b>Total Maturity Value</b>					<b>15,375</b>		

Source: IIFM Sukuk database

TABLE 9C: International Sukuk Maturing 2020, Amount  $\geq$  USD 100 Million

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2018	Turkish Ministry of Finance	Turkey	EURO	Sovereign	Sukuk Al Ijarah	622	2	20-Dec-20
2017	Africa Finance Corporation	Nigeria	USD	Quasi-Sovereign	Sukuk Al Murabahah	150	3	24-Jan-20
2015	Axiata	Malaysia	USD	Corporate	Sukuk Al Wakalah	500	5	13-Nov-20
2015	Arab Petroleum Investments Corporation - Apicorp	Saudi Arabia	USD	Quasi-Sovereign	Sukuk Al Wakalah	500	5	22-Oct-20
2015	Qatar Islamic Bank	Qatar	USD	Fls	Sukuk Al Mudharabah	750	5	20-Oct-20
2015	International Finance Corporation (IFC)	USA	USD	Quasi-Sovereign	Sukuk Al Wakalah	100	5	9-Sep-20
2015	Government of Indonesia	Indonesia	USD	Sovereign	Sukuk Al Ijarah	118	5	27-Jul-20
2015	Garuda Indonesia	Indonesia	USD	Corporate	Sukuk Al Wakalah	500	5	29-May-20
2015	Government of Hong Kong	Hong Kong	USD	Sovereign	Hybrid Sukuk	1,000	5	28-May-20
2015	Dubai Islamic Bank	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	750	5	18-May-20
2015	Noor Bank	United Arab Emirates	USD	Fls	Sukuk Al Wakalah	500	5	22-Apr-20
2015	Sharjah Islamic Bank	United Arab Emirates	USD	Fls	Sukuk Al Ijarah	500	5	17-Mar-20

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2015	Islamic Development	Saudi Arabia Bank (IsDB)	USD	Quasi-Sovereign	Sukuk Al Wakalah	1,000.00	5	12-Mar-20
2015	Petroleum Nasional Bhd (Petronas)	Malaysia	USD	Corporate	Sukuk Al Wakalah	1,250	5	11-Mar-20
2014	Government of South Africa	South Africa	USD	Sovereign	Sukuk Al Ijarah	500	6	24-Jun-20
2014	Investment Corporation of Dubai (ICD)	United Arab Emirates	USD	Quasi-Sovereign	Sukuk Al Ijarah	700	6	21-May-20
2013	First Resources	Singapore	MYR	Corporate	Sukuk Al Musharakah	239	7	6-Jun-20
2010	National Bank of Abu Dhabi	United Arab Emirates	MYR	Fls	Sukuk Al Murabahah	161	10	28-Dec-20
2010	Khazanah Nasional Berhad	Malaysia	SGD	Quasi-Sovereign	Sukuk Al Wakalah	662	10	4-Aug-20
	<b>Total Maturity Value</b>					<b>10,502</b>		

Source: IIFM Sukuk database

The three tables 10A, 10B and 10C below provide the maturity profile of the domestic Sukuk market. USD 15.31 billion of domestic Sukuk matured in the year 2018 while the year 2019 and 2020 will see maturities of around USD 23.97 billion and USD 23.4 billion respectively. The Sukuk maturities in 2018 were mainly from Asia/Far East and GCC amounting to around USD 18.7 billion and USD 14.4 billion respectively. While the Sukuk maturities for the years 2019 and 2020, roughly 39.2% (USD 15.4 billion) & 46.9% (USD 15.9 billion) of the total value of maturing Sukuk comes from Malaysia. The other jurisdictions such as Indonesia, GCC, Sudan & Turkey will have a number of Sukuk maturing during these two years.

TABLE 10A: Domestic Sukuk Matured 2018, Amount > USD 100 Million

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2017	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	125	1	20-Sep-18
2017	Rukun Juang Sdn Bhd	Malaysia	MYR	Corporate	Sukuk Al Wakalah	124.125	1	19-Sep-18
2017	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Mudharabah	125	1	26-Jan-18
2016	Government of Turkey	Turkey	TRY	Sovereign	Sukuk Al Ijarah	731	2	28-Sep-18
2016	Government of Turkey	Turkey	TRY	Sovereign	Sukuk Al Ijarah	640	2	17-Feb-18
2015	Government Investment Issue	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	941	3	15-May-18
2015	Central Bank of Bahrain	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	265	3	8-Jan-18
2014	Government of Senegal	Senegal	CFA	Sovereign	Sukuk Al Ijarah	200.5	4	18-Jul-18
2013	BGSM Management Sdn Bhd	Malaysia	MYR	Corporate	Sukuk Al Musharakah	113	5	27-Dec-18
2013	Boustead Holdings Berhad	Malaysia	MYR	Corporate	Sukuk Al Musharakah	103	5	23-Dec-18
2013	Boustead Holdings Berhad	Malaysia	MYR	Corporate	Sukuk Al Musharakah	104	5	23-Dec-18
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	Sukuk Al Murabahah	101	5	17-Dec-18
2013	UEM Land Holdings Berhad	Malaysia	MYR	Corporate	Sukuk Al Murabahah	214	5	13-Dec-18
2013	Cagamas Berhad	Malaysia	MYR	Corporate	Hybrid Sukuk	105	5	28-Oct-18
2013	Gamuda Berhad	Malaysia	MYR	Corporate	Hybrid Sukuk	127	5	28-Oct-18
2013	Qatar Central Bank	Qatar	QAR	Sovereign	Sukuk Al Murabahah	137	5	10-Sep-18
2013	Golden Assets International Finance Ltd	Malaysia	MYR	Corporate	Sukuk Al Murabahah	154	5	5-Aug-18

2013	Swiber Capital Pte. Ltd.	Singapore	SGD	Corporate	Sukuk Al Wakalah	150	5	2-Aug-18
2013	Qatar Central Bank	Qatar	QAR	Sovereign	Sukuk Al Murabahah	137	5	10-Jun-18
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' BithamanAjil	1,300	6	1-Dec-18
2013	Marafiq Sukuk	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	667	5	21-May-18
2013	Almarai Company	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	346.70	5	31-Mar-18
2013	GamudaBerhad	Malaysia	MYR	Corporate	Hybrid Sukuk	126	5	21-Mar-18
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' BithamanAjil	969	6	8-Aug-18
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	261	6	30-May-18
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	156	6	26-Apr-18
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	104	6	12-Apr-18
2011	Manjung Island Energy Berhad	Malaysia	MYR	Corporate	Sukuk Al Ijarah	164	7	25-Nov-18
2011	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' BithamanAjil	959	7	14-Nov-18
2011	Sarawak Energy	Malaysia	MYR	Corporate	Sukuk Al Musharakah	231	7	23-Jun-18
2011	PengurusanAset Air Berhad	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	492	7	17-Jun-18
2011	Central Bank of Bahrain	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	530	7	27-Apr-18
2011	Al Rajhi Cement	Jordan	JOD	Corporate	Sukuk Al Ijarah	119	7	25-Apr-18
2011	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' BithamanAjil	1,147	8	28-Aug-18
2011	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	492	7	23-Feb-18
2010	Qatar Central Bank	Qatar	QAR	Sovereign	Sukuk Al Ijarah	343	8	1-Jun-18
2008	Saudi Hollandi Bank	Saudi Arabia	SAR	Fls	Sukuk Al Mudharabah	206.70	10	30-Dec-18
2008	Indonesian Government Shariah Securities (Perusahaan Penerbit SBSN Indonesia)	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	204	10	26-Aug-18
2008	CagamasBerhad	Malaysia	MYR	Corporate	Sukuk Al Murabahah	100	10	30-Jul-18
2008	Syarikat Prasarana Negara Berhad (Prasarana)	Malaysia	MYR	Corporate	Sukuk Al Ijarah	309	10	30-May-18
2008	Salam International Investment	Qatar	QAR	Corporate	Sukuk Al Musharakah	138	10	27-Mar-18
2006	Projek Lebuhraya Utara-Selatan Berhad (PLUS)	Malaysia	MYR	Corporate	Bai' BithamanAjil	211	12	15-Jun-18
2006	Malayan Banking Berhad, Malaysia (Maybank)	Malaysia	MYR	Fls	Bai' BithamanAjil	395	12	15-May-18
2005	Konsortium Lebuhraya Utara-Timur (KL) Sdn	Malaysia	MYR	Corporate	Sukuk Al Istisna'a	205	13	5-Oct-18
2005	Cagamas Berhad	Malaysia	MYR	Corporate	Sukuk Al Musharakah	539	13	8-Dec-18
	<b>Total Maturity Value</b>					<b>15,311</b>		

Source: IIFM Sukuk database

Table Continued on next page.

TABLE 10B: Domestic Sukuk Maturing 2019, Amount &gt; USD 100 Million

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2018	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	487	1	2-Sep-19
2018	Lembaga Pembiayaan Perumahan Sektor Awam	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	243	1	8-Aug-19
2018	DanaInfraNasional Berhad	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	243	1	24-Apr-19
2018	Central Bank of Gambia	Gambia	GMD	Sovereign	Sukuk Al salam	220	1	27-Mar-19
2017	RukunJuangSdnBhd	Malaysia	MYR	Corporate	Sukuk Al Murabahah	124.125	2	19-Sep-19
2016	Qatar Government Sukuk	Qatar	QAR	Sovereign	Sukuk Al Wakalah	164.78	3	16-Aug-19
2016	Government of Pakistan	Pakistan	PKR	Sovereign	Sukuk Al Ijarah	766.993	3	29-Mar-19
2016	Government of Indonesia- SR008	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	2,331	3	11-Mar-19
2016	Government of Pakistan	Pakistan	PKR	Sovereign	Sukuk Al Ijarah	1109.31	3	15-Feb-19
2015	Sukuk Perumahan Kerajaan (SPK)	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	118	4	21-Feb-19
2014	HSBC Amanah Malaysia Bhd	Malaysia	MYR	Corporate	Sukuk Al Wakalah	118	5	16-Oct-19
2014	Bumitama Agri Ltd	Malaysia	MYR	Corporate	Sukuk Al Musharakah	118	5	2-Sep-19
2014	Rantau Abang Capital (IMTN)	Malaysia	MYR	Corporate	Sukuk Al Musharakah	353	5	28-Aug-19
2014	Midciti Sukuk Berhad	Malaysia	MYR	Corporate	Sukuk Al Murabahah	122	5	25-Apr-19
2014	Perbadanan Tabung Pendidikan Tinggi Nasional	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	122	5	28-Mar-19
2014	Bank Rakyat (Bank Kerjasama Rakyat Malaysia Bhd)	Malaysia	MYR	Fls	Sukuk Al Musharakah	128	5	24-Mar-19
2014	SME Bank Berhad	Malaysia	MYR	Fls	Sukuk Al Wakalah	122	5	20-Mar-19
2014	Gamuda Berhad	Malaysia	MYR	Corporate	Hybrid Sukuk	122	5	13-Mar-19
2014	Syarikat Prasarana Negara Berhad (δPrasaranaδ)	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	457	5	12-Mar-19
2014	National Commercial Bank	Saudi Arabia	SAR	Fls	Sukuk Al Murabahah	1,300	5	20-Feb-19
2014	Ministry of Finance Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	166	5	11-Feb-19
2014	Pengurusan Air SPV Berhad (PASB)	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	301	5	7-Feb-19
2014	Qatar Central Bank	Qatar	QAR	Sovereign	Sukuk Al Murabahah	1,097	5	16-Jan-19
2013	BGSM Management SdnBhd	Malaysia	MYR	Corporate	Sukuk Al Musharakah	224	6	27-Dec-19
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	Sukuk Al Murabahah	204	6	17-Dec-19
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	1,248	6	22-May-19
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	953	6	30-Apr-19
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	1,112	6	30-Apr-19
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	Hybrid Sukuk	232	6	18-Apr-19

Table Continued on next page.

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2012	Banque Saudi Fransi	Saudi Arabia	SAR	Corporate	Sukuk Al Mudharabah	506.60	7	18-Dec-19
2012	Saudi Hollandi Bank	Saudi Arabia	SAR	Fls	Sukuk Al Murabahah	373	7	26-Nov-19
2012	Celcom Transmission	Malaysia	MYR	Corporate	Sukuk Al Murabahah	481	7	29-Aug-19
2012	Tanjung Bin Power	Malaysia	MYR	Corporate	Sukuk Al Ijarah	168	7	16-Aug-19
2012	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	347	7	12-Jul-19
2012	Johor Corporation	Malaysia	MYR	Corporate	Sukuk Al Wakalah	251	7	14-Jun-19
2012	Saudi Arabia National Industrialisation Company	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	533.30	7	21-May-19
2012	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' BithamanAjil	1,463	7	30-Mar-19
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	313	7	21-Mar-19
2012	Almarai Company	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	266.60	7	7-Mar-19
2011	Manjung Island Energy Berhad	Malaysia	MYR	Corporate	Sukuk Al Ijarah	164	8	25-Nov-19
2011	PengurusanAset Air Berhad	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	164	8	17-Jun-19
2009	Saudi Hollandi Bank	Saudi Arabia	SAR	Fls	Sukuk Al Mudharabah	193.30	10	25-Dec-19
2009	Khazanah Nasional Bhd	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Musharakah	425	10	27-Aug-19
2006	Projek Lebuhraya Utara-Selatan Berhad (PLUS)	Malaysia	MYR	Corporate	Bai' BithamanAjil	161	13	17-Jun-19
2006	Penang Port SdnBhd	Malaysia	MYR	Corporate	Sukuk Al Istisna'a	183	13	31-Mar-19
2005	Ranhill Powertron SdnBhd	Malaysia	MYR	Corporate	Bai' BithamanAjil	142	14	26-Jun-19
2005	Projek Lebuhraya Utara-Selatan Berhad (PLUS)	Malaysia	MYR	Corporate	Bai' BithamanAjil	634	14	17-Jun-19
2005	Projek Lebuhraya Utara-Selatan Berhad (PLUS)	Malaysia	MYR	Corporate	Bai' BithamanAjil	634	14	9-Jun-19
2005	Time Engineering (Musyarakah One Capital Bhd)	Malaysia	MYR	Corporate	Sukuk Al Musharakah	658	14	4-Apr-19
2004	SAJ Holdings SdnBhd	Malaysia	MYR	Corporate	Bai' BithamanAjil	337	15	25-Oct-19
2004	Kapar Energy Ventures SdnBhd	Malaysia	MYR	Corporate	Sukuk Al Murabahah	895	15	8-Jul-19
2004	Guthrie Property Development	Malaysia	MYR	Corporate	Sukuk Al Murabahah	197	15	19-Mar-19
2004	Ranhill Utilities Berhad	Malaysia	MYR	Corporate	Sukuk Al Murabahah	184	15	1-Jan-19
	<b>Total Maturity Value</b>					<b>23,979</b>		

Source: IIFM Sukuk database

TABLE 10C: Domestic Sukuk Maturing 2020, Amount &gt; USD 100 Million

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	Maturity Date
2018	Ministry of Treasury and Finance of Turkey	Turkey	TRY	Sovereign	Sukuk Al Ijarah	634.66	2	24-Dec-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	349	2	29-Nov-20
2018	Ministry of Treasury and Finance of Turkey	Turkey	TRY	Sovereign	Sukuk Al Ijarah	612.61	2	21-Nov-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	107	1	4-Mar-20
2018	Ministry of Treasury and Finance of Turkey	Turkey	TRY	Sovereign	Sukuk Al Ijarah	321.33	2	26-Sep-20
2018	XL Axiata	Indonesia	IDR	Corporate	Sukuk Al Ijarah	401	2	19-Sep-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	103	2	9-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	191	2	19-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	110	2	5-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	327	2	22-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	136	2	8-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	311	2	22-Mar-20
2018	Ministry of Treasury and Finance of Turkey	Turkey	TRY	Sovereign	Sukuk Al Ijarah	354.60	2	14-Feb-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	347	2	8-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	210	2	25-Mar-20
2018	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	309	2	11-Mar-20
2017	CagamasBerhad	Malaysia	MYR	Fls	Sukuk Al Wakalah	131	3	18-Oct-20
2017	CagamasBerhad	Malaysia	MYR	Fls	Sukuk Al Wakalah	119	3	18-Sep-20
2017	Central Bank of Bahrain	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	331.25	3	17-Jul-20
2017	Pengurusan Air SPV Bhd	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	175	3	6-Jul-20
2017	Small Medium Enterprise Development Bank Malaysia Berhad	Malaysia	MYR	Fls	Sukuk Al Murabahah	100	3	9-Apr-20
2017	Government of Malaysia	Malaysia	MYR	sovereign	Sukuk Al Mudharabah	875	3	24-Apr-20
2016	Maxis Broadband SdnBhd	Malaysia	MYR	Corporate	Sukuk Al Murabahah	112	4	27-Nov-20
2016	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	787	4	10-Feb-20
2015	Government of Oman	Oman	OMR	Sovereign	Sukuk Al Ijarah	647	5	4-Nov-20
2015	Pengurusan Air SPV Berhad	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	165	5	28-Sep-20
2015	SapuraKencana Petroleum	Malaysia	MYR	Corporate	Sukuk Al Mudharabah	200	5	9-Sep-20
2015	Jimah Energy Ventures	Malaysia	MYR	Corporate	Sukuk Al Murabahah	2,006	5	31-Aug-20
2015	Najran Cement	Saudi Arabia	SAR	Corporate	Sukuk Al Murabahah	107	5	15-Jul-20
2015	Central Bank of Bahrain	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	530	5	9-Jul-20
2015	Islamic Development Bank (IsDB)	Saudi Arabia	SAR	Quasi-Sovereign	Sukuk Al Wakalah	514	5	12-Jun-20
2015	TH Plantations Berhad	Malaysia	MYR	Corporate	Sukuk Al Murabahah	233	5	29-May-20
2015	Danga Capital Berhad	Malaysia	MYR	Sovereign	Sukuk Al Musharakah	471	5	9-Apr-20

Table Continued on next page.

Issue Year	Issuer	Issuer Country	Issuance Currency	Sukuk Type	Sukuk Structure	USD Million or Equivalent	Average Tenor (Years)	
2015	HSBC Amanah Malaysia Bhd	Malaysia	MYR	Corporate	Sukuk Al Wakalah	176	5	27-Mar-20
2015	Prasarana Malaysia Berhad (IMTN)	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	165	5	24-May-20
2015	Amlslamic Bank Berhad	Malaysia	MYR	Fls	Sukuk Al Musharakah	212	5	6-Mar-20
2015	Government Investment Issue	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	2,353	6	27-Aug-20
2015	Central Bank of Bahrain	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	660	5	19-Jan-20
2015	Government of Ivory Coast	ivory Coast	CFA	Sovereign	Sukuk Al Ijarah	215	5	12-Jan-20
2014	Pengurusan Air SPV Berhad	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	118	6	5-Nov-20
2013	BGSM Management SdnBhd	Malaysia	MYR	Corporate	Sukuk Al Musharakah	113	7	27-Dec-20
2013	Saudi British Bank	Saudi Arabia	SAR	Fls	Sukuk Al Murabahah	400	7	18-Dec-20
2013	Malakoff Power SdnBhd	Malaysia	MYR	Corporate	Sukuk Al Murabahah	125	7	17-Dec-20
2013	Syarikat Prasarana Negara Berhad (Prasarana)	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Ijarah	187	7	15-Nov-20
2013	Riyad Bank	Saudi Arabia	SAR	Fls	Hybrid Sukuk	1,070	7	7-Nov-20
2013	CagamasBerhad	Malaysia	MYR	Corporate	Hybrid Sukuk	124	7	28-Oct-20
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Sukuk Al Murabahah	806	7	19-Aug-20
2013	Pengurusan Air SPV Berhad	Malaysia	MYR	Quasi-Sovereign	Hybrid Sukuk	109	7	1-Jul-20
2013	PelabuhanTanjung Pelepas Sdn. Bhd (PTP)	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Musharakah	129	7	7-Sep-20
2013	First Resources Ltd	Malaysia	MYR	Corporate	Sukuk Al Musharakah	194	7	6-Jun-20
2013	Savola Group	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	399.92	7	22-Jan-20
2012	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' BithamanAjil	1,119	8	12-May-20
2012	Celcom Transmission	Malaysia	MYR	Corporate	Sukuk Al Murabahah	384	8	29-Aug-20
2012	Tanjung Bin Power	Malaysia	MYR	Corporate	Sukuk Al Ijarah	160	8	16-Aug-20
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	104	8	28-Jun-20
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	156	8	27-Apr-20
2012	PLUS Berhad	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Musharakah	159	8	12-Jan-20
2011	Manjung Island Energy Berhad	Malaysia	MYR	Corporate	Sukuk Al Ijarah	164	9	25-Nov-20
2010	Celcom Transmission Bhd	Malaysia	MYR	Corporate	Sukuk Al Ijarah	572	10	1-Sep-20
2007	Jimah Energy Ventures	Malaysia	MYR	Corporate	Sukuk Al Istisna'a	229	13	11-Sep-20
2007	Nucleus Avenue Malaysia Bhd	Malaysia	MYR	Corporate	Sukuk Al Musharakah	205	13	24-Aug-20
2006	Projek Lebuhraya Utara-Selatan Berhad (PLUS)	Malaysia	MYR	Corporate	Sukuk Al Musharakah	178	14	9-Oct-20
2006	Mukah Power Generation SdnBhd's (MPG)	Malaysia	MYR	Corporate	Sukuk Al Mudharabah	175	13	3-Feb-20
	<b>Total Maturity Value</b>					<b>23,488</b>		

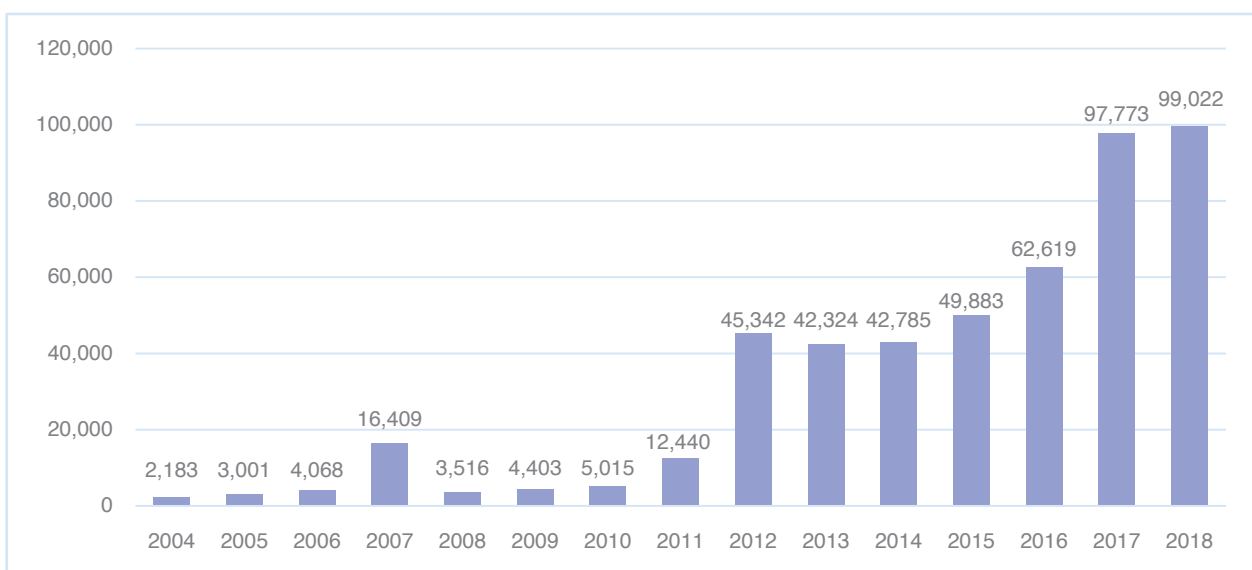
Source: IIFM Sukuk database

## 1.12 Sukuk Outstanding

On the back of record number of global Sukuk issuances during 2012 to 2018, the outstanding Sukuk issuances in 2018 reached USD 490.78 billion as compared to USD 434.80 billion in 2017 which is a clear indication of growing interest in Sukuk though supply and demand gap remains to be bridged but signing are encouraging. An other interesting fact is that the share of longer tenor Sukuk is increasing particularly starting year 2015 where there was an adjustment in the short term Sukuk market.

Following Chart 6A provide a clear picture on outstanding Global Sukuk cover both international and domestic Sukuk:

Chart 6A: TOTAL GLOBAL SUKUK OUTSTANDING AS OF 31ST DECEMBER 2018



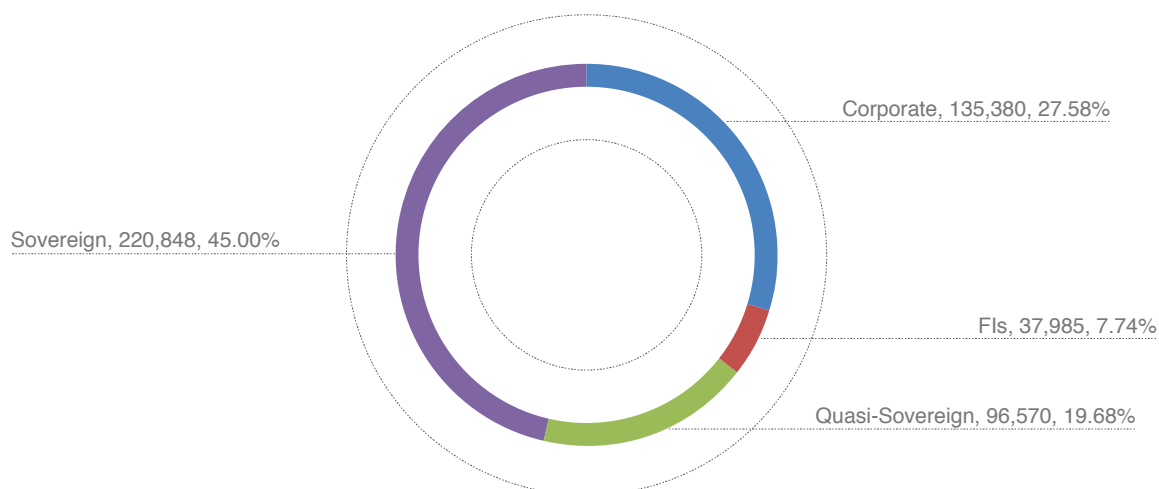
Total Global Sukuk outstanding USD 490,783 Millions

Source: IIFM Sukuk database

The breakdown for sovereign, quasi sovereign, corporate and FIs works out to be 45.15%, 19.68%, 27.58% and 7.74% respectively.



Chart 6B: TOTAL GLOBAL SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31ST DEC 2018

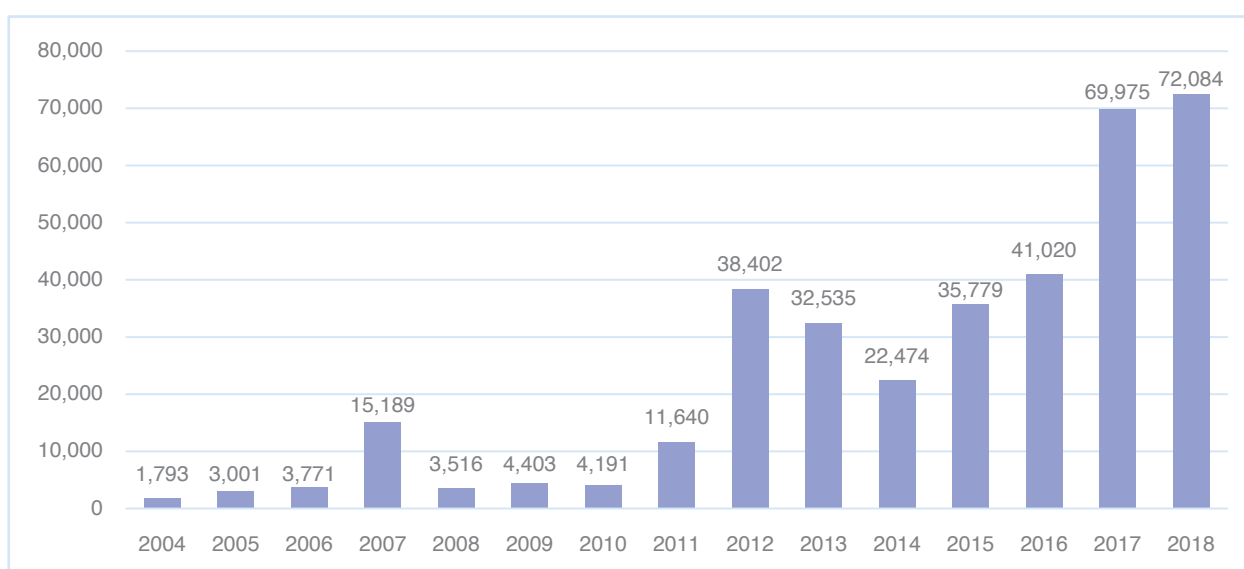


Source: IIFM Sukuk database

It is interesting to note that the domestic issuances particularly one year or less tenor that matured in 2018 were either refinanced or new issuance took place which resulted in increase in short term Sukuk issuance as compared to decline in 2017.

Following Chart 6C provides information on outstanding Domestic Sukuk as follows:

Chart 6C: TOTAL DOMESTIC SUKUK OUTSTANDING AS OF 31ST DECEMBER 2018

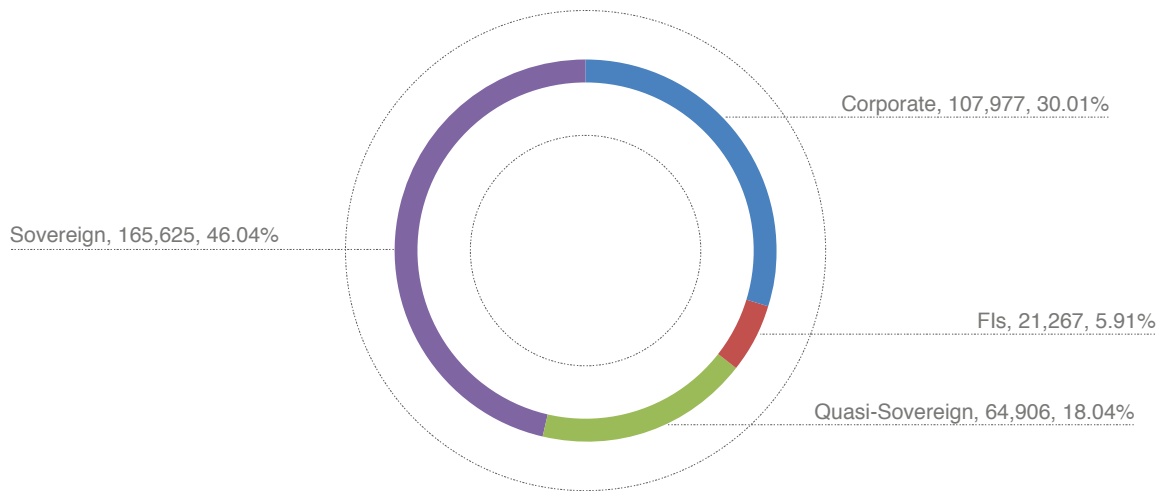


Total DOMESTIC Sukuk outstanding USD 359,776 Millions

Source: IIFM Sukuk database

The outstanding split of domestic Sukuk between sovereign, quasi sovereign, corporate and FIs works out to be 46.04%, 18.04%, 30.01%, & 5.91% respectively.

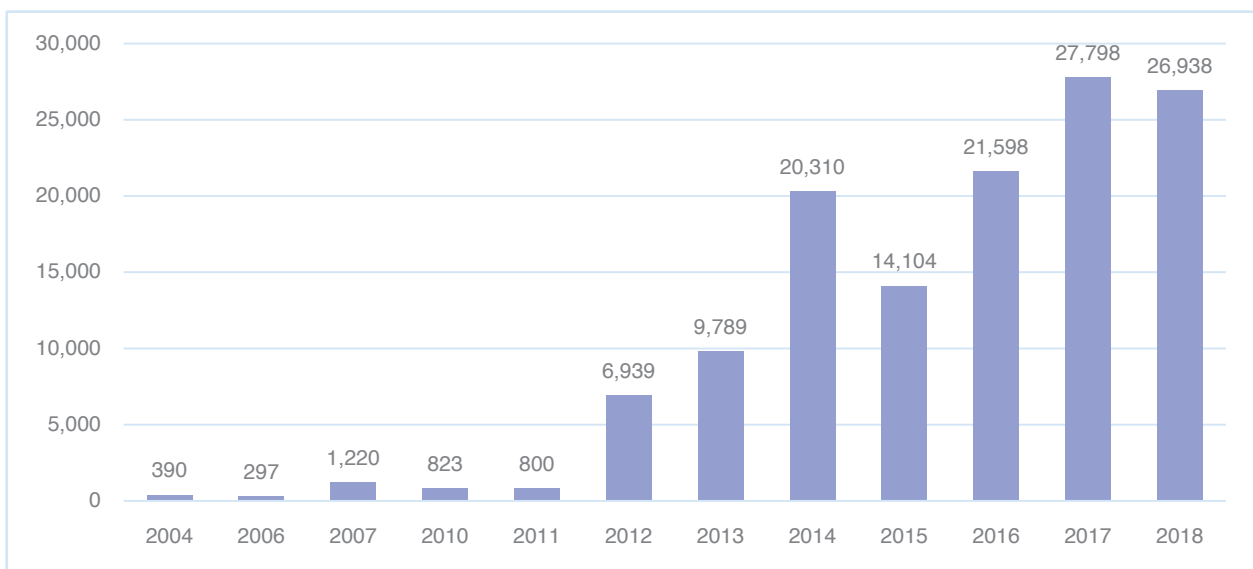
Chart 6D: TOTAL DOMESTIC SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31 DEC 2018



Source: IIFM Sukuk database

Chart 6E presents a picture where after a drop in 2015 the outstanding Sukuk have steadily increased during 2016-2017 period while there is a slight decrease of around USD 0.86 billion in 2018 as compare to 2017.

Chart 6E: TOTAL INTERNATIONAL SUKUK OUTSTANDING AS OF 31ST DECEMBER 2018

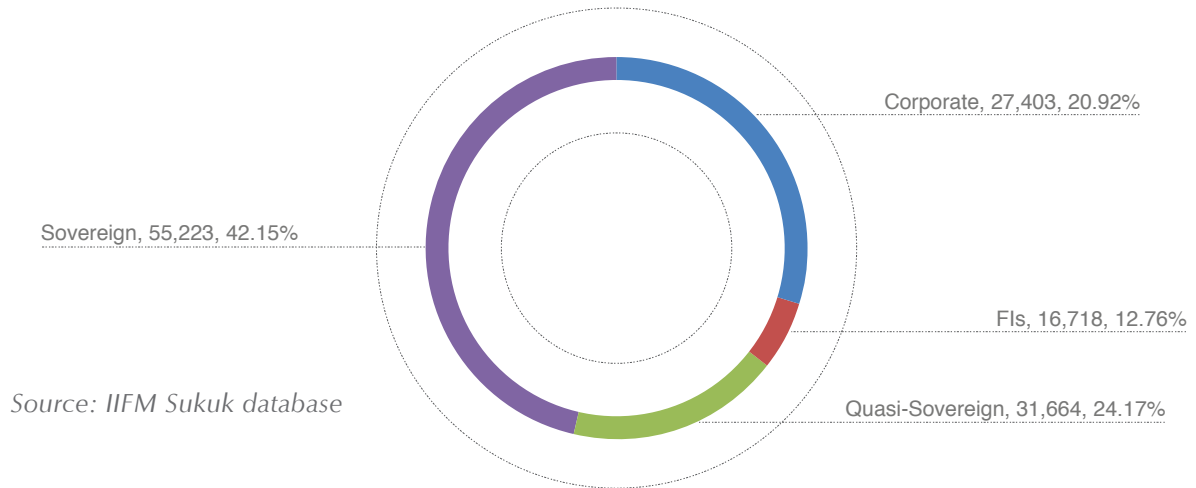


Total International Sukuk Outstanding USD 131,007 Millions

Source: IIFM Sukuk database

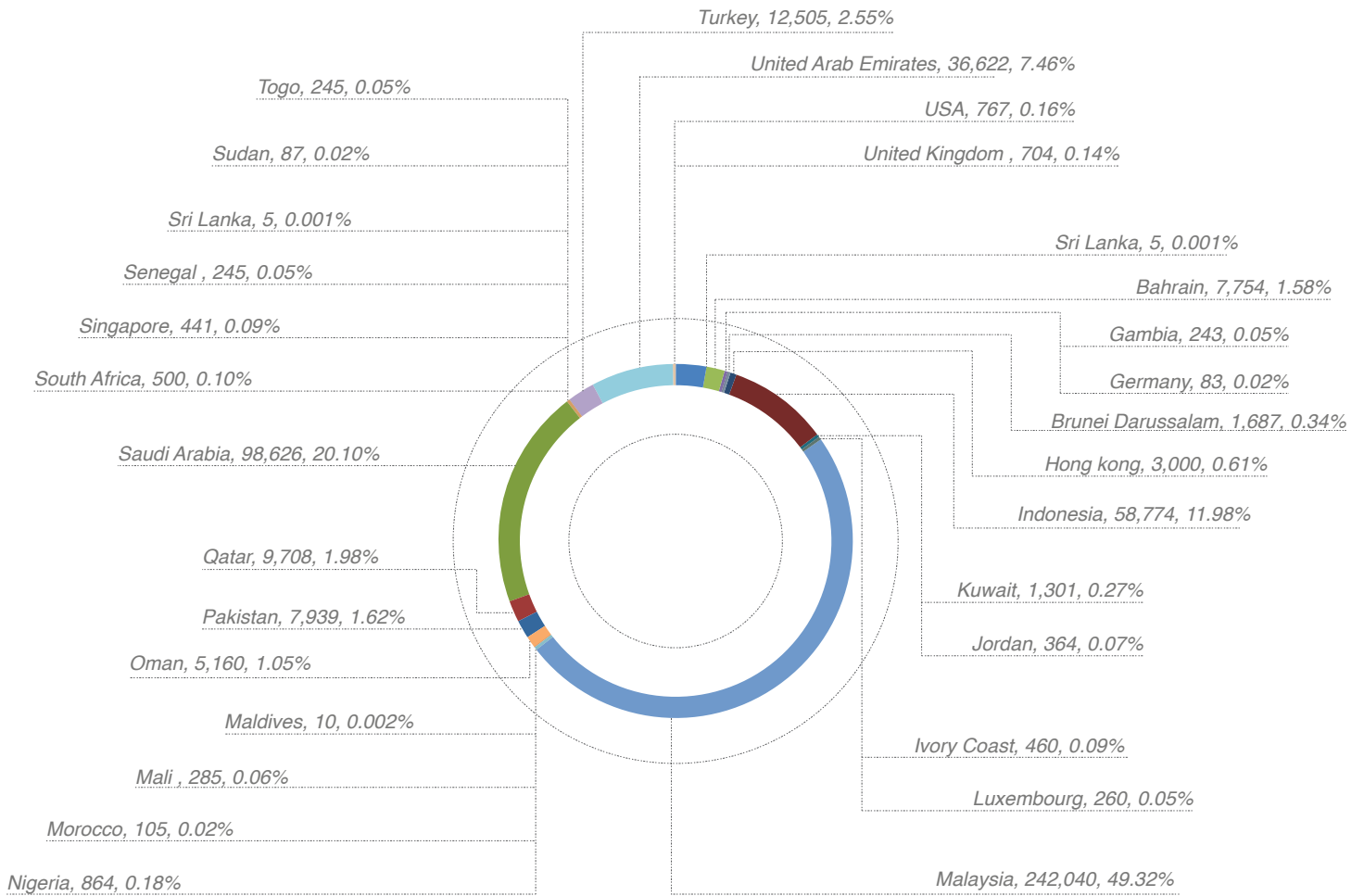
In case of international Sukuk outstanding, the split between all sovereigns and corporate, FIs works out to be 64-36.

Chart 6F: TOTAL INTERNATIONAL SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31ST DEC 2018



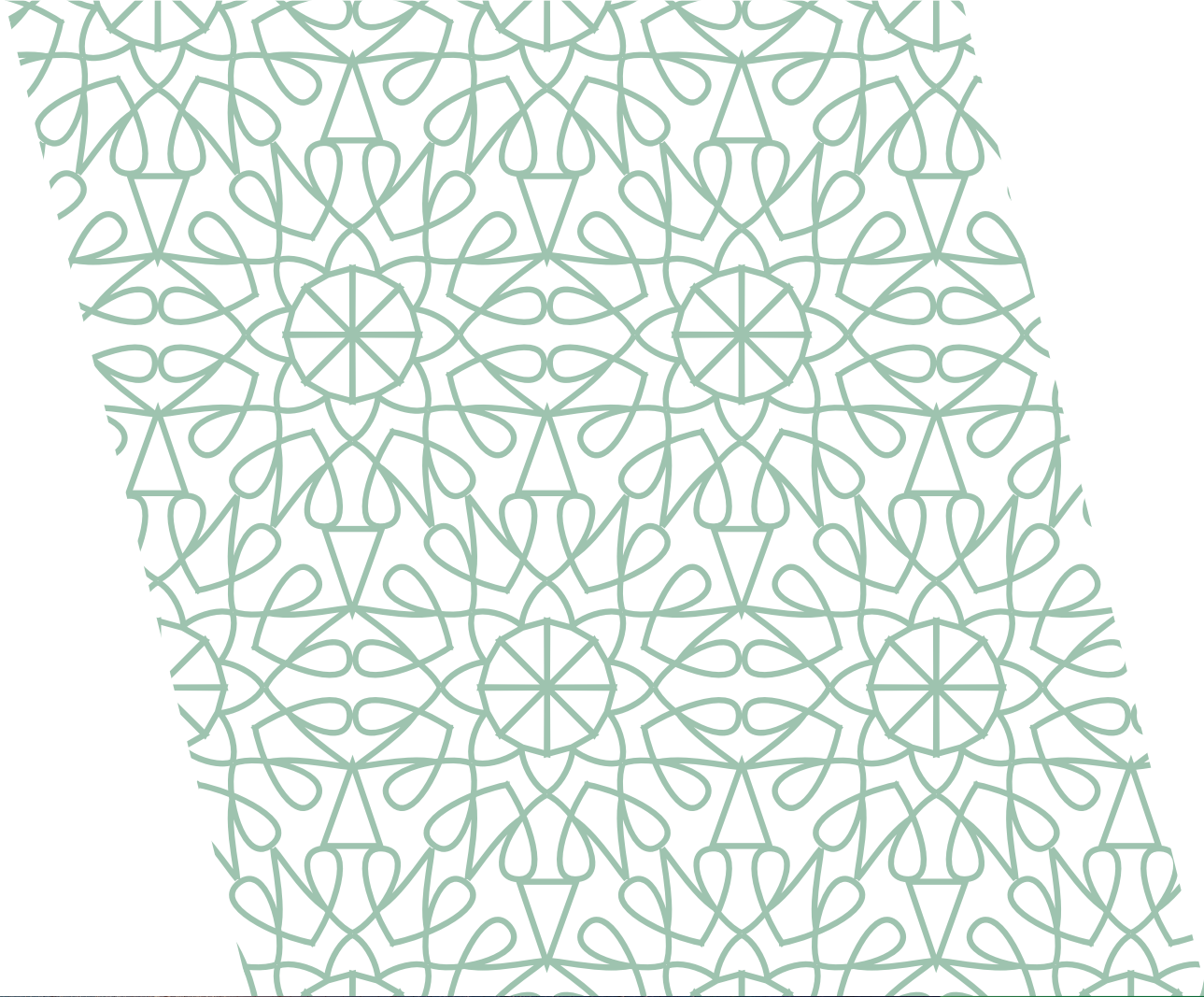
Of the total volume of global Sukuk outstanding from a country perspective, 91.41% is represented by just 5 countries i.e. Malaysia 49.32%, Saudi Arabia 20.10%, Indonesia 11.98%, UAE 7.46% and Turkey 2.55%. Right behind them are Qatar 1.98%, Bahrain 1.58% and Pakistan 1.62%.

Chart 6G: COUNTRY WISE BREAKDOWN OF SUKUK OUTSTANDING AS OF 31 DEC 2018



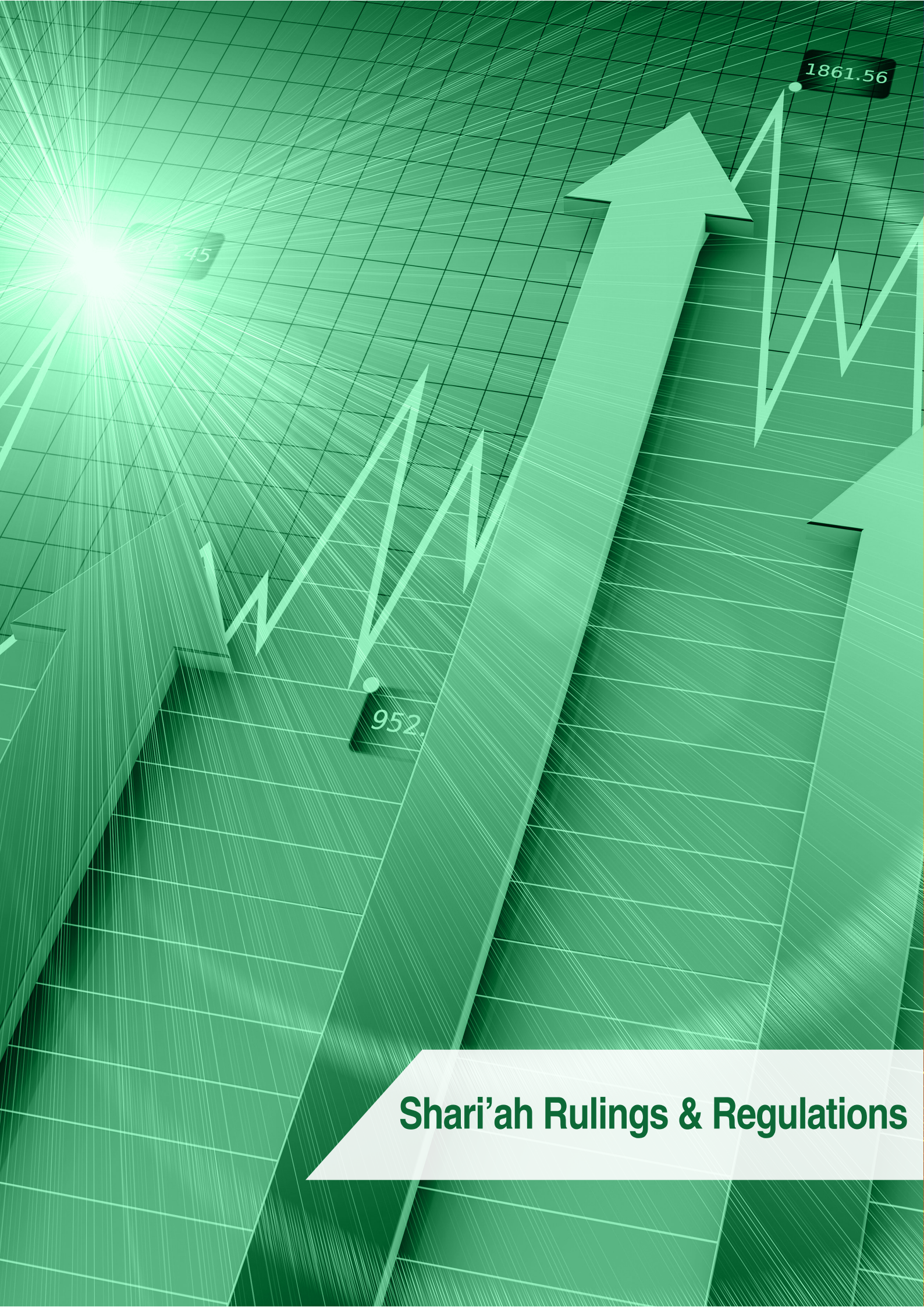
Source: IIFM Sukuk database





# Chapter Two





# Shari'ah Rulings & Regulations

# Shari'ah Rulings and Regulations

*For the Issuance and Trading of Sukuk Al-Mudarabah/Al-Muqaradah*

**By Dr. Ahmed Rufai: Head of Compliance - IIFM**

*In the Name of Allah, the Beneficent, the Merciful*

*All Perfect Praise is for Allah, Lord of all that exist, and blessings and peace be upon His Messenger Muhammad, the Seal of the Prophets and upon all of his family and companions.*

## PREFACE

Sukuk has been a vehicle carrying the opportunity to provide resources compatible with Shari'ah (i.e. Islamic Law) rules and principles. It's Market has dramatically grown up to become one of the fastest emerging alternative instruments and a significant capital markets tool which is increasingly used globally by governments, government held entities, corporations etc.

In order to contribute to further sustainable progress in this important sector of the Islamic financial industry, the International Islamic Financial Market (IIFM) has begun to consolidate Sukuk issuance agreements and structures, starting with Al-Ijarah and Al-Mudarabah/Al-Muqaradah Sukuk documentations, followed by the rest of the investment Sukuk documentation as per its procedures in the process of standardization documentation.

The Council of the Islamic Fiqh Academy of the Organization of Islamic Conference (OIC) and the rest of the relevant Islamic institutions have legitimized the issuance of Sukuk and its concept, which paved the way for an alternative source of financing to meet the needs of Islamic issuers and investors who are not allowed under the Shari'ah rules and principles to invest in the Riba (i.e. interest) based conventional bonds.

Sukuk in general reflect participation in the underlying asset, so that what is traded is not a merely debt as each certificate must represent an undivided interest in the asset, because in the light of the prohibition of Riba under the rules and principles of Shari'ah, trading in pure debt instrument is forbidden. Therefore, Sukuk are structured to achieve a desired economic objective in a manner that conforms to the rules, principles and spirit of Shari'ah.

Investment in tangible assets, used for productive purposes and reaping the rewards arising from those assets is the core principle of Islamic finance and it is this principle on which Sukuk securitization structures are established.

Furthermore, for a Sukuk structure to comply with the rules and principles of Shari'ah the underlying asset must also comply with the rules and principles of Shari'ah as well. In other words, the underlying asset must be Halal (i.e. lawful) from the Shari'ah perspective.

The primary objective of this article (chapter) is to elaborate on the Shari'ah rulings and regulations for the issuance and trading of Sukuk Al-Mudarabah/Al-Muqaradah as well as its definition, types, characteristics and use of Mudarabah/Muqaradah contract as its underlying structure in accordance with the International Islamic Fiqh Academy of the OIC, resolution concerning Sukuk Al-Mudarabah/Al-Muqaradah and the Shari'ah Standard of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).



## 1. Al-Mudarah General Definition, Characteristic and Types

### Definition:

Al-Mudarah or Al-Qirad/Al-Muqaradah (Al-Qirad or Al-Muqaradah are synonymous to Al-Mudarah) is an investment partnership in profit whereby one party, the investor/the capital provider (called Rabbul Mal) provides capital to the entrepreneur (called Al-Mudarib) in order to undertake a business or investment activity. Any profit generated from the capital is shared between the investor (Rabbul Mal) and the entrepreneur (Al-Mudarib) according to mutually agreed profit-sharing ratio (PSR).

Al-Mudarah/Al-Qirad /Al-Muqaradah contract is one of the trust-based contracts (i.e. Aqd Al-Amanah). In other words, it is an agreement based on trust relationship. Under this relationship, the entrepreneur (Al-Mudarib) manages the Al-Mudarah asset that is entrusted with and he will not be liable for the impairment of the asset (i.e. financial losses are borne by the investor/the capital provider (Rabbul Mal) alone) except for impairment which is a result of his misconduct (Ta`addi), negligence (Taqsir) or breach of specified terms and conditions of the contract.

### Characteristic:

The general principle is that Al-Mudarah/Al-Qirad /Al-Muqaradah contract is not binding. Therefore, any of the contracting parties has the right to terminate the contract unilaterally except in the following two cases:

- (1) The entrepreneur (Al-Mudarib) has commenced the work relating to the management of the capital of the investor (Rabbul Mal) or
- (2) Contracting parties have agreed to enter into Al-Mudarah for a specified time or have agreed not to terminate the contract within a specified time.

### Types

There are two types of Al-Mudarah namely:

- (a) Restricted (i.e. Muqayyadah) and
- (b) Unrestricted (i.e. Ghair Muqayyadah/Mutalqah)

**Restricted Mudarah:** Under the restricted Mudarah arrangement, the investor/ capital provider (Rabbul Mal), imposes specific restrictions on the Mudarah terms and conditions such as a particular location or a particular type of investment as he deemed appropriate, but not in a manner that would unduly constrain the entrepreneur (Al-Mudarib) in his operations. Precaution and due care must be taken by the entrepreneur (Al-Mudarib) to honor the restrictions imposed by the investor /capital provider (Rabbul Mal), such as period for investment, type of project and commingling of funds etc.

**Unrestricted Mudarah:** Under the unrestricted Mudarah arrangement, the investor/ capital provider (Rabbul Mal) permits the entrepreneur (Al-Mudarib) to manage and administer Al-Mudarah fund without any specific restriction. The entrepreneur (Al-Mudarib) has the freedom to invest in any suitable investment that is reasonably expected to yield profits. He has a wide range of trade or business freedom on the basis of trust and his expertise in business. However, Non-Halal (i.e. Unlawful) and high-risk investments should be avoided by the entrepreneur (Al-Mudarib) as he will be liable for any losses suffered from such bad investments.

## 2. Sukuk Al-Mudarabah / Al-Muqaradah Definition

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Sukuk Al-Mudarabah/Al-Muqaradah is defined as, certificates that represent projects or activities managed on the basis of Mudarabah by appointing one of the partners or another person as the entrepreneur (Al-Mudarib) for the management of operation.

The issuer of these certificates is the entrepreneur (Al-Mudarib), the subscribers are the capital providers (Rabbul Mal), and the realised funds are Al-Mudarabah capital. The certificate holders own the assets of Al-Mudarabah.

Thus, Sukuk Al-Mudarabah/Al-Muqaradah are investment Sukuk that represent common ownership of units of equal value in Al-Mudarabah equity, the providers of the capital (Rabbul Mal/the holders of Al-Mudarabah Sukuk) own shares in Al-Mudarabah equity and its returns according to the percentage of ownership share. Financial losses, if any, are borne by capital providers only except for losses which is a result of the entrepreneur (Al-Mudarib), misconduct, negligence or breach of specified terms and conditions of the contract.

Sukuk Al-Mudarabah/Al-Muqaradah should not contain a guarantee from the issuer or the manager for the fund, for the capital or a fixed profit, or a profit based on any percentage of the capital.

## 3. Use of Al-Mudarabah as the Underlying Structure for Al-Mudarabah/Al-Muqaradah Sukuk

---

Al-Mudarabah/Al-Muqaradah Sukuk are governed by the provisions of Al-Mudarabah transaction contract. Consequently, the same characteristics of Al-Mudarabah transaction structure is adapted for use as the underlying structure in a Sukuk issuance as the issuer of Al-Mudarabah certificates is Al-Mudarib (the entrepreneur), the subscribers are the Rabbul Mal (the owners of capital) and the realised funds are Al-Mudarabah capital. The certificate holders own the assets of Al-Mudarabah and the agreed upon share of the profits belongs to the owners of capital and they bear the loss, if any. So, each investor's purchase of Sukuk would represent units of equal value in Al-Mudarabah capital, and are registered in the names of the Sukuk certificate holders on the basis of undivided ownership of shares in Al-Mudarabah capital.

### 3.1 Provisions and requirements

Provisions and requirements that should be considered when using Al-Mudarabah as the underlying structure for the issuance of Al-Mudarabah/Al-Muqaradah Sukuk are the following:

- Under Al-Mudarabah/Al-Muqaradah contract, Al-Mudarabah capital must be provided by the capital provider/ investor (Rabbul Mal) and managed by the entrepreneur (Al-Mudarib).
- The capital must be identifiable, clearly known to the contracting parties and defined in terms of quality and quantity in a manner that eliminates any possibility of uncertainty or ambiguity. It must, also readily available and accessible for entrepreneur (Al-Mudarib) to commence investment or business activities.
- In principle, the capital must be provided in the form of cash. However, it may be presented in the form of tangible assets, in which case the value of the assets is the contribution to Al-Mudarabah capital. The valuation of the assets may be conducted by experts or as agreed upon by the contracting parties
- The capital must not be in the form of a debt owed by the entrepreneur (Al-Mudarib) in other words, a debt due to the investor (Rabbul Mal) either from the entrepreneur (Al-Mudarib) or a third party.

- The entrepreneur (Al-Mudarib) should not guarantee Al-Mudarabah capital. However, the capital provider is permitted to obtain guarantees from Al-Mudarib that are adequate and enforceable. This is circumscribed with a condition that the capital provider will not enforce these guarantees except in cases of misconduct, negligence or breach of contract on the part of Al-Mudarib.
- The entrepreneur (Al-Mudarib) should have the right to manage Al-Mudarabah venture. He is responsible to ensure proper management of Al-Mudarabah venture and acts in the interest of the investor (Rabbul Mal). His mandate shall be provided under the terms and conditions of Al-Mudarabah contract.
- The capital provider (Rabbul Mal) and the entrepreneur (Al-Mudarib) may agree for a gradual withdrawal of Al-Mudarabah capital by investor (Rabbul Mal).
- The entrepreneur (Al-Mudarib) may with the consent of the investor (Rabbul Mal) commingle Al-Mudarabah capital with other investment fund.
- The mechanism for distributing profit must be clearly known in a manner that eliminates uncertainty and any possibility of dispute. The distribution of profit must be on the basis of an agreed percentage of the profit and not on the basis of a lump sum or a percentage of the capital.
- The parties should agree on the ratio of profit distribution when the contract is concluded. It is also permissible for the parties to change the ratio of distribution of profit at any time and to define the duration for which the agreement will remain valid.
- If the parties did not stipulate the ratio of profit distribution, then they should refer to customary practice, if any, to determine the shares of profit.
- If one of the parties stipulates that he should receive a lump sum of money, Al-Mudarabah contract shall be void. This rule does not apply to a situation where the parties agree that if the profit is over a particular ceiling then one of the parties will take the additional profit and if the profit is below or equal to the amount of the ceiling the distribution of profit will be in accordance with their agreement.
- No profit can be recognized or claimed unless the capital of Al-Mudarabah is maintained intact. Whenever Al-Mudarabah operation incurs losses, such losses stand to be compensated by the profits of future operations of Al-Mudarabah. The losses brought forward should be set against the future operations of Al-Mudarabah. The losses brought forward should be set against the future profits.
- The distribution of profit depends on the final result of the operations at the time of liquidation of Al-Mudarabah contract. If losses are greater than profits at the time of liquidation, the balance (net loss) must be deducted from the capital. In this case, Al-Mudarib as a trustee, is not liable for the amount of this loss, unless there is negligence or misconduct on his part.
- If the total Al-Mudarabah expenses are equal to the total Al-Mudarabah revenues, the capital provider will receive his capital back without either profit or loss, and there will be no profit in which Al-Mudarabah is entitled to a share. If profit is released, it must be distributed between the parties as per the agreement.
- If Al-Mudarib has commingled his own funds with Al-Mudarabah funds, Al-Mudarib becomes a Partner in respect of his funds and Al-Mudarib in respect of the funds of the capital provider. The profit earned on the two commingled funds will be divided proportionately to the amounts of the two funds, in which case Al-Mudarib takes the profit attributable to his own funds, while the remaining profit is to be distributed between Al-Mudarib and the capital provider according to the provisions of Al-Mudarabah contract.

- At any time, Al-Mudarib may, either by permission or appointment of the capital provider combine Al-Mudarabah contract and a partnership (Sharikah) contract, irrespective of whether this takes place at the outset of the contract or after the commencement of Al-Mudarabah operations, and of whether the partnership contribution is from Al-Mudarib himself or from a third party. The mixture of unrestricted investment deposits with the institutions' funds is an example of this kind of combination.
- Also, he may accept funds from a third party on Al-Mudarabah basis if this new contract will not affect his investment and management responsibility in respect of the first Al-Mudarabah contract.

#### 4. Basic Features of Sukuk Al-Mudarabah / Al Muqaradah as per the Resolution of the Council of the Islamic Fiqh Academy of OIC

Resolution number 30 (5/4) of the Council of the Islamic Fiqh Academy of OIC concerning Sukuk Al-Mudarabah/Al-Muqaradah and investment certificates, in its Fourth session in Jeddah, (Kingdom of Saudi Arabia), from 18 to 23 Jumada Thani 1408 H (February, 6 to 11, 1988) stated the following:

1. Muqaradah Certificates are investment instruments which allocate the Muqaradah/ Mudharabah capital by floating certificates, as an evidence of capital ownership, on the basis of shares of equal value, registered in the name of their owners, as joint owners of shares in the venture capital or whatever shape it may take, in proportion to the each one's share therein. It is preferable to call this investment instrument "Muqaradah Deed".
2. The formula acceptable by Shari'ah, in general, for Muqaradah certificates, must consist of the following elements:

*First element:* The deed must represent a joint share in the project, for whose establishment or financing it has been issued. Ownership remains valid throughout the duration of the project from its beginning to its end. It also confers all rights and privileges provided by Shari'ah upon the owner over its property, e.g. sale, donation, mortgage, inheritance, etc., bearing in mind that such certificates represent the Mudarabah capital.

*Second element:* The contract, with regard to Muqaradah certificates, is concluded on the basis of terms defined in the prospectus, that offer is expressed by subscription and acceptance by approval of the issuing authority. The prospectus must provide all data required by Shari'ah for the "Qirad" contract (the Mudarabah), such as the nature of the capital, the distribution of profit and all other conditions related to the issue, which must be compatible with Shari'ah.

*Third element:* The Muqaradah certificates must be negotiable at the end of the subscription period, since the Mudarib has authorized to do so once the certificates have been issued, taking into account the following rules prescribed by Shari'ah:

- A. If the Qirad capital, collected from subscription prior to its use in the project, is still in the form of cash, negotiating Muqaradah certificates is considered an exchange of money with money, governed by Shari'ah rules on money exchange.
- B. If the Qirad capital turns into debts, Mudarabah certificates should be negotiated according to the rules applied to loans.
- C. If the Qirad capital is converted into mixed assets, e.g. cash, debts, goods, benefits, Muqaradah certificates may be negotiated at the price agreed upon provided the major part of the capital is in the form of goods and benefits; if it mainly consists of cash and debts, exchanging Muqaradah certificates must comply with Shari'ah rules. Whatever the case may be, all exchanges must be registered according to recognized norms in the books of the issuing authority.

*Fourth element:* The one who receives the funds collected from the subscribers to the certificates, for investment in the proposed project, is called "Mudarib"; his ownership in the project is limited to the extent of his subscription. Thus, he is capital contributor in addition to his share in the profit, after it is actually generated in accordance with the terms in the prospectus. The Mudarib's role in handling the subscribed funds and the project property, is that of a trustworthy person, who may not be held responsible, unless his liability is permitted under Shari'ah rules.

3. Taking into account the preceding rules of exchange, Muqaradah certificates may be exchanged in stock markets, if they are governed by the rules prescribed by Shari'ah, in accordance with the principle of supply and demand, and subject to the approval of contracting parties. They may also be negotiated if, at a given period of time, the issuing authority makes an announcement or an offer to the public, by virtue of which it pledges to purchase the said certificates, operation to be funded by the profits yielded by the Mudarabah at fixed price set by qualified experts in the light of conditions prevailing in the stock market and the financial status of the project. A party other than the issuing authority, indicating its commitment to purchase the certificates using its own funds may also make an announcement.
4. Neither the prospectus nor the Muqaradah deeds should contain a guarantee, from the manager of the funds, for the capital or a fixed profit or a profit based on a percentage of the capital. If such clause is implied explicitly or implicitly, the guarantee condition is voided, and the Mudarib is entitled to a profit equal to that of a similar Mudarabah.
5. The prospectus or Muqaradah deed issued pursuant to it, should not contain any statement obligating a sale, even if conditional or related to future. However, the Muqaradah deed may include a promise to sell and, in such case, sale is effected only on a contract basis, at a price fixed by qualified experts and agreed upon by the two parties.
6. The prospectus or Muqaradah deed issued pursuant to it, should not contain any statement that the company has fixed in dividends. If such clause exists, the contract is null and void.

#### IN CONSEQUENCE:

- A. The prospectus or Muqaradah deed issued pursuant to it, may not stipulate payment of a specific amount to the shareholder or to the owner of the project;
  - B. Only the profit is to be divided, as determined by applying rules of Shari'ah; that is, an amount in excess of the capital, and not the revenue or the yield. "Tandeed" (liquidation) or evaluation of the project in monetary terms determines the extent of profit. What is in excess of the capital after "Tandeed" or evaluation is the profit to be divided between the shareholders and the Mudarib, in accordance with the terms of the contract.
  - C. The profit and loss account of the project must be published and under the control of shareholders.
7. Profits are due when realized, and owned by liquidation or evaluation and become payable only upon distribution. If the project produces revenues or yields, its yields may be distributed. What is paid to the two parties to the contract before liquidation (Tandeed) or evaluation is considered a payment on account on the dividend.
  8. It is permitted by Shari'ah to include, in the prospectus or the Muqaradah certificates, a clause stating that at the end of each period, a certain percentage shall be deducted either from the share of the shareholder in the dividend-if periodic Tandeed is carried out-or from their share in revenue or yields distributed on account, and deposited as special reserve for contingencies, such as loss of capital.

9. There is nothing in Shari'ah preventing the inclusion of a statement in the prospectus or the Muqaradah certificates, about a promise made by a third party, totally unrelated to the two parties to the contract, in terms of legal personality or financial status, to donate a specific amount, without any counter benefit, to meet losses in a given project, provided such commitment is an independent one, not related to the Mudarabah contract, in the sense that the enforcement of the contract is not conditional to the fulfilment of the promise, or that the promise underlines the terms of the contract. Hence, neither the shareholder nor the Mudarib may invoke this clause to avoid the contract or renege on his commitment, alleging that said commitment made by the third party had been duly taken into consideration in the contract.

## 5. An Overview of Al-Mudarabah / Al-Muqaradah Sukuk Structure

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1. Special purpose vehicle (SPV) will be the issuer of the Al-Mudarabah Sukuk which represent an undivided ownership interest in underlying asset, transaction or project.
2. The Sukuk holders (i.e. investors) will pay the principal amount or the proceeds to issuer SPV, who does funding activities over the proceed and thereby, act as trustee on behalf of the Sukuk holders,
3. Al-Mudarabah agreement will be signed between the issuer SPV as the capital provider (Rabbul Mal) and Originator as the entrepreneur (Al-Mudarib) for a Shari'ah compliant enterprise. In this arrangement, the issuer SPV will provide the capital amount and the Originator will contribute its expertise and managerial skill to Al-Mudarabah enterprise with full sense of responsibility for managing the cash principal amount contribution entrusted him with in accordance with specified investment criteria, with the objective to generate profit from the cash principal amount in a Shari'ah compliant manner.
4. Profit gained or generated by the Al-Mudarib enterprise are shared between issuer the SPV as the capital provider (Rabbul Mal) and Originator as the entrepreneur (Al-Mudarib) in proportion to the profit sharing ratio set out in the Al-Mudarib Agreement while, loses will be borne by issuer SPV as the capital provider (Rabbul Mal), except for loses which is a result of the entrepreneur (Al-Mudarib) misconduct, negligence or breach of specified terms and conditions of the Al-Mudarabah contract.
5. Originator (Al-Mudarib), in addition to its profit share, may receive a performance fee if the profit generated by the Al-Mudarabah enterprise exceeds the benchmarked return. The performance fee (if any) would be estimated and calculated at the end of the Al-Mudarabah term and upon the liquidation of the Al-Mudarabah.
6. Issuer SPV as Trustee will receive the Al-Mudarabah profits on behalf of the Investors.
7. Issuer SPV as Trustee will be paying each periodic return to Sukuk holders/Investors using the Al-Mudarabah profits it has received under the Al-Mudarabah Agreement.

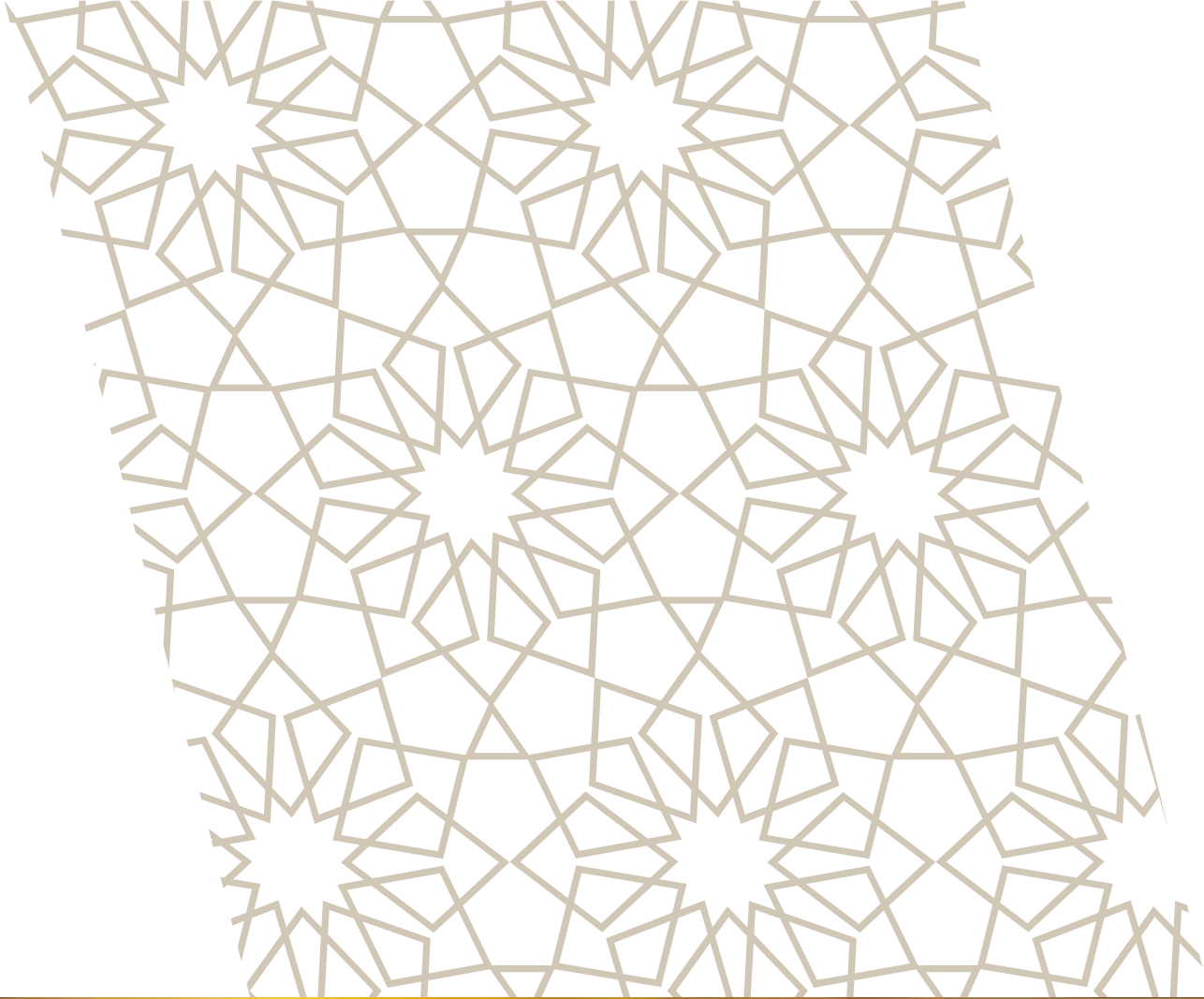
## 6. Conclusion

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To sum up, these are general Shari'ah rulings and regulations regarding the issuance of Al-Mudarabah/Al-Muqaradah Sukuk and Shari'ah is open to any new developments related to the structure of Al-Mudarabah Sukuk in the future as well as all other areas in the Islamic finance industry because the principles and core teachings of Shari'ah encourage creativity and innovation in all areas and fields related to human development.

Source:

- International Islamic Fiqh Academy of the OIC, resolution number 30 (5/4) concerning Sukuk Al-Mudarabah/Al Muqaradah and investment certificates (1408H - 1988).
- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Shari'ah Standard No. (13) Mudarabah, and Shari'ah Standard No. (17) Investment Sukuk.



# Chapter Three





**SELECTED SUKUK ISSUANCES  
(CASE STUDIES CONTRIBUTION)**



## 3.1 - Al Rayan Bank PLC (Tolkien Funding Sukuk No.1 PLC) GBP 250 million Prime UK Islamic RMBS

**By Ahsan Ali - Head of Islamic Origination, Standard Chartered Bank**

On 13th February 2018, Al Rayan Bank PLC and Standard Chartered (SCB), acting as Joint Lead Managers, successfully priced the first ever UK Islamic RMBS transaction and inaugural offering of GBP 250 million 2.87yr WAL Certificates priced at 3m£L+80bps for Al Rayan Bank PLC (Al Rayan or the Company) with a 1.54x subscribed book. This transaction marks a milestone in the development of Islamic finance and opens up a new funding avenue for Islamic banks in the UK and beyond.

Issuer	Tolkien Funding Sukuk No.1 PLC
Originator, Seller, Servicer and Arranger	Al Rayan Bank PLC
Issue	GBP 250m Prime UK Standalone, Static Pool, Pass-Through Islamic RMBS
Collateral	Prime Home Purchase Plans structured as Shari'ah-compliant Diminishing Musharaka with Ijara, originated by Al Rayan Bank PLC to its retail customers in UK
Issue size	GBP 250 million
Profit Rate	3m£L+80bps (3m£L+160bps post step-up date)
Pricing Date	13 February 2018
Step Up Date	20 April 2021
Legal Final Maturity	20 July 2052
First IPD	20 July 2018 (Long first coupon)
WAL (yr)	2.87 years (assuming 3.0% CPR and issuer call on step-up date)
Credit Enhancement (%)	18.33% (Overcollateralization: 16.67% and Reserve Fund: 1.67%)
Joint Lead Managers	Al Rayan Bank PLC and Standard Chartered Bank (B&D)
Legal counsel for Seller and Arranger	Norton Rose Fulbright LLP
Legal counsel for SCB as JLM	Clifford Chance LLP
Shari'ah Advisors	Shari'ah Supervisory Committees of Al Rayan Bank and Standard Chartered Bank
Shari'ah Compliance Adviser	Al Rayan Bank PLC
Issue Rating	Aaa(sf)/AAA(sf) (Moody's / S&P)
Listing	Irish Stock Exchange and London Stock Exchange

### Highlights

Al Rayan's Sukuk achieved a number of noteworthy milestones/successes including:

- Pioneering Transaction – The first ever UK Islamic Residential Mortgage-Backed Securities (RMBS)
- Al Rayan Bank's inaugural public transaction
- This transaction marks a milestone in the development of Islamic finance and opens up a new funding avenue for Islamic banks in the UK and beyond.

## Objectives

- Access the debt capital markets as a new source of funding
- Utilise the company's assets to reduce the cost of funding
- Achieve the tightest pricing possible
- Establish a market for Islamic RMBS

## Originator Background

- Al-Rayan Bank PLC (Al-Rayan) was established in 2004 as Islamic Bank of Britain, the first wholly Shari'ah-compliant UK bank. In 2014 majority ownership in the bank was acquired by Masraf Al Rayan (MAR), the second largest bank in Qatar by market capitalisation.
- Al-Rayan focuses on three business segments: (i) the retail business is mostly composed of Home Purchase Plans (HPP) and Buy-to-Let Home Purchase Plan (BTLPP) products, which adhere to Shari'ah principles; (ii) the commercial property finance portfolio, which covers large residential investment private rental sector (PRS) schemes, mixed used industrial warehouses, student property as well as prime offices, and (iii) the GCC segment which offers private banking services to high net worth GCC customers, including real estate finance and day-to-day banking services.
- This pioneering transaction required the deal team to structure in compliance with Shari'ah principles whilst maintaining the conventional elements of UK RMBS.

## The Solution: Creativity and teamwork

### Deal structure

- The transaction securitises a static pool of Home Purchase Plans (HPP) originated by Al Rayan Bank to its retail clients in England and Wales. HPP are Shari'ah compliant financing agreements in the form of a co-ownership arrangement, where the occupier has a beneficial interest in the amount of principal invested in a property. The occupier makes regular payments consisting of acquisition payments (principal) and rent (profit). The acquisition payments gradually increase the beneficial interest of the occupier, reducing the beneficial interest of the bank, akin to a standard mortgage where the loan would amortise over time. HPP are an FCA regulated product.
- In this transaction structure the SPV – Tolkien 1 Sukuk – issued GBP 250 of certificates backed by the sale of GBP 300m HPP from Al Rayan Bank. Al Rayan Bank receives GBP 245m upfront and GBP 55m as deferred sale at the end of the transaction. The deferred sale mechanism and a GBP 5m reserve fund, funded from the proceeds at closing, creates credit enhancement for the transaction.

- At the sale date, Al Rayan Bank transferred to the Issuer all of its rights, titles, interests, and benefits under the HPPs, including the right to receive all remaining payments due by the customers, benefits in insurance contracts in relation to the underlying properties and beneficial title in the residential properties backing HPP contracts. The legal title to the HPPs and the underlying properties is retained by Al Rayan Bank on trust for the Issuer unless any of the perfection events are triggered. Compared to conventional UK residential mortgage-backed securities (RMBS), in this transaction the Issuer will become the beneficial titleholder in the underlying residential properties from the sale date.
- The Certificates amortize over the life of the transaction and pay a profit rate of 3m£L+80bps funded through the income generated by the underlying HPPs. Principal from acquisition payments on the HPPs is allocated to the principal amortisation of the certificates and the revenue from rent receipts is allocated to the payment of the Profit Rate. The principal and revenue is paid according to the payments waterfall.
- The transaction has a step-up date in April 2021, after which the profit rate increases to 3m£L+160bps if the certificates are not redeemed. The certificates have a Weighted Average Life of 2.9 years assuming full redemption at the step-up date otherwise a WAL of 6.6 years to maturity.
- To preserve the credit quality of the underlying collateral pool, the transaction also hosts a series of structural features, e.g. only owner-occupied HPPs are eligible in the pool, any HPPs with a further advance or an increase in term are repurchased and any product switches that occur after the step up date are also required to be repurchased by Al Rayan.
- The transaction was structured to commercially mirror that of a conventional UK RMBS and has been assigned ratings of Aaa(sf) and AAA(sf) (Moody's / S&P).

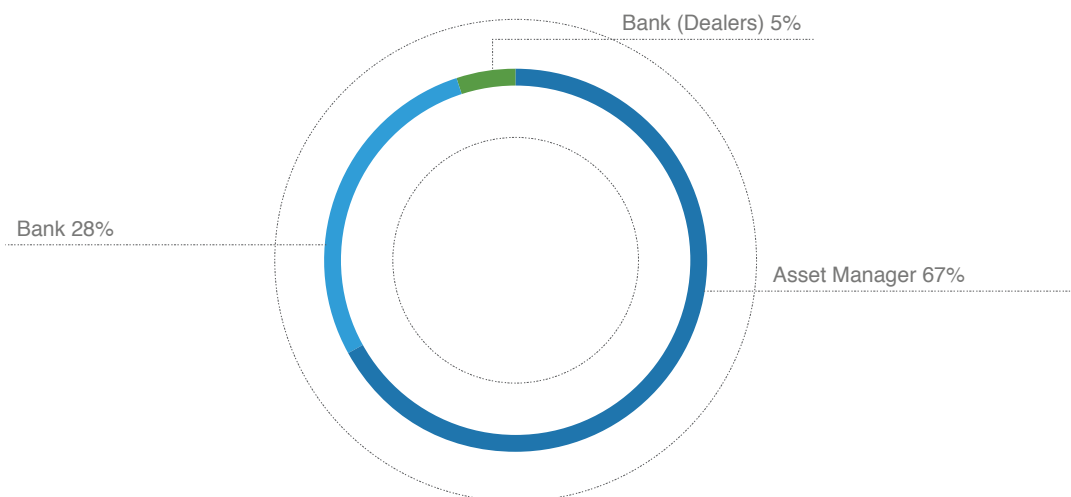
### Roadshow and Marketing

- The inaugural, innovative nature of the deal demanded an investor wall-crossing / pre-sounding process to help educate key accounts on the Islamic structure and characteristics of the underlying HPP. High engagement from core UK real money (the biggest natural buyers of UK RMBS) and Middle Eastern accounts (drawn in by the issuer's Qatari parentage) during this process helped build confidence in the structure.
- The transaction was announced on Monday 29th January with the JLMs conducting a two-day roadshow in London at the end of the same week. The majority of investors with whom the issuer had met during the pre-sounding process re-engaged during public marketing.
- A two-week window between announcement and pricing (in line with other UK RMBS transactions) allowed investors time to carry out their extensive credit work and modelling of the underlying pool of HPPs.

### Outcome and Market Impact

- The success of the transaction demonstrates the Islamic structuring expertise available in-house with the lead arrangers who created an innovative Shari'ah compliant solution for Al Rayan Bank which not only commercially mirrors the conventional RMBS transactions in UK for benchmarking purposes but also (for the first time) required use of Shari'ah compliant HPP contracts as the underlying collateral.
- The lead arrangers worked tirelessly over the course of the marketing period, ensuring those accounts that had provided indications of interest early in the process were cemented as firm orders.
- With pricing and broad market support for the deal, orders from large real money investors pushed the order book north of GBP 385m a very impressive level for an inaugural prime ABS transaction. The final book was 1.54x subscribed with the largest share going to Asset Managers, followed by Bank Treasury desks and Bank Trading desks to enhance secondary market liquidity in this nascent asset class. The Sukuk was priced at par with a coupon of 3m£L+80bps and a step-up date of 20th April 2021. The certificates were made free to trade the next morning.
- The Sukuk was priced at par with a coupon of 3m£L+80bps and a step-up date of 20th April 2021. The certificates were made free to trade the next morning.

### Investors By Type



### Summary

- The issuance indeed represents an impressive outcome as the transaction marked the first ever UK Islamic Residential Mortgage-Backed Securities (RMBS) while also being Al Rayan Bank's inaugural public transaction and achieving a peak oversubscription of 1.54x.
- By securitizing Shari'ah Compliant Home Purchase Plans (Islamic mortgages) and structuring the transaction to the AAA rated standards of conventional prime RMBS, Al Rayan Bank has opened up a new, innovative funding avenue for Islamic banks in the UK and across the world.

## 3.2 - Golden Group Holding LLC - Oman, USD 520 Million Wakalah Sukuk Issuance

*By Sohail Niazi, Chief Executive, Maisarah Islamic Banking Services*

Oman's Largest Corporate Sukuk Program  
 Program: OMR 200 Million (USD 520 Million)  
 First Tranche - OMR 50 Million (USD 130 Million)  
 05 February 2018

### Key Offering Terms of the Sukuk

Issuer and Obligor	Golden Group Holding LLC
Size of Issue	Program: OMR200 million (USD520 million) 1st Tranche: OMR50 million (USD130 million)
Mode of Issue	Private Placement
Purpose	General corporate purposes and construction of 3* and 4* star Shari'ah compliant hotels in Oman
Tenor	Five years
Anticipated Profit Rate	6.50% per annum
Payment	Semi-annual
Currency	Omani Rial
Maturity date	05 February 2023
Sole book runner, lead manager, principal advisor and Shari'ah advisor	Maisarah Islamic Banking, Bank Dhofar
Governing Law	Sultanate of Oman
Legal Advisor	Trowers & Hamblins
Listing	Muscat Securities Market
Rating	omA+ by Capital Intelligence
Structure	Wakalah
Tradability	Yes
Investor Breakdown	Islamic Banks, Insurance Companies, Government Institutions, Corporates, Family Offices and High Net-Worth Individuals

### Golden Group – The Obligor

From a small trading firm in 1982, Golden Group has evolved and grown to 28 companies covering a diverse range of business sectors under the visionary leadership of its Founder and Chairman Sheikh Salim Bin Ahmed Al Ghazali.

The group currently has business interests covering hospitality, home furniture supplies, real estate development and investment, facility management, logistics and construction businesses in Oman.

Its real estate assets include 10 hotels and serviced apartments offering a total of 460 rooms, and 49 real estate properties across Oman, with a further 9 properties under construction.

Golden Group set milestone history in Oman in February 2018 by establishing the first corporate Sukuk program by a family office. This is the largest Sukuk program in Oman with a size of OMR 200 million.

The first tranche of the Sukuk with a size of OMR 50 million had been successfully issued by way of private placement on 05 February 2018. Maisarah acted as the sole lead issue manager on this transaction. Furthermore, the Shari'ah Board of Maisarah issued the Fatwa for the Sukuk.

### The Sukuk Structure

A special purpose company (Golden Sukuk LLC) incorporated in Oman as a limited liability company was established to issue trust certificates to Sukuk investors in consideration for the Sukuk proceeds. The proceeds of the fund were to be utilized for funding three hotel projects under three and four star category in Oman (Shari'ah compliant) and also for the general corporate purpose expenditure.

Golden Group owns portfolio of assets consisting of both land and real estate assets. Hence, the Wakalah structure was more appropriate in their case. A total of 26 real estate assets with a total value of OMR 50 million has been identified as the Wakalah assets.

Under the Wakalah structure, trustee (as Muwakkil) i.e. Golden Sukuk LLC appointed Golden Group Holding (GG) as Wakeel through the Master Wakalah Agreement. The Master Wakalah Agreement sets out the framework of the rights and obligations of both the Muwakkil and Wakeel. The Wakeel invests the relevant Sukuk Proceeds (Wakalah Investment Amount) on behalf of the Muwakkil in accordance with the terms of the Master Wakalah Agreement and the relevant Wakalah Contract in order to generate an anticipated return on the Wakalah Investment Amount. Wakalah Investment Amount is to be invested by the Wakeel, and this may include the acquisition of assets from GG (acting in its separate capacity as seller and not in its capacity as Wakeel) or making an investment in certain assets or business ventures of GG (acting in its separate capacity as seller and not in its capacity as Wakeel).

In this regard, the issuer on behalf of the certificate holders will execute the asset Purchase Agreement with the GG to acquire the assets for the certificate holders. The Wakalah business or assets should meet the Shari'ah requirements as mentioned in the Master Wakalah Agreement. Costs and expenses incurred by the Wakeel in carrying out the Wakalah services will be notified to the Muwakkil in writing and will be borne by the Muwakkil and the Muwakkil will authorize the Wakeel to deduct from the relevant Profit Revenues the amount of such Wakeel Service Charge.

During the lifetime of the Sukuk, the Muwakkil will authorize the Wakeel to retain any Profit Revenues in excess of the Anticipated Profit as incentive payment on the basis that if at any point in time there is a shortfall between the amount standing to the credit of a Transaction Account and the amount of periodic distribution payments due under the Trust Certificates for each Series then the Wakeel will return such portion of the On Account Incentive Payment as is required to meet the shortfall.

The Wakeel will provide its services against a fixed fee in addition to a fixed fee as mentioned in the Wakalah agreement. The Wakeel will also be entitled to retain any Profit Revenues in excess to an anticipated profit rate as an incentive at the time of final termination or dissolution of the relevant Series.

The Purchase Undertaking will be provided by the GG in the independent capacity under which the GG will purchase the Wakalah assets from the Trustee upon the occurrence of a dissolution event or maturity at price mutually agreed at the time of purchase of the assets in accordance with a formula agreed between the two parties.

### Security Coverage and Rating

The Sukuk also has many unique characteristics. It has 100% security coverage along with additional negative pledge worth 20% (of the issuance amount) worth of real estate assets. This was done to ensure that there are sufficient unencumbered assets available to make up for any valuation shortfalls in the security package asset valuation during the life of the Sukuk as well as providing a secondary source of repayment at maturity.

The Sukuk also carries a personal guarantee of the Chairman of Golden Group, Sheikh Salim Al Ghazali, which is rare feature in any Sukuk issuance.

The issue has been rated omA+ by Capital Intelligence Rating Limited and is tradable and is listed in the Muscat Securities Market, Oman.

### The Investors & Islamic Market Share

The issuance was well received and had attracted investors including Islamic banks, insurance companies, high net worth individuals, corporate entities and family offices both in Oman and GCC markets. This transaction has set precedent for family offices to tap the capital markets for corporate financing and business expansion in the GCC region.

This issuance has contributed to the Islamic capital market share in Oman. Currently, the Islamic capital market share is 10.37%, excluding the USD 2.5 billion issuance by the Government of Oman. As for the Islamic banking market share, it is 14.6% of the total banking assets according to Central Bank of Oman data published in September 2018.

### About Maisarah

Maisarah is one of the fastest growing Islamic banking windows in the Sultanate with range of financial products and services. As a part of its strategy it operates as independent Islamic banking window and has maintained high standards of corporate governance, research and development, corporate social responsibility and customer service that have helped in winning various awards in local and international markets.

### 3.3 - Gold Sukuk Investment Fund (Glitter)

**By: Central Bank of Sudan**

#### Preamble

The Gold Sukuk Fund is a short-term investment fund established for mobilizing resources from investors in the restricted form of Mudarabah with the Company to be used in purchase and sale of gold and to achieve attractive returns for investors in accordance with the applicable state controls.

#### Objective

- To attract national savings and encourage investment.
- To provide a legitimate Islamic tool to manage liquidity and financial policies.
- To assist Central Bank of Sudan in providing resources for foreign exchange.
- To achieve development of local capital markets.
- To achieve a profitable return for investors.
- Trading is in the form of allocated Physical Gold.

#### Investors Eligible to subscribe to the Gold Sukuk and the Total Value of the Fund:

All individuals, companies and financial institutions resident and non-resident can subscribe in these Sukuk. The Total Value of the fund is three (3) billion Sudanese pounds (only three billion Sudanese pounds) divided into (3,000,000) unit with a nominal value of 1000 pounds per unit.

#### The Fund Maturity Period

The maturity of the fund is 12 months commencing upon receipt of its minimum capital and can be extended for further periods.

#### The Economic Feasibility of the Fund

The Fund's criteria are built on the following bases:

1. The size of the fund: Three (3) billion Sudanese pounds.
2. The minimum amount of the Fund is SDG 1,000,000,000 (one billion Sudanese Pounds), unless the Fund Manager sees otherwise and represents the beginning of the Fund's activity.
3. According to the feasibility study, the Fund is expected to achieve a return of 25% to 35% per annum.
4. The proceeds from Mudarabah trading operations are distributed as follows:
  - A- 90% of the net profits realized is for the Sukuk holders.
  - B- 10% of the net profits realized is the Company (Mudarib).



### Contractual Relationship

The relationship between the investors (as the capital owners) and the company (as the Mudarib/ Entrepreneur) is based on Mudarabah contract restricted to trading in gold.

Pursuant to this Mudarabah relationship and as per the Shari 'ah requirement, the company as Mudarib (entrepreneur) does not guarantee the return of the invested capital (i.e. principal amount) or any part thereof except in the case of infringement or gross negligence on his part as Mudarib/ Entrepreneur.

### The Shari 'ah Pronouncement (Fatwa)

According to the pronouncement (i.e. fatwa) issued on 27 Muharram 1440H (7 October 2018) by the Shari'ah Commission, the Gold Sukuk issuance is consistent with the rules and principles of Shari'ah (Islamic Law). In addition, The instruments are under the continued supervision of the Shari'ah Commission.

### The distribution of Gold Investment Fund by investor type

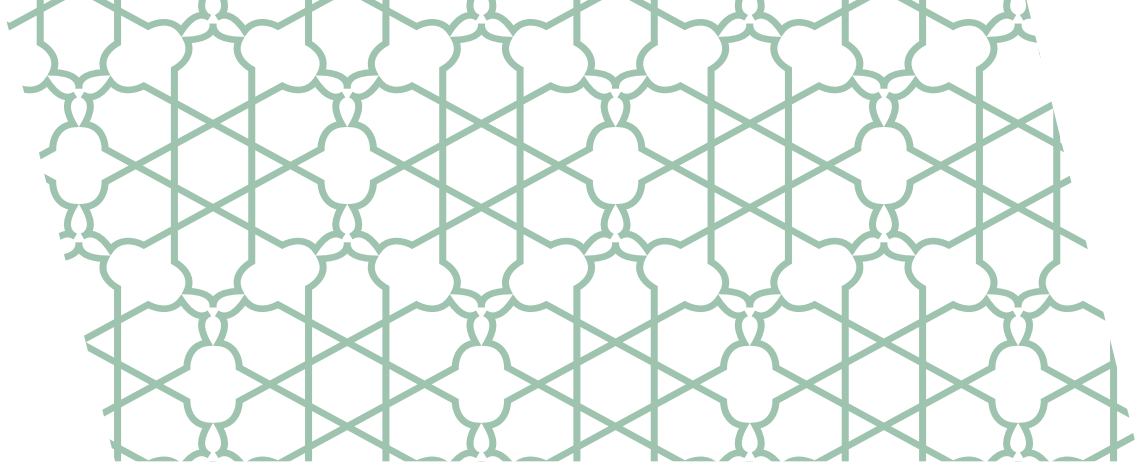
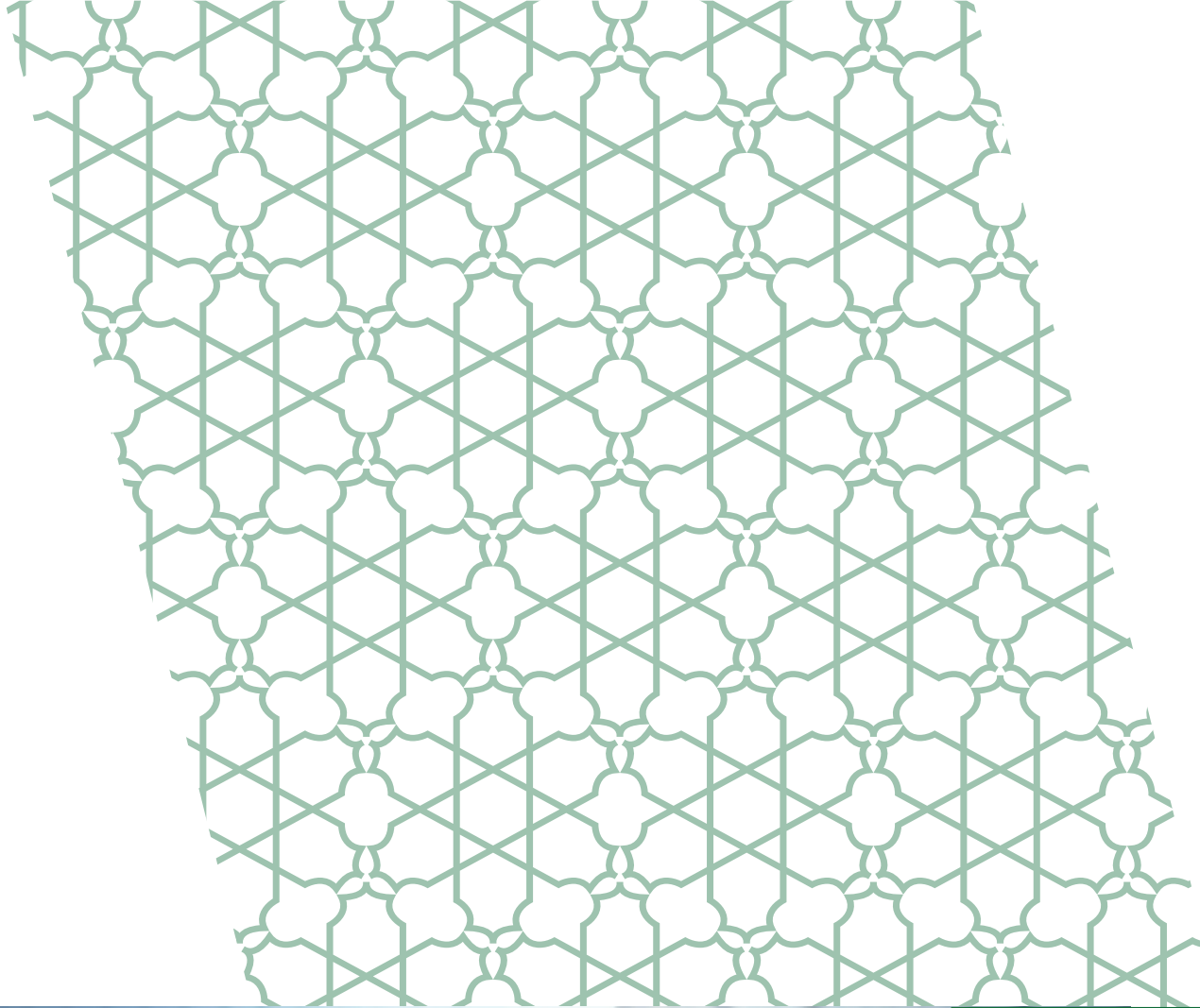
Customer type	Value of investment in SDG million
Individual Investors	327.6
Foreign individuals Investors	9
Companies	114.4
Others. Funds & Committee	1,092.1
<b>Total</b>	<b>1,543.1</b>

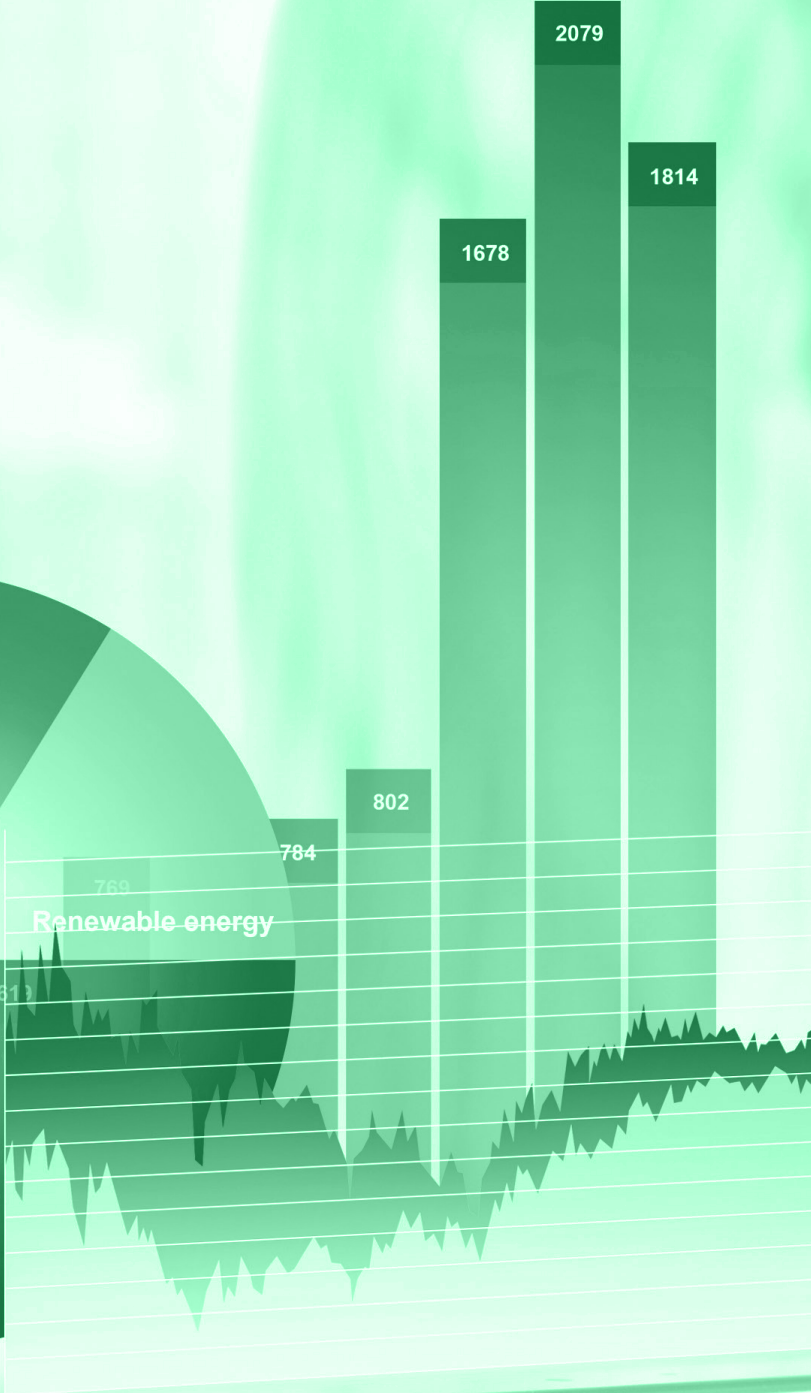
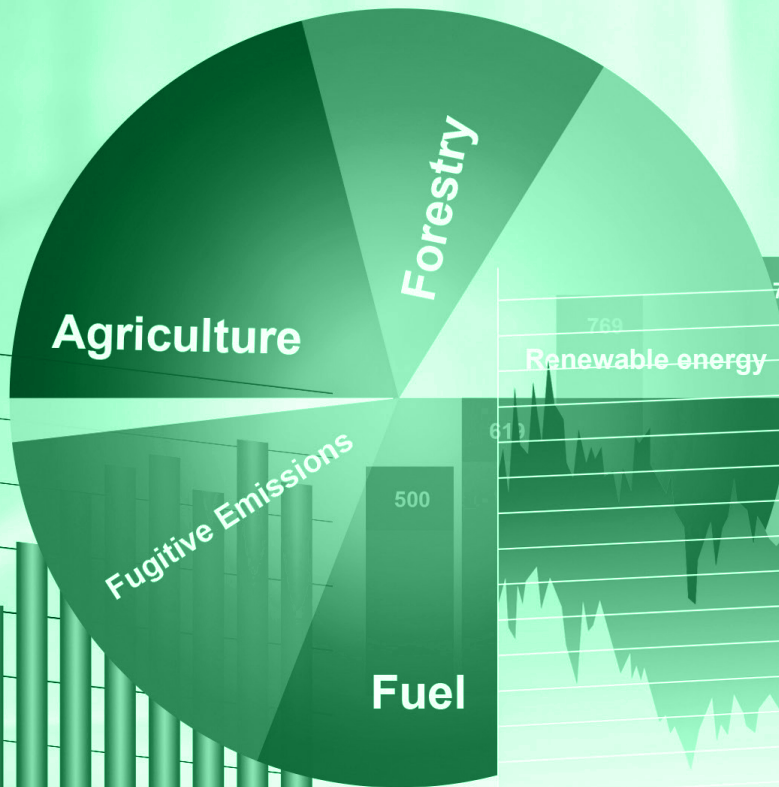
### Geographical Distribution of Investors

Within Sudan, the majority of the investors are from Khartoum state followed by Jazirah state and southern Kurdofan state,

### Trading opportunities in the Secondary Market

The issue of listing the fund has not been decided on the stock market. However, discussion are in place to evaluate listing on the Exchange.





# ARTICLE CONTRIBUTION

## 4.1 - Sukuk Issuance, Financing and Investment for Positive Social Impact

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**By Stella Cox CBE, Managing Director, DDCAP Group**

In recent years global investors have begun, cautiously but consciously, to realign investment perspective previously based principally on traditional risk and return criteria, towards investments that give due reference to environmental, social and governance (ESG) considerations. This gradual realignment has shown signs of accelerating as a result of the adoption of initiatives such as the United Nations Sustainable Development Goals (SDGs). The SDGs are 17 Goals set in 2015 by the UN General Assembly. They cover a range of economic, environmental and social issues such as eradication of poverty and hunger, sustainability of urban environments, water and energy, climate change, social justice, healthcare and education. Their objectives and targets have been set to transform the global approach towards sustainable development by 2030.

### **Incorporating social and environmental capital into investment decisions**

However the SDGs will not be achieved without effective social infrastructure for delivery. Sources of conventional, institutional funding do not have sufficient capacity to meet the global demand, and the position is further challenged in emerging economies or those where financial markets remain under developed. The United Nations and other third parties tasked to proactively drive forward the 2030 Agenda recognise the need to refine targets and objectives so that they are relevant to local requirement. Necessitating a full understanding of what will work best for individual societies and their communities, it is also anticipated that different models for successful deployment of financing and investment will need to be developed. This, in turn, supposes the need for local institutions to be involved and for models to be built that encompass the faiths and beliefs of different communities. It offers significant prospects for Shari'ah compliant solutions to be delivered and, where necessary, developed and particularly so for poorer OIC countries. Despite the value of global Islamic financial industry assets surpassing USD 2 trillion at the end of 2017<sup>1</sup>, they are strongly weighted in the banking sector, which accounts for some USD 1.55 trillion, evidencing the likelihood of a similar gap in Islamic banks' and financial institutions' capacity for Shari'ah compliant financing of social infrastructure. Whilst raising the interesting prospect of new partnerships (another of the SDGs), satisfying demand also presents a series of challenges for governments, the private sector and civil society in coming together to create and ensure sustainability.

Financial institutions, firms and other investor groups committed to and focused upon incorporating sustainable and responsible investment (SRI) criteria into investment decisions generally have to be willing to embrace some significant change to their existing approach to investment analysis and procedure that can only be implemented from a revised investment strategy. Due diligence and related analysis must be completed to enable a supporting investment rationale to be made available to decision makers and influencers. Evaluating how the impact of investment in projects of social relevance is measured has been one of the challenges, by example how can the outcome be measured when investment data may not be available or even relevant? Any tool available or being developed as an application to measure investment impact needs to be sufficiently robust to convince those with environmental and social interests of its merits, but also to ensure that individuals mandated to manage corporate and commercial risks, business viability and long-term social well-being have confidence in it.

### Islamic Social Financing

Social impact bonds enable investors to participate in publicly funded projects, with the return on the investment driven by the success of that project. The first was launched in the UK in 2010 with a focus on prisoner rehabilitation and since then there have been funding solutions targeting healthcare, housing and education to support programmes in other countries. The International Committee of the Red Cross (ICRC) recently raised funds from private sector through a humanitarian impact bond for social welfare projects in Africa. Amongst government donors, including the UK, agreement has been made for repayment by the results of various initiatives. Private investors' returns are linked to the success of the ICRC in achieving the targeted results. If performance is not on target investors may lose part of their investment but if, through a process of external evaluation, the initiatives are deemed a success investors will receive a return in respect of that positive impact. The Shari'ah compliant financial sector is well placed to make a similar contribution.

In November 2014 the International Finance Facility for Immunization Company (IFFIm) issued an inaugural USD 500 million Sukuk which was recognised as a groundbreaking transaction. An AA rated obligor, IFFIm raises funds within the international capital markets to accelerate the availability of funds for immunisation programmes and health system enhancement by Gavi, the Vaccine Alliance. IFFIm's unique public private partnership presents a compelling case study for financing with social impact. 79% of Gavi's funding is from government with the balance from private sector. Its financial base consists of legally binding grant payments (approx. USD 6.3 billion) from its nine sovereign donors, of which the UK is the largest in terms of funding amount and tenor of commitment, and the World Bank is IFFIm's Treasury Manager. Prior to 2014, IFFIm had raised some USD 5 billion equivalent from the conventional capital markets in support of Gavi over an eight year period. Proceeds of the Sukuk funded immunisation programmes for children in the world's poorest countries. The landmark transaction was the first socially responsible Sukuk, it was the largest Sukuk Al-Murabaha in the public markets at the time of issuance, as well as being the largest inaugural Sukuk offering by a supranational.

### Improving financial infrastructure to support investment and financing for impact in Islamic markets

A paper recently released by the International Organisation of Securities Commissions (IOSCO) Emerging Markets Working Group on Sustainability recognised the natural alignment between sustainable and Shari'ah compliant finance as a relevant factor in Asia, which the Group cited as one of emerging markets' leading regions for sustainable finance and investment. Malaysia is highlighted due to the scale of its Islamic financial sector and its sustainable investment market, which holds a 30% share in Asia. Islamic and sustainable finance are both encompassed within the same financial regulations to provide a supporting infrastructure for investment and financing that is sustainable, responsible and also Shari'ah compliant. Amongst recommendations within the IOSCO paper is the suggestion that gaps in capacity and expertise relating to ESG issues should be analysed by regulators.

Malaysia's position as the largest sustainable investment market in the region (ex-Japan) is the result of a top down regulatory approach stemming from the Malaysian Securities Commission's (SC) development of the SRI Sukuk Framework to finance Shari'ah compliant green, social and sustainable projects in 2014.

This framework subsequently supported the issuance of the world's first green Sukuk in July 2017 to finance a solar power project. A major factor in the success of Malaysia's sustainability framework has been the introduction of a variety of incentives to promote sustainable asset classes, including those that fall under the SRI Sukuk Framework. Amongst them is issuers' eligibility for tax deductions and grants to offset costs incurred in the issuance of green Sukuk. Since the Framework was introduced, SC Malaysia has also organised various capacity building programmes and international conferences to develop greater market understanding of sustainable finance and its positive social impact.

In parallel, Malaysia's Central Bank, Bank Negara Malaysia (BNM) has focused extensively on strengthening the role and impact of the country's Islamic banks. Amongst BNM's innovations have been the issuance of the first SRI Sukuk and the development of green Sukuk. In mid 2017 BNM published a strategic paper on Values Based Intermediation (VBI) which proposed strategies to elevate the role and impact that Islamic banks would play in developing a sustainable financial ecosystem. VBI is a collaboration by BNM with the founding members of the VBI Community, being Bank Islam Malaysia, Bank Muamalat Malaysia, Agrobank, CIMB Islamic Bank and HSBC Amanah Malaysia. BNM defines VBI as "aiming to deliver the intended outcomes of Shari'ah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests". In its consultative paper, BNM addresses the key components and benefits of the strategy, identifies its four underlying thrusts (entrepreneurial mindset, good selfgovernance, community empowerment and best conduct) and sets out the enabling environment for its adoption and implementation.

Malaysia's Islamic banks have since transacted to support the initiative. Amongst them, HSBC Amanah issued the world's first SDG Sukuk in an amount of RM500 million in September 2018, reflecting the Bank's commitment to the financing of projects that benefit communities and are consistent with its stated intention to help finance global sustainable development by providing USD 100 billion in sustainable financing and investment by 2025. The United Nations Development Programme has highlighted the issue as "a prime example of how to create innovative financing for the Goals and marks a milestone in aligning Islamic finance with the SDGs."<sup>2</sup>

### Incorporating social and environmental capital into investment decisions

Translating social investment concepts into tangible investment opportunities that offer sufficient information to stakeholders and practical applications for beneficiaries, including community targets, can be challenging. Considerations such as "Which investment solution is the most sustainable" or "Which investment solution delivers the best community outcome" are not matters to be decided upon solely by the investor. Criteria and parameters have to be agreed upon by all relevant stakeholders and deliverables need to be agreed with reference to community needs, which often calls for flexibility in approach, for compromise and concessions.

In 2016 the Islamic Development Bank (IsDB) and its development partners launched the USD 2.5 billion Life and Living Fund (LLF), to provide up to USD 2.5 billion of concessional financing aimed at saving and improving lives.

The LLF is blending a USD 500 million grant of funding with USD 2 billion of the IsDB's own capital to enable the IsDB to accelerate its concessional financing of health, agriculture and basic infrastructure for the IDB's lower income member countries. Major LLF donors include a number of internationally recognised foundations. Through a statement made by its President at the IMF/World Bank meeting in Washington DC in October 2017, IsDB also affirmed its intention to extend its Sukuk issuance programme in support of financing medium to long-term projects that are principally focused on delivering impact aligned to the SDG objectives.

Investment in social impact projects started making sense for large companies some years ago. Until then, corporate social responsibility typically extended to companies' modest sponsorship of smaller social projects that likely had some direct relevance to their sphere of business. There has since been a shift in corporate thinking around creation of value from investment in projects linked to the wellbeing of society. It can be good for business, even if the value cannot immediately be captured on a balance sheet. Reference has already been made to the challenge of evaluating investments and measuring risk and return in projects that support positive social impact. Due to the relatively recent step change, most large companies don't yet have all of the hard data required to support their assertions, but they are able to support them for now through their internal belief that such investment improves their own sustainability as it enhances their reputation, generates goodwill and builds trust enabling them, in turn, to attract more customers and increase revenue. Furthermore companies' ever more proactive approach to disclosure made within their corporate reporting obligations reflects their belief that the link between impact investment and enhanced corporate value is clear. However, the line between corporate social responsibility (CSR) and corporate support for social innovation is fine. Time and commitment will be required to determine whether socially driven investment initiatives are truly a strategic shift or a branding exercise.

### Where Next?

In the next few years, Millennials will inherit the largest transfer of generational wealth to date and are potentially set to control USD 24 trillion by 2020, according to Deloitte. Millennials are reportedly better educated, better informed and more socially minded than their predecessors and they are proactive investors in the SRI environment. More affluent Muslim countries each have significant millennial populations that are also proportionally greater than those of non-Muslim countries. Technology is increasingly a major contributor to evolving this investor group's access to and engagement with funding of social infrastructure development and that opportunity is resonating with Millennials as entrepreneurs as well as investors. Although our industry is still searching for its first fintech Unicorn, it has a vibrant stream of entrepreneurial technologists. Emerging markets are good candidates for the improvement of quality and availability of data. This has been one fintech focus, with another the evolution of peer to peer lending ventures focused on building funding capacity to foster sustainable and inclusive growth through aggregation of smaller scale financing and investment.

Within wholesale banking and capital markets, examples of benchmark sized, impact focused Sukuk like IFFIm's have been very limited to date, albeit the issuer returned to the market to raise a further USD 200 million in 2015 and is reportedly working with the Islamic Development Bank towards another in 2019. Encouragingly the success of the model has prompted the innovation of further Shari'ah compliant financing and investment templates in response to social infrastructure requirements across a diverse set of projects, in different geographies and different sectors. They have shown that most asset backed and some asset based infrastructure is generally eligible for Islamic financing; that deployment of funds from Shari'ah and mainstream investors can co-exist successfully and that Sharia's compliant financing can be delivered through blended finance via public and private sector collaboration. Ultimately this will serve to realign our industry footing further towards the profit and risk sharing fundamentals that will support the development and sustainability not only of social infrastructure but also of the real economy.

### Sources

\*1 The Islamic Financial Services Industry Stability Report – Released June 2018 by Islamic Financial Services Board

\*2 Achim Steiner, Administrator of the United Nations Development Programme



## 4.2 - Sukuk Secondary Market Volumes, Achievements and Barriers

**By: Khalid Al Rukhayes, Chief dealer – Capital Market desk, KFH Group Treasury**

The Sukuk market has been steadily gaining in importance year after year. As the familiarity with this somewhat novel way of financing increases, more issuers and investors are getting involved. As of April 2019, the outstanding USD Sukuk stood above 184 billion. Like every other market, the Sukuk market has its ups and downs. The period from 2017 until early 2019 has been quite volatile. We have witnessed changes in the number of issuances, liquidity, and demand due to a variety of factors.

On the other hand, secondary market Sukuk trading have been increasing year after year, In 2017 Our trading volumes reached close to USD 17 billion As a group, (KFH Kuwait, KFH Malaysia, KFH Bahrain, KFH Turkey, and KFH Saudi Arabia) 2018 was a slower year on all fronts. We saw a drop in the annual trading volume to USD 10.7 billion as a group. Our number of trades decreased significantly as well. Market participants were quite wary of investing in fixed income during that period. Analyzing from a macro level, the Sukuk market entered a rapid growth phase in 2017. Since our field of work is dominated by USD issuances, the international Sukuk market was largely influenced by market expectations of the Federal Reserve actions. 2017 was the first year of continuous rate hikes since the recession of 2007-2008. Coinciding with that was the budget deficits of many GCC Sovereigns due to lower oil prices. International Sukuk issuances exceeded USD 29 billion in 2017. KSA came out with its first international Sukuk issuances. Many Sovereigns followed suit. Priced at higher yields, we saw a lot of demand for these issuances.

With the Fed signaling their intention to further raise rates the following year, the demand for new issuances dropped. Buyers were not willing to invest heavily in that environment (except in attractively priced issuances). Most of the Sukuk that were issued in 2017 were then trading at a discount. That was partly due to the higher rate environment. Another factor that caused the weaker performance of Sukuk was the credit downgrades in the MENA and Turkey regions (especially for Sovereigns). In 2018, the international Sukuk issuances dropped to USD 25 billion. Issuance coverages were lower as investors were expecting the Fed to continue its tightening.

As a result, we witnessed an increased use of profit rate swaps to hedge against the movement in market rates. Although it does not hamper our involvement in new issuances, it limits the ability to freely trade the Sukuk since the hedged positions cannot be traded due to regulations. That contributed to the lower trading volumes of 2018, another aspect that influenced secondary market trading negatively was the avoidance of realizing losses due to the selling of the Sukuk market as prices moved way below above cost price.

Towards the end of 2018, weaker data as well as the challenges facing the global economy caused a shift in sentiment. No longer were there expectations of continued rate hikes. Market participants were now expecting rates to go lower. As a result, we saw the USD yield curve flatten (and invert in the shorter durations). Expectations of a rate cut even surpassed that of a hike in 2019. For too many in the fixed income industry, that was a welcome sign. The appetite for new issuances increased. Issuers saw that as an opportunity to borrow at lower rates. Investors were also looking to invest at the current rates before rates move lower.

Another interesting observation was on the short term Sukuk side (IILM) at the beginning of 2018 IILM switched to a competitive auction where each primary dealer reflects their client's bids both on size and pricing which led to a more accurate curve reflecting the real appetite of the market towards short term Sukuk. Due to that, we saw a more active secondary market on the IILM, since clients who were not allocated moved towards the Secondary market to fill up their orders.

In the first quarter of 2019, international Sukuk issuances was around USD 9 billion (on track to exceed the numbers of 2017 and 2018). More corporates in the region were now looking at Sukuk as a way of financing. That was not an option in previous years due to the lack of demand as well as due to the high rates. Retail demands for Sukuk also increased. Coverages on issues did well for the Sukuk, making issuers printing at very low prices, we expect an active pipeline moving along the year with high demand on Sukuk in both primary and secondary markets.

I believe for the Sukuk market to have a liquid secondary market Islamic financial institution must take the lead in playing the role of Market Makers, as most of Islamic Institutions tend to participate in the primary market and book their assets as Held to maturity and never seen in the secondary market, as known the most important feature in both Sukuk and bonds is that it could be traded but with not enough market makers some Sukuk will lose this feature. I expect in the near future we will see leading Islamic financial institution becoming market makers in their own markets because of the increase in demand in Sukuk especially from retail clients and corporates, which will lead to a more liquid Sukuk market.

## 4.3 - GCC Sukuk – A Trader’s Perspective of 2018

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

2018 was a volatile year for trading in many asset classes and Sukuk was no exception. Fluctuations in rates, risk-assets sentiment, emerging markets and oil prices all contributed to movements in the GCC Sukuk market during 2018. In addition, heavy GCC credit supply and the inclusion of five GCC Sovereigns in JP Morgan’s widely followed suite of Emerging Markets Bond Indices (EMBI) contributed to GCC credit’s intra-year volatility.

### GCC Supply and Spread Widening

While GCC yields rose with US Dollar rates throughout most of 2018, GCC spreads traded in a range for most of the year before breaking out in the fall on a risk-off sentiment, ending the year 35 to 175bps wider. The spread widening in the early part of the year, until the start of Ramadan in May, was driven by a large front-loaded supply of new GCC issues. Subsequently, spreads tightened until October, supported by the higher oil prices and on the news of the inclusion of Saudi Arabia, Kuwait, UAE, Qatar and Bahrain Sovereigns in JP Morgan’s suite of Emerging Market Bond Indices. After October, spreads accelerated wider with oil’s reversal and as risk assets sold-off towards the end of the year.

Hard currency GCC credit saw USD 70bn of issuance in 2018 out of which USD19bn were for Sukuk and USD 51bn were for GCC conventional issuers. Also in 2018, GCC credit had USD 19bn of redemptions (maturing notes and Sukuk) split about 50-50 between Sukuk and conventional format. The total net issuance was USD 51bn (USD10bn net issuance in Sukuk and USD41bn net issuance in conventional names).

The Kingdom of Saudi Arabia led GCC borrowers by issuing USD 13 bn (USD 11bn conventional versus USD 2bn in Sukuk). Qatar was the second largest issuer with USD 12bn all in conventional format.

Two new corporate issuers tapped the market in 2018. NMC Healthcare, one of world’s top 10 healthcare operators, issued a premier USD 400mn 5-year Sukuk. Also General Holding Corporation (Senaat), an industrial group 100% owned by the Government of Abu Dhabi, issued a USD 300mn Sukuk.

The market shunned Bahrain credit in March with the country’s slow pace of fiscal reforms and especially after Bahrain couldn’t gather enough investor demand to issue conventional notes. By June, Bahrain’s spreads were trading north of 600bps before a USD 10bn aid package from Saudi Arabia, UAE and Kuwait helped assuage investors’ concerns. Bahrain spreads ended the year 5bps tighter. Both Moody’s and Fitch downgraded Bahrain one notch in 2018 (B3 for Moody’s and BB- for Fitch).

Oman’s credit widened 195bps in 2018. Most of the widening came after oil’s dramatic reversal in the fourth quarter. Oman’s fiscal breakeven oil price is in the high USD 90 a barrel. Moody’s and Fitch downgraded Oman one notch as well in 2018. Moody’s still has a negative outlook on Oman.

### Index Inclusion Drives Demand

JP Morgan announced in September changes to its methodology in selecting Sovereigns for its widely followed Emerging Market Bond Indices suite. The changes allow five GCC Sovereigns to enter the index: Saudi Arabia, Kuwait, UAE, Qatar and Bahrain. The five new countries will represent approximately 11% of the index which should bring an estimated USD45bn of flows to GCC credit. The changes would be phased in over nine months effective 31 January 2019.

The five GCC sovereign credits, being out of the EMBI benchmark, have historically traded at a yield premium over similarly rated Emerging Market names. For example, Saudi Arabia's 2047 note traded on average 75bps over Malaysia 2046 paper even though Saudi (A+) is rated two notches better than Malaysia (A-). Being out of the EMBI Index explains Saudi Arabia's credit relative cheapness.

Looking forward to 2019, we expect that the credits of Saudi Arabia, UAE, Kuwait, Qatar and Bahrain will outperform those of other Emerging Markets because of the EMBI inclusion with an expected USD45bn to be invested in GCC credit from Emerging Market Bond Index trackers.

## 4.4 - Contribution of Blockchain Technology to the Sukuk Industry

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**By: Dr. Housseem eddine Bedoui<sup>1</sup>**

### Introduction

This article will explore how the Sukuk market can benefit and certain challenges can be mitigated or resolved through the application and incorporation of blockchain technology and smart contracts; critically evaluating S&P's suggestion that blockchain may be the Sukuk industry's missing link (S&P Global Ratings, 2018).

### Blockchain and smart contract

The blockchain is a distributed (shared) ledger of transactions. "The transactions are ordered and grouped into blocks. It can be defined as a platform whereby peers can exchange values using transactions without the need for a central trusted arbitrator" (Bashir, 2017). "The blockchain is a distributed, transparent, immutable, validated, secured and pseudo-anonymous database existing as multiple nodes. The blockchain is distributed because a complete copy lives on as many nodes as there are in the system. The blockchain is immutable because none of the transactions can be changed. The blockchain is validated (e.g., in the Bitcoin space) by the miners who are compensated for building the next secure block. The blockchain is pseudo-anonymous because the identity of those involved in the transaction is represented by an address key in the form of a random string" (Bambara and Allen, 2018).

Building upon this, Ethereum<sup>2</sup> is a decentralized platform that runs smart contracts, applications that run exactly as programmed without any possibility of downtime, censorship, fraud or third-party interference. These apps run on a custom built blockchain, an enormously powerful shared global infrastructure that can move value around and represent the ownership of property". "If Bitcoin was blockchain 1.0, then Ethereum is blockchain 2.0 and beyond" (Bambara and Allen, 2018).

### Role of blockchain and smart contracts in the Sukuk industry:

The adoption and implementation of this new technology would help to simplify the Sukuk issuance and trading processes and improve regulatory oversights. This is possible because Ethereum smart contracts can help in standardizing and automating the legal, accounting and payment overhead of the Sukuk structure ((i) Identifying the asset and structure; (ii) Negotiating (Shari'ah, Legal); and (iii) Finalizing the documents (Damak, 2018).

In fact, blockchain can be used to receive, manage and reimburse the capital raised by the Sukuk holders, and similarly, the profit generated from an asset or project. Accordingly, proceeds and coupons are automatically paid to and from the Sukuk holders, according to the rules of the smart contract and without the need of intermediaries (usually conventional banks). An Ethereum blockchain would allow both, the management of Sukuk, and the management of the smart contracts which would govern Sukuk.

*[1] The views and opinions expressed in this chapter are those of the author and do not necessarily reflect the official policy or position of his institution.*

Additionally, the creation of a distributed Ledger (DLT) would help banks with their payments, trade transactions and money transfers with a real-time view of the transactions as they occur. Therefore, the blockchain technology would help to lighten the Sukuk structuring, by skipping many players. Further, given that the technology does not charge upfront fees to institutions or to the Sukuk holders, a new Sukuk structure could be implemented with minimal operational costs.

By entering into an automated transaction documented in smart contracts, the Sukuk stakeholders would avoid uncertain and lengthy legal proceedings, which would provide further transactional efficiencies. The smart contract would also streamline back office operations, simplify payments and shorten settlement times; as well as, enable the automatic execution of clauses in Sukuk documentation (such as those triggered by early Sukuk termination). If implemented, this new type of Sukuk issuance would also prevent the overheads associated with issuing, settling and terminating conventional Sukuk.

Another benefit of blockchain Sukuk would be enhanced security. This technology, currently used for the cryptocurrencies such as Bitcoin, uses cryptography to secure transactions - the same would be true in Sukuk. Moreover, the blockchain is an easily distributed, unambiguous and immutable database which would increase the transparency of the Sukuk, its cash flows and any underlying assets. It would also assist Sukuk holders by providing a valid supply of information, which could be referred to and analysed during decision-making. To this end, one could posit that blockchain, would solve the previously raised challenge of disconnection with assets. With full knowledge and understanding of the owned assets, and their performance, the investors could exercise their rights as owners of the certificates. Further, blockchain and smart contract would provide a real time register of Sukuk holders, as a new block documents each transaction in the chain; providing accurate, real-time data.

As an effective tool of communication between investors and the originator/sponsor, blockchain provides a technical solution; providing an effective medium through which the latter can notify investors of event occurrences, request their consent, or ask for advice in regard to instructions and corrective actions in a timely manner. By having a full knowledge and understanding of the underlying assets and/or projects and their performance, the technology would likely trigger investors to change their buy and hold investment strategy, and therefore benefit the secondary market, encouraging it to be more liquid. The blockchain technology, then, assists in transacting (selling, reselling and settling) the Sukuk in the secondary market and addresses the second key challenge raised.

Lastly, Ethereum blockchain would give issuers access to global capital by diversifying the investors class and attracting a larger pool of retail investors. In fact, the technology also allows for onboarding investors in a far cheaper way than what is conventionally practiced. These investors are not only interested in fixed-income instruments but also social impact Sukuk.

The blockchain is already being applied to a number of initiatives, contributing to the achievement of the SDGs in innovative ways (Lowe et al., 2018); in fact, 34% of social impact blockchain initiatives were started in 2017. Of these, 74% are still in the pilot or idea stage; nonetheless, 55% of these initiatives are estimated to impact their beneficiaries by early 2019 (Galen, 2018).

<sup>2</sup>Ethereum Project: <https://www.ethereum.org>

Blockchain technology has the capacity to provide investors with social impact reports on their investments. In the future, it may also act as a valid data pool of impact measurement metrics, which could be used to report the effectiveness of the investments made to the targeted social problems. This suggests that smart contract protocols can provide solutions which will help to address the third challenge raised.

### Conclusion

As finance evolves from the traditional bank centered model to a more diversified business targeting individual customers with specific offerings, the use of blockchain technology has the potential to pave the way for innovative, digitized finance and capital markets with the necessary tools to facilitate agreements with better speed, increased volume, and enhanced efficiency. Sukuk is one of the critical Islamic finance compartments in need of the services of blockchain technology to enhance its offering to investors and issuers with more shari'ah compliant products.

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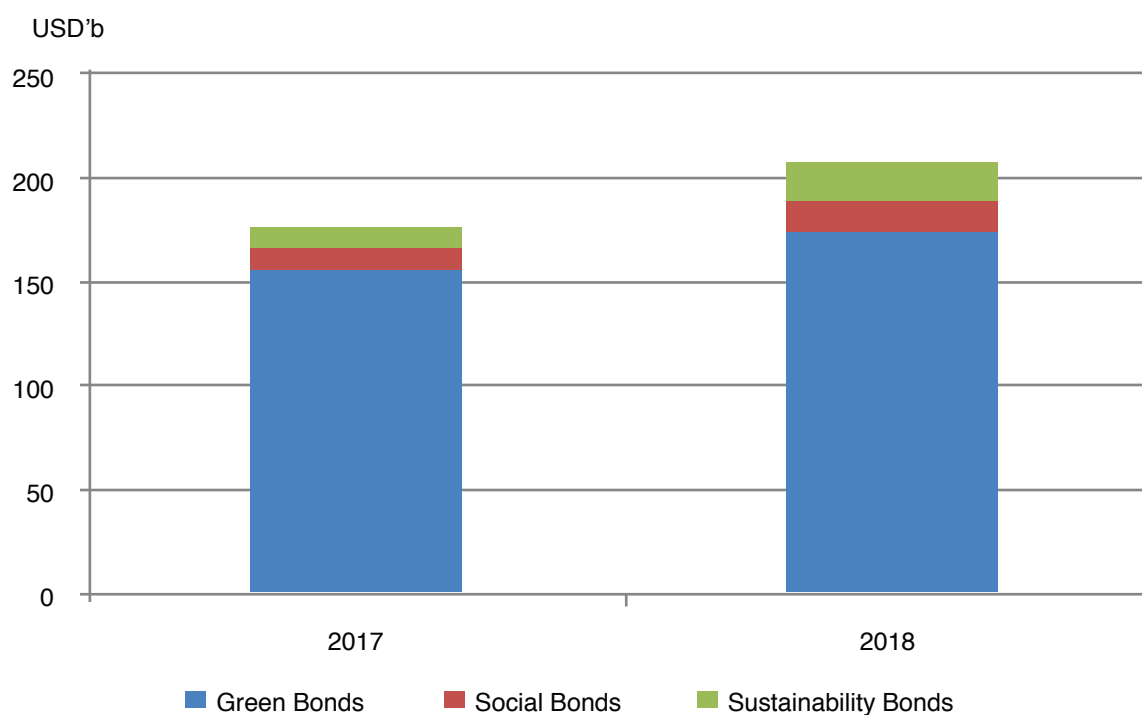
## 4.5 - Evolution in Sukuk Markets – New Paradigms

**By: Ms. Sabeen Saleem CFA, Chief Executive Officer, Islamic International Rating Agency (IIRA)**

The article will focus on recent developments in the Sukuk markets with the entry of green and sustainable Sukuk issued since 2017. It will venture to suggest how Sukuk investors will be informed of the degree of compliance with the promise of social responsibility and sustainability made by issuers of such Sukuk, on an ongoing basis.

The incorporation of Sustainable Development Goals (SDGs) in investment activity has shown significant promise in international capital markets. The green bond segment saw a total issuance of USD 174.9b in 2018 posting about 3% growth over 2017. While green bonds respond to the goals of environment protection and climate change, social bonds respond to the challenge of social inequalities and affording access to the underprivileged sections of society; these bonds have generally shown less traction. The sustainable Sukuk which feature a combination of the two ‘use of proceeds’ bond market, i.e. green and social bonds markets have also proved less attractive to issuers. However there has been a clear surge in such instruments in recent years.

Figure 1: Socially Responsible Investing in Global Bond Markets





The investor community has been largely receptive of this new wave in investment practices, as evidenced by the performance posted by relevant indices that have cropped up in recent periods. Tracking the performance of instruments which are included in green indices on grounds of their meeting a pre-specified eligibility criteria, these indices, including the likes of Solactive Green Bond Index and Barclays MSCI Green Bond Index have showcased the performance of bonds screened to be eligible as such. The MSCI Green Bond Index consistently outperforms traditional bond indices further making a case for the significant potential of conventional bond markets and by similar logic for Sukuk issuances in this space.

Over the past two years we have seen the Sukuk market having warmed up to the trend, however, the embrace of SDGs in investing has been less than enthusiastic, despite the undeniable compatibility of sustainability goals with Islamic finance. The slowdown in the pace of growth in Sukuk issuances in general, exaggerates the rather slow embrace of these recent trends in the Sukuk domain, with relatively few issuances to date and almost entirely in the 'green' space.

The needs of the Organization of Islamic Cooperation (OIC) Countries in terms of the magnitude of investment required in environment protection projects, social uplift and sustainability themed projects in general, is sizable, paving the way for green and socially responsible Sukuk. It is estimated that the funding so required by 2040 is USD 7.2tr with an expected shortfall of USD 1.6tr in 13 OIC countries. This funding gap can ideally be closed through SRI Investing.

Despite growth and clear demand, some investor skepticism is apparent and is in part responsible for having curbed the otherwise high potential of this market. Such skepticism continues to not just mark the Sukuk domain but also the parallel conventional market. A number of investor groups have expressed concerns that 'greenwashing' is prevalent, with such investments occasionally faring poorly on disclosures regarding the projects where funds are directed. This raises the urgency of reliable third-party opinions on what constitutes a Socially Responsible Investment.

The question of how investors are informed of the degree of compliance of a green or sustainable Sukuk with the promise of sustainability made by issuers of these Sukuk is a question similar to the question of how a Sukuk measures up to the promise of Shari'ah compliance. Rating approaches have evolved to cater to these questions. Third-party opinions on the 'greenness' or 'sustainability' of bonds, have been made available not just by credit rating agencies but also with the entry of non-financial rating agencies, as they are often referred to, providing external review or verification to the claims of these issuers.

Investors place a premium on added information which provides assurance that instruments held out as 'green' or 'social' or 'sustainability' instruments are indeed so, for example, by their degree of adherence to say, the International Capital Market Association (ICMA) green bond principles for green instruments or any other set of criteria set by an independent third party assessor. The ICMA sustainability bond principles are founded on 4 core pillars being common to both green or social bonds, being a) Use of proceeds, b) proceeds for project evaluation and selection, c) management of proceeds and d) reporting.

Further, ICMA recommends an external review seconding the status of the issued instrument as green or social. Such an external review can take the form of verification, a second opinion, a certification or an independent third party rating/grading/scoring.

Under the Green Sustainable and Responsible Investment (SRI) Sukuk Programme in Malaysia, Sukuk issued so far went up to USD 924m and funding mostly solar power projects, but also urban Real estate Development. Indonesia green Sukuk of USD 1.25b, aimed at multiple projects, becoming the first green sovereign Sukuk to be issued. While some of these bonds have been subject to external review, with only one being rated by a local rating agency operative in the credit rating domain, most of these opinions are provided at issuance. It is clear that there is a need to enforce regular monitoring of ongoing 'greenness' or 'sustainability', which is mostly conveniently facilitated by a rating and annual review regime of rating agencies. The practice of such evaluations will, and should take off meaningfully soon and add a fresh dimension to the ratings of Sukuk.

**Table 1: Green Sustainability or Socially Responsible Sukuk**

Issuer	Country	Issue Date	Currency	Funds raised (USD'b)	Use of Funds
Tadau Energy Sdn Bhd	Malaysia	Jul-17	MYR	58	Solar power project
Quantum Solar Park Semenanjung Sdn Bhd	Malaysia	Oct-17	MYR	236	Solar power project
PNB Merdeka Ventures Sdn Bhd	Malaysia	Dec-17	MYR	461	Real estate development in Kuala Lumpur complying with certain green building accreditations
Mudajaya Group Berhad (Sinar Kamiri Sdn Bhd)	Malaysia	Jan-18	MYR	63	Solar power project
Indonesia	Indonesia	Mar-18	USD	1,250	Various green projects
UiTM Solar Power Sdn Bhd	Malaysia	Apr-18	MYR	57	Solar power project
Pasukhas Green Assets Sdn Bhd (formerly known as Morning Summit Sdn Bhd)	Malaysia	28-Feb-19	MYR	49	Hydropower plant

(Source: Securities Commission Malaysia; S&P; Climate Bonds- ASEAN Green Finance State of the Market 2018)

Even so, we believe that the Sukuk space continues to evolve with niche segments, as well as changes to the way Sukuk are likely to be structured in future. The recent AAOIFI Exposure draft proposed to take effect in the present year, gives a standard for classification of Sukuk. While rating criteria are generally not guided by accounting conventions per se, this may have implications on future trends in Sukuk structures and documentation, and in turn implications for a ratings approach.

### IIRA's Rating Approach

IIRA's ratings have always commented on the 'investability' of an investment vehicle, rather than on the creditworthiness in a traditional sense, except where it is dealing with fixed term, fixed amount obligations, i.e. Qard based investments. Where credit simply does not exist, it has focused on the possibility of loss of capital which may not only be attributable to failure of the originator to generate cashflows for redemption, but may have other risk attributes affecting investor value. We have also taken cognizance of non-compliance with Shari'ah impacting repayment capacity, say by allowing a call on capital on account of negligence. In addition our approach has focused on providing investors with specific information on attributes such as governance encompassing Shari'ah governance and issuer performance in general, allowing investors to make more informed decisions according to their own individual preferences regarding what constitutes an investable option.

We find that this approach is directly scalable to extending our coverage to a new niche segment in Sukuk under the socially responsible category. With these Sukuk, we add a new dimension to our analysis, whereby any impact of failures in green, social or sustainability principles compliance are evaluated on an ongoing basis

Our existing framework of issuer ratings includes specific reference to governance practices by way of scoring, with an already 'built in' coverage of socially responsible activities. This approach leaves room to incorporate a scoring system (on a pattern similar to our existing denomination of ratings) for a deeper and specifically called out focus on the ESG (Environment, Social, Governance) characteristics of an issuer. An assessment of ESG comprises an evaluation of actionable policies and implementation thereof, to determine an organization's impact on, or contribution to, sustainability goals. IIRA meanwhile also offers an IESG-S ratings system regionally and jointly with locally prominent rating agencies, which also specifically provides investment performance related information and a score for Shari'ah governance. The approach to Sukuk ratings in this niche is similar in essence, in that it builds on the specific characteristics of the projects being funded by a Sukuk held out to be a socially responsible Sukuk in terms of any of the sub-categories of this niche, as labeled. These ratings add significantly to the overall information available to investors and enhance the level of confidence to invest, potentially leading to a more comparable trajectory of growth in this segment of Sukuk vis-à-vis its conventional market counterpart.

## 4.6 - Reflections on the Sukuk Market

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**By: Mr. Mohamed Iqbal Asaria, Visiting Faculty, Islamic Finance, Bangor Business School**

The Sukuk market has reached a watershed and now needs to develop some out of the box thinking to take it to the next stage both in terms of its size and fulfilment of its objectives in the Islamic Finance industry. There is also a need to respond to the massive infrastructure needs of Muslim societies by mobilising its savings via appropriate Sukuk issuances. This need is combined with the growing acceptance of the Sustainable Development Goals (SDGs) and their attendant financing needs. A review of the Sukuk market and its development points to a number of directions which can be beneficial in this regard.

The Sukuk market has developed over the last three decades and now sees annual issuances of just over USD 100 billion. The IIFM's annual Sukuk Reports do an admirable job of documenting the development of the Sukuk market with all its nuances.

What has been observed is that Sukuk structures have increasingly resembled bonds in substance. Most of the Sukuks are asset based and essentially derive their creditworthiness from the issuing underlying corporate entity. In addition, Ijarah structures and Purchase Undertakings and Profit Equalisation Reserves (PERs) in the case of non-Ijarah structures, have increasingly been formulated to deliver a repayment at par on maturity, and a fixed 'coupon' during the tenure of the Sukuk.

Since the 2008 AAOIFI ruling on purchase undertakings and PERs, the issuance of Mudarabah and Musharakah Sukuks has declined sharply. Initially, after this ruling, there was a surge in the issuances of Ijarah Sukuks but recently the bulk of the issuances have been Wakalah based. These are essentially hybrid structures which combine Ijarah and securitised receivables in one issuance.

The Wakalah hybrid structures permitted 49% securitised receivables and 51% Ijarah receivables. This requirement has now been whittled down to as little as 30% Ijarah receivables for the Sukuk to be tradeable. So essentially, a large proportion of non-Ijarah receivables can now form part of Wakalah Sukuk structures which can be traded.

This development has essentially brought the global Sukuk issuance market on a common platform and allowed for the phenomenal growth of Wakalah Sukuk structures.

In the post global financial crisis period a new kind of Sukuk issuance has emerged. This is the Tier 1 Perpetual Sukuk, to provide Basel III required capital. These are variable rate and no fixed tenure Mudarabah issuances which are much closer to the initial risk sharing ideals of Sukuks. However, these are issued by only a few leading Islamic Financial institutions and have not been emulated by corporate or sovereign issuers. They account for around 5% of the new Sukuk issuances.

Finally, there has been a few issuances in the social impact and ESG space. Thus, the World Bank's GAVI vaccination Sukuk and Khazana's Education Funding Sukuk have a more social dimension. Although these are not Mudarabah structures the returns on some of them vary according to the social impact delivered. Indonesia has pioneered the issuance of Green Sukuks reflecting the increasing need to progress towards the UN's Sustainable Development Goals (SDGs). This space is likely to see an increase in issuances in the coming years. However, in these developments there has not been any new innovation in Sukuk structures.

Leaving aside the vexed issue of creating risk sharing Sukuk structures rather than conventional bond like risk-transfer structures, as it presently has developed the issuances are unlikely to exceed its present level anytime soon. This has major implications for Islamic asset managers and product developers in Islamic finance. The availability of Sukuks and the secondary market in them is quite limited due to a mismatch in demand and supply. Most asset managers prefer to hold their allocations to maturity rather than trade them in the secondary market.

Typically, bond-like structures account for the bulk of the liquidity requirements in any portfolio. Thus, for example, for the management of a Takaful contribution pool the asset manager will need to invest around 60% of the funds in cash or near cash instruments. Conventional fund managers will get their near-cash allocation by investing in debt securities. The relative dearth of traded Sukuks means that managers of Takaful contribution pools have to be invested more in cash coupled with riskier asset classes to match the returns of their conventional counterparts.

Similarly, managers trying to create investment platforms also find it difficult to replicate the risk-return profile of their conventional counterparts and have a similar range of products to meet the demands of their customers.

We can see that the dearth of appropriate Sukuks creates difficulties for Islamic financial institutions to create appropriate products for their customers. It is thus vitally important to have more access to Sukuk type asset class to fill this gap. A small part of this gap can be filled by assets like REITs (Real Asset Investment Trusts). But this only fills a small part of the demand gap.

In such situations, Islamic finance practitioners have often had recourse to conventional products out of necessity. It is evident that this is happening by default on a relatively large scale for access to the 'bond' class. However, as with all recourses to necessity, in the absence of permissible alternatives, there needs to be a goal driven pathway to the ideal instrument. There will, thus, need to be criteria for the choice of the appropriate conventional bonds and a pathway to reduce this exposure over time.

It is, therefore, of utmost importance that we study the conventional bond market in depth and see how to derive criteria for its conditional use. One of the key considerations would be to see how the Maqasid al Shari'ah can be enhanced by any permitted use. In such a scenario it will be important to focus on socially responsible issuances and those which enhance the SDGs. There will also need to be an emphasis on infrastructure issues to enable long tenures to be incorporated into the resulting portfolios. With an increasing number of such issuances this task should not be that challenging. A further criterion could be to see what leverage the Islamic asset managers could use to move some of these bond issuers towards Sukuk type structures. Indeed, if we can get some issuances on the model of the Tier 1 Perpetual Sukuks, that would be an ideal scenario.

In conclusion for an adequate access to the 'bond' class and potential growth of the Sukuk market, the Islamic finance industry will have to come up with innovative strategies. We have outlined one such strategy here. However, this is only by way of opening a debate for others to participate with suggestions.

## 4.7 - From Asset-based Sukuk to Value Chain Sukuk

**By: Amanie Advisors Ltd, Dubai**

- The Sukuk market over the past decade has been very reliant on ‘asset-based’ structures, these being exchange contract-based structures that rely on the credit strength of the obligor (or sponsor) of the transaction rather than the assets underpinning the Sukuk issuance.
- For example, in a lease arrangement (Ijarah), where the obligor sells the underlying asset that will then be leased, investors will not be concerned with the sale value of the asset in question or the potential value of the lease if leased to third parties. Instead, the investors will rely largely on the credit strength of the obligor as sole or principal lessee of the asset in question. The leased asset acts as underlying asset in the structure, among others, to ensure tradability of the Sukuk.
- Hence investors will investigate the strength of the balance sheet of the lessee (who is typically the obligor of the transaction and the seller of the asset) to quantify the credit strength as sufficient to pay the lease rentals (and thus ultimately return capital and generate income for the Sukuk certificates). This is even more evident where the structure involves a purchase undertaking extended by the obligor to repurchase the asset at maturity or in case of financial default.

One alternative has been to issue Sukuk based on a Murabahah structure where essentially an ‘asset-light’ structure is used, meaning the obligor does not need to source any asset to be sold and leased over the tenure of the issuance. However, such asset-light structures are considered pure debt from a Shariah standpoint and must therefore only be traded at par or utilise another buy and sell arrangement with commodities every time the Sukuk is traded. This can become too complicated for new issuers and possibly cost inefficient for others. Hence, today hybrid Sukuk certificates that represent beneficial interest in both debt and tangible assets (according to permissible ratios) – have become prevalent.

- The above Ijarah example is a common structure used in the Sukuk market that highlights a very significant hurdle that many issuers/obligors face when raising funds via Sukuk in comparison to conventional lending: that is the need for an underlying asset and the various requirements and challenges that can bring.

### Emerging Problems with Asset-based/backed Structures

Having the requirement for an underlying asset for a number of issuers can be a real challenge. Many issuers, particularly those that commonly raise funds in conventional markets, may not have any asset to utilise for the purpose of issuing Sukuk. Furthermore, from a legal standpoint, assets that are utilised must be unencumbered and of sufficient value as to enable the trading of the same at capital raising sizes. The assets must be compliant from a Shariah perspective too.

- Governments in particular, which over the years have been the front runners of emerging Sukuk markets, including in non-Muslim majority countries, can be reluctant to have government assets, such as buildings, hospitals, schools, etc. encumbered for five, 10 or even up to 30 years or even to part with the ownership of the same as required by certain Sukuk structures even through transfer of beneficial ownership.
- For new issuers unfamiliar with Islamic structures, it certainly can be challenging to rationally overcome the requirements imposed by having an underlying asset and the extra effort required to structure. It can also appear counterintuitive as the purpose of the issuance is to gain credit risk exposure of the counterparty, not the underlying asset as in an 'asset-backed' transaction.
- Due to legal and regulatory requirements in many jurisdictions, asset-based Sukuk often involve an SPV for the security of the investment in addition to limiting investors' exposure. The SPV protects the interest of both stakeholders in the event of an issuer default.

### Finding the Value in Sukuk Utilisation

- The missing connection then between the underlying asset and the purpose of fund raising is an apparent one. In some ways this de-linkage is a result of the renewed and persistent perception of what an underlying asset must be. Perhaps the industry's insatiable appetite for real estate has narrowed our thinking to only rely on what is closest and dearest to us over the years. Confusing surrounding differences between asset-based and asset-backed Sukuk, particularly in the early stages of Sukuk development, certainly led to some investors thinking they were invested in one whereas it was in fact the other.

Nevertheless, recent years have illuminated the possibilities surrounding the utilisation of underlying assets. Sukuk issued over the past five years have broadened the mindsets that assets can be other than tangible assets such as real estate.

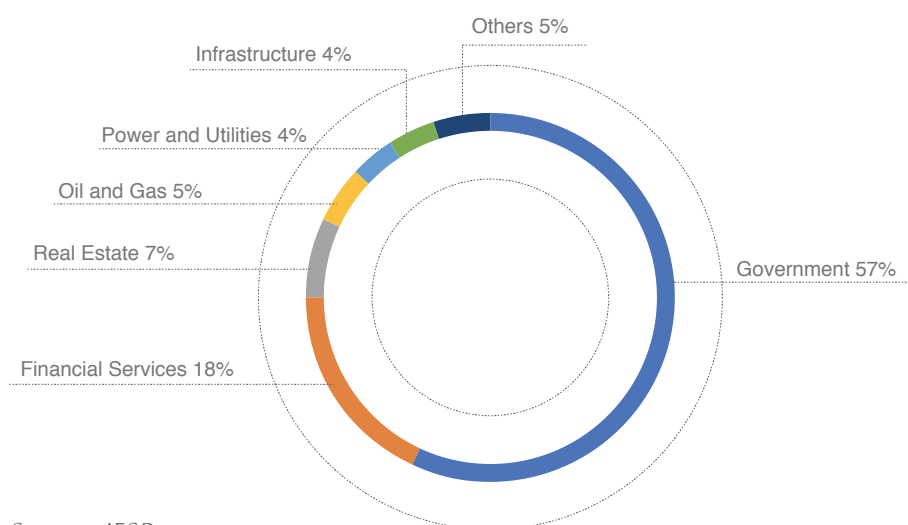
In 2015 for example, Emirates Airline issued a hybrid Sukuk whereby 'rights to travel' measured by Available Tonne Kilometres (ATKM) was used as the underlying asset supporting a minimum of one-third of the issuance amount. The uniqueness of the Emirates structure was that it incorporated intangible assets via an agency agreement which has become a more common way to structure Sukuk, particularly for asset-light issuers. Most airlines are not asset-light in the sense that they lack tangible assets in their business, but many rely on leasing arrangements to finance their acquisition of new planes. Therefore, having a Shariah-compliant structure that can facilitate financing, without passing beneficial ownership over the planes themselves, increases the flexibility for airlines.

Other Sukuk issuances have shown a trend to move away from the typical cash-flow securitisation, but also on the impact of the Sukuk proceeds and their investment into socially beneficial projects. A prime example of this is the Saudi sovereign Sukuk issued in 2017, which until today is the largest Sukuk ever issued at USD 9 billion.



The proceeds are to be used for infrastructure projects in the Kingdom, to which the general population are set to benefit from. Infrastructure remains one of the key untapped sectors that Sukuk are touted as the ideal financing solution for. As at the end of 2017, only 4% of Sukuk proceeds were raised from the sector. Notably, structuring Sukuk for infrastructure projects can be relatively simple as there is no need for an underlying asset as the projects themselves would underpin the issuance, removing the above mentioned missing connection.

### Sukuk Issuance by Sector (2017)



Source: IFSB

### Igniting Innovation

Many industry leaders have called for greater innovation in the Sukuk market over recent months. This has largely revolved around increasing the spectrum of underlying assets in order to allow new issuers to tap the Islamic capital markets. Potential sovereign or corporate issuers stand to benefit in choosing the Sukuk route over conventional financing due to a wider investor base.

One area that may hold huge potential is in government taxation. If taxation revenue can be considered as a permissible and viable underlying asset for the issuance of Sukuk, governments would be able to more easily raise funds in a Shariah-compliant manner without the need to have large and important assets on their balance sheets.

Another untapped area is in Awqaf or Waqf (endowment) linked Sukuk. The Waqf-Sukuk model is where the returns from investments made are used for charitable purposes intended perpetually. Since the first issuance in 2005 out of Singapore, the sector has largely remained off radar. The Singaporean issuance was used to develop buildings in the heart of the Singaporean city. In Indonesia for example, a cash Waqf was created by the Ministry of Finance with a yield of around 8% per year which can build 1,000 houses annually, based on the estimated construction cost per home.

Both of the above options, while certainly not 'run of the mill' solutions, do remove the redundancy of requiring an underlying asset de-linked from both the purpose of the Sukuk issuance and the utilisation of the proceeds.

## 4.8 - SMEs Sukuk Finance: Equity Partnership for Business Growth

*By: Dr. Hatim El-Tahir, PhD (London), FCISI, Director - Audit & Assurance, Deloitte & Touche - Middle East*

### The Sector and Market Potential

Small and Medium Enterprises (SMEs) have increasingly emerged as one of the primary drivers of local economic growth and community development in several part of the world. There is much research on the financing gap in funding SMEs exacerbated by Basel capital regulatory changes and consequently lesser classic banking loans available for this important sectors, among other challenges.

This article supports the debated question of how Islamic finance could support the SMEs sector and part fill the huge gap in funding? It also suggests an equity structured product such as the Sukuk Al Musharakah and Sukuk Al Mudarbah that will be ideally suitable to accommodate the risk and return profile of SMEs and the nature of its business cash flow streams and revenue growth prospects, an important factor to generate confidence amongst Sukuk investors.

According to a recent report by the International Finance Cooperation (IFC), which looked at 'the Islamic banking opportunities across Small and Medium Enterprises in nine MENA countries, the report shows there is a potential gap of USD 8.63 billion to USD 13.20 billion for Islamic SME financing within un-served and underserved SMEs categories. Though this may sound small amount but it is key to make a business case for considering the SME Sukuk.

However, there are a number of regulatory and tax challenges that requires solving first. Likewise, industry standard setters and market institutions can play a key role of awareness and promoting the SMEs Sukuk products as strategy finance small business and industries and create jobs. The Organization of Islamic Cooperation (OIC)'s marketplace is an ideal economic platform to promote this value proposition, which can be supported by regional and international development banks and indeed the Islamic Development Bank and its affiliates.

### The Rise of SME Sukuk Market in Malaysia

It is widely acknowledged that formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to World Bank estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa.

Within the Islamic finance practice, a sector that is often incorrectly perceived as being slower to engage in developing local communities, leading financial institutions, including Bank Negara Malaysia and the capital market commission, and corporates in Malaysia have come together to lay foundation for SME Sukuk market.

What underlies this development said BNM's Governor is that "the robust foundation and building blocks that the government and BNM, together with the industry, have worked towards, namely in infrastructure development, institution building, robust regulatory framework and product development. We are now at a stage where we view that the foundations are solid and the industry is ready to deliver solutions to meet your needs," he added.

The Governor, BNM also emphasized that there is now a wide ranging spectrum of Islamic financial products to meet the needs of businesses such as supply chain finance, which enables businesses particularly SMEs, to leverage on the creditworthiness of their anchor suppliers or buyers who are mainly multinational companies. Moreover, the rise of green Sukuk in the green energy which financed several solar projects, amounting to over USD 210 million is a significant foundation for SME Sukuk market which will help build the trust needed to attract other investors and sectors alike. Other policy measures made available include the benefit from the three year extension of the double tax deduction for additional expenditure incurred for Sukuk issued under Ijarah and Wakalah structures.

### What are the Challenges ?

Although many players have made progress in responding to the challenges faced by the SMEs sector, the pace of Islamic financiers have been slow and there remain obstacles to develop innovative Shari'ah compliant debt and equity structures that will broaden and diversify capital structures of this important sector and allow pool of investors to tap into the SMEs marketplace too.

At the forefront of these challenges facing the SMEs sector is the access to capital. Other issues which hinder growth of SME's include regulatory and tax legislation support. Business and assets evaluation. Limited expertise of capital raising of professionals and management and leadership. These challenges need to be addressed and properly assessed. Industry stakeholders and standard setters will need to form partnerships aimed at developing an effective market practices guidelines, policy supporting initiatives including availability of Standard Documentation to reduce significant issuance cost. Key to this is to identify sectors that the SME Sukuk can finance and support?

For instance, the green energy sector and the level of success made in Malaysia stands as a good example which can be replicated in other key Islamic financial markets.

In addition, and as investment continues in the social priority sectors (healthcare, education, housing and agriculture), there will be more need for capital to fund SME's who drive growth and small industries in many countries of the OIC market and elsewhere in the World.

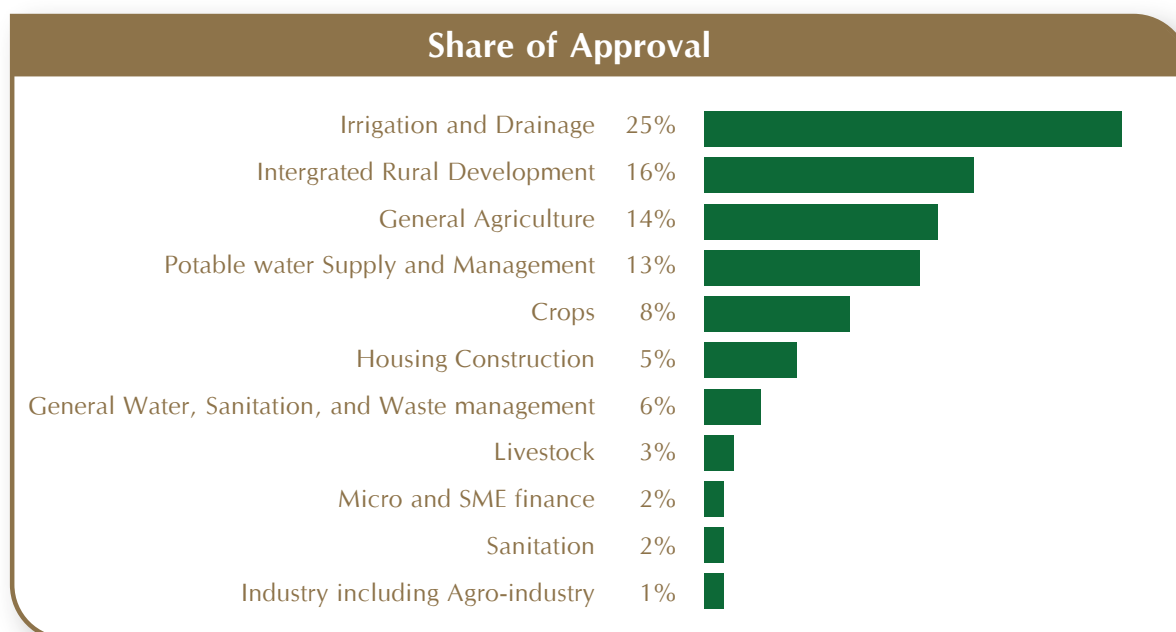
### Making the Relevance of SMEs Sukuk

The IsDB's has long supported development projects within the OIC marketplace. This trend can be better utilized to develop an effective and organized market for SMEs Sukuk in member countries.

In particular tapping into the more socially needed sectors of the economy such as education, healthcare, housing and farming. These are vital sectors that employ people, contribute to GDP, improve social and economic inclusion efforts and financial stability.

The IsDB Group's investments in agriculture and rural development stood at US 12.6 billion as of the end of 2017. This figure reflects a significant growth in financing agricultural projects in member countries. Other important sectors financed included housing construction, and Micro and SME finance.

Table 1: IsDB Group agriculture and rural development financing by type of project



Source: Islamic Development Bank Group. (2018). Change for Impact: Transforming Agriculture and Rural Development in IsDB Member Countries. Jeddah, Kingdom of Saudi Arabia.

The table on the next page shows two landmark SMEs Sukuk issued in Malaysia and KSA.

In 2012, SME Bank Bhd issued a RM3 billion government guaranteed Islamic Medium Term Notes Program (IMTN Program). The Sukuk program aims to help the bank revamp their business model and support growth and empower SME ecosystem through additional funds to assist more SMEs. In 2018, Saudi Arabia's Maalem Financing, an SME lender has raised 100 million riyals (USD26.6 million) from a debut sale of Sukuk, as the firm seeks to develop a crowdfunding product and expand its operations. The Sukuk from Maalem is considered to be a breakthrough in a market that is dominated by issuance from sovereign institutions and Islamic banks.

Table 2: SMEs Sukuk in Malaysia and KSA

## SME Bank IMTN Sukuk RM 3 billion

Transaction details:	Wakalah
Issuer	SME Bank
Country	Malaysia
Use Proceed	The proceeds from the Sukuk issuance will be utilized to finance Shariah compliant working capital for the SME entrepreneurs
Rating	•
Facility	Sukuk
Issue Size	RM3 billion (USD950.61 million)
Tenor	20 years
Issue Date	012
Islamic Structure	Wakalah

## Maalem Financing Sukuk SAR 100 Million

Transaction details:	Wakalah
Issuer	Maalem Financing
Country	Saudi Arabia
Use Proceed	Used to finance in developing its crowdfunding product and for the expansion of its operation
Rating	Tassnief: 'BB+' Capital Intelligence: 'BB'
Facility	Sukuk
Issue Size	Program size: SAR 500 million (USD133.2 million) Tranche size: SAR100 million (USD26.64 million)
Tenor 20 years	3 years
Issue Date	17-Oct-2018
Islamic Structure	Murabahah

## Building the Ecosystem of SMEs Sukuk

Prudent regulation and industry guidance is key to nurturing the growth of SMEs Sukuk as a primary new asset class for community development that contribute to economic growth in our marketplace.

There is an ongoing alignment and partnership between the key industry standard setters and there is equally currently a number of industry initiatives that aimed at building an effective and efficient Sukuk market, supported by sound Islamic capital market regulations and instruments.

For instance, the IIFM is currently working on Sukuk documentation standardization and two standards are currently in progress:

- i. Standard #13 – Sukuk Al Ijarah Documentation
- ii. Standard #14 – Sukuk Al Mudarabah Documentation (Tier 1 & Senior Unsecured)

The AAOIFI has constantly been working on improving the Sukuk governance and reviewed all relevant Shari’ah and financial reporting standards including the SS 17, FAS 25, FAS 29, FAS 33 and 34, all to reflect market developments and demand side for Sukuk issuers and investors.

The IIRA similarly and reflecting on the principles of ESG (encompassing ‘green’) and Socially Responsible Investment, has developed new credit rating approach. Examples of rated sustainability Sukuk include Indonesia TLFF Sukuk and green energy Sukuk in Malaysia.

The IFSB, last year has led partnership wave working with the IIFM, AAOIFI and IILM to address key issues that will improve the effectiveness of the Islamic capital markets and wider industry practices.

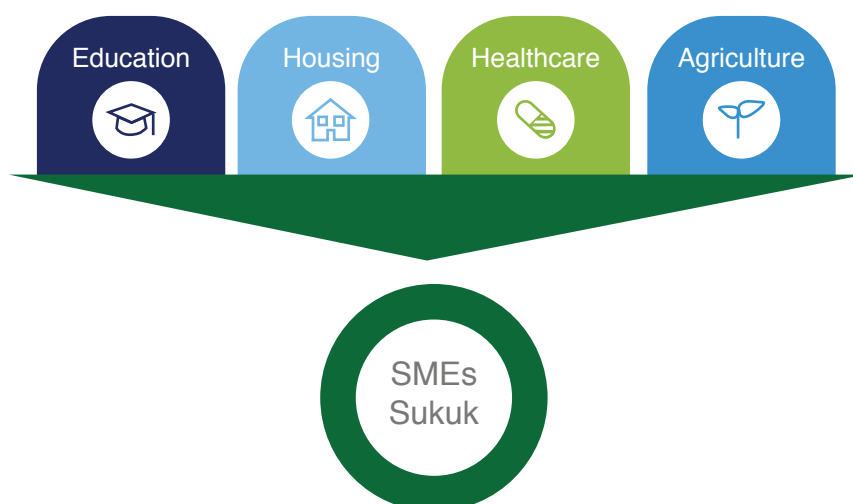
### Closing Thoughts

While the growth of SMEs Sukuk market has effectively begun in countries such as Malaysia and KSA, the extent of its growth and contribution to create jobs, social and economic inclusion desired is yet to be realized.

However, the pace of SMEs Sukuk issuing in OIC marketplace is likely to accelerate if the following combination of factors are considered and materialized:

- Adequate sector and market analysis of the capital requirements.
- Regulatory and tax issues that could impact on Sukuk issues and capital market regulation support.
- Government policy support initiatives such as the ‘tax credits’ in the energy sector. Similar innovative incentives could be designed to stimulate investment in the important sectors of education and housing.
- Industry standards setters could do more to promote and provide practice guidance to both issuers and investors and SME’s practitioners who are largely kept unaware of opportunities available in Islamic finance.
- Improve regulatory and listing rules for SME’s to allow access to investors through stock markets.

### Key Sectors for SMEs Sukuk



## 4.9 - Sukuk Al Wakalah: Documentation & Requirements

*By Umera Ali, Partner - Banking & Finance, DWF (Middle East) LLP*

*The growth in the Islamic capital markets has seen the evolving of the structures that are used in Sukuk. According to the IIFM Sukuk Report of 2018, the Wakalah structure has become increasingly popular, and the number of Sukuk based on this structure has continued to grow.*

### Wakalah: Requirements

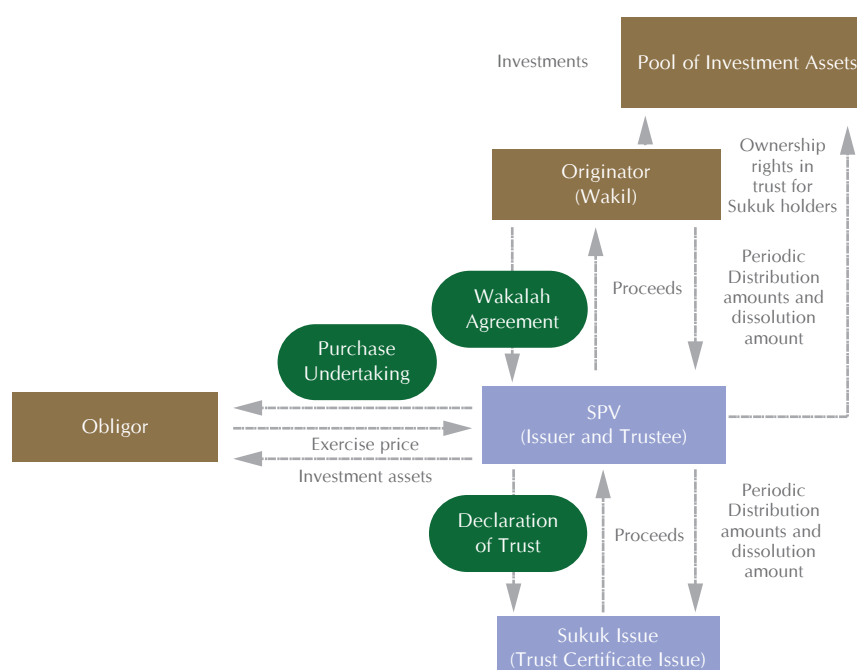
Wakalah is akin to the agency relationship under the common law and/or civil jurisprudence. Under a Wakalah, a principal, or Muwakkil, appoints an agent, or Wakil, to act on its behalf for the purpose of completing a specific task.

Typically, the Wakalah agreement will include the provisions that deal with: (i) the appointment of the Wakil; (ii) the compensation for the Wakil; (iii) the duties of the Wakil; and (iv) the details of the subject matter of the Wakalah.

The terms and conditions of the Wakil should also be clearly outlined in the Wakalah contract, including his duties and what role he will be playing with respect to the subject matter of the Wakalah. The Wakalah contract should state the duration of the Wakalah, the amount of investment (if any), and under what conditions it will terminate. With respect to remuneration, any profit in excess of the agreed upon profit will be kept by the Wakil as a performance or an incentive fee. It is on the basis that a Sukuk Al Wakalah is structured.

Like other Sukuk, Sukuk Al Wakalah involves the issuance of certificates, or Sukuk. In the case of Sukuk Al Wakalah, the proceeds from the issuance of the Sukuk are utilised to acquire Shari'ah compliant assets or invest in Shari'ah compliant projects or businesses. The Wakil manages the funds in order to generate a profit. However, the amount of profit that is generated pursuant to a Wakalah arrangement is not guaranteed. Sukuk Al Wakalah usually includes an investment strategy (similar to a mudaraba structure) and the Wakil is required to manage the investments in compliance with the said strategy. The profit amount is used to pay the periodic distribution payments to the investors ("Sukukholders") (discussed below). The Wakil is eligible to receive an incentive fee from the amounts in excess of the agreed upon profit.

### Discussion of Sukuk Al Wakalah Structure



At the outset, the originator of the Sukuk establishes a special purpose vehicle (SPV) which issues Sukuk certificates to investors or the Sukukholders. The Sukuk represent an undivided interest in the Wakalah assets and grant the Sukukholders the right to periodic distribution amounts.

Separately, the SPV enters into a Wakalah arrangement with the originator of the Sukuk and appoints the originator as a Wakil. The Wakil is appointed to invest the funds obtained from the issuance of the Sukuk in Shari'ah compliant assets or projects, which is usually the business of the originator on behalf of the SPV, and generate profit. The Wakil will remit back to the SPV the pre-agreed amount from the profits earned from investing the Wakalah assets. Any excess from the profit amount will be for the Wakil to keep as an incentive fee.

The profit amount is used by the SPV to pay the periodic distribution to the Sukukholders.

In order to safeguard the Sukukholders' interests, the SPV and the originator will enter into a purchase undertaking whereby the SPV has the right to require the originator to purchase a portion of or all of the Wakalah assets. The exercise price under the undertaking will be equal to the dissolution amount that is payable to the Sukukholders. Generally, the right to require the obligor to purchase the Wakalah assets may be exercised in the event that the SPV does not have sufficient profits to make the periodic distribution amount, if there is a default under the Sukuk transaction, or on the maturity date of the Sukuk.

According to AAOIFI, the purchase price of the Wakalah assets cannot be for a pre-agreed fixed amount and should be subject to the market value of the assets at the time the originator exercises its rights under the purchase undertaking. Shari'ah scholars are of the view that if the originator is required to purchase the Wakalah assets for a fixed amount, the Sukuk holders will not bear any risk with respect to the Wakalah assets and there will be a guarantee of profit for the Sukukholders.

A common work around on the above-mentioned restriction is requiring the originator to act as the guarantor (the Guarantor) for the amounts due under the Sukuk. The Guarantor will be obligated to make-up any shortfall between the amounts collected from the Wakalah assets and the amounts due to the Sukukholders, whether during the liquidation of the entire Wakalah assets or the periodic distribution payments.

### Sukuk Al Wakalah: Documentation

In the context of Sukuk, the standard Wakalah contract is called Al Wakalah Bi Al Istithmar. Under the Al Wakalah Bi Al Istithmar, the Wakil is appointed to invest funds provided by the Muwakkil into a pool of investments or assets, and the Wakil manages those investments on behalf of the Muwakkil for the duration of the contract. The Wakil would usually follow an investment strategy for the purposes of investing the funds and making a return.

Generally, the following documentation will be required in a Sukuk Al Wakalah:

- The originator and SPV will enter into a sale and purchase agreement under which the originator will transfer the relevant portfolio of assets to the SPV, in consideration for a percentage of the Sukuk proceeds. Essentially, it is through the sale and purchase agreement that the originator receives its financing and the Sukuk assets to be managed by it (in its capacity as Wakil);
- A Wakalah agreement will be entered into between the Wakil and the SPV setting out the terms and conditions of the appointment of the Wakil. Pursuant to the Wakalah agreement, the Wakil will be charged with managing the funds generated from the Sukuk in order to generate a return for the Sukukholders. There are also times when the Wakil appoints a sub-Wakil;
- The originator will execute a purchase undertaking in favour of the SPV pursuant to which the originator undertakes that in the event of dissolution or event of default, the originator will purchase the portfolio of assets. By purchasing the portfolio of assets, the originator will provide the SPV with the funds that will allow the SPV to pay the Sukukholders;



- A declaration of trust and/or agency is entered into between the Sukukholders and the SPV stating the issue proceeds to be paid by the Sukukholders to the SPV; and the period distribution amounts and dissolution distribution amounts to be paid by the SPV to the Sukukholders. Under a declaration of trust, the SPV holds a trust over the Sukuk proceeds and assets for the benefit of the Sukukholders and the Sukuk represent the Sukukholders' undivided and proportionate beneficial interest in the trust assets; and
- Sometimes, a guarantee from the originator for the payment of the shortfall between the amounts due under the Sukuk documents and the amounts available under the Wakalah arrangement.
- The rest of the documentation will vary depending on the underlying assets of the Sukuk Al Wakalah. For example, a Murabahah Agreement will be required for the sale and purchase of commodities. The Sukuk proceeds may be invested in a portfolio of Islamic finance transactions, such as Ijarah, Istisna'a and Murabahah.
- Sukuk Al Wakalah are growing in popularity as they offer significant flexibility, and can be adapted for the use by various issuers and different asset classes. Given their mutable nature they are continuing to become popular with both the issuers and the investors, and we expect to see an increase in Sukuk issued based on Wakalah structure.

### Advantages

There are several advantages to the Sukuk Al Wakalah structure.

- The originator is also the Wakil and therefore responsible for the management of the Wakalah assets, which creates efficiency from an operational perspective;
- The Sukukholders can rely on the expertise of the Wakil in managing the Wakalah assets; and
- The Sukuk Al Wakalah structure allows for the use of a portfolio of assets and investments, so long as 30% of the underlying assets or investments are tangible assets. Therefore, the underlying Wakalah assets can include debt instruments which cannot be traded on a secondary market due to Shari'ah constraints, such as a Murabahah or Istisna'a contract.

# CONNECTING ASIA'S ECONOMIES

THE LEADING MIDSHORE BUSINESS AND FINANCIAL CENTRE

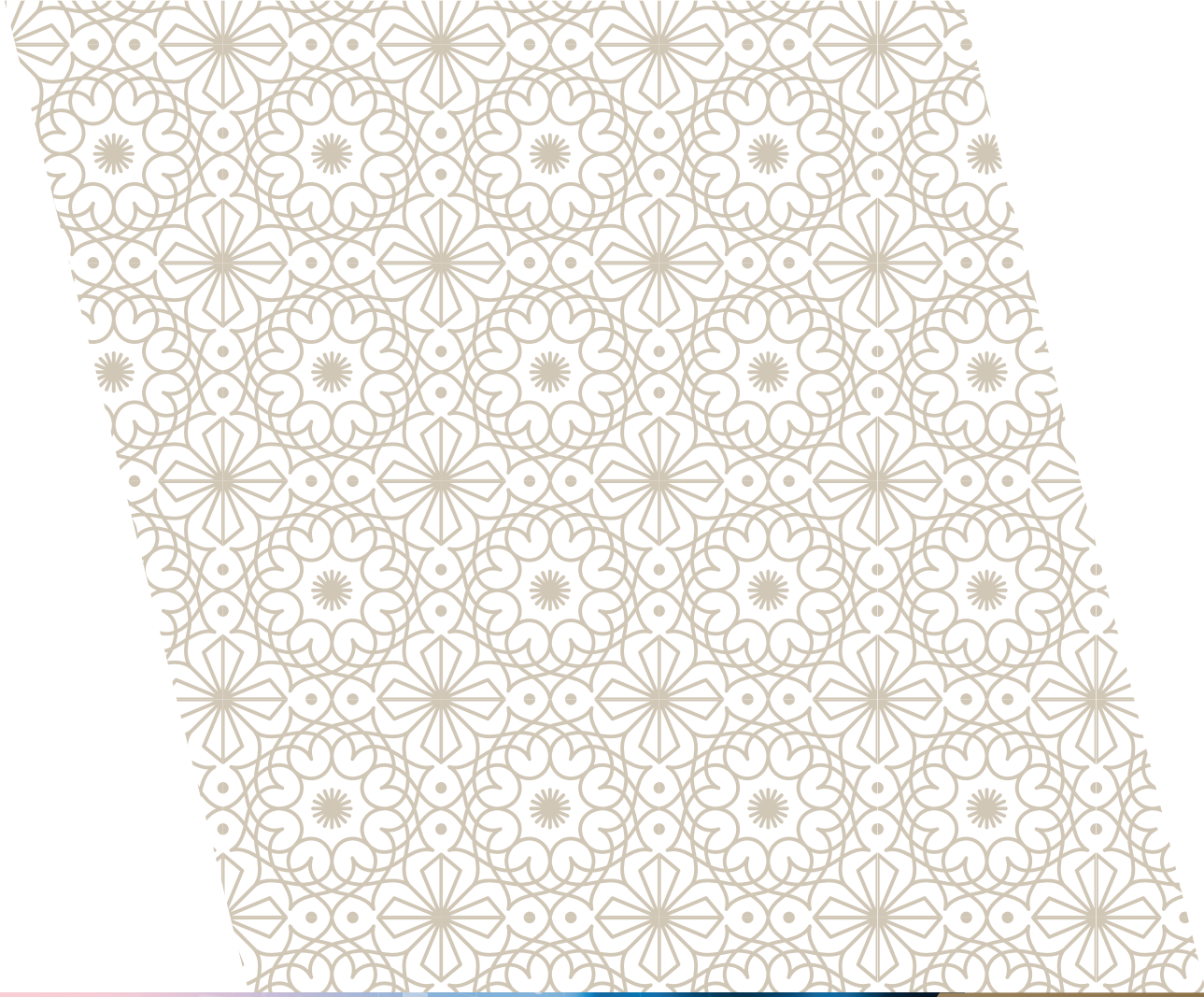


Labuan International Business and Financial Centre (Labuan IBFC) offers global investors and businesses the benefits of being in a well-regulated midshore international business and financial centre, which provides fiscal neutrality and certainty, in addition to being an ideal location for substance creation.

Located off the North West coast of Borneo, Labuan IBFC provides access to Malaysia's network of more than 80 double taxation agreements and boasts Asia's widest range of business and investment structures for cross-border transactions, international business dealings and wealth management needs.

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With a focus on enabling cross-border transactions, providing risk management structures, Islamic financial services, commodities trading incentives and wealth management vehicles, we offer solutions to regional businesses going global or global businesses looking at penetrating Asia's burgeoning markets.



# Chapter Five





## SUKUK MARKET IN SELECTED IIFM MEMBER COUNTRIES

## 5.1 - Government of Bahrain Sukuk Issuances

Government of Bahrain Sukuk Issuances. Short and Long term Salam and Ijarah Sukuk Domestic and International

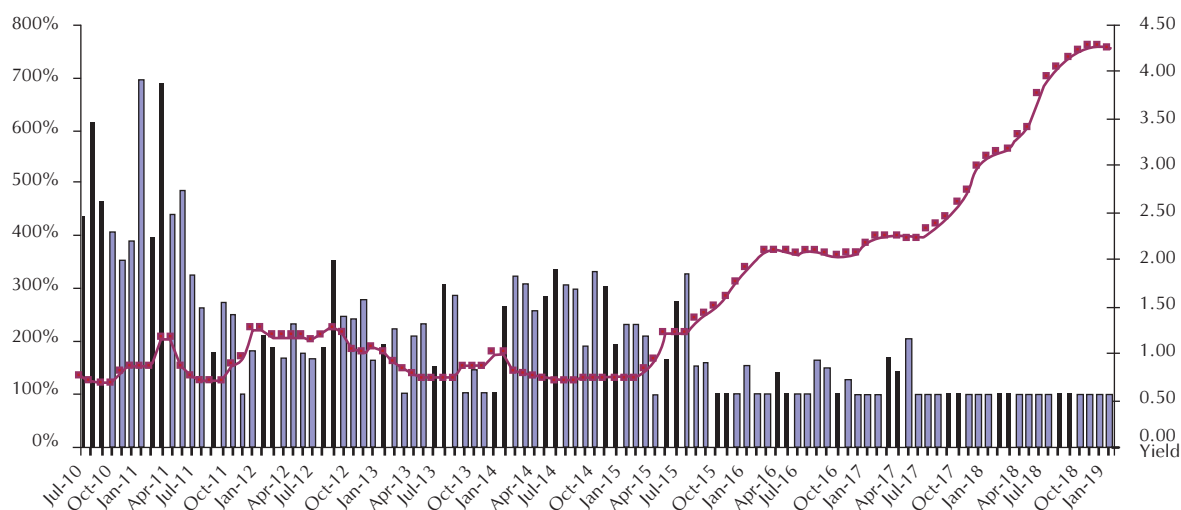
**By: Central Bank of Bahrain (CBB)**

### 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 started issuing sovereign Sukuk, 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 19% of Bahrain government's total financing needs are fulfilled through Islamic instruments. It is therefore an important element in helping the government address its deficits and plan for future development.

- **Sukuk Al Salam**

Started in June 2001 and having 213 issues to date. 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.

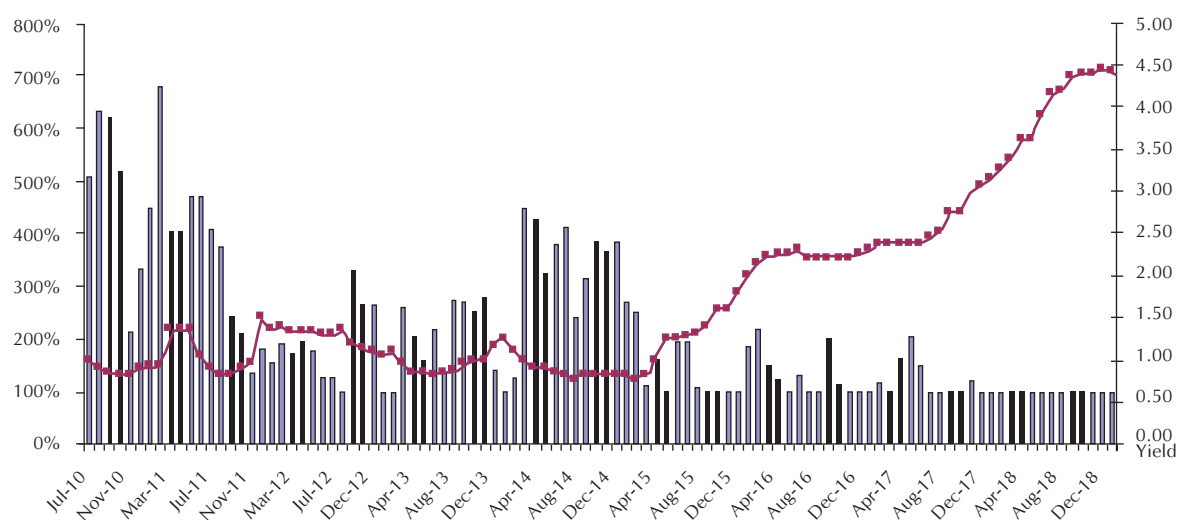


*Sukuk Al-Salam yield/coverage chart showing the contrast between the coverage percentage and yield from 2010 to date*

- **Sukuk Al Ijarah**

### 2.1 Short term Ijarah Sukuk

Short term Ijarah Sukuk was first issued in August 2005 (161 issues to date). These Sukuk are issued on a monthly basis and have a 6-month (182 days) maturity. The Ijarah Sukuk is an instrument which takes the form of Islamic leasing contracts. They are based on assets owned by the Government of Bahrain and are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee.



Short term Ijarah Sukuk yield/coverage chart showing the contrast between the coverage percentage and yield from 2010 to date

#### 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 eligible 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 SSS system notifies the participating institutions of the result of the tender allotment.
- Settlement takes place by debiting the participating banks' Real Time Gross Settlement (RTGS) system accounts with the CBB.
- The settlement 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.

## 2.2 Long term Ijarah Sukuk (Domestic in USD and BHD)

Long term Ijarah Sukuk were first issued in September 2001 (25 issues to date) upon the request of the Ministry of Finance. They are based on assets owned by the government of Bahrain.

#### Features of long term local Ijarah Sukuk issuances are as follows:

- In issuing these instruments the government of Bahrain sells an asset to the investors who will buy it before renting it back to the government at a predetermined rental rate, via a rental contract (the Ministry of Finance chooses the asset which is to be used for a new issue).
- The government will also issue a binding promise to buy back the asset at its par value at the end of the rental period.
- 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).

### 2.3 Long term Ijarah Sukuk (International in USD)

- International Ijarah Sukuk were first issued in March 2008 (3 outstanding issuances to date).
- On 28th March, 2018; the Kingdom of Bahrain successfully priced a USD 1,000 million Rule 144A/RegS long 7-year Sukuk with a structure of 51% Ijarah and 49% Commodity Murabahah. The transaction received strong global investor interest, with the order book peaking at around USD 2.1 billion from more than 100 investors.

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

- The CBB sends invitations for Joint Lead Managers (JLMs) 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 arrangers after completing roadshows to major investors across the world.
- The CBB then allocates the securities to the participants.

Figure 1: CBB's long term Ijarah Sukuk Issuances (Domestic in USD and BHD)

Issue No	Issue Date	Maturity Date	Return rate	Issue Amt.
Issue No. LI/1	04-Sep-01	04-Sep-06	5.250%	USD 100 million
Issue No. LI/2	27-Feb-02	27-Feb-05	4.250%	USD 70 million
Issue No. LI/3	29-Aug-02	29-Aug-07	4.000%	USD 80 million
Issue No. LI/4	19-Nov-02	19-Nov-05	3.000%	USD 50 million
Issue No. LI/5	27-Feb-03	27-Feb-06	3.000%	USD 80 million

Table Continued on Next Page

Issue No	Issue Date	Maturity Date	Return rate	Issue Amt.
Issue No. LI/7	27-May-03	27-May-08	60 B.P Over 6m LIBOR%	USD 250 million
Issue No. LI/8	15-Dec-03	15-Dec-06	30 B.P Over 6m LIBOR%	USD 50 million
Issue No. LI/9	30-Jun-04	30-Jun-09	45 B.P Over 6m LIBOR%	USD 250 million
Issue No. LI/11	28-Feb-05	28-Feb-10	4.500%	BHD 30 million
Issue No. LI/12	21-Nov-05	21-Nov-11	5.600%	USD 230 million
Issue No. LI/13	03-Oct-07	03-Oct-12	30 B.P Over 6m LIBOR%	BHD 95 million
Issue No. LI/16	24-Sep-09	24-Sep-12	3.75%	BHD 165 million
Issue No. LI/17	07-Apr-11	07-Apr-16	5.50%	BHD 200 million
Issue No. LI/19	17-Jul-12	17-Jul-17	4.300%	BHD 160 million
Issue No. LI/20	13-May-13	13-May-15	1.450%	BHD 100 million
Issue No. LI/21	08-Jan-15	08-Jan-18	3.000%	BHD 100 million
Issue No. LI/22	19-Jan-15	19-Jan-25	5.500%	BHD 250 million
Issue No. LI/23	09-Jul-15	09-Jan-25	5.000%	BHD 200 million
Issue No. LI/24	17-Jul-17	17-Jul-20	4.200%	BHD 125 million
Issue No. LI/25	08-Jan-18	08-Jan-21	4.800%	BHD 100 million

Source: Central Bank of Bahrain

Figure 2: CBB's long term Islamic Sukuk Issuances (International In USD)

Issue Type	Issue No.	Issue Date	Maturity Date	Return rate	Issue Amt.
Ijarah Sukuk	LI/14	19-Mar-08	19-Mar-13	75 BPS over 6M Libor	USD 350 Million
Ijarah Sukuk	LI/15	17-Jun-09	17-Jun-14	6.247	USD 750 Million
Ijarah Sukuk	LI/18	22-Nov-11	22-Nov-18	6.273%	USD 750 Million
Ijarah/Murabaha	1	12-Oct-16	12-Feb-24	5.624%	USD 1 billion
Ijarah/Murabaha	2	20-Sep-17	20-Mar-25	5.25	USD 850 Million
Ijarah/Murabaha	3	05-Apr-18	05-Oct-25	6.875	USD 1 billion

Source: Central Bank of Bahrain



## Islamic Standing Facilities offered by the CBB against the Ijarah Sukuk:

### Islamic Sukuk Liquidity Instrument (ISLI)

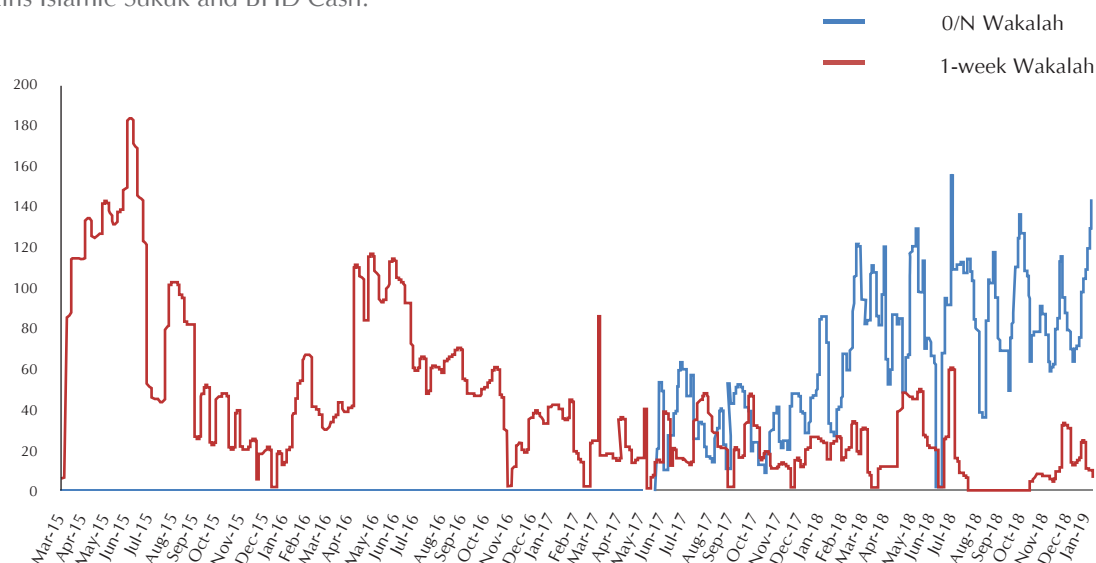
The mechanism of the Islamic Sukuk Liquidity Instrument (ISLI) which was launched in June 2008 is based on sale and purchase transactions meant to help Islamic banks in managing their liquidity. It involves three separate Sukuk sale and purchase transactions requiring three parties, namely the Sukuk owner (the bank in need of liquidity), the intermediary bank (the market maker) and the CBB, which offers the liquidity. The Sukuk are sold and then repurchased according to the following procedure involving the three 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 market maker should be any CBB-Licensed bank that acts as a broker for the sale of Sukuk.
- The CBB (second purchaser) which offers required liquidity.
- At maturity, the CBB sells back the Sukuk to Bank A (the first seller).

**My understanding is that CBB has an option to sell to Bank A and not just sell to Bank A.**

### CBB Wakalah Facility Offered In Which Currencies?

As part of the ongoing efforts towards the development of Islamic banking and promoting liquidity management for Islamic retail banks, the Central Bank of Bahrain (CBB) launched a Shariah compliant Wakalah liquidity management instrument. The current duration of the Wakalah is Overnight & One Week which is available every Tuesday for Islamic retail banks. The One-Week Wakalah facility was launched in March 2015, and in May 2017 the CBB introduced Overnight Wakalah. This instrument, which was approved by the Shariah Board of the CBB, is aimed at absorbing excess liquidity of the local Islamic retail banks and place it with the central bank. The instrument has been developed, based on a standard Unrestricted Master Wakalah 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.



*This chart shows the Wakalah deposits received from retail Islamic banks for the One Week Wakalah which was launched in 2015 and for the Overnight Wakalah which was introduced in 2017.*

**Conclusion**

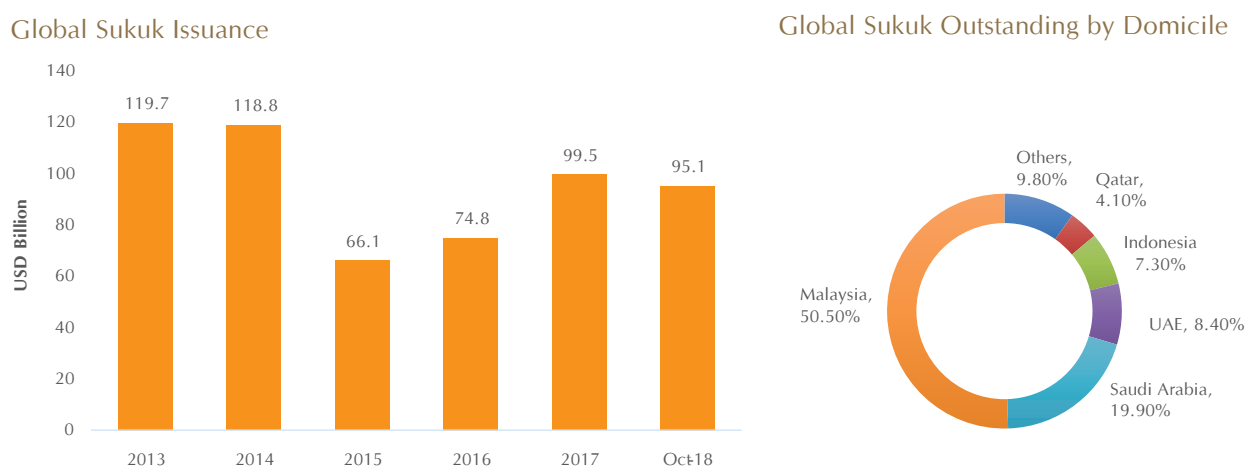
Although Bahrain's sovereign Sukuk issuances are meant primarily for the domestic market, the long track record and the high frequency of issuance makes it among the active countries in this field. With nearly one fifth of the Bahrain government's financing needs being met through Sukuk we can expect 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 entering this arena.

## 5.2 - Sukuk Market Developments in Malaysia

**By: Labuan Financial Services Authority ( LABUAN FSA )**

Malaysia maintained its dominance in the global Sukuk market, constituting 50.5% of the global Sukuk issuance, followed by Saudi Arabia (19.9%) as at end October 2018. For the first half of 2018, Malaysia retained its position as the world's leading issuer with a 41% share, an increase from 33% a year ago. It issued USD 22.4 billion worth of Sukuk during the period, an increase of 9% from 1H17. The increase reflected a surge in corporate issuance across a broad range of sectors as well as an increase in the volume of short-term Islamic Treasury bills issued by the Central Bank of Malaysia.

Figure 1: Global Sukuk Issuance and Global Sukuk Outstanding by Domicile

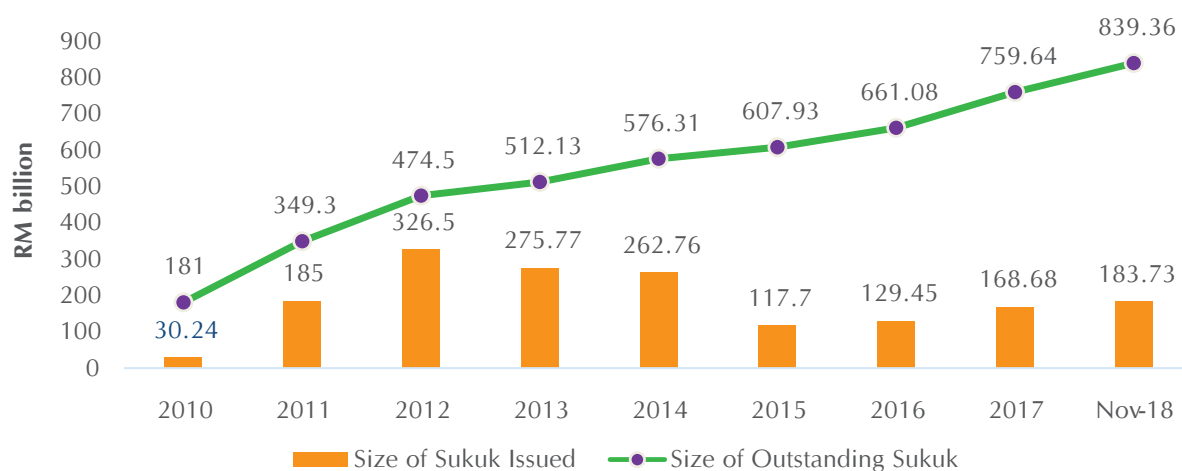


Source: Malaysia International Islamic Financial Centre (MIFC)

The domestic Sukuk market in Malaysia continues to serve as an important and attractive platform for government and corporate entities to raise long term funds for various economic, business and infrastructure development needs. In the first half of 2018, Sukuk issuances by Government and corporates amounted to RM 99.36 billion, representing 52.02% of total bond issuances, compared with RM 79.01 billion in 1H2017. Total Sukuk outstanding amounted to RM 818.41 billion or 59.59% of total bonds outstanding, compared with RM 718.41 billion in 1H2017.

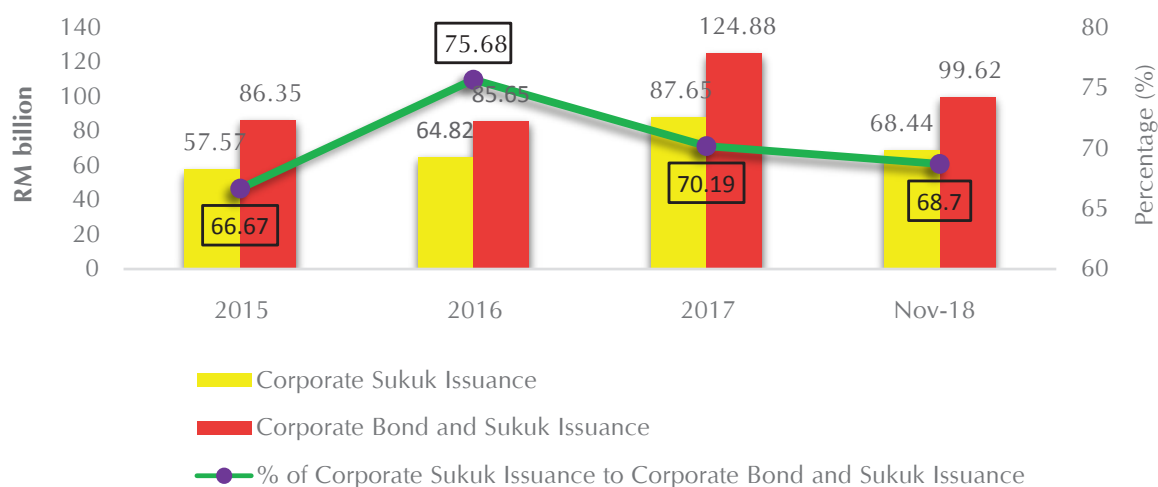
Corporate Sukuk issuances represented 75.22% of total corporate bonds and Sukuk issuances while corporate Sukuk outstanding accounted for 75.53% of total corporate bonds and Sukuk outstanding. As at end of November 2018, corporate Sukuk outstanding reached RM499.89 billion compared to that of conventional bonds at RM158.36 billion, constituting 75.94% of total outstanding bonds. The total issuance of corporate Sukuk amounted to RM68.44 billion compared to that of conventional bonds at RM31.18 billion. As at end of November 2018, total Sukuk outstanding amounted to RM839.36 billion or 59.59% of total bonds outstanding while total Sukuk issuances by Government and corporates amounted to RM183.73 billion.

Figure 2: Total Sukuk Issued and Total Sukuk Outstanding



Source: Malaysian ICM bulletin

Figure 3: Corporate Sukuk Issuance



Source: Malaysian ICM bulletin

In Malaysia, the Sukuk market provides customised solutions to sovereign and corporate issuers through a variety of Sukuk structures using different Islamic contracts such as Ijarah, Murabahah, Musharakah, Wakalah or hybrid structures based on combinations of Shariah contracts. The Sukuk structures are backed by real economic activity and has the ability to tap a wider investor base from both Islamic and conventional spectrum including foreign investors. An increasing number of corporations, including foreign corporates also leverage on the strength of Malaysia's Islamic capital market to issue regular short-term commercial papers to meet their on going financing needs.

In September 2018, the Securities Commission (SC) in Malaysia liberalised its regulatory framework to facilitate greater retail access to the Malaysia bond and Sukuk market. The liberalised framework will allow a more efficient issuance process for corporate bonds and Sukuk to be offered to retail investors. Qualified issuers are no longer required to make disclosures through a prospectus, and are only required to issue a product highlight sheet. The range of corporate bonds and Sukuk that can be offered to retail investors has also been expanded beyond plain vanilla bonds.

In addition, the SC is introducing a new seasoning framework to enable retail investors to access existing corporate bonds and Sukuk which are currently traded by sophisticated investors in the over-the-counter (OTC) market. Under this framework, corporate bonds and Sukuk that are eligible for retail investment must have been in the market for at least 12 months, and have a minimum credit rating of A, among other requirements.

In tandem with these measures, distributors of corporate bonds and Sukuk in the OTC market are required to observe the sales practices prescribed by the SC, such as the requirement to undertake necessary client onboarding assessment and ensure fair treatment of investors. The liberalised framework for retail investors is complemented by the centralised online information platform, Bond + Sukuk Information Exchange Malaysia (BIX Malaysia), established by the SC in November 2017. BIX Malaysia enables investors to obtain necessary information on Ringgit bonds and Sukuk to assist in their investment decisions.

Following the issuance of the world's first green Sukuk last year in Malaysia, green Sukuk issuance is set to accelerate further as Malaysia continues to promote sustainable policy agendas by attracting private capital into low-carbon and climate-resilient infrastructure projects. In 2018, BIMB Investment Management Bhd launched the first ever environmental, social and governance (ESG) Sukuk fund, which would strengthen further the demand for green Sukuk.

To promote greater utilisation of green Sukuk as a fundraising channel, several incentives were also introduced to attract green issuers including:

- (i) Tax deduction until year of assessment 2020 on issuance costs of SRI Sukuk approved or authorised by or lodged with the SC;
- (ii) Income tax exemption to the issuers of the Green SRI Sukuk grant for applications received by the SC from 1 January 2018 to 31 December 2020;
- (iii) Tax incentives for green technology activities in energy, transportation, building, waste management and supporting services activities; and
- (iv) Financing incentives under the Green Technology Financing Scheme (GTFS) with total funds allocation of RM 5 billion until 2022.

To cement its commitment to Islamic finance and increase the appeal of Sukuk issuance, Malaysia has taken further steps in its latest budget to encourage participation in the Islamic debt capital market, with the introduction of sustained incentives for issuance. Malaysia would extend tax breaks for additional expenditure incurred by the issuance of Sukuk for a further three years, taking effect from 2019, in order to promote Malaysia as the hub and pioneer of the bond and Sukuk markets. A special committee on Islamic finance, led by the Ministry of Finance would also be set up to boost these efforts.

To foster the secondary market development of Sukuk, Bursa Malaysia provides a listing platform for Sukuk denominated in Ringgit and foreign currencies issued by local and international listed and non-listed entities under an “exempt regime” which does not provide for the paper to be quoted or traded over the exchange. The trading would occur on Over-the-Counter (OTC) basis. The listing of Sukuk promotes greater transparency and governance as the listed Sukuk would have higher visibility and transparency with disclosure of information being made to the Exchange and the public. The listing would also be useful for the profiling of the issuers to facilitate future fundraising exercises by attracting investments from a wider segment of institutional and high net worth investors across the globe.

To further enhance the breadth and depth of investment options in the Malaysian capital market, Bursa Malaysia also offers Exchange Traded Bonds and Sukuk (ETBS) which are bonds and Sukuk listed and traded on the stock market.

Figure 4: Sukuk listing under Bursa Malaysia as at June 2018

Exempt Regime	25
Exchange-Traded Bonds and Sukuk (ETBS)	2

Source: Malaysian ICM bulletin

#### Labuan IBFC as an attractive domicile for Sukuk issuance

The mid-shore jurisdiction of Malaysia, Labuan International Business and Financial Centre (Labuan IBFC) complements Malaysia in offering a conducive environment for Sukuk issuance. Labuan IBFC has a well developed legal, regulatory and Shariah framework that supports and accords certainty as well as integrity in Islamic financial transactions. In addition, Labuan IBFC offers fiscal incentives and a pool of Islamic finance talent in Sukuk structuring and distribution. In 2018, Khazanah Nasional Berhad successfully issued a 5 year exchangeable Sukuk out of Labuan IBFC to fund and asset managers across Asia and Europe.

As part of the efforts to promote more Sukuk issuances out of Labuan IBFC, Labuan Financial Services Authority (Labuan FSA) issued an Explanatory Note on Issuance and Subscription of Sukuk in Labuan IBFC. The explanatory note was introduced to clarify the requirements for the issuance and subscription of Sukuk in Labuan IBFC. This was followed by the issuance of the Guidance Note on Issuance of Sukuk Wakalah Bi Al-Istithmar in Labuan IBFC. The business guides highlight the conducive and flexible requirements for raising funds through Sukuk issuance under distinct Shariah principles in Labuan IBFC.

The business guides also depict the benefits of Sukuk issuance out of the centre for Sukuk issuers and investors.

In Labuan IBFC, the Labuan International Financial Exchange (LFX) serves as a one-stop full-fledged financial exchange with a complete range of services from listing and trading to clearing and settlement of financial instruments including foreign currency denominated Sukuk. As of 30 November 2018, the number of Sukuk listed on LFX is 12, representing 38% of the total number of instruments listed on the exchange.

Figure 5: Sukuk listing under Labuan International Financial Exchange (LFX) as of 30 November 2018

No.	Issuer Name	Currency (Size)	Listing Date	Maturity Date
1	Danga Capital Berhad (Khazanah) - Trust Certificates <sup>ER</sup>	SGD 900,000,000	12 Aug 2010	11 Aug 2020
2	Wakalah Global Sukuk Berhad - Series 2 - Trust Certificates <sup>ER</sup>	USD 800,000,000	7 Jul 2011	6 Jul 2021
3	EXIM Sukuk Malaysia Berhad - Multicurrency Senior Sukuk	USD 300,000,000	20 Feb 2014	19 Feb 2019
4	Cahaya Capital Limited - Multicurrency Senior Sukuk <sup>ER</sup>	USD 500,000,000	19 Sept 2014	18 Sept 2021
5	PETRONAS Global Sukuk Ltd - Trust Certificates <sup>ER</sup>	USD 1,250,000,000	19 Mar 2015	18 Mar 2020
6	Malaysia Sovereign Sukuk Berhad - 3.043 per cent Trust Certificates <sup>ER</sup>	USD 1,000,000,000	23 Apr 2015	22 Apr 2025
7	Malaysia Sovereign Sukuk Berhad - 4.236 per cent Trust Certificates <sup>ER</sup>	USD 500,000,000	23 Apr 2015	22 Apr 2045
8	Danga Capital Berhad - Trust Certificates <sup>ER</sup>	USD 750,000,000	2 Mar 2016	1 Mar 2022
9	Malaysia Sukuk Global Berhad - Series 1 Trust Certificates <sup>ER</sup>	USD 1,000,000,000	28 Apr 2016	27 Apr 2026
10	Malaysia Sukuk Global Berhad - Series 2 Trust Certificates <sup>ER</sup>	USD 500,000,000	28 Apr 2016	27 Apr 2046
11	Bagan Capital Ltd - Exchangeable Trust Certificates <sup>ER</sup>	USD 398,800,000	26 Sept 2016	23 Sept 2021
12	Cindai Capital Ltd –Cash-Settled Exchangeable Trust Certificates <sup>ER</sup>	USD 320,800,000	8 Feb 2018	8 Feb 2023

<sup>ER</sup>: This instrument is also listed on Exempt Regime platform Bursa Malaysia

Source: Bursa Malaysia - Labuan International Financial Exchange (LFX)

The progressive development of the Islamic financial ecosystem in Malaysia and Labuan IBFC contributes towards enhancing the dynamism of Sukuk in facilitating cross border financial flows in the Asia-Pacific region as well as internationally to achieve a more balanced, sustainable and inclusive growth for the global community.

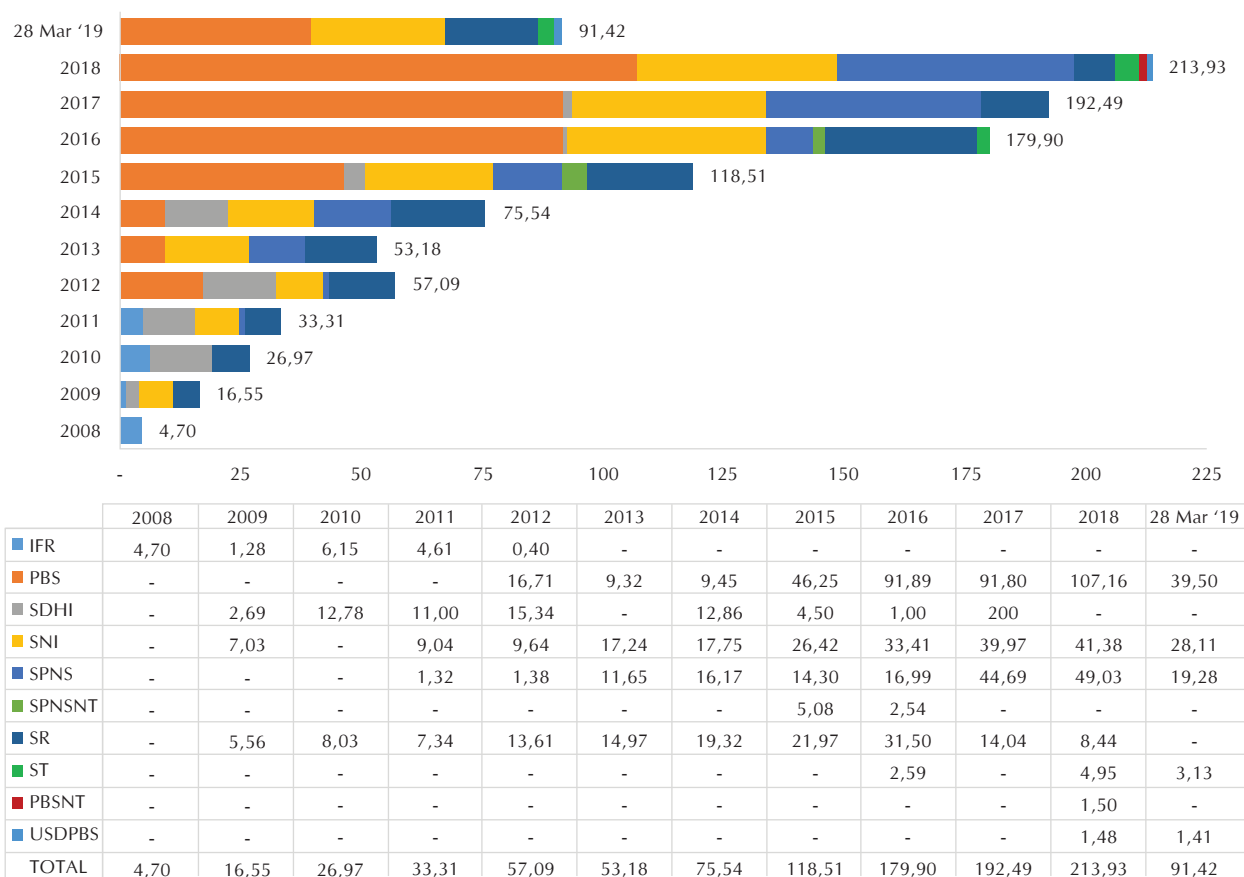
## 5.3 - Indonesia Sukuk Market 2018: Sustainable Growth Despite Challenges

By: *Bank Indonesia (BI)*

The Indonesia Sukuk market in 2018 showed a continuous growth despite a challenging environment in 2018. A slower global economic growth driven by various international issues has given some impact to the performance of Indonesia Islamic financial markets in general. Nonetheless, both the Indonesian government and corporate Sukuk were still in a positive performances with a continued growth in 2018. The government of Indonesia continues to issue series of Sukuk (namely SBSN) as well as the corporate sectors (see figure 1). The Sukuk issuance in Indonesia started with the first series of SBSN namely Islamic Fixed Rate (IFR) 001 and 002 with the value of IDR 15 trillion amounting the total issuance of IDR 7.51 billion in 2008.

After that initiation, varieties of Indonesian Sukuk are available in the market leading to Indonesia as one of the key players in the global Sukuk market. Currently, there are several type of Sukuk namely, Retail Sukuk (SR), Indonesian Global Sukuk (SNI), Pilgrimage Sukuk (SDHI), Treasury Sukuk (SPN-S), Project Based Sukuk (PBS) and the most recent ones (issued firstly in 2016) are Saving Sukuk (ST) and Green Sukuk (issued firstly in 2018) (see figure 1).

Figure 1: Trend of Indonesia Sovereign Sukuk Issuance

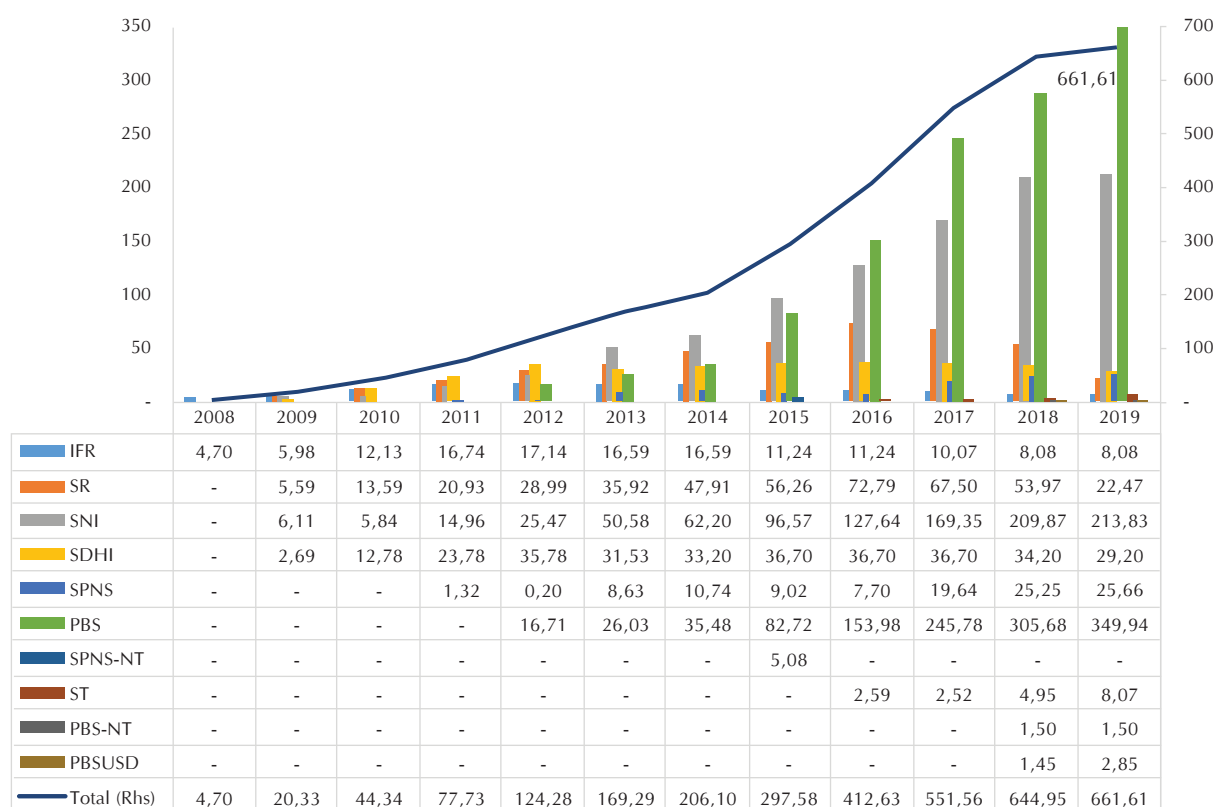




Thus, at the end of 2018, total accumulated SBSN was accounted IDR 213.93 trillion, showing an increase of 14.2% compared to the end of 2017, in which total SBSN was still IDR 192.49 trillion. As mentioned above, in the late of 2018, the government of Indonesia issued Green Sukuk to the global markets to keep up with the global trends energy transition to sustainable and renewable energy source.

This performance and achievement indicates a strong commitment of the Government of Indonesia to consistently and continuously issue Sukuk Negara (SBSN) in both domestic and global markets as its financing tools as well as supporting the development of the Indonesian Sukuk market (see figure 2).

Figure 2: Sukuk Negara Outstanding

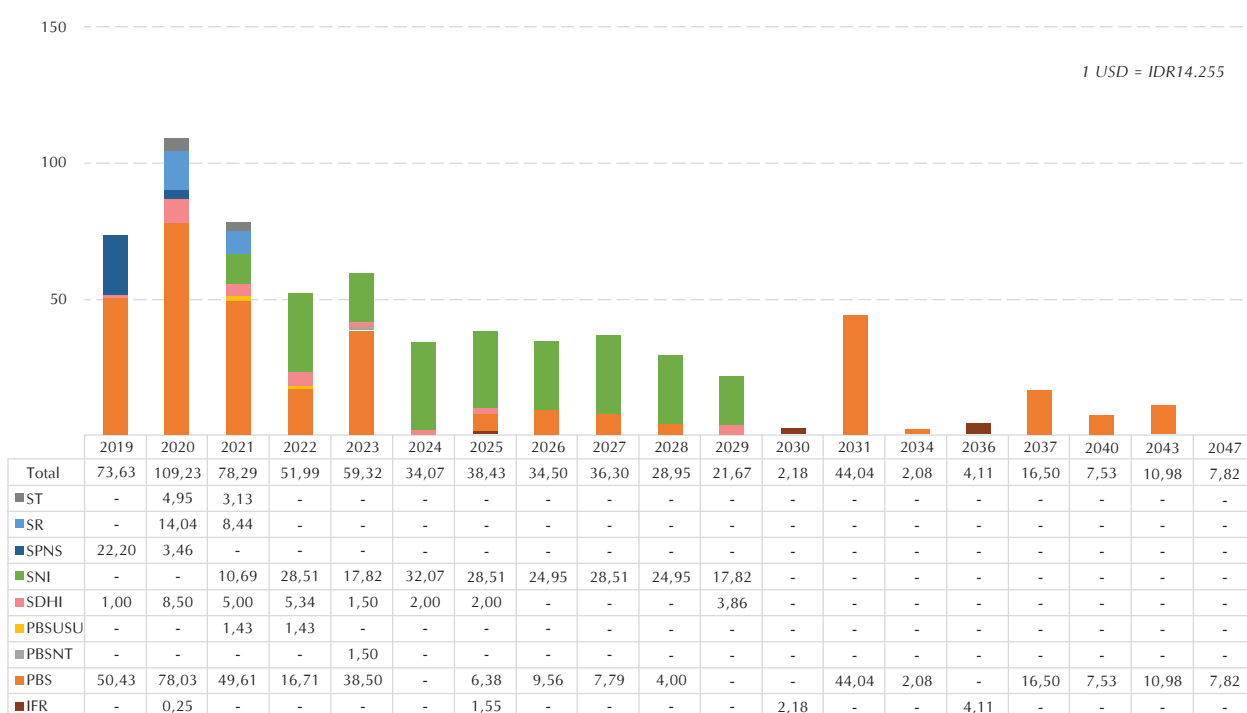


Source: Ministry of finance (data up to March 2019)

Figure 2 above illustrates the continuous development of Sukuk Negara (SBSN) since its first issue in 2008. By the end of 2018, there was an amount of IDR 645 trillion Sukuk Negara Outstanding with a growth of 17% from 2017 and 56% from 2016.

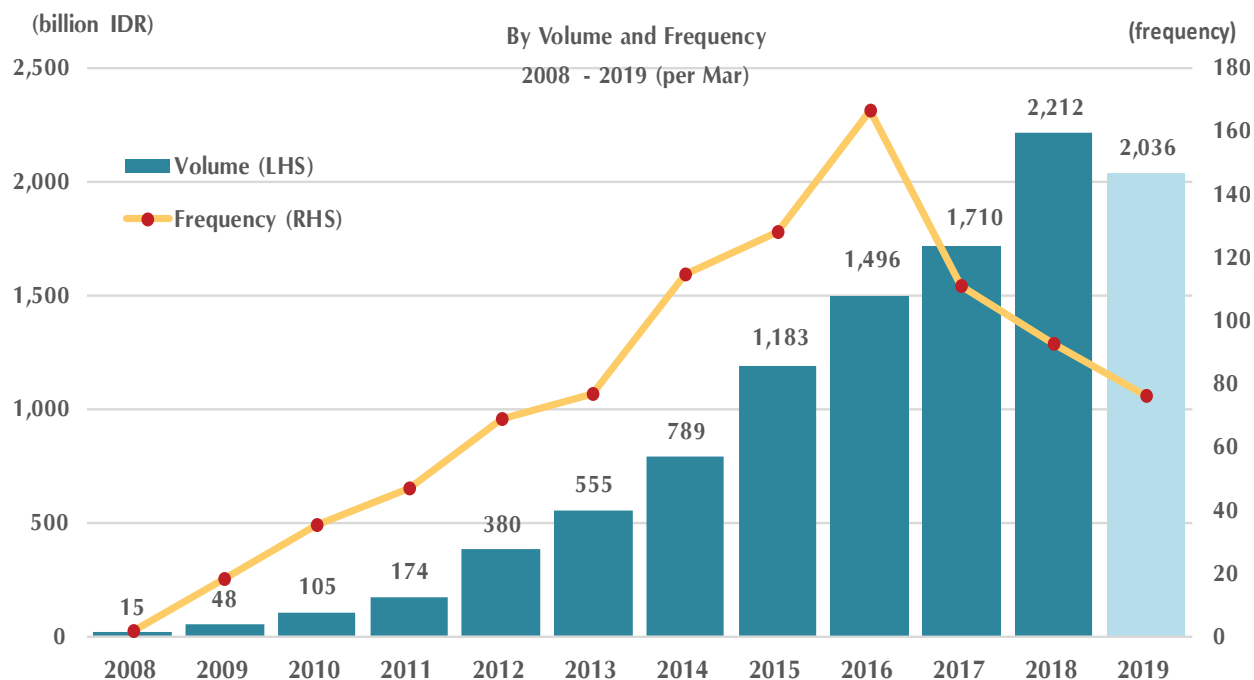
Project Based Sukuk (PBS) still positioned as the largest portion of SBSN with an outstanding of IDR 305.68 trillion in 2018 representing 52.89% of total outstanding of SBSN, followed by Sukuk Negara Indonesia (SNI) with an outstanding of IDR 213.83 trillion or 32.32% to the total outstanding of SBSN. Further, SBSN with Rupiah denominations dominates 67.25% of the total outstanding of SBSN with an amount of IDR 444.93 trillion compared to 32.75% or IDR 216.68 trillion of the USD SBSN denominations.

Figure 3: Maturity Profile Sukuk Negara (SBSN)



During early 2019 (up to March 2019), there will be 3 SBSN maturities amounting to IDR 73.63 trillion which consists of Project Based Sukuk or PBS (IDR 50.43 trillion), Treasury Sukuk or SPNS (IDR 22.20 trillion) and Pilgrimage Sukuk or SDHI (IDR 1.00 trillion) respectively (see figure 3). Most of the types of SBSN are going to be matured in 2020-2021 and will still be in the market due to consistency of the government to re-issue SBSN. The longest tenure of PBS is in 2047 followed by IFR in 2036.

Figure 4: SBSN Secondary Market Development



Following active issuances of SBSN, the secondary market trading is also inflating with an average daily trading volume of IDR 2.2 trillion, continuing a positive trend in the last couple of years. Compared with 2017, such an average daily trading volume has increased 29.3% despite of lowering number of trading frequencies in 2018 meaning that each trading tended to have significant volumes and values (see figure 4).

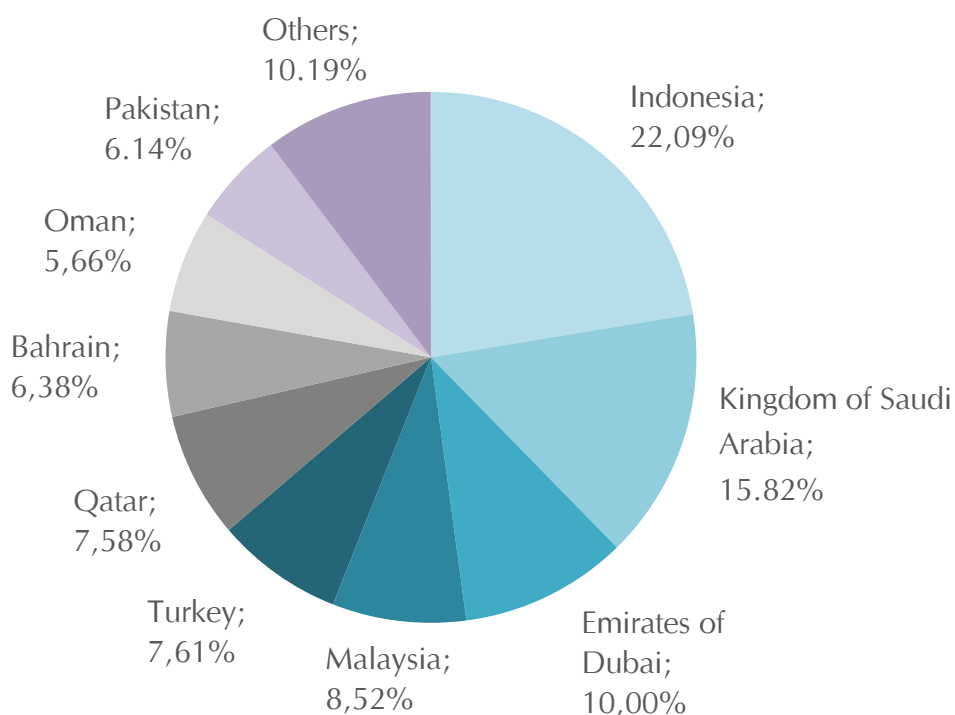
#### SBSN Portfolio Development in 2018

The total IDR 213.3 trillion SBSN issued in 2018 consists largely by Project Based Sukuk (PBS) accounted for IDR 107.16 trillion or represent 50.2% of total SBSN issued in 2018, followed by Treasury Sukuk (SPN-S) with sum of IDR 49.03 trillion (22.9% of the total SBSN), Indonesia Global Sukuk (SNI) equal to IDR 41.38 trillion (19.4% of the total SBSN), Retail Sukuk (SR) IDR 8.44 trillion (3.9% of the total SBSN), Saving Sukuk (ST) IDR 4.95 trillion (2.3% of the total SBSN).

In 2018, the government also issued the first Project Based Sukuk Non-Tradable amounted IDR 1.50 trillion and Project Based Sukuk denominated in US Dollars namely PBSUSD valued at IDR 1.48 trillion to the global market maturing on 15 November 2021. The high proportion of Project Based Sukuk compared to other type of Sukuk demonstrates that the government is well committed to continue utilizing Sukuk as a financing mechanism to support its policies to develop various infrastructure projects throughout Indonesia.

In response to high demand for retail Sukuk in the domestic market, the government also issues Sukuk Retail (SR-010) maturing on 10 March 2021 with a coupon rate of 5.9% and Saving Sukuk (ST-02) maturing on 10 November 2020 with a coupon rate of 8.3% floating with floor adjusted to the central bank 7 day repo rate. While intending to foster the domestic Sukuk market, the government also insists to support the development of the global Islamic financial markets by issuing government of Indonesia Sukuk to the global market. By the end of 2018, Indonesia sovereign Sukuk issuances have accounted USD 82.16 billion, representing 22.09% of the total global Sukuk issuance in 2018 (see figure 5).

Figure 5: Global Sukuk Issuance



The facts above also reveals the strong commitment of Indonesia to be one of the world players in the global Sukuk market. Indonesia was also contributing to the innovation of the Global Sukuk Structuring by issuing the first Global Green Sukuk projects in the late of 2018, as a source of financing for renewable energy transition projects in line with the government green framework policies.

#### SBSN Sukuk Retail Development

Since its first appearance in 2008, there have been four SBSN structures (contracts) namely: (1) Ijarah sale and lease back; (2) Ijarah Al-Khadamat; (3) Ijarah asset to be leased; and (4) Wakalah. A contract of Ijarah sale and lease back is consistently employed in IFR, SNI, and SPN-S instruments while Ijarah Al-Khadamat is SDHI instrument. Furthermore, Ijarah asset to be leased is utilized under PBS and SR instruments while Wakalah is utilized in SNI instrument. Each SBSN structure has different underlying assets. For instance, (i) in Ijarah Sale and Lease Back contract, the underlying assets are state-owned assets, (ii) in Ijarah Asset to Lease Back contract, the underlying Sukuk are infrastructure projects and, (iii) in Wakalah contract, the underlying Sukuk are either state-owned assets or infrastructure projects.

In issuing SBSN, the government can employ Special Purpose Vehicle (SPV) named Perusahaan Penerbit SBSN (PP SBSN) Indonesia that legally acts as the issuer as well as the trustee or the government can also directly issue SBSN instead of using PP SBSN. For the latter option, the government should choose its own trustee.

Furthermore, the issuance mechanism in domestic market uses an auction mechanism held in every two weeks based on annual calendar of issuance. The SBSN auction participants consist of banks (both conventional and Islamic bank) and securities companies. Instead of auction mechanism, SBSN (especially Retail Sukuk and Saving Sukuk) issuance also employ book building mechanism or private placement as in the case of SDHI. For its global Sukuk issuance (SNI), the government adopts book building and private placement mechanisms.

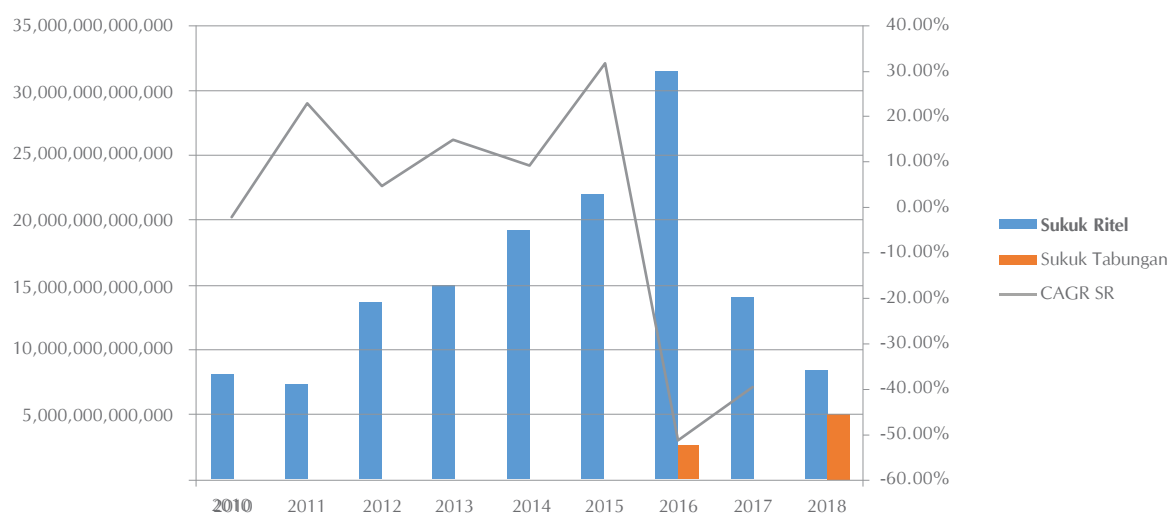
### SBSN Sukuk Retail Development

The increasing trends of Islamic lifestyle among Indonesians and the rising awareness by the Indonesian Muslim population to use Islamic finance product and services in the last 5 years drives demand for Sukuk higher. In response to this, the government of Indonesia issued two series of Sukuk mainly targeted to retail domestic market.

The first one is Retail Sukuk which is specifically designed to retail investors in Indonesia domestic market. Denominated in Rupiah, this Sukuk was introduced in 2009 based on Ijarah sale and lease-back contract with a 12% coupon rate for the first series issued in 2009. In 2018, the 10th series of its Sukuk was issued with 5.9% coupon rate and 3 years period which will be maturing on 10 March 2021. Named Sukuk Retail-010, it successfully raised IDR 8.4 trillion from the investors, with total accumulated amount at IDR 139.2 trillion from first issues in 2009.

The second Sukuk product which are designed for domestic retail investor is a saving Sukuk or locally known as Sukuk Tabungan. The Sukuk Tabungan was introduced and issued for the first time in 2016. This Sukuk was based on Wakalah contract with the government projects and assets as underlying assets.

Figure 6: Sukuk Retail Development



The first issuance of Sukuk Tabungan in 2016 successfully reached the amount of IDR 2.5 trillion with 2 years maturity period and 6.9% coupon rate p.a. For the year of 2018, the second series of Sukuk Tabungan was issued with 8.3% coupon rate and 2 years holding period. However, in this second issuance of Sukuk Tabungan, government occupied a different distribution channel than the previous retail Sukuk issuance which is an online method of bidding. Thus, investors could buy Sukuk Tabungan through an official online channel for 24 hours.

### SBSN Ownership and Investors Development

Despite varieties of types of Sukuk, there are also varieties of Sukuk Investors in the domestic market (see Table 1). Indonesia, as a country with the largest Muslim population, holds a huge opportunity for the Islamic finance market instrument to develop. Concerning the tradable Sukuk, the Banks play an important role as the major investors in the Indonesia Sukuk market with 41.13% of total tradable Sukuk which consists of 31.03% conventional banks and 10.10% shari'ah banks respectively.

Table 1. Sukuk Ownership

INSTITUTIONS	Mar-18		Jun-18		Dec-18		Feb-18		March 27,2019	
	Miliar	%	Miliar	%	Miliar	%	Miliar	%	Miliar	%
<b>TRADABLE</b>	<b>329,204</b>	<b>89.35</b>	<b>354,277</b>	<b>90.61</b>	<b>329,985</b>	<b>90.63</b>	<b>421,180</b>	<b>90.98</b>	<b>406,160</b>	<b>90.67</b>
<b>Total Bank</b>	<b>158,794</b>	<b>43.10</b>	<b>162,872</b>	<b>41.66</b>	<b>177,369</b>	<b>41.13</b>	<b>202,610</b>	<b>43.67</b>	<b>198,458</b>	<b>44.31</b>
<i>Conventional Banks</i>	118,286	32.11	120,725	30.88	134,560	31.03	161,645	34.92	185,857	35.46
<i>Sharia Banks</i>	40,508	10.99	42,147	10.78	43,809	10.10	40,965	8.85	39,601	8.84
Bank Indonesia	5,074	1.38	15,680	4.01	25,031	5.77	20,675	4.47	19,751	4.41
Insurance Company	39,248	10.65	41,955	10.73	49,351	11.38	49,468	10.69	48,571	10.84
Pension Fund	40,940	11.11	42,884	10.97	44,167	10.19	46,321	10.01	47,224	10.54
Individual	26,731	7.26	23,694	6.06	21,962	5.06	21,554	4.66	12,296	2.75
Mutual Fund	15,325	4.16	17,294	4.42	20,169	4.65	20,820	4.50	19,013	4.24
Non Resident	19,412	5.27	20,591	5.27	19,044	4.39	18,689	4.04	19,232	4.29
Others	23,630	6.43	29,307	7.50	34,891	8.05	41,043	8.87	41,615	9.29
<b>NONTRADABLE</b>	<b>39,221</b>	<b>10.65</b>	<b>36,721</b>	<b>9.39</b>	<b>40,643</b>	<b>9.37</b>	<b>41,770</b>	<b>9.02</b>	<b>41,770</b>	<b>9.33</b>
Public Institution	36,697	9.96	34,194	8.75	34,197	7.89	32,197	6.95	32,197	7.19
Individual	2,524	0.69	2,524	0.65	4,946	1.14	8,073	1.74	8,073	1.80
Others	-	-	-	-	1,500	0.35	1,500	0.32	1,500	0.33
<b>TOTAL</b>	<b>368,425</b>	<b>100.00</b>	<b>390,997</b>	<b>100.00</b>	<b>433,627</b>	<b>100.00</b>	<b>462,950</b>	<b>100.00</b>	<b>447,930</b>	<b>100.00</b>
Note: *In million Rupiah *Not Included Global Sukuk and SUN ownership Others consist of Corporate, Securities Company, Foundation, etc										

The second position holds by Insurance company with 11.38% then follows by pension fund with 10.19%. Despite the large number of muslim population, the individual investors represent only small piece of the portion with 5.06% in December 2018, declining from March 2018 period at 7.26%. The Islamic finance institutions with a partnership with regulators should play a larger role to educate the market particularly to retail sectors, with aims to increase the awareness of the Sukuk product. As the market has become more educated, the Sukuk as an investment instruments will be gaining a larger market share notably to the local retail investors.

### Market Development of SBSN

The Indonesia Global Sukuk (SNI) issuances indicate positive trend despite of continuous lower growth. During the 2018 period, the government of Indonesia issues two series of Indonesia global Sukuk (SNI) with total of USD 3 billion equal to IDR 41.38 trillion (see figure 7).

Figure 7: SNI Issuance

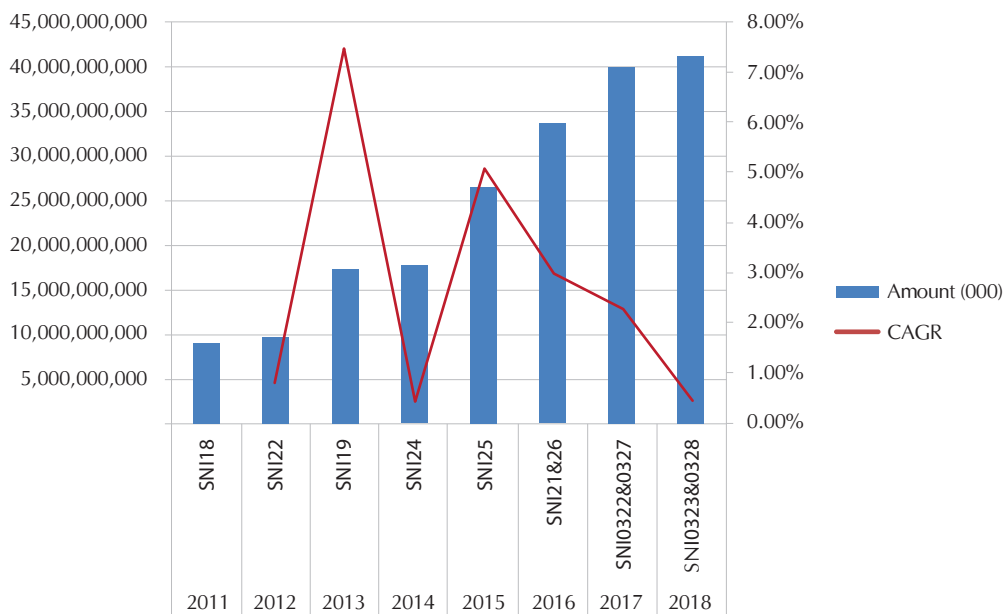
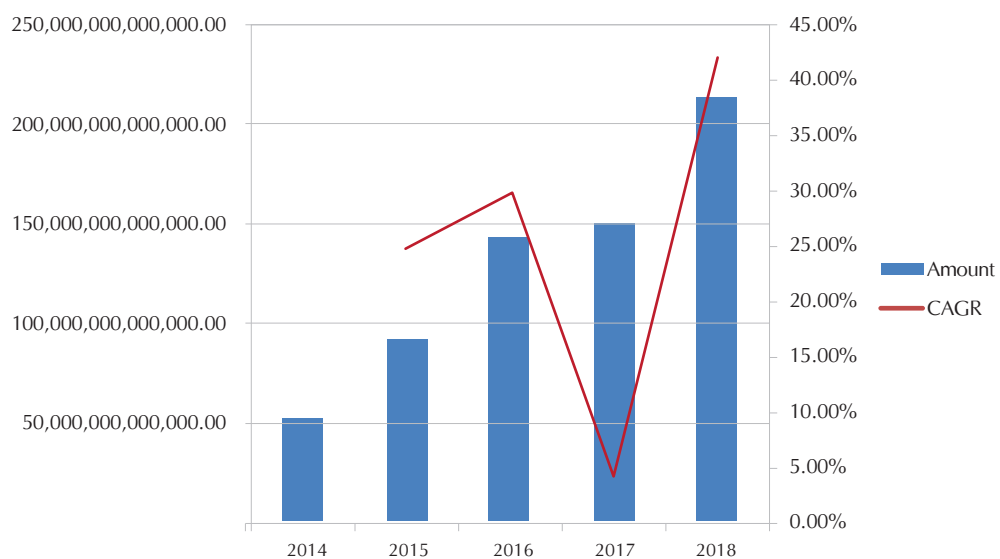


Figure 8: Project Based Sukuk (PBS) Issuance



In terms of the domestic market, SBSN (Project Based Sukuk in this case for example) also shows an excellent performance as shown in higher issuances in line with growing number of compounded annual growth rate (refer figure 8). The year of 2018 becomes the highest issuances of the PBS series so far. This outstanding exceptional performance indicates a huge potential of local investors to invest in SBSN especially since SBSN tends to offer higher coupon rate than bank's interest rate.

Nevertheless, SBSN is not as liquid as its conventional counterpart (namely SUN) in the secondary market. It is mainly caused by the limited number of supplies paralleled to SUN. In response to this condition, the government steadily increases the supply of SBSN by issuing different types of SBSN to absorb more funds, attract more and wider investors and deepen the Islamic financial markets.

### Development of Corporate Sukuk

Since the first issuance of Indonesia corporate Sukuk in 2002, the total of corporate Sukuk issuance reached IDR 40.25 trillion, with about 26.33% or IDR 10.6 trillion issued in 2018 alone. Until the end of 2018, the total corporate Sukuk outstanding amounted to IDR 26.31 trillion (see figure 9).

Figure 9: Domestic Corporate Sukuk Issuance

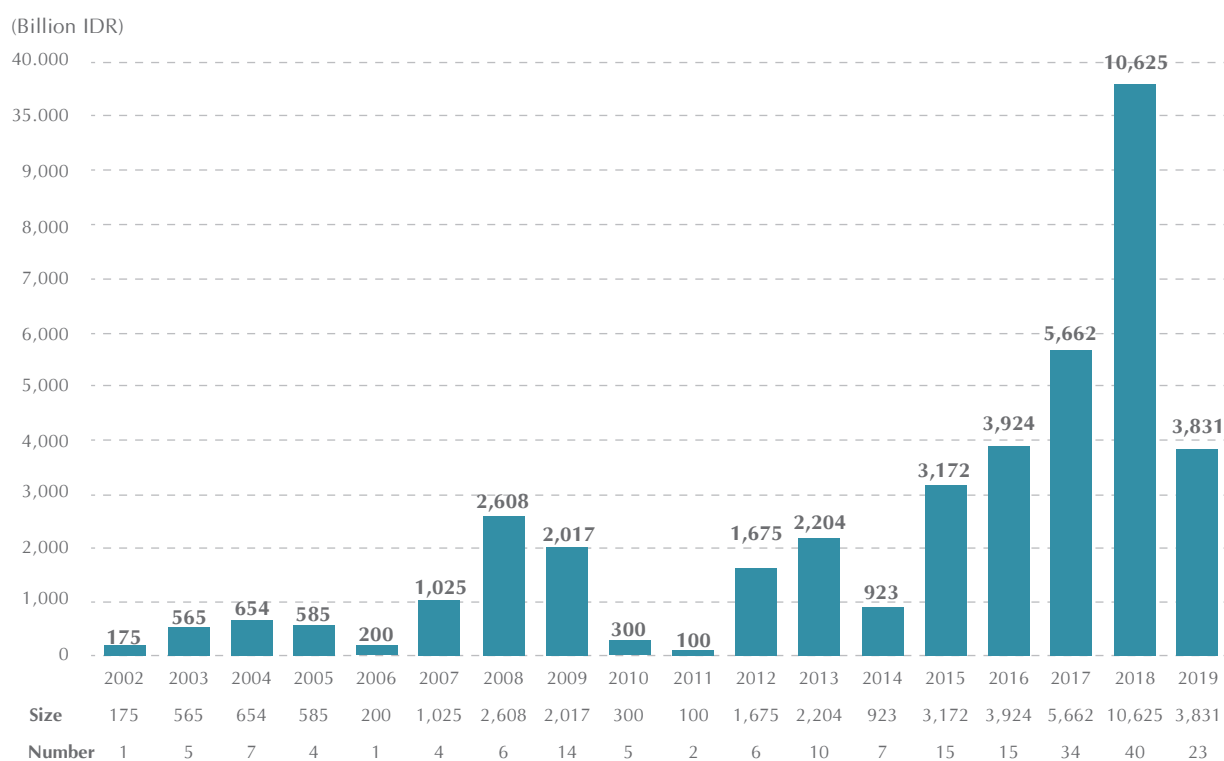
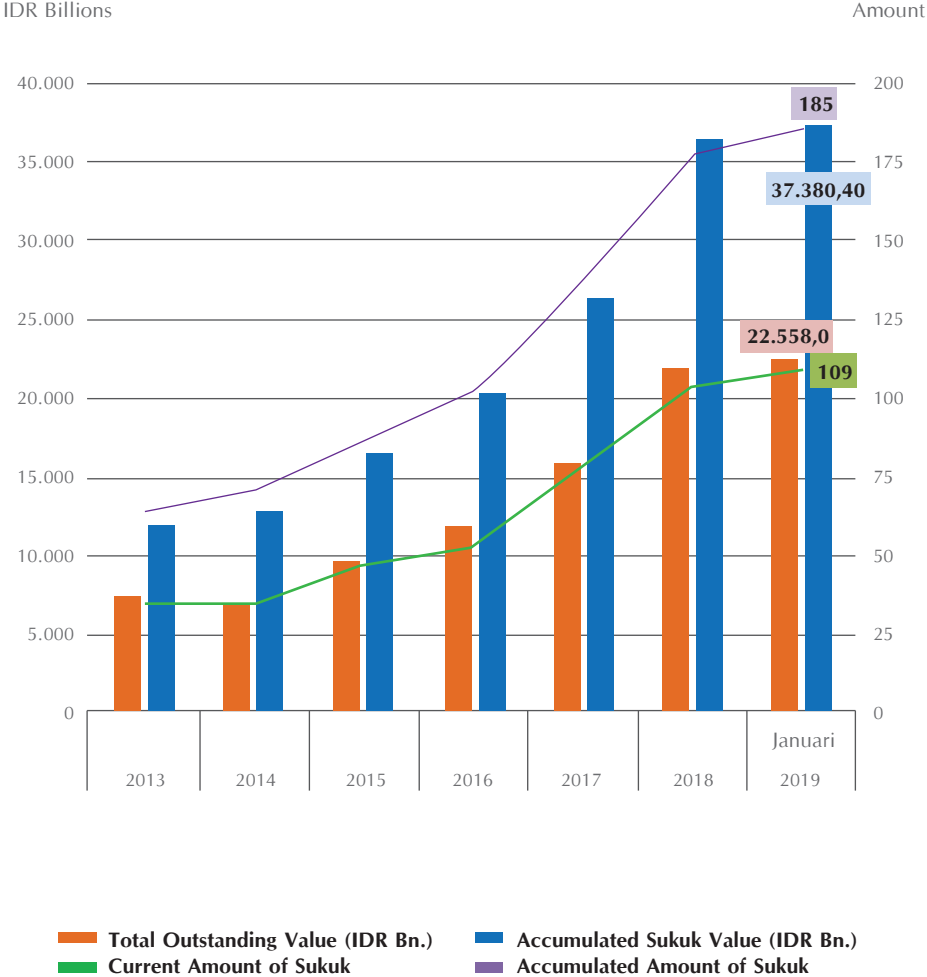




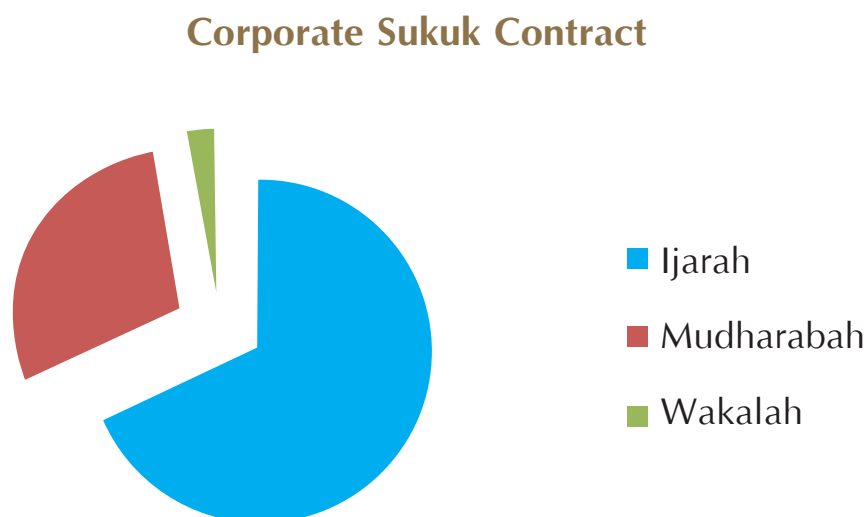
Figure 10: Corporate Sukuk Development



During the year of 2018, there are 40 numbers of corporate Sukuk issuance amounted at IDR 10,6 trillion. This number increases 87.6% compared to 2017 period with 34 issuances with total of IDR 5.66 trillion. This numbers shows an increasing interest from the corporates to use Sukuk to fulfill their financing needs (see figure 10 above).

Currently there are 109 corporate Sukuk outstanding in Indonesia corporate Sukuk market which consists mainly based on Ijarah contract represent 67.89%, followed by Mudharabah and Wakalah contract with 29.36% and 2.75% respectively (see figure 11).

Figure 11: Contract used for corporate Sukuk



To conclude; the Indonesia Sukuk Market indicates promising growth despite of challenging condition in 2018. Large local Muslim community base give enormous spaces to growth. Increasing level of trust from international community helps Indonesia Islamic financial market to strive. However, low number of retail investors participation caused by low proliferation should be responded strategically by all the stakeholders by preparing an integrated educational plan with aims to grow awareness within the domestic Muslim community for the potential investment in Sukuk.

## 5.4 - Islamic Development Bank - Leading the Expansion of the Sukuk Market

*By: Capital Markets Division, Islamic Development Bank (IsDB)*

### 1. Introduction

The Islamic Development Bank (IsDB), established in 1974, is a multilateral development bank (MDB) that operates on the principles of Shari'ah and works to improve the lives of those it serves by promoting social and economic development in Member Countries and Muslim communities worldwide, delivering impact at scale. IsDB focuses on providing the infrastructure to enable people to lead better lives and achieve their full potential.

The stated mission<sup>1</sup> of IsDB is as follows:

- We believe all people have the right to live in dignity and prosperity, and that nurturing economic growth is the best route out of poverty.
- We equip people to drive their own economic and social progress at scale, putting the infrastructure in place to enable them to fulfil their potential.
- We build collaborative partnerships between communities and nations across the public and private sectors.
- We foster innovative and sustainable solutions to the world's greatest development challenges, as we work towards the UN Sustainable Development Goals

IsDB is also a founding and permanent member of IIFM.

### 2. Financial strength

IsDB is rated 'AAA' by the three major rating agencies (Standard & Poor's, Moody's, and Fitch) with the latest ratings affirmed by S&P as recently as February 2019. It is also one of the strongest-capitalized MDBs with an equity-to-assets ratio of 39.6%. IsDB continues to maintain a conservative approach to leverage

As a financial institution, IsDB-issued paper has coveted labels to its name such as:

- a) Designation as a Zero-Risk Weighted Multilateral Developmental Bank (MDB) by the Basel Committee on Banking Supervision (BCBS) and the Commission of the European Communities.

<sup>1</sup>: <https://www.isdb.org/who-we-are>

- b) Recognized Supranational issuer as per the European Central Bank (ECB)
- c) Eligibility as 'Level B' collateral for the Bank of England's operations and
- d) Eligibility for inclusion in 'liquidity buffer' of banks under the supervision of the Financial Conduct Authority (FCA), UK.

Rating agencies cite the strong shareholder support for IsDB from highly rated sovereigns, its Preferred Creditor Status, a strong capital base and an established track record in terms of asset quality to justify the top-tier ratings for IsDB.

IsDB's authorized capital is ID 100 billion (USD 139.1 billion), subscribed share capital stands at USD 69.9 billion and callable capital is USD 56.8 billion<sup>2</sup>.

### 3. Portfolio Overview

IsDB's ordinary operations are funded primarily through shareholders' equity i.e. Ordinary Capital Resources ("OCR") and supplemented by resources mobilized from the international capital markets.

IsDB has a very broad operational scope, as it conducts business across Asia, Africa and the Middle East through its 57 Member Countries. Strictly enforced exposure limits per country helped IsDB achieve asset diversification and minimize excessive concentration of risk within member countries.

The primary driver of asset growth for IsDB is project financing in member countries, driven from its Member Country Partnership Strategy ("MCPS").

### 4. IsDB in the Sukuk market

With its mandate to foster the development of the Islamic financial industry in general and support the expansion of the Islamic capital markets in particular, IsDB has played a leading role in the development of the capital markets through the issuance of Sukuk, launching its first in 2003.

Since then, the Board-approved Medium-Term Note (MTN) Program, established as an umbrella program under which to issue Sukuk, has been upgraded and currently stands at USD 25 billion.

The MTN program has been admitted to the official list and to trading on the London Stock Exchange, Nasdaq Dubai and Bursa Malaysia (Exempt Regime).

<sup>2</sup>ID = Islamic Dinar = 1 Special Drawing Right of the IMF (a basket currency that consists of US\$:41.73%, EUR:30.93%, GBP:10.92%, JPY:8.09%, RMB: 8.33% since October 1, 2016).As at year-end 2018, 1 ID = US\$1.39079

IsDB has demonstrated its commitment to the Sukuk market with successive issuances after 2009, as the IsDB's member countries requested for higher project financing due to the global financial crisis. Since then the Bank has strengthened its profile as a frequent issuer in the capital markets. It has issued regularly in USD and is committed to expand its public Euro-denominated offerings.

As at March 2019, more than USD 20 billion has been issued thus far and about USD 14 billion remain outstanding.

As a frequent issuer of Sukuk, IsDB's main objectives in the Sukuk market are:

- a) Develop a liquid yield curve as part of IsDB's wider strategic objectives
- b) Enhance its profile in the international capital markets and reach out to new investors
- c) Establish a benchmark in the supranational market
- d) Undertake issuance in or linked to different currencies

#### 4.1. Public issuances

Under the MTN program, IsDB has publicly raised Sukuk regularly. Table 1 below shows IsDB Sukuk issuances in 2018. The policy of venturing into the capital markets every year through USD benchmark issuances<sup>3</sup> has played an important role in deepening as well as broadening the investor base for IsDB. It has also helped set a track record for IsDB in the Reg S market (non-USA).

Series	Tenor (years)	Issued	Maturity	Size (in millions)	Listed on
Series33	5	Mar'18	Mar'23	USD 1,250	a) LSE b) DIFC c) Bursa Malaysia
Series35	5	Sep'18	Sep'23	USD 1,300	a) LSE b) DIFC c) Bursa Malaysia
Series36	5	Nov'18	Nov'23	EUR 650	a) LSE b) DIFC c) Bursa Malaysia

#### 4.2. Private placements

In its pursuit of testing new markets for Sukuk, IsDB has also successfully raised funds through private placements of Sukuk in various currencies. Table 2 below lists the Sukuk issuances in 2018.

<sup>3</sup>A benchmark issuance is US\$ 500 million

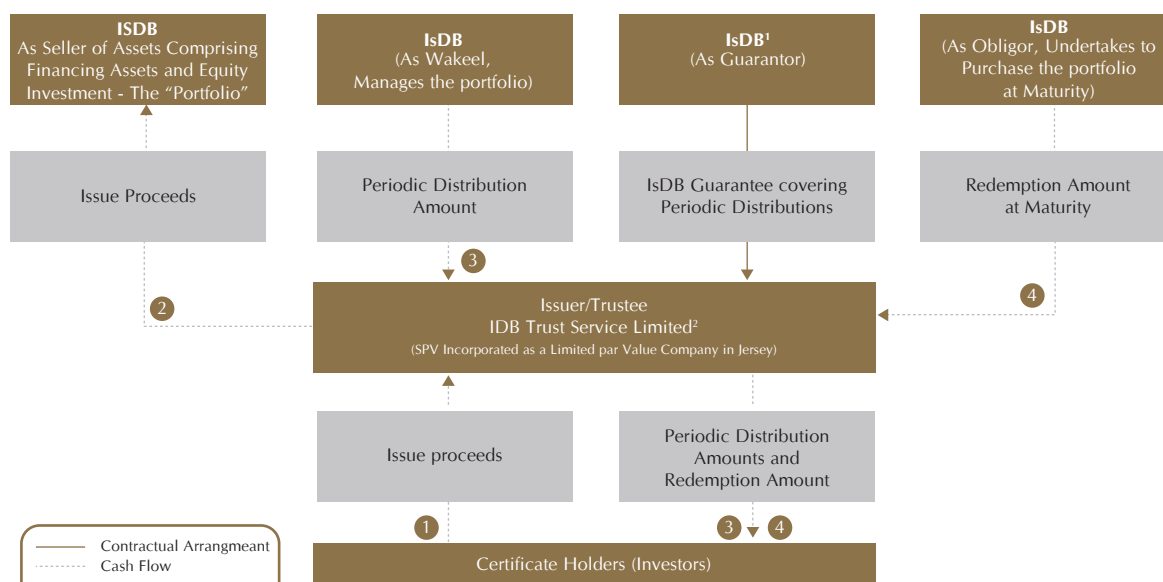
Series	Tenor (years)	Issued	Maturity	Size (in millions)
Series34	5	Jul'18	Jul'23	USD 100
Series37	3	Nov'18	Nov'21	USD 471

### 4.3. The Structure

IsDB's Sukuk structure is 'asset-based', which has a capital markets component that fulfills listing requirements and an Islamic structuring component that complies with the conditions set out by Shari'ah. IsDB's Asset-based Sukuk are treated as 'senior unsecured' securities.

The IsDB Shari'ah Board, which is composed of prominent renowned Shari'ah scholars, reviews and provides a Fatwa (pronouncement) on IsDB's Sukuk issuance.

## Trust Certificate (Sukuk) Structure Overview – Rated AAA by the three rating Agencies.



The above is a summary of the key features of the structure of an offering under IsDB's Trust Certificate Issuance programme. For a complete description of the structure, please refer to the Base Prospectus dated 07 June 2018.

1. IsDB receives 0% risk weighting by Basel Committee, similar to other AAA-rated MDBs
2. Subject to conditions, Bank can substitute the risk weight of the counterparty with the risk weight of the Guarantor - Source: Basel Committee on Banking Supervision - Basel 3: Finalising post-crisis reforms (December 2017) - Section 5 - Range of eligible guarantors (Counter-guarantors)/ protection providers and credit derivatives - page 50

IsDB Investor Presentation 2019 IsDB's Sukuk structure can be described as follows:

1. IsDB, as a Seller, sells a pool of assets<sup>4</sup> (the 'Portfolio') that consists of financing and equity investments, to IsDB Trust Services Limited, which is a Special Purpose Vehicle (SPV) established in Jersey to act as a Trustee on behalf of the Sukuk investors.
2. The SPV issues Sukuk certificates worth the Portfolio to Sukuk investors and then pays the proceeds to IsDB, which utilizes the proceeds for its general operations.
3. IsDB, as Obligor, undertakes to redeem the Sukuk at nominal amount by providing a Purchase Undertaking.
4. The SPV appoints IsDB as the Wakeel (Agent) to manage the underlying Portfolio and the periodical profit (coupon) to the investors through the SPV.
5. Upon maturity, IsDB, acting under the Purchase Undertaking, purchases the Portfolio back from the investors at the nominal amount and redeems the Sukuk.

Funds raised via Sukuk issuance are utilized by IsDB for its general corporate purposes, which includes financing for medium and long-term projects in its Member Countries. Financing is provided in various sectors such as agriculture, infrastructure, energy, health and others. In recent years, IsDB has mainstreamed its focus on the Sustainable Development Goals (SDGs) in its operations.

#### 4.4. Investor Distribution

IsDB, as an AAA-rated issuer of Sukuk, has always received a strong order-book from diverse markets across the globe.

The high credit quality paper issued by IsDB in Sep 2018 achieved 63% placement into Central Banks/Agency and Pension Funds. Investors from the Europe, Middle East and Africa (EMEA) region made up 68% of the orders and 38% were placed from Asia.

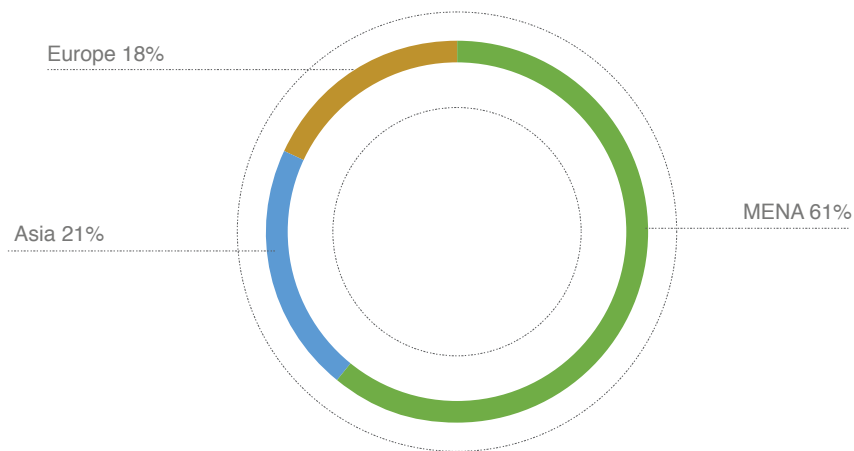
These are results of IsDB's continuous investor education drive via non-deal roadshow and teach-in mission and focused efforts targeted at Central Banks AAA investors.

<sup>4</sup>The pool consists of tangible and intangible Ijārah, Murābahah, Murārabah, Istisnā assets as defined by the IsDB Group Sha'iah Board

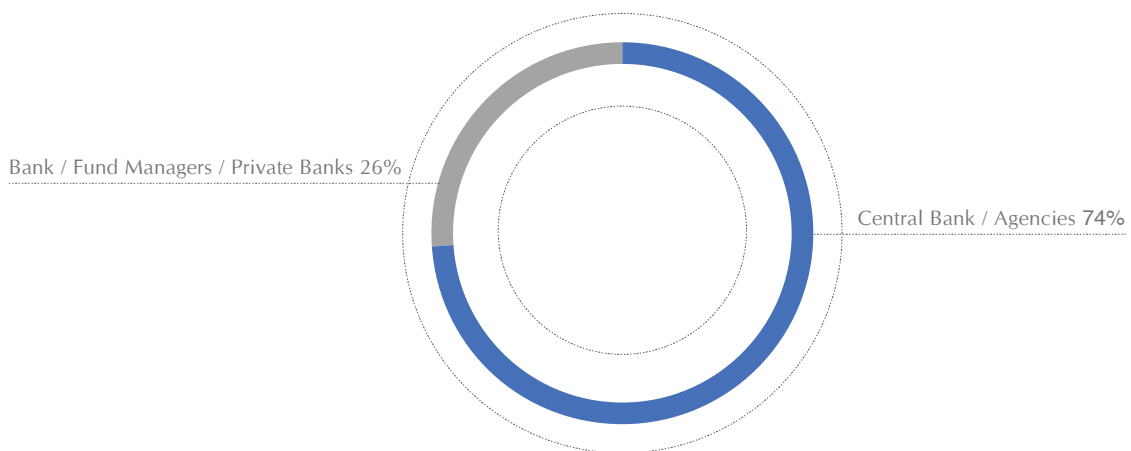
Investor distribution of selected issuances are presented below.

USD 1.25 bln issued in Mar 2018

## Geographic Distribution



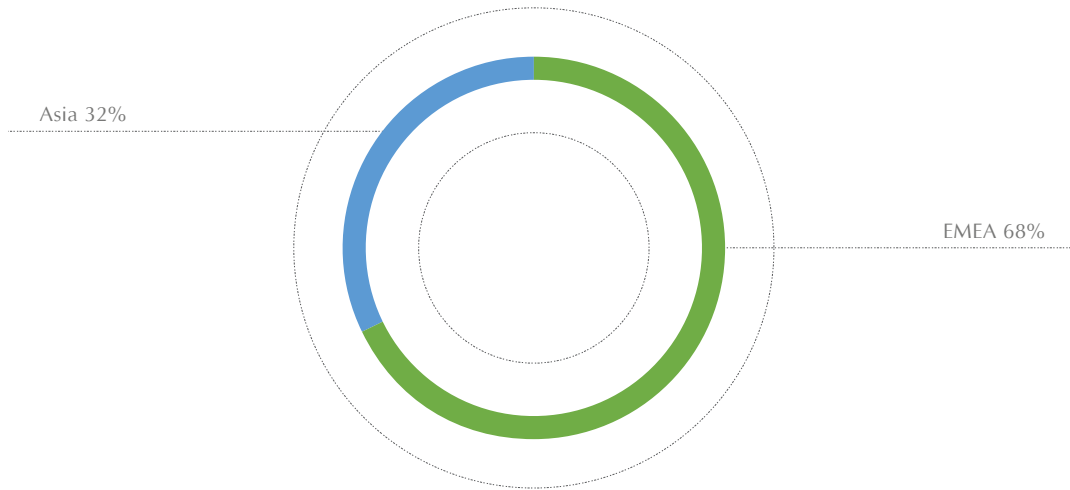
## Investor Type



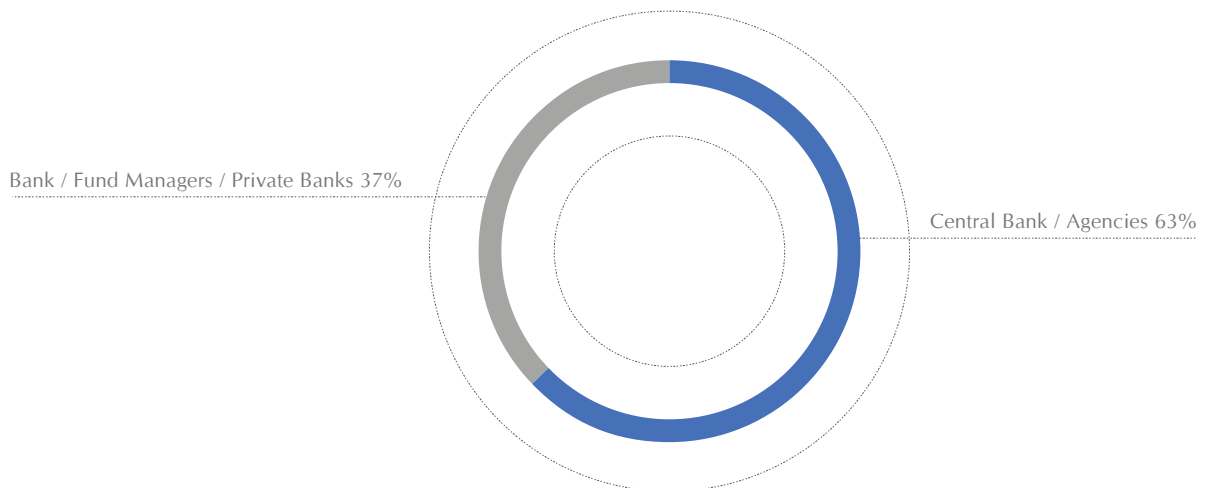


USD 1.3 bln issued in Sep 2018

## Geographic Distribution

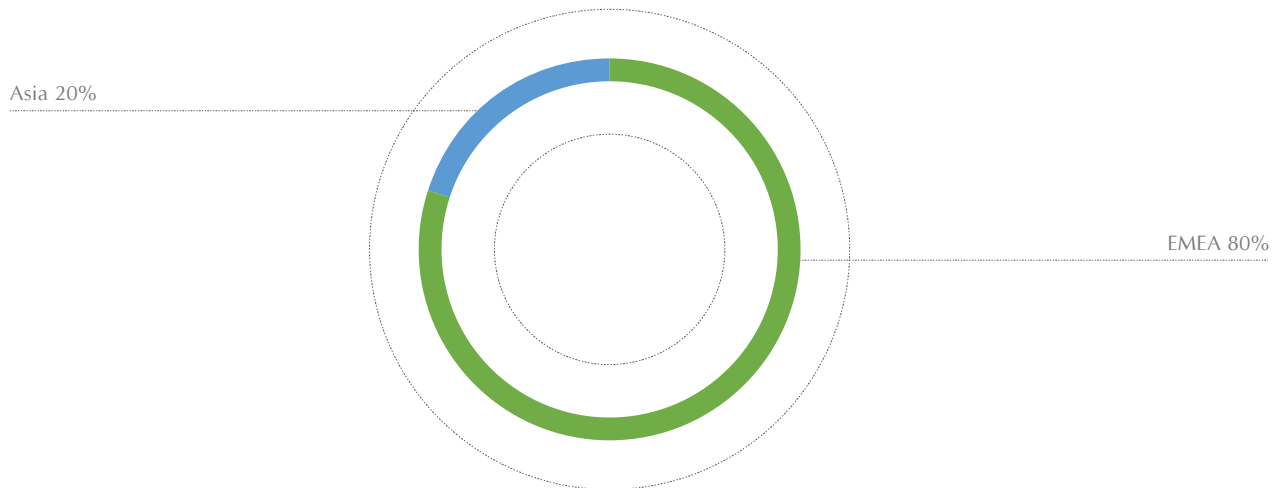


## Investor Type

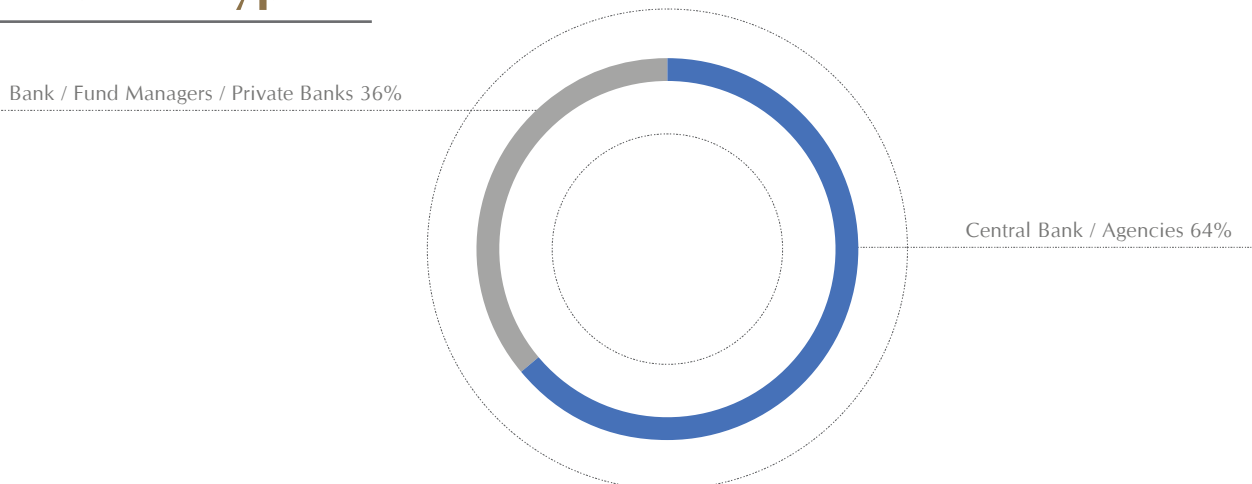


EUR 650 mln issued in Nov 2018

## Geographic Distribution



## Investor Type



The increase in uptake from EMEA<sup>5</sup> investors for subsequent Sukuk issuances is the result of IsDB's efforts to expand its Euro-denominated offerings in the near future.

### 5. Moving Forward

With the highest investment-grade rating and zero-risk weight paper, IsDB continues to lead the way for the expansion of the Sukuk industry especially as the primary issuer

In light of IsDB's increasing focus on the SDGs, new Sukuk structures that focus on specific themes of the SDGs are in exploration stage. IsDB believes that as a resource mobilization instrument with a proven track record, Sukuk can play a significant role in raising funds to target the achievement of the SDGs for its Member Countries.

<sup>5</sup>Europe, Middle East and Africa

## 5.5 - Brunei Darussalam Sukuk Market Development

**By: *Autoriti Monetari Brunei Darussalam ( AMBD )***

### Overview

#### 1. Data Of Sukuk Issuance

##### a. Sovereign Sukuk

On 6th December 2018, the Government of Brunei Darussalam through its agent, Autoriti Monetari Brunei Darussalam (AMBD), issued its 164th series of Sukuk, worth BND 50 million. With this issuance, the Brunei Government has issued over BND 12.41 billion worth of short-term Sukuk Al-Ijarah securities since its maiden offering on 6th April 2006.

The Government Sukuk Al-Ijarah issuances which are currently offered to financial institutions in Brunei Darussalam for the period of January 2018 to December 2018 are as follows:

Year	Series	Issuance Date	Tenor (Days)	Maturity Date	Total (BND)	Rental Yield
2018	SERIES 153	11-Jan-18	91	12-Apr-18	100,000,000.00	0.8750
	SERIES 154	08-Feb-18	91	10-May-18	100,000,000.00	0.8750
	SERIES 155	08-Mar-18	364	07-Mar-19	50,000,000.00	1.1875
	SERIES 156	12-Apr-18	91	12-Jul-18	100,000,000.00	0.9375
	SERIES 157	10-May-18	91	09-Aug-18	100,000,000.00	1.0000
	SERIES 158	07-Jun-18	364	06-Jun-19	50,000,000.00	1.2500
	SERIES 159	12-July-18	91	11-Oct-18	100,000,000.00	1.0000
	SERIES 160	09-Aug-18	91	08-Nov-18	100,000,000.00	1.3125
	SERIES 161	06-Sep-18	364	05-Sep-19	15,000,000.00	1.5000
	SERIES 162	11-Oct-18	91	10-Jan-19	100,000,000.00	1.3125
	SERIES 163	08-Nov-18	91	07-Feb-19	100,000,000.00	1.3750
	SERIES 164	06-Dec-18	364	05-Dec-19	32,500,000.00	1.7500

BND 1 = USD 0.74

##### b. Quasi-Sovereign Sukuk

As an initiative to support the development of the capital market in Brunei Darussalam, during the period 2018, AMBD introduced a quasi-sovereign financing instrument for the construction of its new building. The Shariah-compliant instrument, Sukuk Ijarah Mausufah Fi Zimmah, was set to be a landmark issuance that is hoped to spur Sukuk as a mode of infrastructure financing in Brunei Darussalam.

### c. Corporate Sukuk

There has been no corporate Sukuk issued during the period of January 2018 to December 2018.

### d. Secondary Market Trading

There were four secondary market activities recorded in the same year.

## 2. Legal And Regulatory Framework For Sukuk In Brunei Darussalam

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The capital market industry in Brunei Darussalam is governed by the Securities Markets Order, 2013 (SMO) and the Securities Markets Regulations, 2015 (SMR) which are administered by AMBD.

The SMO and SMR provide the legal and regulatory framework for the licensing and supervision of market operators such as securities exchanges, clearing house, trading facilities, credit rating agencies, capital market intermediaries such as dealers, fund managers, investment advisers, securities products and collective investment schemes.

Prior to any issuance of investment instruments or securities in Brunei Darussalam by way of a public offering, a registration statement and prospectus are required to be issued in the form and manner set out in the SMO and SMR.

Additionally, Islamic securities or financial products including Sukuk are regulated under the Syariah Financial Supervisory Board Order, 2006 (SFSBO). Under the SFSBO, Islamic securities or financial products are required to be submitted to the Syariah Financial Supervisory Board (SFSB) for approval. The SFSB acts as the final authority for the interpretation of the Laws of Islam for the purposes of any Islamic financial activities that are based on Syariah principles, including Islamic banking business, Takaful, and Islamic capital markets.

## 3. Moving Forward

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AMBD is currently developing the domestic money market, including the development of issuing shorter tenor Sukuk. This project will provide benchmark rates for the shorter end of the yield curve.

## 5.6 - Issuance of Sukuk in Sudan

### *By: Central Bank of Sudan*

Sudan Sukuk Issuance in 2018:

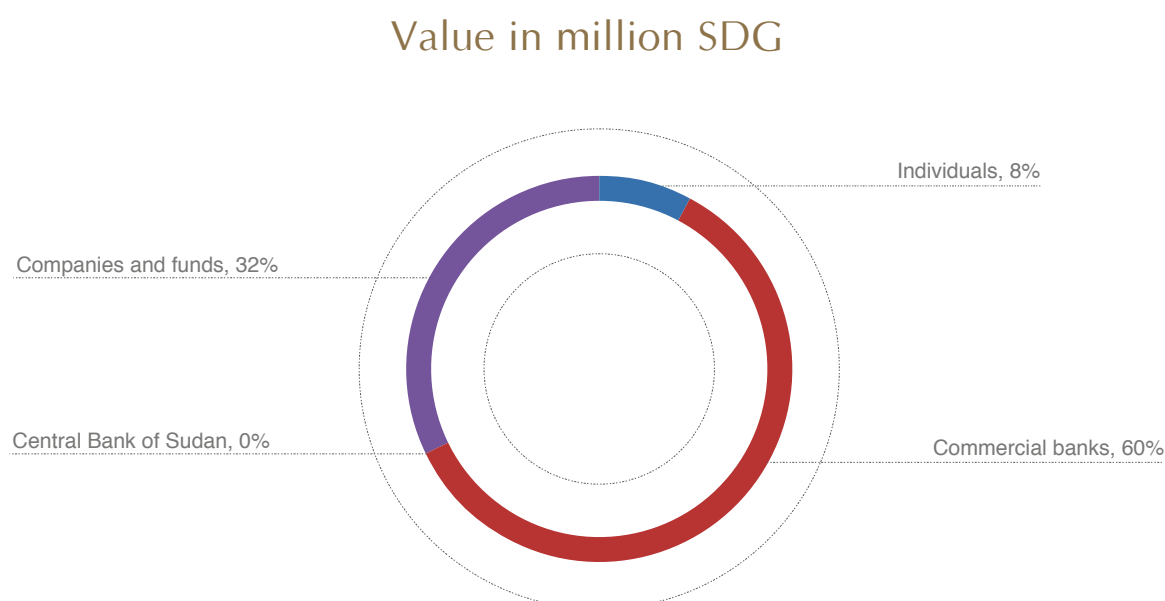
During the year 2018, Sudan Financial Services Company issued new issuances for both government Musharakah Certificates (GMCs) and government investment Certificates (GICs). It also extended GIC volume 18 and Khartoum Petroleum refinery Certificates KRC2 , KRC3, KRC3.1 and KRC3.2 as shown in the tables below :

### 1- Government Musharakah Certificates (GMCs):

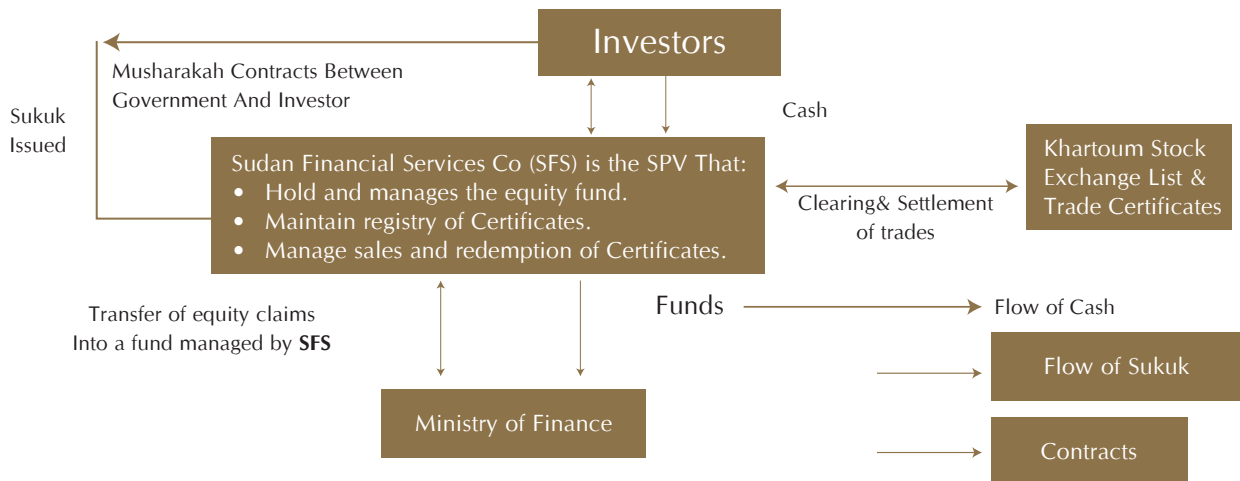
Type of Sukuk	Issuance Date	Amount in SDG (million)	Tenor
GMCs (76.5)	February 2018	1,000	One year Sukuk based on Musharakah mode of finance with expected rate of return 19%
GMCs (77.5)	May 2018	1,000	One year Sukuk based on Musharakah mode of finance with expected rate of return 16-18%
GMCs (78.5)	June 2018	838.4	One year Sukuk based on Musharakah mode of finance with expected rate of return 16-18%
GMCs (79.5)	November 2018	1,001	One year Sukuk based on Musharakah mode of finance with expected rate of return 16-18%

The outstanding balance of GMC certificates by the end of 2018 about 26,842.3 SDG million.

### Classification of Government Musharakah Certificates by customer type



## Structure Government Musharakah Certificate

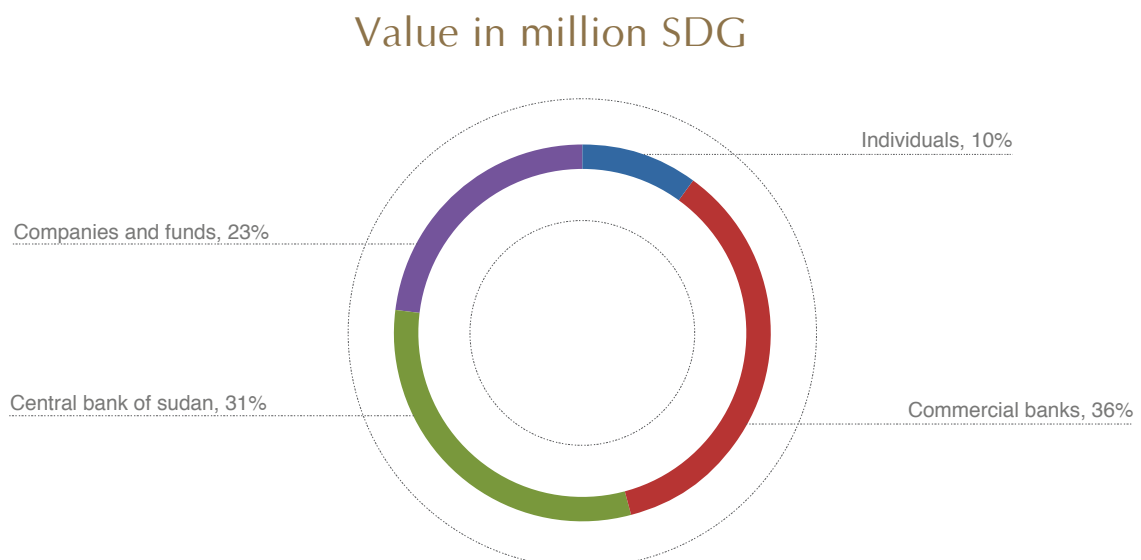


## Government Investment Certificates (GICs):

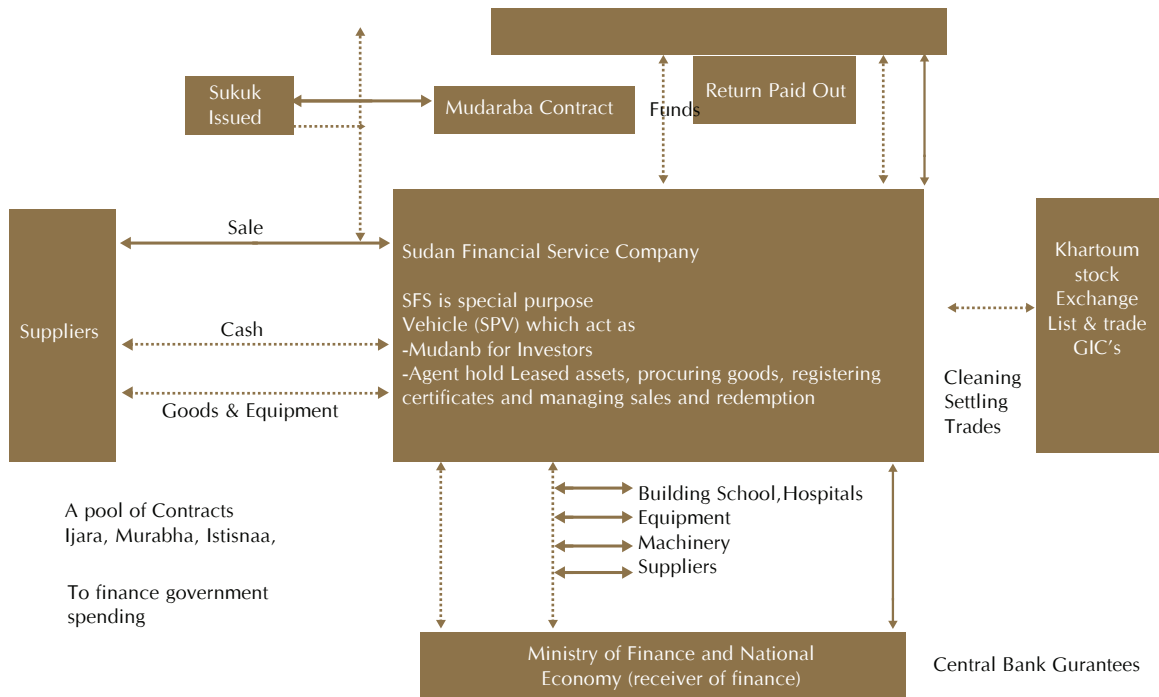
Type of Sukuk	Issuance Date	Amount in SDG (million)	Tenor
GICs (18)	January 2015 Extended to 2022	76.2	Three years Sukuk based on Ijarah mode of finance with expected rate of return 23%
GICs (18.1)	January 2018	232.9	One year Sukuk based on Musharakah mode of finance with expected rate of return 16-18%

The outstanding balance of GIC certificates by the end of 2018 about 1,052.4 SDG million.

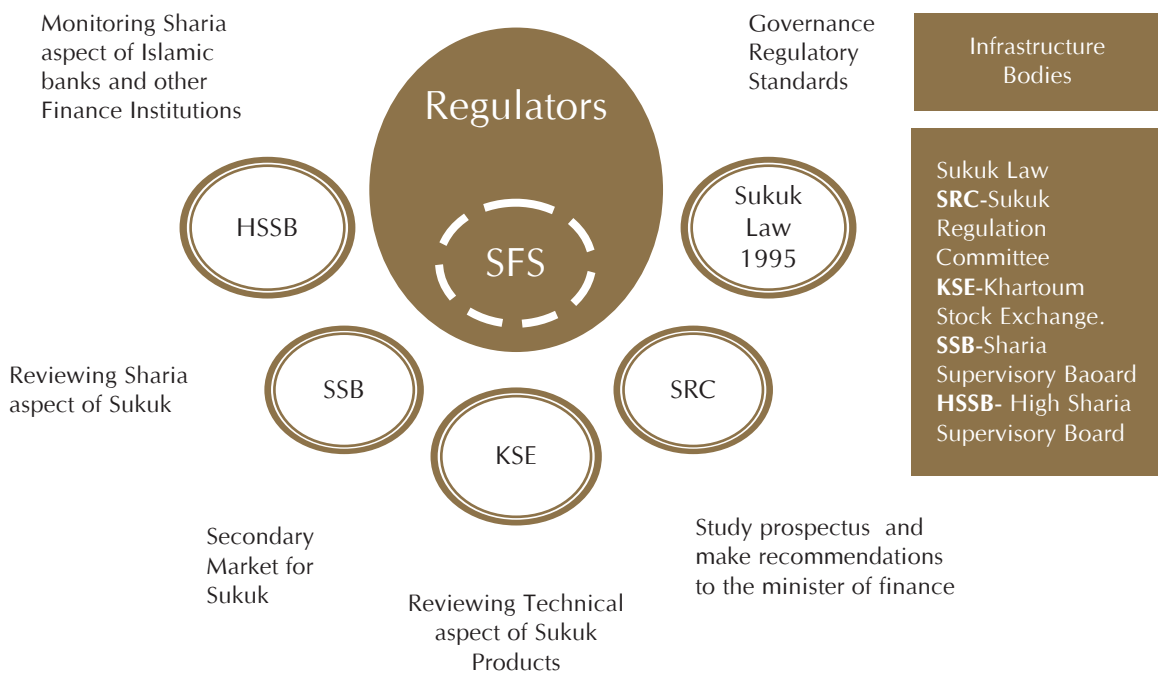
## Classification of Government Investment Certificates by customer type:



## Government Investment Certificate



## Sukuk Regulatory Framework



## 5.7 - Sukuk Market in Pakistan

**By: State Bank of Pakistan (SBP)**

### 1. Overview

Pakistan joined the global Sukuk market with issuance of its first international sovereign Sukuk of USD 600 million in 2005 and first domestic Sukuk in 2006. Since then four international Sukuk amounting to USD 3.6 billion and 113 domestic Sukuk amounting to Rupees (Rs) 1231.51 billion have been issued.

Details of both international and domestic Sukuk are given below:

Table 1: Status wise Sukuk issuance in Pakistan		
Listing Status	Number of issues	Amount in billion Rs
Privately Placed	101	1167.58
Listed	12	63.93
<b>Total</b>	<b>113</b>	<b>1231.51</b>

### 2. Overall Domestic Sukuk Market

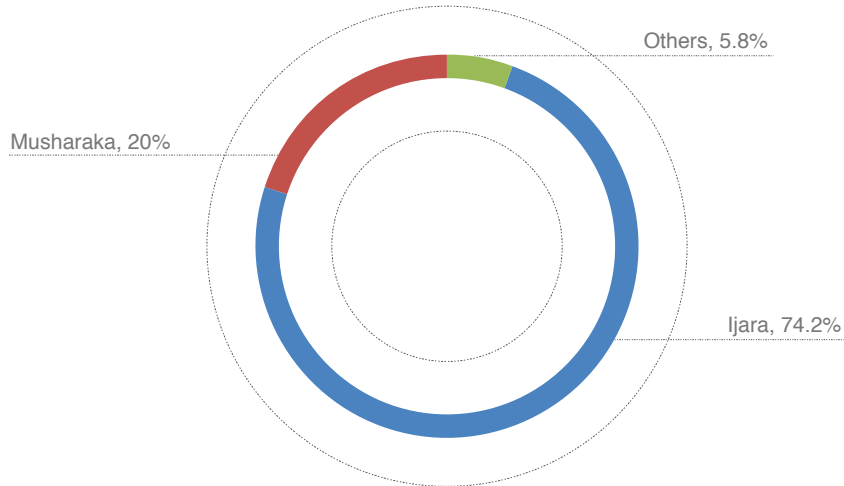
Overall 113 Sukuk have been issued in the domestic market by December 31, 2018. Nineteen (19) of these are Government of Pakistan (GoP) Sukuk while remaining 94 have been issued by corporate or quasi-sovereign entities. Major investors in Sukuk are the commercial banks, mutual funds, employees funds and other financial institutions. These Sukuk are mostly privately placed, though, few corporate Sukuk (around 11 percent) have also been listed at the stock exchange (Table 1).

#### a) Mode Wise Break-up of Sukuk

In terms of Sukuk structure, the most widely used structure in domestic Sukuk market is Musharakah (58 issues) followed by Ijarahh (28 issues). However, in terms of value, Ijarahh dominates the Sukuk market with 74.2 percent value of total Sukuk issues (Figure 1). The main reason of Ijarahh Sukuk having a major share in the overall market is that all GoP Sukuk are Ijarahh based which are generally of larger value compared to other Sukuk issued in Pakistan.



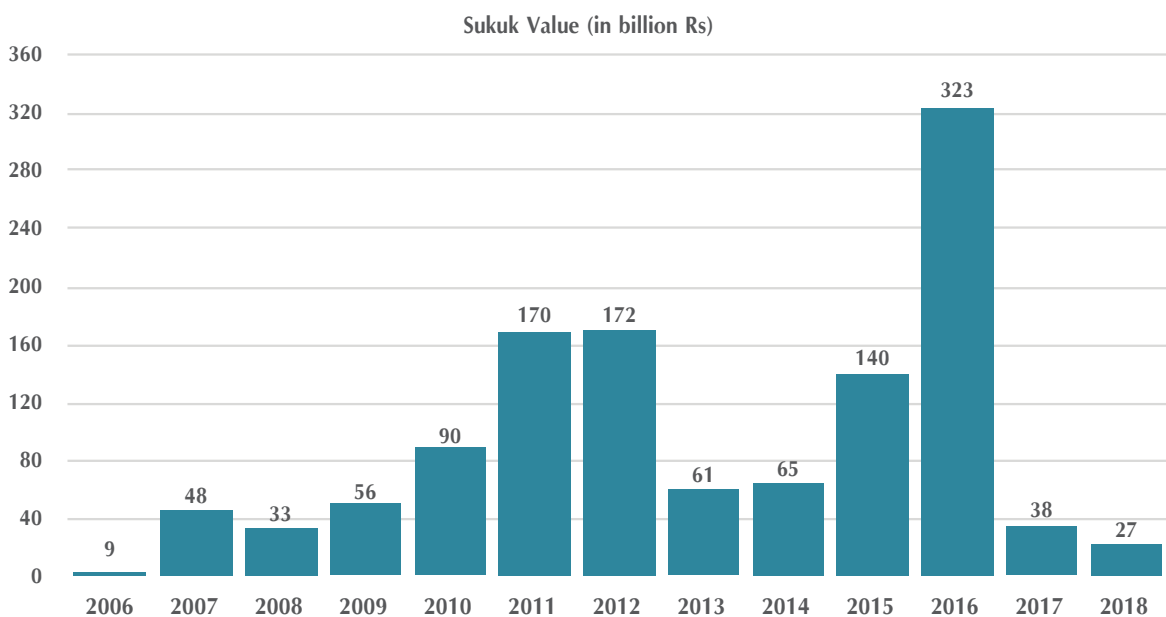
**Figure 1: Mode wise breakup of Domestic Sukuk (with regard to value)**

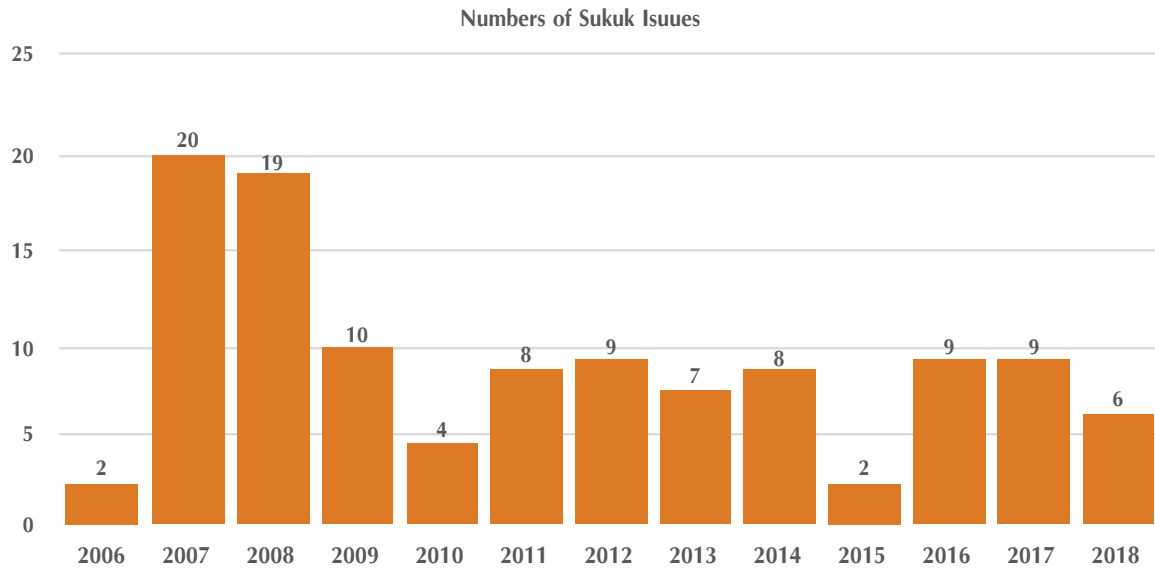


#### b) Chronological Development of Pakistan Sukuk Market

Since its entry in Sukuk market in 2006, Pakistan has issued 113 Sukuk valuing Rs 1231.51 billion; during 2018, six Sukuk were issued in total valuing Rs 27.23 billion. Growth in all these years followed a mixed trend, where significant growth was observed during 2010-12 and then in 2015-16. The growth during this period can be mainly associated with GoP Sukuk which are high in value though limited in number (Figure 2).

**Figure 2: Year Wise Domestic Sukuk Summary**





### c) Entity Wise Sukuk Issuance

Entity wise distribution analysis 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 while GoP Sukuk have managed a rise in their share since then. As of December 2018, share of sovereign Sukuk slid slightly, however, still maintaining a major share of nearly 70 percent in total value of Sukuk issued in the country, followed by quasi-sovereign with 17.2 percent and corporate Sukuk with 12.5 percent, showing improvement in their share from last year's share of 10.5 percent (Table 2).

**Table 2: Entity wise & Year wise Percentage Breakup of Sukuk  
(cumulative as of end year in percent)**

Year	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
2015	9.2	79.3	11.5
2016	8.9	74.2	16.9
2017	10.5	71.9	17.6
2018	12.5	70.3	17.2

### i. GoP Sukuk

Pakistan Domestic Sukuk Company Limited (PDSCL), a public sector company, has been issuing GoP Sukuk in the domestic market since 2008 and all of these Sukuk have been issued on the basis of Ijarah. Since issuance of first GoP Ijarah Sukuk, there have been 19 auctions of GoP Sukuk up to December 2018. Out of these, 16 Sukuk valuing around Rs 669 billion were on the basis of variable rental rate (Table 3), while three GoP Sukuk amounting to around Rs 268 billion were issued on the basis of fixed rental rate. The entire amount in this category stood outstanding as maturity of these Sukuk will fall in or beyond 2019 (Table 4).

It is important noting that all the Sukuk in variable rental category matured by December 2018, however, a Bai-Muajjal transaction of Sukuk valuing Rs 76.55 billion was carried out by Government of Pakistan in December 2018.

Issue	Issue Date	Amount of Sukuk (Rs in millions)
GOP Ijarah Sukuk - 1	26/09/2008	6,522.50
GOP Ijarah Sukuk - 2	29/12/2008	6,000.00
GOP Ijarah Sukuk - 3	11/03/2009	15,325.00
GOP Ijarah Sukuk - 4	17/09/2009	14,396.00
GOP Ijarah Sukuk - 5	15/11/2010	51,837.00
GOP Ijarah Sukuk - 6	20/12/2010	37,174.00
GOP Ijarah Sukuk - 7	07/03/2011	47,539.70
GOP Ijarah Sukuk - 8	16/05/2011	45,803.70
GOP Ijarah Sukuk - 9	26/12/2011	70,269.10
GOP Ijarah Sukuk - 10	02/03/2012	38,123.90
GOP Ijarah Sukuk - 11	30/04/2012	29,632.00
GOP Ijarah Sukuk - 12	28/06/2012	48,765.80
GOP Ijarah Sukuk - 13	18/09/2012	47,017.80
GOP Ijarah Sukuk - 14	28/03/2013	43,018.00
GOP Ijarah Sukuk - 15	25/06/2014	49,537.00
GOP Ijarah Sukuk - 16	18/12/2015	117,723.00
<b>Total Value</b>		<b>668,684.50</b>
<b>Total Outstanding</b>		<b>0.00</b>

Auction	Issue Date	Amount of Sukuk (Rs in millions)
GISF-1	15/02/2016	116,256.70
GISF-2	29/03/2016	80,400.00
GISF-3	30/06/2017	71,007.00
<b>Total</b>		<b>267,663.70</b>

## ii. Corporate Sukuk

The corporate Sukuk have witnessed decline in issuance size since 2008. The cumulative value of 94 corporate Sukuk, issued till end December 2018, amounted to around Rs 351.17 billion (Table 5). In 2018, six corporate Sukuk worth around Rs 27.23 billion have been issued.

Year	Amount (Rs in millions)	No of Issues
2006	8,625	2
2007	48,055	20
2008	20,563	17
2009	26,178	8
2010	80,00	2
2011	64,00	5
2012	88,79	5
2013	18,000	6
2014	15,200	7
2015	22,000	1
2016	126,172	7
2017	23,068	8
2018	27,230	6
<b>Total</b>	<b>351,170</b>	<b>94</b>

## 3. International Sukuk by the Government of Pakistan

Pakistan has so far issued four international Sukuk: first worth USD 600 million in 2005, followed by second, third, and fourth valuing USD 1,000 million each in 2014, 2016, and 2017, respectively (Table 6). These international Sukuk were issued for the period of five years each and attracted positive response from investors.

Auction	Issue Date	Maturity Date	Amount of Sukuk
Pakistan First International Sukuk	Jan-05	Jan-10	USD 600 million
Pakistan Second International Sukuk	Nov-14	Nov-19	USD 1,000 million
Pakistan Third International Sukuk	Oct-16	Oct-21	USD 1,000 million
Pakistan Fourth International Sukuk	Nov-17	Nov-22	USD 1,000 million

#### 4. Regulatory Framework Governing Issuance of Sukuk

Sukuk being instrument of redeemable capital are issued by the companies either by way of public offering or by way of private placement under section 66 of the Companies Act, 2017. Sukuk are issued in Pakistan's capital market for the last many years mainly through private placement. Major investors in Sukuk are the commercial banks both conventional and Islamic, non-bank financial companies, insurance companies, mutual funds, employees funds and other corporates. For private placement of Sukuk, approval of Securities and Exchange Commission of Pakistan (SECP) is not required, however, the issuers are required to comply with the Sukuk (Privately Placed) Regulations, 2017 and the Private Placement of Securities Rules, 2017. For public offering of Sukuk, the issuer is required to obtain approval of SECP to issue circulation and publication of the prospectus.

#### 5. Future Prospects

The ongoing development activities of the government and its future plans open new vistas for Sukuk in the country. The country's vast infrastructural needs require consistent investments from both domestic and foreign investors, in which Sukuk can be used for tapping the required finances.

## 5.8 - Sukuk Market Developments in Turkey

### *By the Capital Markets Board of Turkey*

Turkish financial market is traditionally dominated by public sector securities. Despite the government's high borrowing demand, a progress has been observed in favor of private sector issuances in recent years. Within that trend, the share of private sector securities in total outstanding securities has started to increase by 2010. Within total outstanding securities, the share of private sector instruments increased from 17.6 % as of 2009 to 26 % as of December 2018. The main motive behind that improvement was the growth in the corporate debt market including private sector Sukuk issuances.

In recent years, Turkey has carried out numerous key reforms in capital markets in order to enhance its financial infrastructure, and to increase the diversity of financial products and services. Within that perspective, under the Istanbul Financial Center Action Plan there is a national initiative to develop the securities market in Turkey, including Islamic capital markets.

In order to develop regulatory framework for private Turkish Sukuk, important challenges have been achieved in the last decade. When the first Sukuk regulation was introduced in 2010, it was designed basically to enable interest-free financing and investment in the form of a leasing (Ijarah) transaction. Then in 2011, tax inequalities on Ijarah Sukuk compared to conventional products were solved. And finally, Sukuk regulations currently in force have been published under the Capital Market Law (CML) in 2012<sup>1</sup>.

In order to make Sukuk issues more accessible, in 2016 tax and fee exemptions were extended with a legal amendment to cover all lease certificates. Also in 2016, in order to promote the companies' access to finance and to cushion their financial costs, CMB has made fifty per cent discount for its registration fees paid for capital market instrument issuances, including Sukuk.

In line with effective, reliable and flexible regulatory framework, the volume of Sukuk issues has reached significant levels. Following the tax exemptions and the discount on the CMB registration fees, some advance have been observed in the lease certificate issuances by the private sector in 2017 and 2018. Table 1 displays this recovery in private Sukuk issuances after two successive contraction years. In terms of issuances by years, the share of lease certificates to debt securities has improved in the last two years and reached to record high level (13.29 %) in 2018.

(USD Million)	2014	2015	2016	2017	2018
Lease Certificates (LC)	2,074	1,250	973	2,210	4,717
Debt Securities (DS)	50,482	37,706	33,019	43,311	35,477
LC / DS (%)	4.11 %	3.31 %	2.95 %	5.10 %	13.29 %

On the other hand, according to issuance data, 336 private sector Sukuk issuances have been realized between 2011 and 2018. Similar to conventional debt securities market, private Sukuk market is also dominated by the banking sector with participation (Islamic) banks. Out of the 336 issues, only 22 were non-financial corporate issues.

Table 2. Private Sukuk Issuances (2013-2018)		
Private Sukuk Issues (2013-2018)	Total Sukuk Issuances (USD Million)	Average Maturity (Year)
Cross border	2,564	4.51
Domestic	11,378	0.84
<b>Total</b>	<b>13,942</b>	

Table 3. Sovereign Sukuk Issuances (2013-2018)		
Sovereign Sukuk Issues (2013-2018)	Total Sukuk Issuances (USD Million)	Average Maturity (Year)
Cross border	5,135	5.60
Domestic	9,227	2.83
<b>Total</b>	<b>14,362</b>	

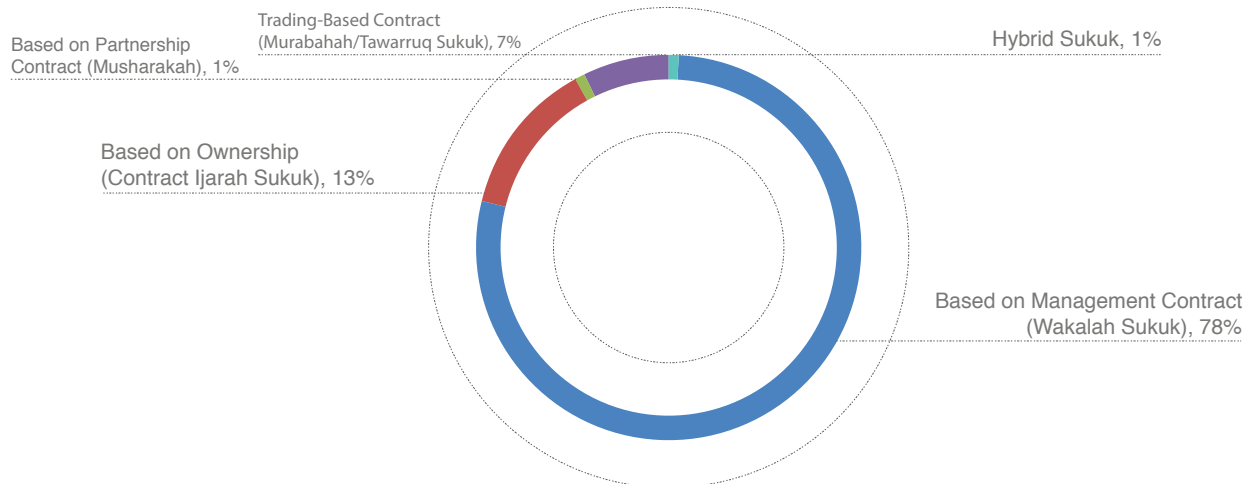
From an integrated approach to both the sovereign and private Sukuk issuances, Table 2 and Table 3 show general trends and average maturities in the market in last five years. Unlike the conventional debt instrument issuances which were led by public sector, sovereign and private Sukuk issuances are almost equal. Either sovereign or private, majority of the issuances are sold to domestic investors. Meanwhile, the average maturity of sovereign issues is much longer than private issues. On the other hand, either sovereign or private, there is a maturity gap between cross border and domestic issuances as it is much longer for domestic issuances rather than the cross border ones.

As for the structure of the private Sukuks in Turkey, they are based on ownership (Ijarah), trading (Murabahah) and management contracts (Wakalah) whereas the underlying assets of these Sukuk issuances are real estate, commodities listed in London Commodity Exchange or Bursa Suq-al-Sila, and bank receivables or loans respectively. "Wakalah Sukuk" dominates the market with its presence of 78 per cent among total issuances. According to Chart 1, "Ijarah" and "Murabahah Sukuks" are the second and third types of Sukuks applied by the private issuers.

<sup>1</sup>For further regulations introduced by the CML in 2012, please see Turkey's Country Focus for the IIFM Annual Sukuk Report 2017.

## Chart 1. Types of Private Sukuks

Private Sukuk Issuances in the 2013-2018 Period



In line with the CMB regulations, when Sukuk is offered to public it needs to be listed at Borsa Istanbul. Secondary trading of Sukuk in Turkey is mostly dominated by sovereign issues. For corporate Sukuk, preferences of retail investors may be mentioned as a disadvantage for second hand transactions as they hold Sukuk usually till maturity.

Clearing, settlement and registration functions operated by MKK and Takasbank under the surveillance of CMB provide sound infrastructure for Sukuk transactions and also supply a credible Sukuk database to Borsa Istanbul for the secondary market activities.

Meanwhile, some significant steps have been taken to introduce Turkish Sukuk market for international issuers in recent years. Sukuk issued by the Islamic Development Bank has been listed in Borsa Istanbul in 2016. IDB has issued Sukuk which are already traded in London, Dubai and Malaysia. IDB's listing has been an important landmark as it highlights Istanbul Sukuk market.

In 2016 the Ministry of Treasury and Finance (MTF) issued first longer term (5 year) maturity Sukuk in order to enhance liquidity and to provide benchmark yield curve. Again in 2016, another important Sukuk issuance took place, 5 year CPI linked Sukuk sold to domestic market for the same goal. Subsequently, gold denominated Ijarah Sukuk was introduced in 2017 by the MTF with the aim of bringing idle gold into the economy. In 2018, the MTF raised 2.48 tons of gold from the public with its gold-based lease certificate issuances. Total amount of those issuances reached TRY 511 million. In addition, the MTF also issued Euro based lease certificates (TRY 3.43 billion) and TRY based lease certificates (TRY 7.25 billion) in 2018.



## CONCLUSION OF IIFM SUKUK REPORT 2018

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The global Sukuk market maintained its attractiveness for both issuers as well as investors as evident from the increase in volume in domestic issuances and reasonable International Sukuk issuances despite heavy maturities during 2018.

The key drivers of the Sukuk market during the year remain: interest and entry of new jurisdictions and issuers, issuance of Tier 1 and Tier 2 Sukuk (Basel III compliant Sukuk), longer tenor (30 years Sukuk) including perpetual Sukuk issuances by financial institutions, infrastructure Sukuk and relatively larger volume of Retail Sukuk issuances particularly from Indonesia.

The demand for Sukuk from GCC countries namely Bahrain, Saudi Arabia, UAE, Oman; other Islamic jurisdictions including Malaysia, Indonesia, Turkey, Pakistan, Brunei Darussalam as well as the Islamic Development Bank and the African region remain the main force in maintaining the appeal and growth of the Sukuk market.

In recent years, several of the Islamic jurisdictions mentioned above have been regularly issuing benchmark Sukuk in domestic as well as international markets. Moreover, some jurisdictions, including African countries, have adopted Bahrain's strategy of regularly issuing short-term Sukuk to support the liquidity and investment requirements of Islamic financial institutions based in its jurisdiction. Bahrain, Brunei Darussalam, Indonesia, Malaysia, Turkey and few African were the most frequent issuers of short-term Sukuk in 2018.

The International Islamic Liquidity Management Corporation (IILM) remain active issuer of short-term international Sukuk. This offers an alternative liquidity management avenue to Islamic financial institutions which are active in the short-term market and looking for low risk securities.

The Sukuk market witnessed a number of milestone international Sukuk issuances such as Sukuk issued by Sarawak Energy Berhad of Malaysia, Lontar Papyrus Pulp, XL Axiata & Paper Industry of Indonesia, NMC Healthcare & Emirates Airlines of UAE and others in 2018.

The issuance of more debut Sukuk and the refinancing of maturing Sukuk has contributed in maintaining the positive Sukuk volume trajectory and this trend is expected to continue. Moreover, as stated in the previous edition, stable to rising commodity prices including oil, possible hold in the global reference rates and the budgetary and development requirements of certain Islamic jurisdictions & institutions have positively contributed to Sukuk issuance volumes in 2018 and the trend is expected to continue in 2019. The use of gold in Sukuk issuance by the Turkish Treasury & Sudan and asset backed Sukuk issuance by UK AL Rayan Bank are an interesting development and it is likely that such issuances will continue in the coming year.

The trend of issuing Sukuk on a fixed profit rate is expected to continue given the fact that the investor base is much more diverse as compared to the early years of Sukuk issuance when the investors were generally financial institutions. The Sukuk issued on fixed profit rates provide more trading opportunities and is helping the development of the secondary Sukuk market.

Sukuk issuances in non-local currency, for example, an issuer based in GCC floating a Malaysian Ringgit Sukuk or a Malaysian Sukuk issuance in Singapore Dollar or Chinese Yuan etc., did not take place in 2018 and the 2019 issuance pipeline does not indicate such issuance.

The application of the Dodd Frank rule of a 5% take-up by the issuer in the case of the Government of Saudi Arabia's international Sukuk issuance of USD 9 billion in 2017 seems to be one-time event as no such transaction was reported in 2018.

The risk mitigation/hedging documentation as well as Foreign Exchange and Rate of Return product standard templates published by IIFM jointly with ISDA are providing further certainty to investors in Sukuk by hedging their profit rate or currency risk.

During 2018, the share of sovereign issuances in the domestic market remained robust; contributing whopping 65% of total issuance value followed by corporate issuances of 17%, mainly due to the deep corporate Sukuk market in Malaysia. The shares of the corporate sector excluding Malaysia remained below the potential in issuance volume.

In 2018, quasi-sovereign issuances in the international market like previous year had a good year with an issuance contribution of 39% while sovereign issuances contribution was 28% as against 2017 contribution of 48%. The corporate and financial institutions increased to 20% and 13% respectively, which is a refreshing change and a good indication of potential for these issuers.

On a cumulative basis for the period of 2001 to 2018, Malaysia is the top Sukuk issuer with combined domestic and international issuances of USD 670 Billion, followed by Saudi Arabia with 118 billion, the UAE and Indonesia with around 79.4 each. Malaysia, due to its deep capital market, continues to maintain its lead over its peers in the Asia and the GCC; however, the increase in issuances from Saudi Arabia, Indonesia, UAE, Bahrain etc is resulting into a reduction of the Malaysian share of the global Sukuk market in recent years.

The Sukuk Al Wakalah structure maintained its lead over the Ijarah and other structures as the one most widely used by issuers in the international market in 2018. It was the most popular and widely used structure with a market share of a whopping 50% which is around the same as last year. It was followed by a Sukuk Al Ijarah of 17%, Hybrid Sukuk Wakalah/Murabahah of 7%, Hybrid Sukuk Murabaha/Mudarabah & Sukuk Al Mudarabah of 6% each and smaller share by remaining by other Sukuk structures.

At the domestic level, in 2018, Sukuk Al Murabahah remains the most used structure with increase in market share to 41% as compared to 30% last year, followed by Sukuk Al Ijarah of 19%, closely followed by Hybrid Sukuk Murabahah/Mudharabah of 16% and Sukuk Al Wakalah of 13%. Sukuk Al-Musharakah, Sukuk Al-Mudharabah structures have market shares of 2% and 5% respectively. The year 2018 presents a somewhat balanced structure preference, which is desirable and good for the Sukuk market as the concern of dependence on one particular structure has been addressed.

The International Sukuk issuance in 2018 closed at around USD 33.0 billion Sukuk issuances as compared to USD 37.6 billion in 2017. The volume of short-term international Sukuk issuance in 2018 and 2017 works out to USD 8.1 billion and USD 9.3 billion respectively which means that longer tenor Sukuk issuances were USD 24.9 billion and USD 28.3 billion respectively.

The international outstanding Sukuk increased to around USD 131 billion, which is an improvement over last year; though the supply and demand gap still remains.

Several landmark global Sukuk issuances from Malaysia, Saudi Arabia, Turkey, UAE, Indonesia, Bahrain are in the pipeline for 2019, indicating that the Sukuk market will maintain its appeal and growth prospects in the coming years. Corporate issuances Ex-Malaysia particularly from the GCC, showed improvement in volume which is a positive sign and indicate the market shrugged off hang over of Dana Gas episode which was resolved also.

As far as domestic Sukuk markets are concerned, Sukuk issuances during 2018 were USD 90 billion compared to USD 79 billion in 2017. Malaysia has maintained a dominant share in terms of both volume and value, and remains the largest domestic Sukuk issuer with 71.3% on a cumulative basis for the 2001-2018 period though the share has dropped by around 2% as compared to 2001-2017 period. The countries like Indonesia, UAE, Saudi Arabia and Turkey are emerging as potential leaders, Bahrain, particularly short-term Sukuk issuances, has also kept up its regular Sukuk issuances and has seen several landmark issues.

The domestic Sukuk market in a number of jurisdictions is becoming active, particularly Saudi Arabia, Indonesia, Turkey and few others. 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 Islamic financial institutions. Moreover, a number of countries such as Gambia, Ivory Coast, Senegal, Mali, Morocco and Bangladesh are developing their domestic Sukuk markets.

The total outstanding Domestic Sukuk as of 2018 stood at around USD 360 billion, which is once again around 50 billion higher than the previous year. As predicted in the last edition of the IIFM Sukuk Report, the issuance figures during the coming years will improve as sovereigns, quasi-sovereigns and, to some extent, corporates and financial institutions in jurisdictions like Malaysia, Indonesia, Saudi Arabia, UAE, Turkey and several other countries are getting more active in Sukuk issuances.

The US Dollar continues to be the favoured currency for attracting international investors around the globe. Local currency Sukuk will develop in the coming years as more OIC countries develop their domestic Sukuk markets. 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 low will continue, since the sovereign needs to fund its budget while also setting up the local benchmark curves and funding huge infrastructure projects.

Cross-border international Sukuk maturities in 2018 were USD 17.84 billion while the Sukuk maturities during 2019 and 2020 will be USD 15.37 billion and USD 10.50 billion respectively and need to be replaced. Based on the Sukuk issuance pipeline and market news, it is expected that these maturities will be replaced by existing and new entrants. However, sovereign issuances will need to continue providing support.

The domestic maturities in 2018 were USD 15.3 billion while the maturities during 2019 and 2020 will be in the tune of around USD 23.5 billion each and need to be replaced.

Short-term Sukuk with a maturity of 1 year or less are essential in the development of Islamic interbank markets and they play a key role in the liquidity management of financial institutions. In the year 2018, Malaysia, Bahrain, Indonesia, Turkey, Brunei Darussalam and few African & other countries were the main issuers of short-term Sukuk. The short-term Sukuk market, though limited to few jurisdictions, presents balanced issuances from various jurisdictions. The entry of IILM in the short-term international Sukuk market also helps the development of this important market.

The appetite for short-term Sukuk is high, perhaps higher than Sukuk with longer tenors, and is evident by these issuances. The trend towards issuing shorter tenor Sukuk is improving though it is mainly driven by sovereign issuers. There is a need for Islamic financial institutions and corporates to become active issuers of Sukuk in order to provide diversity and depth to the local markets, which are essential in the development of the money market.

Another important aspect, which is critical to the development of the Sukuk market, is the role of the corporate sector. As mentioned in the analysis part, the volume of corporate issuances in most of the Sukuk issuing jurisdictions (except Malaysia) is below the potential though there was improvement in 2018. There are several reasons for an underperformance by the corporate sector in issuing Sukuk such as economic conditions, government policies towards a particular sector, cash flow issues, tax incentives etc.

The most important issue surrounding corporate Sukuk is default and restructuring. There were lessons learned from the legal battle of the Dana Gas Sukuk which eventually ended with the part repayment and restructured Sukuk and the policy changes particularly in the documentation is taking place and IIFM under development Sukuk Al Ijarah and Sukuk Al Mudarabah standard documentation will address the issues and previous short comings.

The Sukuk market continues to evolve, and in recent years, it has witnessed over-reliance on certain Sukuk structures such as Wakalah and Murabahah. This development in particular needs to be monitored, as a structurally diversified global Sukuk market is recommended. Moreover, Sukuk market also need more asset backed or securitized Sukuk issuances perhaps covered bond structure can be introduced for Sukuk issuance as well.

## Glossary

### (A) General Islamic Finance Terms

Term	Meaning
'Aqd	A bilateral contract, agreement etc.
'Aqd al-Muawadah	Contract of exchange in which compensation is given against the goods or services received.
Al-Bai`	Sale contract.
Awqaf	Plural of Waqf, meaning trust. (i.e. Endowment of charitable trust.
Bai al-`Inah	Sale contract followed by repurchase by the seller at a different price.
Bai al-Salam	Advance purchase. 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.
Bai al-'Arbun	A sale agreement in which a security deposit is given in advance as a partial payment towards the price of the commodity purchased. It is also known as down payment sale.
Bai Bithaman al- Aajil / Bai Mu'ajjal or Bai al-Aajil	Deferred payment sale. It refers to the sale of goods contract on a deferred payment basis.
Bai al-Wafa	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.
Faqih	Is a Muslim Jurist who gives rulings on various juristic issues in the light of the Qur'an and the Sunnah of Prophet Muhammad (peace be upon him).
Fatwa	It is a religious decree. A ruling made by a qualified Shari'ah 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.
Fiqh	Refers to Islamic jurisprudence. It covers all aspects of life - religious, political, social, commercial, and economic. Fiqh is based primarily on interpretations of the Holy Qur'an and the Sunnah of Prophet Muhammad (peace be upon him) etc.
Fiqh-al- Mu'aamalat	It is Islamic commercial jurisprudence, jurisprudence of financial transactions or the rules of transacting in a Shari'ah compliant manner.
Ijarah	Lease or service contract that involves benefit/usufruct of certain asset or work for an agreed payment within an agreed period.
Ijarah Muntahia bi al-Tamlik	Lease contract which ends with acquisition of ownership of the asset by the lessee.
Istisna'a	Advance purchase of goods or buildings. It is a sale contract by way of order for a certain product with certain specifications and certain modes of delivery and payment (either in cash or deferred).

<b>Ju'alah</b>	Service Fee (Rendering a service against a reward)
<b>Mafsadah</b>	Damages. Anything declared harmful by shari'ah, or anything hindering the achievement of the general objectives of Shari'ah (Maqasid al-Shari'ah).
<b>Manfa'ah</b>	Benefit or utility
<b>Maqasid al-Shari'ah</b>	The general objectives of Shari'ah.
<b>Murabahah</b>	Sale contract with a disclosure of the asset cost price and profit margin to the buyer.
<b>Mudarabah</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>Mudarib</b>	Entrepreneur of a Mudarabah joint venture contract.
<b>Musharakah`</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>Musharakah Mutanaqisah</b>	Refers to a contract whereby one of the partners promises to buy the equity share of the other gradually until the title is completely transferred to him. (This is known as diminishing Musharakah).
<b>Murtahin</b>	A party who asks for collateral.
<b>Musawamah</b>	Bargain on price. Sale contract without the disclosure of the asset cost price and profit margin to the buyer.
<b>Muwakkil</b>	The principal/investor who appoints the agent (Wakil) to carry out a specific job on his behalf.
<b>Rabb al-Mal</b>	Owner of capital (the investor) in Mudarabah joint venture contract.
<b>Ra's-al-Mal</b>	The capital. The money or property which an investor invests in a profit-seeking venture contract.
<b>Rahin</b>	Chargor
<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 Sunnah [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 Shari'ah 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>Shari'ah Scholar</b>	The Islamic Shari'ah scholar is an individual who is well-versed with the necessary knowledge of the Shari'ah teachings and principles.
<b>Shari'ah Compliant Product</b>	The product meets the requirements of Shari'ah. 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 Shari'ah..

<b>Shari'ah Board</b>	Is the committee of well-versed Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Shari'ah compliant products. It is recommended the scholars of a Shari'ah board to be well versed and competent in Shari'ah and its approaches to economics and finance.
<b>Shari'ah Advisor</b>	Is an independent Islamic trained scholar that advises Islamic institutions on the compliance of the products and services with the Shari'ah.
<b>Takaful</b>	Islamic insurance. Structured as a charitable collective pool of funds based on the idea of mutual assistance.
<b>Tawarruq</b>	Reverse Murabahah, for the purpose of acquiring cash through trade activities.
<b>Tamwil Majm'a li Muamalaat Tijariah</b>	Refers to a participation agreement for trade finance transactions.
<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 the 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 Wakalah contract, a representative/agent, who acts on behalf of the principal/investor.
<b>Wakalah bi al-Istithmar</b>	Agency contract for investment.
<b>Wathiqah Hamish al Rahn al Naqdi</b>	Refers to Credit Support Deed for Cash Collateral (Variation Margin).

### (B) Sukuk Report Eighth Edition Glossary

<b>Term</b>	<b>Meaning</b>
<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>Sukuk Al- Istithmar</b>	Refers to Investment Sukuk. Investment Sukuk are of different types. Such as Certificates of ownership in leased assets and Certificates of ownership of usufructs.
<b>Sukuk mulkiyat al Maujudaat al Muajjarah</b>	Certificates of ownership in leased assets.
<b>Sukuk mulkiyat al Manaf 'i</b>	Are Certificates of ownership of usufructs (are of different types).
<b>Al-Ijarah Sukuk</b>	An Islamic certificate 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.
<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 Sukuk 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>Mudarahab Sukuk</b>	Are certificates that represent project or activities managed on the basis of Mudarahab by appointing one of the partners or another person as the Mudarib 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 Murabahah so that the certificate holders become the owners of the Murabahah commodity. (This is a pure sale contract based Sukuk, 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. (Musharakah Sukuk is an investment partnership between two or more entities which together provide the capital of the Musharakah 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 Salam capital/mobilizing funds so that the goods to be delivered on the basis of Salam come to be owned by the certificate holders.
<b>Corporate Sukuk</b>	Is a Sukuk 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 Sukuk 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 (For the purpose of this report)</b>	A Sukuk issued in local currency.
<b>Global Sukuk (For the purpose of this report)</b>	Both international and domestic Sukuk.
<b>Hybrid Sukuk</b>	Hybrid Sukuk combine two or more forms of Islamic financing in their structure such as Istisna'a and Ijarah, Murabahah and Ijarah etc.
<b>International Sukuk (For the purpose of this report)</b>	A Sukuk issued in hard currency such as USD.
<b>Quasi-sovereign Sukuk</b>	Are Sukuk issued by a public sector entity that is like sovereign Sukuk. It may carry explicit or implicit government guarantee.
<b>Sovereign Sukuk</b>	Are Sukuk issued by a national government. The term usually refers to Sukuk issued in foreign currencies, while Sukuk issued by national governments in the country's own currency are referred to as government Sukuk.





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