

SUKUK REPORT

A comprehensive study of the
Global *Sukuk* Market

NOVEMBER 2014

4TH EDITION



السوق المالية
الإسلامية الدولية
International Islamic
Financial Market

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

من مشكاة أقوال النبي محمد (صلى الله عليه وسلم)

From the light of sayings of Prophet Muhammad (peace be upon him)

عَنْ حَكِيمِ بْنِ حِزَامٍ رَضِيَ اللَّهُ عَنْهُ قَالَ : قَالَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ
" الْبَيْعَانِ بِالْخِيَارِ مَا لَمْ يَتَفَرَّقَا أَوْ قَالَ : حَتَّى يَتَفَرَّقَا فَإِنْ صَدَقَا وَبَيَّنَّا
بُورِكَ لهُمَا فِي بَيْعِهِمَا ، وَإِنْ كَتَمَا وَكَذَبَا مُدِخَّتْ بَرَكَتُهُ بَيْعَهُمَا "
. صحيح البخاري - كتاب البيوع .

Narrated by *Hakim bin Hizam* (May Allah be pleased with him):

The Messenger of Allah (peace be upon him) said:

"The buyer and the seller have the option to cancel or to confirm the deal, as long as they have not parted or till they part, and if they spoke the truth and told each other the defects of the goods (i.e. described the defects and qualities of the commodity), then they would be blessed in their transaction, and if they hid something and told lies, then the blessings of their transaction would be lost."

Sahih Al-Bukhari - Book of Sales and Trade.

ABOUT IIFM

The International Islamic Financial Market (IIFM) is a neutral and non-profit Islamic Financial Services Industry's standard-setting organization and its primary focus lies in the standardization of Islamic financial contracts, products, and related processes at the global level. Moreover, IIFM also contributes in the development of the industry by organizing specialized seminars, workshops & consultative meetings as well as research on global *Sukuk* market.

IIFM was founded with the collective efforts of the Central Bank of Bahrain, Islamic Development Bank, Autoriti Monetari (i.e. Monetary Authority) Brunei Darussalam, Bank Indonesia, Central Bank of Sudan, Bank Negara Malaysia (delegated to Labuan Financial Services Authority). Besides the founding members, IIFM is supported by other jurisdictional members such as State Bank of Pakistan, Dubai International Financial Centre, Indonesian Financial Services Authority as well as a number of regional and international financial institutions, legal firms and other market participants.

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NATIXIS – Dubai Branch
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All the information contained in this report has been obtained from sources considered to be reliable. The *Sukuk* case studies presented are based on the author's impression of the structure of the mentioned *Sukuk* on the basis of information derived from the prospectuses, term sheets and news briefs on the *Sukuk*. IIFM or the author/s makes no guarantee, representation or warranty as to its accuracy or completeness.

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ABSTRACT

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

It concludes that the enormous growth and development that we are seeing in this sector of the Islamic financial system year after year can be to an important extent attributed to the remarkable and impressive innovations in Islamic financial system in general which have certainly changed the dynamics of the Islamic finance industry and help it in its continuation of this rapid growth we are witnessing now.

Last but not least, this report provides invaluable information on the prospects and overview trends of the global *Sukuk* Market and highlights on major issuances around the globe. This can be used as a benchmark by all the industry stakeholders and decision makers, in particular, in regions which have a high concentration of the worlds *Sukuk* issuances such as GCC countries and Asia, in their assessments of trends in the issuance of *Sukuk* across the globe.

ACKNOWLEDGEMENTS

First and foremost, IIFM would like to express its deep sense of appreciation, gratitude and thanks to institutions, individuals and a number of the industry stakeholders who contributed in a way or another to the completion of this important work, which aims to highlight on the *Sukuk* issuances and its performances domestically as well as globally and thus creating better understanding and further development of this important fixed instrument of Islamic finance.

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

We would also like to express our warmest appreciation and thanks to those sponsoring institutions which through their commendable financial contribution helped in improving the printing quality of this report, namely: Standard Chartered Saadiq, Abu Dhabi Islamic Bank, ABC Islamic Bank and Labuan Financial Services Authority.

We take this opportunity to express our profound gratitude and deep regards to the Central Bank of Bahrain (CBB) for its constant and continued support. We would also like to acknowledge and highly thank IIFM Board of Directors, Founding Members and Member institutions for their unreserved support for IIFM in its general endeavors.

Lastly, IIFM is very much thankful to its research team for their review and valuable contribution to this report.

CHAIRMAN'S FOREWORD



*In the Name of Allah, the Most Gracious, the Most Merciful
All perfect praises be to Allah Almighty Lord of the Worlds. May peace and blessings of Allah Almighty be upon our
Prophet Muhammad, his family and all his Companions.*



You have the 4th edition of IIFM Global *Sukuk* Report 2014 in your hands, covering the data period from Jan 2001 to July 2014. We are confident that you will find this Report informative and helpful in understanding the developments in the *Sukuk* market globally. The Report contains key statistics and data on various markets, which are not easily available otherwise in a consolidated form in one place. We would be happy to receive your feedback which is immensely helpful in our continued endeavor to improve the quality of the subsequent Reports.

As per the IIFM *Sukuk* Report third edition published in 2013, the total global *Sukuk* attained a very respectable issuance from 2001 to January 2013 with a total of USD 472.683 billion. This remarkable growth is shown in the significant increase in terms of *Sukuk* issuance by more than 10 times since 2001, from USD 1,172 million to USD 137 billion in 2012.

2014 is proving to be another great year for *Sukuk* market globally, with a rising number of international and domestic issues of increasingly bigger size. After two record years when global *Sukuk* issuance crossed USD 130 billion we expect 2014 to close around a similar number (USD 68 billion as of end July). The top ten deals during the period under review were all USD 2 billion and above, while there were 30 deals of USD 1 billion plus that were recorded during the period. This indicates that the *Sukuk* market has attained a size which is no longer ignorable by the key players in the industry. If so, this is very good news as history suggests that growth accelerates after an industry breaches the size threshold.

There are other developments that support our optimism about continued future growth in *Sukuk* market. A number of new jurisdictions have opened up for Islamic finance or are in the process. Usually *Sukuk* issuance is among the first points of entry for these markets. The period under review witnessed some landmark issuances from new markets, such as sovereign *Sukuk* by the UK, Hong Kong and Senegal. Luxembourg, South Africa and Oman are likely to join the list in the coming months. Secondly, the relatively mature markets are already seeing renewed vigor in *Sukuk* issuances, notably Malaysia, Saudi Arabia, the UAE, Bahrain and Pakistan. Indonesia and Turkey have come firmly on the radar with some major issuances. A highly welcomed development is large corporate / quasi sovereign issuances from the Saudi market which includes the USD 4 billion *Sukuk* from General Authority of Civil Aviation, the largest issue in nearly two years. Another development which is qualitatively important and may well be the indicator of a new trend is the perpetual *Sukuk* issued by a UAE-based corporate. With Basel III approaching we may see more demand for perpetual *Sukuk* for better liquidity management.

Based on all these positive indications in the trends of *Sukuk* issuances across the globe and in spite of all challenges, we can confidently say that the future outlook of *Sukuk* market will continue to be positive. The market is likely to remain robust with new jurisdictions coming up and more issuances from existing markets. Basel III is likely to act as a catalyst as the demand for high quality issues will be increasing.

All in all, I hope you enjoy reading this IIFM latest publication. On behalf of the IIFM research team I can say that this publication gives a broader perspective of the *Sukuk* trends issuances, structures and how stakeholders can optimize the benefits of the *Sukuk* market as a result of their efforts.

Khalid Hamad
Chairman – IIFM

CEO'S MESSAGE

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

*In the Name of Allah, the Most Gracious, the Most Merciful
All praises is due to Allah Almighty Lord of mankind and all that exists. May peace and blessings of Allah Almighty be upon our Prophet Muhammad, his family and all his Companions.*



The progress of the Islamic financial services industry is continuing its double digit growth led by *Sukuk* where not only new jurisdictions are entering the market but innovation is also taking place. During last few years *Sukuk* market is led by sovereign and quasi sovereign issuers. Moreover, corporate sector issuances especially in the MENA region is certainly another encouraging and remarkable development to be noted.

Sukuk issuances by new Islamic jurisdiction like Senegal and earlier by Gambia, Kazakhstan, Turkey etc., as well as *Sukuk* issuances for the purpose of project financing, strengthening of institutions' capital base, general working capital financing is testimony that Islamic finance is contributing towards the economic growth and prosperity of many Islamic countries. Moreover, several Non-OIC countries such as United Kingdom, Luxembourg, Hong Kong and South Africa, as well as many conventional institutions such as Goldman Sachs, Bank of Tokyo Mitsubishi, etc., have either already issued *Sukuk*, or in the midst of bringing their inaugural *Sukuk* in the market.

It is indeed pleasing to note the continuation of innovation in *Sukuk* market such as issuance by financial institutions Basel III compliant Tier 1 and 2 perpetual *Sukuk*, perpetual *Sukuk* issuance by corporate sector, *Sukuk* issuance by *Takaful* and Real Estate Investment Trust (REIT).

I am pleased to present this 4th edition of the IIFM *Sukuk* Report to the stakeholders in the industry in particular, governments, Islamic financial institutions and corporates. This current report is designed to further the understanding of global *Sukuk* structures and issuance trends by providing a reliable data analysis with regard to the *Sukuk* issuances for the period January 2001 - July 2014.

Also included in this report are the selected landmark *Sukuk* case studies, *Sukuk* market in IIFM member countries and articles on *Sukuk*. This report is an excellent example of cooperative endeavor among a number of institutions, regulators and individuals from various jurisdictions. I would like to acknowledge their contribution individually but the constraint of space restricts me from that. The motivation and commonality among the stakeholders of the research objective despite their belonging to divergent jurisdictions helped IIFM to complete this important task. The varied information provided by the collaborating institutions and the *Sukuk* issuance specific data and the comprehensive analysis is unique feature of this report.

IIFM has continued in its efforts of market unification and bringing much needed standardization of Islamic financial documentation, product and guidance memorandum. In addition, IIFM also publishes *Sukuk* Report based on IIFM verified *Sukuk* database and detailed coverage of related issues as well as publication of white papers on liquidity management, hedging and other issues.

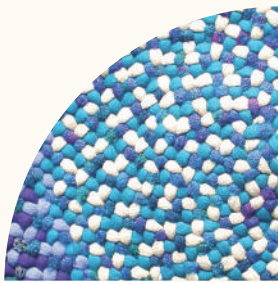
I am very much thankful to Bank Indonesia, Central Bank of Sudan, Capital Market Board of Turkey, Securities Commission Malaysia, State Bank of Pakistan, Monetary Authority of Singapore, for their continued support and enriching the IIFM database with valuable *Sukuk* data information and verification.

I must place on record my profound gratitude to the Central Bank of Bahrain (CBB), IIFM Board of Directors and Member institutions for their continued support. I believe that IIFM is able to progress through the goodwill and contributions made by its members. I must also wholeheartedly thank the IIFM research team for their tireless work, devotion and sincerity that has made this challenging task of *Sukuk* report to be completed successfully. I am confident the reader will find this report useful and valuable.

Ijlal Ahmed Alvi
CEO – IIFM

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INTRODUCTION

Sukuk issuance is considered to be the fastest growing component of the activities constituting Islamic finance in general. By any measure, over the past years, precisely since 2010, the growth of the global *Sukuk* market has been very impressive. Since 2011 the industry has witnessed record *Sukuk* issuances by sovereigns, quasi sovereigns and corporates in several jurisdictions worldwide particularly in the countries of the Gulf Cooperation Council (GCC) and Asia. As predicted in the IIFM's *Sukuk* Report 3rd Edition, the period of Jan 2013 to July 2014 has witnessed astonishing increase in the issuances of these *Sukuk*.

In 2013 the international *Sukuk* issuances closed at USD26 billion and it is likely that this upward momentum and trend will continue in 2014 and beyond, especially with the entry of new regions and jurisdictions in the *Sukuk* market such as African, European jurisdictions etc.

So on this basis it can be said with confidence that the growth of the global *Sukuk* market which undoubtedly plays a very important role in the financial systems of Islamic economies, will continue, especially when we look at the evolution of this market from the year 2001 - July 2014, we find that the total global *Sukuk* attained a very respectable issuance with a total of USD 668 billion. This remarkable growth is shown in the significant increase in terms of *Sukuk* issuance by more than 10 times since 2001, from USD 1,172 million to USD 138 billion in 2013.

With the continued positive growth of the *Sukuk* market which may be the most rapidly growing component of finance across the globe, it is essential to continue to shed light on its development through the dissemination of research reports that could help issuers and investors globally in making appropriate decisions through the extrapolation of those reports.

Therefore, IIFM has taken upon itself the task of presenting and providing accurate information on the various types of *Sukuk* issuances across the globe (sovereign, quasi sovereign and corporates), through the publication of *Sukuk* reports. This is part of IIFM efforts to help in establishing a sustainable, viable and feasible global Islamic Financial Market through its comprehensive documentation and product standardization initiatives; and to ensure that the Islamic Capital and Money Market products and services remain attractive to all investors and *Sukuk* issuers across the globe.

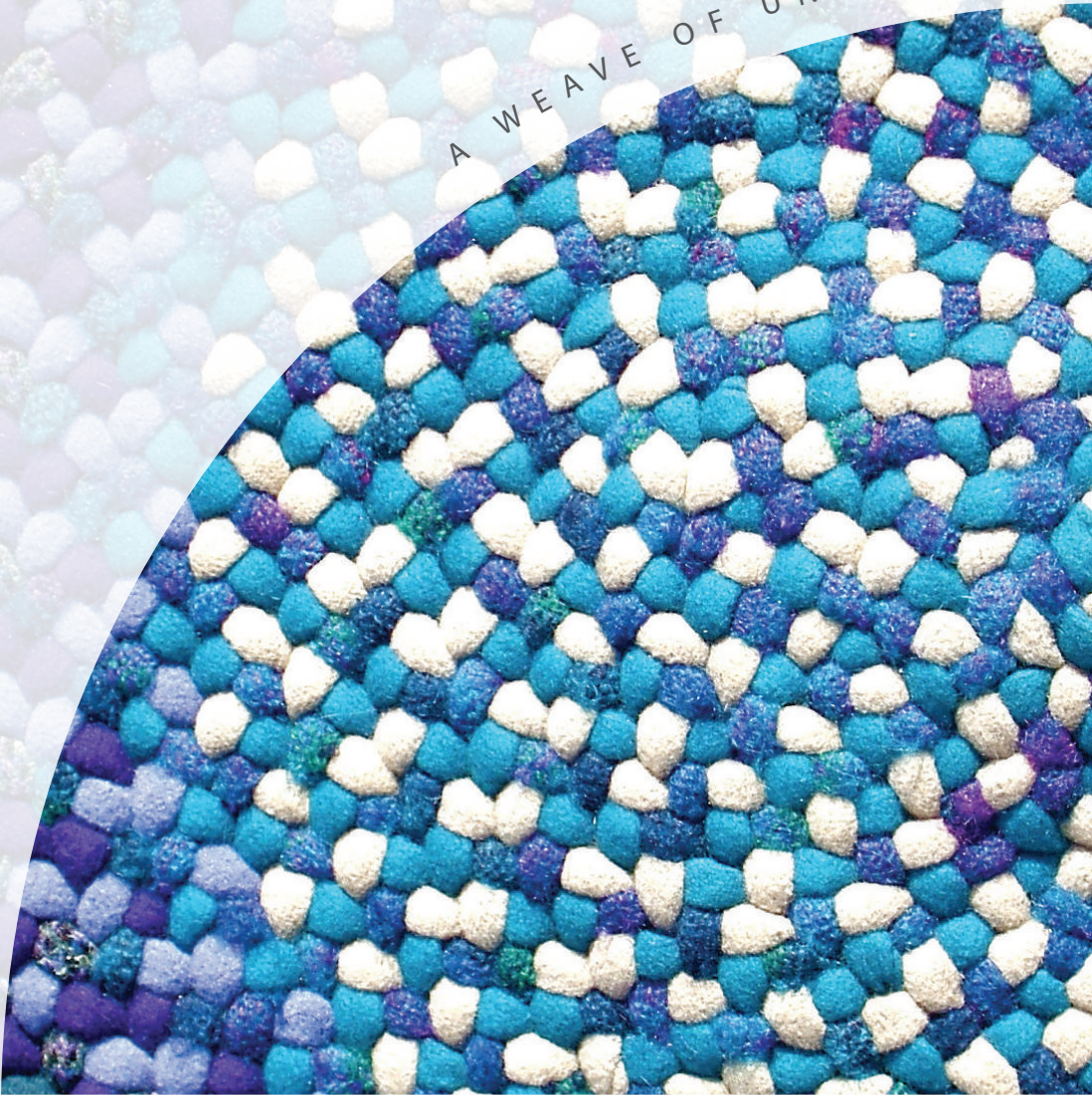
This fourth edition of IIFM *Sukuk* report provides information and relevant details of *Sukuk* issuances during the period of January 2013 to July 2014 with the objective of highlighting and analyzing the development of the *Sukuk* market during this period worldwide.

In order to achieve the primary goal of this research report which is to present and deliver an accurate information on the global *Sukuk* issuances, data on various worldwide *Sukuk* issuances from January 2013 to July 2014 was collected as well as data verification for the period of 2001 - 2012 was carried out. The focus in this practice is to collate data from writing materials relating to the topic of the research. This includes prospectuses, publications, articles, magazines, online research, and information service providers. Data collected was then filtered with respect to different criteria such as chronology, geographic distribution, issuer status, country of origin, etc. and depicted in the form of charts and tables for better understanding. It is worth noting in this regard that some jurisdictions and institutions have assisted IIFM in the verification of the data as well.

This report is divided into five stand alone chapters, in addition to this introduction and a conclusion. Chapter One discusses overview of the worldwide *Sukuk* issuances over the period of January 2013 to July 2014. Chapter Two comprises IIFM prepared case studies of recent developments in the *Sukuk* market (selected international issuances). Chapter Three highlights some specific *Sukuk* issuances (written by institutions). Chapter Four comprises article contributions (written by institutions). Chapter Five highlights *Sukuk* market in selected IIFM member countries (prepared by jurisdictions).

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

A WEAVE OF UNIFICATION



OVERVIEW OF THE GLOBAL SUKUK MARKET

1.1 SUKUK MARKET IN EXPANSIONARY PHASE

Islamic Financial Services Industry is continuing its upward trend robustly with *Sukuk* playing a pivotal role in the development of Islamic Capital & Money Market. This Chapter will particularly focus on January 2013 to July 2014 review period as during this period several innovation in *Sukuk* structures as well as entry of new jurisdictions have taken place which is making *Sukuk*, the most sought after fixed profile instrument.

It is fair to mention that the *Sukuk* market is becoming more mature and the lessons learnt from the global financial crisis related events i.e. default, moratorium and restructuring has helped in clarifying many complex legal issues. Although most of the International troubled *Sukuk* are either restructured or repaid which has helped the rapid progression of global *Sukuk* market but we have to be mindful that in coming years further clarity and standard approach needs to be provided for sustainable growth of this key Islamic instrument.

Several Islamic as well as non-Islamic jurisdictions such as United Kingdom, Senegal, Oman, Luxembourg, Hong Kong, Central Asian Countries, South Africa etc., have either already issued *Sukuk* or are in the midst of *Sukuk* issuance. The continued development of *Sukuk* market in relatively new jurisdictions such as Indonesia, Turkey, Pakistan coupled with renewed push from the UAE, Saudi Arabia, Qatar and Islamic Development Bank, is well supported by early pioneers of *Sukuk* market, namely Bahrain and Malaysia moving *Sukuk* towards more liquid and deeper market in coming years.

The industry has witnessed record *Sukuk* issuances by Sovereigns, Quasi Sovereigns and of late by Corporates in several jurisdictions like Malaysia, Indonesia, Turkey & GCC which is in line with IIFM's *Sukuk* Report 3rd Edition indication that *Sukuk* market will continue to grow with Islamic jurisdictions will lead the *Sukuk* market recovery. The entry of non-Islamic and other regions such as African, CIS and other jurisdictions in the *Sukuk* market is welcome news and repeat issuances from these new entrants will be needed to add depth in the *Sukuk* market.

The other helpful and much needed development is the use of *Sukuk* in project financing, aircraft financing, fulfillment of general needs of corporate sector, strengthening of bank's capital base which are medium to long term nature and *Sukuk* is well suited for these kind of financing requirement. Moreover, issuance of short term *Sukuk* by increasing number of jurisdictions as well as entity like International Islamic Liquidity Management Corporation (IILM) is a welcome development which will contribute towards well developed *Sukuk* market in coming years as well as assist the financial institutions with their short term liquidity management.

The issuance of longer tenor *Sukuk* particularly in Far East and GCC is another positive development and will play a major role in the development of a yield curve.

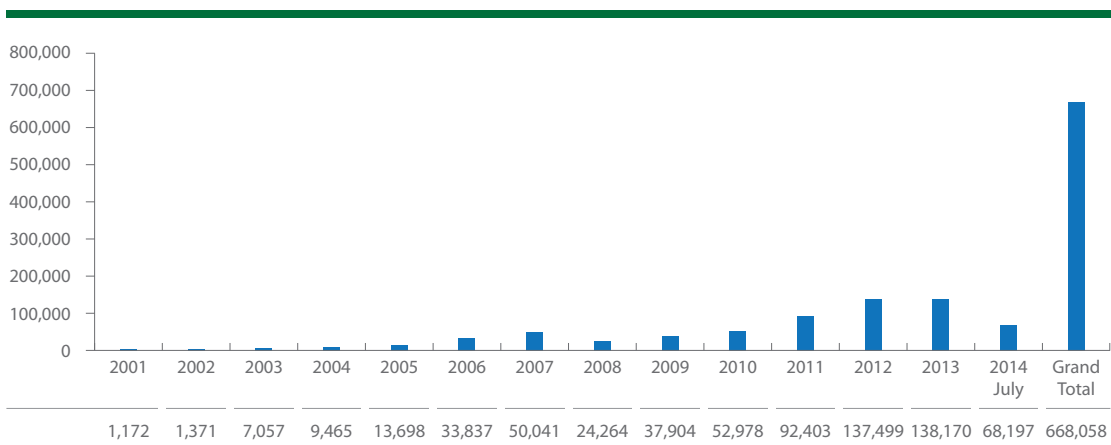
Although financial institutions continue to be the main investors in *Sukuk*, however, entrance of other investors such as fund managers, *Takaful* operators, high net worth individuals, corporate investors is encouraging the issuers to tap the *Sukuk* market with at times more favorable terms.

As per IIFM discussion with several *Sukuk* market makers, it is worth noting that there is some improvement in the secondary market activities which is a good development from previous activities which were more confined to just after the primary market issuance. The current trend of *Sukuk* issuance on fixed rate basis is also providing trading opportunities; however, the industry needs to be watchful as given its close linkages with the global financial system, any increase in reference rate may result into shift towards floating rate *Sukuk*.

1.2 GLOBAL SUKUK ISSUANCES

As illustrated in Chart 1 A below, the share of Sovereign, Quasi Sovereign and off late Corporate *Sukuk* issuances has increased during January 2013 to July 2014 period which in turn is keeping the *Sukuk* issuances upward momentum intact:

CHART 1 A: TOTAL GLOBAL SUKUK ISSUANCES (JAN 2001 – JULY 2014, USD MILLIONS)

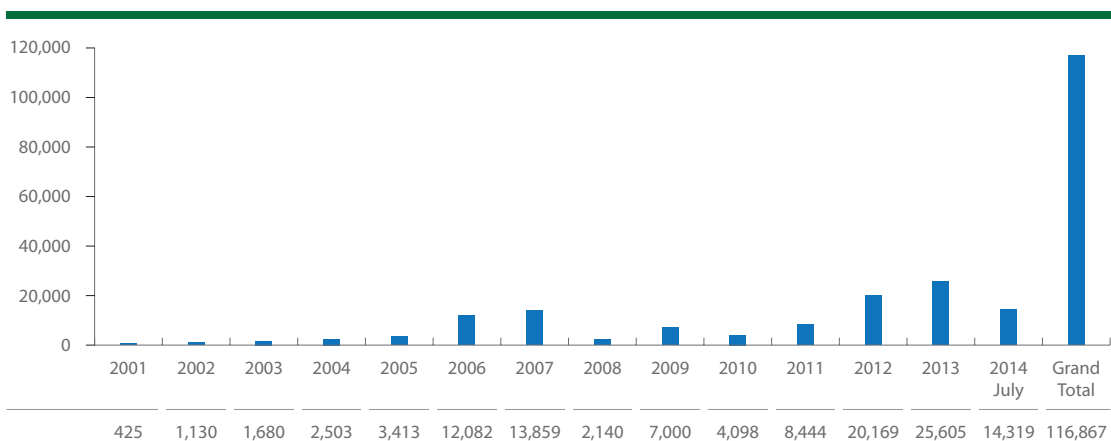


Source: IIFM Sukuk database, regulators & various sources

Global *Sukuk* market continued its positive upward momentum which started in 2010. Period 2013 till July 2014 is not spectacular but is in-line with the projections of a number of research houses and industry experts. In all likelihood, the close of 2014 will again be in excess of 130 billion and this will be third year in a row that *Sukuk* issuances will cross the mark set in 2012 (refer Chart 1A).

As illustrated in Chart 1 B below, in 2013 the International *Sukuk* issuance closed at around USD26 billion and as evident from the *Sukuk* already issued as well as issuances in pipeline, 2014 is likely to be similar to 2013 though the encouraging change is entry of Non-Islamic countries plus addition of several new jurisdictions.

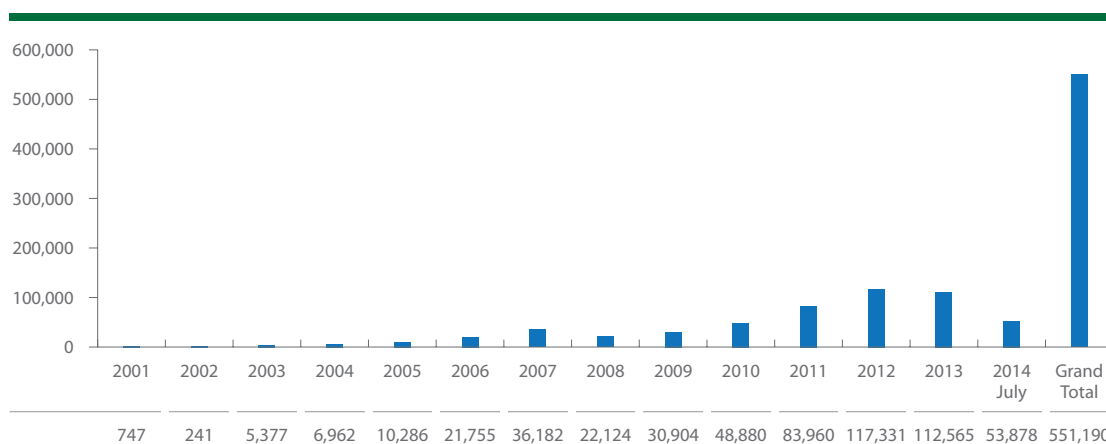
CHART 1B: TOTAL INTERNATIONAL SUKUK ISSUANCES (JAN 2001 – JULY 2014, USD MILLIONS)



Source: IIFM Sukuk database, regulators & various sources

The domestic *Sukuk* issuances as illustrated in below Chart 1 C is equally promising as it has crossed the mark of USD 110+ billion and yet again this year will be the third consecutive year to cross 110 billion which is a clear indication that *Sukuk* market is firmly establishing itself in a number of jurisdictions as compared to few jurisdictions at pre-financial crisis time.

CHART 1C: TOTAL DOMESTIC *Sukuk* ISSUANCES (JAN 2001 –JULY 2014, USD MILLIONS)



Source: IIFM *Sukuk* database, regulators & various sources

Keeping in view of the last three years strong performance of *Sukuk* market and ever increasing role of an alternative source of funding, not just for the GCC and Malaysian market but with interest gathering from Europe, Africa, the CIS countries, Russia, India, South Africa etc., greater surge in *Sukuk* issuances in coming years cannot be ruled out.

We witnessed many milestones in January 2013 and July 2014 period, just to highlight a few:

- a) The long term *Sukuk* issuances by Malaysia & Saudi Arabia
- b) The Perpetual *Sukuk* issuance by a corporate, GEMS (school operator) from UAE
- c) Tier 1 & Tier 2 *Sukuk* issuances by financial institutions
- d) Debut International *Sukuk* by United Kingdom
- e) Senegal debut *Sukuk* in local currency
- f) Pipeline of debut *Sukuk* from Luxembourg, South Africa, Hong Kong etc.,
- g) Multi-currency *Sukuk* Program by institutions
- h) Debut *Sukuk* issuance by Export Import Bank of Malaysia
- i) Short term *Sukuk* issuances by jurisdictions and IIFM

The following table gives a clear picture on the hallmark Global *Sukuk* issued during January 2013 – July 2014 period:

TABLE 1: SELECTED HALLMARK GLOBAL SUKUK ISSUANCES & TRENDS (JAN 2013 – JULY 2014, USD 700 Million OR >)

ISSUE YEAR	ISSUER	ISSUANCE CURRENCY	MILLIONS USD OR USD EQUIVALENT	AVERAGE TENOR YEARS
2014	Emaar Malls Group	USD	750	10
2014	Government of Malaysia	MYR	1,245	3.5
2014	Investment Corporation of Dubai	USD	700	6
2014	Government of Dubai	USD	750	15
2014	Saudi Electricity Company	USD	2,500	20
2014	Government of Malaysia	MYR	792	7
2014	Islamic Development Bank	USD	1,500	5
2014	Ministry of Finance Indonesia	IDR	1,664	3
2014	Islamic Development Bank	USD	1,500	5
2014	Bank Negara Malaysia	MYR	1,209	10
2014	National Commercial Bank	SAR	1,300	5
2014	Government of Turkey	TRY	1,333	2
2014	Saudi Electricity Company	SAR	1,200	10
2014	Qatar Central Bank	QAR	3,018	4
2013	Aldar Properties	USD	750	5
2013	Ooredoo Telecom Qatar	USD	1,250	5
2013	Government of Malaysia	MYR	1,248	5
2013	Riyad Bank	USD	1,070	7
2013	Government of Malaysia	MYR	2,065	5.5
2013	Government of Turkey	USD	1,250	5
2013	General Authority of Civil Aviation	SAR	4,056	10
2013	Government of Malaysia	MYR	2,052	7.5
2013	Government of Indonesia	USD	1,500	5.5
2013	Government of Malaysia	MYR	756	20
2013	Government of Turkey	TRY	1,039	2
2013	Government of Malaysia	MYR	2,057	5
2013	Islamic Development Bank	USD	2,000	5
2013	Government of Malaysia	MYR	2,618	8
2013	Sadara Chemical Company	SAR	2,000	16
2013	Saudi Electricity Company	USD	2,000	20
2013	Dubai Islamic Bank	USD	1,000	Perpetual
2013	Emirates Airlines	USD	1,000	10
2013	Golden Assets International Finance	MYR	1,000	3
2013	Islamic Development Bank	USD	700	5
2013	Dubai Electricity and Water Authority	USD	1,000	5
2013	Government of Indonesia	IDR	1,567	3
2013	Government of Turkey	TRY	866	2
2013	Government of Malaysia	MYR	969	5.5
2013	Government of Dubai	USD	750	10
2013	Government of Sudan	SDG	753	3

Source: IIFM Sukuk database, regulators & various sources

The industry maintained its innovative phase, more debut *Sukuk* came to the market and more importantly in several jurisdictions maturing *Sukuk* were refinanced which is a clear indication that *Sukuk* in all likelihood will maintain its upward volume trajectory in coming years. Although corporate *Sukuk* issuances has improved in some jurisdictions but the pace of corporate *Sukuk* issuances in major Islamic countries like Pakistan, Indonesia, Turkey etc., is still slow and greater participation by corporate sector is needed to benefit from the true potential of *Sukuk*.

The gap between *Sukuk* pricing vis-à-vis conventional bond pricing is continuing to narrow and in some cases, *Sukuk* came in tighter but the market continues to keep risk aversion strategy intact, this, as pointed out in the previous report, will most likely see continued Sovereign and Sovereign linked *Sukuk* taking centre stage. However, UAE School "GEMS" *Sukuk* came at an attractive profit rate of 11.75% p.a. This has provided new dimension to the market with its perpetual tenor.

Against this backdrop, the hunt for yield continued

apace and this has been reflected in the strong performance of some previously unloved but relatively higher yielding issuers.

While more depth is created in the *Sukuk* market, the issuance of *Sukuk* by a foreign issuer, for example UAE based Corporate issued *Sukuk* in Malaysian Ringgit (referred as Non-Local Currency *Sukuk*)¹, is a positive development though the pace of such issuances during last 1 ½ years is less than what it was in 2012.

These issuances in particular have also highlighted the need of currency hedging, which is one of the key contributions of IIFM to the Islamic Financial Services Industry; and Standards developed by IIFM in the form of *Tahawwut* Master Agreement. This agreement will be extremely beneficial in the risk mitigation arising from such *Sukuk* issuances. IIFM profit rate return hedging Standard is already available while work on the currency hedging Standard templates is progressing.

Following Table will give a clear picture on the Non-Local Currency hallmark global *Sukuk* issuances:

TABLE 2: SELECTED NON-LOCAL CURRENCY SUKUK ISSUANCES (JAN 2013 – JULY 2014)

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSAUNCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	MIO USD OR EQUIVALENT	AVERAGE TENOR (YEARS)
2014	Türkiye Finans Katılım Bank	Turkey	MYR	Corporate	<i>Sukuk Al Murabahah</i>	248	5
2013	Khazanah Nasional Bhd	Malaysia	SGD	Quasi Sovereign	<i>Sukuk Al Murabahah</i>	482	5
2013	First Resources	Singapore	MYR	Corporate	<i>Sukuk Al Musharakah</i>	239	7
2013	Golden Assets International Finance	Indonesia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	1,000	3

Source: IIFM Sukuk database, regulators & various sources

The major economies of the world are showing sign of recovery and increase in interest rates by USA and perhaps later in Europe is a possibility, perhaps in 2015, which may shift the *Sukuk* market towards floating rate *Sukuk* issuances; however, as of now, most of the *Sukuk* will continue to be issued on fixed profit rate basis, which is good for the *Sukuk* issuer as it locks in its funding cost at historic low rate. While the investor

may well be pleased with its fixed return for now, but as soon as global reference rates jack up, the investors may carry a book loss. Since IIFM has developed the ISDA/IIFM *Tahawwut* Master Agreement, it would be prudent to keep an eye on the returns and at some point consider hedging to lock in a profit. Islamic Profit Rate Hedging is already used by several institutions based in GCC & Malaysia.

¹ IIFM has termed *Sukuk* issued by foreign entity based outside its own jurisdiction as Non-local currency *Sukuk* and is included as international *Sukuk*

Following are landmark Fixed Profit Rate *Sukuk* Issuances during January 2013– July 2014 period:

TABLE 3: LANDMARK FIXED RATE SUKUK ISSUANCES (JAN 2013 – JULY 2014, USD 200 Million OR >)

ISSUE YEAR	OBLIGOR	TYPE OF SUKUK	SUKUK ISSUANCE CURRENCY	INTERNATIONAL/ DOMESTIC	SUKUK STRUCTURE	MILLIONS USD OR EQUIVALENT	RATE OF RETURN	AVERAGE TENOR (YEARS)
2014	Government of Senegal	Sovereign	CFA Francs	Domestic	<i>Sukuk Al Ijarah</i>	201	6.25	4
2014	Al Baraka Turk Participation Bank	Corporate	USD	International	Hybrid <i>Sukuk</i>	350	6.25	5
2014	Islamic Development Bank	Quasi-Sovereign	USD	International	<i>Sukuk Al Wakalah</i>	1,500	1.8%	5
2014	Dubai Investments Park	Sovereign	USD	International	<i>Sukuk Al Wakalah</i>	300	4.3%	5
2014	Malaysia Export-Import Bank	Sovereign	USD	International	Hybrid <i>Sukuk</i>	300	2.9%	5
2013	Aldar Properties	Corporate	USD	International	<i>Sukuk Al Ijarah</i>	750	4.3%	5
2013	Ooredoo Telecom Qatar	Corporate	USD	International	<i>Sukuk Al Murabahah</i>	1,250	3.0%	5
2013	Dar Al Arkan	Corporate	USD	International	Hybrid <i>Sukuk</i>	300	5.8%	5
2013	Ras al Khaimah	Sovereign	USD	International	<i>Sukuk Al Ijarah</i>	500	3.3%	5
2013	Al Hilal Bank	Corporate	USD	International	<i>Sukuk Al Wakalah</i>	500	3.3%	5
2013	General Authority of Civil Aviation	Sovereign	SAR	Domestic	<i>Sukuk Al Murabahah</i>	4,056	3.21	10
2013	Government of Indonesia	Sovereign	USD	International	<i>Sukuk Al Ijarah</i>	1,500	6.125%	5.5
2013	Islamic Development Bank	Quasi-Sovereign	USD	International	<i>Sukuk Al Wakalah</i>	1,000	1.535	5
2013	Dar Al Arkan	Corporate	USD	International	Hybrid <i>Sukuk</i>	450	5.8%	5
2013	Central Bank of Bahrain	Sovereign	BHD	Domestic	<i>Sukuk Al Ijarah</i>	266		2
2013	Dana Gas	Corporate	USD	International	<i>Sukuk Al Mudharabah</i>	850		5
2013	Sharjah Islamic Bank	Corporate	USD	International	<i>Sukuk Al Wakalah</i>	500	3.0%	5
2013	Saudi Electricity Company	Sovereign	USD	International	<i>Sukuk Al Ijarah</i>	2,000	8.6%	20
2013	Bank Asya	Corporate	USD	International	<i>Sukuk Al Murabahah</i>	250	7.5%	10
2013	Dubai Islamic Bank	Corporate	USD	International	<i>Sukuk Al Mudharabah</i>	1,000	6.3%	6
2013	Emirates Airlines	Quasi-Sovereign	USD	International	<i>Sukuk Al Wakalah</i>	1,000	3.9%	10
2013	Dubai Electricity and Water Authority	Sovereign	USD	International	<i>Sukuk Al Ijarah</i>	1,000	3.0%	5
2013	Sime Darby Berhad	Corporate	USD	International	<i>Sukuk Al Ijarah</i>	800	2.67%	7.5
2013	Government of Dubai	Sovereign	USD	International	<i>Sukuk Al Ijarah</i>	750	3.8%	10

Source: IIFM Sukuk database, regulators & various sources

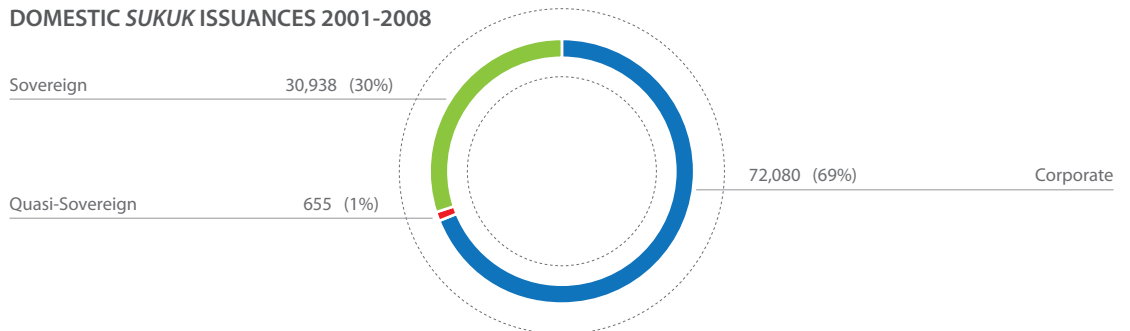
1.3 DISTRIBUTION OF THE GLOBAL SUKUK ISSUANCE BY ISSUER STATUS

It is fair to assume that the global financial crisis of 2007 has shifted the *Sukuk* issuance pattern towards Sovereign or Quasi-sovereign with subdued demand for corporate sector *Sukuk*. Sovereign and Quasi Sovereign played a major role by supporting and adding confidence to the market while having the *Sukuk* momentum continue during the most critical period post financial crisis.

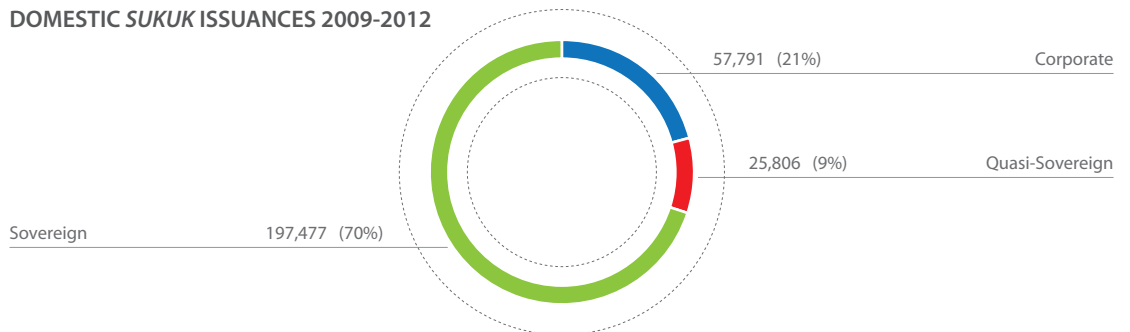
As evident from below Chart 2A, at domestic level during the 2001- 2008 period corporate issuers had a lion share of 69% of *Sukuk* issuance which drastically dropped to 21% during 2009-2012 period. Although the corporate *Sukuk* issuances improved during 2013 to July 2014 period; however, the subdued *Sukuk* issuances by corporate sector in several key jurisdictions like Pakistan, Turkey, Indonesia etc., is continuing in 2014.

CHART 2A: DOMESTIC SUKUK ISSUANCES BY ISSUER STATUS (USD MILLIONS)

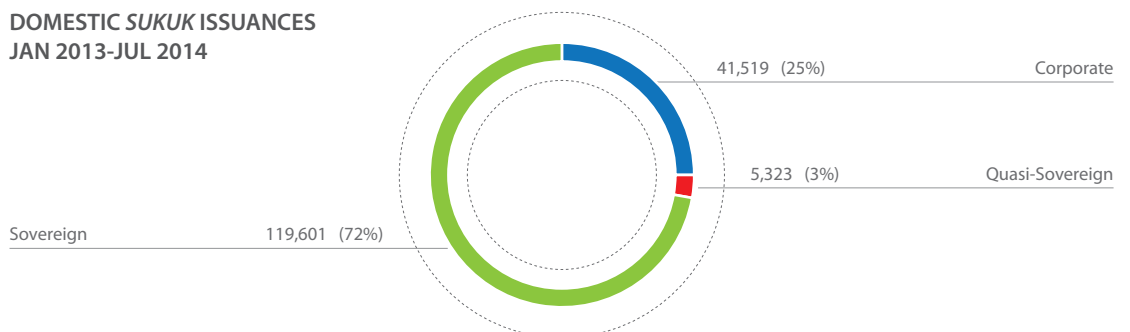
DOMESTIC SUKUK ISSUANCES 2001-2008



DOMESTIC SUKUK ISSUANCES 2009-2012



DOMESTIC SUKUK ISSUANCES JAN 2013-JUL 2014



Source: IIFM Sukuk database, regulators & various sources

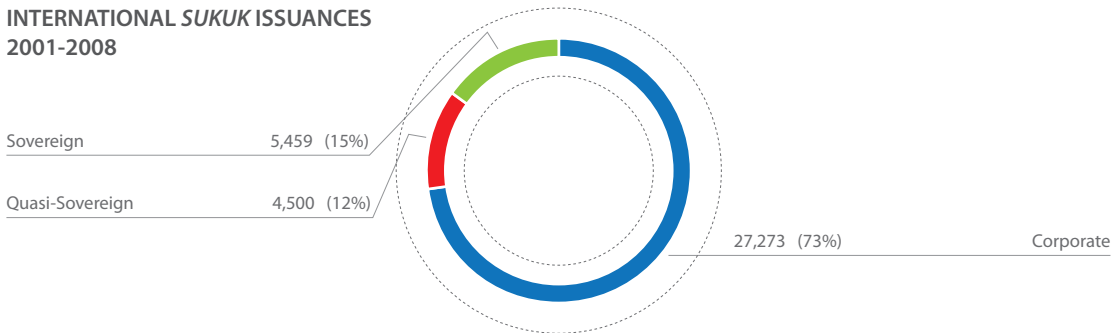
Major efforts are required to improve the supply of corporate *Sukuk* issuance and governments need to take a closer look at impediments which are hindering the *Sukuk* issuance, as both public sector as well as private sector need to play a major role in the *Sukuk* market. One such consideration would be to lower the denomination to allow for retail investors to invest in *Sukuk* as part of its balance portfolio. This would

help demands for local Corporate *Sukuk* by local retail investors.

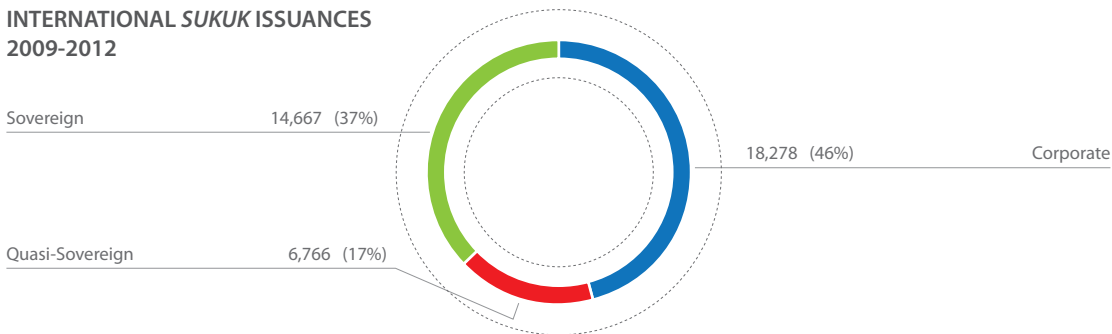
As far as International *Sukuk* issuance is concerned, the picture on corporate and sovereign is quite different and the *Sukuk* issuance of late has presented a balanced position as illustrated in the following Charts:

CHART 2B: INTERNATIONAL SUKUK ISSUANCES BY ISSUER STATUS (USD MILLIONS)

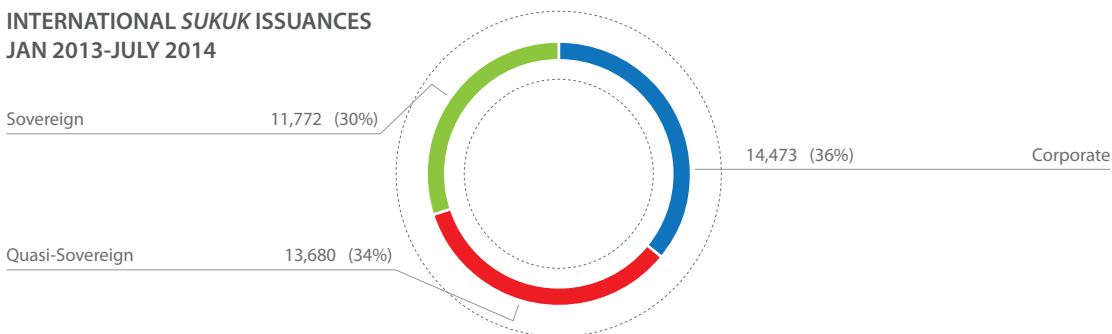
**INTERNATIONAL SUKUK ISSUANCES
2001-2008**



**INTERNATIONAL SUKUK ISSUANCES
2009-2012**



**INTERNATIONAL SUKUK ISSUANCES
JAN 2013-JULY 2014**



Source: IIFM Sukuk database, regulators & various sources

Following are the tables on Hallmark *Sukuk* Issuances one year and greater for Sovereign, Corporate and Quasi-Sovereign

TABLE 4A: GLOBAL SOVEREIGN *SUKUK* ISSUANCES -SELECTED VALUE LEADERS (JAN 2013- JULY 2014, USD 200 MILLION OR >)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	<i>SUKUK</i> ISSUANCE CURRENCY	INTERNATIONAL OR DOMESTIC	STRUCTURE	MILLIONS USD OR EQUIVALENT	AVERAGE TENOR (YEARS)
2014	Government of Senegal	1	Senegal	CFA Francs	Domestic	<i>Sukuk Al Ijarah</i>	201	4
2014	Government of United Kingdom	1	United Kingdom	GBP	International	<i>Sukuk Al Ijarah</i>	339	5
2014	Government of Pakistan	1	Pakistan	PKR	Domestic	<i>Sukuk Al Ijarah</i>	492	3
2014	Government of Malaysia	2	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	2,038	5.25
2014	Government of Dubai	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	750	15
2014	Government of Indonesia	1	Indonesia	IDR	Domestic	<i>Sukuk Al Ijarah</i>	1,664	3
2014	Bank Negara Malaysia	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	1,209	10
2014	Dubai Investments Park	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	300	5
2014	Government of Turkey	1	Turkey	TRY	Domestic	<i>Sukuk Al Ijarah</i>	602	2
2014	Government of Turkey	1	Turkey	TRY	Domestic	<i>Sukuk Al Ijarah</i>	1,333	2
2014	Malaysia Export-Import Bank	1	Malaysia	USD	International	Hybrid <i>Sukuk</i>	300	5
2014	Saudi Electricity Company	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al Ijarah</i>	1,200	10
2014	Qatar Central Bank	2	Qatar	QAR	Domestic	<i>Sukuk Al Murabahah</i>	3,018	4
2013	Government of Malaysia	10	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	9,335	8.65
2013	Ras al Khaimah	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	500	5
2013	Government of Turkey	1	Turkey	USD	International	<i>Sukuk Al Ijarah</i>	1,250	5
2013	General Authority of Civil Aviation	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al Murabahah</i>	4,056	10
2013	Government of Indonesia	1	Indonesia	USD	International	<i>Sukuk Al Ijarah</i>	1,500	5.5
2013	Government of Turkey	1	Turkey	TRY	Domestic	<i>Sukuk Al Ijarah</i>	1,039	2
2013	Government of Malaysia	3	Malaysia	MYR	Domestic	<i>Bai' Bithaman Ajil</i>	3,587	7.16
2013	Central Bank of Bahrain	1	Bahrain	BHD	Domestic	<i>Sukuk Al Ijarah</i>	266	2
2013	Government of Indonesia	1	Indonesia	IDR	Domestic	<i>Sukuk Al Ijarah</i>	526	30
2013	Saudi Electricity Company	2	Saudi Arabia	USD	International	<i>Sukuk Al Ijarah</i>	2,000	20
2013	Government of Pakistan	1	Pakistan	PKR	Domestic	<i>Sukuk Al Ijarah</i>	433	3
2013	Dubai Electricity and Water Authority	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	1,000	5
2013	Government of Indonesia	1	Indonesia	IDR	Domestic	<i>Sukuk Al Ijarah</i>	1,567	3
2013	Government of Turkey	1	Turkey	TRY	Domestic	<i>Sukuk Al Ijarah</i>	684	2
2013	Government of Turkey	1	Turkey	TRY	Domestic	<i>Sukuk Al Ijarah</i>	866	2
2013	Government of Dubai	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	750	10
2013	Government of Sudan	1	Sudan	SDG	Domestic	<i>Sukuk Al Ijarah</i>	311	4

Source: IIFM *Sukuk* database, regulators & various sources

TABLE 4B: GLOBAL CORPORATE SUKUK ISSUANCES -SELECTED VALUE LEADERS (JAN 2013- JULY 2014, USD 200 MILLION OR >)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	SUKUK ISSUANCE CURRENCY	INTERNATIONAL OR DOMESTIC	STRUCTURE	AMOUNT IN USD MIO OR EQUIVALENT	AVERAGE TENOR (YEARS)
2014	Türkiye Finans Katılım Bank	1	Turkey	MYR	International	<i>Sukuk Al Murabahah</i>	248	5
2014	Kuveyt Türk Participation Bank	1	Turkey	USD	International	Hybrid Sukuk	500	5
2014	Al Baraka Turk Participation Bank	1	Turkey	USD	International	<i>Sukuk Al Murabahah</i>	350	5
2014	National Petrochemical Company	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al Ijarah</i>	319	5
2014	Banque Saudi Fransi	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al Ijarah</i>	533	10
2014	Emaar Malls Group	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	750	10
2014	Saudi Telecom	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	533	10
2014	Saudi Investment Bank	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	533	10
2014	Dar Al Arkan Real Estate	1	Saudi Arabia	USD	International	<i>Sukuk Al Wakalah</i>	400	5
2014	Türkiye Finans	1	Turkey	USD	International	<i>Sukuk Al Murabahah</i>	500	5
2014	DanaInfra Nasional Berhad	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	215	25
2014	Damac Properties	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	650	5
2014	Malayan Banking Berhad	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	458	10
2014	National Commercial Bank	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	1,300	5
2014	Bandar Malaysia Sdn. Bhd.	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	302	10
2014	TNB Western Energy Berhad	1	Malaysia	MYR	Domestic	Hybrid Sukuk	393	20
2013	BGSM Management Sdn. Bhd.	6	Malaysia	MYR	Domestic	<i>Sukuk Al Musharakah</i>	1,743	4.1
2013	Saudi British Bank	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	400	7
2013	Malakoff Power Sdn. Bhd.	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	204	6
2013	Saudi Hollandi Bank	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	667	10
2013	UEM Land Holdings Berhad	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	214	5
2013	Bank Islam Malaysia Berhad	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	510	10

2013	Aldar Properties	1	United Arab Emirates	USD	International	Sukuk Al Ijarah	750	5
2013	Ooredoo Qatar (telecom)	1	Qatar	USD	International	Sukuk Al Murabahah	1,250	5
2013	Dar Al Arkan	1	Saudi Arabia	USD	International	Hybrid Sukuk	300	5
2013	Riyad Bank	1	Saudi Arabia	USD	Domestic	Hybrid Sukuk	1,070	7
2013	DanaInfra Nasional Berhad	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	285	20
2013	Cagamas Berhad	3	Malaysia	MYR	Domestic	Hybrid Sukuk	633	15
2013	First Resources	1	Singapore	MYR	International	Sukuk Al Musharakah	238	7
2013	Dar Al Arkan	1	Saudi Arabia	USD	International	Hybrid Sukuk	450	5
2013	Marafiq Sukuk	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	667	5
2013	Dana gas	2	United Arab Emirates	USD	International	Sukuk Al Mudharabah	850	30
2013	Sharjah Islamic Bank	1	United Arab Emirates	USD	International	Sukuk Al Wakalah	500	5
2013	Sadara Chemical Company	1	Saudi Arabia	SAR	Domestic	Sukuk Al Musharakah	2,000	16
2013	Saudi Binladin Group	1	Saudi Arabia	SAR	Domestic	Sukuk Al Murabahah	347	2.5
2013	Almarai Company	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	347	Perpetual
2013	Bank Asya	1	Turkey	USD	International	Sukuk Al Murabahah	250	10
2013	GEMS Education	1	United Arab Emirates	USD	International	Sukuk Al Mudharabah	200	Perpetual
2013	Dubai Islamic Bank	1	United Arab Emirates	USD	International	Sukuk Al Mudharabah	1,000	Perpetual
2013	Golden Assets International Finance	1	Indonesia	MYR	International	Sukuk Al Murabahah	1,000	3
2013	Sime Darby Berhad	6	Malaysia	USD	International	Sukuk Al Ijarah	800	7.5
2013	Savola Group	1	Saudi Arabia	SAR	Domestic	Hybrid Sukuk	400	7
2013	Malakoff Power Sdn. Bhd.	7	Malaysia	MYR	Domestic	Hybrid Sukuk	1,623	5.53
2013	Segari Energy Ventures Sdn. Bhd.	1	Malaysia	MYR	Domestic	Sukuk Al Murabahah	559	15

Source: IIFM Sukuk database, regulators & various sources

TABLE 4C: GLOBAL QUASI-SOVEREIGN *SUKUK* -SELECTED VALUE LEADERS (JAN 2013 – JULY 2014, USD MILLION OR >)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	<i>SUKUK</i> ISSUANCE CURRENCY	INTERNATIONAL OR DOMESTIC	STRUCTURE	MILLIONS USD OR EQUIVALENT	AVERAGE TENOR (YEARS)
2014	Investment Corporation of Dubai	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	700	6
2014	Saudi Electricity Company	2	Saudi Arabia	USD	International	<i>Sukuk Al Ijarah</i>	2,500	20
2014	Perbadanan Tabung Pendidikan Tinggi Nasional	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	547	10
2014	Khazanah Nasional Bhd	1	Malaysia	MYR	Domestic	<i>Sukuk Al Musharakah</i>	302	15
2014	Syarikat Prasarana Negara Berhad	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	457	5
2014	Islamic Development Bank	2	Saudi Arabia	USD	International	<i>Sukuk Al Wakalah</i>	3,000	5
2014	Khazanah Nasional Bhd	1	Malaysia	MYR	Domestic	<i>Sukuk Al Musharakah</i>	394	7
2014	Pengurusan Air	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	301	5
2013	Islamic Development Bank	3	Saudi Arabia	USD	International	<i>Sukuk Al Wakalah</i>	2,700	5
2013	Emirates Airlines	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	1,000	10
2013	Khazanah Nasional Bhd	1	Malaysia	MYR	Domestic	<i>Sukuk Al Musharakah</i>	321	8
2013	Perbadanan Tabung Pendidikan Tinggi Nasional	1	Malaysia	MYR	Domestic	Hybrid <i>Sukuk</i>	267	15

Source: IIFM *Sukuk* database, regulators & various sources

It is no surprise that the domestic market is very much Sovereign led, as the domestic market needs local currency instruments to manage their liquidity while the domestic investors prefer to invest in their home currency so as not to be exposed to currency risk. It is likely that most of the Sovereign will keep a bigger share of the local market as Islamic finance activities grow around the globe, more countries will issue *Sukuk* in their home currency as part of the Government's own funding needs and to develop benchmark curve to facilitate growth of their domestic market. Investors in the local market need to maintain "Risk Free" assets in their portfolio and the Sovereign provides, just that.

In the international cross border market, Corporates were the earlier dominant issuers but only after Sovereign or Quasi Sovereign laid the foundation that provided confidence in the *Sukuk* as an acceptable and viable instrument (eg. Bahrain, UAE, Malaysia, Qatar, and Islamic Development Bank).

In addition many new Sovereign / Quasi Sovereign issuers lent support to the *Sukuk* market, (eg. Government of Malaysia, Government of Turkey, Saudi Electricity Company, Islamic Development Bank, Emirates Airlines, Ras Al Khaimah etc.). Not only these chunk size *Sukuk* issuance from high credit quality issuer helped absorb some of the liquidity but in doing so, liquidity remains high and is paving the way for more Sovereign Debutant *Sukuk*.

The *Sukuk* Mutual Funds space is taking shape with number of banks having set up their own *Sukuk* Fund to offer to their private clients, this is a positive sign, that the *Sukuk* market is coming of age. Development of the *Sukuk* Fund is timely, as the current split between Sovereign and Corporate risk is very much desirable, since it offers investors and fund managers with a good mix of Sovereign and Corporate risk to consider. The choice offers the fund manager to not only diversify credit risk but also take into account their risk return profile in allocating to their portfolio.

1.4 INTERNATIONAL SUKUK ISSUANCES

Starting 2012 International *Sukuk* market is on increasing trend and considering the *Sukuk* so far issued till July 2014 and issuance pipeline it is likely that next few years, International *Sukuk* issuances will soon cross the USD 26 billion landmark achieved in 2013. Current outstanding International *Sukuk* figure is approximately USD 77 billion and it is expected that the year 2014 will close around USD 90 billion outstanding *Sukuk* market.

There were several landmark *Sukuk* issuances from United Kingdom, Malaysia, Qatar, Turkey, UAE, Saudi Arabia, Indonesia, Bahrain etc., this indicates that *Sukuk* market has fully recovered from the declining trend witnessed in 2008 till 2010.

The following table illustrates the regional break-up of the total international *Sukuk* issuance during the period of January 2001 to July 2014:

TABLE 5: INTERNATIONAL SUKUK ISSUANCE – REGIONAL BREAK-UP (JAN 2001- JULY 2014)

ASIA & FAR EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Malaysia	32	16,339	13.98%
Indonesia	7	5,785	4.95%
Singapore	4	711	0.61%
China	1	97	0.08%
Hong Kong	2	196	0.17%
Japan	3	190	0.16%
Pakistan	1	600	0.51%
Total	50	23,917	20.47%
GCC & MIDDLE EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bahrain	94	6,830	5.84%
Kuwait	13	2,127	1.82%
Qatar	10	8,935	7.65%
Saudi Arabia	30	21,542	18.43%
United Arab Emirates	68	45,986	39.35%
Total	215	85,420	73.09%
AFRICA	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Sudan	1	130	0.11%
Total	1	130	0.11%
EUROPE & OTHERS	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Kazakhstan	1	77	0.07%
France	1	0.65	0.001%
Germany	1	55	0.05%
Luxembourg	2	60	0.05%
Turkey	12	5753	4.92%
United Kingdom	8	687	0.59%
USA	3	767	0.66%
Total	28	7,400	6.33%
Grand Total	294	116,867	100.00%

Source: IIFM Sukuk database, regulators & various sources

TABLE 6: INTERNATIONAL SUKUK ISSUANCES – SELECTED VALUE LEADERS (JAN 2013- JULY 2014, USD 200 MILLION OR >)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	SUKUK ISSUANCE CURRENCY	TYPE OF ISSUED SUKUK	STRUCTURE	AMOUNT IN MILLIONS USD	AVERAGE TENOR (YEARS)
2014	Türkiye Finans Katılım Bank	1	Turkey	MYR	Corporate	<i>Sukuk Al Murabahah</i>	248	5
2014	Kuveyt Türk Participation Bank	1	Turkey	USD	Corporate	<i>Hybrid Sukuk</i>	500	5
2014	Government of United Kingdom	1	United Kingdom	GBP	Sovereign	<i>Sukuk Al Ijarah</i>	340	5
2014	Al Baraka Turk	1	Turkey	USD	Corporate	<i>Hybrid Sukuk</i>	350	5
2014	Emaar Malls Group	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al Wakalah</i>	750	10
2014	Dar Al Arkan	1	Saudi Arabia	USD	Corporate	<i>Sukuk Al Wakalah</i>	400	5
2014	Investment Corporation of Dubai	1	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al Ijarah</i>	700	6
2014	Government of Dubai	1	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	750	15
2014	Turkiye Finans	1	Turkey	USD	Corporate	<i>Sukuk Al Murabahah</i>	500	5
2014	Damac Properties	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al Ijarah</i>	650	5
2014	Saudi Electricity Company	2	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Ijarah</i>	2,500	20
2014	Islamic Development Bank	2	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	3000	5
2014	Dubai Investments Park	1	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Wakalah</i>	300	5
2014	Malaysia Export-Import Bank	1	Malaysia	USD	Sovereign	<i>Hybrid Sukuk</i>	300	5
2013	Aldar Properties	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al Ijarah</i>	750	5
2013	Ooredoo Telecom	1	Qatar	USD	Corporate	<i>Sukuk Al Murabahah</i>	1,250	5
2013	Dar Al Arkan	2	Saudi Arabia	USD	Corporate	<i>Hybrid Sukuk</i>	750	5
2013	Khazanah Nasional Bhd	1	Malaysia	SGD	Quasi-Sovereign	<i>Sukuk Al Mudharabah</i>	482	5

2013	Ras al Khaimah	1	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	500	5
2013	Government of Turkey	1	Turkey	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,250	5
2013	Al Hilal Bank	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al Wakalah</i>	500	Perpetual
2013	Government of Indonesia	1	Indonesia	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,500	5.5
2013	Islamic Development Bank	3	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	2,700	5
2013	First Resources	1	Singapore	MYR	Corporate	<i>Sukuk Al Musharakah</i>	239	7
2013	Dana Gas	2	United Arab Emirates	USD	Corporate	<i>Sukuk Al Mudharabah</i>	850	5
2013	Sharjah Islamic Bank	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al Wakalah</i>	500	5
2013	Saudi Electricity Company	2	Saudi Arabia	USD	Sovereign	<i>Sukuk Al Ijarah</i>	2,000	20
2013	Bank Asya	1	Turkey	USD	Corporate	<i>Sukuk Al Murabahah</i>	250	10
2013	Dubai Islamic Bank	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al Mudharabah</i>	1,000	Perpetual
2013	Emirates Airlines	1	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	1,000	10
2013	Golden Assets International Finance	1	Indonesia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	1,000	3
2013	Dubai Electricity and Water Authority	1	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,000	5
2013	Sime Darby Berhad	2	Malaysia	USD	Corporate	<i>Sukuk Al Ijarah</i>	800	7.5
2013	Government of Dubai	1	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	750	10

Source: IIFM Sukuk database, regulators & various sources

1.5 DOMESTIC SUKUK ISSUANCES

Malaysia continues to maintain its lion's share of domestic *Sukuk* market both from volume as well as value perspective. Malaysia remains as the largest domestic *Sukuk* issuer with 78% though its share has slightly decreased from share of 79.80% for 2001 to January 2013 period as the countries like Indonesia, Pakistan, Qatar, Bahrain, Saudi Arabia, UAE, Turkey etc. has stepped-up their domestic *Sukuk* issuance programs.

The domestic *Sukuk* market in a number of jurisdictions (as shown in table below) is becoming active particularly Indonesia & GCC and central banks are providing avenues to Islamic banks and other investors to invest their surplus liquidity in Government *Sukuk* programs designed to provide level playing field to the Islamic institutions.

The total outstanding Domestic *Sukuk* at July 2014 stood at USD 226 billion and it is expected that 2014 will close with upward trend as sovereigns, quasi sovereign & corporates in jurisdictions like Malaysia, Turkey and several other countries including GCC are getting more active in *Sukuk* issuances.

TABLE 7: DOMESTIC SUKUK ISSUANCE – REGIONAL BREAK-UP (JAN 2001-JULY 2014)

ASIA & FAR EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Brunei Darussalam	105	5,567	1.01%
Indonesia	189	18,453	3.35%
Malaysia	3,932	430,579	78.09%
Maldives	1	3	0.001%
Pakistan	58	7,688	1.39%
Singapore	12	788	0.14%
Total	4,297	463,077	83.99%
GCC & MIDDLE EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bahrain	218	9,124	1.65%
Jordan	1	119	0.02%
Kuwait	1	332	0.06%
Oman	1	130	0.02%
Qatar	9	13,115	2.38%
Saudi Arabia	43	33,538	6.08%
United Arab Emirates	14	8,251	1.50%
Yemen	2	253	0.05%
Total	289	64,861	11.76%
AFRICA	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Gambia	221	139	0.03%
Nigeria	2	133	0.02%
Sudan	26	16,180	2.93%
Senegal	1	201	0.04%
Total	250	16,651	3.02%
EUROPE & OTHERS	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Germany	1	123	0.02%
Turkey	20	6,478	1.17%
USA	1	167	0.03%
Total	22	6,768	1.23%
Grand Total	4,858	551,357	100%

Source: IIFM Sukuk database, regulators & various sources

TABLE 8 : DOMESTIC SUKUK ISSUANCES – SELECTED VALUE LEADERS (JAN 2013 – JULY 2014, USD 200 MILLION OR >)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	TYPE OF ISSUED SUKUK	SUKUK ISSUANCE CURRENCY	STRUCTURE	AMOUNT IN MILLIONS USD EQUIVALENT	AVERAGE TENOR (YEARS)
2014	Government of Senegal	1	Senegal	Sovereign	CFA Francs	<i>Sukuk Al Ijarah</i>	201	4
2014	National Petrochemical Company	1	Saudi Arabia	Corporate	SAR	<i>Sukuk Al Ijarah</i>	319	5
2014	Government of Pakistan	1	Pakistan	Sovereign	PKR	<i>Sukuk Al Ijarah</i>	492	3
2014	Banque Saudi Fransi	1	Saudi Arabia	Corporate	SAR	<i>Sukuk Al Ijarah</i>	533	10
2014	Saudi Telecom	1	Saudi Arabia	Corporate	SAR	Hybrid <i>Sukuk</i>	533	10
2014	Saudi Investment Bank	1	Saudi Arabia	Corporate	SAR	Hybrid <i>Sukuk</i>	533	10
2014	Government of Malaysia	2	Malaysia	Sovereign	MYR	<i>Sukuk Al Murabahah</i>	2,038	5
2014	DanaInfra Nasional Berhad	1	Malaysia	Corporate	MYR	<i>Sukuk Al Murabahah</i>	215	25
2014	Maybank	1	Malaysia	Corporate	MYR	<i>Sukuk Al Murabahah</i>	458	10
2014	Perbadanan Tabung Pendidikan Tinggi Nasional	1	Malaysia	Quasi-Sovereign	MYR	<i>Sukuk Al Murabahah</i>	547	10
2014	Khazanah Nasional Bhd	2	Malaysia	Quasi-Sovereign	MYR	<i>Sukuk Al Musharakah</i>	697	11
2014	Syarikat Prasarana Negara Berhad	1	Malaysia	Quasi-Sovereign	MYR	<i>Sukuk Al Murabahah</i>	457	5
2014	Government of Indonesia	1	Indonesia	Sovereign	IDR	<i>Sukuk Al Ijarah</i>	1,664	3
2014	Bank Negara Malaysia	1	Malaysia	Sovereign	MYR	<i>Sukuk Al Murabahah</i>	1,209	10
2014	National Commercial Bank	1	Saudi Arabia	Corporate	SAR	Hybrid <i>Sukuk</i>	1,300	5
2014	Bandar Malaysia Sdn Bhd	1	Malaysia	Corporate	MYR	<i>Sukuk Al Murabahah</i>	302	10
2014	Government of Turkey	1	Turkey	Sovereign	TRY	<i>Sukuk Al Ijarah</i>	602	2
2014	Government of Turkey	1	Turkey	Sovereign	TRY	<i>Sukuk Al Ijarah</i>	1,333	2
2014	Pengurusan Air	1	Malaysia	Quasi-Sovereign	MYR	<i>Sukuk Al Murabahah</i>	301	5
2014	TNB Western Energy Berhad	1	Malaysia	Corporate	MYR	Hybrid <i>Sukuk</i>	393	20
2014	Saudi Electricity Company	1	Saudi Arabia	Sovereign	SAR	<i>Sukuk Al Ijarah</i>	1,200	10
2014	Qatar Central Bank	2	Qatar	Sovereign	QAR	<i>Sukuk Al Murabahah</i>	3,018	4
2013	BGSM Management Sdn. Bhd.	6	Malaysia	Corporate	MYR	<i>Sukuk Al Musharakah</i>	1,843	4
2013	Saudi British Bank	1	Saudi Arabia	Corporate	SAR	Hybrid <i>Sukuk</i>	400	7
2013	Malakoff Power Sdn. Bhd.	1	Malaysia	Corporate	MYR	<i>Sukuk Al Murabahah</i>	204	6
2013	Saudi Hollandi Bank	1	Saudi Arabia	Corporate	SAR	Hybrid <i>Sukuk</i>	667	10

2013	UEM Land Holdings Berhad	1	Malaysia	Corporate	MYR	Sukuk Al Murabahah	214	5
2013	Bank Islam Malaysia Berhad	1	Malaysia	Corporate	MYR	Sukuk Al Murabahah	510	10
2013	Government of Malaysia	10	Malaysia	Sovereign	MYR	Sukuk Al Murabahah	9,335	8.65
2013	Riyad Bank	1	Saudi Arabia	Corporate	USD	Hybrid Sukuk	1,070	7
2013	DanaInfra Nasional Berhad	1	Malaysia	Corporate	MYR	Sukuk Al Murabahah	285	20
2013	Cagamas Berhad	31	Malaysia	Corporate	MYR	Hybrid Sukuk	633	15
2013	General Authority of Civil Aviation	1	Saudi Arabia	Sovereign	SAR	Sukuk Al Murabahah	4,056	10
2013	Government of Turkey	1	Turkey	Sovereign	TRY	Sukuk Al Ijarah	1,039	2
2013	Saudi Binladin Group	2	Saudi Arabia	Corporate	SAR	Sukuk Al Murabahah	614	1.75
2013	Government of Malaysia	3	Malaysia	Sovereign	MYR	Bai' Bithaman Ajil	3,587	7
2013	Marafiq Sukuk	1	Saudi Arabia	Corporate	SAR	Hybrid Sukuk	667	5
2013	Central Bank of Bahrain	1	Bahrain	Sovereign	BHD	Sukuk Al Ijarah	266	2
2013	Government of Indonesia	1	Indonesia	Sovereign	IDR	Sukuk Al Ijarah	526	30
2013	Sadara Chemical Company	1	Saudi Arabia	Corporate	SAR	Sukuk Al Musharakah	2,000	16
2013	Almarai Company	1	Saudi Arabia	Corporate	SAR	Hybrid Sukuk	347	Perpetual
2013	Government of Pakistan	1	Pakistan	Sovereign	PKR	Sukuk Al Ijarah	433	3
2013	Khazanah Nasional Bhd	1	Malaysia	Quasi-Sovereign	MYR	Sukuk Al Musharakah	321	8
2013	Perbadanan Tabung Pendidikan Tinggi Nasional	1	Malaysia	Quasi-Sovereign	MYR	Hybrid Sukuk	267	15
2013	Government of Indonesia	1	Indonesia	Sovereign	IDR	Sukuk Al Ijarah	1,567	3
2013	Government of Turkey	1	Turkey	Sovereign	TRY	Sukuk Al Ijarah	684	2
2013	Government of Turkey	1	Turkey	Sovereign	TRY	Sukuk Al Ijarah	866	2
2013	Savola Group	1	Saudi Arabia	Corporate	SAR	Hybrid Sukuk	400	7
2013	Malakoff Power Sdn. Bhd.	7	Malaysia	Corporate	MYR	Hybrid Sukuk	1,622	5.50
2013	Segari Energy Ventures Sdn. Bhd.	1	Malaysia	Corporate	MYR	Sukuk Al Murabahah	559	15
2013	Government of Sudan	1	Sudan	Sovereign	SDG	Sukuk Al Ijarah	753	4

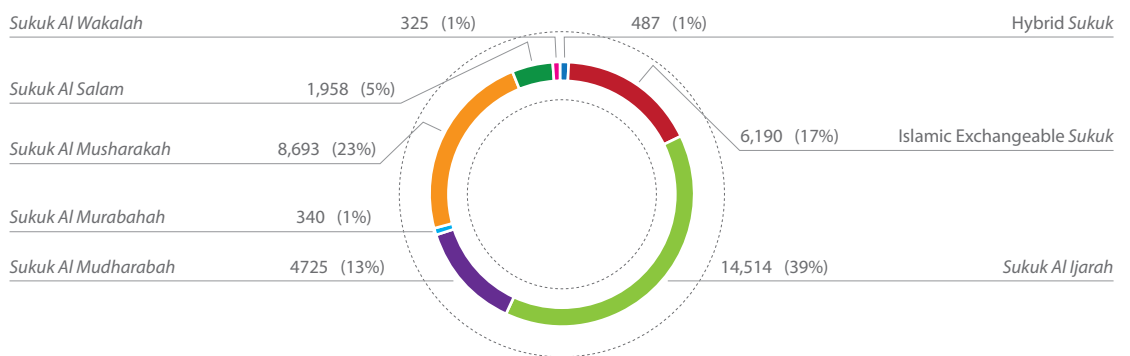
Source: IIFM Sukuk database, regulators & various sources

1.6 STRUCTURAL BREAK-UP OF GLOBAL SUKUK ISSUANCES

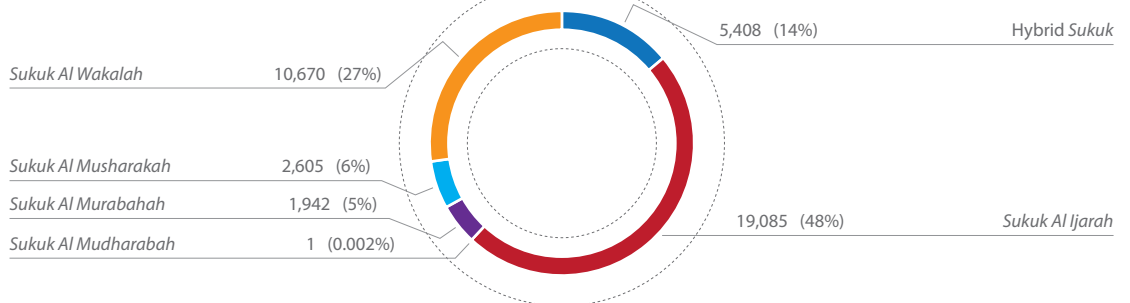
Sukuk Al Ijarah is the most popular and widely used structure for International *Sukuk* issuances while at domestic level *Sukuk Al Murabahah* continues to be the most used structure both in terms of value and volume and the reason for this is due to issuance by certain larger market share countries.

CHART 3A: STRUCTURAL BREAK-UP OF INTERNATIONAL SUKUK ISSUANCES (USD MILLIONS)

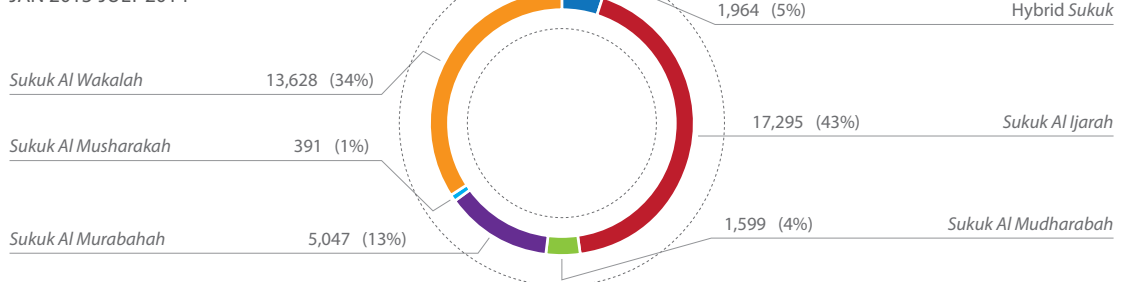
INTERNATIONAL SUKUK ISSUANCES 2001-2008



INTERNATIONAL SUKUK ISSUANCES 2009-2012



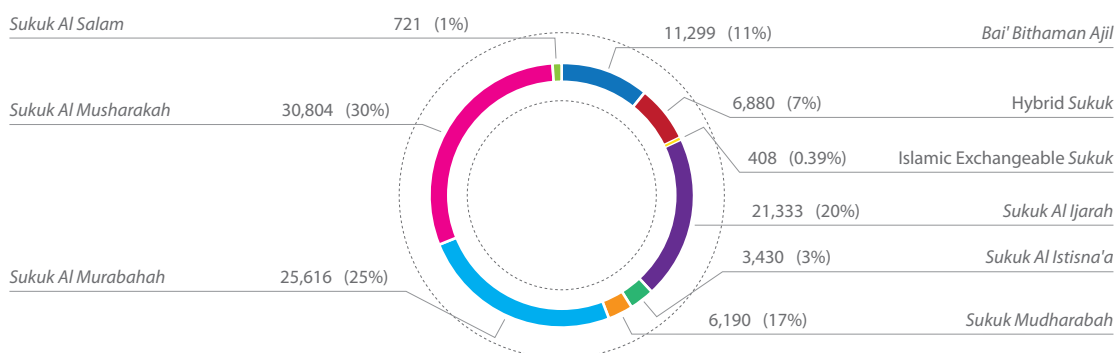
INTERNATIONAL SUKUK ISSUANCES JAN 2013-JULY 2014



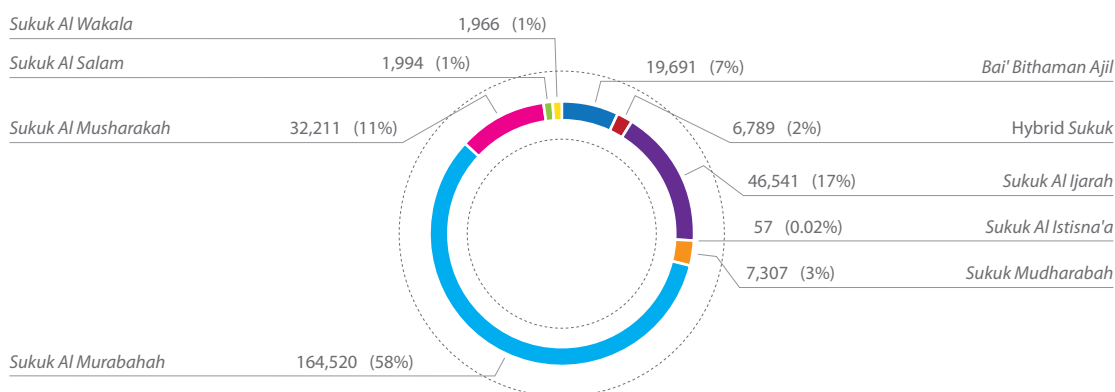
Source: IIFM Sukuk database, regulators & various sources

CHART 3B : STRUCTURAL BREAK-UP OF DOMESTIC SUKUK ISSUANCES (USD MILLIONS)

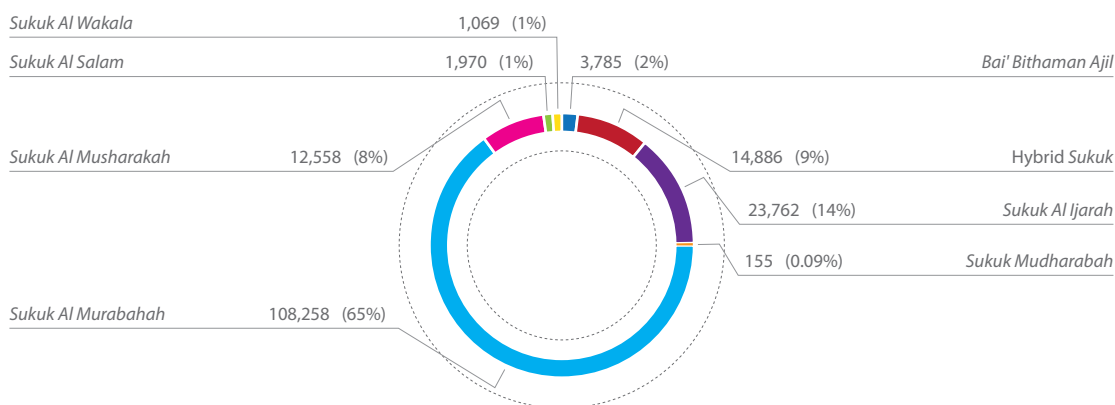
DOMESTIC SUKUK ISSUANCES 2001-2008



DOMESTIC SUKUK ISSUANCES 2009-2012

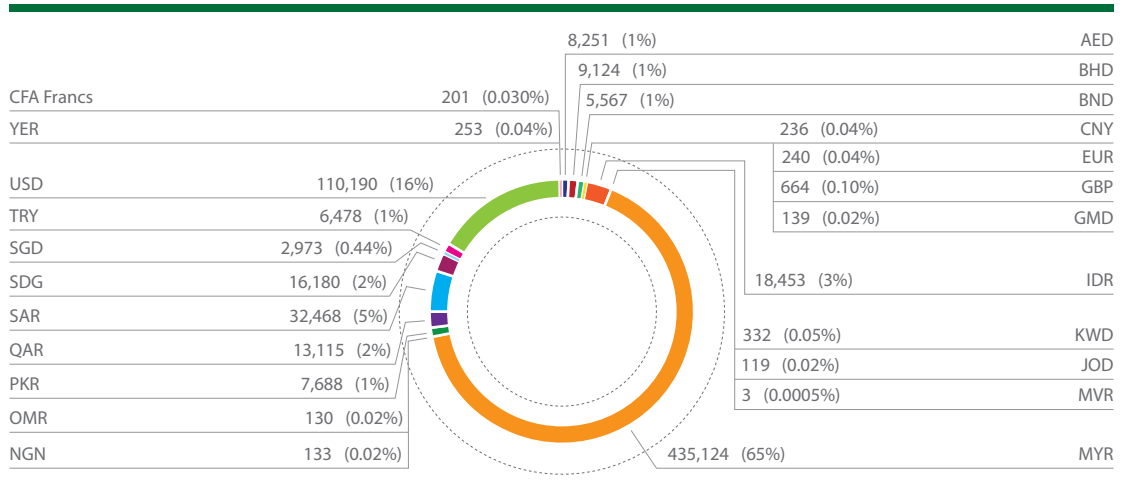


DOMESTIC SUKUK ISSUANCES JAN 2013-JULY 2014



Source: IIFM Sukuk database, regulators & various sources

CHART4: GLOBAL SUKUK ISSUANCE CURRENCY BREAK-UP (JAN 2001- JULY 2014, USD MILLIONS)

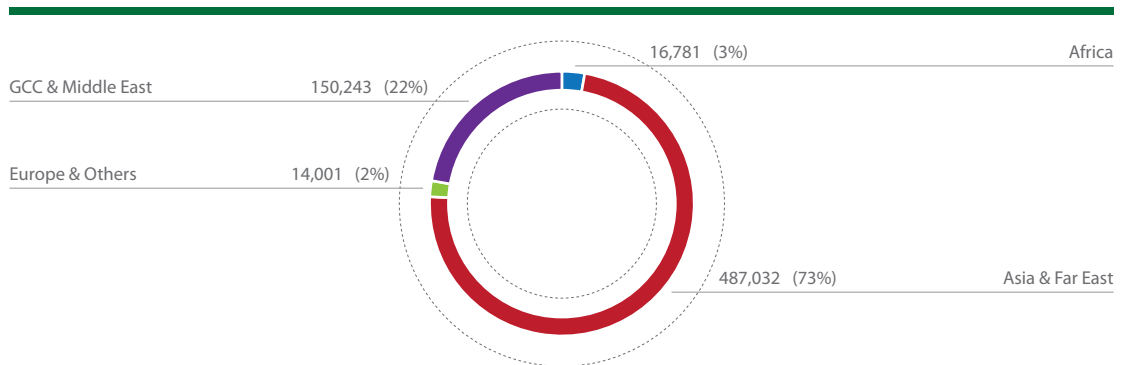


Source: IIFM Sukuk database, regulators & various sources

Malaysian Ringgit takes the first spot mainly due to its strong and deep local fixed income market. Malaysian market continue to attract some GCC institutions, Supra national Agencies and others to raise their funding needs in Malaysian Ringgit. These institution took advantage of the fine pricing due to local demands and the attractive currency swap rates that achieved lower yield as well as to diversify its investors. The entry of *Sukuk* issuances in currencies like Chinese Yuan, Turkish Lira, Singapore Dollar, Pound Sterling etc., is another positive development and will provide further boost to *Sukuk* market in coming years.

US Dollars continue to be the favored currency for attracting international investors around the globe. The industry will continue to see developments of local currency *Sukuk* in the comings year as more OIC countries develop their domestic *Sukuk* market. This trend is taking shape with Indonesia, Turkey, Pakistan and the GCC countries issuing local currency *Sukuk*. Sovereign or sovereign linked entities currently dominate issuance in these countries and this flow will continue, since the sovereign needs to fund its budget while also sets up the local benchmark curves.

CHART 5: GLOBAL SUKUK ISSUANCE REGIONAL BREAK-UP (JAN 2001- JULY 2014, USD MILLIONS)



Source: IIFM Sukuk database, regulators & various sources

1.7 SUKUK MATURITIES 2014 THROUGH TO 2016

This section provides a snapshot of up coming maturities from 2014 through to 2016 for both Domestic and International *Sukuk*. Analysing this sector provides a good landscape for *Sukuk* Investors and Bankers to see and judge the potential liquidity coming back from maturities while for bankers, it is a tool to plan ahead with the maturing *Sukuk* issuers, to discuss refinancing possibilities. Furthermore, a new issuance timing could be influenced by, say, a high volume of redemption that could be looking for reinvestment opportunities.

TABLE 9 A: INTERNATIONAL SUKUK MATURING 2014

ISSUE YEAR	ISSUER	ISSUER COUNTRY	CURRENCY	ISSUE TYPE	TYPE OF ISSUED SUKUK	AMOUNT (USD M)	TENOR (YEARS)	MATURITY DATE
2012	Axiata Berhad	Malaysia	CNY	Corporate	Hybrid <i>Sukuk</i>	158	2	30-Sep-14
2011	Gulf International Bank	Bahrain	USD	Corporate	<i>Sukuk Al Murabahah</i>	300	3	31-Dec-14
2009	General Electric	USA	USD	Corporate	<i>Sukuk Al Ijarah</i>	500	5	30-Nov-14
2009	Al Hilal Bank	USA	USD	Corporate	<i>Sukuk Al Ijarah</i>	100	5	30-Nov-14
2009	Government of Dubai	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,250	5	31-Oct-14
2009	Tourism Development Investment Company	United Arab Emirates	USD	Corporate	<i>Sukuk Al Ijarah</i>	1,000	5	31-Oct-14
2009	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	850	5	30-Sep-14
2009	Petroleum Nasional Bhd (Petronas)	Malaysia	USD	Corporate	<i>Sukuk Al Ijarah</i>	1,500	5	31-Aug-14
2009	Government of Ras Al Khaimah	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	400	5	31-Jul-14
2009	Government of Bahrain	Bahrain	USD	Sovereign	<i>Sukuk Al Ijarah</i>	750	5	30-Jun-14
2009	Government of Indonesia	Indonesia	USD	Sovereign	<i>Sukuk Al Ijarah</i>	650	5	30-Apr-14
2007	Berber Cement Co.	Sudan	USD	Corporate	<i>Sukuk Al Musharakah</i>	130	7	30-Sep-14
2005	Sanctuary Building	United Kingdom	GBP	Corporate	<i>Sukuk Al Musharakah</i>	261	9	31-Aug-14
Total Maturity Value						7,849		

Source: IIFM Sukuk database, regulators & various sources

TABLE 9 B: INTERNATIONAL SUKUK MATURING 2015

ISSUE YEAR	ISSUER	ISSUER COUNTRY	CURRENCY	ISSUE TYPE	TYPE OF ISSUED SUKUK	AMOUNT (USD M)	TENOR (YEARS)	MATURITY DATE
2010	Abu Dhabi Islamic Bank	United Arab Emirates	USD	Corporate	<i>Sukuk Al Musharakah</i>	750	5	31-Oct-15
2010	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	500	5	31-Oct-15
2010	Qatar Islamic Bank	Qatar	USD	Corporate	Hybrid <i>Sukuk</i>	750	5	31-Oct-15
2010	Khazanah Nasional Bhd	Malaysia	SGD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	441	5	31-Aug-15
2010	National Bank of Abu Dhabi	United Arab Emirates	MYR	Corporate	<i>Sukuk Al Murabahah</i>	155	5	30-Jun-15
2010	Dar Al Arkan Real Estate Development Company	Saudi Arabia	USD	Corporate	<i>Sukuk Al Wakalah</i>	450	5	31-Jan-15
Total Maturity Value						3,046		

Source: IIFM Sukuk database, regulators & various sources

TABLE 9 C: INTERNATIONAL SUKUK MATURING 2016

ISSUE YEAR	ISSUER	ISSUER COUNTRY	CURRENCY	ISSUE TYPE	TYPE OF ISSUED SUKUK	AMOUNT (USD M)	TENOR (YEARS)	MATURITY DATE
2013	Golden Assets International Finance	Indonesia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	1,000	3	31-Mar-16
2011	Abu Dhabi Commercial Bank	United Arab Emirates	USD	Corporate	<i>Hybrid Sukuk</i>	500	5	30-Nov-16
2011	Kuveyt Türk Katılım Bankası	Turkey	USD	Corporate	<i>Hybrid Sukuk</i>	350	5	31-Oct-16
2011	Gulf Investment Corporation	Kuwait	MYR	Corporate	<i>Sukuk Al Wakalah</i>	254	5	3-Aug-16
2011	First Gulf Bank	United Arab Emirates	USD	Corporate	<i>Hybrid Sukuk</i>	650	5	2-Aug-16
2011	Almana Group	Qatar	USD	Corporate	<i>Sukuk Al Wakalah</i>	215	5	28-Jul-16
2011	Government of Malaysia	Malaysia	USD	Sovereign	<i>Sukuk Al Wakalah</i>	1,200	5	31-Jul-16
2011	HSBC Bank Middle East Limited	United Arab Emirates	USD	Corporate	<i>Hybrid Sukuk</i>	500	5	2-Jun-16
2011	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	750	5	25-May-16
2011	Sharjah Islamic Bank	United Arab Emirates	USD	Corporate	<i>Sukuk Al Wakalah</i>	400	5	25-May-16
2011	Gulf Investment Corporation	Kuwait	MYR	Corporate	<i>Sukuk Al Wakalah</i>	197	5	1-Mar-16
2007	Sharjah Electricity and Water Authority	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al Ijarah</i>	350	9	29-Feb-16
2006	Qatar Real Estate Investment Company	Qatar	USD	Corporate	<i>Sukuk Al Musharakah</i>	270	10	30-Sep-16
Total Maturity Value						6,636		

Source: IIFM Sukuk database, regulators & various sources

Cross border International *Sukuk* Maturities in 2014 to 2016 is relatively light as the medium term new issuance in 2009 & 2011 was quite subdued since the market was yet to come out from the global financial crisis woes, moreover, entry of several new jurisdictions in *Sukuk* market since 2012 have negated any negative impact on outstanding *Sukuk*.

TABLE 10 A: DOMESTIC SUKUK MATURING 2014

ISSUE YEAR	ISSUER	ISSUER COUNTRY	CURRENCY	ISSUE TYPE	TYPE OF ISSUED SUKUK	AMOUNT (USD M)	TENOR (YEARS)	MATURITY DATE
2013	UMW Holdings	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	168	1.5	30-Nov-14
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	232	1.25	30-Apr-14
2012	Government of Turkey	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	905	2	2-Oct-14
2011	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	785	3	25-Dec-14
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	958	2.75	30-Sep-14
2011	MISC Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	160	3	30-Sep-14
2011	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	207	3	31-Jul-14
2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	164	3	30-Jun-14
2011	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	537	3	8-May-14
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,322	3.5	30-Sep-14
2011	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	555	3	28-Feb-14
2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	395	3	28-Feb-14
2011	Padiberas Nasional Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	114	3	31-Jan-14
2011	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Ijarah</i>	9,067	3	16-Jan-14

2010	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	219	4	7-Oct-14
2010	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	313	4	9-Aug-14
2009	Dar Al Arkan	Saudi Arabia	SAR	Corporate	<i>Sukuk Al Ijarah</i>	200	5	31-May-14
2009	Khazanah Nasional Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Musharakah</i>	303	5	30-Apr-14
2009	Penerbangan Malaysia Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	406	5	31-Mar-14
2009	Government of Sudan	Sudan	SDG	Sovereign	<i>Hybrid Sukuk</i>	125	5	31-Jan-14
2007	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	2,890	7	30-Jun-14
2007	Silterra Malaysia Sdn.Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	529	7	30-Jun-14
2007	Nucleus Avenue Malaysia Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	205	7	30-Apr-14
2007	Kuala Lumpur Sentral Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	208	7	30-Apr-14
2006	Perwaja Steel Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	105	8	30-Sep-14
2005	Golden Crop Returns Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	116	8.5	30-Apr-14
2005	Bayu Padu Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Istisna'a</i>	132	9	31-Aug-14
2004	Optimal Chemicals Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	149	10	30-Sep-14
2004	Optimal Glycols	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	119	10	30-Sep-14
2004	Sarawak Specialist Hospital & Medical Centre Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Istisna'a</i>	112	10	30-Sep-14
2004	Gas Malaysia	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	184	10	30-Sep-14
2004	Government of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al Ijarah</i>	106	10	31-Jul-14
Total Maturity Value						21,990		

Source: IIFM Sukuk database, regulators & various sources

TABLE 10 B: DOMESTIC SUKUK MATURING 2015

ISSUE YEAR	ISSUER	ISSUER COUNTRY	CURRENCY	ISSUE TYPE	TYPE OF ISSUED SUKUK	AMOUNT (USD M)	TENOR (YEARS)	MATURITY DATE
2013	BGSM Management Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	278	2	31-Dec-15
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	134	2	31-Dec-15
2013	Government of Turkey	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	1,039	2	31-Aug-15
2013	Saudi Binladin Group	Saudi Arabia	SAR	Corporate	<i>Sukuk Al Murabahah</i>	347	2.5	31-Oct-15
2013	Hazine Mustesarligi Varlik Kiralama Anonim Sirketi	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	684	2	28-Feb-15
2013	Government of Turkey	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	866	2	28-Feb-15
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	232	2.25	30-Apr-15
2012	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	188	3	21-Dec-15
2012	Celcom Transmission Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	160	3	28-Aug-15
2012	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	515	3	27-Jun-15
2012	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	325	3	29-Apr-15
2012	AJIL Financial Services Company	Saudi Arabia	SAR	Corporate	<i>Hybrid Sukuk</i>	133	3	14-Apr-15
2012	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	116	3	27-Mar-15
2012	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	1,420	3	21-Mar-15
2012	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	418	3	1-Mar-15
2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	131	4	30-Jun-15
2011	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	766	3	23-Feb-15
2011	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	626	3	11-Feb-15
2010	PADIBERAS Nasional Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	129	5	30-Sep-15

2010	PTP	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	162	5	30-Sep-15
2010	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	157	5	30-Apr-15
2010	Danga Capital Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	652	5	30-Apr-15
2008	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	279	7	31-Aug-15
2008	Muhibbah Engineering Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Mudharabah</i>	126	7	30-Apr-15
2007	Saudi Electricity Company	Saudi Arabia	SAR	Corporate	<i>Hybrid Sukuk</i>	1,333	8	31-Jul-15
2007	Nucleus Avenue Malaysia Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	205	8	30-Apr-15
2005	Maybank	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	263	10	30-Nov-15
2004	Putrajaya Holdings Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	395	11	30-Apr-15
2003	Expressway Lingkar Tengah Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	211	12	28-Feb-15
Total Maturity Value						12,290		

Source: IIFM Sukuk database, regulators & various sources

TABLE 10 C: DOMESTIC SUKUK MATURING 2016

ISSUE YEAR	ISSUER	ISSUER COUNTRY	CURRENCY	ISSUE TYPE	TYPE OF ISSUED SUKUK	AMOUNT (USD M)	TENOR (YEARS)	MATURITY DATE
2014	Hazine Mustesarligi Varlik Kiralama Anonim Sirketi	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	602	2	29-Feb-16
2014	Government of Turkey	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	1,333	2	29-Feb-16
2013	BGSM Management Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	325	3	31-Dec-16
2013	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Murabahah</i>	137	3	30-Sep-16
2013	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	1,251	3	31-Jul-16
2013	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Murabahah</i>	137	3	30-Jun-16
2013	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	147	3	31-May-16
2013	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	433	3	31-Mar-16
2013	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	424	3	31-Mar-16
2013	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	1,567	3	29-Feb-16
2013	UMW Holdings	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	142	3	29-Feb-16
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	232	3.25	30-Apr-16
2012	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,127	4	8-Feb-16
2011	Manjung Island Energy Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	113	5	30-Nov-16
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,333	5	30-Sep-16
2011	Nakheel Group	United Arab Emirates	AED	Corporate	<i>Sukuk Al Ijarah</i>	1,034	5	25-Aug-16
2011	SapuraKencana Petroleum	Malaysia	MYR	Corporate	<i>Sukuk Al Mudharabah</i>	158	5	5-Aug-16
2011	Kencana Petroleum Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Mudharabah</i>	167	5	31-Aug-16
2011	Sarawak Energy	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	165	5	30-Jun-16
2011	Saudi International Petrochemical Company	Saudi Arabia	SAR	Corporate	<i>Sukuk Al Mudharabah</i>	480	5	18-Jun-16
2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	459	5	30-Jun-16
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,322	66	30-Nov-16
2011	Government of Sudan	Sudan	SDG	Sovereign	<i>Hybrid Sukuk</i>	286	5	31-May-16

2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	169	5	30-Apr-16
2011	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	131	5	29-Feb-16
2011	First Investment Company	Kuwait	KWD	Corporate	<i>Sukuk Al Wakalah</i>	332	5	20-Feb-16
2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	329	5	29-Feb-16
2010	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	160	6	31-Oct-16
2009	Khazanah Nasional Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Musharakah</i>	138	7	30-Apr-16
2007	Nucleus Avenue Malaysia Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	205	9	30-Apr-16
2006	Khazanah Nasional Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Musharakah</i>	565	10	31-Dec-16
2006	Bank Pembangunan Malaysia	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	921	10	30-Apr-16
2003	New Pantai Expressway Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	128	13	31-Oct-16
Total Maturity Value						16,452		

Source: IIFM Sukuk database, regulators & various sources

Largest Domestic *Sukuk* to mature in 2014 being USD 9 billion worth of Qatari Riyal from Government of Qatar, followed by Malaysia which is no surprise as it is the biggest domestic *Shari'ah* fixed income market globally. Maturity of Government of Malaysia and Cagamas being the biggest then followed by USD 905 million worth of Turkish Lira from the Government of Turkey. The International *Sukuk* expected redemption in second half of 2014 is reasonably high at around USD 6 billion, but with ample liquidity and possible refinancing, this should be manageable.

2015 Redemption for International *Sukuk* is very modest at around USD 3 billion of which almost USD 2 billion is from GCC based banks and the USD 900 million from Islamic Development Bank and Khazanah. With such low redemption and healthy pipeline of International *Sukuk*, we should expect to cross the USD 100 billion of outstanding *Sukuk* in 2015. In the Domestic market, three countries, each are facing redemption of approximately USD 3 billion viz Malaysia (USD 3.5 billion), Indonesia (USD 3.1 billion) and Turkey (USD 2.9 billion).

2016 sees heavy redemption both in the International *Sukuk* Market (USD 7.4 billion), once again dominated with GCC banks redemptions while Government of Malaysia, Sharjah Electricity & Water Authority and Islamic Development Bank make up USD 2.3 billion of the total. The picture is no different in the Domestic *Sukuk* market which has a total redemption of USD 16.4 billion. Of this, almost 50% the redemption is in the Malaysian domestic market, forecasted at USD 9.7 billion.

1.8 SHORT-TERM SUKUK MARKET

Short-term *Sukuk* with maturity of 1 year or less are essential in the development of Islamic Inter-bank market and they play a key role in the liquidity management of the financial institutions. Malaysia remains the leader in domestic short-term *Sukuk* issuances followed by Sudan, Bahrain and Brunei Darussalam. Indonesia is showing sign of playing a leading issuance role in this type of *Sukuk* and is a country to watch in coming years. Moreover, entry of International Islamic Liquidity Management Corporation (IILM) in short-term *Sukuk* market is another positive step particularly for liquidity management purposes. Gambia's regular issuance of short-term *Sukuk* is also worth mentioning.

The appetite for short-term *Sukuk* is far greater than longer tenor *Sukuk* as evident by these issuers. The trend towards issuing shorter tenor *Sukuk* is increasing and is driven by sovereign issuers through central banks. Malaysian and some GCC corporate issuers are getting in this segment of the *Sukuk* market and are providing diversity and depth to the local markets which is essential in the development of money market.

Bahrain has kept its leading role in short-term *Sukuk* issuances and its regular issuances are always

oversubscribed. The outlook for short-term *Sukuk* is encouraging and it is expected this segment will continue its growth trend. Moreover, IILM has kept renewal of its 3 month ST *Sukuk* issuance on a regular basis and in August IILM have added to the shortend yield curve by introducing a 6 month tenor *Sukuk*.

The following table illustrates the total short-term *Sukuk* issuance globally with a tenor of 1 year or less during the period of January 2001 – July 2014:

TABLE 11: TOTAL GLOBAL SHORT-TERM SUKUK ISSUANCES (JAN 2001 - July 2014, MATURITY 12 MONTHS OR <)

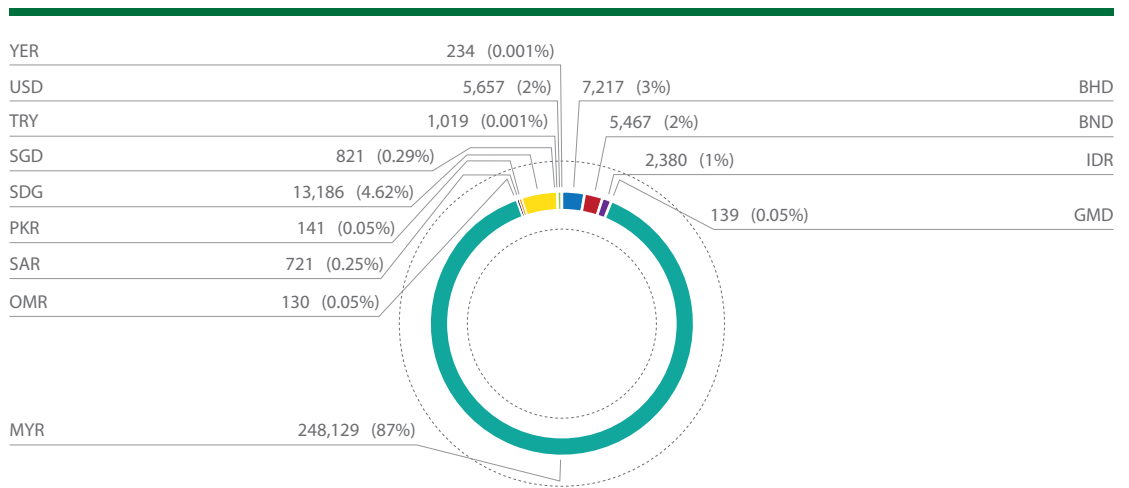
COUNTRY / ISSUER	NUMBER OF ISSUES	VALUE (USD MILLIONS)	% OF TOTAL VALUE
Malaysia	2,100	247,832	87%
Sudan	13	13,186	5%
Bahrain	254	9,195	3%
Brunei Darussalam	104	5,467	2%
Indonesia	37	2,380	1%
Oman	1	130	0.05%
Saudi Arabia	4	759	0.27%
Gambia	221	139	0.05%
Pakistan	8	141	0.05%
Singapore	3	221	0.08%
Turkey	12	1,019	0.36%
Yemen	1	234	0.08%
IILM	7	4,540	1.59%
Total	2,765	285,242	100%

Source: IIFM Sukuk database, regulators & various sources

The following chart illustrates the currency wise break down of short-term *Sukuk* issuances. Though Malaysia, Sudan & Bahrain leads the table of short-term issuers, however; several countries such as Indonesia has also started regular issuance of short-term *Sukuk* program which will greatly help the liquidity management requirement of Islamic institutions.

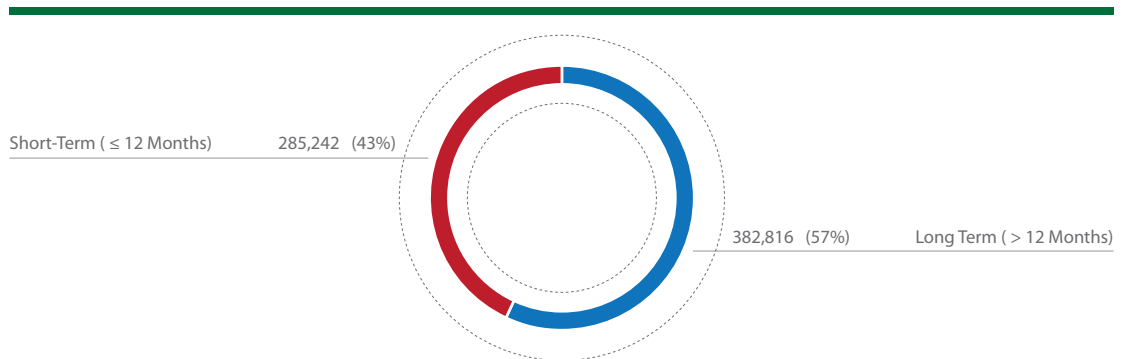
Bahrain is the first jurisdiction which started the regular issuance of short-term *Sukuk* in Bahraini Dinars and US Dollars and it continues to improve on its *Sukuk* issuance plan while Indonesia, Turkey and Pakistan are the recent entrant in this *Sukuk* market segment.

CHART 7 A: TOTAL GLOBAL SHORT-TERM *SUKUK* ISSUANCES BY ALL CURRENCIES (JAN 2001 – JULY 2014, USD MILLIONS)



Source: IIFM Sukuk database, regulators & various sources

CHART 7 B: COMPARISON BETWEEN GLOBAL SHORT-TERM *SUKUK* AND LONGER TENOR *SUKUK* ISSUANCE (JAN 2001 – JULY 2014, USD MILLIONS)



Source: IIFM Sukuk database, regulators & various sources

The share of short-term *Sukuk* market is 43% or USD 285 billion while the longer tenor *Sukuk* issuances is 57% or USD 382 billion of the global *Sukuk* market.

Which shows the importance of short-term *Sukuk* market particularly for liquidity management purposes.



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SUCCESS IN HARMONY

CASE STUDIES: RECENT DEVELOPMENTS IN THE SUKUK MARKET

2.1 THE ADVENT OF INFRASTRUCTURE SUKUK

The year 2012 saw the launch of the world's first project based *Sukuk* by Saudi oil giant Aramco. In collaboration with French oil company Total, Aramco launched a SAR denominated *Sukuk* worth USD 1 billion in order to finance construction of the Jubail oil refinery. The *Sukuk* was well received by the market and was followed by a similar *Sukuk* of bigger size, this time in collaboration with another international giant Dow Chemicals, to fund construction of the Sadara chemical complex in 2013.

Globally, investors are turning towards conventional infrastructure bonds as an emerging asset class that promises longer tenors and stable returns. According to the 2014 Preqin Global Infrastructure Report, "...the demand for infrastructure development across the world has continued to increase even though we are seeing reduced economic growth in many countries. Demand for clean water, electricity, improved transport systems, education and healthcare improvements increase, as the global population expands. 2013 has been the turning point for a new certainty in infrastructure development and governments recognize that investment in infrastructure (whether public or private) creates jobs, which creates growth. In 2013, we have seen more and more countries using project finance to develop infrastructure...".

In a separate Preqin report, it is revealed that there were 689 infrastructure deals completed last year with an aggregate value of \$302 billion. Fund managers said energy was the most attractive sector during the year, followed by transport and renewable energy. The Islamic infrastructure financing market stands in sharp contrast to the broad infrastructure bond market for now; however, we hope to see more such *Sukuk* in future. To shed the light on this type of *Sukuk* in the Islamic infrastructure financing market, Sadara Basic Services Company of Saudi Arabian Oil Company, most popularly known as Aramco is selected as a case study.

SAUDI ARAMCO SADARA BASIC SERVICES COMPANY: MUSHARAKAH/IJARAH BASED SUKUK

ABSTRACT

Sadara *Sukuk* is the second project based or infrastructure based *Sukuk* to be issued by Saudi Aramco through its subsidiary Sadara Chemical Company (Managing Partner in the *Musharakah* structure). The issuance of this *Sukuk* along with its predecessor, the Saudi Aramco Total Refining and Petrochemical Company (Satorp) *Sukuk*, marks the beginning of a golden chapter in *Sukuk* history – the advent of infrastructure *Sukuk*. The following case study will highlight the salient features of the Sadara *Sukuk*, local currency denominated, amounting to SAR 7.5 billion, or the equivalent of USD 2 billion, issued in April 2013. The *Sukuk* forms part of a multi-billion debt package required to fund construction of a world-scale fully integrated performance chemicals and plastics complex, at an estimated cost of USD19.3 billion (SAR72.4 billion) to be located in Jubail Industrial City II on the east coast of the Kingdom of Saudi Arabia. Once completed, the complex is expected to be one of the world's largest integrated chemical facilities, and the largest ever built in a single phase. First production units are expected to come on line in the second half of 2015, with all production units coming on line in 2016. The *Sukuk* are floating rate with a tenor of approximately sixteen years as *Sukuk* certificates may be partially redeemed by the issuer after the 5th anniversary. The *Sukuk* investors will receive an expected return of 6 month SAIBOR plus 95 basis points per annum, to be distributed semi-annually.

SUKUK SUMMARY

SPV	Sadara Basic Services Company
Structure type	<i>Musharakah / Ijarah</i>
Issue size	SAR 7.5 billion (USD 2 billion)
Issue Date	02-April-2013
Maturity date	02-April-2029
Return	6 month SAIBOR + 95 bps
Fix or Variable	Floating
Return frequency	Semi-annual
Book Runners	Riyad capital, Deutsche Securities, Alinma Investment Company, Albilad Investment Company
Listing	Saudi Stock Exchange (Tadawul)
ISIN RegS	SA13AOP145J6

INSTITUTION BACKGROUND

Sadara basic services company, established in October 2011 is a limited liability company developed by Saudi Arabian Oil Company and The Dow Chemical Company. It is a Saudi closed joint stock company incorporated under the laws of the Kingdom of Saudi Arabia. It is registered in the commercial register of the City of Jubail, with commercial registration number 2055018374 .

Saudi Arabian Oil Company (Aramco) is a fully integrated, global petroleum enterprise and a world leader in oil exploration, production, refining, distribution, shipping and marketing. It is wholly-owned by the Government, headquartered in Dhahran, The Kingdom of Saudi Arabia and employs more than 50,000 people worldwide.

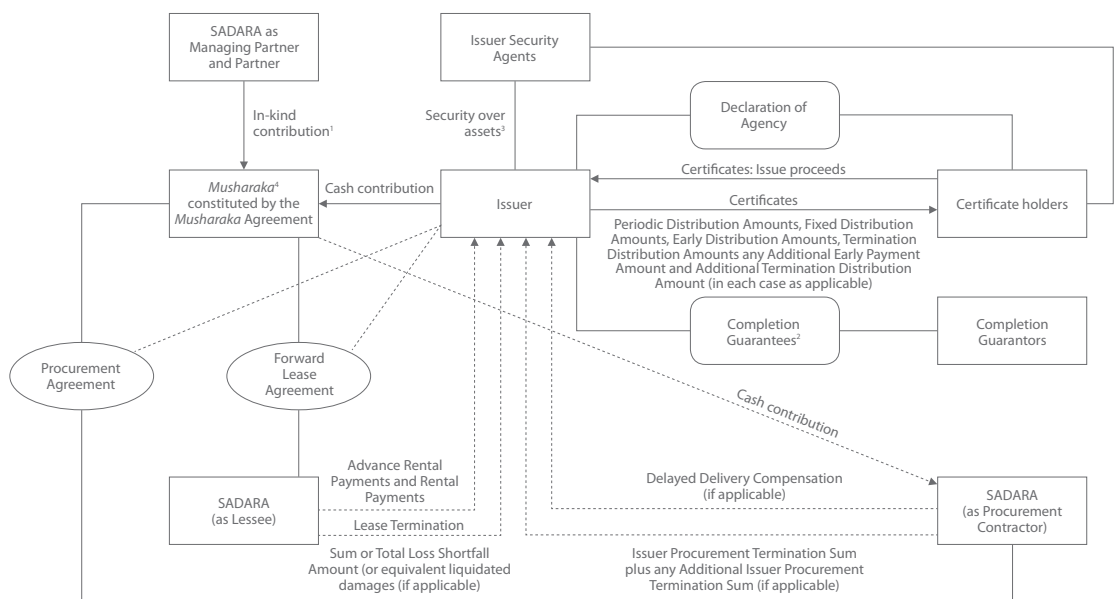
Saudi Aramco manages the largest proven reserves of conventional crude oil, and manages the fourth largest gas reserves in the world.

Dow Chemicals is the world's leading specialty chemicals and advanced materials company. Its portfolio of specialty chemicals, advanced materials, agro sciences, and plastics businesses delivers a broad range of technology based products and solutions to customers in approximately 160 countries and in high-growth sectors such as electronics, water, energy, coatings and agriculture. In 2012, Dow employed approximately 54,000 people worldwide. Dow has 188 manufacturing sites in 36 countries and produces approximately 5,000 products.

SUKUK STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is the structure diagram of the transaction and description of the principal cash flows underlying the transaction of the Sadara Sukuk:

STRUCTURE DIAGRAM



1. Assignment of Sadara's rights, benefits and settlements in, to and under the Industrial Land Lease Contract.

2. Prior to the Project Completion Date, Saudi Aramco, DOW and DEH will guarantee the obligations of Sadara to the Issuer under (inter alia) the Sukuk Transaction Documents.

3. The Issuer's assets will primarily consist of its contractual rights under the Sukuk Faulty Documents and the other Transaction Documents to which it is a party or under which it has rights, and the balances standing from time to time to the credit of its Transaction Account for a summary of the security interests granted by the Issuer over its assets, see further the section of this Prospectus entitled "Summary of the Sukuk Transaction Documents - Issuer Security Documents".

4. The Partners and Managing Partner of the Musharaka have appointed the Musharaka Authorised Agent to enter into the Procurement Agreement, the Forward Lease Agreement and the Service Agency Agreement on their behalf and in their name.

DIAGRAM EXPLANATION AND CASH FLOWS

- Parties involved under the Sukuk structure are the Special purpose Vehicle or the Issuer, Sadara Basic Services Company, and Sadara Chemicals, both of whom are partners in the Musharakah agreement, with the latter being the managing partner. The Issuer paid the proceeds of the Sukuk issue in cash as its capital contribution to the Musharakah. Simultaneously, Sadara made an in-kind contribution of all of its rights, benefits and entitlements in and to the Contribution Assets" to the Musharakah with a valuation of approximately SAR202.7 million.
- The Issuer and Sadara are co-Lessors under the Forward Lease Agreement while Sadara also acts as Lessee. Sadara is nominated as procurement contractor and Service contractor under the Procurement Agreement and the Service Agency Agreement respectively in order to take necessary steps to procure the construction and delivery of the project assets and to carry out maintenance of the lease assets. Under the Forward Lease Agreement, the Co-Lessors agree to lease the Lease Assets to Sadara. The Lease Assets are the Issuer's proportional interest in and entitlement to the Project Assets as at the date

of the Forward Lease Agreement. In consideration for the lease of the Lease Assets, the Lessee (Sadara will agree to make Advance Rental payments and Rental Payments to the Issuer/SPV by paying such amounts into the Transaction Account. This will form the basis of the periodic distributions from the issuer to the *Sukuk* holders.

- 3 Pursuant to Completion Guarantees, prior to and excluding the Project Completion Date, Saudi Aramco and DEH will guarantee (up to their respective Relevant Proportion) the obligations of Sadara to pay principal, commission, premia and other financing costs payable to the Guarantee Beneficiaries, and in particular, in the context of the Certificates, the obligations of Sadara to make payments under the Forward Lease Agreement, the *Musharakah* Agreement, the Procurement Agreement, the Costs Undertaking and the *Sukuk* Promissory Notes. Pursuant to the Dow Secondary Completion Guarantee, Dow will guarantee the payment obligations of DEH under the DEH Primary Completion Guarantee. DEH is a wholly-owned indirect subsidiary of Dow. The objects of DEH are to act as a holding company, including, but not limited to, the participation in and the management and financing of other companies. DEH acts as the primary guarantor to Sadara's obligations pursuant to the DEH Primary Completion Guarantee, which is in turn guaranteed by Dow under the Dow Secondary Completion Guarantee. In addition, DEH acts as a significant technology provider to the Project.
- 4 Sadara is permitted, upon satisfying certain specified conditions, to raise additional senior debt following the completion of the relevant Expansion Facility in the form of Expansion Debt, Additional CapEx Debt, etc.
- 5 On the Scheduled Termination Date, the Lessee will have paid all the Advance Rental Payments and Rental Payments (or Delayed Delivery Compensation in lieu thereof) on a "lease to own" basis and will, as a result, taking into account any and all Fixed Compensation Payments (under the Procurement Agreement), Fixed Rental Payments (under the Forward Lease Agreement) and Early Payment Amounts (under either the Forward Lease Agreement, the Procurement Agreement, or both (as applicable) previously paid, acquire the Issuer's remaining ownership interest in the Lease Assets. Upon payment of the final Rental Payment to the Issuer, on the Scheduled Termination Date the Certificates will be redeemed in full at their applicable Termination Distribution Amount by the Issuer. Upon redemption of the Certificates in full, the Issuer will have no further rights and / or entitlements in and to the *Musharakah* Assets, and the *Musharakah* Assets then in existence will then vest in Sadara without further formality and the *Musharakah* will be dissolved. The Certificates are redeemable prior to the Scheduled Termination Date in whole but not in part in certain circumstances detailed in the prospectus.

PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

- The *Musharakah* Agreement.
- The procurement Agreement,
- The Forward Lease Agreement,
- The Service Agency Agreement,
- *Sukuk* promissory Notes,
- Completion Guarantees and
- gcta and Intercreditor Agreement.

GEOGRAPHIC DISTRIBUTION OF INVESTORS

The *Sukuk* was only offered to Saudi Arabian investors.

CONCLUSION

The Sadara *Sukuk* was well-received by Saudi investors due to the nature of the *Sukuk* as well as the strong backing by formidable sponsors, so much so that the issue size was increased from the original target of SAR 5.25 billion to SAR 7.5 billion. We hope to see more infrastructure financing *Sukuk* from other governments and government owned entities in future.

REFERENCES

SadaraWebsite: <http://www.sadarabasicservicescompany.com/> ; Prospectus of Sadara Basic Services Company ; Press Release from Sadara website titled "Sadara announces successful closing of the its *Sukuk* which was oversubscribed by 2.6 times" ; News Item titled "Sadara ups *Sukuk* to SR 7.5 billion on oversubscribed book" dated 02 April 2013, downloaded from www.islamicfinanceservice.com/Article/3193459/News/... ; News Item titled "Saudi Aramco, Dow JV raises \$2 billion from *Sukuk* sale" dated 02 April 2013, downloaded from <http://www.reuters.com/article/2013/04/02...> ; Data and comments on global infrastructure bond market taken from the 2014 Preqin Global Infrastructure Report.

2.2 SUKUK WITH MULTICURRENCY DENOMINATIONS

Malaysia has been the pioneer in Islamic finance, especially with regards to *Sukuk* issuance. It is one of the few countries which have developed a comprehensive financial system that operates in parallel to the conventional system. Among other innovations, Malaysia has also pioneered the ability to issue *Sukuk* tranches in multiple currencies. The structure allows great flexibility to borrowers doing business around the world and generating their revenues and expense streams in different currencies and hence having to meet financing needs in different currencies.

The first such *Sukuk* was launched by Axiata Group Berhad, issued under Axiata's Multi-Currency *Sukuk* Programme with an aggregate nominal value of up to USD1.5 billion or its equivalent in other currencies established on 17 July 2012. The *Sukuk* structure was based on the *Shari'ah* principle of *Wakalah*. The *Sukuk* was the first RMB denominated *Sukuk* of its kinds to utilize only airtime vouchers as underlying assets. The Axiata *Sukuk* was followed by the inaugural issue by Sime Darby Berhad of 5-year and a 10-year tranches of USD 400 million each, as part of its US\$1.5 billion Multi-Currency *Sukuk* Issuance Programme. This landmark transaction represented the lowest ever coupon by any corporate globally in the USD *Sukuk* market in both the 5 year and 10 year tenors at the time of its issuance. The latest in this line of offerings is Malaysia's Export Import Bank's multicurrency *Sukuk*

programme of USD 1.5 billion issued in 2014. Below is a case study on this recent issue with the ability of issuing tranches in multiple currencies.

EXPORT-IMPORT BANK OF MALAYSIA BERHAD (MEXIM BANK)

WAKALAH BIL ISTITHMAR BASED SUKUK

ABSTRACT:

This case study aims to highlight the successful issuance of the first ever *Sukuk* by Export-Import Bank of Malaysia (MEXIM), as part of its USD 1 billion Multicurrency *Sukuk* Issuance Programme. This particular series of *Sukuk* is denominated in dollars and amounts to USD 300 million. The issuance of this *Sukuk* marks the first medium term international *Sukuk* issue in 2014.

SUKUK SUMMARY

<i>Sukuk</i> Issuer	Exim <i>Sukuk</i> Malaysia Berhad
<i>Sukuk</i> Obligor	Export-Import Bank of Malaysia Berhad ("MEXIM")
Structure type	<i>Sukuk Al Wakalah bil Istithmar</i>
Issue size	USD 300 million
Issue Date	10-Feb-2014
Maturity date	10-Feb-2019
Return	2.874%
Fix or Variable	Fixed
Pricing= Spread over mid-swaps	140 bps over US Treasuries
Book Runners	HSBC Amanah, CIMB Islamic, BNP Paribas, Maybank Investment Bank
Listing	Singapore Stock Exchange, Labuan Financial Exchange
Rating	A- By Fitch, A3 by Moody's and A by RAM Rating Services

INSTITUTION BACKGROUND

Export-Import Bank of Malaysia Berhad (MEXIM Bank) falls under the category of a Development Financial Institution (DFI) and is wholly owned by the Government of Malaysia through shareholding by the Ministry of Finance and Malaysia’s Federal Lands Commissioner. The Bank was initially established in 1995 as the “International Division” of Bank Industri Malaysia Berhad (“BIM”). The Bank was subsequently spun off as an independent institution in 2005 to function as an independent DFI focused on export

credit. On 30 December 2005, the Bank merged with Malaysia Export Credit Insurance Berhad, retaining the name Export-Import Bank of Malaysia Berhad.

MEXIM Bank was established to promote reverse investment and export of strategic sectors such as capital goods, infrastructure projects, shipping, value added manufactured products and to facilitate the entry of Malaysian companies to new markets, particularly to the non-traditional markets.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is the structure diagram and brief explanation of the structure and principal cash flows to assist in understanding the transaction documents relating to such a structure.

STRUCTURE DIAGRAM

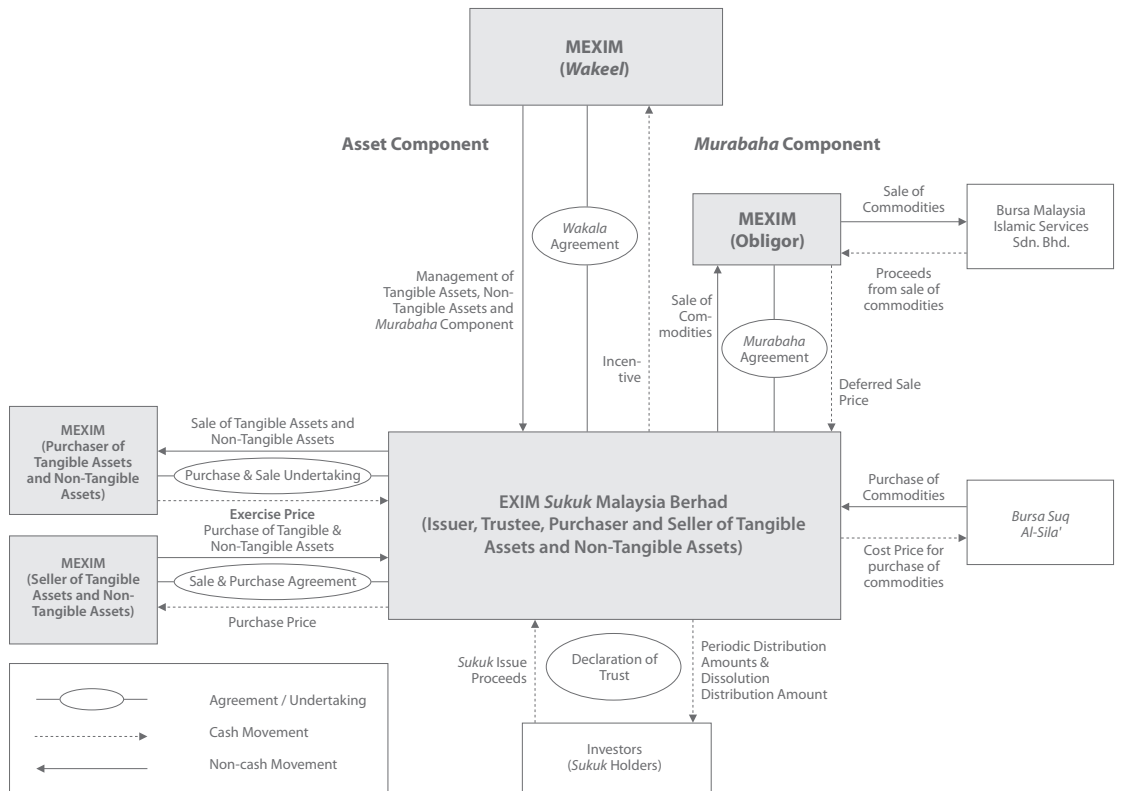


DIAGRAM EXPLANATION

- 1 Parties involved under the *Sukuk* structure are MEXIM (as Obligor), *Sukuk* holders and EXIM *Sukuk* Malaysia Berhad, a special purpose vehicle (SPV) incorporated solely to facilitate *Sukuk* issues. The SPV is the Issuer of the *Sukuk* and acts as the Trustee on behalf of the *Sukuk* holders via a Declaration of Trust.
- 2 The SPV will use the *Sukuk* proceeds to purchase eligible assets from MEXIM (the *Wakil*) under the Master / Supplemental Purchase Agreement, at least 34% of which will be Tangible Assets and 66% will make a portfolio of Non-Tangible Assets. *Sukuk* holders will have beneficial ownership of the *Wakalah* assets through the Declaration of Trust.
- 3 The Trustee will then appoint MEXIM as *Wakil* through the *Wakalah* Agreement to manage the *Wakalah* portfolio. In the capacity of *Wakil*, MEXIM will render certain services, including maintenance of accounts, the management of the underlying assets and periodic distributions, as well as ensuring that Tangible Assets are at all times at least 33% of the total value of the *Wakalah* assets. This ensures tradability and negotiability of certificates at all times.
- 4 Periodic distributions will be made to the *Sukuk* holders, based on expected returns from the underlying assets. This will be achieved using returns from the underlying assets. The excess will be diverted to a 'Reserve Account' and any shortfall will be covered by MEXIM extending *Shari'ah* compliant funding in the capacity of *Wakil* to the SPV via a 'liquidity facility'.
- 5 MEXIM is obliged under a Purchase Undertaking to acquire the trust assets from the SPV at a price that will cover all final amounts payable to the *Sukuk* holders, including the principal. This will occur either on a scheduled maturity date or in a dissolution event. An event of default will be tantamount to a dissolution event, during which the SPV (on behalf of the *Sukuk* holders) will have limited recourse against MEXIM on an unsecured basis, for the principal amount and any accrued and unpaid distributions.
- 6 The Master *Murabahah* agreement between the SPV and MEXIM (in the capacity of Buyer) allows for a maximum of 66% of the *Sukuk* proceeds to be invested in the purchase and sale of commodities on behalf of the *Sukuk* holders pursuant to various *Murabahah* contracts.
- 7 The declaration of trust, agency agreements and the master *Murabahah* agreements are governed by English law while the purchase agreements and the *Wakalah* agreement are governed by Malaysian law.
- 8 The structure of the *Sukuk* allows for early redemption, not just in case of a dissolution event, but also at the option of the Obligor (similar to a call option on a conventional bond) at pre-specified prices as well as at the option of the *Sukuk* holders (similar to a put option on a conventional bond), however, details for each series of the *Sukuk* will vary and be governed by a separate Supplemental Pricing Supplement.

PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

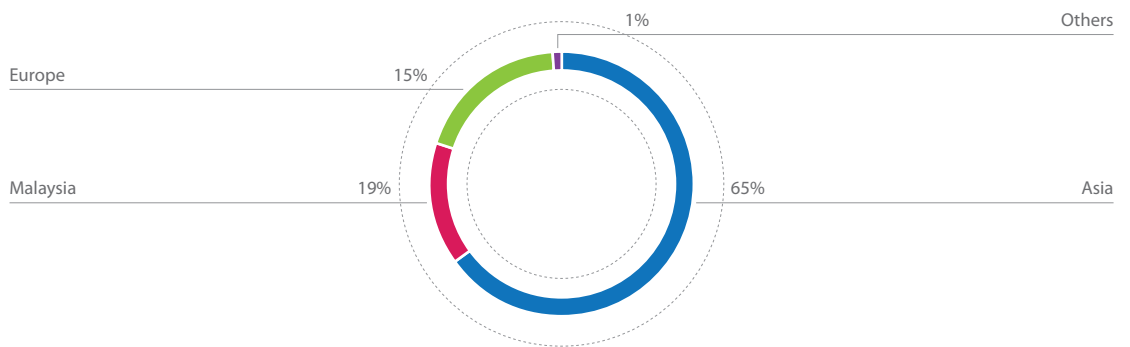
- Master Purchase Agreement
- *Wakalah* Agreement,
- Purchase Undertaking,
- Sale Undertaking,
- Substitution Undertaking,
- Master *Murabahah* Agreement and any additional documents specified in the applicable Pricing Supplement.
- The Master Declaration of Trust, as supplemented by each Supplemental Declaration of Trust.
- Any additional documents specified in the applicable Pricing Supplement.

GEOGRAPHIC DISTRIBUTION OF INVESTORS

Being the first international medium term *Sukuk* issue for the year 2014, the EXIM *Sukuk* was well-received by the market, with an over-subscription of over ten times. Asian investors excluding Malaysia took up 50% of the *Sukuk* issued, Malaysian investors took 15%, Middle Eastern investors took 19% and European investors took the rest. By investor type, fund manager took up 42% of the issue, banks took 30%, sovereign wealth funds 16%, insurance companies 10% and others took the remaining 2%.

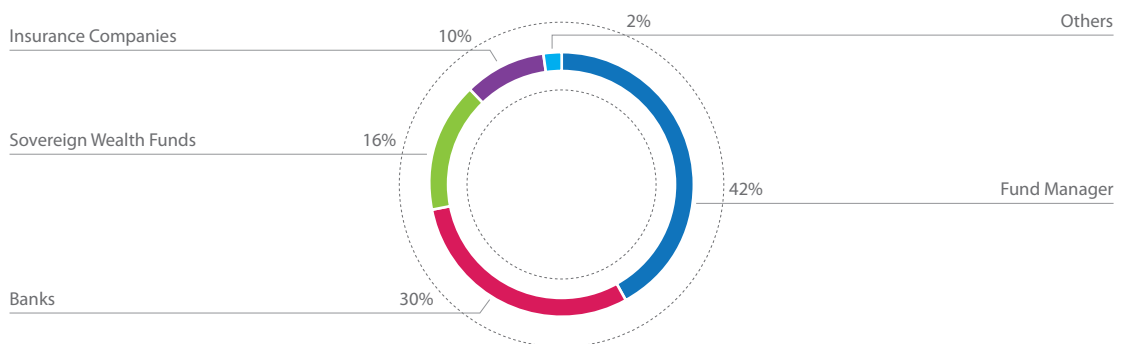
GEOGRAPHICAL DISTRIBUTION OF INVESTORS

CHART A



INVESTORS TYPE

CHART B



CONCLUSION

Since only USD 300 million of the USD 1 billion *Sukuk* programme have been issued for now, we are likely to see more issues from the same originator. Under the programme, the Trustee or the Special Purpose Vehicle (Exim *Sukuk* Malaysia) is entitled to issue *Sukuk* in any of a given list of currencies from time to time up to a maximum aggregate face value of USD 1 billion (converted on the relevant spot exchange rate at the time of issue of each series). The list of currencies given in the prospectus includes besides the US dollar, the pound sterling, the Euro, the Malaysian Ringgitt, the Thai Baht, the Singaporean dollar, the Chinese Renminbi, and the Hong Kong dollar. The proceeds of each series of the *Sukuk* will be applied by the Bank for its *Shari'ah* compliant working capital, general banking and financing activities.

REFERENCES

MEXIM Website: <http://www.exim.com.my> ; Prospectus of EXIM *Sukuk* Malaysia Berhad ; News Item titled "Investors Flood in for Mexim \$300m *Sukuk* Debut" dated 10 February 2014, downloaded from www.islamicfinanceservice.com/Article/3307463/Sukuk-Details ; News Item titled "Fitch Assigns MEXIM's *Sukuk* Final 'A-' Rating", dated 18 February 2014, downloaded from <http://www.reuters.com/article/2014/02/19> ; Definition of *Wakala Sukuk* referred from <http://www.islamicbanker.com/education/Sukuk-al-Wakala> ; Geographic distribution of investors taken from www.islamicfinanceservice.com/Sukuk-Details/7189

2.3 CASE STUDY ON THE 30 YEAR *SUKUK* AND GENERAL SHIFT TOWARDS LONGER TERM

MATURITIES

The *Sukuk* market across the globe has historically suffered from a lack of longer maturity tenors, which presents a pressing problem for banks, financial institutions, pension funds and insurance companies which are trying to match durations of their liabilities in a *Shari'ah* compliant manner. The last five years, however, have seen a trend towards longer maturity issues from all parts of the world, especially from Malaysia. As of 2013, longer maturity *Sukuk* issues of tenors ten years and above form almost 20% of the total *Sukuk* issued as against only 9.5% in 2009 with the greatest surge seen in the group with tenors between 10 and 20 years. (IIFM *Sukuk* Database as of 17/04/2014). The weight age for *Sukuk* tenors of less than 5 years has gone down from 66% in 2009 to 53% in 2013, even though, it still forms the largest maturity chunk among *Sukuk* issuances, led by short term issuances of 3-12 months. *Sukuk* issues of 25 years and above have been negligible – only 29 issues between 2001 and 2013 totaling USD 11 billion, all of which, except one, were issued in domestic markets, and all except one were issued in either Malaysia or Indonesia. The one exception - the first and only international issue and the only 30-year *Sukuk* from GCC so far - belongs to Saudi Electricity Company. Below, we focus on this GCC based *Sukuk* with a tenor of 30 years, a USD 1 billion tranche by Saudi Electricity Company that was launched in April 2013. As we finalize this report, Saudi Electricity has followed up with a second 30-year *Sukuk* tranche in April 2014. The following is a case study of this type of *Sukuk*.

SAUDI ELECTRICITY GLOBAL *SUKUK* COMPANY 2 *IJARAH* BASED *SUKUK*

ABSTRACT

The Saudi Electricity Company (SEC) issued two tranches of USD 1 billion each in April 2013, with tenors of 10 years and 30 years respectively. The 30 year tranche makes SEC the world's first *Sukuk* issuer to issue a note with such a long tenor in the international market. Precedents only exist in the Malaysian and Indonesian markets, those too were issued only for domestic investors and were not offered to an international investor base. The *Sukuk* reveals new possibilities for Islamic finance, opening doors for other borrowers to tap funds for longer maturities. The issue has been hailed variously as a triumph, an important milestone and as a 'benchmark' issue in financial circles. The 30 year tranche matures in April 2043, and carries a fixed rate of 5.06% per annum. SEC has achieved two firsts through its Global *Sukuk* Company 2 – it is the first dual series *Sukuk* issued under rule 144A under the US Securities Act of 1933 out of the Middle East, and it is the first 30 year senior unsecured international *Sukuk*. SEC will use the proceeds from the *Sukuk* issue for general corporate purposes including capital expenditure.

SUKUK SUMMARY

SPV	Saudi Electricity Global Sukuk Company 2
Structure type	<i>Ijarah</i>
Issue size	USD 1 billion
Issue Date	08-April-2013
Maturity date	02-April-2043
Return	5.06%
Fix or Variable	Fixed
Return frequency	Semi-annual
Pricing = Spread over mid-swaps	190 bps over US Treasuries
Book Runners	HSBC, Deutsche Bank
Listing	Irish Stock Exchange
Rating	A1 by Moody's, AA- by S&P, AA- by Fitch
ISIN RegS	XS0911024635: B8FR766

INSTITUTION BACKGROUND

Saudi Electricity Company (SEC) and its subsidiaries and affiliates (taken as a whole, the SEC Group) is the Kingdom's monopoly integrated electricity generation, transmission and distribution business and is, directly or indirectly, 81 percent owned by the Government. The SEC Group's principal business activities are generation, transmission and distribution of electricity within the Kingdom, the largest economy in the GCC.

SEC is taking a number of steps to increase the SEC Group's generation capacity to meet anticipated future demand, including expanding existing plants and constructing new plants. SEC has also developed its own Independent Power Project (IPP) programme which is intended to encourage private sector investment in its power generation business.

SUKUK STRUCTURE AND CASH FLOWS

Set out below is the structure diagram and brief explanation of the structure and principal cash flows of the SEC Sukuk.

STRUCTURE DIAGRAM

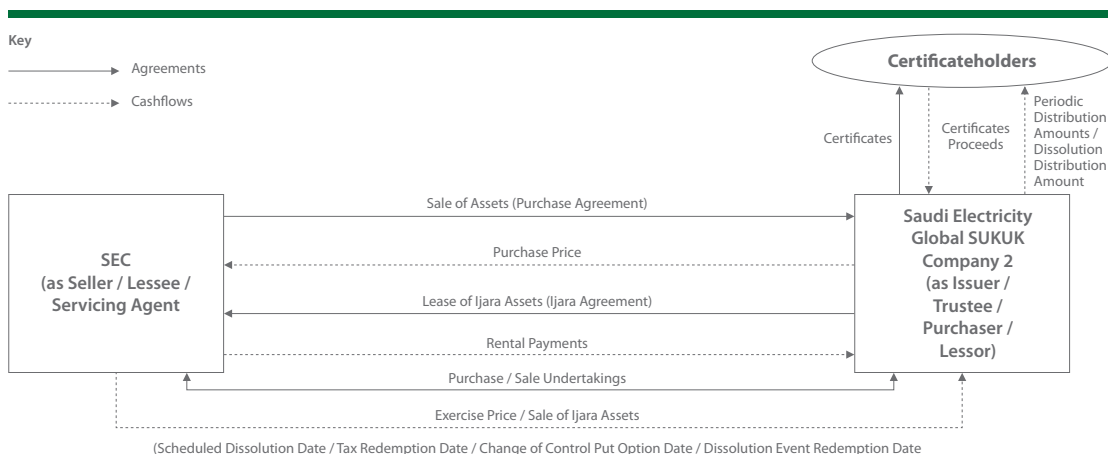


DIAGRAM EXPLANATION

- 1 Parties involved under the *Sukuk* structure are the Special purpose Vehicle or the Issuer and Trustee, Saudi Electricity Global *Sukuk* Company 2, and Saudi Electricity Company, the Lessee under the *Ijarah* Agreement.
- 2 The proceeds received by the Trustee from the issuance and sale of the Certificates will be used to pay the purchase price of the power generation (*Ijarah*) assets which the issuer in its capacity as Purchaser will buy from SEC under the Purchase Agreement. Each series of *Sukuk* will be applied towards purchasing a certain percentage of the power generation assets. A separate percentage interest in the relevant power generation assets will be purchased with the issue proceeds of each Series. Such percentage interest shall equal the percentage of the total value of such power generation assets that is equal to the aggregate face amount of the Certificates of the relevant Series. The *Ijarah* Assets may be substituted in accordance with the relevant Substitution Undertaking for any assets (or percentage interest in such assets) the identity of which shall be determined by SEC in its sole discretion on the condition that the value of the substitute assets is equal to or greater than the value of the assets (or percentage interest in such assets) being substituted.
- 3 Pursuant to the *Ijarah* Agreement the Lessor (Issuer) agrees to lease to the Lessee (SEC) the *Ijarah* Assets for renewable six (6) month terms commencing and ending on the dates specified in the *Ijarah* Agreement. During the term of the *Ijarah*, SEC will be obligated to make agreed-upon rental payments on each Periodic Distribution Date. Following the exercise by Certificateholders of the Change of Control Put Option, rental payments will be reduced accordingly and the Lessor shall send to the Lessee a Renewal Notice specifying the rental payments to be paid for the remaining period in the *Ijarah* Period in which the Change of Control Put Option was exercised. The rental payments are intended to be sufficient to fund the Periodic Distribution Amounts due under the relevant Series of Certificates on each Periodic Distribution Date and which shall be applied by the Trustee for that purpose.
- 4 SEC has entered into a Purchase Undertaking on the Closing Date in favour of the Trustee and the Delegate, which is governed by English law. Under the terms of the Purchase Undertaking, SEC, provided there has been no Total Loss Event, irrevocably undertakes to purchase, transfer, convey and deliver all of the Trustee's rights, title, interests, benefits and other entitlements in and to the *Ijarah* in exchange for payment of the agreed-upon price (termed as the Exercise Price). Simultaneously with the payment of the Exercise Price in accordance with the Purchase Undertaking, the parties will enter into a Sale Agreement to effect the sale by the Trustee to SEC of all of the Trustee's rights, title, interests, benefits and other entitlements in and to the *Ijarah* Assets. Such Sale Agreement will be governed by Saudi law.
- 5 The Trustee has entered into the Sale Undertaking on the Closing Date in favour of SEC, which will be governed by English law. Pursuant to the Sale Undertaking in respect of each Series, SEC may, following the occurrence of a Tax Event, exercise its rights under the relevant Sale Undertaking to require the Trustee to sell to SEC all of its rights, title, interests, benefits and other entitlements in and to the relevant *Ijarah* Assets.
- 6 In each case, the consideration payable by SEC upon such exercise of a Purchase Undertaking or a Sale Undertaking, as appropriate, shall be the relevant Exercise Price.
- 7 Pursuant to the Sale Undertaking in respect of each Series, SEC may also, in the event that SEC wishes to cancel any Certificate of the relevant Series exercise its rights under the relevant Sale Undertaking to require the Trustee to transfer and convey the relevant *Ijarah* Assets to SEC as identified by SEC.

PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

- The Purchase Agreement,
- The *Ijarah* Agreement,
- The Purchase Undertaking,
- The Sale Undertaking,
- The Declaration of Trust.

GEOGRAPHIC DISTRIBUTION OF INVESTORS

Approximately 25% of the 30 year tranche was allocated to GCC investors.

CONCLUSION

The *Sukuk* issue (both tranches) was very well-received in the international markets and was over-subscribed by over 6.5 times. It represents a new breed of Islamic borrowers turning to the international *Sukuk* market in order to fund their long term capital expenditure needs, and is therefore a very positive development.

REFERENCES

Prospectus of Saudi Electricity Global *Sukuk* company 2 ; Press Release from Allen and Overy website titled "Allen and Overy advises on landmark USD 2 billion *Sukuk*" dated 09 April 2013 ; News Item titled "Saudi *Sukuk* pushes Islamic finance tenors" dated 30 April 2013 at www.iflr.com/Article/3198649/... ; News Item titled "Hard work pays off for SEC in first international 30 year *Sukuk*" dated 28 March 2013 downloaded from <http://www.islamicfinanceservice.com/Article/3185828/...>

2.4 PERPETUAL SUKUK BY CORPORATE

Perpetual *Sukuk*, or *Sukuk* with no fixed maturity date, are a new addition to the arsenal of Islamic investment structures, made possible - in fact, necessary - in light of the new Basel III regulations which allows the inclusion of additional capital, apart from ordinary shares and reserves, which is perpetual in nature, into the definition of Tier-1 capital - or the 'going concern' or total paid up capital which is capable of absorbing losses while the institution is still solvent. Basel III allows 1.5% of the minimum Tier 1 capital ratio to be in the form of such Additional Tier 1 (AT1) capital. In other words, *Sukuk* which are perpetual in nature are treated as part of equity from an accounting point of view. According to Shaikh Nizam Yaquby, a leading *Shari'ah* scholar, Islamic banks have an incentive to issue perpetual *Sukuk* with Basel III in the offing as perpetual bonds/*Sukuk* are classified as tier 1 capital under the new norms. Throughout the world perpetual debt is more popular than traditional equity because it is cost efficient due to its tax deductibility. Companies can shore up their capital structures by issuing permanent debt which is treated as equity under Basel III.

Two large Islamic financial institutions in the Middle East, namely, Abu Dhabi Islamic Bank and Dubai Islamic Bank have set the stage for perpetual *Sukuk* by issuing their first in November 2012 and March 2013 respectively. Abu Dhabi Islamic Bank holds the distinction of issuing the world's first 'international' perpetual tier 1 *Sukuk*, a USD 1 billion issue with one of the lowest rates of 6.375% ever achieved on a perpetual instrument by any global

bank. Among corporates, Saudi premium food group Almarai issued the first-ever Saudi riyal based perpetual *Sukuk* in September 2013.

Elsewhere in the world, Malaysia has also seen three perpetual Islamic *Sukuk* so far, the first coming from Malaysia Airline System (MAS) – a RM 1 billion *Sukuk* carrying a profit rate of 6.9% in June 2012, making it the first ever Islamic domestic perpetual *Sukuk* in the world, though local currency denominated. Others have been from a property developer SP Setia in December 2013, and a plantation company Boustead Holdings in June 2014.

CASE IN POINT : GEMS MEA SUKUK LIMITED MUDARABAH BASED SUKUK

ABSTRACT

This case study aims to highlight the successful issuance of the world's first international corporate hybrid *Sukuk*. The GEMS MEA *Sukuk* is also the second corporate hybrid from the MENA region, preceded only by Almarai perpetual *Sukuk* that came in September 2013 and was local currency denominated (SAR 1.7bn) around \$453.2 mio. This *Sukuk* is part of GEM's plans to raise between \$650 million to \$1 billion from different sources in order to build 21 new schools, including in the U.S. and U.K., over the next three years and boost capacity at 10 existing institutions. The GEMS *Sukuk* offers a profit rate of 12% per annum, which places it among the highest yielding emerging debt instruments in the year 2013.

SUKUK SUMMARY

Issuer	GEMS MEA <i>Sukuk</i> Limited
Issue Rating	Not Rated
Status	Unsecured and subordinated
Format	Regulation S
Pricing Date	14th November 2013
Settlement Date	21st November 2013
Issue Size	USD 200,000,000
Maturity Date	Perpetual
Profit Rate	12.00% p.a., semi-annual payments, reset after 5-years to a new fixed rate equal to the then 5-year USD Mid Swap + Initial Credit Margin + Profit Rate Step-up (5%)
Profit Rate Step-Up	One time step-up of 5.0% on 21 November 2018
Mid-swap Level	1.465%
Reoffer Spread vs Midswap	10.535%
Profit Rate Payment Deferral:	Cumulative, with deferral, at <i>Mudareb's</i> discretion as detailed in the Preliminary Prospectus
Change of Control	Varkey family ceases to directly and indirectly control or own 50%+ of the business call at the face amount together with any outstanding payments (if not called 500bps profit rate step-up)
Listing	Irish Stock Exchange and Nasdaq Dubai
Governing Law	English Law
ADIB	Structuring advisor and Joint Bookrunner

TRANSACTION SNAPSHOT

- On Thursday, 14th November, 2013 ADIB has closed the world's first international corporate hybrid *Sukuk* for GEMS – a USD 200 million Reg S Perp-NC-5 *Sukuk al-Mudharabah*. ADIB acted as a Structuring advisor and joint bookrunner along with Morgan Stanley and Credit Suisse.
- Key transaction highlights include:
 - First ever international corporate hybrid *Sukuk* issuance, globally.
 - Second international corporate hybrid from the MENA region (MAF had earlier issued in a conventional format and on a rated basis).
- The *Sukuk* was not rated and re-opened the unrated issuance market for regional private sector corporates. The last unrated corporate bond (or *Sukuk*) from the MENA region was issued in 2008.
- The team carried out a global marketing campaign which resulted in an oversubscribed order book with real allocatable demand without inflation along with well diversified distribution.
- The transaction was instrumental to GEMS:
 - Allowed the Company to raise incremental financing without tripping leverage covenants of senior facility/ Received equity treatment under IFRS/ Diversified sources of funding away from regional banks/ Raised the Company's profile significantly across the international capital markets.
- This deal pushed the boundaries of innovation both in terms of Islamic finance and high yield space for the corporate sector in Gulf.

ORIGINATOR BACKGROUND

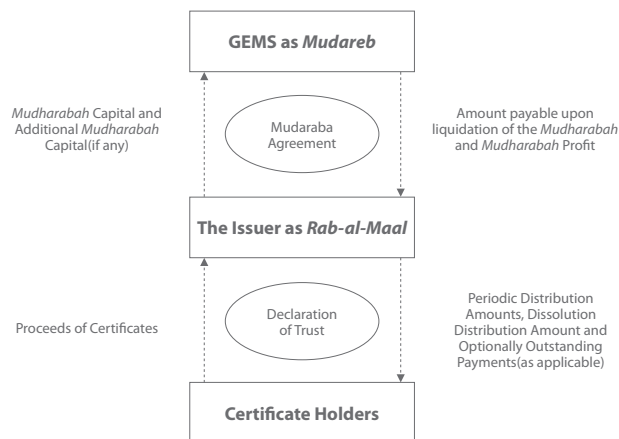
GEMS Education Ltd. founded in 1968 is the world's biggest privately-owned operator of schools. The GEMS global education business (GEMS Education), operating through GEMS MENASA TopCo (Cayman) Limited (TopCo) and its subsidiaries, is among the world's largest providers of high quality private education and related services. GEMS Education has grown, since its inception with a single school in Dubai (Our Own English High School (OOEHS),

which continues to operate today, to a network as at 30 September 2013 of 48 schools operating in eight countries around the world. As at 31 March 2013, the Group employed 9,595 education professionals, specialists and staff. Apart from kindergarten to secondary school offerings the Group also provides educational consulting services to governments and third party private schools in the MEA region through its EdSol brand.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is the structure diagram and brief explanation of the structure and principal cash flows of the GEMS MEA *Sukuk*.

STRUCTURE DIAGRAM



The principal transaction documents are: the Declaration of Trust and the *Mudharabah* Agreement.

SUKUK STRUCTURE AND CASH FLOWS

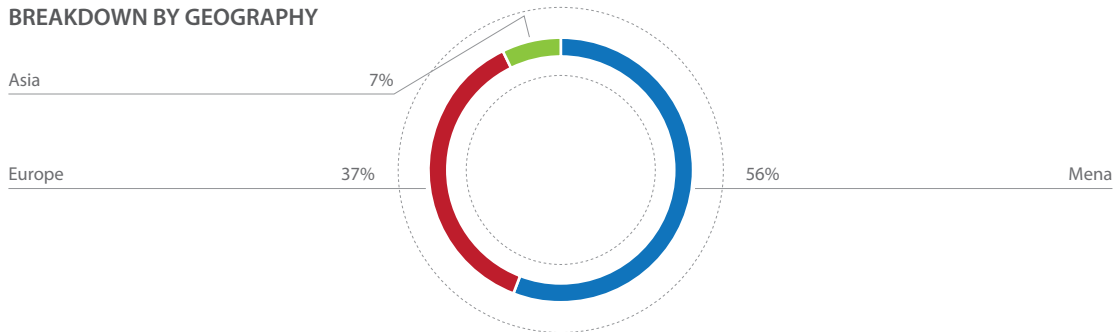
- 1 Parties involved under the *Sukuk* structure are GEMS MEA *Sukuk* Limited (as Issuer, Trustee and *Rab-al-Maal*), *Sukuk*holders and GEMS MENASA (Cayman) Limited (GEMS) (as *Mudareb* and Obligor).
- 2 GEMS MEA *Sukuk* Limited (in its capacity as Trustee and as the *Rab-al-Maal*) entered into a *Mudharabah* agreement with GEMS (in its capacity as the *Mudareb*). Pursuant to the *Mudharabah* Agreement, the *Rab-al-*

Maal contributed the proceeds of the issue of the Certificates to the *Mudareb*, which formed the initial capital of the *Mudharabah*. The *Mudareb* will invest the *Mudharabah* Capital and the Additional *Mudharabah* Capital (if any) in accordance with the *Mudharabah* Business Plan prepared by the *Mudareb* and the assets in which the *Mudharabah* Capital is invested will constitute the assets of the *Mudharabah*.

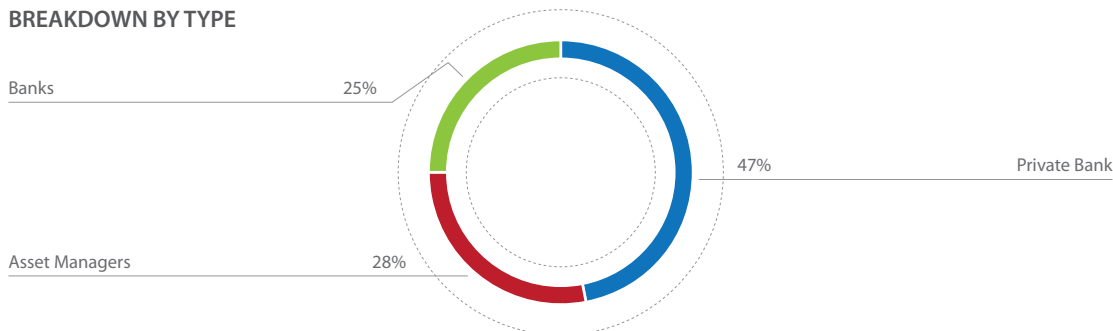
- 3 The Trustee has opened a transaction account (the Transaction Account) in the name of the Trustee with the Principal Paying Agent into which the *Mudareb* and GEMS will pay all amounts due to the Trustee under the *Mudharabah* Agreement respectively.
- 4 Unless a Deferral Election has occurred, prior to each Periodic Distribution Date, the *Mudareb* shall distribute the profit generated by the *Mudharabah* to both the Issuer and the *Mudareb* in accordance with an agreed profit sharing ratio (99 per cent to the *Rab-al-Maal* and 1 per cent to the *Mudareb*). The Issuer shall apply its share of the profit (if any) generated by the *Mudharabah* on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.
- 5 If, pursuant to a Deferral Election, all or any part of the *Rab-al-Maal Mudharabah* Profit is not paid to the *Rab-al-Maal*, such deferred amount shall be reinvested in the *Mudharabah* and therefore shall form part of the *Mudharabah* Assets. Accordingly, such deferred amount (if any) shall accrue further profit thereon.
- 6 The *Mudharabah* is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date. Subject to certain conditions, however, set out the *Mudharabah* Agreement, the *Mudareb* may at its option liquidate the *Mudharabah* in whole, but not in part - even before the First Call Date which falls five years from the date of issue - on the basis of a constructive liquidation of the *Mudharabah* under circumstances detailed in the prospectus.

GEOGRAPHIC DISTRIBUTION OF INVESTORS

BREAKDOWN BY GEOGRAPHY



BREAKDOWN BY TYPE



CONCLUSION

GEMS MEA *Sukuk* brings to the international market a new breed of borrowers – educational institutions. Even though it ended up being priced at the tight end due to lack of precedents and due to the unrated nature of the company as well as the *Sukuk*, it still is a very welcome addition to the international *Sukuk* market. Financial circles have also hailed the pricing of GEMS *Sukuk* as a process of true price discovery for a new borrower in the market.

REFERENCES

Prospectus of GEMS MEA *Sukuk* Limited; Term Sheet Provided by ADIB; “U.A.E.’s GEMS Plans Perpetual Bond Sale for School Expansion” dated October 29, 2013 from Bloomberg; “Islamic banks should issue Perpetual *Sukuk*” dated October 15, 2013, from Gulf Daily News; “Malaysia Airlines issues first tranche of M\$2.5bn *Sukuk* programme” dated June 14, 2012 from Flightglobal.com; “MIDEAST DEBT-GEMS compromises on size, price with hybrid *Sukuk*” dated November 2013 from Reuters. Also referred to for the section on ‘Geographic Distribution of Investors’; “Dubai Islamic Perpetual Bond Price Beats Estimates on Yield Hunt” dated March 14, 2013 from Bloomberg; “ADIB Issues World’s First Hybrid Perpetual Tier 1 *Sukuk*”, dated November 2012 from the official website of Abu Dhabi Islamic Bank; “Malaysia Airports eyes Perpetual *Sukuk*, hires 4 banks-IFR” dated August 19, 2014 from Reuters; “Perpetual *Sukuk* in vogue as Malaysia Airport Sells” dated August 2014 from Bloomberg; “GEMS breaks new but tough ground with perpetual *Sukuk*” dated November 15, 2013 from the IFIS website; “INNOVATION FOR GROWTH - BASEL III CREATES A GOLDEN OPPORTUNITY”, Report by MIFC (Malaysia International Islamic Financial Centre), 2013; Definition of *Mudharabah Sukuk* referred from IIFM’s *Sukuk* Report, 3rd Edition and www.islamicbanker.com.

CONNECTING ASIA'S ECONOMIES

THE LEADING MIDSHORE BUSINESS AND FINANCIAL CENTRE



The Labuan International Business and Financial Centre (Labuan IBFC) presents a comprehensive midshore solution providing fiscal neutrality and certainty.

Well-supported by a robust, modern and internationally recognised legal framework, Labuan IBFC provides clear legal provisions and industry guidelines enforced by its regulator, Labuan Financial Services Authority.

Labuan IBFC boasts Asia's widest range of business and investment structures for cross border transactions, business dealings and wealth management needs. These unique qualities offer sound options for regional businesses going global or global businesses looking at penetrating Asia's burgeoning markets.

AIMING FOR PERFECTION



ARTICLES CONTRIBUTIONS ON SPECIFIC SUKUK ISSUANCES

3.1 UK GOVERNMENT *SUKUK* – HM TREASURY

By Qudeer Latif (Partner, Global Head of Islamic Finance, Clifford Chance LLP)

The global Islamic financial services market is estimated to be worth somewhere in the region of US\$1.14 trillion. Its potential for continued growth has made it attractive to investors who are looking to take advantage of all the opportunities it presents. As a result, raising finance through Islamic financial instruments has become increasingly popular throughout the world.

SUMMARY OF TERMS & CONDITIONS

Issuer	HM Treasury UK Sovereign <i>Sukuk</i> PLC
Issue Date	2 July 2014
Scheduled Dissolution Date	22 July 2019
Issue Price	£200,000,000
Face Amount	£100,000 and integral multiples of £1,000 in excess thereof
Rate	2.036%
Currency	Pounds Sterling (£)
Form	Global Certificate in Registered Form
Principal Paying Agent, Registrar & Transfer Agent	HSBC
Exchange	London Stock Exchange
Governing Law	English Law

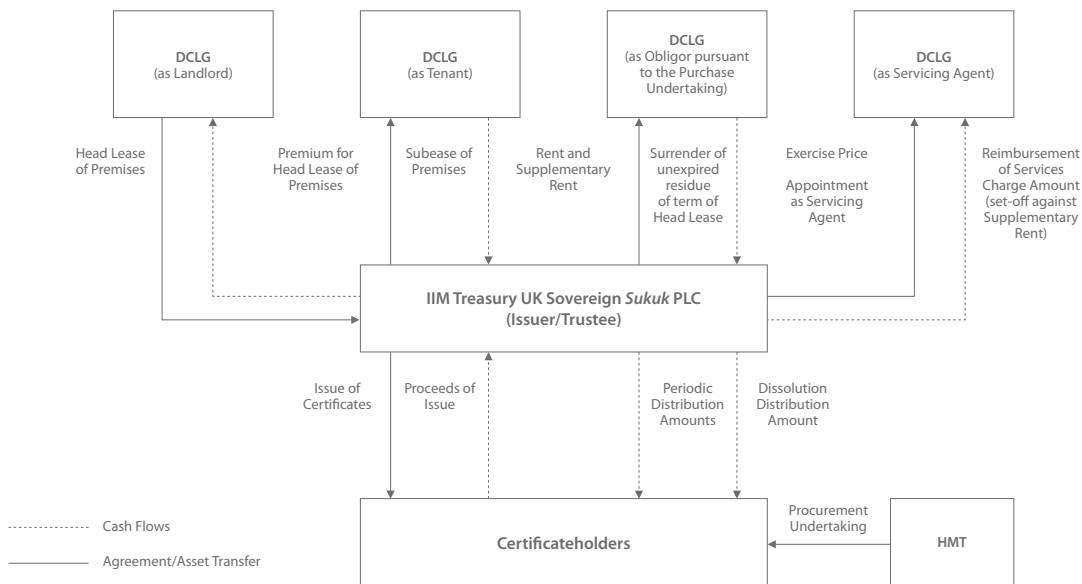
July 2014 saw the first sovereign *Sukuk* issuance in the United Kingdom. The UK government made its inaugural issuance with a £200m *Sukuk* due in 2019. The *Sukuk* offer a competitive periodic distribution amount set at a rate of 2.036 per cent per annum. The issuance was very well received by investors and was heavily oversubscribed.

The UK has sought to position itself as an international hub for Islamic finance and this issuance embodies that commitment. Being the first of its kind by a European sovereign state, the transaction was truly ground-breaking and has laid the foundation for further Islamic financing in the UK. The transaction has set a precedent for entities wanting to draw on this largely untapped pool of Shari'a compliant investors. It opens up and provides a guideline for a whole new

source of funding available to issuers within Europe. The transaction documents were held to be Shari'a compliant by Bait Al-Mashura Finance Consultations Company, Shariah Committee of CIMB Islamic Bank Berhad, The Executive Shariah Committee of HSBC Saudi Arabia Limited and Standard Chartered Bank Shariah Supervisory Committee.

As a Shari'a compliant instrument, the issuance uses an *Ijara* structure. The proceeds of this specific issue were used to acquire the lease of certain land and buildings from The Secretary of State for Communities and Local Government ("DCLG"). The properties were then sub-leased back to DCLG in return for DCLG making periodic rental payments. These rental payments are to be used by the issuer to fund its distributions to the *Sukuk* holders.

The following diagram (simplified for the purposes of this article) illustrates the principal relationships between the parties and the cash flows of the structure.



First, the purchasers of the *Sukuk* ("Certificateholders") elect to pay the issue price to HM Treasury UK Sovereign *Sukuk* PLC ("Issuer/Trustee"). The Issuer/Trustee is a public limited company incorporated in the United Kingdom specifically to issue the *Sukuk* and facilitate this transaction.

The Issuer/Trustee must then use the pooled capital to fund its acquisition of a 99 year lease over plots of land and buildings ("*Sukuk* Asset") used for governmental purposes from DCLG.

After the purchase of the *Sukuk* Asset, the Issuer/Trustee has to hold the title to the asset on trust for the benefit of the Certificateholders. This ensures that the Certificateholders have an undivided beneficial ownership interest in the *Sukuk* Asset as declared by the Issuer/Trustee pursuant to a declaration of trust. This beneficial ownership of the *Sukuk* Asset along with certain other documentation provides the Certificateholders with a right to receive payments under it.

Next, the Issuer/Trustee shall sub-lease the properties back to DCLG. In consideration, DCLG is to make rental payments to the Issuer/Trustee over the five year life of the *Sukuk*. These rental payments are the source from which the Issuer/Trustee will pay the Certificateholders the periodic distributions owed to them. The Certificateholders will be owed these distributions as profits through their beneficial interest in the *Sukuk* Asset which is generating this income.

Finally, on the scheduled dissolution date, the Issuer/Trustee has the right to require DCLG to purchase back the unexpired term that remains on the lease. The Issuer/Trustee is to use this payment by DCLG to pay back the dissolution distribution to the Certificateholders. Again, the Certificateholders will be entitled to this payment as consideration for the sale of the *Sukuk* Asset, to which they will have an undivided beneficial ownership interest.

As this is the first *Sukuk* issuance of its kind in the United Kingdom, it has a few notable features:

- The UK has been very active for the last few years in creating a level playing field between conventional instruments and their Islamic equivalents. A critical aspect to this is the tax legislation for the issuance of *Sukuk-al-Ijara* which is reflected in Schedule 61 of the Finance Act 2009. A large amount of time was spent manoeuvring through the framework and ensuring the structure and documentation complied with these requirements so that the transaction benefited from the various tax reliefs. In effect the *Sukuk* was therefore treated the same as a UK Gilt for tax purposes.
- Whilst the primary obligor was the DCLG, and DCLG was the entity that was responsible for payment of the rent under the *Ijara* agreement and the exercise price under the purchase undertaking, HM Treasury agreed, through the procurement undertaking, that it would either perform the obligations of DCLG or would ensure that DCLG was put in sufficient funds for DCLG to discharge its obligations in a timely manner.
- Unlike a usual *Sukuk* issuance, this transaction utilises a Deed of Covenant. This allows the Certificateholders to have direct recourse and enforcement rights against the HMT should the Issuer/Trustee fail to make payments on maturity. A Deed of Covenant

was included because HMT wanted to ensure that the *Sukuk* holders were treated the same as its UK Gilt holders, who do have direct recourse to HMT.

- Some governmental real estate issues needed to be addressed and therefore intensive legal analysis was carried out on whether or not the government had a qualifying interest that complied with both Shari'a and the legislation. The governmental entity also had to have the capacity to deal with its assets in the manner envisaged by the transaction.

This transaction demonstrated Clifford Chance's breadth of knowledge and experience Islamic Finance. Clifford Chance was able to provide a seamless service from multiple offices across several jurisdictions to ensure the success of this cutting-edge *Sukuk* issuance. Having taken this defining step forward into previously undiscovered territory, Clifford Chance is in a prime position to aid with the further development of Islamic financing across Europe.

Clifford Chance's team, led by Qudeer Latif (Global Head of Islamic Finance) and supported by Debashis Dey, Chris Davies and Franc Pena advised HSBC Bank plc in its role as structuring bank and Barwa Bank, CIMB, HSBC Bank plc, National Bank of Abu Dhabi and Standard Chartered Bank as joint lead managers and Claudio Medeossi and Stuart Mason represented HSBC Bank plc as agent.

3.2 AL HILAL BANK PERPETUAL TIER 1 SUKUK AL – MUDARABAH BASED STRUCTURE

By Lim Say Cheong, EVP – Investment Banking Group, Al Hilal Bank

ABSTRACT:

This case study aims to highlight the successful issuance of the Perpetual Tier 1 USD 500 million *Sukuk* by Al Hilal Bank of Abu Dhabi. On 24th of June, 2014 Al Hilal Bank has successfully priced its USD 500 million Perpetual (non-call 5) Additional Tier 1 *Sukuk* at the lowest coupon ever achieved by any bank for a USD Tier 1 issuance outside of the United States since 2008. The success of the transaction is further reflected in the strong and healthy order book which closed at over USD 4.5bn, representing 9.0x oversubscription, from over 200 accounts. Joint bookrunners/joint lead managers for the issue included Al Hilal Bank, Citigroup, Emirates NBD Capital, HSBC, National Bank of Abu Dhabi (NBAD) and Standard Chartered Bank.

SUMMARY TRANSACTION TERMS

Issuer	AHB Tier 1 <i>Sukuk</i> Limited
Obligor	Al Hilal Bank P.J.S.C.
Obligor Ratings	A (S&P) / A (Fitch)
Format	Reg S Only
Structure	<i>Sukuk al Mudharabah</i>
<i>Sukuk</i> Type	Subordinated Tier 1 Capital Certificates
Pricing / Settlement Date	24 June 2014 / 30 June 2014
Optional Call Date	30 June 2019, and on every fifth anniversary thereafter
Reset Date	30 June 2019, and every 5 years thereafter to a new fixed rate based on the then prevailing 5-year US Mid Swap Rate + the Initial Credit Margin Rate
Tenor	Perpetual
Issue Size	USD 500 million
Profit Rate	5.500%
Governing Law	English, law
Issue Price /Spread	100 / MS + 373 bps
Al Hilal Bank's Role	Joint Lead Manager/Bookrunner

INSTITUTION BACKGROUND

Al Hilal Bank was founded by the Abu Dhabi Investment Council, an investment arm of the Abu Dhabi government with an authorized capital of AED 4 billion. The first four branches of the Bank in UAE were opened on the 19th of

June 2008 in Abu Dhabi. Since then, the bank has kicked off in achieving remarkable successes in various areas of banking to the present day.

THE SUKUK STRUCTURE DIAGRAM AND CASH FLOWS

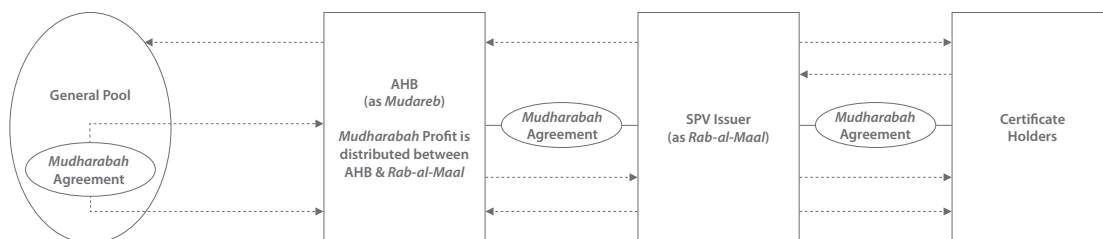


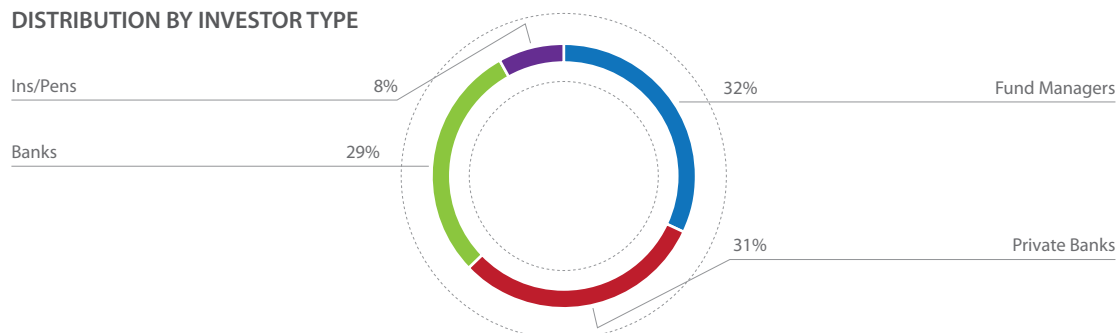
DIAGRAM EXPLANATION

The Issuer will issue Certificates (which shall be perpetual and accordingly shall not have a fixed redemption) to the Certificateholders and collect the trust certificate Proceeds therefrom.

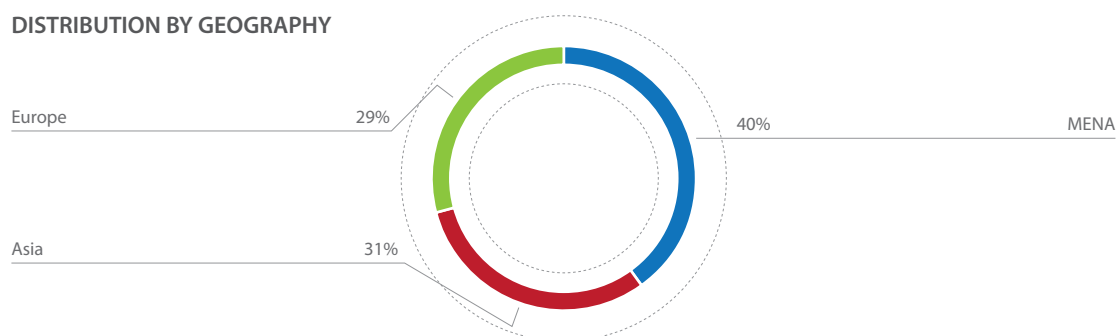
- Pursuant to a *Mudharabah* Agreement between AHB (as *Mudareb*) and the Issuer (as *Raab-al-Maal*), a *Mudharabah* will be constituted whereunder the Trust Certificate Proceeds will be contributed by the Issuer as the initial *Mudharabah* Capital. The *Mudharabah* shall commence on the date of the payment of the *Mudharabah* Capital to AHB by the Issuer and shall terminate on the date that the Trust Certificates are redeemed in full, following the liquidation of the *Mudharabah* in accordance with the terms of the *Mudharabah* Agreement.
- AHB (as *Mudareb*) will invest the *Mudharabah* Capital in the general business of AHB in accordance with an agreed Investment Plan. The *Mudharabah* Capital as so invested will be converted into undivided assets in the General Pool as the *Mudharabah* Assets. AHB shall be entitled to co-mingle its own assets with the *Mudharabah* Assets.
- Pursuant to the terms of the *Mudharabah* Agreement, AHB will pay (after deducting its share of the profit in respect of its co-mingled assets and in accordance with an agreed profit sharing ratio – 99% to the *Raab-al-Maal* and 1% to the *Mudareb*) the *Raab-al-Maal* *Mudharabah* Profit to the Issuer and the Issuer will utilise the *Raab-al-Maal* *Mudharabah* Profit to pay the Periodic Distribution Amounts to the Certificateholders pursuant to the terms of the Certificates.
- Payments of the *Raab-al-Maal* *Mudharabah* Profit by AHB (as *Mudareb*) are at the sole discretion of AHB (as *Mudareb*) and may only be made in circumstances where AHB will not be in breach of certain solvency and minimum capital conditions, before or as a result of making such payment.
- If the Certificates are not redeemed or purchased and cancelled on or prior to the date falling on the 5th anniversary of the date of the *Mudharabah* Agreement (the “First Call Date”), Periodic Distribution Amounts shall be payable at a fixed rate to be reset on the First Call Date and every 5 years thereafter, equal to the Relevant five Year Reset Rate plus a margin.
- Subject to certain conditions, at the discretion of AHB (as *Mudareb*), AHB (as *Mudareb*) may liquidate (on the basis of a constructive liquidation) the *Mudharabah* in whole, either:
 - on the First Call Date or any *Mudharabah* Profit Distribution Date after the First Call Date; or
 - on any date on or after the date of the *Mudharabah* Agreement upon the occurrence of (i) a Tax Event or (ii) Capital Event.
- The *Mudharabah* shall be automatically liquidated upon a winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of the *Mudareb* and/or if a Dissolution Event occurs.

DEAL STATISTICS

DISTRIBUTION BY INVESTOR TYPE



DISTRIBUTION BY GEOGRAPHY



LOWEST PROFIT RATE AMONGST PEERS

Sukuk Name	AHB Tier 1 Sukuk	DIB Tier 1 Sukuk	ADIB Tier 1 Sukuk
Issuance Size	500,000,000	1,000,000,000	1,000,000,000
Issue Date	24 June 2014	13 March 2013	8 November 2012
Issue Spread	373 bps	495 bps	539 bps
Benchmark Rate	5Yr MS – 1.77%	6Yr MS – 1.29%	6Yr MS – 0.96%
Profit Rate	5.50%	6.25%	6.375%
Status	Subordinated	Subordinated	Subordinated
Type of Structure	Mudharabah	Mudharabah	Mudharabah
Currency	USD	USD	USD
Regulation	Reg S	Reg S	Reg S
Exchange Listing	Irish SE	Irish SE	London SE
Over-subscription	9.5x	14x	15.5x
Issue Price	100	100	100
Important Notes	Geographic breakdown: Middle East 40% of the Sukuk, Asia 31%, Europe 29%	Geographic breakdown: Middle East 38% of the Sukuk, Asia 29%, Europe 29%, 4% US offshore investors	Geographic breakdown: 38% to Asia, 32% to Middle East, 26% to Europe & 4% to US Offshore investors
Embedded Options	Callable after 5 year	Callable after 6 years	Callable after 6 years

AHB TIER 1 – WORLD'S FIRST BASEL III COMPLIANT USD *Sukuk*

As the Basel III regime is gradually adopted across the globe, AHB's tier 1 *Sukuk* will serve as a benchmark for others to follow

Coupon Discretion	<ul style="list-style-type: none"> • Non-cumulative discretionary distributions • Non-payment upon (i) AHB having insufficient Distributable Profits, (ii) breach by AHB of Applicable Regulatory Capital Requirements, (iii) the request of the regulator, (iv) Solvency Condition not being met or (v) AHB electing not to pay 	<ul style="list-style-type: none"> • Non-cumulative discretionary distributions • Non-payment upon (i) Bank having insufficient Distributable Profits, (ii) breach by the Bank of Applicable Regulatory Capital Requirements, (iii) the request of the regulator, (iv) Solvency Condition not being met or (v) Bank electing not to pay 	<ul style="list-style-type: none"> • Non-cumulative discretionary distributions • Non-payment upon (i) Bank having insufficient Distributable Profits, (ii) breach by the Bank of Applicable Regulatory Capital Requirements, (iii) the request of the regulator, (iv) Solvency Condition not being met or (v) Bank electing not to pay
Dividend Stopper / Pusher	<ul style="list-style-type: none"> • Stopper • No pusher 	<ul style="list-style-type: none"> • Stopper • No pusher 	<ul style="list-style-type: none"> • Stopper • No pusher
Going Concern Loss Absorption Trigger	No principal loss absorption	No principal loss absorption	No principal loss absorption
Going Concern Loss Absorption Mechanism	N/A	N/A	N/A
Non-viability Loss Absorption (PONV)	Covered through permitted amendment via full and permanent write-down	Risk factor on potential statutory regime, but no contractual PONV clause	Risk factor on potential statutory regime, but no contractual PONV clause
Sub. / Variation	Yes	Yes	Yes

CONCLUSION

Al Hilal Bank is the first bank from the Mena region to issue an Additional Perpetual Tier 1 offering which includes a contingent Point of Non-Viability (PONV) clause. The transaction, which was nine times oversubscribed, drew demand worth of USD 4.5 billion from over 200 investors. The issuance was priced at par with a profit rate of 5.500 per cent, which represents the lowest coupon ever achieved by any bank for a USD Tier 1 issuance outside of the United States since 2008. The issuance has a diverse geographical distribution, with the Mena region comprising (40 per cent), Asia (31 per

cent), and Europe (29 per cent). Investor types involved in the transaction included funds (32 per cent); private banks (31 per cent); banks (29 per cent); and insurance (8 per cent).

Generally, the response from the investor community globally has been very encouraging and serves as a testament to Al Hilal Bank's credit fundamentals. In 2013 Al Hilal Bank received an A1 rating by Moody's Investors Service and an A+ rating by Fitch Ratings.

3.3 MAYBANK ISLAMIC'S RM1.5 BILLION SUBORDINATED *SUKUK* MURABAHAH ISSUANCE

By Fadzila Amru and Nur Hidayah Salim, Maybank Islamic Berhad

In April 2014, Maybank Islamic Berhad ("Maybank Islamic"), the largest Islamic banking group in Malaysia and Asia Pacific and third largest in the world by asset size (29% market share in Malaysia and Shariah compliant assets of RM125.1 billion (USD38.1 billion) as at December 2013), successfully established a Basel III-compliant Tier 2 Subordinated *Sukuk* programme (the "*Sukuk* Programme") of up to RM10.0 billion in nominal value. The *Sukuk* Programme provides flexibility to Maybank Islamic to issue subordinated *Sukuk Murabahah* ("Subordinated *Sukuk Murabahah*") within the tenure of the *Sukuk* Programme of up to 20 years from the first issue date of the Subordinated *Sukuk Murabahah*. During this tenure, Maybank Islamic has the option to issue Subordinated *Sukuk Murabahah* with maturity of at least five years and up to 20 years from the issue date with a call option, if applicable. The maiden RM1.5 billion (USD0.5 billion) Subordinated *Sukuk Murabahah* issuance under the *Sukuk* Programme was issued on 7 April 2014. To-date, Maybank Islamic's Subordinated *Sukuk Murabahah* issuance is the largest single issuance of a Basel III-compliant Tier 2 capital *Sukuk* denominated in Ringgit Malaysia by an Islamic banking institution in Malaysia.

Maybank Islamic's first Subordinated *Sukuk Murabahah* carry a maturity period of 10 years on a 10 non-callable 5 basis. The *Murabahah* (via Tawarruq arrangement) structure was chosen taking into consideration the currency of issuance and target investors which were predominantly Malaysian based wherein such structure is widely accepted. It was lead arranged and lead managed by Maybank Investment Bank Berhad.

RAM Rating Services Bhd ("RAM") had rated the Subordinated *Sukuk* Programme AA1/stable. RAM mentions in its report that Maybank Islamic's "ratings are reflective of the Bank's strategic importance as the Islamic banking arm of Malayan Banking Berhad. Maybank Islamic is highly integrated with the Maybank Group and leverages on its parent's risk-management system, infrastructure and extensive branch network."

As part of the Basel III requirement pursuant to the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by the central bank of Malaysia, Bank Negara Malaysia, the Subordinated *Sukuk Murabahah* includes a provision for non-viability loss absorption. At the point of a non-viability event, Maybank Islamic shall irrevocably write off the Subordinated *Sukuk*

Murabahah in whole or in part thereof. Any written-off amount of the Subordinated *Sukuk Murabahah* shall be irrevocably lost and the *Sukuk*holders of such Subordinated *Sukuk Murabahah* will cease to have any claims on the amount due in respect of such Subordinated *Sukuk Murabahah* which have been written-off. Notwithstanding that, the exercise of the loss absorption at the point of non-viability does not constitute an event of default or trigger any cross-default clauses.

From a Shariah perspective, the write off mechanism applies the concept of *Ibra'* which refers to an act by a person relinquishing his claims or rights to collect payment due from another person whether partially or in whole. The *Sukuk*holders agree to relinquish their rights to receive payment on the amount due under the Subordinated *Sukuk Murabahah* which have been written-off. According to majority of jurists, *Ibra'* is defined as an absolute relinquishment of a debt and the scholars do not restrict whether the relinquishment shall only be applicable to profit portion in the outstanding sale price. This satisfies the above scenario where the *Sukuk*holders shall relinquish the outstanding sale price payable by Maybank Islamic pursuant to such write off.

Occurrence of non-viability events, principally determined by BNM and PIDM at their full discretion, can be defined to include among others:

- i failure by an Islamic banking institution to maintain its capital at an adequate level, hence detrimentally affecting its depositors especially when the Islamic banking institution is unable to recapitalise on its own;
- ii failure by an Islamic banking institution to follow any directive of compliance issued by BNM necessary to preserve or restore its financial soundness; or
- iii the Islamic banking institution's assets are insufficient to provide protection to its depositors and creditors.

The Subordinated *Sukuk Murabahah* may also, at the option of BNM and PIDM, be written off upon the occurrence of a trigger event in relation to Malayan Banking Berhad, since the Subordinated *Sukuk Murabahah* are included as capital at the consolidated level of Malayan Banking Berhad.

Other features of the Subordinated *Sukuk Murabahah* which are structured to comply with Basel III requirements, are that the instrument has an original maturity of at least five years, and there can be no step-up features or other incentives for the Islamic banking institution to redeem the instrument.

Lastly, as with other tier 2 capital instruments, the Subordinated *Sukuk Murabahah* will, in the event of a winding up or liquidation of Maybank Islamic, be subordinated in right of payments to the claims of all depositors and senior creditors.

The Subordinated *Sukuk Murabahah* has only two events of default prescribed in its terms: if Maybank Islamic defaults in payment of principal or profits or any amount under the *Sukuk* Programme and such default continues for seven business days; or if a court or an agency or regulatory authority in Malaysia with such jurisdiction shall have instituted proceeding for

liquidation of Maybank Islamic and such decree or order remains in force for 60 days.

In general, the proceeds raised from the maiden issue of Maybank Islamic's Subordinated *Sukuk Murabahah* are utilised to strengthen its capital position, as well as for its business expansion programme, general banking and working capital purposes.

Despite the uncertainties of whether investors would accept a Basel –III compliant tier 2 Subordinated *Sukuk* with loss absorption features, and if so whether they would command a high premium for these features, Maybank Islamic's maiden Basel III-compliant Tier 2 capital Subordinated *Sukuk Murabahah* faced strong demand from investors. The issuance was priced at 4.75% per annum and had received an encouraging response from investors, resulting in an over subscription of 2.9 times. In terms of pricing the issuance was priced at a spread of 110 over 5-year Malaysian Government Securities ("MGS"), which is extremely tight pricing if compared to equivalent rated issuances which were priced at around 120 to 125 basis points above MGS. In view of the strong demand, the issuance size was upsized from the initial offering size of RM1bil to RM1.5bil.

The Subordinated *Sukuk Murabahah* were subscribed by a diverse group of investors comprising asset manager, insurance companies, financial institutions, corporate entities as well as to Malayan Banking Berhad's high net worth customers. Interest from offshore investors in these Shariah-compliant *Sukuk* was evident as well, with approximately 50% of the issuance taken up by offshore investors within Asia.

The Subordinated *Sukuk Murabahah* have been traded in the Malaysian secondary market since issuance, reflecting the strong fundamentals of Maybank Islamic as well as investors' appetite for such Shariah compliant instruments.

3.4 EMAAR MALLS GROUP – USD 750M FIXED RATE TRUST CERTIFICATES DUE 2024

By Ahsan Ali, Standard Chartered Saadiq

INSTITUTION BACKGROUND

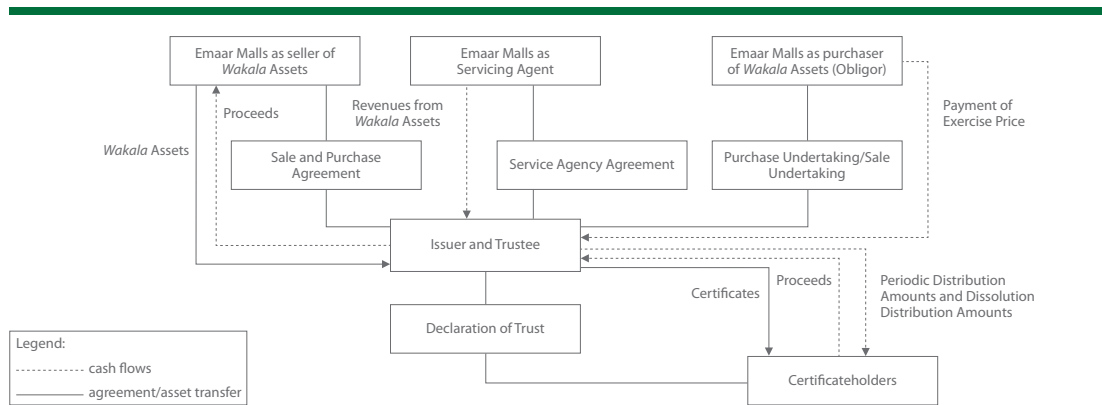
Emaar Malls Group LLC is a leading owner and operator of shopping malls in Dubai having established some of the most iconic malls and entertainment and lifestyle centres in the UAE which serve as a major attraction to international visitors. The Company's portfolio of companies comprises of four shopping malls and 31 community shopping centres which are strategically located in key areas of Dubai, benefitting from population growth and increasing tourist attractions. Emaar Malls is also preparing for a potential initial public offering over the course of 2014 where it will float minimum 15% of its share capital.

TRANSACTION SUMMARY

Issuer	EMG Sukuk Limited
Obligor	Emaar Malls Group LLC ("EMG")
Country of Transaction	United Arab Emirates
Issue Type	Fixed Rate Trust Certificates
Issue Size	USD 750 million
Issue Rating	Baa2 (Moody's) / BBB- (S&P)
Pricing Date	11 June 2014
Issue Date	18 June 2014
Tenor	10-year
Maturity	18 June 2024
Profit Rate	4.564%
Issue Format	Reg S only
Listing	Nasdaq Dubai
Governing Law	English Law and Dubai Law
Joint Lead Managers	ADIB, AHB, DIB, ENBD Capital, FGB, Mashreq, Morgan Stanley, NBAD, Noor Bank, Standard Chartered Bank and UNB

STRUCTURE DIAGRAM AND DESCRIPTION

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



- 1 EMG *Sukuk* Limited, a special purpose vehicle (the "Issuer" or "Trustee") issued *Sukuk* certificates and raised *Sukuk* proceeds from investors (the "*Sukuk*holders"). The Issuer (as "Trustee") pursuant to a Declaration of Trust declared a trust in favour of the *Sukuk*holders over:
 - i. the *Wakala* Portfolio;
 - ii. the Transaction Documents; and
 - iii. all money standing to the credit of the transaction account from time to time, and all proceeds of the foregoing.
 - 2 Pursuant to a Sale & Purchase Agreement, EMG on the issue date sold to the Trustee (as "Purchaser") a portfolio (the "*Wakala* Portfolio") of income generating real estate related assets which were leased to third parties.
 - 3 The Trustee, pursuant to a Service Agency Agreement, appointed EMG as an agent (the "Servicing Agent" in consideration of a fee of US\$ 100 to manage the *Wakala* Portfolio. The Servicing Agent has undertaken to provide certain services which include, but are not limited to, the following:
 - i. carry out all major maintenance and structural repair;
 - ii. pay on behalf of the Trustee, all proprietorship taxes in respect of the *Wakala* Assets;
 - iii. where such leases are not renewed, source new tenants or obligors; and
 - iv. procure insurance in respect of the *Wakala* Assets.
 - 4 If there is a shortfall between the revenue amounts collected and the periodic distribution amounts payable to the *Sukuk*holders and the reserve amounts (as described below) are not sufficient to cover such shortfall, the Servicing Agent may either (i) provide Shariah compliant funding to the Trustee itself or (ii) procure Shariah compliant funding from a third party to ensure the *Sukuk*holders receive the full periodic distribution amounts payable and on terms that such funding is repayable by the Trustee to the Servicing Agent (such funding, a "Liquidity Facility"). Any excess between the revenues generated by the *Wakala* Portfolio over the periodic distribution amounts payable to the *Sukuk*holders will be retained as reserve and shall be applied to cover any shortfall in future periodic distribution amounts.
 - 5 Pursuant to a Purchase Undertaking, EMG has undertaken to purchase all or part of the *Wakala* Portfolio (as the case may be) from the Trustee, upon a Dissolution Event, at the scheduled maturity date or upon a Change of Control Event at the relevant Exercise Price which shall be an amount equal to the aggregate of the face amount of the relevant Certificates and an amount equal to all accrued and unpaid periodic distribution amounts (if any) relating to the Certificates. The Purchase Undertaking shall also provide the Trustee the right to substitute certain *Wakala* Assets with new eligible *Wakala* Assets of an equivalent value
 - 6 Pursuant to a Sale Undertaking, the Trustee has granted EMG the following rights:
 - i. oblige the Trustee to sell the *Wakala* Portfolio to EMG at the Exercise Price, as per above, if (i) 75% or more of the Certificates are redeemed pursuant to a Change of Control Event or (ii) following the occurrence of a Tax Event;
 - ii. oblige the Trustee to substitute certain *Wakala* Assets with new eligible *Wakala* Assets; and
 - iii. following delivery of any Certificates to be cancelled oblige the Trustee to transfer all or part of the *Wakala* Portfolio (as the case may be) to EMG, the value of which shall be no greater than the face amount of such Certificates.
- Transaction Documentation
- The key documents for the above structure are as follows:
1. Declaration of Trust
 2. Agency Agreement
 3. Sale & Purchase Agreement
 4. Service Agency Agreement
 5. Purchase Undertaking
 6. Sale Undertaking

SHARIAH APPROVAL

The transaction structure relating to the Certificates has been approved by the Executive Committee of the Fatwa and Shariah Advisory Board of Dubai Islamic Bank P.J.S.C., Dar Al Sharia Legal & Financial Consultancy, the Executive Committee of the Fatwa and Shariah Advisory Board of First Gulf Bank P.J.S.C., the Shari'a Supervisory Board of Morgan Stanley & Co. International plc, the Fatwa and Shari'a Supervisory Board of Noor Islamic Bank P.J.S.C. and the Shari'a Supervisory Committee of Standard Chartered Bank.

SUCCESSFUL POSITIONING OF THE EMG CREDIT

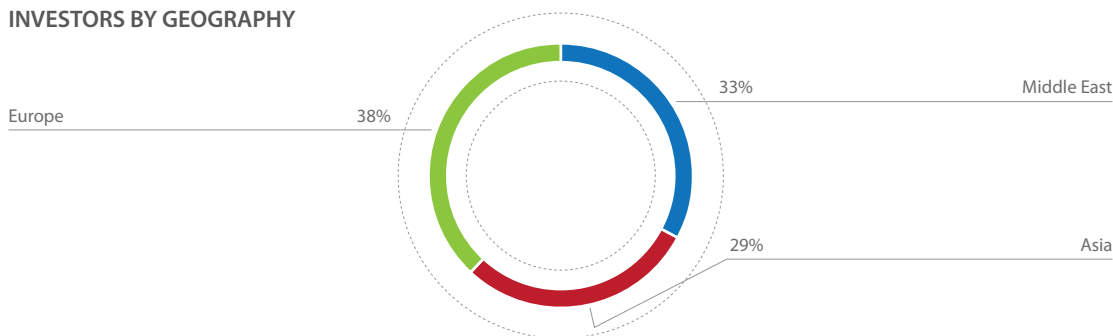
The Joint Lead Managers assisted EMG in positioning their credit for the *Sukuk* transaction. EMG's strong credit fundamentals and robust financial profile were clearly highlighted to fixed income investors. The

rating outcome reinforces the successful positioning efforts with Moody's assigning a rating that is two notches higher than the parent and S&P assigning a rating in line with that of the parent. In addition, the positive results of the credit positioning were further highlighted through the strong investor demand for the *Sukuk* transaction (7.2x oversubscription) and the tight pricing achieved.

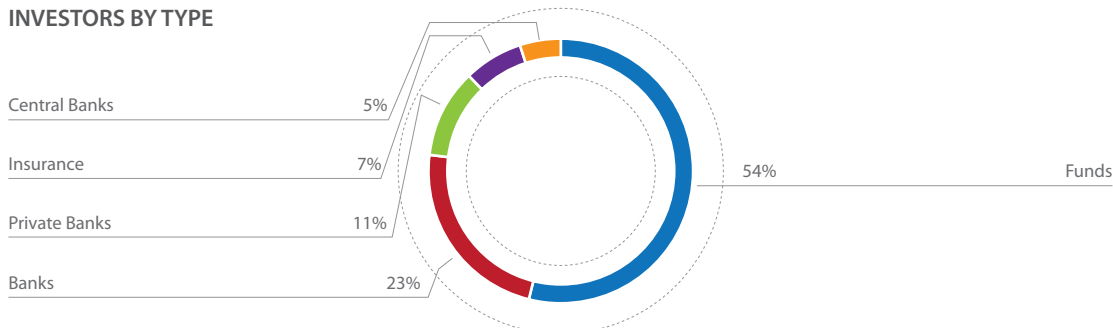
GEOGRAPHICAL DISTRIBUTION OF THE INVESTORS

The transaction came on the back of an expedited, yet comprehensive, global roadshow covering the key financial centres: London, Singapore, Hong Kong and the UAE. The transaction attracted strong investor demand with the orderbook closing at USD 5.4bn, representing from over 200 accounts.

INVESTORS BY GEOGRAPHY



INVESTORS BY TYPE



IN CONCLUSION, THIS LANDMARK TRANSACTION ACHIEVED SEVERAL MILESTONES, INCLUDING:

1. Longest tenor in senior unsecured *Sukuk* format achieved by a Dubai-based corporate since 2007;
2. Tightest spread achieved on a 10-year issuance from Dubai since 2007; and
3. Emaar Malls' inaugural issuance.



STEERED BY GUIDING PRINCIPLES



ARTICLES CONTRIBUTION

4.1 THE FUTURE GROWTH OF THE *SUKUK* FUND MARKET

By DDCAP Limited

INTRODUCTION

At a time when the Islamic finance market has witnessed an ever increasing demand for Sharia'a compliant investment instruments, the growth of the *Sukuk* fund market is the logical extension of the overall development of Islamic capital markets, predominantly in Asia and the GCC, but increasingly now in Europe with both the UK and Luxembourg becoming key players in the Islamic sector. Whereas London has historically been looked at to provide a broad and significant role in the wider Islamic market space, Luxembourg has established itself as a leading centre for Islamic asset management (Malaysia and Saudi Arabia perform this role in Asia and the GCC respectively). Similarly, in capital markets, following issuance by the UK government of its inaugural *Sukuk*, the first by a western sovereign, it is likely that Luxembourg will follow as the first country to issue a sovereign, Euro denominated *Sukuk*.

The evolution of the *Sukuk* market has, in turn, resulted in Islamic capital market investors seeking ways to diversify their risk portfolio. Investment in a *Sukuk* fund can contribute to this diversification as such funds are typically structured to satisfy investor appetite for both broadening geographical exposure and accessing investment grade paper. The investment parameters of each fund are clearly defined in the corresponding fund prospectus and will typically target a minimum investment of 70-80% of total fund assets in *Sukuk* paper; the remaining fund assets will be invested in cash equivalent structures (*Murabaha*) in order to provide fund managers with the liquidity profile sought by the underlying investors. The fund prospectus will also define the maximum and minimum percentage exposures permitted for each underlying risk asset class i.e. AAA/AA rated paper etc, as well as the level of exposure to different geographical regions and the nature of the issuers in order to ensure that investors understand the levels of risk exposure that will be assumed in advance of committing to investment.

Sukuk funds have two particular attributes. Firstly they form a subset of the *Sukuk* universe itself in that they are

inextricably linked to the issuance of *Sukuk* across the globe, and secondly, they also form a subset of the universe of all Islamic assets under management. The future development of the *Sukuk* fund market is therefore dependent upon the volume of new, global *Sukuk* issuance by all types of market issuers i.e. Sovereign, Supranational, Investment Grade, Corporate etc.

Encouragingly, the *Sukuk* market is the second fastest growing segment of Islamic finance, having witnessed an annual growth rate (according to IFSB) of more than 40% between 2005 and 2012. Sovereign issues will undoubtedly continue to dominate the landscape for the remainder of this year with a number of non-Muslim countries entering the *Sukuk* market, some for the first time. Most significantly, the variety of jurisdictions declaring an interest in *Sukuk* issuance will add to the diversification of this form of financing from its current concentration in the GCC and SE Asia. Turkey has already capitalised on the changes made to domestic regulations. Also looking to make their debut in the *Sukuk* market are a number of African countries plus several more from Asia. This can be positively viewed within a context of tightening

monetary policy across global markets and an apparent softening of appetite for emerging market investment in general. At the same time corporates, particularly those in Malaysia and the GCC, will take advantage of historically low rates and ample liquidity to lock in medium term funding.

According to IFSB, Islamic assets under management (AUM) grew at a CAGR of 9.4% for the period from 2008 to 2012. In 2013, despite a challenging global macroeconomic environment, the sector posted a 10.2% increase over the previous year. Total AUM of Islamic funds are estimated to total USD73.7bn distributed across approximately 1000 funds. Interestingly, this represents only 5% of global Islamic assets thus demonstrating the enormous growth potential of this market. In the MENA region alone, Zawya reports that only 23% of *Sukuk* in issue have been “converted” to *Sukuk* Funds which are then sold/traded within the market.

By domicile, almost 70% of Islamic funds are held in Saudi Arabia and Malaysia due in part to an accommodative regulatory environment, a propensity to issue in local currency & a large investor base, particularly in the Kingdom.

With respect to Islamic asset allocation; equity funds, money market and *Sukuk* funds account for approximately 65% of total allocations with an almost equal split between them. It is often difficult to differentiate strictly between *Sukuk* funds and Islamic money market funds as there is frequently a comingling of these two asset classes. Whilst historically, Islamic investments were directed towards Sharia’a compliant equity funds, there is now a discernible change with almost half of current outstandings being either in *Sukuk* funds or, more broadly, Islamic money market funds. With an ever increasing risk-aversion culture among investors, money market funds have

overtaken equity funds this year for the first time. Other significant asset classes include both commodities and real estate. Malaysia (attracting an estimated 16% of total Islamic AUM) and Saudi Arabia (13%) have been the two key markets for funds in 2013 and in the case of Saudi Arabia, this is largely driven by an asset hungry domestic investor base. In terms of newly-launched funds, it was Indonesia that capitalised the most on its new infrastructure with its *Sukuk* and Pilgrim Funds attracting a market share of 18% of launched funds in 2013 (according to Thomson Reuters).

Sukuk funds have benefitted with regard to investment flows, since they offer what many investors perceive to be a safer investment. With the increase in demand for *Sukuk*, more *Sukuk* specific funds are and will be launched, given their diversification of geography across new markets. Although *Sukuk* funds were able to recover after the financial crisis in 2008, producing alpha returns throughout 2009 and demonstrating resilience since then, performance has very much been reflective of that offered by the fixed income conventional markets.

It is also important to consider the accessibility of *Sukuk* funds, as *Sukuk* issuances are sometimes considered to be less accessible to retail investors. With minimum investment set at reasonably low levels for *Sukuk* funds, particularly in the instance of Ringgit denominated funds in Malaysia, *Sukuk* funds offer an opportunity to reach a larger range of investors. That said however, *Sukuk* funds, whilst offering the possibility of shorter-term investment due to the retail demand, have a tendency to mirror the *Sukuk* market’s propensity to define itself as offering only medium to long-term investment opportunities and the further deepening of the market through issuance of paper with varying profiles in terms of tenor is required to resolve this.

CONCLUSION

In order to propel the growth of *Sukuk* funds, institutional investors must also be targeted and willing to invest. Two potential investor groups that could provide a major boost to the *Sukuk* market in general and the development of *Sukuk* funds in particular will be the participation of Sovereign Wealth funds (particularly in the GCC) and Government Pension / Retirement funds. It is hoped that it will only be a matter of time before these funds start allocating a portion of their Fixed Income portfolio to the *Sukuk* market. Were this to happen, it would undoubtedly provide a positive boost, bringing more trading liquidity to the secondary market given that the funds are likely to trade relative value rather than simply assuming a passive investor role. Furthermore, greater demand in the primary market and greater secondary trading liquidity will lead to tighter pricing and a narrowing of spreads. According to Thomson Reuters, pension assets in the GCC alone are estimated to be in the order of US\$ 180 billion (approximately 6% of GDP).

Were these two groups to include *Sukuk* in their future asset allocation strategies, they could fundamentally alter the industry dynamics in the Islamic space. Again, the profile of these investor groups suggests that their preference will be for origination of paper that is long term with a predictable, recurrent income stream. As has been alluded to, with increasing diversification in terms of geography, volume, tenor, currency and value, investment into *Sukuk* funds will continue to grow and provide for the investor a more balanced and diversified portfolio of Islamic assets. However, as with capital markets in general, investor appetite, risk aversion, rate sensitivity and credit risk will ultimately determine the future growth of the *Sukuk* market and with it, the future growth of the *Sukuk* fund market.

4.2 SUKUK RESTRUCTURING IN THE GCC – AN OVERVIEW

By Salman Ahmed, Partner, Towers & Hamlins, Bahrain and Elias Moubarak, Senior Associate, Towers & Hamlins, Dubai

INTRODUCTION

Default. Insolvency. Moratorium. Restructuring. These were terms not commonly used by participants in the Shari'a compliant debt capital markets until the advent of the global financial crises in 2008/2009. As contagion from the crises spread from the conventional debt markets to the global economy to the capital markets, corporate and sovereign bond issuers across the GCC experienced reduced liquidity and pressure on financial covenants, while many traditional means of refinancing have become unavailable or prohibitively expensive. Golden Belt, Investment Dar, Nakheel, Tabreed, Dana Gas, Villamar, and Maple Leaf are but a few examples of *Sukuk* issuers/obligors whose *Sukuk* issuances have been affected by one or more major issues that have required a restructuring of the relevant debt obligations. While each of these obligors was affected by their own unique set of circumstances with varied levels of distress and financial problems, we do see some common themes and issues emerge.

KEY ISSUES

Recognising a problem: "Recognition of a problem is the first step towards solving it", as the old adage goes. Successful relations with *Sukuk* holders on a restructuring will depend to a large extent on the commitment on the part of management to being pro-active in recognising potential financial problems before they arise, and to assembling a team focussed on restructuring the debt obligations of the obligor in order to maintain the value of the business operations of the obligor. In the GCC, and indeed globally, there is a stigma associated with restructuring. Often, business owners and/or high level management will associate restructuring with insolvency or failure. A consequence of this perception (or rather misperception) is that an obligor can fail to take pre-emptive steps such as appointing a financial adviser to develop a restructuring plan and engaging with creditors (including *Sukuk* holders) before major issues (such as a payment default) arise.

Appointing a restructuring team: A key step towards an orderly restructuring is the appointment of a team of restructuring advisers who are sufficiently familiar with planning and executing debt restructurings.

Default/insolvency vs. restructuring: As an obligor approaches or triggers an event of default, a decision will have to be taken as to whether to face enforcement

actions (which may result in insolvency) or attempt to restructure the debt obligations. In the GCC, obligors and the holders of their *Sukuk* certificates have without exception chosen to take the restructuring road. A number of factors have influenced such decisions including the lack of "tried and tested" regulation and precedent with regards to the insolvency process, the issue of sovereign immunity and government related entities and uncertainty regarding the process for enforcement of security.

Form of restructuring: Of course, there is no single solution or formula that fits all situations and obligors. Every situation is unique and requires careful review and consideration of the underlying factors of the situation, available options and those proposed by the obligor and its advisers, credibility of and confidence in the existing management of the obligor, timeframe, costs and consequences. The following are some of the forms *Sukuk* restructurings can take:

- *Repurchase of Sukuk:* An obligor may choose to buy back some or all of the relevant *Sukuk* (usually at a discount to the relevant par value) via an open market purchase or private negotiations with large holders. The funds may be raised for the buy back by obtaining bank financing (as was the case with the restructuring of Dubai International Financial Centre Investment's debt obligations) and/or issuing new *Sukuk* (as was the

case with the restructuring of Jebel Ali Free Zone Authority's debt obligations). However, it may be challenging for an obligor in financial difficulty to locate sufficient eligible assets to form the basis of a new *Sukuk* issuance.

- **Exchange offers:** An exchange offer is an offer by the relevant obligor to exchange new *Sukuk* certificates (including convertible *Sukuk* certificates) or equity for the existing *Sukuk*. That is to say, the obligations of the obligor under the original *Sukuk* will need to be extinguished and replaced by obligations under new *Sukuk* as a result of the exchange offer. Benefits to the obligor may include the fact that it can offer a new debt package with, among other things, an extended maturity profile and familiarity with the existing investor base. This was the approach taken on the restructuring of the Dana Gas *Sukuk*. As noted above, an added complexity of exchange offers in the context of *Sukuk* restructurings relative to conventional bond restructurings is that the issuing vehicle would need to acquire a satisfactory set of underlying assets to support the issue of new *Sukuk* certificates.

Consensus among *Sukuk* holders: Whatever form the restructuring takes, the agreement of the holders of the *Sukuk* to the restructuring is likely to be integral to the process. *Sukuk* issuances generally tend to have a more diversified investor base, each with differing interests and objectives. For example, the objectives and motivations of a *Sukuk* holder that is a pension fund will differ markedly to those of a *Sukuk* holder that is a trader in distressed debt. Furthermore, the obligor will usually not be aware of the identity of the *Sukuk* holders due to the manner in which clearing systems operate. The obligor will usually not interact with the *Sukuk* holders directly as the ultimate investor usually has several layers of ownership between itself and the obligor/originator. Also, the SPV issuer is typically interposed between any correspondence between the obligor/originator and the investors. This makes the process of identifying these investors, as well as the voting and decision making process, challenging and time consuming. These issues are further aggravated by

the fact that the capital markets documents in a *Sukuk* were typically based on those used for conventional bond issues, with little attention paid to tailoring the provisions (including the voting mechanics and thresholds for considering key issues) to the *Sukuk* structure.

Consensus among creditors: In a restructuring of the debt of obligations of an obligor, *Sukuk* holders will often comprise but one set of creditors, with banks and trade creditors comprising other sets of creditors. The relationship between the various sets of creditors may be non-existent and their interests conflicting. Bank and trade creditors are also likely to have an active relationship with the obligor, which puts them in an advantageous position because they are often the first to know about any funding or other financial issues and are able to approach and commence negotiations with the obligor facing difficulties before other creditors including the *Sukuk* holders.

Cross border issuances: Cross border *Sukuk* issuances create a number of issues particularly where out of court restructuring is not an option in the home jurisdiction of the obligor and a judicial court-led process has to be followed. In the absence of proper restructuring facilitating laws and regulations, this process can have serious consequences for the obligor particularly where such laws are geared towards winding up rather than rehabilitation and the court takes key decision making powers away from the existing management.

CONCLUSIONS

Restructurings can be an important step towards managing the financial problems of a business and maintaining it as a going concern. Successful *Sukuk* restructurings in the GCC will be greatly facilitated if business owners and senior managers are prepared to act early, engage in open and transparent dialogue with *Sukuk* holders and appoint professional advisers to assist with the preparation and execution of a restructuring plan. Legislators and regulators have their part to play by creating a legislative framework and regulatory infrastructure that facilitate restructurings.

4.3 PERFORMANCE OF HARD CURRENCY SUKUK IN 2014

By Ibrahim Bitar, Head of Sukuk Trading, Noor Bank

2014 has been a great year for hard currency *Sukuk* in terms of innovation and performance.

On the innovation side, we saw the first UK Government *Sukuk* which will help European Islamic investors, particularly in the UK, gain greater access to local high quality paper. Within the GCC, we also saw the first "Point of non-Viability" Basel III compliant Tier 1 *Sukuk* from Al Hilal Bank.

Sukuk registered a sound performance year-to-date with the global strengthening of rates and credit spreads. The Dollar rates curve flattened as we move closer to the Federal Reserve's timeline of raising the overnight rate. As of August 15, 2014, the ten year and five year swap rates had dropped 60 bps and 7 bps respectively, year-to-date. In that same period, Dollar denominated *Sukuk* had strengthened by about 90 bps. Meanwhile, year-to-date, Indonesia, Turkey, Dubai, and Malaysia's five year CDS have tightened 85 bps, 65 bps, 60 bps, and 20 bps respectively.

The drop in rates was driven by two main factors. First, rates were too high on year-end 2013, implying a 3.50% ten year swap rate one year forward - a very high rate given near zero overnight rates, low inflation and slow US GDP growth. The massive selloff in the summer-fall of 2013 had caught participants by surprise causing distressed selling that pushed valuations to extremely low levels. Second and most important the new FOMC chairperson Janet Yellen has been more dovish than

expected helping rates volatility to drop significantly. Yellen relied on forward rates guidance and moved the economic goalposts for the first rate hike. This decision significantly reduced risk premia in all fixed income markets, including *Sukuk*.

The tightening of credit spreads was driven by three main reasons. First, credit spreads were exceedingly wide in December 2013 following the summer-fall 2013 fixed income rout where forced sellers drove valuations to exceedingly distressed levels. Second, the low risk environment encouraged risk taking and yield chasing. Third and most important, the significant supply-demand imbalance triggered a large amount of *Sukuk* net redemptions that placed cash in investors' hands with few *Sukuk* to invest in.

In 2009, a plethora of high quality GCC entities issued Five year *Sukuk* for the first time following the financial crisis of 2008. In 2014, when these issues were set to mature, most entities were flush with cash and didn't need to refinance from the market. Consequently, GCC credit investors had maturing mostly high grade paper with fewer new issues to roll into.

The supply-demand imbalance has stretched *Sukuk* valuations and we expect *Sukuk* yields to rise going into 2015 as the supply-demand imbalance reverses in 2015.

STRIVING FOR GREATER TRANSPARENCY



SUKUK MARKET IN SELECTED IIFM MEMBER COUNTRIES

5.1 GOVERNMENT OF BAHRAIN SUKUK ISSUANCES

SHORT AND LONG TERM SALAM AND IJARAH SUKUK DOMESTIC AND INTERNATIONAL

By Central Bank of Bahrain (CBB)

INTRODUCTION

The Kingdom of Bahrain is one of the countries which have made great strides in launching new Islamic financial products in an innovative manner. It was one of the first governments in the world to start a sovereign *Sukuk* program, as early as 2001. Since then it has been quite active in the *Sukuk* market and issues short and long term instruments at regular intervals. As much as 25% 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.

1 SUKUK AL SALAM

Started in June 2001 and having 153 issues to-date, *Sukuk Al Salam* account for the bulk of the Government's short term Islamic financing needs. *Sukuk Al Salam* are an instrument based on sale and purchase contracts. These securities are collateralised by a commodity (raw aluminum). They are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee.

PRINCIPAL TRANSACTION DOCUMENTS AND EXPLANATION

There are three contracts which have to be agreed upon and signed:

- 1 Forward (Salam) purchase contract: The first party (a designated Islamic retail bank on behalf of the investors) purchases from the second party (CBB which fully agrees a *Salam* deal of a commodity (Aluminum) with a specified quantity in the form of *Sukuk Al Salam* at par value. The first party shall

pay the value of the commodity to the CBB on the date on which this contract is signed.

- 2 Promise to sell to a third party which is completely different and distinct from the seller of the *Salam*: The first party, the Government of Bahrain, is the Promisor represented by the CBB (specialized in marketing of this product). The second party, a designated Islamic retail bank, in its individual capacity and on behalf of the investors, the Promisee, as the owner of the commodity (Aluminum) wishes to sell it upon its receipt. Since the first party (CBB) is specialized in the marketing of this product which will be received by the second party, the CBB (the Promisor) hereby offers the designated Islamic retail bank (the Promisee) a promise to act on behalf of the second party in the selling of the commodity to a third party at an exact specified price which is completely different from the seller.

- 3 Sale contract (with authorization to receive the commodity sold): In as much as the second party (CBB) has made a binding pledge on a specific date, and in as much as the first party (the designated Islamic retail bank) wishes to sell the commodity (Aluminum), the two sides have accordingly agreed on the following:
- The first party shall sell the commodity to the second, receiver party.
 - The second party shall agree to purchase the commodity in its current form and character and shall release the first party from liability for any defect in the commodity sold.
 - The cost of the sale between the two parties shall be set at a specified agreed amount.
 - The second party shall fully pay the sale price to the first party's account, on a specified agreed date.
 - Invitation letters which contain details on a forthcoming issue are circulated to the institutions entitled to participate.
 - The institutions submit a tender bid to the CBB indicating the quantity they would like to acquire through the Scripless Securities Settlement System (SSSS).
 - Tenders are then allotted pro-rata to interested institutions according to their quantity contributions.
 - The system notifies the participating institutions of the result of the tender allotment.
 - The settlement of the resulting transactions takes place by debiting the participating banks' Real Time Gross Settlement (RTGS) system accounts with the CBB.
 - The issue date is normally two business days after the tender date.
 - The CBB issues a press release with information about the allotment result, including the issue number, issue and maturity date, amount allotted, expected return and total tenders received.

2 **SUKUK AL IJARAH**

2.1 **SHORT TERM IJARAH SUKUK**

Short term *Ijarah Sukuk* was first issued in August 2005 (103 issues to date). These *Sukuk* are issued on a monthly basis and have a 6-month (182 days) maturity. *Ijarah Sukuk* is an instrument which takes the form of Islamic leasing contracts. The *Ijarah Sukuk* are based on assets owned by the Government of Bahrain. They are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee.

Auction procedure for short term *Ijarah Sukuk* issuance is as follows:

2.2 **LONG TERM IJARAH SUKUK (DOMESTIC)**

Long term *Ijarah Sukuk* were first issued in September 2001 (18 issues to date) upon the request of the Ministry of Finance. It's based on assets owned by the Government of Bahrain. The features and the auction procedure for long term local *Ijarah Sukuk* issuance are as follows:

- In issuing these instruments the Government of Bahrain sells an asset to the investors who will buy and own it before renting back to the Government at a predetermined rental rate, via a rental contract.

- The Government will also issue a binding promise to buy back the asset at its par value at the end of the rental period.
 - Ministry of Finance chooses the asset which is to be used for a new issue.
 - A prospectus is prepared which gives details on the issue amount, currency, rental return, issue date and maturity date.
 - An announcement is made in the newspapers that there is a new issue of *Ijara Sukuk*.
 - An invitation letter, prospectus and four contracts are sent to the institutions allowed to participate.
 - Tenders are received from the participating institutions one week before the issue.
 - All the tenders are allotted and a press release is sent to the newspapers.
 - On the date of the rental return, the CBB will transfer the return amount to the participating institutions' respective accounts (semi-annually).
 - CBB has a Shari'a committee which reviews the procedures undertaken with the issuance of *Ijara Sukuk* in the form of a religious verdict (Fatwa).
- Bids are received through book building conducted by the underwriters during road shows.
 - The CBB then allocates the securities to the participants on a pro-rata basis.
 - International *Ijara Sukuk* were first issued in June 2009 (2 issues to date).

PRINCIPAL TRANSACTION DOCUMENTS AND EXPLANATION

There are four contracts / promises which have to be processed, agreed upon and signed.

2.3 LONG TERM IJARAH SUKUK (INTERNATIONAL)

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

- The CBB sends invitations for lead managers to submit their offers for arranging and handling the issue.
 - The CBB evaluates the tender offers received according to their competitiveness, price range, total fees, rating of the banks, etc.
 - The CBB selects one or more banks to further negotiate the conditions of the offer.
- 1 First sale contract: This contract states that the first party, the CBB, is the owner of a specific asset which is not mortgaged nor blocked or subject to any form of conflict. The second party, the designated Islamic retail bank, should be willing and prepared to buy these assets from the CBB at a certain cost (the cost of the issue of the Islamic leasing securities). Under the first sale contract the CBB sells the asset to the designated Islamic retail bank.
 - 2 The *Ijarah* contract: The designated Islamic retail bank (along with the rest of the holders of the *Ijarah Sukuk*) gives the asset on rent to the CBB.
 - 3 Promise to buy: The CBB makes a unilateral promise to buy back the asset from the designated Islamic retail bank at the original cost agreed upon in the first contract.
 - 4 Sale contract (at the end of the *Sukuk* term): This is an agreement which involves the sale of the asset from the designated Islamic retail bank to the CBB.

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

ISSUE NO.	ISSUE DATE	MATURITY DATE	RETURN DATE	ISSUE AMOUNT
U/1	04 Sep 2001	04 Sep 2006	5.250%	\$100 million
U/2	27 Sep 2002	27 Feb 2005	4.250%	\$70 million
U/3	29 Aug 2002	29 Aug 2007	4.000%	\$80 million
U/4	19 Nov 2002	19 Nov 2005	3.000%	\$50 million
U/5	27 Feb 2003	27 Feb 2005	3.000%	\$80 million
U/6	02 Apr 2003	02 Apr 2008	3.750%	\$100 million
U/7	27 May 2003	27 May 2008	60 bps over 6m UBOR	\$250 million
U/8	15 Dec 2003	15 Dec 2006	30 bps over 6m UBOR	\$50 million
U/9	30 Jun 2004	30 Jun 2009	45 bps over 6m UBOR	\$250 million
U/10	28 Jul 2004	20 Jun 2014	5.125%	BD40 million
U/11	28 Feb 2005	28 Feb 2010	4.500%	BD30 million
U/12	21 Nov 2005	21 Nov 2011	5.600%	\$230 million
U/13	03 Oct 2007	03 Oct 2012	30 bps over 6m UBOR	BD95 million
U/14	20 Mar 2008	20 Mar 2013	75 bps over 6m UBOR	BD350 million
U/15	17 Jun 2009	17 Jun 2014	6.24%	\$750 million
U/16	24 Sep 2009	24 Sep 2012	3.75%	BD165 million
U/17	07 Apr 2011	07 Apr 2016	5.5%	BD200 million
U/18	22 Nov 2011	22 Nov 2018	6.273%	\$750 million
U/19	17 Jul 2012	17 Jul 2017	4.300%	BD160 million
U/20	13 May 2013	13 May 2015	1.450%	BD100 million

Source: Central Bank of Bahrain

Note: Issue No. 14 and 18 are international Ijarah Sukuk

CONCLUSION

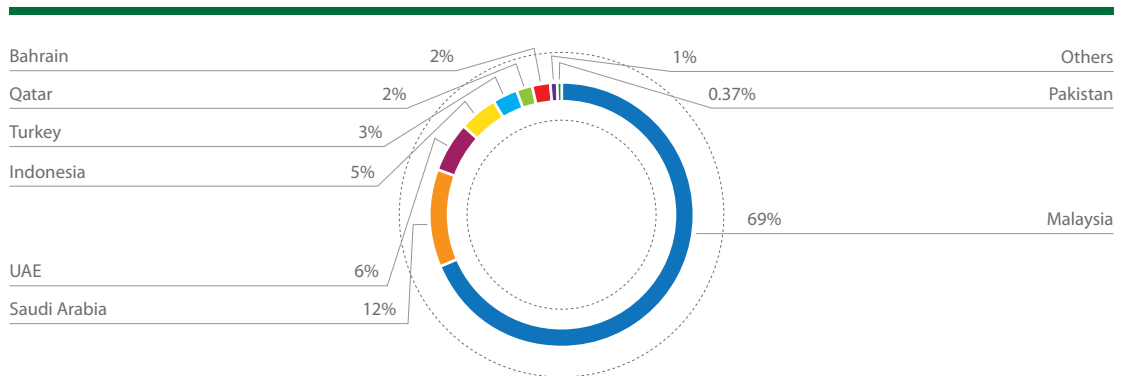
Although Bahrain's sovereign *Sukuk* issuances are meant primarily for the domestic market, the long track record and the high frequency of issuance make it among the active countries in this space. With nearly a quarter of the government's financing needs being met through *Sukuk* we can expect continued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

5.2 MALAYSIA A FAVOURED DOMICILE FOR SUKUK

By Labuan FSA

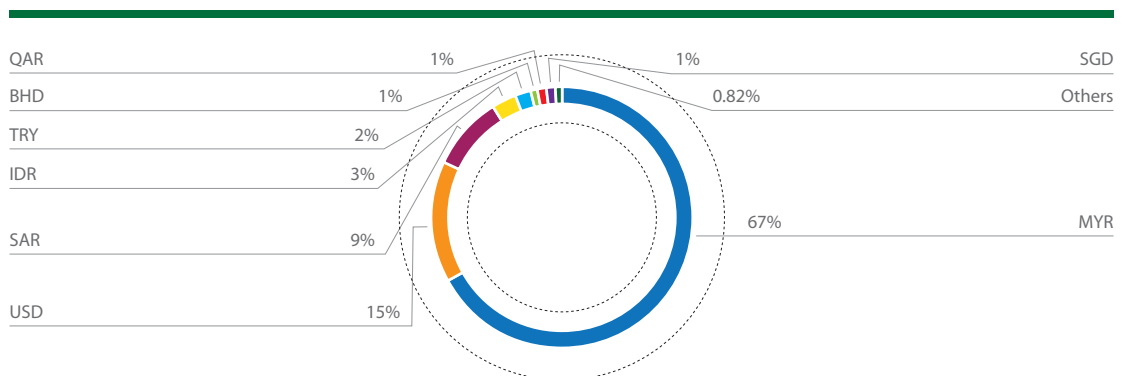
Thriving on its vibrant and comprehensive Islamic financial services industry, Malaysia continued to be the favoured domicile for *Sukuk* issuances globally where 69% of the global *Sukuk* issuances originated from Malaysia in 2013 amounting to USD82.4 billion (RM271 billion). In terms of currency, the ringgit also maintained its domination in 2013, with 67% of total *Sukuk* issuances worth USD80.4 billion.

GLOBAL SUKUK ISSUANCES BY DOMICILE (2013)



Source: IFIS, Zawya, Bloomberg KFH Research, MIFC

GLOBAL SUKUK ISSUANCES BY CURRENCY (2013)



Source: IFIS, Zawya, Bloomberg KFH Research, MIFC

The success story of Malaysia in *Sukuk* market development reflects the strategic focus and strong commitment of the Government to develop a comprehensive Islamic financial system that will ultimately evolve Malaysia as the centre

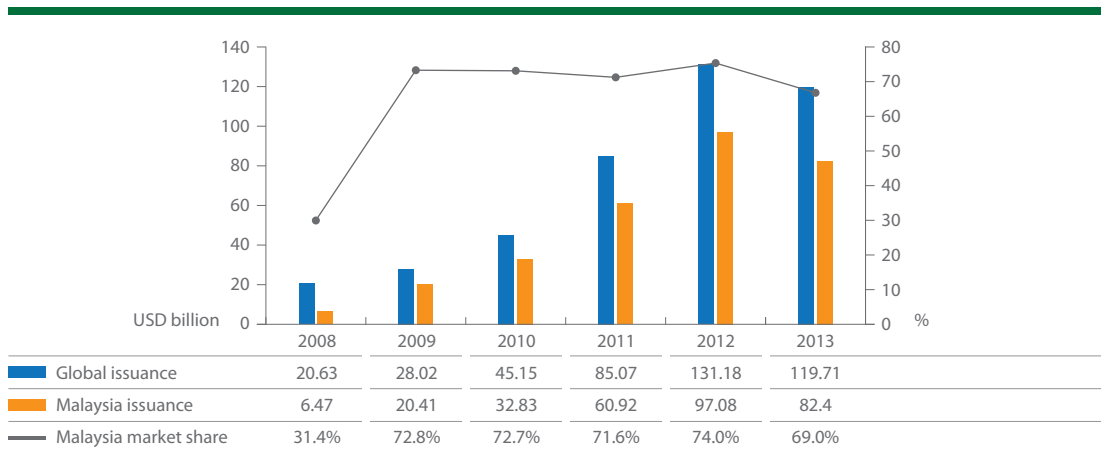
for Islamic finance globally. Malaysia pioneered the development of the global *Sukuk* market with the launching of the world's first sovereign five-year global *Sukuk* worth US\$600 million in 2002.

Having introduced the world's first global sovereign *Sukuk*, Malaysia continued to facilitate the development of innovative *Sukuk* structures such as the exchangeable *Sukuk Musharakah* by Khazanah Nasional Berhad, the investment-holding arm of the Malaysian Government. This landmark issuance is the world's first *Sukuk* that incorporates full convertibility features that were previously common only to conventional equity-linked transactions. Since then, Malaysia has led the world in *Sukuk* issuances covering sovereign global, domestic and

corporate issuances. Malaysia successfully issued its second sovereign global *Sukuk Al-Ijarah* and third *Wakala* global *Sukuk* in 2010 and 2011 respectively.

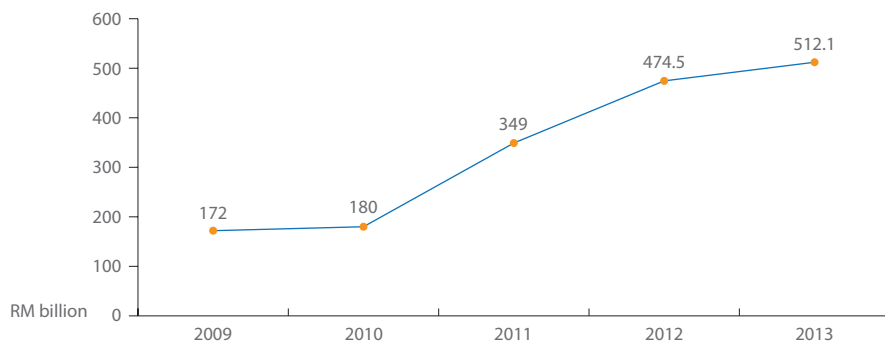
Leveraging on Malaysia's successful experience in tapping the *Sukuk* market to support its infrastructure development programmes, a number of jurisdictions and entities also endeavour to tap into the global pool of Shariah compliant funds through *Sukuk* for their various economic, business and infrastructural spending needs.

GROWTH TREND ON SUKUK ISSUANCES



Source: Bloomberg, KFH Research, MIFC

MALAYSIA: TOTAL OUTSTANDING SUKUK (CORPORATE)



Source: Bloomberg, KFH Research, MIFC

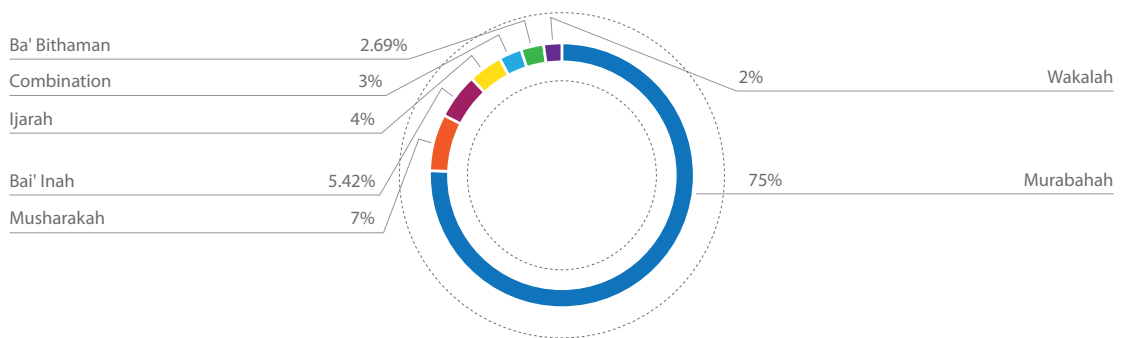
The progressive development of the *Sukuk* market in Malaysia over the years paved the way for Malaysia to emerge as a vibrant *Sukuk* hub, offering a complete ecosystem for *Sukuk* activities through its conducive issuance environment, facilitative policies for investment activities and comprehensive Islamic financial infrastructure. This has attracted global investors and players to Malaysia as a preferred *Sukuk* issuance and investment destination.

INNOVATIVE SUKUK STRUCTURES

The *Sukuk* market in Malaysia has grown in sophistication with structures based on various Shariah principles

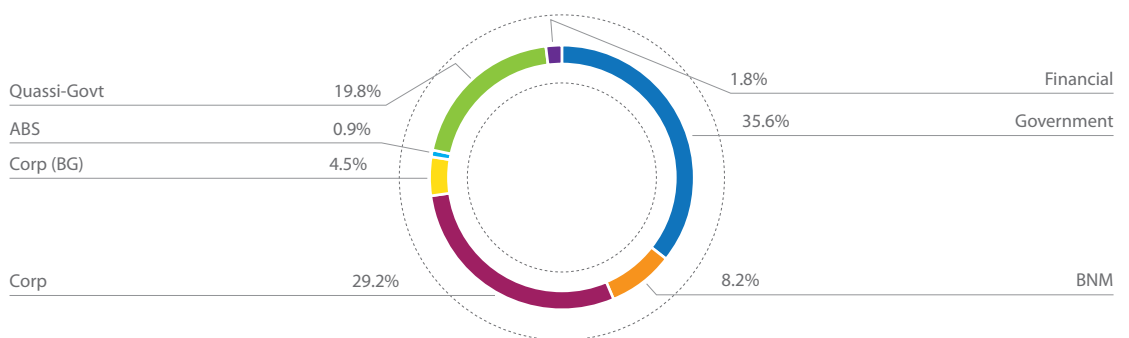
including *Murabahah*, *Musharakah*, *Wakalah*, *Ijarah* and hybrid structures based on combinations of Shariah contracts. These *Sukuk* structures not only provide flexibility to sovereign and corporate issuers in meeting their capital-raising needs but also appeal to a wide range of investors. Corporate *Sukuk* in Malaysia are raised for a variety of economic sectors including infrastructure and utilities, financial services, property and real estate, diversified holdings, trading and services, industrial products and asset-backed securities. Recent innovations in Malaysia's *Sukuk* market include the world's first *Takaful* sector *Sukuk*, Basel III-compliant *Sukuk* and retail *Sukuk*.

MALAYSIA (2013): SUKUK ISSUANCES BY STRUCTURE



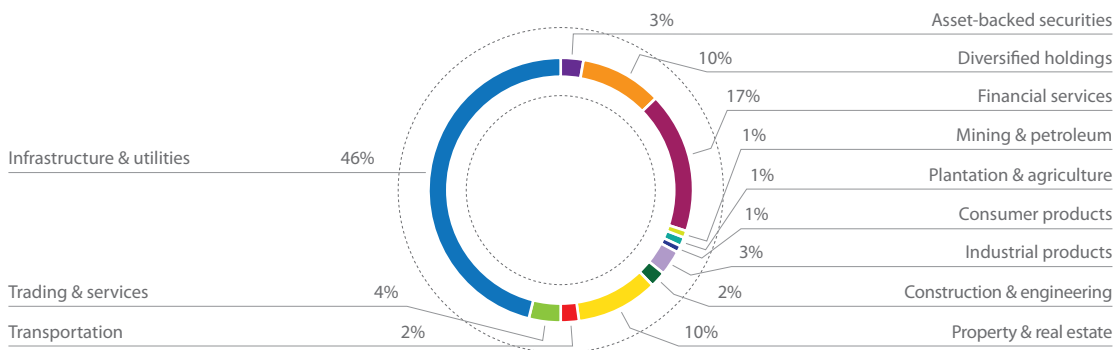
Source: IFIS, Zawya, Bloomberg KFH Research, MIFC

MALAYSIA: TOTAL OUTSTANDING SUKUK AS AT 31 DECEMBER 2013



Source: Bond Pricing Agency Malaysia (BPAM), RAM

**MALAYSIA: CORPORATE SUKUK MARKET ISSUED & RATED BY ECONOMIC SECTOR
AS AT 31 DECEMBER 2013 (BY VALUE)**



Source: RAM, FAST

ROBUST AND FACILITATIVE LEGISLATIONS, SHARIAH GOVERNANCE AND FISCAL FRAMEWORK

Malaysia has an efficient and facilitative legal, regulatory, Shariah governance and tax framework which offers attractive value propositions for both domestic and foreign *Sukuk* issuers and investors.

Sukuk fall under the purview of the Securities Commission Malaysia (SC) and are regulated under the Capital Markets and Services Act 2007 (CMSA). The Islamic Securities Guidelines (*Sukuk* Guidelines) shall regulate any issue, offer or invitation of *Sukuk* including Islamic medium-term notes, Islamic commercial papers and *Sukuk* programmes. Any person who is a corporation within the meaning of sub-section 2(1) of the CMSA or a foreign government is eligible to issue, offer or make an invitation on *Sukuk* upon seeking the SC's approval under these guidelines.

The structure of *Sukuk* must be confirmed and approved by a Shariah Adviser who is appointed by the issuer. For issuances involving new concepts or structures, further endorsement by the Shariah Advisory Council of the SC, which advises the Commission on matters pertaining to Islamic capital markets, is required. Together with the

Shariah Advisory Council of Bank Negara Malaysia (which is the authoritative body on Shariah matters for financial institutions regulated by the Bank), the Councils serve to ensure compliance with Shariah principles which form the tenets of Islamic finance, while supporting innovation through their pronouncements on the Shariah-compatibility of innovative structures. The Councils have also been empowered to make rulings on any Shariah matter relating to Islamic finance referred to them by the courts. The binding effect of such rulings addresses the issue of uncertainty and enhances market confidence in respect of dispute resolution on contracts and transactions based on Shariah.

Malaysia's flexible foreign exchange administration rules allow multilateral development banks, multilateral financial institutions, sovereigns, quasi-sovereigns and local or foreign multinational corporations to issue foreign currency-denominated *Sukuk* in Malaysia. Malaysia has accorded the "Emas" designation to foreign currency denominated bonds and *Sukuk* originating from Malaysia in the global capital market. "Emas" is the Malay word for gold which symbolizes universal value and security.

MALAYSIA OFFERS VARIOUS ATTRACTIVE TAX INCENTIVES FOR THE ISSUER AND INVESTOR OF *SUKUK* WHICH INCLUDE THE FOLLOWING:

SUKUK ISSUERS

- Company that establish Special Purpose Vehicle (SPV) is given tax deduction on the cost incurred by the SPV for the issuance of *Sukuk*
- Income tax exemption for SPV issuing *Sukuk*
- Tax neutrality-stamp duty exemption for issuance of *Sukuk* approved by the SC's Shariah Advisory Council

SUKUK INVESTORS

- Income tax exemption for non-resident investors on profit from Ringgit denominated *Sukuk*
- Income tax exemption for any person on profit from non-Ringgit *Sukuk* originating in Malaysia
- Income tax exemption for any individual, unit trust and listed closed-end fund on profit from *Sukuk*

Source: MIFC.com

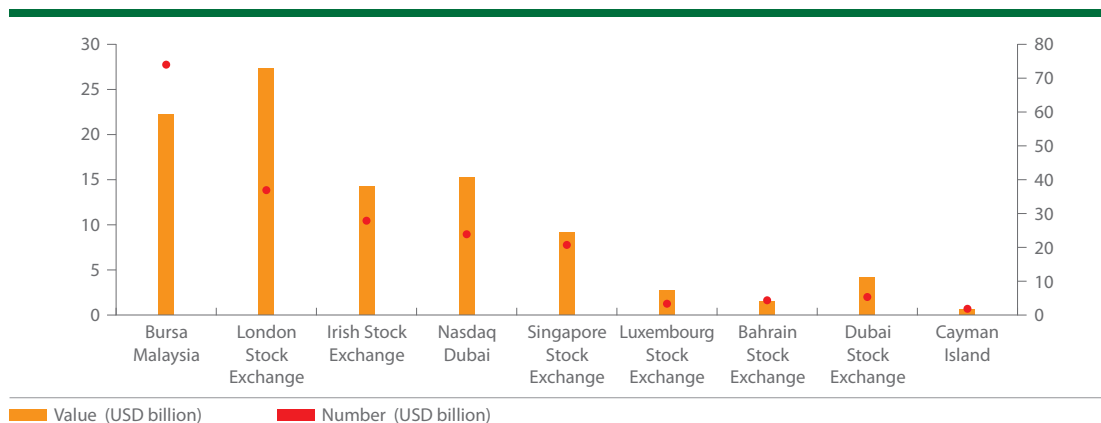
EFFICIENT PLATFORM FOR *SUKUK* LISTING AND TRADING

A facilitative platform for *Sukuk* issuance and trading activities has also supported more efficient issuances and enhanced the price discovery process. Malaysia's payment and settlement systems, including the Real-time Electronic Transfer of Funds and Securities (RENTAS) system, provide an efficient platform for the trading of bonds, with a high level of post-trade transparency and market liquidity. For global investments, flexibility is also accorded for foreign investors to leverage on international clearing and settlement systems.

To further enhance the breadth and depth of the *Sukuk* market in Malaysia, 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 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 profiling of the issuers to facilitate future fund raising exercises by attracting investments from a wider segment of institutional and high net worth investors.

LISTING OF *SUKUK* BY EXCHANGES



Source: IFIS, KFHR

PROFESSIONAL MALAYSIAN SERVICE PROVIDERS

One of the components of the Islamic finance ecosystem reinforcing the growth and innovation of *Sukuk* in Malaysia is the diversity of players with global capacities and capabilities. These include Islamic financial players with global distribution networks and talent in lead arranging and advisory services as well as competent Shariah advisers and legal firms in providing expert Shariah and legal advice for various *Sukuk* structures.

LABUAN IBFC AS THE GATEWAY FOR CROSS-BORDER SUKUK

Complementing Malaysia's Islamic finance infrastructure, Labuan International Business and Financial Centre (IBFC) is Malaysia's international business and financial centre that has its own dedicated legislation, Shariah governance and fiscal incentives for Shariah-compliant financial transactions including *Sukuk* issued in Labuan, Malaysia.

The strategic location of Labuan IBFC in the heart of Asia Pacific provides the gateway for *Sukuk* issuances and investments to facilitate cross-border financial flows in the Asia Pacific region as well as internationally.

As an innovative Islamic financial centre, Labuan IBFC's legislation provides a facilitative and flexible framework for industry players to be innovative and creative in structuring new solutions and structures. The Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA) is the world's first omnibus Islamic Finance legislation, which encompasses all requirements for Shariah-compliant financial services including banking, *Takaful*, *reTakaful*, *Sukuk* issuance, mutual funds, protected cell companies, limited partnerships and limited liability partnerships, private trust companies, trusts and foundations. The *Sukuk* issued in Labuan IBFC is regulated by Labuan Financial Services Authority (Labuan FSA).

The establishment of the Shariah Supervisory Council of Labuan FSA under LIFSSA further reinforces the Islamic financial ecosystem in Labuan IBFC in Shariah

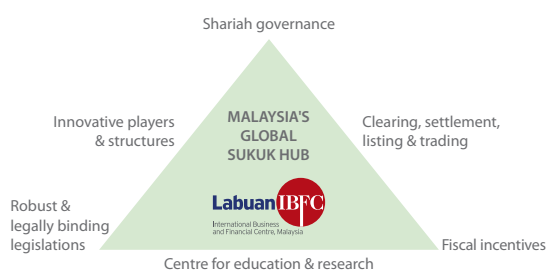
governance. All rulings made by the Council are deemed admissible in Court, providing certainty and enhancing confidence in Islamic financial services in Labuan IBFC.

Labuan IBFC offers an attractive fiscal regime for *Sukuk* which includes the following:

- The Labuan Special Purpose Vehicle (SPV) can elect to be taxed at 3% of audited net profits or a fixed tax of RM20,000 under the Labuan Business Activity Tax Act 1990
- The Labuan SPV is allowed to claim full rebate on business zakat against the tax payable
- The Labuan SPV is exempted from payment of stamp duty on all documents
- No withholding tax on dividends/profits/technical & management fees/royalty payments received from Labuan SPV by foreign investors or shareholders
- Income tax exemption on dividends/profits received from Labuan SPV by Malaysian residents
- Income tax exemption on Shariah advisory fees received by foreign qualified institutions
- Flexible exchange control environment 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 at June 2014, LFX Islamic market capitalisation stood at USD7.1 billion or 29.6% of total industry's market share.

MALAYSIA'S COMPREHENSIVE ISLAMIC FINANCE ECOSYSTEM – A FAVOURED DESTINATION FOR SUKUK



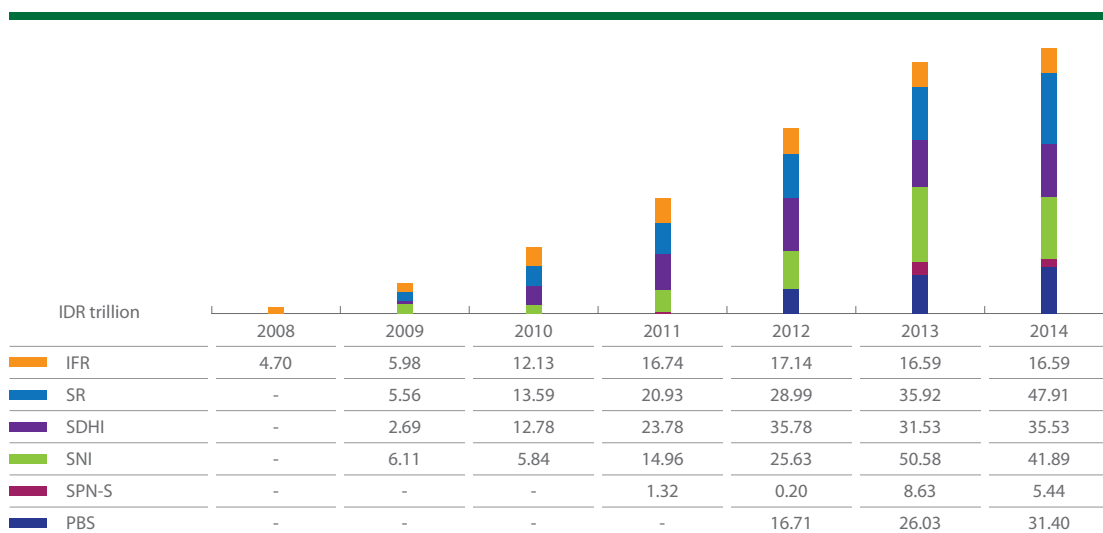
5.3 INDONESIA *SUKUK* MARKET

By Bank Indonesia

BACKGROUND INFORMATION & MARKET UPDATE

Development of Indonesian *Sukuk* started in 2002, when Indonesian National Sharia Board (DSN-MUI) issued fatwa on Islamic bonds. Shortly afterwards, PT Indosat, one of Indonesia major telecommunication company, issued Islamic bond using *Mudharabah* structure to finance its business expansion. However, Indonesian *Sukuk*¹ market showed more positive development since Government of Indonesia took part as issuer in 2008 when Ministry of Finance issued its very first government *Sukuk*.

GOVERNMENT *SUKUK* OUTSTANDING



Source: dmo.or.id

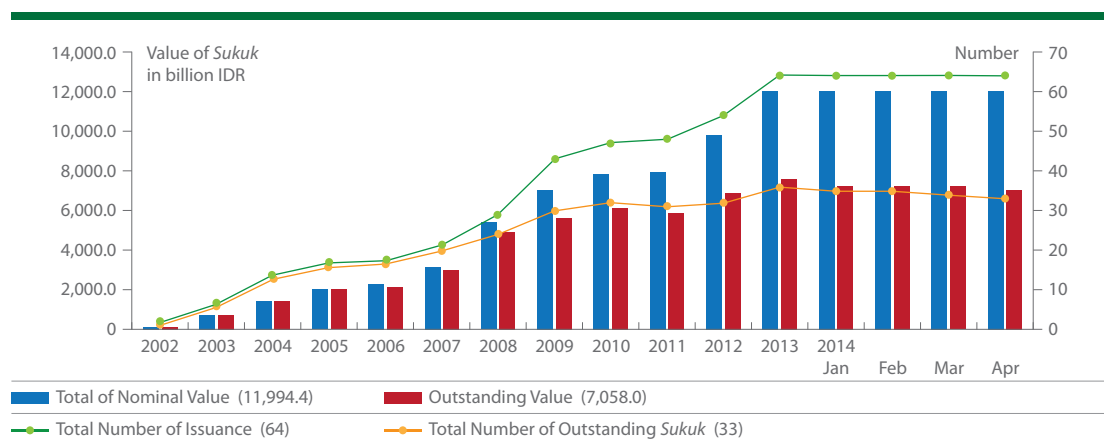
Since its first issuance in 2008, the Government *Sukuk* (SBSN) has been growing rapidly, both tradable and non-tradable, wholesale and retail, in Indonesian Rupiah and foreign currency. The first type of *Sukuk* issued by Government of Indonesia was based on *Ijarah* Sale and Lease Back structure (IFR), utilizing state-owned assets as underlying. In the following year, the Government started to issue retail *Sukuk* (SR) and cross border global *Sukuk*, utilizing the same *Sukuk* structure. In the same year, the Government also issued new type of *Sukuk* called Hajj Fund *Sukuk* (SDHI), which is non-tradable, as private placement for

hajj fund management. Later on in 2012, project-based *Sukuk* (PBS) was issued with infrastructure project as underlying, due to limitation of state-owned assets available for underlying of *Sukuk* issuance.

Outstanding of Government *Sukuk* continue to grow along with the issuance. In 2013, the outstanding of domestic Government *Sukuk* has reached IDR 118.7 trillion, an increase of 20.1% from 2012. It continued to move in same direction in 2014, reaching IDR 136.8 trillion of outstanding in mid 2014, which is 15.3% higher than 2013.

¹ The term "Sukuk" began to be used in Indonesian capital market since 2006, along with the issuance of Bapepam-LK Regulation No. IX.A.13 on Issuance of Islamic Securities.

THE DEVELOPMENT OF SUKUK ISSUANCE AND THE OUTSTANDING SUKUK



In the other hand, corporate *Sukuk* development is quite different than Government *Sukuk*. Growth of corporate *Sukuk* is not as favorable as Government *Sukuk*. Along with issuance of Government *Sukuk* in 2009, growth of corporate *Sukuk* showed sluggish development. It demonstrated a low level of growth in 2009-2011. Different tax treatment on corporate and Government *Sukuk*, as well as sizeable amount of

issuance of Government *Sukuk* were suspected to affect development of corporate *Sukuk*. In 2013, the corporate *Sukuk* outstanding increased by 9.7% from previous year, reaching IDR 7.5 trillion. However, in early 2014, outstanding of corporate *Sukuk* decreased to IDR 7 trillion, due to zero issuance while some of the *Sukuk* has reached its maturity.

SUKUK STRUCTURE

Government of Indonesia has issued *Sukuk* based on three type of structure, i.e *Ijarah Sale and Lease Back*, *Ijarah Asset to be Leased*, and *Ijarah al-Khadamat*, as explained in table below. While corporate *Sukuk* has two type of structure, i.e *Ijarah* and *Mudharabah*, using corporate assets as underlying.

THE DEVELOPMENT OF SUKUK ISSUANCE AND THE OUTSTANDING SUKUK

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

Source: DMO

LEGAL FRAMEWORK

To ensure its compliance with Islamic principles, both Government *Sukuk* and corporate *Sukuk* require fatwa and/or sharia endorsement (sharia opinion) from National Sharia Board (DSN-MUI). Several fatwa has been published by DSN-MUI regarding Indonesian Government *Sukuk*, in order to set principle for structure of *Sukuk* issuance and other supporting guidelines, as follows:

- Fatwa No. 69/DSN-MUI/VI/2008 on Sharia Sovereign Securities, regulating type of aqad can be used in Government *Sukuk* issuance, the compliance of Islamic principle, and the general principle that must be adhered to by market participants.
- Fatwa No. 70/DSN-MUI/VI/2008 on Sharia Sovereign Securities Issuance Method, regulating terms and conditions for *Sukuk* issuance by auction and bookbuilding, as well as price setting.
- Fatwa No. 71/DSN-MUI/VI/2008 on Sale and Lease Back, regulating aqad used in sale and lease back, also object used in the transaction.
- Fatwa No. 72/DSN-MUI/VI/2008 on *Ijarah* Sale and Lease Back Sovereign Securities, regulating general principle in issuance of *Ijarah* sale and lease back sovereign securities, rules of transaction for Government and *Sukuk* holders.
- Fatwa No. 76/DSN-MUI/VI/2010 on *Ijarah* Asset to be Leased Sovereign Securities, regulating general principle/mechanism in issuance of *Ijarah* asset to be leased sovereign securities, object used in the transaction, rules of transaction for Government and *Sukuk* holders.

As for corporate *Sukuk*, several fatwa has also been published by DSN-MUI, to set guidelines for different types of *Sukuk* structure, as well as its guidelines for transaction in capital market, as follows:

- Fatwa No. 32/DSN-MUI/IX/2002 on Islamic Bonds, regulating type of aqad to be used in Islamic bonds issuance, general principle of Islamic bonds' features,

compliance of Islamic principle with issuers' company business,.

- Fatwa No. 33/DSN-MUI/IX/2002 on *Mudharabah* Bonds, regulating general principle in issuance of *Mudharabah* bonds, and the role of sharia supervisory board.
- Fatwa No. 40/DSN-MUI/X/2003 on Capital Market and General Guidelines for Implementation of Sharia Principle in Capital Market, covering the definition of entities in capital market, sharia principle in capital market, required criteria for issuing companies, type of Islamic securities, prohibited transactions, fair market price, reporting and disclosure of information.
- Fatwa No. 41/DSN-MUI/III/2004 on *Ijarah* Bonds, regulating general principle in issuance of *Ijarah* bonds, role of sharia supervisory board, as well as underlying asset.
- Fatwa No. 59/DSN-MUI/V/2007 on Convertible *Mudharabah* Bonds, regulating general principle in issuance of convertible *Mudharabah* bonds, role of sharia supervisory board, and price setting mechanism for converting bonds into stocks.

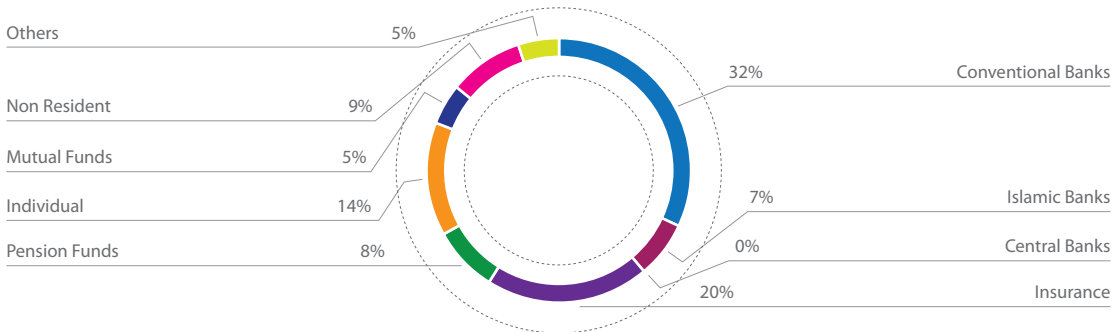
Moreover, several regulation has been published by Indonesian Government concerning *Sukuk* market, some of which are:

- Act No. 19 of 2008 on Sharia Sovereign Securities, regulating type of Government *Sukuk*, principle of issuance, underlying asset, as well as management and administration of *Sukuk*.
- Finance Minister Regulation No. 11/PMK.08/2009 on Issuance and Sale of Sharia Sovereign Securities in Domestic Primary Market through Auction, regulating mechanism of auction arrangement, administration and settlement procedure.
- Finance Minister Regulation No. 218/PMK.08/2008 on Issuance and Sale of Retail Sharia Sovereign Securities in Domestic Primary Market, regulating issuance mechanism, requirements for sales agents appointment, and appointment of legal counsel.

- Finance Minister Regulation No. 118/PMK.08/2008 on Issuance and Sale of Sharia Sovereign Securities in Domestic Primary Market through Bookbuilding, regulating issuance mechanism, criteria of sales agents and legal counsel, determination of sale of securities.
- Finance Minister Regulation No. 152/PMK.08/2008 concerning Sharia Sovereign Securities Issuance in Foreign-Currency Denomination in the International Primary Market with changes reflected in Finance Minister Regulation No. 129/PMK.08/2009, regulating issuance of foreign currency *Sukuk*, including arrangement of issuance, sales mechanism and administration.
- Bapepam-LK Regulation No. IX.A.13 on Issuance of Sharia Securities, regulating business activities prohibited in Islamic principles, mechanism of *Sukuk* issuance, Islamic stocks and Islamic mutual fund in stock exchange, also obligations and prohibitions of related parties.
- Bapepam-LK Regulation No. IX.A.14 on Contracts used in Issuance of Sharia-Based Securities in Capital Market, giving detail information of each contracts(aqad) used in Islamic securities issuance, such as *Ijarah*, *istishna*, *kafalah*, *Mudharabah*, *musyarakah*, *Wakalah*.

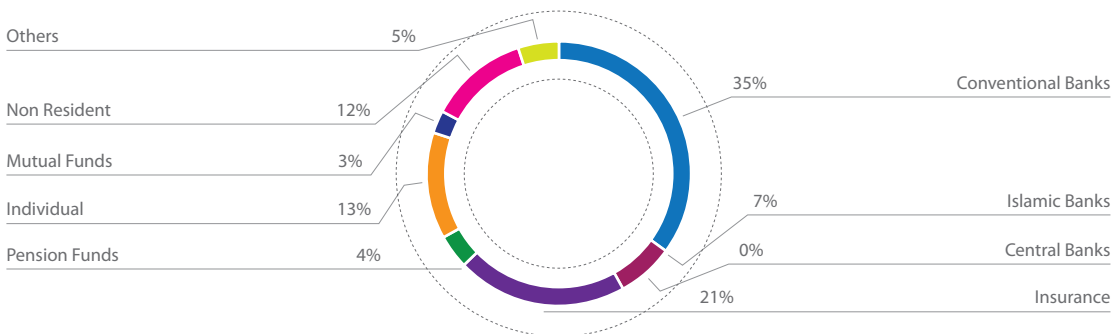
SECONDARY MARKET ACTIVITY

GOVERNMENT SUKUK OWNERSHIP (JAN 2013)



Source: dmo.or.id

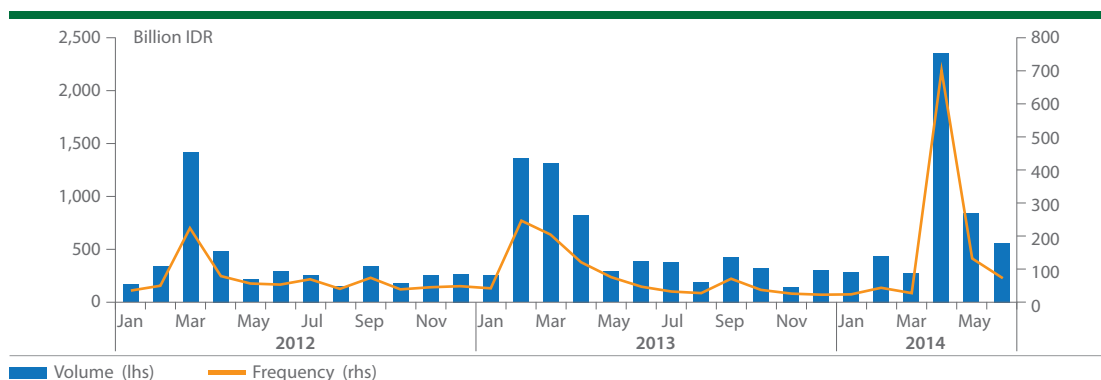
GOVERNMENT SUKUK OWNERSHIP (JAN 2014)



Source: dmo.or.id

There is no significant changes in composition of domestic Government *Sukuk* ownership between early 2013 and mid 2014. Majority of *Sukuk* held by conventional banks and insurance companies, as *Sukuk* offers risk free investment as well as investment duration to match their asset and liability, especially for insurance companies. On the other hand, Islamic banks' participation in Government *Sukuk* market is relatively small, stable below 10%.

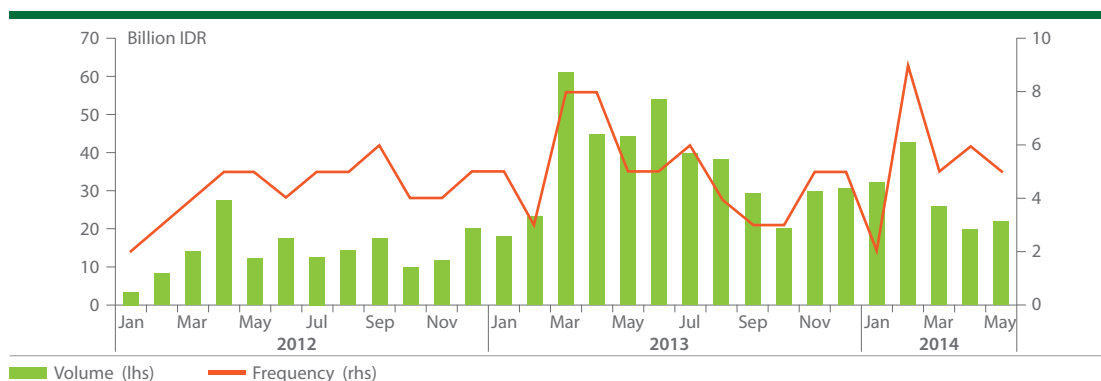
AVERAGE DAILY TRADING - GOVERNMENT *SUKUK*



Source: BI

Increasing activity of Government *Sukuk* secondary market is reflected in average daily trading. The average daily trading volume in 2013 reached IDR 509 billion, an increase of 40% from 2012 which had average daily trading of IDR 365 billion. This increase continued in the first half of 2014, where average daily trading transaction was around IDR 555 billion, or about 9% increase from 2013, due to issuance of retail *Sukuk* (SR) in March 2014. The increasing activity also shown in frequency of transaction. Average transaction frequency per day increased from 69 in 2012 to 78 in 2013, and stays relatively unchanged in 2014, which accounted for 75 transaction frequency per day.

AVERAGE DAILY TRADING - CORPORATE *SUKUK*



Source: idx.co.id

Activity in corporate *Sukuk* secondary market is also progressing. Average daily trading volume in 2013 was approximately IDR 36 billion, while in 2012 it reached approximately IDR 14 billion. Eventhough transaction volume showed an upward trend, average transaction frequency per day was relatively the same, i.e 4-5 times in 2012 and 2013. However, in the first five month of 2014, average daily transaction volume decreased to IDR 28,5 billion IDR, as a result of the lack of issuance of corporate *Sukuk*, whilst average transaction frequency per day still remain unchanged.

5.4 BRUNEI SUKUK MARKET DEVELOPMENT

By Autoriti Monetari Brunei Darussalam

BACKGROUND INFORMATION

His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam, in His Titah on 4th November 2005, in conjunction with the Hari Raya Aidilfitri Celebration 1426H, announced that The Government of His Majesty the Sultan of Brunei Darussalam through the Ministry of Finance will establish a capital market based on hukum Syara' through the issuances of *Sukuk Al-Ijarah*. Initially, it would issue 3-months short-term *Sukuk Al-Ijarah* and consequently extend the maturities from time-to-time depending on its suitability.

According to the Titah, in addition to developing the capital market, the main objectives of introducing *Sukuk Al-Ijarah* were to encourage other institutions/agencies, especially corporates, to issue their own *Sukuk* in order to reduce their dependency on banks as a source for financing; to provide the public with opportunities to invest in domestic projects which are syariah compliant; and to reduce the volume of funds outflows from the country.

The development of capital market in Brunei Darussalam is aligned with the Wawasan Brunei 2035 (Brunei's Vision 2035). One of the 50 policy directives under the Outline of Strategies and Policies for Development (2007-2017), was to further developing a strong capital market including the Islamic bond market (*Sukuk*) to help finance domestic growth.

The Autoriti Monetari Brunei Darussalam (AMBD) has issued its 109th *Sukuk* worth \$100 million on 4 September 2014. With this issuance, the Brunei Government has issued over \$7.73 billion worth of short-term *Sukuk Al-Ijarah* securities since its maiden offering on April 6, 2006.

TYPES OF SUKUK STRUCTURE

CORPORATE SUKUK

To date, there have been only one Government-linked companies that has issued corporate *Sukuk* in Brunei Darussalam namely:

1 Brunei Liquefied Natural Gas (BLNG)

BLNG issued the first corporate *Sukuk* in Brunei in August 2006. The *Sukuk* was a 6-years *Sukuk Al-Ijarah* worth B\$100 million, in collaboration with the Islamic Development Bank of Brunei (IDBB) to finance a portion of its Asset Reference Plan Project. The signing of the agreement prior to the issuance of the *Sukuk* was held in 2005 between BLNG and IDBB.

SOVEREIGN SUKUK

Apart from developing the domestic capital market, Brunei Darussalam is also committed, under the ASEAN Capital Market Development initiatives, to the development of the capital market with a long-term goal of achieving cross-border collaboration between various ASEAN capital markets. The Government *Sukuk Al-Ijarah* program serves as a platform in developing the domestic bond market as part of these initiatives.

Initially, the Government of Brunei Darussalam appointed Brunei Currency Monetary Board (BCMB) as an agent on matters pertaining to the management and the administration duties on issuing the Government *Sukuk Al-Ijarah* since its maiden issuance in 2006.

With the establishment of Autoriti Monetari Brunei Darussalam (AMBD) in 2011, AMBD was reappointed as the agent on 24 March 2011 to carry on the management and the administrative duties of issuing the Government *Sukuk Al-Ijarah*. The workflow of the Government *Sukuk Al-Ijarah* issuances and redemptions are summarized in Annex 1. The *Sukuk* certificates are currently available in 91-day and 364-day maturities only.

LEGAL AND REGULATORY FRAMEWORK / INCENTIVES

As part of AMBD's efforts to strengthen the legal and regulatory framework and at the same time, provide one of the key foundations for development in the capital markets, a new legislation, the Securities Markets Order, 2013 was enacted in June last year.

Amongst others, the legislation makes provision for public offering of both conventional and syariah compliant securities, including equities, *Sukuk* and bonds. This was previously not provided for in the repealed Securities Order, 2001. The new provisions are intended to provide better investor protection through registration requirements and continuous disclosure obligations. It also provides a clear framework for issuers, which is intended to facilitate corporate issuances.

Furthermore, AMBD is currently exploring ways to encourage and incentivize corporates to use alternative fund raising avenues, other than banks. This includes establishing the necessary infrastructure, providing incentives and creating conducive environment. These initiatives are expected to transpire over the next few years.

SEGMENT FOCUS (RETAIL, PROJECT FINANCE ETC.)

As of today, the *Sukuk* issuances issued by the Government are mainly to develop the yield curve to further assist the development of capital market in Brunei.

SECONDARY MARKET ACTIVITY

Currently, there are plans to set-up a secondary market. However, there are still many challenges such as:

- 1 In developing the capital market, there is lack of legislations and infrastructure, only Government *Sukuk* is in existence and finite amount of government land as underlying asset for Government *Sukuk Al-Ijarah*.
- 2 Limited corporate *Sukuk* issuances, whereby large companies still depend on banks for funding due to: lack of understanding of the benefits of *Sukuk*, lack of technical knowledge on *Sukuk* issuances and perception of easy access to obtain bank loans.
- 3 Limited investment alternatives for public to invest in domestic projects due to limited *Sukuk* issuances in terms of size and maturities and the absence of secondary market.

ANNEX 1: STRUCTURE FOR THE GOVERNMENT SUKUK AL-IJARAH**LEASING OF ASSETS TO SUKUK HOLDING PROPERTIES**

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

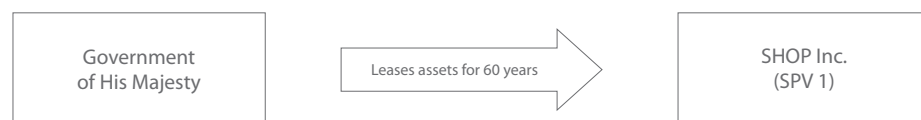


Figure 1: Process flow prior to the issuance of *Sukuk Al-Ijarah*

WORKFLOW OF ISSUANCE OF GOVERNMENT *SUKUK AL-IJARAH*

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

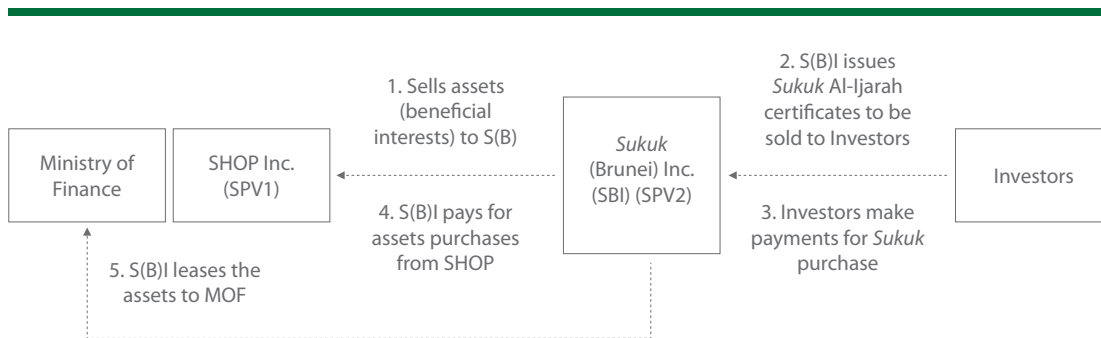


Figure 2: Process flow for the Issuance of *Sukuk Al-Ijarah*

WORKFLOW OF REDEMPTION OF GOVERNMENT *SUKUK AL-IJARAH*

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

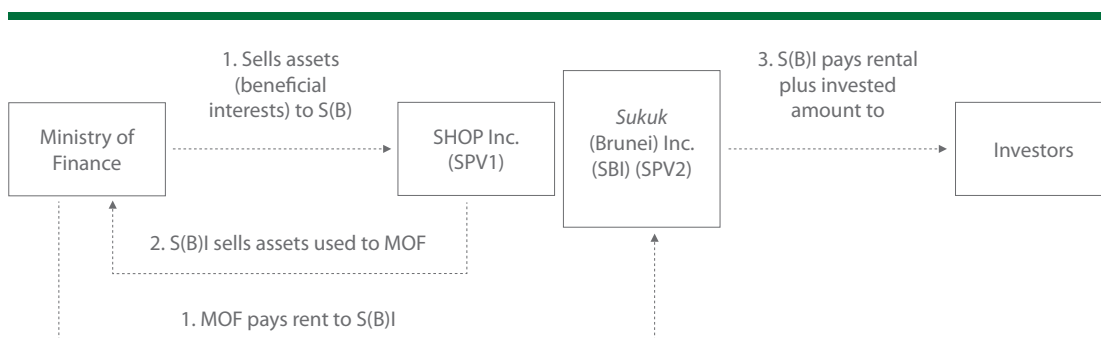


Figure 3: Process flow for the Redemption of *Sukuk Al-Ijarah*

Source: Ministry of Finance and Asian Development Bank. CMDP: Background Report.

5.5 ISSUANCE OF *SUKUK* IN SUDAN

By Central Bank of Sudan

BACKGROUND INFORMATION

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

So after a great effort continued for a year and a half the Higher Shariah Supervisory Board and expert from

the IMF found the first generation of *Sukuk*, Central bank Musharaka Certificates (CMCs) and Government Musharaka Certificates (GMCs).

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

TYPES OF *SUKUK* STRUCTURES

CHART1: CENTRAL BANK MUSHARAKA CERTIFICATE & GOVERNMENT MUSHARAKA CERTIFICATE

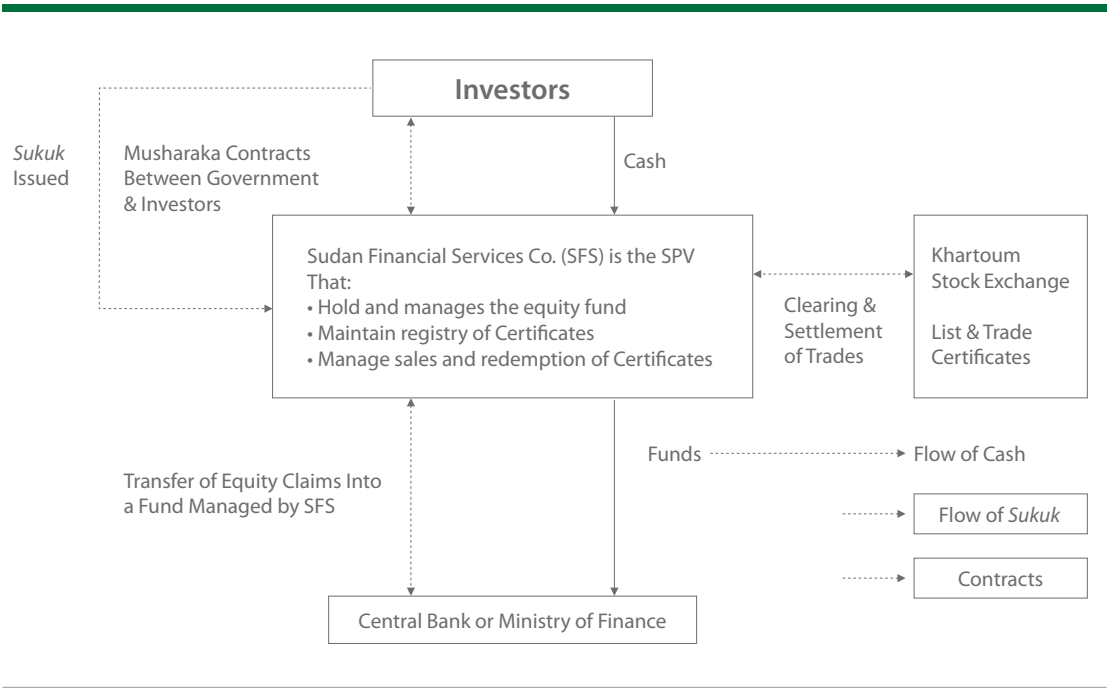


CHART 2: GOVERNMENT INVESTMENT CERTIFICATE

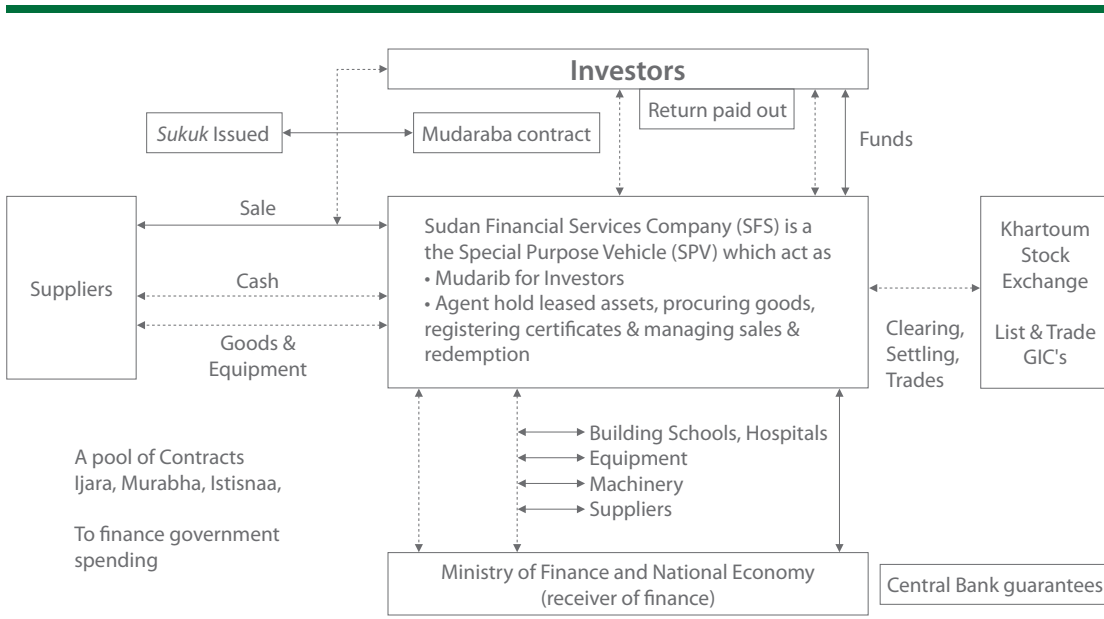
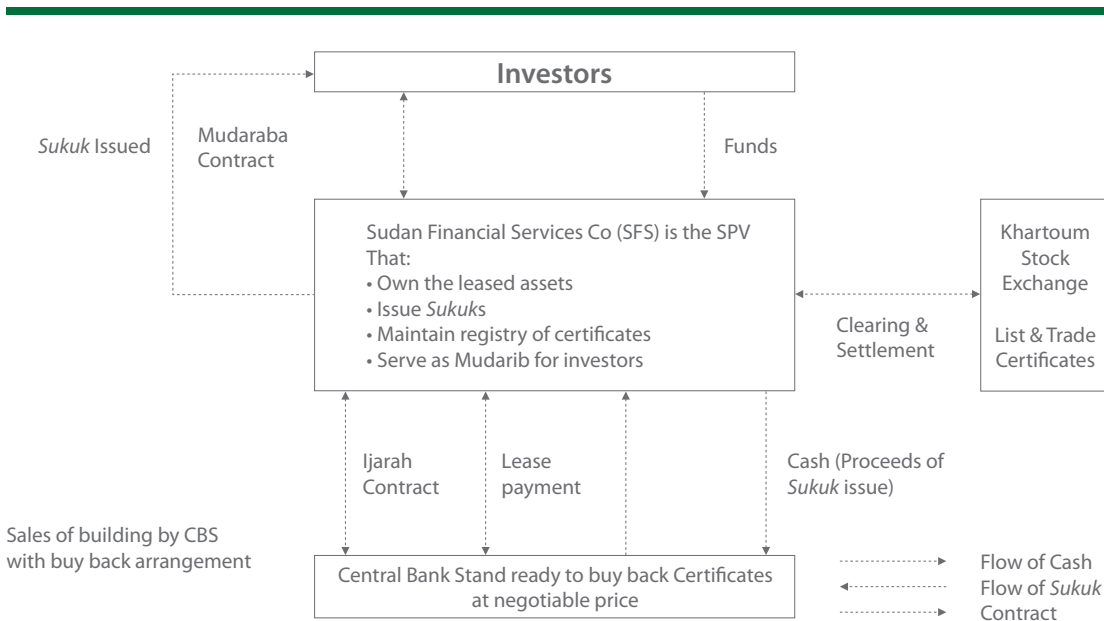
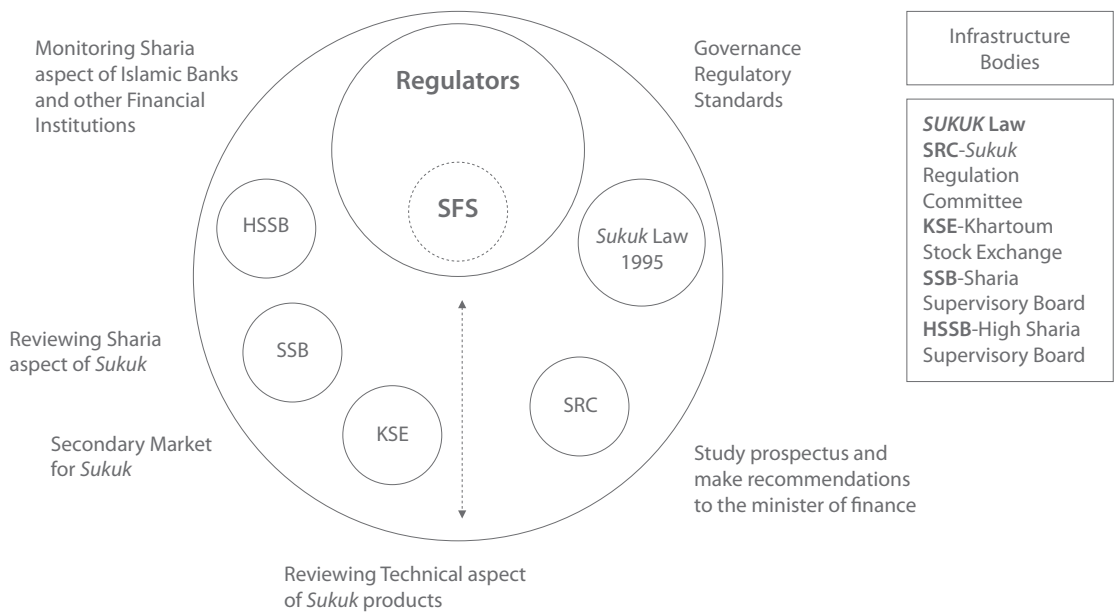


CHART 3: CENTRAL BANK IJARA CERTIFICATES



LEGAL AND REGULATORY FRAMEWORK

CHART 4: SUKUK REGULATORY FRAMEWORK



INCENTIVES

Main Merits and Characteristics:

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

SEGMENT FOCUS

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

SECONDARY MARKET ACTIVITY

The total value of traded Islamic *Sukuk* in Khartoum Stock Exchange (KSE) during the year 2013 amounted to 3,751.5 SDG millions i.e. represent 95% of total value traded, as the number of executed transactions for Islamic *Sukuk* during the year 2013 reached 15,760 deals which represented a 95% of total executed deals, and table (1) below shows more other indicators.

TABLE (1): TRADED SUKUK: SECONDARY MARKET INDICATORS

ITEM	2013
Number of traded shares	80,857,417
Number of traded <i>Sukuk</i>	8,430,665
The total value traded	3,885.4 (SDG Millions)
Number of Transactions	16,435
Number of listed companies	60
Market capital	11385.1 (SDG Millions)
Primary Market	15,171.01

Source: Khartoum Stock Exchange

Liquidity management fund

In line with the policies of aimed to activate and develop the liquidity management in the banking system and encourage the interbank market, will launch liquidity management fund (LMF) with capital consists of (60%) Islamic financial papers and (40%) cash contributed by the all banks in proportion to their current deposits of banking system, this capital used to manage the liquidity in real-time gross system far

away from intervention, if these banks encountered or facing any liquidity problems during the day. after 5 days, any deficit tunded banks will intervene on day sixth as a lender of last resort.

The LMF has a board of directories elected by a general assembly for all banks.

5.6 SUKUK MARKET IN PAKISTAN

By State Bank of Pakistan

Pakistan joined the global *Sukuk* market with the issuance of its first and only international sovereign *Sukuk* of US\$ 600 million in 2005 that was listed at Luxemburg stock exchange. This five year, dollar denominated, B+ rated *Sukuk* (Standard & Poor), was based on Master *Ijara* agreement and offered semi-annual floating rate of return (LIBOR+ 220 bps), that attracted an overwhelming response of around US\$ 1.2 billion.

In the domestic *Sukuk* market the first *Sukuk* was issued in 2006, and since then *Sukuk* amounting to nearly Rs. 695 billion have been issued. Pakistan's entry to *Sukuk* market, though a bit late, witnessed significant pace particularly during the period 2009 to 2012. It however, has slowed down since then. The emergence of *Sukuk* market helped Islamic banks to diversify their asset mix by providing them an attractive investment avenue besides improving their profitability and earning.

Overall 83 *Sukuk* have been issued in the domestic market, with 15 GoP *Ijara Sukuk* and remaining 68 issued by corporate or quasi-sovereign entities. The total issued *Sukuk* in Pakistani *Sukuk* market till now are generally in the medium term ranging between 3-7 years.

COMMONLY USED SUKUK STRUCTURES:

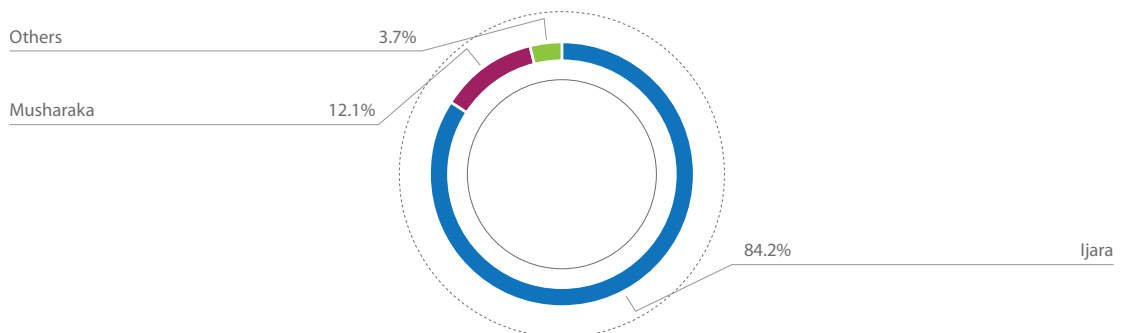
In terms of *Sukuk* structure the most widely used

structure is *Musharaka* (45 issues) followed by *Ijara* (22 issues). However, in terms of value, *Ijara* dominates the *Sukuk* market with more than 84 percent value of total *Sukuk* issues (see Figure 1). One of the main reasons for *Ijara* having such high value is that all Government of Pakistan (GoP) *Sukuk* are *Ijara* based and these sovereign *Sukuk* generally are larger in value compared to other *Sukuk* issued in Pakistan.

CHRONOLOGICAL DEVELOPMENT OF PAKISTAN SUKUK MARKET:

Year wise break of *Sukuk* issuances reveals that the domestic *Sukuk* market witnessed considerable buoyancy in terms of value from the period 2009 to 2012. This impetus was mainly due to a series of *Sukuk* issuance by the Government of Pakistan (GoP) during the period (see Table 1). However, since 2013 the momentum in the domestic *Sukuk* market has again slowed down mainly due to relatively lower issuance of GoP *Ijara Sukuk*.

MODE WISE BREAKUP OF DOMESTIC SUKUK



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

ENTITY WISE SUKUK ISSUANCE IN PAKISTAN

Entity wise distribution reveals that corporate *Sukuk* had major share in total *Sukuk* issuances in Pakistan till March 2009. However, a structural shift from corporate to sovereign *Sukuk* has taken place as corporate *Sukuk* issuances declined where as the GOP has issued

several *Sukuk* since then; sovereign *Sukuk* at present has a major share of more than 79 percent in total value of *Sukuk* issued so far (see Table 3). This shift is however, in line with global trend which can be linked to a general slowdown in domestic and global economies whereby corporate entities remained wary of raising funds through *Sukuk* issuances and investors also wanted to invest in safer *Sukuk* issuances (Sovereign and Quasi Sovereign). However, it is encouraging to note that since 2013, corporate entities have again started to issue *Sukuk* in the domestic market.

TABLE 1: YEAR WISE DOMESTIC (PAKISTAN) SUKUK SUMMARY (CUMULATIVE AS OF END YEAR)

YEAR	AMOUNT (RS. IN MILLIONS)	NO OF ISSUES
2006	8,625	2
2007	48,055	20
2008	33,086	19
2009	55,899	10
2010	90,461	6
2011	169,413	7
2012	172,369	8
2013	61,018	7
2014	55,537	4
Total	694,462	83

TABLE 3: ENTITY WISE & YEAR WISE BREAKUP OF SUKUK VOLUME (CUMULATIVE AS OF END YEAR IN PERCENT)

YEAR	CORPORATE	SOVEREIGN	QUASI-SOVEREIGN
2006	7.2	0	92.8
2007	55.5	0	44.5
2008	48.6	14	37.4
2009	43.3	29	27.7
2010	27.3	55.6	17.1
2011	15.9	72.7	11.4
2012	11.5	79.3	9.2
2013	10.7	78.5	10.8
2014	9.9	79.3	10.8

GOP IJARA Sukuk

Analysis of Government of Pakistan (GoP) *Ijara Sukuk* shows that since issuance of first *Sukuk* of this series in September 2008, so far there have been 15 auctions of GoP *Sukuk* amounting above Rs 550 billion (nearly 80 percent of the overall *Sukuk* issuance). The initial eight issues of GoP *Ijara Sukuk* have matured leaving outstanding amount of GoP *Ijara Sukuk* at nearly Rs 326 billion. In terms of subscription amount, all issues except four (1st, 2nd, 6th and 10th) have been oversubscribed.

TABLE 5: AUCTION OF IJARA SUKUK BY THE GOVT. OF PAKISTAN

	AUCTION DATE	ISSUE DATE	MATURITY DATE	TARGET AMOUNT	AMOUNT OF SUKUK
GOP <i>Ijara Sukuk</i> - 1	15/09/2008	26/09/2008	26/09/2011	10,000.00	6,522.50
GOP <i>Ijara Sukuk</i> - 2	20/12/2008	29/12/2008	29/12/2011	10,000.00	6,000.00
GOP <i>Ijara Sukuk</i> - 3	04/03/2009	11/03/2009	11/03/2012	10,000.00	15,325.00
GOP <i>Ijara Sukuk</i> - 4	05/09/2009	17/09/2009	17/09/2012	10,000.00	14,396.00
GOP <i>Ijara Sukuk</i> - 5	08/11/2010	15/11/2010	15/11/2013	40,000.00	51,837.00
GOP <i>Ijara Sukuk</i> - 6	13/12/2010	20/12/2010	20/12/2013	40,000.00	37,174.00
GOP <i>Ijara Sukuk</i> - 7	01/03/2011	07/03/2011	07/03/2014	45,000.00	47,539.70
GOP <i>Ijara Sukuk</i> - 8	09/05/2012	16/05/2011	16/05/2014	45,000.00	45,803.70
GOP <i>Ijara Sukuk</i> - 9	20/12/2011	26/12/2011	26/12/2014	50,000.00	70,269.10
GOP <i>Ijara Sukuk</i> - 10	23/02/2012	02/03/2012	02/03/2015	50,000.00	38,123.90
GOP <i>Ijara Sukuk</i> - 11	23/04/2012	30/04/2012	30/04/2015	25,000.00	29,632.00
GOP <i>Ijara Sukuk</i> - 12	20/06/2012	28/06/2012	28/06/2015	25,000.00	48,765.80
GOP <i>Ijara Sukuk</i> - 13	11/09/2012	18/09/2012	18/09/2015	45,000.00	47,017.80
GOP <i>Ijara Sukuk</i> - 14	26/03/2013	28/03/2013	28/03/2016	43,000.00	43,018.00
GOP <i>Ijara Sukuk</i> - 15	20/06/2014	25/06/2014	25/06/2017	49,000.00	49,537.00
Total GOP <i>Ijara SUKUK</i>					550,961.50
Total Outstanding GOP <i>Ijara SUKUK</i> as on June 2014					326,363.60

LEGAL AND REGULATORY FRAMEWORK/INCENTIVES

The domestic corporate *Sukuk* market is regulated by the Securities and Exchange Commission of Pakistan (SECP). It is encouraging to note that SECP has over the years taken some important measures for improving the domestic corporate *Sukuk* market. In 2008, the Religious Board for *Mudharabahs* of SECP approved the conceptual framework for issuance of *Sukuk* by *Modarabas*. Of late SECP has issued Draft *Sukuk* regulations 2012 aimed at facilitating the issuers besides providing comfort to *Sukuk* investors. Moreover, SECP has also recently established a central Shariah advisory board to guide transactions in accordance with the principles of Shariah. Going forward, steps like these are likely to help increase issuance of corporate *Sukuk* in the country and spur interest of both local foreign investors in the domestic *Sukuk* market.

SECONDARY MARKET ACTIVITY

The demand of *Sukuk* in the domestic market has generally remained overwhelming as it has provided an attractive investment avenue to Islamic financial institutions. However, due to infrequent and limited supply of *Sukuk* compared to its demand, *Sukuk* holders generally tend to keep *Sukuk* until maturity.

Owing to these reasons the secondary market of *Sukuk* in Pakistan is still relatively inactive.

PROSPECTS OF PAKISTAN SUKUK MARKET

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

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

5.7 SUKUK: TURKEY COUNTRY FOCUS

By Borsa Istanbul

1 BACKGROUND INFORMATION AND MARKET UPDATE

Turkish *Sukuk* market has experienced remarkable growth in recent years following the development of participation banking and growing appetite for interest free instruments. Participation banking has a history of nearly 30 years but its development has been limited. However, current regulatory environment that is established with the Banking Law in 2008 enabled more efficient functioning of participation banking. As of May 2014, total assets of participation banks reached to USD 45.8 billion compared to USD 16.7 billion at the end of 2007. Although 19% cumulative average growth rate of participation banking assets is well above the sector average of 6.1% in this period, the share of participation banking counts only for 5.3% of the banking sector.

Turkey has extensive experience in interest free financing in the form of profit-loss sharing certificates and real estate certificates mainly used for financing of large infrastructure and construction projects. “*Sukuk*” (or lease certificates as it is called in Turkey) on the other hand, have a relatively recent history in Turkey. First lease certificate was issued by a participation bank at an amount of USD 100 million in 2010 after the Capital Market Board (CMB) Communique in April 2010. Later, the CMB replaced the old communique with the new one known as “Communique on Lease certificates” on June 7, 2013. With the new regulation, lease certificate issuances have gained strong momentum. In September 2012, Turkish Treasury issued first sovereign lease certificate as a benchmark at an

amount of USD 1.5 billion. This first issuance was a huge success not just because of the amount raised and the low cost of borrowing as compared to conventional debt instruments, but also its highly diversified pool of participants. Moreover, the five-time oversubscription for the issuance has reflected the increasing interest into the Turkish lease certificate market.

Recently, both the government and financial institutions tap the market for their funding needs. There have been 35 lease certificate issuances in the last 2 years where 19 of them are issued in the first half of the year 2014. Total amount raised from these issuances has been USD 8 billion in last 2 years and reached to USD 1.3 billion only at the end of Q2 of 2014.

GRAPH 1: LEASE CERTIFICATE ISSUANCES IN TURKEY (BY CURRENCY)

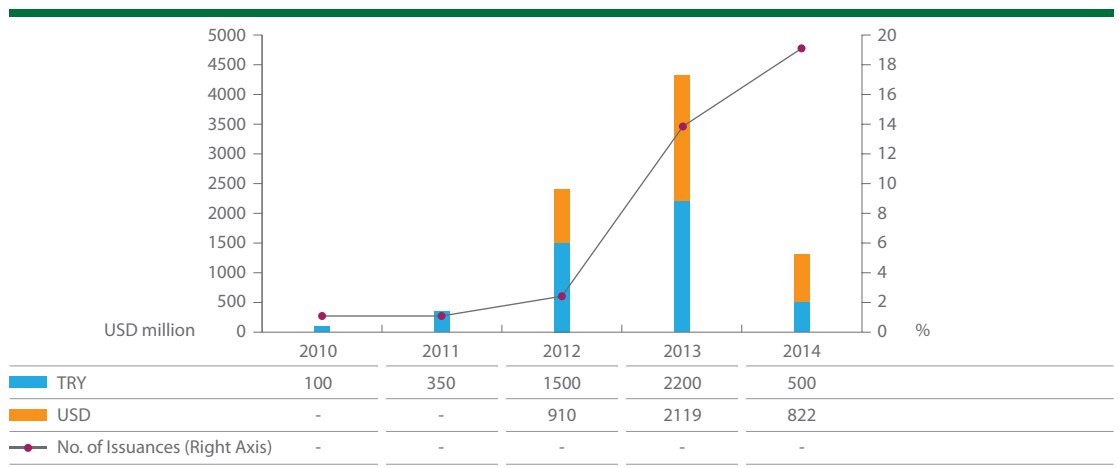


TABLE 1: LEASE CERTIFICATE ISSUANCES IN TURKEY

ISSUER	ISSUANCE DATE	ISSUANCE AMOUNT (MN USD)	ISSUANCE CURRENCY
Kuveyt Turk	2010	100	USD
Kuveyt Turk	2011	350	USD
Turkish Treasury	2012	1500	USD
Turkish Treasury	2012	910	TRY
Turkish Treasury	2013	853	TRY
Asya Varlık	2013	70	TRY
Asya Varlık	2013	250	USD
Türkiye Finans	2013	500	USD
Albaraka Türk	2013	200	USD
Aktif Y.	2013	53	TRY
Turkish Treasury	2013	927	TRY
Turkish Treasury	2013	1250	USD
Asya Varlık	2013	38	TRY
Kuveyt Turk	2013	74	TRY
Asya Varlık	2013	13	TRY
Aktif Y.	2013	49	TRY
Asya Varlık	2013	24	TRY
Asya Varlık	2013	18	TRY
Asya Varlık	2014	11	TRY
Asya Varlık	2014	16	TRY
Asya Varlık	2014	3	TRY
Asya Varlık	2014	3	TRY
Türkiye Finans	2014	45	TRY
Asya Varlık	2014	2	TRY
Asya Varlık	2014	4	TRY
Asya Varlık	2014	15	TRY
Asya Varlık	2014	9	TRY
Asya Varlık	2014	4	TRY
Turkish Treasury	2014	608	TRY
Asya Varlık	2014	19	TRY
Asya Varlık	2014	4	TRY
Asya Varlık	2014	7	TRY
Asya Varlık	2014	24	TRY
Asya Varlık	2014	12	TRY
Asya Varlık	2014	26	TRY
Türkiye Finans	2014	500	USD
Asya Varlık	2014	9	TRY

It is expected that the funding need of the growing economy and recent large infrastructure projects will be main reasons behind the strong momentum in the Turkish lease certificate market in the near future. Increase in the frequency and the size of issuances is expected to support the liquidity of such instruments in Turkish capital markets. Overall, total amount of funding from lease certificate issuances in the next 5 years is expected to grow over USD 15 billion according to the E&Y Turkish *Sukuk* Market Report.

2 TYPES OF LEASE CERTIFICATE STRUCTURES

According to the CMB, lease certificates can be based on ownership (*Ijara*), management agreement (*Wakala/Mudharabah*), trading (*murabaha*), partnership (*musharaka*), engineering, procurement and construction (EPC) agreement (*istisna*) or a combination of them according to the Communiqué. Other type of structures can also be approved by the CMB, in such a case the Communiqué's provisions shall be applied by analogy.

Until the redemption of lease certificates, assets and rights included in the portfolio of an Asset Leasing Company (ALC) cannot be disposed of for any purpose other than collateralization, even in the case of transfer of management or audit of ALC to public authorities, and cannot be pledged or shown as collateral, or attached for any purpose including the collection of public receivables, or included in bankruptcy, or be subject to an interlocutory injunction.

Holders of lease certificates are proportionally entitled to have revenues from assets and rights represented by certificates. If required, assets and rights can be sold by the ALC to the originator or to third parties and proceeds of the sale are distributed to lease certificate holders in proportion to their shares at the end of the maturity.

2.1 LEASE CERTIFICATES BASED ON OWNERSHIP (*IJARA*)

Ownership based lease certificates are issued to finance assets and rights to be acquired by Special Purpose Vehicles (SPVs) named as ALC from the originator and to be leased to the originator or third parties or to be managed on behalf of the ALC. The ALC is required to have a direct power of disposal on assets or rights in case of a default. The amount of issue cannot exceed 90 percent of the value determined in the appraisal report prepared by a CMB accredited valuation company. In the event the underlying asset of the lease certificate is a real estate; buyback option must be annotated on to the title deed registry provided that this is requested by the originator.

2.2 LEASE CERTIFICATES BASED ON MANAGEMENT AGREEMENTS (*WAKALA/MUDARABA*)

Lease certificates based on management agreements are issued by the ALC for the purpose of managing assets and rights of the originator. The originator holds the ownership but assets and rights are managed by and on behalf of the ALC. Revenues generated from rights and assets are transferred to the ALC.

2.3 LEASE CERTIFICATES BASED ON TRADING (*MURABAHA*)

Trading-based lease certificates are lease certificates issued to finance the purchase of certain assets or rights by an ALC in order to be sold on a deferred payment basis. ALC is under an obligation to purchase assets or rights from the spot market and to resell them on a deferred payment basis at a price above their cost, immediately no later than the business the day following the date of transfer of funds collected from the issuance to its account. Only exchange traded assets and rights can be used.

2.4 LEASE CERTIFICATES BASED ON THE PARTNERSHIP (*MUSHARAKA*)

They are issued by an ALC to make the ALC become a partner in a joint venture. The amount of issue for the partnership based lease certificates cannot exceed 90 percent of the value determined in the valuation report prepared by a CMB accredited valuation company.

It is required that the ALC shall be elected as the representative of the lease certificate holders; and the ALC shall put a pledge on joint venture's and other partners' assets up to the amount of the issue. In the event ALC puts a pledge on a real estate; the number of the lease certificates issued shall be indicated on the title deed registry.

2.5 LEASE CERTIFICATES BASED ON EPC AGREEMENT (*ISTISNA*)

These lease certificates are issued to finance a project where an ALC is the project owner. The ALC signs a contractor agreement under its name and on the account of lease certificate holders where the ALC shall have "project owner" title in such an agreement.

Other agreements may also be contracted such as service, construction in consideration for land/flat or partnership agreements.

The amount of issuance for the contractor agreement based lease certificates cannot exceed 90 percent of the value determined in the valuation report issued by a CMB accredited valuation company.

3 LEGAL AND REGULATORY FRAMEWORK/ INCENTIVES

3.1 LEGAL AND REGULATORY FRAMEWORK

The CMB Communiqué regulates certificate classes, issuers, their rights/responsibilities and available assets among others. All lease certificates must be issued by ALC's. An ALC may be established by banks,

intermediary institutions, mortgage finance institutions, real estate investment companies listed in the exchange, public corporations included in first and second groups determined within the corporate governance regulations, companies which are granted a long-term investment grade rating in the currency which the issue is denominated and companies of which 51 percent or more of capital shares are held directly by the Undersecretariat of Treasury.

Until redemption of lease certificates, assets and rights included in the portfolio of an ALC cannot be disposed of for any purpose other than collateralization, even in the case of transfer of management or supervision of ALC to public authorities, and cannot be pledged, or shown as a collateral, or attached for any purpose including the collection of public receivables, or included in the bankrupt's estate, or be subject to an interlocutory injunction.

The assets and rights on the basis of which each tenor of lease certificates is issued, and revenues obtained and costs incurred thereof, are separately monitored on accounting records of the ALC on the basis of the relevant lease.

The ALC board of directors is composed of minimum three members of which at least one independent member.

Lease certificates may be issued via sales with or without public offering. Sales without public offering may be in the form of a private placement or sales to qualified investors. Lease certificates to be offered to public must be listed and traded on an exchange.

The communiqué does not cover the issues related to sovereign lease certificate issuances by the Treasury. Sovereign lease certificates are issued in accordance with the Article 7/A of the Public Finance and Debt Management Act.

3.2 INCENTIVES

Turkish government passed a vital legislation in February 2011 to facilitate the issuance of lease certificates including tax neutrality measures consistent with equivalent conventional products. These incentives aim to encourage the use of lease certificates.

Earnings originating from the sale of assets from the originator to an ALC and of the sale of assets back to the originator by the ALC are exempt from corporate tax which is normally 20%.

Value Added Tax is not applied to the sale and lease-back transactions.

Earnings from lease certificates issued onshore (regardless of the maturity) will be subject to a withholding tax of 0% for corporations and 10% for real persons.

Earnings from lease certificates issued offshore are subject to a varying withholding tax of 0% to 10% depending on the maturity. Maturity ranges and corresponding withholding tax rates are: 0-1 years: 10%, 1-3 years 7%, 3-5 years 3%, 5+ years 0%. Offshore treasury issues are subject to a 0% withholding tax.

Lease certificates are also exempt from real estate registry fees, cadastral survey fees and notary public fees.

No stamp tax duty applies to documentations.

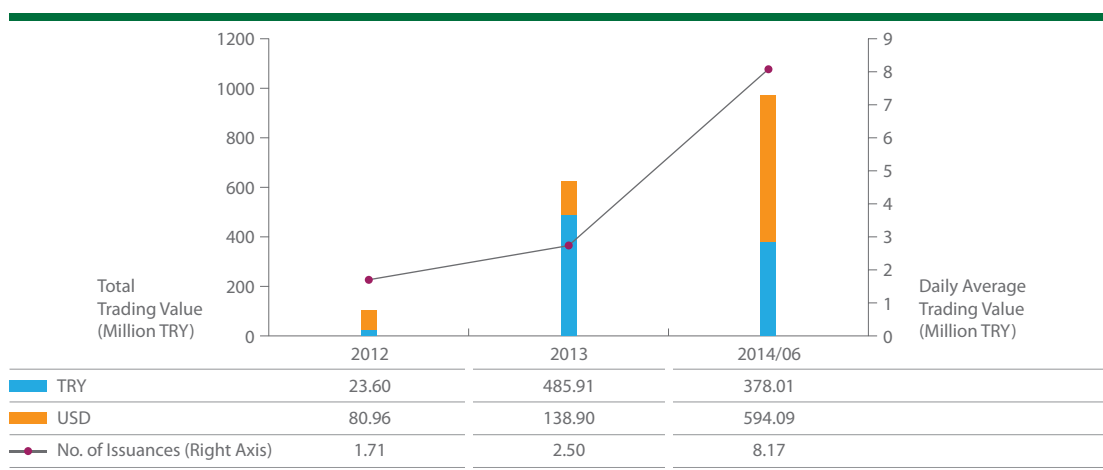
4 SECONDARY MARKET ACTIVITY

Globally, lease certificates compared to conventional instruments have lower secondary market trading volumes. Lease certificate market in Turkey is at the early stages of development and the progress achieved in last three years shows important potential for Turkey.

As of June 2014, outstanding nominal amounts of USD and TRY denominated lease certificates issued by the Treasury are USD 2,750 million and TRY 6,289 million respectively. The outstanding nominal amount of corporate lease certificates is TRY 350 million where in the market 92% of investors are domestic and %78 are institutional.

There is an organized secondary market for lease certificates within Borsa Istanbul. Average daily trading value is TRY 1.7 million, TRY 2.5 million and TRY 8.2 million for 2012, 2013 and 2014Q6 respectively which shows an increasing trend.

GRAPH 2: TRY DENOMINATED LEASE CERTIFICATES SECONDARY MARKET TRADING FIGURES



CONCLUSION

The global *Sukuk* market continued its robust growth as predicted in the previous IIFM *Sukuk* Report. The key drivers of the *Sukuk* market during last one and a half year are: entry of new issuers, innovation (Basel III compliant *Sukuk*), *Sukuk* issuances in various currencies, perpetual *Sukuk*, long dated *Sukuk* issuances (30 years *Sukuk*), Infrastructure *Sukuk*, *Takaful Sukuk* and Retail *Sukuk*. Beside innovation and entry of new entrants the investor base has also broaden coupled with greater participation from a number of regions. Furthermore, the successful *Sukuk* restructuring of international *Sukuk* such as Dana Gas has provided confidence to the market and has created much needed legal certainty.

As forecasted in the previous *Sukuk* Report, the year 2013 and in all likelihood 2014 will close at record *Sukuk* issuances, which reached around USD 136+ billion in 2012 and 2013 respectively. These issuances include Sovereigns, Quasi Sovereigns and Corporates/ financial institutions.

Strong demand for *Sukuk* from the Islamic jurisdictions in the GCC countries including Bahrain as well as Malaysia, Indonesia, Turkey, Pakistan, Sudan, Brunie, Islamic Development Bank etc., is the main force in driving the *Sukuk* market towards the rapid growth. Further impetus to international *Sukuk* market is provided by recent entry of UK, Luxembourg, Hong Kong and South Africa.

In recent years, several Islamic jurisdictions mentioned above regularly issued benchmark *Sukuk* in domestic as well as international markets. Moreover, several jurisdictions including from Africa have followed the strategy adopted by Bahrain (year 2001) and by regularly floating short to medium term *Sukuk* to support the liquidity and investment requirements of Islamic Institutions based in its jurisdiction. The entry of ILLM in short term international *Sukuk* market is a positive development and will provide an alternative liquidity management avenue to institutions which are active in short term market.

Sukuk is firmly emerging as one of the main alternative source of funding, not just for the Islamic markets but with interest gathering from Europe, African continent, Asia and the CIS countries. The market has witnessed many milestones benchmark *Sukuk* issuances such as *Sukuk* issued by Emaar Malls, Sadara Chemical, Saudi Electric company, Government of Turkey, *Sukuk* issuances from Saudi Arabia, Qatar and UAE, debut domestic *Sukuk* by Senegal, debut international issuances by Europe and Asian countries, Tier 1 Perpetual *Sukuk* by Al Hilal Bank, GEMs School Perpetual *Sukuk* and several others.

Continuous innovation together with more debut *Sukuk* issuances and refinancing of maturing *Sukuk* is likely to maintain the *Sukuk* volume trajectory upwards, perhaps greater volume, in 2014 and beyond, as countries and corporates continue to take advantage of extremely attractive low yields being priced by the market for instance for UK Government *Sukuk*. Moreover, the trend of *Sukuk* issuances on fixed profit rate is continuing which is also helping the development of *Sukuk* secondary market which is evident from the *Sukuk* market country report from Turkey, Indonesia and others.

Another interesting trend or innovation is *Sukuk* issuances in non-local currency i.e. issuer based in Turkey floating a Malaysian Ringgit *Sukuk* or Malaysian issuer *Sukuk* issuance in Singapore Dollar etc., This is also a positive development and will further contribute in the development of *Sukuk* market. The risk mitigation/ hedging documentation and Foreign Exchange and Rate of Return product standard templates are being published by IIFM and will provide further certainty to investors in *Sukuk*.

The share of sovereign and quasi-sovereign in domestic market for the period 2009 to 2012 was 79% and it dropped to 75% during Jan 2013 to July 2014 period, which indicates that the corporate sector is slowly picking up and this shift is likely to assist the robust growth of *Sukuk* market.

The share of sovereign and quasi-sovereign in international market continued to dominate for instance it was 54% in 2009-2012 period while in Jan 2013- July 2014 period it increased to 64% which indicates that the corporate *Sukuk* issuance has yet to pick-up though the signs are promising.

During 2001 and July 2014 period, Malaysia came in as the top issuer of combined domestic and international issuances of USD 446 billion, UAE with USD 54.18 billion and Indonesia with USD 24.15 billion. Malaysia due to its deep capital market continues to maintain its handsome lead over its peers from Far East and GCC; however, increased issuances from Turkey, Saudi Arabia, Indonesia, UAE, Qatar, Bahrain etc. may reduce the Malaysian market share but this will take several years before real difference can be seen.

In terms of mostly widely used structure by issuers in international market in recent years, *Sukuk Al Ijarah* structure is the most popular and widely used with market share of 43% followed by *Sukuk Al Wakalah*. *Sukuk Al Mudharabah* structure has gained momentum during Jan 2013 to July 2014 period as compared to 2009-2012 period.

At domestic level *Sukuk Murabahah* dominant structure with market share of 65% followed by *Sukuk Al Ijarah* and *Sukuk Al Musharakah* structures. The reason of high level of *Murabahah Sukuk* issuances in domestic market seems to be credit intensiveness of this structure. Efforts need to be made to increase the share of other structures such as *Sukuk Al Mudharabah*.

The year 2013 was record year in terms of international *Sukuk* issuances and the year closed at US\$ 26 billion *Sukuk* issuances as compared to 2012 international *Sukuk* issuance of USD 20 billion which again broke the 2007 pre-financial crisis record of USD 13.80 billion. Currently outstanding International *Sukuk* figure is approximately USD 77 billion and it is expected that 2014 will close with USD 90 billion outstanding *Sukuk* market.

There were several landmark *Sukuk* issuances from Malaysia, Qatar, Turkey, UAE, Saudi Arabia, Indonesia, Bahrain etc., these indicate that *Sukuk* market has fully emerged from the declining trend witnessed in 2008 and 2009 and further double digit growth prospects are intact for next coming years and existing *Sukuk* issuance pipeline and September-October 2014 *Sukuk* issuances is the confirmation of this prediction.

As far as the domestic *Sukuk* market is concerned, Malaysia has the lion's share in terms of both volume and value. Malaysia remains as the largest domestic *Sukuk* issuer with 78.09% though, the countries like Indonesia, UAE, Qatar, Saudi Arabia and Turkey are emerging as potential leaders. Senegal, Gambia etc., are the recent entrants in the domestic *Sukuk* market. Bahrain has also made its presence felt in *Sukuk* market and has seen several landmark issuances.

The domestic *Sukuk* market in a number of jurisdictions is becoming active particularly Indonesia, Turkey and Pakistan where central banks are providing avenues to Islamic banks and other investors to invest their surplus liquidity in government *Sukuk* programs designed to provide level playing field to the Islamic institutions.

The total outstanding Domestic *Sukuk* at July 2014 stood at USD 226 billion and it is expected that 2014 will close with even higher figure as sovereigns, quasi sovereign and corporates in jurisdictions like Malaysia, Indonesia, Turkey and several other countries including GCC are getting more active in *Sukuk* issuances.

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

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

Cross-border international *Sukuk* maturities in 2014 to 2016 are relatively light as the medium term new issuances in 2009 to 2011 were quite subdued as the market was yet to come out from the global financial crisis woes. Moreover, entry of several new jurisdictions in *Sukuk* market since 2012 have negated any negative impact on outstanding *Sukuk*.

Short term *Sukuk* with maturity of 1 year or less are essential in the development of Islamic Inter-bank market as they play a key role in the liquidity management of the financial institutions. Malaysia remains the leader in domestic short term *Sukuk* issuances followed by Sudan, Bahrain, and Brunei. Indonesia is showing sign of playing a leading issuance role in this type of *Sukuk* and is a country to watch in coming years.

The appetite for short term *Sukuk* is far greater than longer tenor *Sukuk* as evident by these issuers. The trend towards issuing shorter tenor *Sukuk* is increasing and is driven by sovereign issuers through central banks. Malaysian and some GCC corporate issuers are getting in this segment of the *Sukuk* market and are providing diversity and depth to the local markets, which is essential in the development of money market.

Bahrain has kept its leading role in Short Term *Sukuk* issuances and its regular issuances are always oversubscribed. The outlook for Short Term *Sukuk* is encouraging and it is expected this segment will continue its growth trend.

Though, Malaysia, Sudan and Bahrain leads the table of short term issuers; several countries such as Indonesia have also started regular issuance of short term *Sukuk* program which will greatly help the liquidity management requirement of Islamic institutions.

Bahrain is the first jurisdiction which started the regular issuance of Short Term *Sukuk* mostly in Bahraini Dinar and it continues to improve on its *Sukuk* issuance plan while Indonesia and Pakistan are the recent entrants in this *Sukuk* market segment. Entry of IILM in short term international *Sukuk* market is also helping the development of short term *Sukuk* market.

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

With the game plan in Europe changing due to the financial crisis and Basel III, and coupled with abundant liquidity in the *Sukuk* market, we may well witness European Corporates line up to take advantage of current favorable pricing. In recent months *Sukuk* issuances from UK, Luxembourg, South Africa, Hong Kong and several others in pipeline will certainly contribute in strengthening the *Sukuk* market.

While more depth is created in the *Sukuk* market, the issuance of Non-Local Currency *Sukuk* by foreign issuers is a positive development and will contribute in the growth of the *Sukuk* market. We believe that these issuances have also highlighted the need of currency hedging which is one of the key contributions of IIFM to the Islamic Financial Services Industry. Hence, standards developed by IIFM will be extremely beneficial in the risk mitigation arising from such *Sukuk* issuances.

Finally, although *Sukuk* market progression is quite impressive; in order to maintain orderly growth, and robust and transparent *Sukuk* market, there are several challenges which need to be addressed, and role of standard setting bodies particularly IIFM will be critical as issues facing the *Sukuk* primary and secondary market needs to be addressed through harmonization of practices and guidelines. IIFM has taken the lead to address the harmonization requirements for primary and secondary *Sukuk* markets and has organized two consultative meetings to assess impediments as well as critical issues which need immediate attention for a deep global *Sukuk* market. It is expected that IIFM will soon commence the developmental work for *Sukuk* standardization.

GLOSSARY

(A) GENERAL ISLAMIC FINANCE TERMS

TERM	MEANING
<i>Shari 'ah</i>	Is often referred to as Islamic law. It is the rulings contained in and derived from The Holy <i>Qur'an</i> and the <i>Sunnah</i> (i.e. sayings and living example of the Prophet Muhammad (peace be upon him)). These cover every action performed by an individual or a society. It is primarily concerned with a set of values that are essential to Islam and the best manner of their protection. The essential values of the <i>Shari 'ah</i> include those of faith, life, intellect, lineage, property, fulfillment of contracts, preservation of ties of kinship, honoring the rights of one's neighbor. It also includes sincerity, trustworthiness and moral purity and so forth.
<i>Shari 'ah Scholar</i>	Islamic <i>Shari 'ah</i> scholar is an individual who is well-versed with the necessary knowledge of the <i>Shari 'ah</i> teachings and principles.
A <i>Shari 'ah</i> compliant product	Product meets the requirements of Islamic law. 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 Islamic Law.
A <i>Shari 'ah</i> board	Is the committee of well-versed Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of <i>Shari 'ah</i> compliant products. It is recommended the scholars of a <i>Shari 'ah</i> board to be well-versed and competent in <i>Shari 'ah</i> and its approaches to economics and finance.
A <i>Shari 'ah</i> advisor	Is an independent Islamic trained scholar that advises Islamic institutions on the compliance of the products and services with the Islamic law.
<i>Fiqh</i>	Refers Islamic jurisprudence. It covers all aspects of life - religious, political, social, commercial, and economic. <i>Fiqh</i> is based primarily on interpretations of the <i>Qur'an</i> and the <i>Sunnah</i> of Prophet Muhammad (peace be upon him) etc.
<i>Faqih</i>	Is a Muslim Jurist who gives rulings on various juristic issues in the light of the <i>Qur'an</i> and the <i>Sunnah</i> of Prophet Muhammad (peace be upon him).
<i>Fiqh al-mu 'aamalat</i>	It is Islamic commercial jurisprudence, jurisprudence of financial transactions or the rules of transacting in a <i>Shari 'ah</i> -compliant manner.
<i>Fatwa</i>	It is a religious decree. A ruling made by a qualified <i>Shari 'ah</i> scholar on a particular issue. It is an opinion that addresses either a specific problem of interest to a particular person or a matter of public concern.
<i>'Aqd</i>	A bilateral contract, agreement etc.
<i>Bai</i>	It means: sale or contract of sale. It is often used as a prefix in referring to different sales-based modes of Islamic finance, such as <i>Murabahah</i> , <i>Istisna'a</i> etc
<i>Bai al Salam</i>	Advance purchase. Advance payment for goods which are to be delivered at a specified future date. Under normal circumstances, a sale cannot be effected unless the goods are in existence at the time of the bargain. However, this type of sale is an exception, provided the goods are defined and the date of delivery is fixed. The objects of sale must be tangible goods that can be defined as to quantity, quality and workmanship.

<i>Murabahah</i>	Cost-plus financing. A form of credit that enables customers to make a purchase without having to take out an interest-bearing loan. The bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in installments, is specified in the contract.
<i>Musharakah</i>	Joint venture, profit and loss sharing. 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. All partners to a <i>Musharakah</i> contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting stock in a limited company.
<i>Mudharabah</i>	Trust financing, profit sharing. An investment partnership, whereby the investor (the <i>rab al maal</i>) provides capital to the entrepreneur (the <i>mudarib</i>) 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 <i>mudarib</i> loses only his share of the expected income.
<i>Ijarah</i>	Leasing. A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts back to the lessor.

(B) SUKUK REPORT FOURTH EDITION GLOSSARY

TERM	MEANING
<i>Sukuk</i>	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".
<i>Salam Sukuk</i>	Are certificates of equal value issued with the aim of mobilizing <i>salam</i> capital (mobilizing funds) so that the goods to be delivered on the basis of <i>salam</i> come to be owned by the certificates holders. (<i>Salam</i> is a sale, whereby the seller undertakes to supply a specific commodity to the buyer at a future date in return for an advanced price paid in full on the spot. The price is in cash but the supply of the purchased good is deferred)
<i>Istisna'a Sukuk</i>	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 certificates holders. (This type of <i>Sukuk</i> has been used for the advance funding of real estate development, major industrial projects or large items of equipment such as: turbines, power plants, ships or aircraft (construction/manufacturing financing)
<i>Murabahah Sukuk</i>	Are certificates of equal value issued for the purpose of financing the purchase of goods through <i>murabahah</i> so that the certificate holders become the owners of the <i>murabaha</i> commodity. (This is a pure sale contract based <i>Sukuk</i> which based on the cost plus profit mechanism)

<i>Musharakah Sukuk</i>	Are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, financing a business activity etc on the basis of any of partnership contract so that the certificate holders become the owners of the project. (<i>Musharakah Sukuk</i> is an investment partnership between two or more entities which together provide the capital of the <i>Musharakah</i> and share in its profits and losses in pre-agreed ratios)
<i>Mudharabah Sukuk</i>	Are certificates that represent project or activities managed on the basis of <i>Mudharabah</i> by appointing one of the partners or another person as the <i>mudarib</i> for the management of the operation. (It is an investment partnership between two entities whereby one entity is mainly a provider of capital and the other is mainly the manager)
<i>Al-Ijarah Sukuk</i>	An Islamic certificate for the buying and leasing of assets by the investors to the issuer and such <i>Sukuk</i> shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors
<i>Sukuk Al-Wakalah bil Istithmar</i>	These are certificates that represent projects or activities that are managed on the basis of investment agency by appointing an agent to manage the operation on behalf of the certificate holders. In this transaction, the issuer of these certificates is the investment agent, the subscribers are the principals and the mobilized funds are the entrusted capital of the investment. Thus, the certificate holders own the assets represented by the certificates with its benefits and risks, and also they are entitled to the profits if any.
International <i>Sukuk</i> (for the purpose of this report)	A <i>Sukuk</i> issued in hard currency such as USD
Domestic <i>Sukuk</i> (for the purpose of this report)	A <i>Sukuk</i> issued in local currency
Global <i>Sukuk</i> (for the purpose of this report)	Both international and domestic <i>Sukuk</i>
Convertible or exchangeable <i>Sukuk</i>	Convertible or exchangeable <i>Sukuk</i> certificates are convertible into the issuer's shares or exchangeable into a third party's shares at an exchange ratio which is determinable at the time of exercise with respect to the going market price and a pre-specified formula.
Hybrid <i>Sukuk</i>	Hybrid <i>Sukuk</i> combine two or more forms of Islamic financing in their structure such as <i>Istisna'a</i> and <i>Ijarah</i> , <i>Murabahah</i> and <i>Ijarah</i> etc.
Sovereign <i>Sukuk</i>	Are <i>Sukuk</i> issued by a national government. The term usually refers to <i>Sukuk</i> issued in foreign currencies, while <i>Sukuk</i> issued by national governments in the country's own currency are referred to as government <i>Sukuk</i> .
Quasi-sovereign <i>Sukuk</i>	Are <i>Sukuk</i> issued by a public sector entity that is like sovereign <i>Sukuk</i> . It may carry explicit or implicit government guarantee.
Corporate <i>Sukuk</i>	Is a <i>Sukuk</i> issued by a corporation as opposed to those issued by the government. It is a major way for companies to raise funds in order to expand its business or for a specific project.

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