

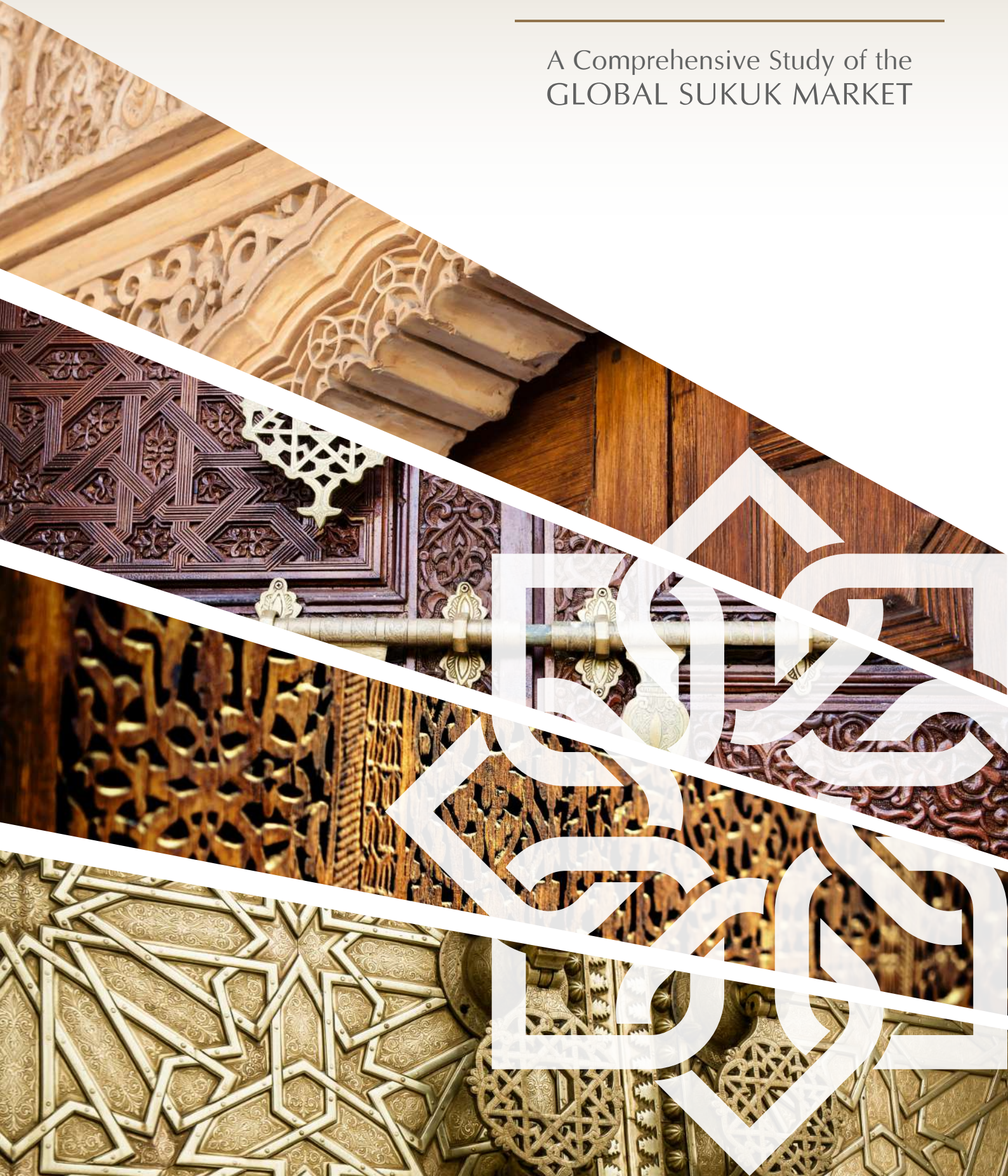


السوق المالية
الإسلامية الدولية
International Islamic
Financial Market

IIFM SUKUK REPORT

APRIL 2018 | 7TH EDITION

A Comprehensive Study of the
GLOBAL SUKUK MARKET



CONNECTING ASIA'S ECONOMIES

THE LEADING MIDSHORE BUSINESS AND FINANCIAL CENTRE



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

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

قال الله تعالى في القرآن الكريم

Allah (God) the Almighty says in the Noble Qur'an

"... يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ.."

[سورة البقرة ، آية 282]

"O you who have believed, when you contract a debt for a specified term, write it down....."

(Surat Al-Baqarah (The Cow), C 2, V 282)

ABOUT IIFM

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

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

IIFM is also supported by certain regulatory and government bodies such as Dubai International Financial Centre, State Bank of Pakistan, The National Bank of Kazakhstan and a number of international and regional financial institutions active in Islamic finance.

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

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 Equitable Financial Solutions
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 First Abu Dhabi Bank
 Gatehouse Bank
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 Gulf International Bank
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 Ibdar Bank
 International Investment Bank
 Islamic Corporation for the Development of the Private Sector
 Islamic Development Bank
 Ithmaar Bank
 Jordan Islamic Bank
 Khaleeji Commercial Bank
 Kuveyt Turk Participation Bank
 Kuwait Finance House
 Kuwait Finance House (Bahrain)
 Labuan Financial Services Authority
 Malaysian Rating Corporation Berhad
 National Bank of Fujairah
 National Bank of Kazakhstan
 NATIXIS Dubai Branch
 National Bank of Kuwait (Bahrain)
 Noor Bank
 OCBC Al-Amin Bank Berhad
 Seera Investment Bank
 Standard Chartered Bank
 State Bank of Pakistan
 The National Commercial Bank
 United Gulf Bank
 Ziraat Katilim Bankasi

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DISCLAIMER

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

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ABSTRACT

This research report examines the development, structural preferences and drivers of the international and domestic *Sukuk* market in recent years, with a special focus on 2017.

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

The *Sukuk* market continues to grow and a few new jurisdictions have issued sovereign *Sukuk* in 2017. As in previous years, the bulk of issuances in 2017 have been by sovereign and quasi-sovereign entities, which has kept the *Sukuk* market on a steady growth path.

In recent years, the preferred structures were *Murabahah* and *Wakalah* modes in the case of both international and domestic *Sukuk*, which is a change from the preference for structures requiring more tangible assets in earlier years. Another development on this front is the use of *Mudarabah* and *Murabahah* by a sovereign entity in 2017. These preferences have contributed to the development of the *Sukuk* market; however, a right balance in diversification is necessary to establish a robust one.

The report also provides an overview of the trends and prospects of the *Sukuk* market, and highlights major global issuances from 2017.

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

ACKNOWLEDGEMENTS

This research report was supported and sponsored by Labuan FSA, DDCAP Group and Bank ABC Islamic. IIFM is immensely thankful to these organizations for their support and financial contribution in the publication of this research report.

We would like to express gratitude to institutions for sharing their pearls of wisdom and knowledge with us during the course of preparing this research report. We are also grateful to individuals who provided insight, comments and expertise that greatly enhanced the report. We thank all the industry stakeholders who contributed in one way or another to the completion of this important project. Certainly, this research report would not have seen light without the support and contributions of these institutions, individuals and the industry stakeholders who provided us with invaluable information, which helped us complete this task through its various stages.

We seize this opportunity to express our profound gratitude and deep regards to the Central Bank of Bahrain (CBB) for its constant and continued support. We would also like to acknowledge and thank the IIFM Board of Directors, Founding Members and Members institutions for their unwavering and unreserved support to IIFM in its Islamic industry's development endeavors. Lastly, IIFM is thankful to its research team for their review of and valuable contribution to this research report.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

CHAIRMAN'S FOREWORD



I begin with saying that I am honored to present the 7th Edition of IIFM Global *Sukuk* Report 2017 to readers. This report provides verified and comprehensive data on *Sukuk* issuances and presents insightful analysis on key trends in the *Sukuk* market.

Undoubtedly, *Sukuk* is an innovative way to raise financing in a *Shari'ah* compliant manner with strong links to the real economy. The risk sharing nature of *Sukuk* is a hallmark of Islamic finance itself which should not be compromised.

The global *Sukuk* issuances during 2017 stood at USD 116.7 billion which is an increase of around 33% over the 2016 issuances of USD 87.9 billion. The longer tenor *Sukuk* issuances supported by sovereigns continue to grow and the entrance of the governments of Saudi Arabia and Nigeria are among the positive developments this year. The first ever Green *Sukuk* worth USD250 million was issued by Quantum Solar Park based in Malaysia. This reflects an interesting trend where Islamic finance and environmental concerns have come together.

The *Sukuk* market is generally of a concentrated nature as 87% of the USD 434 billion outstanding *Sukuk* belong to just four key markets; namely, Malaysia, Saudi Arabia, Indonesia and the UAE. This is likely to change, but only gradually, as Pakistan, Turkey and other markets (including some in the African region) become more active.

I end by saying *Sukuk's* commercial success should not lead us to ignore its underlying principles which are the differentiating factor with respect to conventional bonds.

With these humble submissions I leave you with the 7th edition of IIFM Annual *Sukuk* Report 2018.

Happy reading, and please provide us with your feedback.

Khalid Hamad
Chairman – IIFM

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

CEO'S MESSAGE



Sukuk is one of the key flagship capital market instruments of the Islamic Industry and has attracted a number of new issuers while seeing an expansion of its investor base. Its expansionary phase has continued despite a challenging global economic environment.

IIFM has continued to serve the Islamic financial industry through its standardization of Islamic financial contracts, product templates and explanatory memorandums relating to the Islamic Capital and Money Market, Corporate Finance and Trade Finance. In addition, IIFM's yearly publication of this *Sukuk* Report has firmly established itself as a premium source of information on *Sukuk*.

I am pleased to present this 7th Edition of the IIFM *Sukuk* Report to all the stakeholders, particularly governments, financial institutions, corporates and academics. This report is designed to create better understanding of *Sukuk* structures and issuance trends based on a comprehensive and verified IIFM *Sukuk* issuance database. The analysis covers all regions across the globe where *Sukuk* are issued, particularly regions which have a high concentration of these issuances.

The publication of this report was made possible due to the cooperation of a number of institutions and individuals from different jurisdictions. They have put in their efforts and contributed to the successful completion of this report. The varied information shared by the collaborating institutions in this report together with issuance specific data and detailed analyses makes the report informative and distinctive.

My special thanks to the Central Bank of Bahrain, Security Commission of Malaysia, Capital Market Board of Turkey, Bank Indonesia, Monetary Authority of Singapore, Central Bank of Sudan, Monetary Authority of Brunei and State Bank of Pakistan for their assistance and support in the verification process of the *Sukuk* issuance data base.

I would like to express profound gratitude to the Central Bank of Bahrain, the IIFM board of directors and IIFM members for their support and encouragement. I am also thankful to the IIFM research team for their tireless work, devotion and sincerity, through which they have made the challenging task of *Sukuk* Report publication possible.

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

Ijlal Ahmed Alvi
CEO – IIFM

CONTENTS

I

ABOUT IIFM

II

RESEARCH, DATABASE,
MANAGEMENT & REVIEW TEAM

III

DISCLAIMER

IV

ABSTRACT

V

ACKNOWLEDGEMENTS

VI

CHAIRMAN'S FOREWORD

VII

CEO'S MESSAGE

VIII

CONTENTS

XI

LIST OF TABLES

XI & XII

LIST OF CHARTS

XIII

INTRODUCTION

18 TO 77



CHAPTER ONE OVERVIEW OF THE GLOBAL *SUKUK* MARKET

- 1.1 *Sukuk* Market in Upward Trend
- 1.2 Global *Sukuk* Issuances
- 1.3 International *Sukuk* Issuances
- 1.4 Domestic *Sukuk* Issuances
- 1.5 Short Term *Sukuk* Market
- 1.6 Distribution of Global *Sukuk* Issuance by Issuer Status
- 1.7 Anatomy of International *Sukuk* Issuances
- 1.8 Anatomy of Domestic *Sukuk* Issuances
- 1.9 Structural Distribution of Global *Sukuk* Market
- 1.10 Geographical Distribution of Global *Sukuk* Market
- 1.11 *Sukuk* Maturities 2017 through 2019
- 1.12 *Sukuk* Outstanding

78 TO 87



CHAPTER TWO *SHARI'AH* RULINGS AND REGULATIONS FOR THE ISSUANCE AND TRADING OF *SUKUK AL-IJARAH*

- 2.1 Preface
- 2.2 *Al-Ijarah Sukuk* Definition
- 2.3 *Al-Ijarah Sukuk* Concept and Objective
- 2.4 Use of *Ijarah* as the Underlying Structure of *Al-Ijarah Sukuk*
- 2.5 Types of *Al-Ijarah Sukuk* and its *Shari'ah* Rulings and Regulations
- 2.6 Certificates of Ownership of Usufructs: An Explanation
- 2.7 Trading of *Al-Ijarah Sukuk* and their Redemption
- 2.8 Conclusion

88 TO 125



CHAPTER THREE CASE STUDIES: SELECTED *SUKUK* ISSUANCES (CONTRIBUTIONS)

- 3.1 Al Baraka Banking Group USD 400 Million Additional Tier 1 Perpetual *Sukuk* Issuance
- 3.2 Emirates REIT (CEIC) Limited USD 400 Million 5.125% Fixed Rate Trust Certificates Due 2022
- 3.3 Gold Denominated *Ijarah Sukuk* (GDIS)
- 3.4 Government of Pakistan *Ijarah Sukuk*
- 3.5 IILM *Sukuk*
- 3.6 Meethaq Bank (Sultanate of Oman) - *Sukuk Al Musharakah*
- 3.7 Quantum Solar Park (Semenanjung) SDN BHD, Malaysia MYR 1 Billion Green SRI *Sukuk* Issuance SDN BHD
- 3.8 Republic of Indonesia - USD 3 Billion Dual Tranche *Sukuk* Issuance
- 3.9 Warba Bank Kuwait USD 250,000,000 Tier 1 *Sukuk* Issuance

126 TO 159



CHAPTER FOUR ARTICLE CONTRIBUTIONS

- 4.1 A New Approach to *Jalb Al-Manfa'ah* through Sustainable Social Inclusion *Sukuk*
- 4.2 Corporate *Sukuk* and the Importance of Rating
- 4.3 Green *Sukuk* - Brighter Future Towards Greener Pastures
- 4.4 The Impact of Environmental, Social and Governance (ESG) Considerations on *Sukuk* Market Development
- 4.5 *Waqf*-Aligned Development Targeted *Sukuk*

160 TO 194



CHAPTER FIVE

SUKUK MARKET IN SELECTED IIFM MEMBER COUNTRIES

- 5.1 Government of Bahrain Sukuk Issuances
- 5.2 Brunei Darussalam *Sukuk* Market Development
- 5.3 Indonesian *Sukuk* Market
 - Continuous Progress
- 5.4 *Sukuk* Market Developments in Turkey
- 5.5 *Sukuk* Market in Malaysia
- 5.6 *Sukuk* Market in Pakistan

195

CONCLUSION

199

GLOSSARY

LIST OF TABLES

TABLE NO.		PAGE
1	Selected Value Leaders - Global <i>Sukuk</i> Issuances & Trends (USD 500 Million or >, Tenor > 1 Year)	21
2	Landmark Fixed Rate <i>Sukuk</i> Issuances (USD 200 Million or >, Tenor > 1 Year)	23
3	Total Global Short Term <i>Sukuk</i> Issuances – All Currencies ≤ 12 Months (Jan 2001 - Dec 2017)	27
4A	Global Sovereign <i>Sukuk</i> Issuances – Selected Value Leaders (2017, USD 200 Millions or >, Tenor > 1 Year)	38
4B	Global Corporate <i>Sukuk</i> Issuances – Selected Value Leaders (2017, USD 200 Millions or >, Tenor > 1 Year)	39
4C	Global FIIs <i>Sukuk</i> Issuances – Selected Value Leaders (2017, USD 150 Millions or >, Tenor > 1 Year)	40
4D	Global Quasi-Sovereign <i>Sukuk</i> Issuances – Selected Value Leaders (2017, USD 150 Millions or >, Tenor > 1 Year)	40
5A	Regional Distribution of International Issuances (Jan 2001 - Dec 2017)	41
5B	Regional Distribution of International Issuances (Jan 2017 - Dec 2017)	43
6	International <i>Sukuk</i> Issuances – Selected Value Leaders (2017, USD 150 Millions or >, Tenor > 1 Year)	44
7A	Regional Distribution of Domestic Issuances (Jan 2001 - Dec 2017)	45
7B	Regional Distribution of Domestic Issuances (Jan 2017 - Dec 2017)	46
7C	Domestic <i>Sukuk</i> Issuances – Selected Value leaders (2017, USD 200 Millions or >, Tenor > 1 Year)	47
8	Regional Distribution of Global Issuances (Jan 2001 - Dec 2017)	57
9A	International <i>Sukuk</i> Matured 2017, Amount ≥ USD 100 Million	60
9B	International <i>Sukuk</i> Maturing 2018, Amount > USD 100 Million	61
9C	International <i>Sukuk</i> Maturing 2019, Amount ≥ USD 100 Million	62
10A	Domestic <i>Sukuk</i> Matured 2017, Amount > USD 100 Million	64
10B	Domestic <i>Sukuk</i> Maturing 2018, Amount > USD 100 Million	67
10C	Domestic <i>Sukuk</i> Maturing 2019, Amount > USD 100 Million	70

LIST OF CHARTS

CHART NO.		PAGE
1A	Total Global <i>Sukuk</i> Issuances (Jan 2001 - Dec 2017) All Tenors, All Currencies, In USD Millions	21
1B	Total International <i>Sukuk</i> Issuances (Jan 2001 - Dec 2017) All Tenors, All Currencies, In USD Millions	24
1C	Total Domestic <i>Sukuk</i> Issuances (Jan 2001 - Dec 2017) All Tenors, All currencies, in USD Millions	25
2A	Total Global Short Term <i>Sukuk</i> Issuances (Jan 2001 - Dec 2017) Tenor 12 Months or Less, All Currencies, in USD Millions	26

CHART NO.		PAGE
2B	Total International Short Term <i>Sukuk</i> Issuance ≤ 12 months (Jan 2001 – Dec 2017, USD Millions)	28
2C	Total Domestic Short Term <i>Sukuk</i> Issuance ≤ 12 Months (Jan 2001 – Dec 2017, USD Millions)	28
2D (a)	Global Short Term <i>Sukuk</i> Issuances ≤ 12 Months, Currency Distribution (Jan 2001- Dec 2017, Amount in USD Millions)	29
2D (b)	Global Short Term <i>Sukuk</i> Issuances ≤ 12 Months, Currency Distribution (Jan 2017- Dec 2017, Amount in USD Millions)	29
2E (a)	Global Short Term <i>Sukuk</i> Issuances ≤ 12 Months, Issuer Type (Jan 2001- Dec 2017, Amount in USD Millions)	30
2E (b)	Global Short Term <i>Sukuk</i> Issuances ≤ 12 Months, Issuer Type (Jan 2017- Dec 2017, Amount in USD Millions)	30
2F (a)	Global Short Term <i>Sukuk</i> Issuances ≤ 12 Months, Structure Distribution (Jan 2001- Dec 2017, Amount in USD Millions)	31
2F (b)	Global Short Term <i>Sukuk</i> Issuances ≤ 12 Months, Structure Distribution (Jan 2017- Dec 2017, Amount in USD Millions)	31
3A	Global Sovereign <i>Sukuk</i> Issuances (Jan 2001- Dec 2017) All Tenor, All Currencies, in USD Millions	32
3B	Global Corporate <i>Sukuk</i> Issuances (Jan 2001- Dec 2017) All Tenor, All Currencies, in USD Millions	33
3C	Global FIs <i>Sukuk</i> Issuances (Jan 2001- Dec 2017) All Tenor, All Currencies, in USD Millions	33
3D	Global Quasi-Sovereign <i>Sukuk</i> Issuances (Jan 2001- Dec 2017) All Tenor, All Currencies, in USD Millions	34
3E	Domestic <i>Sukuk</i> Issuances by Issuer Status (All Tenors, All Currencies, in USD Millions)	35
3F	International <i>Sukuk</i> Issuances by Issuer Status (All Tenors, All Currencies, in USD Millions)	36
4A	Structural Distribution of International <i>Sukuk</i> Issuances - All Tenors (USD Millions)	48
4B	Structural Distribution of Domestic <i>Sukuk</i> Issuances - All Tenors (USD Millions)	50
4C	Structural Distribution of International <i>Sukuk</i> Issuances by Issuer - All Tenors (USD Millions)	51
4D	Structural Distribution of Domestic <i>Sukuk</i> Issuances by Issuer Status (USD Millions)	54
5A	Global <i>Sukuk</i> Issuances Currency Break-up - All Tenors (Jan 2001- Dec 2017, USD Millions)	59
5B	Global <i>Sukuk</i> Issuances Currency Break-up - All Tenors (Jan 2017- Dec 2017, USD Millions)	59
6A	Total Global <i>Sukuk</i> Outstanding as of 31st December 2017	73
6B	Total Global <i>Sukuk</i> Outstanding by Issuer Status as of 31st Dec 2017	74
6C	Total Domestic <i>Sukuk</i> Outstanding as of 31st December 2017	74
6D	Total Domestic <i>Sukuk</i> Outstanding by Issuer Status as of 31 Dec 2017	75
6E	Total International <i>Sukuk</i> Outstanding as of 31st December 2017	75
6F	Total International <i>Sukuk</i> Outstanding by Issuer Status as of 31st Dec 2017	76
6G	Country Wise Breakdown of <i>Sukuk</i> Outstanding as of 31 Dec 2017	76

INTRODUCTION

Islamic finance, in recent years, has continued to receive attention across the globe and has maintained its positive growth pattern. In 2017 *Sukuk* remained attractive to issuers as well as a wide range of investors in various regions and financial hubs. *Sukuk* listing and inclusion by major Index providers has made this important instrument not only more appealing, but the preferred capital market driver of the industry.

This report aims to highlight *Sukuk* issuances and performance domestically as well as globally, to create better understanding of and further develop this important fixed instrument of Islamic finance. The report provides information about and relevant details of *Sukuk* issuances in December 2017, with the objective of highlighting and analysing the development of the global *Sukuk* market since inception.

To deliver accurate information on global *Sukuk* issuances, data on various worldwide *Sukuk* issuances from January 2001 to December 2017 was collected and verified. The focus in this practice was to collate data from research and relevant literature. 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. Major *Sukuk* issuing jurisdictions and institutions have also assisted IIFM in the verification of data.

This research report is divided into five stand-alone chapters, in addition to this introduction and a conclusion. Chapter One gives an overview of worldwide *Sukuk* issuances over the period of January 2001 to December 2017. Chapter Two is an IIFM article series on *Shari'ah* rulings and regulations for *Sukuk* issuance. Chapter Three highlights selected *Sukuk* issuance case studies. Chapter Four comprises articles (written and prepared by institutions and jurisdictions). Chapter Five looks at the *Sukuk* market in selected IIFM member countries.

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



CHAPTER ONE



OVERVIEW OF
THE GLOBAL *SUKUK* MARKET

OVERVIEW OF THE GLOBAL *SUKUK* MARKET

1.1 *SUKUK* MARKET IN UPWARD TREND

The aim of this chapter is to provide insight into the changes and developments in the global *Sukuk* market during 2017.

The global *Sukuk* market closed the year on an optimistic note. There were relatively higher commodity prices (particularly of oil), a gradual rise of reference rates, and a marked increase in Sovereign *Sukuk* issuances, stable Corporate *Sukuk* issuances in certain jurisdictions and a healthy *Sukuk* issuance pipeline. *Sukuk* continued to gain attention from new issuers while the investor base expanded, which is an encouraging development. During the year, *Sukuk* were issued as a viable alternative source of financing for infrastructure development, aircraft financing, project financing, corporate general purpose needs, capital adequacy and budgetary requirements. Other interesting developments are the issuance of Green *Sukuk* and increased interest in SRI *Sukuk* issuances.

The year's landmark event was Saudi Arabia's entry as a sovereign *Sukuk* issuer. The country's first issuance was a large size international *Sukuk* issuance of around USD 9 billion, followed by several sovereign domestic *Sukuk* issuances. The other new sovereign issuer is Nigeria and the country's domestic issuance was around USD 312 million. Moreover, continued interest from well established sovereign, quasi sovereign and financial institutions issuers such as the Governments of Bahrain, Indonesia, Turkey, Pakistan, Oman, Hong Kong, Investment Corporation of Dubai, and Islamic Development Bank has kept the *Sukuk* market active.

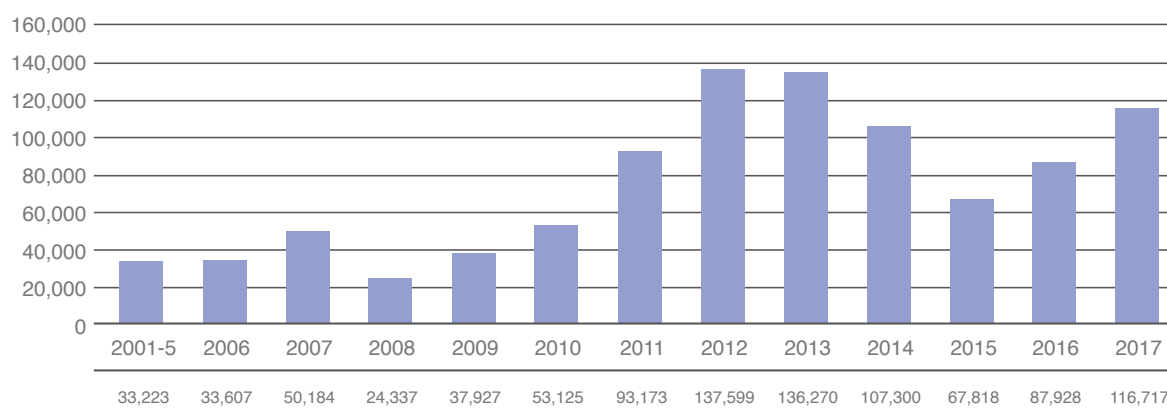
The new issuers, such as Saudi Arabia, have helped keep the growth trajectory of *Sukuk* issuance intact.

The issuances of short term *Sukuk* by a number of jurisdictions from the Far East, GCC, Africa, Asia, IILM, Kuvet Turk Participation Bank etc. fulfilled the short term liquidity requirements of Islamic financial institutions. However, there was a drop in Short Term *Sukuk* issuances during 2017.

1.2 GLOBAL *SUKUK* ISSUANCES

Total global issuance amounted to USD 116.7 billion in 2017. As illustrated in Chart 1A below, global *Sukuk* issuance has increased from USD 87.9 billion in 2016 to USD 116.7 billion in 2017, an impressive jump of around 32% in volume. The increase in volume during 2017 was mainly due to sovereign *Sukuk* issuances by Saudi Arabia coupled with steady issuances from Asia, GCC, Africa and certain other jurisdictions. Malaysia continues to dominate the *Sukuk* market, though shares from countries like Indonesia, the UAE and to some extent from Turkey, are close behind in value.

Chart 1A: Total Global Sukuk Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions



Source: IIFM Sukuk Database

Total Global Sukuk Issuances USD 979,209 Millions

The following table gives a clear picture on the selected value leaders of global Sukuk issuances during 2017:

TABLE 1: SELECTED VALUE LEADERS - GLOBAL SUKUK ISSUANCES AND TRENDS
(USD 500 MILLION OR >, TENOR > 1 YEAR)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUANCE CURRENCY	MILLIONS USD OR EQUIVALENT	TENOR (YEARS)
2017	Government of Saudi Arabia	2	USD	9,000	7.5
2017	Islamic Development Bank	2	USD	2,510	5
2017	Government of Saudi Arabia	18	SAR	15,755	7
2017	Dar Al Arkan	1	USD	500	5
2017	Turkish Treasury	1	USD	1,250	6
2017	Saudi Aramco	1	SAR	3,038	7
2017	Government of Bahrain	1	USD	850	8
2017	Government of Pakistan	1	USD	1,000	5
2017	Maybank Islamic	1	MYR	500	5
2017	DAMAC Properties	1	USD	500	5
2017	Dubai Islamic Bank	1	USD	1,000	5

Table continued on next page.

2017	Investment Corporation of Dubai (ICD)	1	USD	1,000	10
2017	Government of Oman	1	USD	2,000	7
2017	EQUATE Petrochemical Company	1	USD	500	7
2017	Qatar Islamic Bank	2	USD	750	5
2017	Government of Hong Kong	1	USD	1,000	7
2017	Government of Indonesia	2	USD	3,000	7.5
2017	Government of Malaysia	16	MYR	13,375	13
2017	Arab Petroleum Investments Corporation	1	USD	500	5
2017	SapuraKencana TMC	1	MYR	823	7
2017	Ezdan Holding Group	1	USD	500	5

Source: IIFM *Sukuk* Database

As seen among the hallmark issuances, the year 2017 was once again led by sovereigns and quasi-sovereigns in terms of issuance. The pace of corporate and FIs *Sukuk* issuances, especially in countries outside of Malaysia, continues to drag.

The impact of the Dana Gas *Sukuk* legal battle with its creditors has not significantly impacted the corporate *Sukuk* issuances from the GCC as the UK court ruling was in favor of the creditors. However, the ruling from the Sharjah court may, most likely temporarily, impact the corporate *Sukuk* issuances from the region in 2018.

A standardized mechanism for *Shari'ah* compliant foreign currency hedging, such as that developed by the IIFM, is facilitating *Sukuk* issuance in other jurisdictions without exposing the *Sukuk* holders to foreign exchange risks.

The trend of fixed rate *Sukuk* issuances in the year 2009 has continued in 2017; floating rates tied to a benchmark have not been a common occurrence in the *Sukuk* market. The trend of fixed rate issuances is expected to continue at least over the next few years as a policy of gradual rise in the benchmark rate is expected.

Following are landmark Fixed Profit Rate *Sukuk* Issuances during 2017:

TABLE 2: LANDMARK FIXED RATE SUKUK ISSUANCES (USD 200 MILLION OR >, TENOR > 1 YEAR)

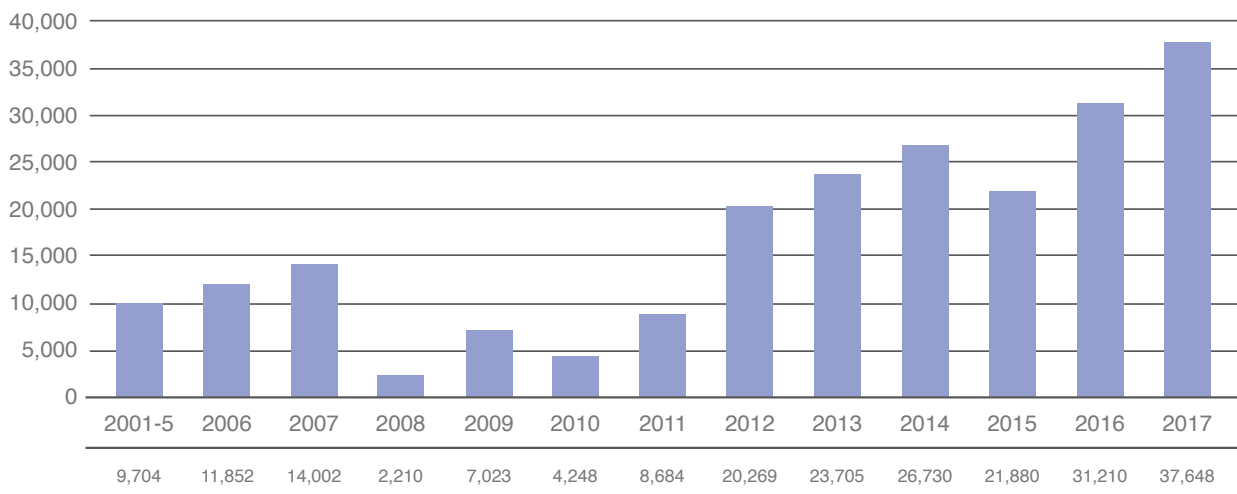
ISSUE YEAR	ISSUER	TYPE OF ISSUED SUKUK	ISSUANCE CURRENCY	INTERNATIONAL DOMESTIC	SUKUK STRUCTURE	USD MILLION OR EQUIVALENT	RATE OF RETURN	TENOR (YEARS)
2017	Emirates REIT	Corporate	USD	International	<i>Sukuk Al-Ijarah</i>	400	5.125	5
2017	Government of Pakistan	Sovereign	USD	International	<i>Sukuk Al-Ijarah</i>	1,000	5.625	5
2017	Arab Petroleum Investments Corporation	Quasi-Sovereign	USD	International	<i>Sukuk Al Wakalah</i>	500	3.141	5
2017	Central Bank of Bahrain (CBB)	Sovereign	USD	International	Hybrid <i>Sukuk Ijarah/Murabahah</i>	850	5.25	8
2017	Meraas Holding	Corporate	USD	International	<i>Sukuk Al-Mudharabah</i>	400	5.11	5
2017	Government of Oman	Sovereign	USD	International	<i>Sukuk Al-Ijarah</i>	2,000	4.397	7
2017	Qatar Islamic Bank	Fls	USD	International	<i>Sukuk Al-Wakalah</i>	750	3.251	5
2017	DAMAC (Alpha Star Holding)	Corporate	USD	International	Hybrid <i>Sukuk Ijarah/Murabahah</i>	500	6.25	5
2017	Government of Saudi Arabia	Sovereign	USD	International	Hybrid <i>Sukuk - Murabahah/Mudharabah</i>	4,500	2.894	5
2017	Government of Saudi Arabia	Sovereign	USD	International	Hybrid <i>Sukuk - Murabahah/Mudharabah</i>	4,500	3.628	10
2017	Dar Al Arkan	Corporate	USD	International	Hybrid <i>Sukuk - Ijarah/Murabahah</i>	500	6.875	5
2017	Ezdan Sukuk Company Limited	Corporate	USD	International	<i>Sukuk Al-Wakalah</i>	500	4.875	5
2017	Republic of Indonesia	Sovereign	USD	International	<i>Sukuk Al-Wakalah</i>	1,000	3.4	5
2017	Republic of Indonesia	Sovereign	USD	International	<i>Sukuk Al-Wakalah</i>	2,000	4.15	10
2017	Government of Hong kong	Sovereign	USD	International	<i>Sukuk Al-Wakalah</i>	1,000	3.132	10
2017	EQUATE Petrochemical Company	Corporate	USD	International	Hybrid <i>Sukuk - Ijarah/Murabahah</i>	500	3.944	7
2017	Dubai Islamic Bank	Fls	USD	International	<i>Sukuk Al-Wakalah</i>	1,000	3.664	5
2017	Government of Saudi Arabia	Sovereign	SAR	Domestic	Hybrid <i>Sukuk - Murabahah/Mudharabah</i>	3,240	3.55	5
2017	Warba Bank	Fls	USD	International	<i>Sukuk Al-Mudharabah</i>	250	6.5	Perpetual

Source: IIFM Sukuk Database

1.3 INTERNATIONAL *SUKUK* ISSUANCES

Total international *Sukuk* issuances stood at USD 37.6 billion in 2017 which translate into an increase of USD 6.4 billion from the 2016 level of USD 31.2 billion – this is so far the highest value of international *Sukuk* issuance recorded since the inception of the *Sukuk* market.

Chart 1B: Total International *Sukuk* Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions



Source: IIFM *Sukuk* Database

Total International *Sukuk* Issuances USD 219,165 Millions

The increase in *Sukuk* issuances was mainly due to higher sovereign *Sukuk* issuances led by Saudi Arabia and an increase in issuances by quasi sovereign and other sovereigns. Issuances from corporates and financial institutions remained subdued.

There were no non-local currency *Sukuk* – *Sukuk* issued in a jurisdiction by a foreign issuer – during 2017, though this type of issuance is required for growth of the *Sukuk* market.

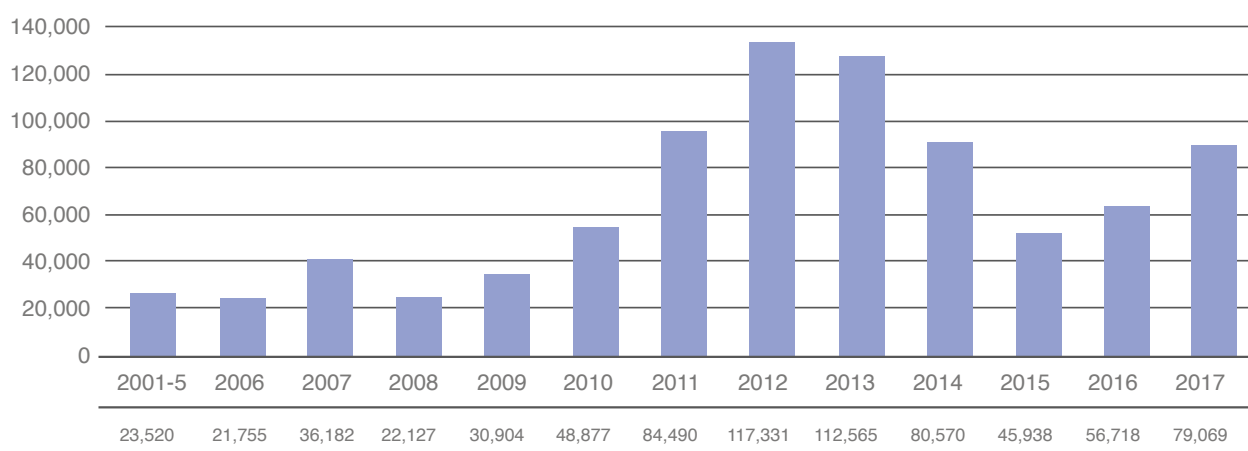
A few milestones achieved in the international *Sukuk* market in the year 2017 are:

- a) The Government of Saudi Arabia Sovereign issuance of around USD 9 billion.
- b) The Investment Corporation of Dubai USD 1 billion Quasi Sovereign *Sukuk* issuance.
- c) *Sukuk* issuance of USD 150 million by the African Finance Corporation based in Nigeria.

1.4 DOMESTIC *SUKUK* ISSUANCES

Chart 1C below shows that domestic *Sukuk* issuances have increased from their 2016 level of USD 56.7 billion to USD 79.06 billion. The biggest chunk of this increase is coming from the Saudi market amounting to USD 20 billion, followed by the Malaysian market contribution.

Chart 1C: Total Domestic *Sukuk* Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions



Source: IIFM *Sukuk* Database

Total Domestic *Sukuk* Issuances USD 760,044 Millions

If we analyze the domestic issuances excluding Malaysia, there was a marginal rise in domestic *Sukuk* issuances from the rest of the world with domestic issuances excluding Malaysia standing at approximately USD 37 billion in 2017 as against USD 27.5 billion in 2016. The major players in the domestic market (outside of Malaysia) are Saudi Arabia and Indonesia. Saudi Arabia issued its largest to date domestic sovereign issuances worth around USD 15.7 billion in 2017 and it is the first and only issuance where the Dodd Frank regulation of 5% of the issue take-up by the issuer was applied; Nigeria issued domestic sovereign *Sukuk* issuance of USD 312 million.

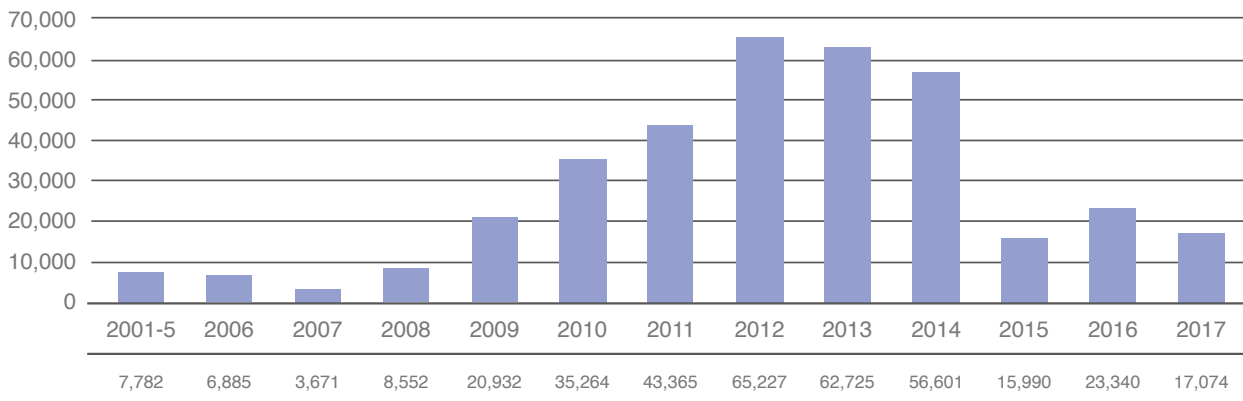
A few milestones achieved in the domestic *Sukuk* market in the year 2017:

- The Government of Saudi Arabia issued one of the largest domestic Sovereign *Sukuk* amounting to around USD 15.7 billion.
- The Government of Nigeria made a debut *Sukuk* issuance of around USD 312 million and became one of the new entrants in the *Sukuk* market.
- The Malaysian Corporate entity, Quantum Solar Park, issued one of the first Green *Sukuk* amounting to Ringitt 1 billion.

1.5 SHORT TERM *SUKUK* MARKET

Short term *Sukuk* with a maturity of one year or less are indispensable in meeting the liquidity needs of Islamic financial institutions. As shown in Chart 2A below, total global short term *Sukuk* issuance since the inception of the *Sukuk* market stands at USD 367.4 billion. It peaked at USD 65.2 billion in 2012 and declined marginally in 2013 and 2014 (mimicking the trend in the global all-tenor *Sukuk* issuances shown in Chart 1A), before a major adjustment in 2015 due to a policy change by BNM. During 2017, short term *Sukuk* issuance was USD 17.07 billion against 2016 issuance of USD 23.3 billion; this translates into a reduction of USD 6.2 billion of short term *Sukuk* issuances from most of the issuing jurisdictions outside of Malaysia.

**Chart 2A: Total Global Short term *Sukuk* Issuances (Jan 2001 - Dec 2017)
Tenor 12 Months or Less, All Currencies, In USD Millions**



Source: IIFM *Sukuk* Database

Total Global Short Term *Sukuk* Issuances 367,410 Millions

Malaysia has been the clear value leader in the short tenor *Sukuk* market and its market share of global short term *Sukuk* issuances from 2001-2017 is 86% (USD 318 Billion) against its market share of 86% (USD 303 billion) for the 2001-2016 period. Other regular issuers in the short term market have been Indonesia, Sudan, Gambia, Bahrain, Brunei and to some extent Turkey, however this group of issuers have formed around 12% of the total short term market since the beginning.

The International Islamic Liquidity Management (IILM), also based in Malaysia, started its short term issuances in the year 2013, moving some of the share of the short term market from the Malaysian sovereign category to the quasi-sovereign category. The government of Indonesia stepped up its *Sukuk* issuance while Turkey started issuing IFI (Financial Institutions) as well as sovereign short term *Sukuk*. However, even with the advent of new issuers, Malaysia's share of the short term *Sukuk* market (including IILM) during 2017 remains dominant at around 58%.

The following table shows regional distribution of total short term *Sukuk* issuance since 2001:

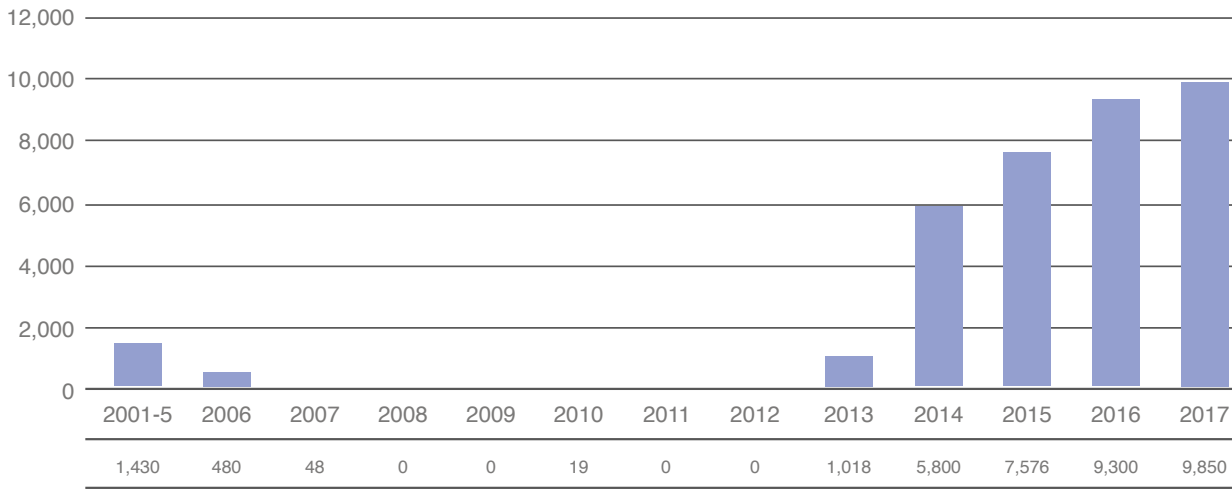
TABLE 3: TOTAL GLOBAL SHORT TERM *SUKUK* ISSUANCES – ALL CURRENCIES ≤ 12 MONTHS (JAN 2001 – DEC 2017)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.010%
Brunei Darussalam	136	8,571	2.33%
Indonesia	45	4,085	1.11%
Malaysia	2,598	318,420	86.67%
Pakistan	8	141	0.04%
Singapore	3	221	0.06%
Total	2,794	331,475	90.2%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	319	14,098	3.84%
Oman	1	130	0.04%
Saudi Arabia	6	1,301	0.35%
United Arab Emirates	1	100	0.03%
Yemen	1	234	0.06%
Total	328	15,862	4.3%
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	210	136	0.04%
Sudan	16	16,435	4.47%
Total	226	16,571	4.5%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	101	3,501	0.95%
Total	101	3,501	0.95%
Grand Total	3,449	367,410	100%

Source: IIFM *Sukuk* Database

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

Chart 2B: Total International Short Term *Sukuk* Issuances ≤ 12 Months (Jan 2001 – Dec 2017, USD Millions)

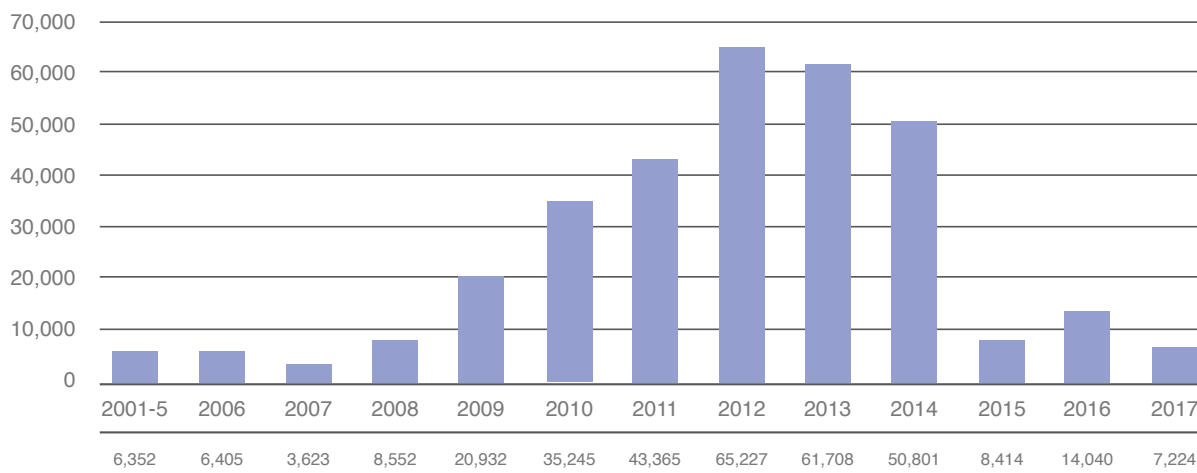


Source: IIFM *Sukuk* Database

Total International Short Term *Sukuk* Issuances 35,521 Millions

Chart 2C below shows that domestic short term issuances during 2001 to 2014 mimic Chart 2a, or global short term issuances. This is because domestic issuances on average have been over 80% of all short term issuances, except for 2015 where their share of the total short term issuances fall to just over 50%. In the years 2008-2012, that is between the time that CBB stopped issuing international short term *Sukuk* (2007) and IILM started issuing international short term *Sukuk* (2013), the short term market was entirely local currency, that is 100% domestic.

Chart 2C: Total Domestic Short Term *Sukuk* Issuance ≤ 12 Months (Jan 2001 – Dec 2017, USD Millions)

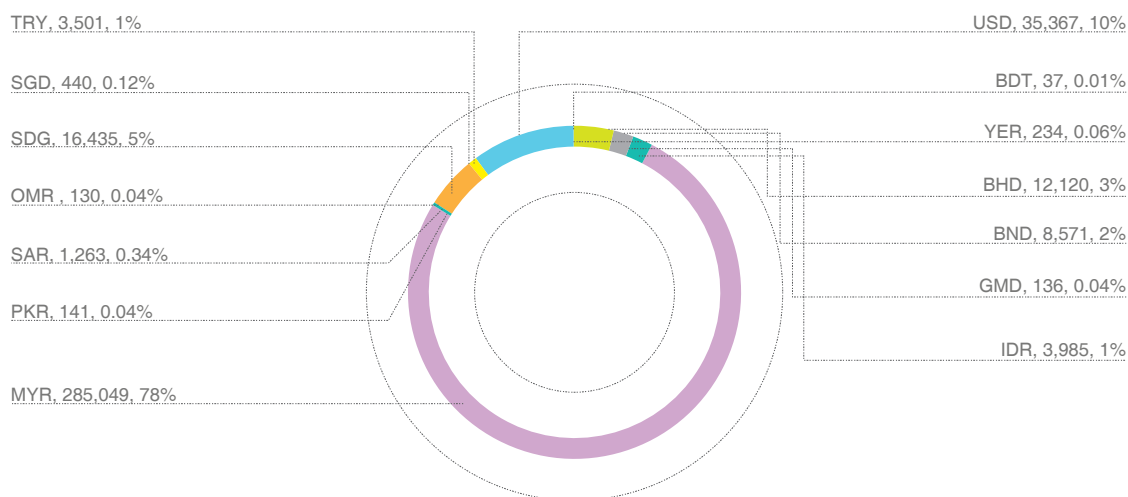


Source: IIFM *Sukuk* Database

Total Domestic Short Term *Sukuk* Issuances 331,889 Millions

It is interesting to note that during the 2001-2014 period, the short term market was clearly dominated by domestic issues and all domestic issuances were overshadowed by issuances from Malaysia. However, starting 2015, the short term market started balancing where the market share of International Short Term *Sukuk* reached around 25% of total issuances in 2017. The currency wise distribution of issuances is explained in Chart 2D (a) below:

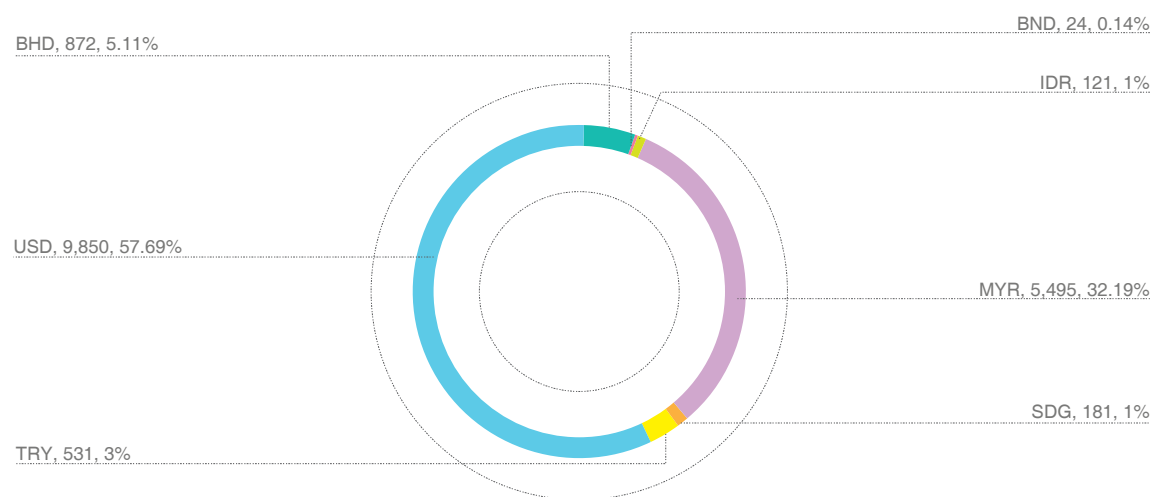
Chart 2D (a): Global Short Term *Sukuk* Issuances ≤ 12 Months, Currency Distribution (Jan 2001 – Dec 2017, Amount in USD Millions)



Source: IIFM Sukuk Database

Chart 2D (b) below is a snapshot of the global short term market where US Dollar leads the currency distribution with a market share of around 57.7% followed by the Malaysian Ringgit, Sudanese Pound, Bahraini Dinar, Indonesian Rupiah, Brunei Dollar and others.

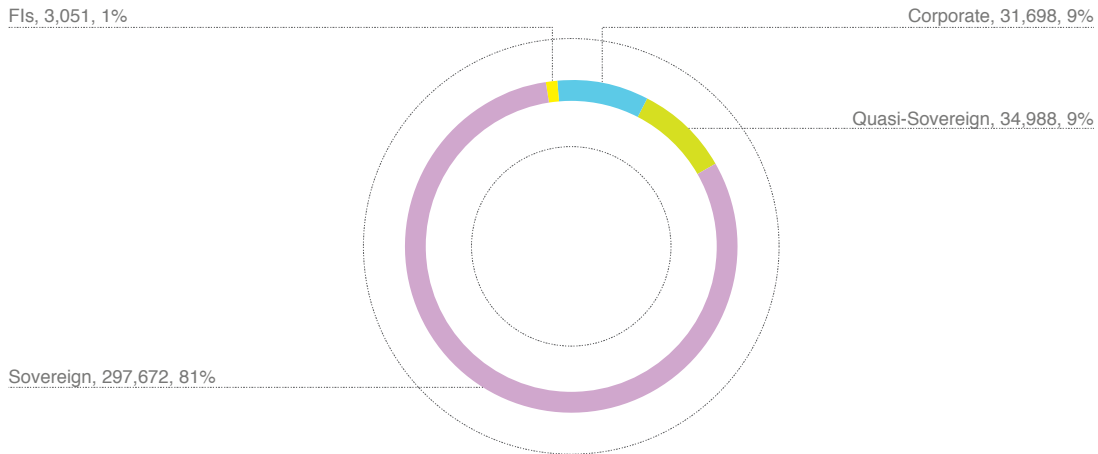
Chart 2D (b): Global Short Term *Sukuk* Issuances ≤ 12 Months, Currency Distribution (Jan 2017 – Dec 2017, Amount in USD Millions)



Source: IIFM Sukuk Database

Chart 2E (a) below presents the short term *Sukuk* issuances since inception by sovereign, quasi-sovereign, corporate, and financial institutions. Sovereign issuances clearly lead the pack, followed by quasi-sovereign, which is why support from governments is so critical, especially in the development of the short term *Sukuk* market.

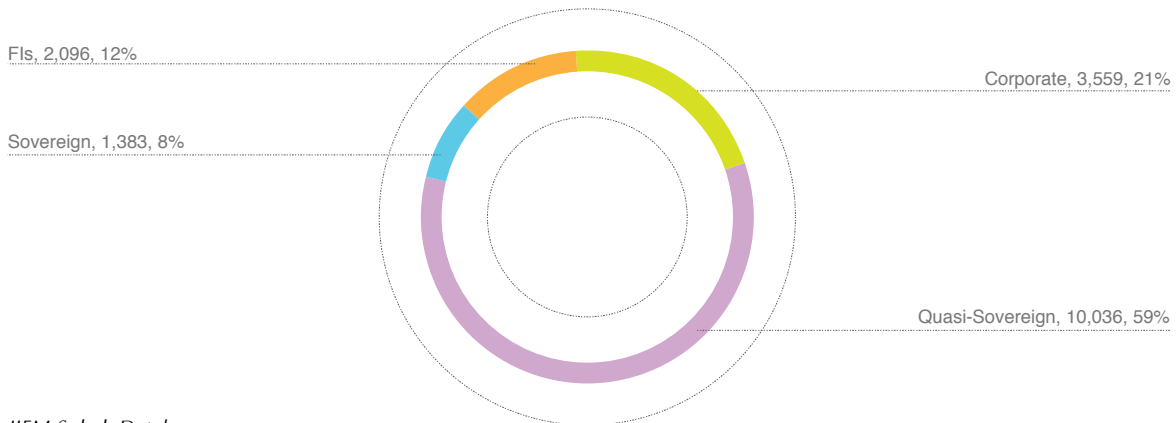
Chart 2E (a): Global Short Term *Sukuk* Issuances ≤ 12 Months, Issuer Type (Jan 2001 – Dec 2017, Amount in USD Millions)



Source: IIFM Sukuk Database

Chart 2E (b) below provides information on sovereign, quasi-sovereign, corporate and IFI issuances during 2016.

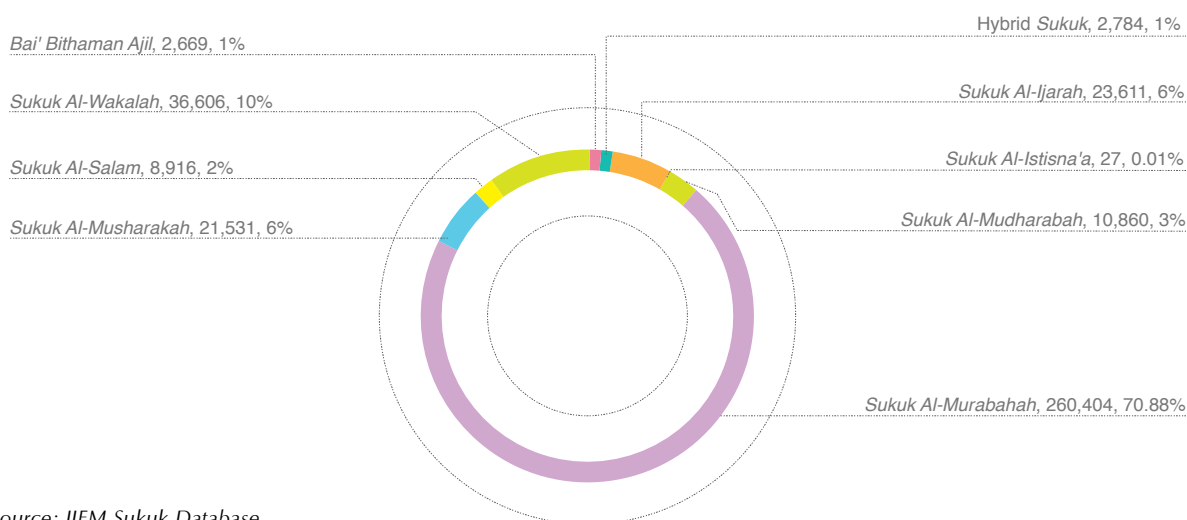
Chart 2E (b): Global Short Term *Sukuk* Issuances ≤ 12 Months, Issuer Type (Jan 2017 – Dec 2017, Amount in USD Millions)



Source: IIFM Sukuk Database

Chart 2F (a) below provides information on the distribution of issuances according to structure since inception, with the *Murabahah* structure making up the largest percentage.

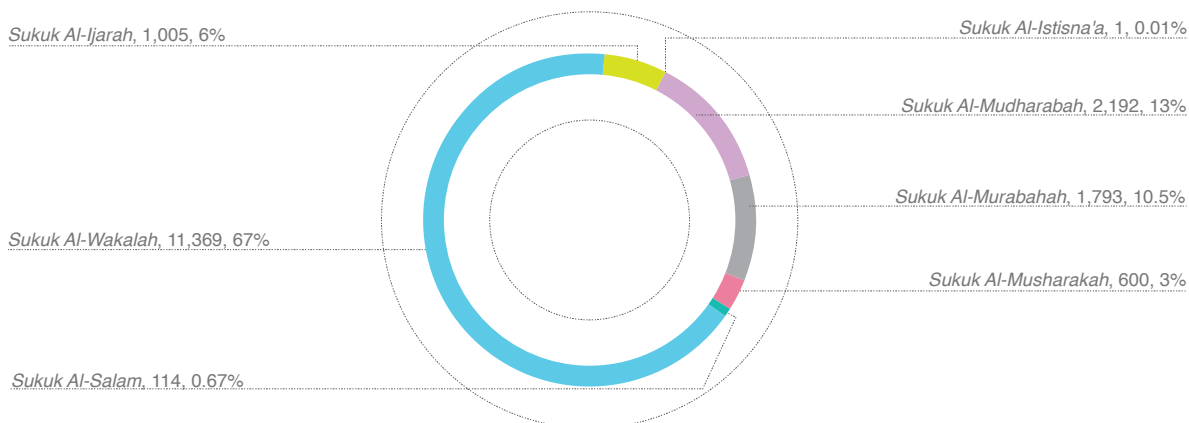
Chart 2F (a): Global Short Term Sukuk Issuances ≤ 12 Months, Structure Distribution (Jan 2001 – Dec 2017, Amount in USD Millions)



Source: IIFM Sukuk Database

Chart 2F (b) below provides information on the distribution of *Sukuk* issuances according to structure during the year 2017, and shows that the *Wakalah* structure has taken a more dominant role. Generally however, *Sukuk* issued under the *Wakalah* structure involves *Ijarah* and *Murabahah*, which means that the share of *Murabahah* and *Ijarah* could be higher than presented below.

Chart 2F (b): Global Short Term Sukuk Issuances ≤ 12 Months, Structure Distribution (Jan 2017 – Dec 2017, Amount in USD Millions)



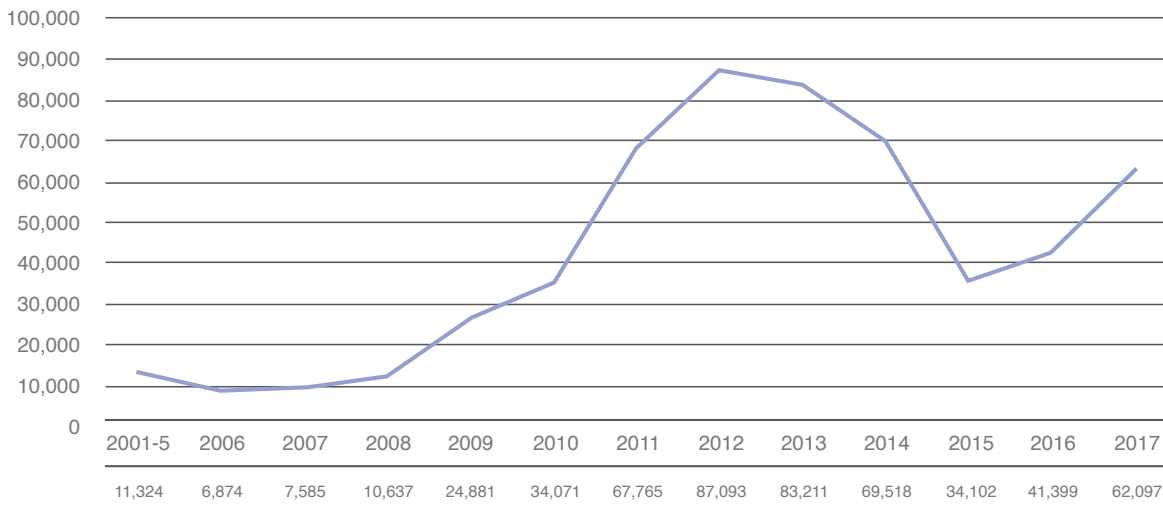
Source: IIFM Sukuk Database

1.6 DISTRIBUTION OF GLOBAL *SUKUK* ISSUANCE BY ISSUER STATUS

Overall, sovereign *Sukuk* issuances are the main contributor of growth in the global *Sukuk* market, and there was a rise in sovereign issuances in 2017 as indicated by IIFM in its last report. Sovereign issuers, led by Saudi Arabia, continue to provide a strong foundation to the *Sukuk* market.

As of end 2017, total sovereign *Sukuk* issuance since inception stands at USD 540.5 billion, which is around 55% of all global *Sukuk* issuances. Chart 3A below shows the trend of sovereign *Sukuk* issuances since the year 2001:

**Chart 3A: Global Sovereign *Sukuk* Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions**



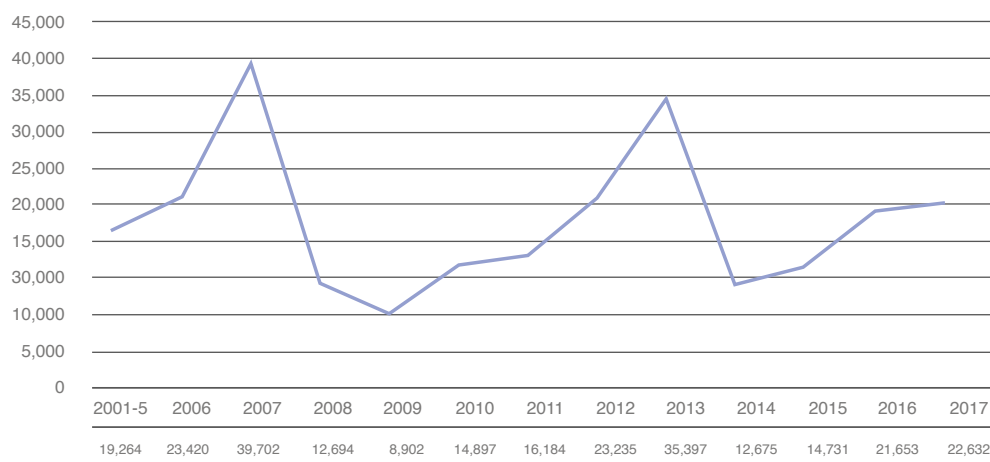
Source: IIFM *Sukuk* Database

Total Global Sovereign *Sukuk* Issuances USD 540,556 Millions

The trend in the global sovereign issuances is encouraging, as it shows that the *Sukuk* market has a strong base which is unwavering in the face of economic shocks. However, the issuances in the corporate sector seems to follow the economic cycle, going up in good economic conditions and slumping during slowdowns.

The following Chart 3B shows global corporate issuances since 2001.

Chart 3B: Global Corporate *Sukuk* Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions

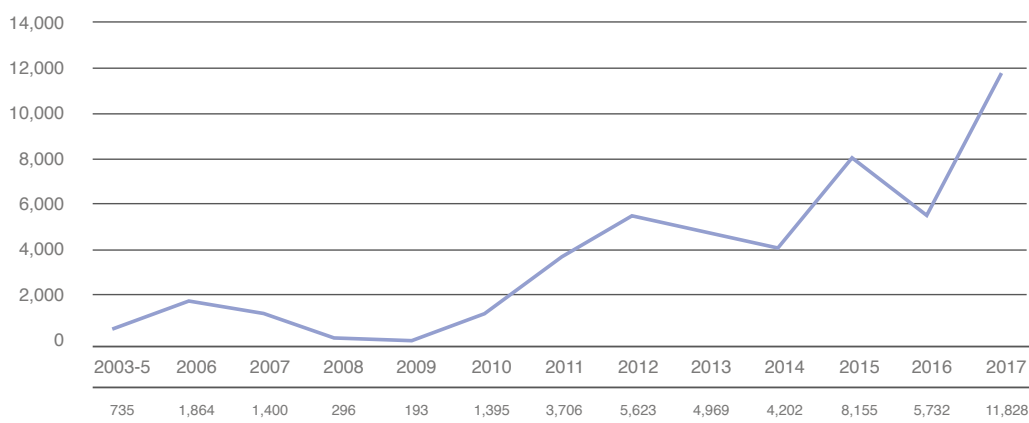


Source: IIFM *Sukuk* Database **Total Global Corporate *Sukuk* Issuances USD 265,386 Millions**

As can be seen, corporate issuances peaked in 2007 and 2013 and dived almost 30% and 40% in the following years 2008 and 2014 respectively. This is typical of corporate sector response even in the conventional world as they are the first to cut back on spending and expansion and development projects in the wake of an economic downturn. Factors in the slow rise of corporate *Sukuk* issuances outside of Malaysia are governing law, structural preferences and other issues in various OIC countries including the GGC region. This aspect needs to be tackled by all stakeholders, including Islamic standard setting organizations, especially IIFM, AAOIFI and IFSB.

During 2017, corporate sector issuances have shown a slight uptick which indicates that the corporate sector, as is the case in Malaysia, may eventually become a major issuer of *Sukuk* at least in the well established Islamic jurisdictions. Chart 3C below shows the trend line for FIs (financial institutions issuances since 2001):

Chart 3C: Global FIs *Sukuk* Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions

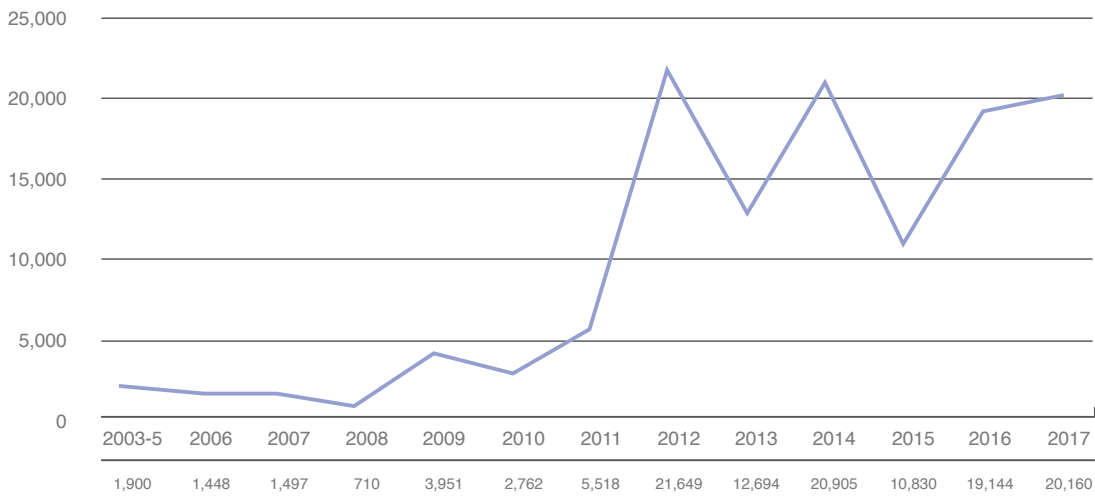


Source: IIFM *Sukuk* Database **Total Global FIs *Sukuk* Issuances USD 50,098 Millions**

Financial institutions are the major investors in the *Sukuk* market and up till 2007 most of the *Sukuk* issuances were on the floating profit rate basis which suited the balance sheet management of the FIs (Financial Institutions). Although FIs have been issuing *Sukuk* since inception, starting in 2010, IFIs became more active as issuers for not only liquidity management purposes but also to meet the Basel Capital Adequacy requirements by issuing Tier 1 & Tier 2 *Sukuk*. During this year, a number of FIs based in various jurisdictions have issued this type of *Sukuk*.

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

Chart 3D: Global Quasi-Sovereign *Sukuk* Issuances (Jan 2001 - Dec 2017)
All Tenors, All Currencies, In USD Millions



Source: IIFM *Sukuk* Database

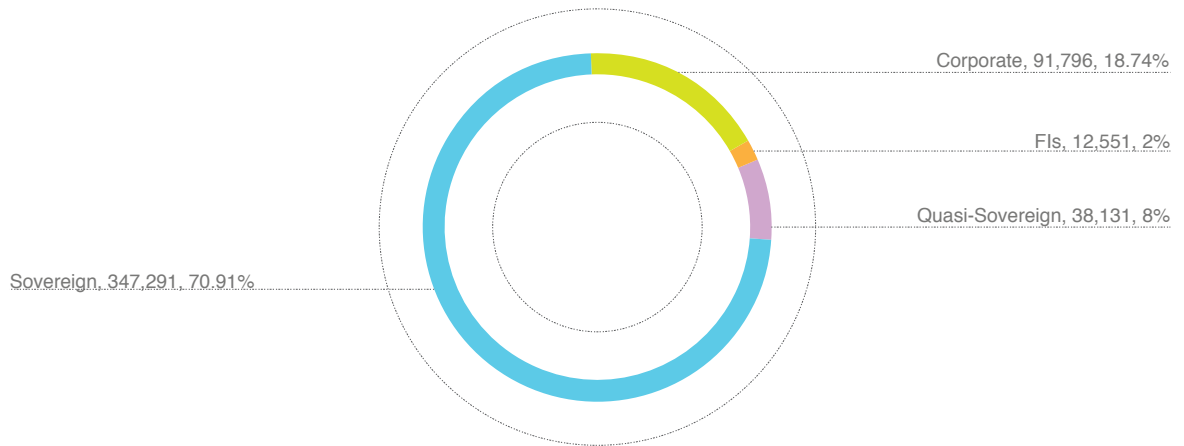
Total Global Quasi-Sovereign *Sukuk* Issuances USD 123,168 Millions

The quasi-sovereign issues between 2003 and 2011 mainly came from the Finance Ministry of Malaysia, Khazanah Nasional, and the Saudi-based Islamic Development Bank. The sudden peak in 2012 came from large issuances from Malaysia based PLUS Berhad (almost USD 9.7 billion), and two Saudi based entities Saudi Electricity Company (USD 1.75 billion) and the General Authority of Civil Aviation (USD 4 billion). The IILM entered the market with its short term *Sukuk* in 2013, starting with 2 *Sukuk* worth USD 980 million in 2013, reaching upto USD 9.8 billion in 2017. The longer tenor market is supported by issuances such as Saudi Aramco USD 3 billion, Tenaga Nasional USD 375 million, Arab Petroleum Investment Corporation USD 500 million and Khazanah Nasional USD 375 million. It is interesting to note that in both the international and domestic *Sukuk* markets, the mix of sovereign/quasi-sovereign, corporate and FIs issuers has been following a consistent pattern with the first rising in prominence.

The three pie charts in Chart 3E give a clear picture of domestic *Sukuk* issuances.

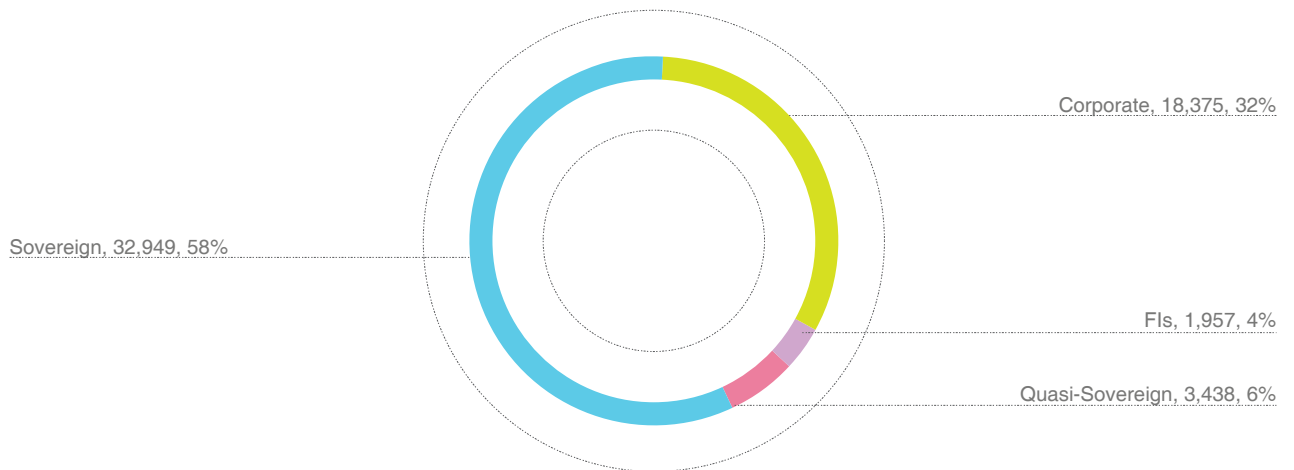
Chart 3E: Domestic *Sukuk* Issuances by Issuer Status
All Tenors, All Currencies, In USD Millions

Domestic *Sukuk* Issuances (Jan 2010 - Dec 2015)



Source: IIFM Sukuk Database

Domestic *Sukuk* Issuances (Jan 2016 - Dec 2016)



Source: IIFM Sukuk Database

Domestic *Sukuk* Issuances (Jan 2017 - Dec 2017)

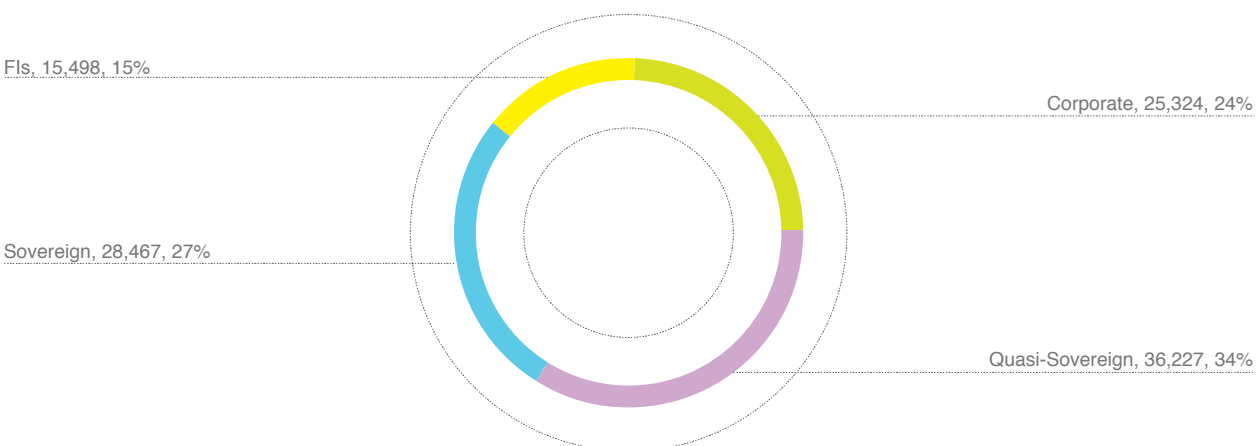


Source: IIFM *Sukuk* Database

The pie charts in Chart 3F below show the respective the shares of sovereign, quasi-sovereign, corporate and FIs issuers in the international market respectively. The share of sovereign and quasi-sovereign issuers in the international *Sukuk* market has risen steadily from only 61% of the entire issuance in the period 2010-2015 to a whopping 85% in 2017. During 2017 sovereign issuers took the lead and their share has risen to 48% of the total issuances followed by 37% issuances by quasi-sovereign. The issuances by corporate and FIs remain stagnant and showed a downward trend as compared to 2016.

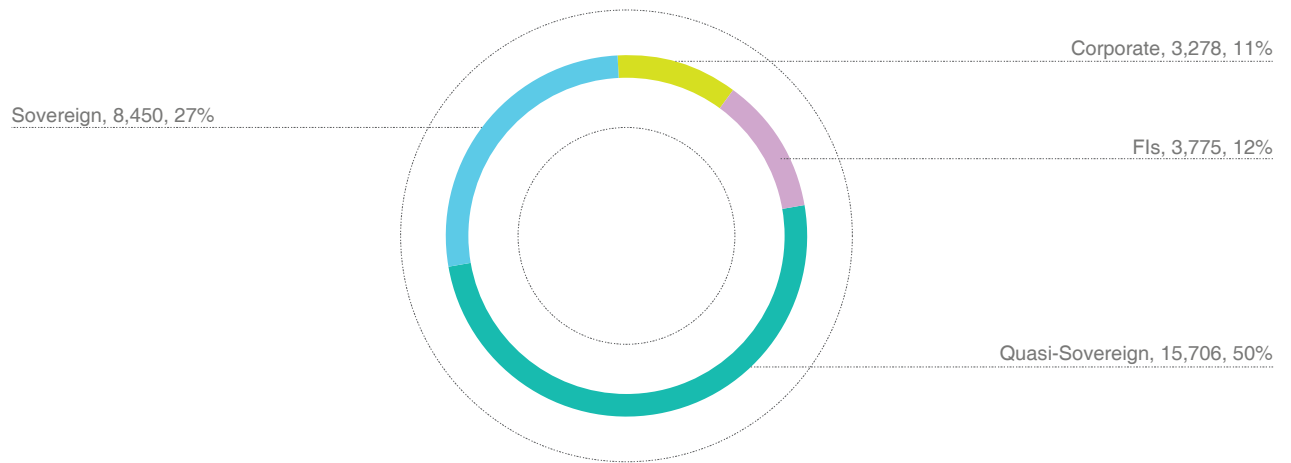
**Chart 3F: International *Sukuk* Issuances by Issuer Status
All Tenors, All Currencies, In USD Millions**

International *Sukuk* Issuances (Jan 2010 - Dec 2015)



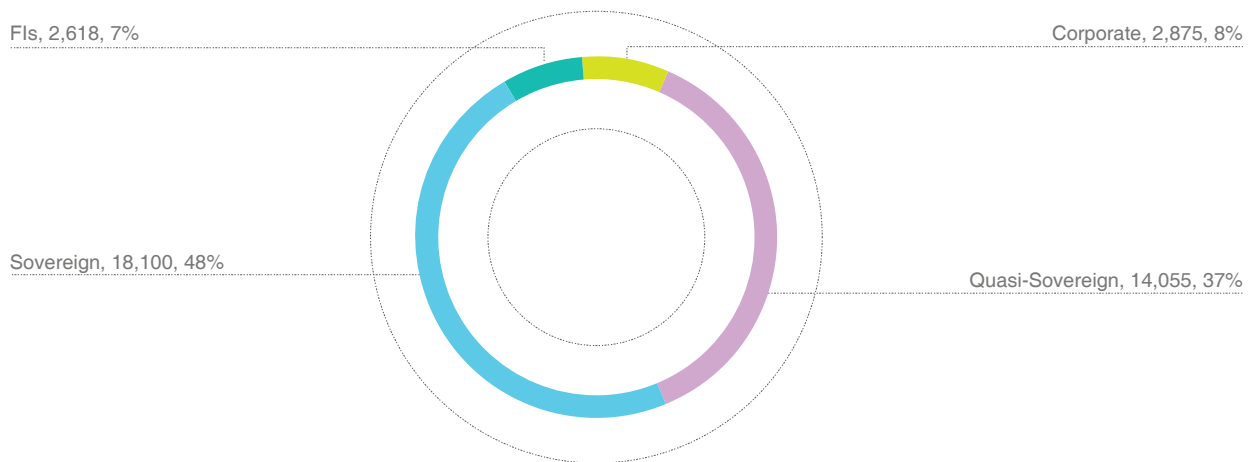
Source: IIFM *Sukuk* Database

International Sukuk Issuances (Jan 2016 - Dec 2016)



Source: IIFM Sukuk Database

International Sukuk Issuances (Jan 2017 - Dec 2017)



Source: IIFM Sukuk Database

It is expected that due to the tighter economic and geo-political conditions in different parts of the world, the growth in *Sukuk* market will continue to be driven by sovereign and quasi-sovereign issuers.

Following are lists of hallmark *Sukuk* Issuances in the sovereign, quasi-sovereign, corporate, and FIs categories during 2016:

**TABLE 4A: GLOBAL SOVEREIGN *SUKUK* ISSUANCES - SELECTED VALUE LEADERS
(2017, USD 200 MILLIONS OR >, TENOR > 1YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL /DOMESTIC	<i>SUKUK</i> STRUCTURE	MILLIONS USD OR EQUIVALENT	TENOR (YEARS)
2017	Government of Saudi Arabia	18	Saudi Arabia	SAR	Domestic	Hybrid <i>Sukuk Murabahah/ Mudharabah</i>	15,755	7
2017	Government of Pakistan	1	Pakistan	USD	International	<i>Sukuk Al-Ijarah</i>	1,000	5
2017	Government of Oman	1	Oman	USD	International	<i>Sukuk Al-Ijarah</i>	2,000	7
2017	Turkish Treasury	1	USD	USD	International	<i>Sukuk Al-Ijarah</i>	1,250	6
2017	Government of Malaysia	10	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	8,375	13
2017	Government of Saudi Arabia	2	Saudi Arabia	USD	International	Hybrid <i>Sukuk Murabahah/ Mudharabah</i>	9,000	7.5
2017	Government of Indonesia	2	Indonesia	USD	International	<i>Sukuk Al-Wakalah</i>	3,000	7.5
2017	Government of Hong Kong	1	Hongkong	USD	International	<i>Sukuk Al-Wakalah</i>	1,000	10
2017	Government of Bahrain	1	Bahrain	USD	International	Hybrid <i>Sukuk Murabahah/ Ijarah</i>	850	8
2017	Government of Bahrain	1	Bahrain	BHD	Domestic	<i>Sukuk Al-Ijarah</i>	331	3
2017	Government of Malaysia	2	Malaysia	MYR	Domestic	<i>Sukuk Al-Mudharabah</i>	1,875	2
2017	Government of Malaysia	4	Malaysia	MYR	Domestic	<i>Sukuk Al-Musharakah</i>	3,125	19
2018	Government of Nigeria	1	Nigeria	NGN	Domestic	<i>Sukuk Al-Ijarah</i>	312	7

Source: IIFM *Sukuk* Database

**TABLE 4B: GLOBAL CORPORATE SUKUK ISSUANCES – SELECTED VALUE LEADERS
(2017, USD 200 MILLIONS OR >,TENOR > 1YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUANCE COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL & DOMESTIC	SUKUK STRUCTURE	USD MILLION OR EQUIVALENT	AVERAGE TENOR (YEARS)
2017	Danainfra Nasional	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	266	15
2017	Prasarana Malaysia	3	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	663	10
2017	Equate Petrochemical Company	1	Kuwait	USD	International	<i>Hybrid Sukuk - Ijarah/Murabahah</i>	500	7
2017	Ezdan Holding Group	1	Qatar	USD	International	<i>Sukuk Al-Wakalah</i>	500	5
2017	Sapurakencana TMC	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Mudharabah</i>	823	7
2017	TENAGA Nasional	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Wakalah</i>	375	20
2017	Dar AL ARKAN	1	Saudi Arabia	USD	International	<i>Hybrid Sukuk -Ijarah/Murabahah</i>	500	5
2017	Emirates REIT	1	United Arab Emirates	USD	International	<i>Sukuk Al-Ijarah</i>	400	5
2017	SARAWAK ENERGY	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Musharakah</i>	250	16
2017	Prima Corporation Malaysia	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	438	7
2017	Dubai Meraas Holdings	1	United Arab Emirates	USD	International	<i>Sukuk Al-Mudharabah</i>	400	5
2017	Lembaga Pembiayaan Perumahan Sektor Awam	4	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	875	19
2017	DAMAC Properties	1	United Arab Emirates	USD	International	<i>Hybrid Sukuk -Ijarah/Murabahah</i>	500	5
2017	TANJUNG BIN ENERGY	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Mudharabah</i>	200	20
2017	Quantum Solar Park (Green Sukuk)	33	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	250	10

Source: IIFM Sukuk Database

**TABLE 4C: GLOBAL FIS *SUKUK* ISSUANCES – SELECTED VALUE LEADERS
(2017, USD 150 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUANCE COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL /DOMESTIC	<i>SUKUK</i> STRUCTURE	USD MILLION OR EQUIVALENT	AVERAGE TENOR (YEARS)
2017	Maybank Islamic	2	Malaysia	MYR	Domestic	<i>Sukuk Al-Wakalah</i>	750	3.5
2017	Qatar Islamic Bank	1	Qatar	USD	International	<i>Sukuk Al-Wakalah</i>	750	5
2017	National Commercial Bank	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al-Murabahah</i>	351	Perpetual
2017	Dubai Islamic Bank	1	United Arab Emirates	USD	International	<i>Sukuk Al-Wakalah</i>	1000	5
2017	Cagamas Bhd	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Wakalah</i>	210	5
2017	Al-baraka Banking Group	1	Bahrain	USD	International	<i>Sukuk Al-Mudharabah</i>	400	Perpetual
2017	Danainfra Nasional Bhd	3	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	550	21.3
2017	Warba Bank	1	Kuwait	USD	International	<i>Sukuk Al-Mudharabah</i>	250	Perpetual
2017	Pnb Merdeka Ventures S	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Wakalah</i>	296	16
2017	Bank Pembangunan Malaysia	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Wakalah</i>	175	15

Source: IIFM Sukuk Database

**TABLE 4D: GLOBAL QUASI-SOVEREIGN *SUKUK* ISSUANCES – SELECTED VALUE LEADERS
(2017, USD 150 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUANCE COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL /DOMESTIC	<i>SUKUK</i> STRUCTURE	USD MILLION OR EQUIVALENT	AVERAGE TENOR (YEARS)
2017	Mkd Kencana	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	250	16
2017	Arab Petroleum Investment Corporation	1	Saudi Arabia	USD	International	<i>Sukuk Al-wakalah</i>	500	5
2017	Perbadanan Tabung Pendidikan Tinggi Nasional	2	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	539	15
2017	Islamic Development Bank	2	Saudi Arabia	USD	International	<i>Sukuk Al-wakalah</i>	2510	5
2017	Investment Corporation Of Dubai (ICD)	1	United Arab Emirates	USD	International	Hybrid <i>Sukuk -Ijarah/Murabahah</i>	1000	10
2017	Govco Holdings	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Murabahah</i>	312	15

Table continued on next page.

2017	Khazanah Nasional	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Musharakah</i>	375	10
2017	Saudi Aramco	1	Saudi Arabia	SAR	Domestic	<i>Hybrid Sukuk - Murabahah/ Mudharabah</i>	3037	7
2017	Rantau Abang Capital Berhad	1	Malaysia	MYR	Domestic	<i>Sukuk Al-Musharakah</i>	250	15
2017	Africa Finance Corporation	1	Nigeria	USD	International	<i>Sukuk Al-Murabahah</i>	150	3

Source: IIFM Sukuk Database

1.7 ANATOMY OF INTERNATIONAL SUKUK ISSUANCES

The international *Sukuk* market, though it forms just under 22.3% of overall Global *Sukuk* issuances since 2001, is the real attraction and driver of the *Sukuk* market. Denominated in USD and other stable currencies, the international *Sukuk* issues are being issued in longer tenors which include up to 30 years, perpetual, and there is an indication from Malaysia that a 50 years *Sukuk* issuance is on the cards. The international *Sukuk* with medium to long term tenors maintained growth in volume during 2017; the size of international short term *Sukuk* remained stable mainly due to issuances by IILM.

In recent years, sovereign and quasi-sovereign issuances are on the rise and forms the bulk of the *Sukuk* market.

A look at table 5A below shows us that the UAE has maintained its volume and value leader position in the international *Sukuk* market since 2001. Together with Saudi Arabia, Qatar, Oman & Bahrain, the five GCC countries command over 30% of the entire international *Sukuk* issuances since inception. In the year 2017, around 56% of the international issues came from these countries. Malaysia also has a formidable presence in the international market commanding around 24% of all international issuances since inception. Indonesia is fast emerging as a major *Sukuk* issuer and its share has risen to 24%.

Table 5A illustrates the regional distribution of the total international *Sukuk* issuance during the period Jan 2001 – Dec 2017:

TABLE 5A: REGIONAL DISTRIBUTION OF INTERNATIONAL ISSUANCES (JAN 2001 - DEC 2017)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
China	1	97	0.04%
Hong Kong	5	3,196	1.46%
Indonesia	15	13,503	6.16%
Japan	3	190	0.09%
Malaysia	90	54,473	24.85%
Pakistan	4	3,600	1.64%
Singapore	4	711	0.32%
Total	122	75,769	34.6%

Table continued on next page.

GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	101	10,430	4.76%
Kuwait	17	3,327	1.52%
Oman	3	2,582	1.18%
Qatar	14	11,435	5.22%
Saudi Arabia	50	38,965	17.78%
United Arab Emirates	96	63,644	29.04%
Total	281	130,383	59.5%
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Nigeria	1	150	0.07%
South Africa	1	500	0.23%
Sudan	1	130	0.06%
Total	3	780	0.4%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
France	1	1	0.0005%
Germany	3	206	0.09%
Luxembourg	3	280	0.13%
Turkey	22	8,934	4.08%
United Kingdom	9	1,368	0.62%
USA	5	1,367	0.62%
Kazakhstan	1	77	0.04%
Total	44	12,233	5.58%
Grand Total	450	219,165	100%

Source: IIFM Sukuk Database

Table 5B below shows the regional distribution of international issuances during 2017:

TABLE 5B: REGIONAL DISTRIBUTION OF INTERNATIONAL ISSUANCES (JAN 2017 - DEC 2017)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Hong Kong	1	1,000	2.66%
Indonesia	2	3,000	7.97%
Malaysia	17	9,970	26.48%
Pakistan	1	1,000	2.66%
Total	21	14,970	39.8%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	2	1,250	3.32%
Kuwait	2	750	1.99%
Oman	1	2,000	5.31%
Qatar	2	1,250	3.32%
Saudi Arabia	6	12,510	33.23%
United Arab Emirates	6	3,400	9.03%
Total	19	21,160	56.2%
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Nigeria	1	150	0.40%
Total	1	150	0.4%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	2	1,368	3.63%
Total	2	1,368	3.63%
Grand Total	43	37,648	100%

Source: IIFM Sukuk Database

Table 6 lists selected value leaders of *Sukuk* issuances in 2017. The largest of the value leaders, that is with issuance amounts of USD 1 billion and above, include sovereign, quasi-sovereign entities and corporate entities, namely the governments of Saudi Arabia, Indonesia, Turkey, Pakistan and the Islamic Development Bank. In 2017, the corporate and FIs issuances of USD 300 million and above were Emirates REITs, Meraas Holding, DAMAC Properties, Ezzan Holding Group, Al Baraka Banking Group, Warba Bank and Dubai Islamic Bank.

**TABLE 6: INTERNATIONAL SUKUK ISSUANCES - SELECTED VALUE LEADERS
(2017, USD 150 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUANCE COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MILLION OR EQUIVALENT	AVERAGE TENOR (YEARS)
2017	Emirates REIT	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Ijarah</i>	400	5
2017	Government of Pakistan	1	Pakistan	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1000	5
2017	Arab Petroleum Investment Corporation	1	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	500	5
2017	Islamic Development Bank	1	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	1,260	5
2017	Government of Bahrain	1	Bahrain	USD	Sovereign	Hybrid <i>Sukuk -Ijarah/Murabahah</i>	850	8
2017	Dubai Meraas Holdings	1	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Mudharabah</i>	400	5
2017	Government of Oman	1	Oman	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	2000	7
2017	Qatar Islamic Bank	1	Qatar	USD	FIIs	<i>Sukuk Al-Wakalah</i>	750	5
2017	DAMAC Properties	1	United Arab Emirates	USD	Corporate	Hybrid <i>Sukuk -Ijarah/Murabahah</i>	500	5
2017	Government of Saudi Arabia	2	Saudi Arabia	USD	Sovereign	Hybrid <i>Sukuk - Murabahah/ Mudharabah</i>	9,000	7.5
2017	Dar Al Arkan	1	Saudi Arabia	USD	Corporate	Hybrid <i>Sukuk - Ijarah/Murabahah</i>	500	5
2017	Ezdan Holding Group	1	Qatar	USD	Corporate	<i>Sukuk Al-Wakalah</i>	500	5
2017	Islamic Development Bank	1	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	1,250	5
2017	Government of Indonesia	2	Indonesia	USD	Sovereign	<i>Sukuk Al-Wakalah</i>	3000	7.5
2017	Government of Hong kong	1	Hong kong	USD	Sovereign	<i>Sukuk Al-Wakalah</i>	1000	10
2017	EQUATE Petrochemical Company	1	Kuwait	USD	Corporate	Hybrid <i>Sukuk -Ijarah/Murabahah</i>	500	7
2017	Dubai Islamic Bank	1	United Arab Emirates	USD	IFIs	<i>Sukuk Al-Wakalah</i>	1000	5
2017	Investment Corporation of Dubai (ICD)	1	United Arab Emirates	USD	Quasi-Sovereign	Hybrid <i>Sukuk - Ijarah/Murabahah</i>	1000	10
2017	Al-Baraka Banking Group	1	Bahrain	USD	FIIs	<i>Sukuk Al-Mudharabah</i>	400	Perpetual
2017	Warba Bank	1	Kuwait	USD	FIIs	<i>Sukuk Al-Mudharabah</i>	250	Perpetual
2017	Africa Finance Corporation	1	Nigeria	USD	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	150	3

Source: IIFM Sukuk Database

1.8 ANATOMY OF DOMESTIC SUKUK ISSUANCES

The domestic market forms around 77.6% of the entire *Sukuk* market. It consists of longer tenor as well as short term *Sukuk* denominated in over 26 different currencies where the Governments of Saudi Arabia and Nigeria are the new entrants in 2017. Malaysia has been the dominant player, commanding around 73% of the total domestic *Sukuk* market. The other major jurisdictions for domestic issuances in 2017 were Saudi Arabia, Bahrain, Indonesia, Brunei, UAE and Turkey.

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

Table 7A below shows regional distribution of domestic *Sukuk* issuance since inception:

TABLE 7A: REGIONAL DISTRIBUTION OF DOMESTIC ISSUANCES (JAN 2001 - DEC 2017)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.005%
Brunei Darussalam	149	9,583	1.26%
Indonesia	229	49,313	6.49%
Iran	1	144	0.02%
Malaysia	5,621	557,832	73.39%
Maldives	1	3	0.0004%
Pakistan	79	12,330	1.62%
Singapore	12	788	0.10%
Sri Lanka	1	3	0.0004%
Total	6,097	630,033	82.9%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	291	17,290	2.27%
Jordan	3	272	0.04%
Kuwait	1	332	0.04%
Oman	4	941	0.12%
Qatar	16	14,416	1.90%
Saudi Arabia	72	56,250	7.40%
United Arab Emirates	14	8,251	1.09%
Yemen	2	253	0.03%
Total	403	98,004	12.9%

Table continued on next page.

AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	210	136	0.02%
Ivory Coast	2	460	0.06%
Nigeria	3	444	0.06%
Senegal	2	445	0.06%
Sudan	29	19,429	2.56%
Togo	1	245	0.03%
Total	247	21,158	2.8%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	161	10,849	1.43%
Total	161	10,849	1.43%
Grand Total	6,908	760,044	100%

Source: IIFM Sukuk Database

Table 7B below shows regional distribution of the domestic *Sukuk* issuance during 2017:

TABLE 7B: REGIONAL DISTRIBUTION OF DOMESTIC ISSUANCES (JAN 2017 - DEC 2017)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Brunei Darussalam	12	754	0.95%
Indonesia	33	11,366	14.35%
Malaysia	515	42,170	53.24%
Pakistan	8	324	0.41%
Singapore	2	144	0.18%
Total	570	54,757	69.1%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	24	2,412	3.04%
Oman	1	116	0.15%
Saudi Arabia	21	19,221	24.27%
Total	46	21,749	27.5%
AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Nigeria	1	312	0.39%
Sudan	2	181	0.23%
Total	3	493	0.6%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
Turkey	65	2,214	2.80%
Total	65	2,214	2.80%
Grand Total	684	79,213	100%

Source: IIFM Sukuk Database

As mentioned before, the domestic market comprised of longer tenor as well as short term issuances of 12 months and under. In the year 2017, the selected domestic value leaders given in Table 7C below, were from Malaysia, and Saudi Arabia.

**TABLE 7C: DOMESTIC SUKUK ISSUANCES - SELECTED VALUE LEADERS
(2017, USD 200 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUANCE COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MILLION OR EQUIVALENT	AVERAGE TENOR (YEARS)
2017	Khazanah Nasional	1	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Musharakah</i>	375	10
2017	Govco Holdings	1	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	312.5	15
2017	Government of Saudi Arabia	18	Saudi Arabia	SAR	Sovereign	<i>Hybrid Sukuk - Murabahah/ Mudharabah</i>	15,755	7
2017	Cagamas Bhd	1	Malaysia	MYR	Fis	<i>Sukuk Al-Wakalah</i>	210	5
2017	Lembaga Pembiayaan Perumahan Sektor Awam	3	Malaysia	MYR	Fis	<i>Sukuk Al-Murabahah</i>	700	18
2017	Saudi Aramco	1	Saudi Arabia	SAR	Quasi-Sovereign	<i>Hybrid Sukuk -Murabahah/ Mudharabah</i>	3037.5	7
2017	Danainfra Nasional	2	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	491	23
2017	Government of Bahrain	1	Bahrain	BHD	Sovereign	<i>Sukuk Al-Ijarah</i>	331.25	3
2017	Government of Malaysia	4	Malaysia	MYR	Sovereign	<i>Sukuk Al-Musharakah</i>	3125	19.2
2017	Maybank Islamic	2	Malaysia	MYR	Fis	<i>Sukuk Al-Wakalah</i>	750	3.5
2017	Perbadanan Tabung Pendidikan Tinggi Nasional	2	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	539	15
2017	Pr1ma Corporation Malaysia	1	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	438	7
2017	Prasarana Malaysia	3	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	663	10
2017	Tenaga Nasional	1	Malaysia	MYR	Corporate	<i>Sukuk Al-Wakalah</i>	375	20
2017	National Commercial Bank	1	Saudi Arabia	SAR	Fis	<i>Sukuk Al-Murabahah</i>	351	Perpetual
2018	Government of Nigeria	1	Nigeria	NGN	Sovereign	<i>Sukuk Al-Ijarah</i>	312	7

Source: IIFM Sukuk Database

1.9 STRUCTURAL DISTRIBUTION OF GLOBAL SUKUK MARKET

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

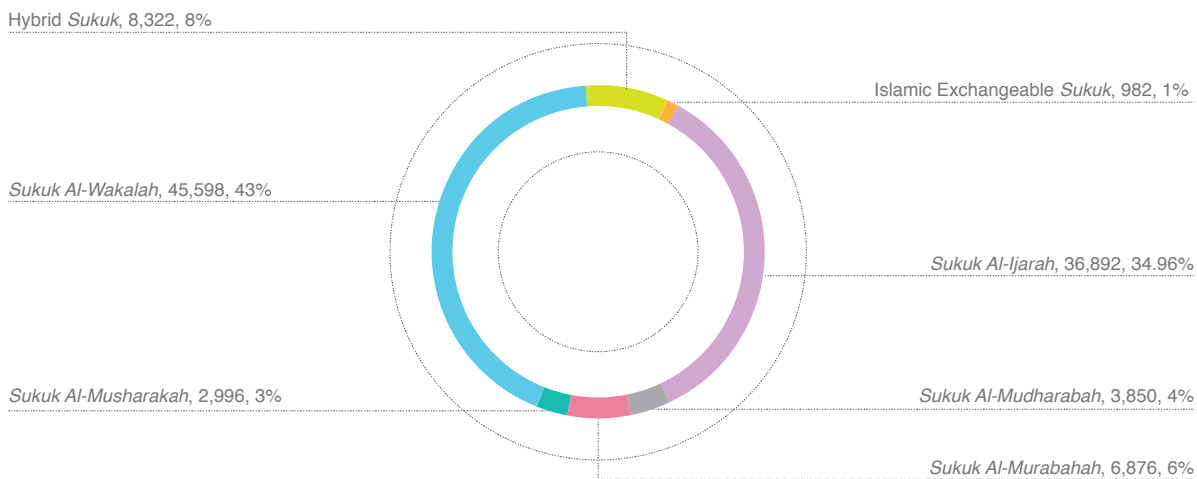
As far as the international *Sukuk* market is concerned, *Sukuk Al-Ijarah* has historically been the more popular structure for issuance. Chart 4A below shows the share of *Ijarah* among *Sukuk* issuances made up around 35% during the 2010-2015 period. The share of *Sukuk Al-Ijarah* continues to decline, as mentioned in the last *Sukuk* report, and the share dropped to 12% in 2017. In case of *Sukuk Al-Wakalah* generally *Ijarah* is used which means that *Ijarah* share can be considered at 25%.

2015 is the year when the sudden and major shift from *Ijarah* to *Wakalah* model took place and this continued in 2017 where *Sukuk Al-Wakalah* share stood at USD 19.2 billion (51%) of total international issuances. The issuance of Saudi Arabia’s USD 9.00 billion *Sukuk* led to the introduction of a hybrid structure consisting of *Mudarabah* and *Murabahah* with a share of 24% of total *Sukuk* issuances.

In terms of structure, the *Sukuk Al-Wakalah* is generally a combination of *Ijarah* with *Murabahah* and is a hybrid structure. The *Sukuk Al-Wakalah* provides flexibility in structuring and the issue of shortage of available assets is reduced. When considering industry development, reliance on a single structure needs to be collectively assessed.

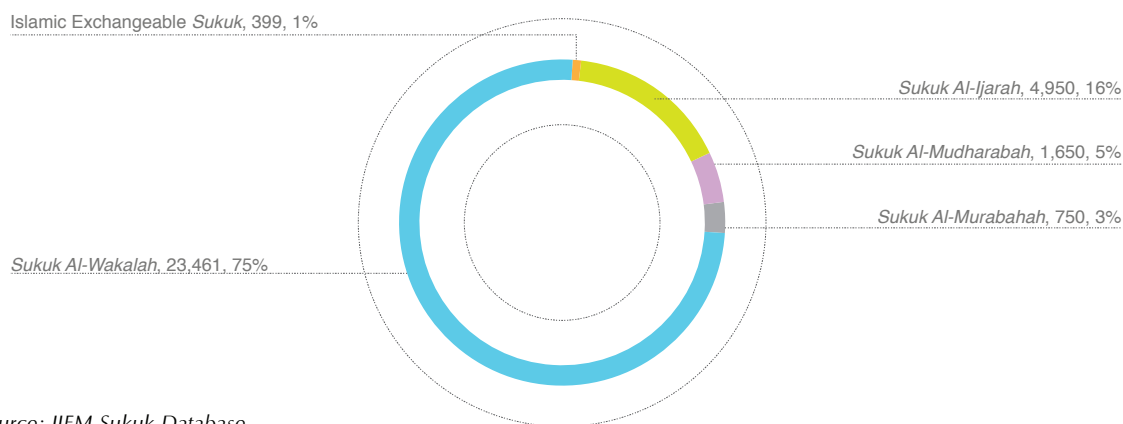
Chart 4A: Structural Distribution of International Sukuk Issuances All Tenors (USD Millions)

International Sukuk Issuances (Jan 2010 - Dec 2015)



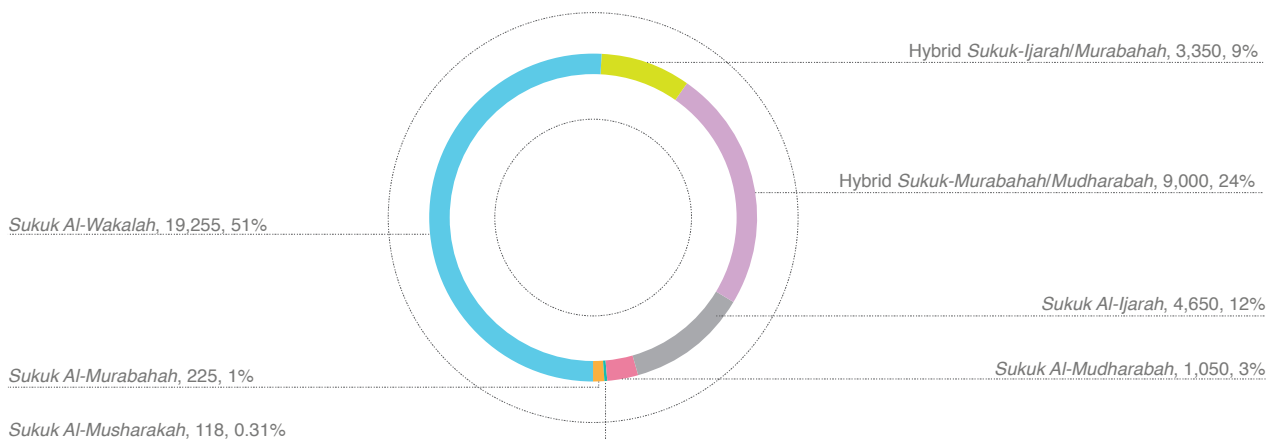
Source: IIFM Sukuk Database

International Sukuk Issuances (Jan 2016 - Dec 2016)



Source: IIFM Sukuk Database

International Sukuk Issuances (Jan 2017 - Dec 2017)



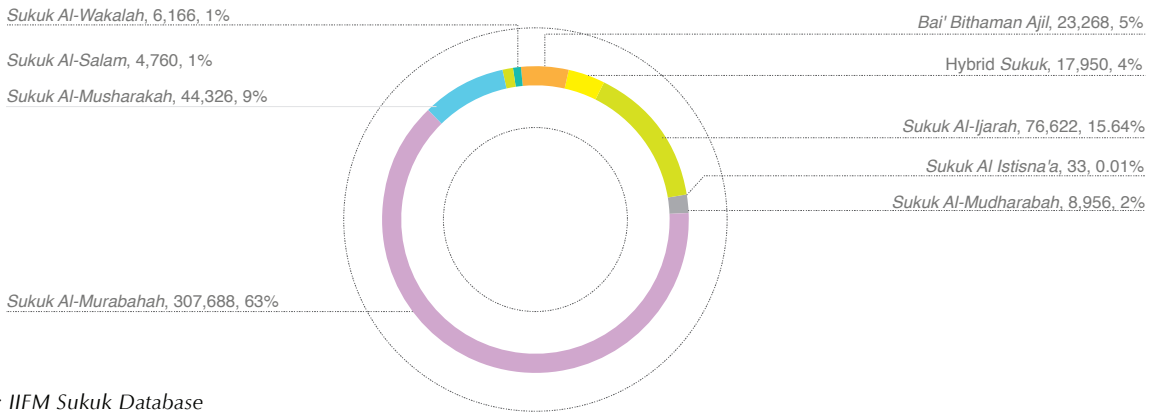
Source: IIFM Sukuk Database

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

In 2017 *Ijarah*, *Mudharabah* and *Wakalah* were also part of the structural mix, which is desirable due to the diversity of *Sukuk* available.

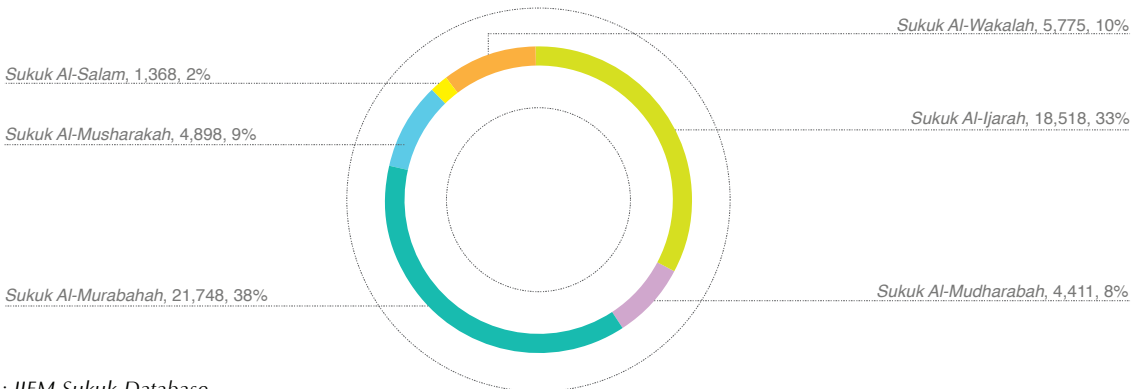
Chart 4B: Structural Distribution of Domestic Sukuk Issuances All Tenors (USD Millions)

Domestic Sukuk Issuances (Jan 2010 - Dec 2015)



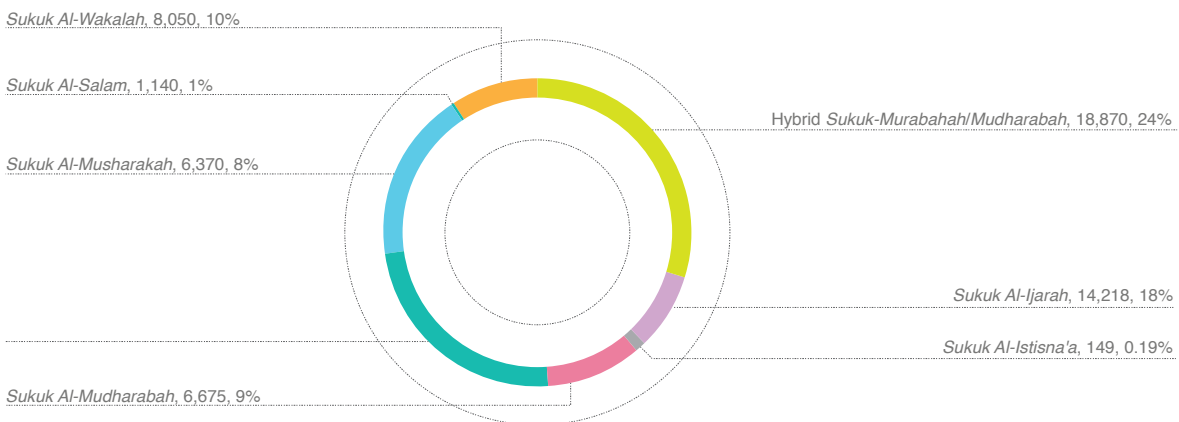
Source: IIFM Sukuk Database

Domestic Sukuk Issuances (Jan 2016 - Dec 2016)



Source: IIFM Sukuk Database

Domestic Sukuk Issuances (Jan 2017 - Dec 2017)

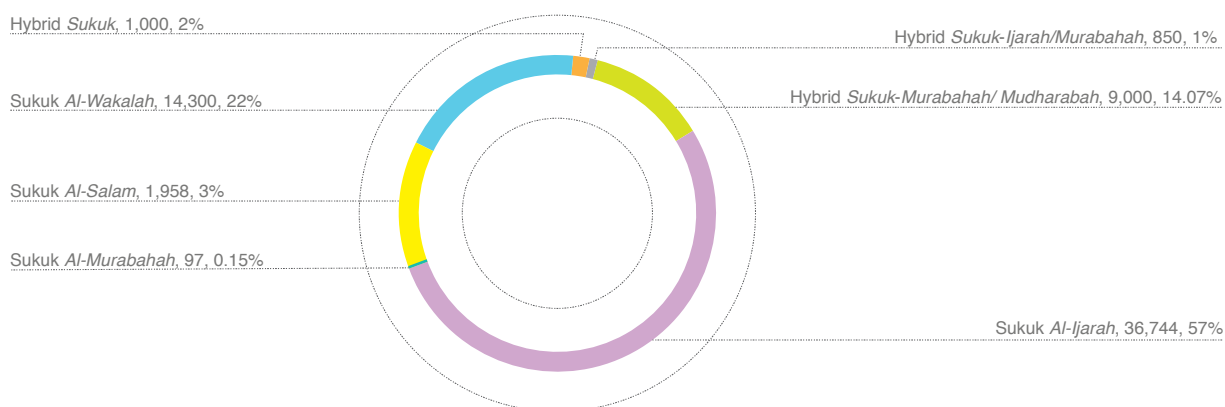


Source: IIFM Sukuk Database

Chart 4C below shows the structural distribution of international *Sukuk* issuance by the type of issuer, i.e., sovereign, quasi-sovereign, corporate and FIs issuers for the entire period Jan 2001-2017. On an overall basis, it seems that *Sukuk Al-Ijarah* has historically been the favorite structure of international issuers. However, in recent years including 2017, *Wakalah* and *Ijarah* are the two most preferred structures by most of the issuers except for quasi-sovereign entities, where *Sukuk Al-Wakalah* share increased to 75%. The sovereign issuances from Saudi Arabia have led to the introduction of a new Hybrid *Sukuk* – *Mudarabah* and *Murabahah*, and its share in 2017 works out to be 50% or USD 9 billion. Islamic Exchangeable *Sukuk* is another innovative structure and Khazanah Nasional of Malaysia has taken lead in issuing this type of *Sukuk*. Perhaps this model needs to be replicated by issuers in other jurisdictions as well. In the UAE, convertible *Sukuk* is making a comeback, and as per information shared with IIFM, a private placement of USD. Convertible *Sukuk* was concluded by a corporate entity.

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

Sovereign *Sukuk* Issuances (Jan 2001 - Dec 2017)



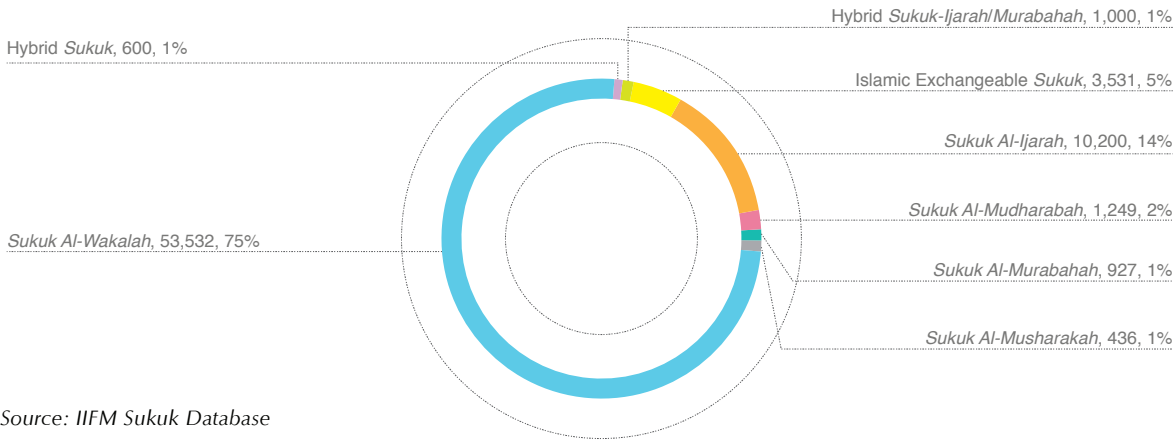
Source: IIFM Sukuk Database

Sovereign *Sukuk* Issuances (Jan 2017 - Dec 2017)



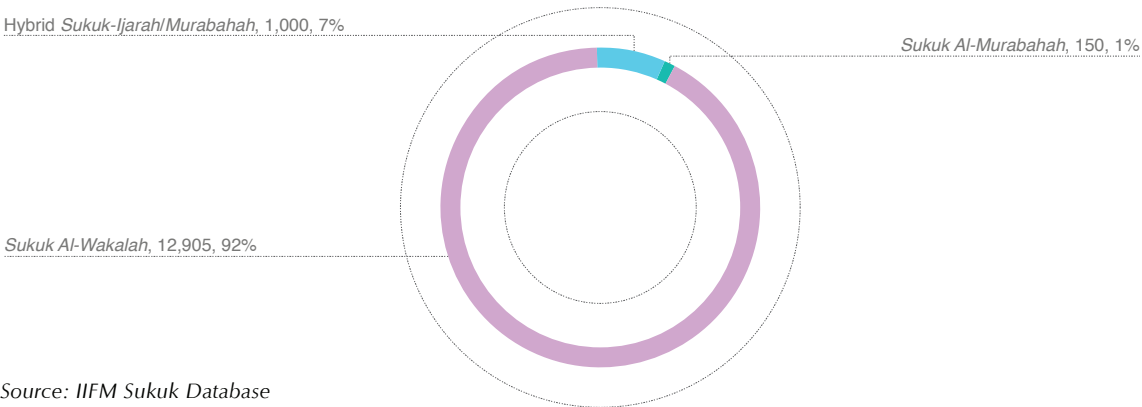
Source: IIFM Sukuk Database

Quasi-Sovereign Sukuk Issuances (Jan 2001 - Dec 2017)



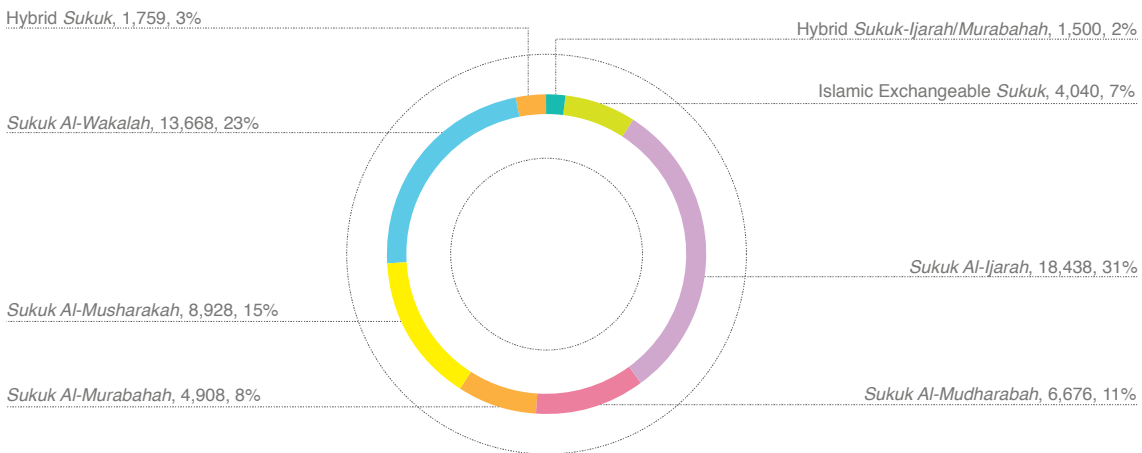
Source: IIFM Sukuk Database

Quasi-Sovereign Sukuk Issuances (Jan 2017 - Dec 2017)



Source: IIFM Sukuk Database

Corporate Sukuk Issuances (Jan 2001 - Dec 2017)



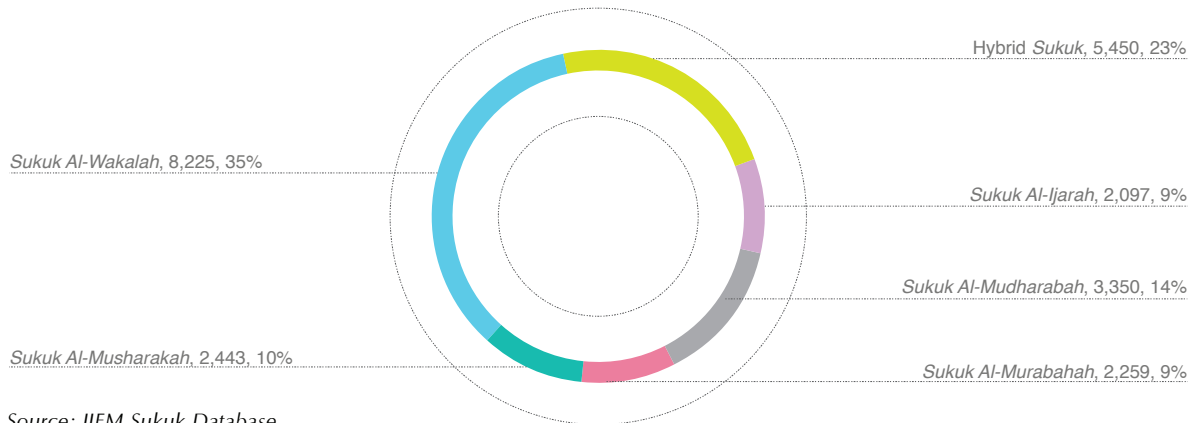
Source: IIFM Sukuk Database

Corporate Sukuk Issuances (Jan 2017 - Dec 2017)



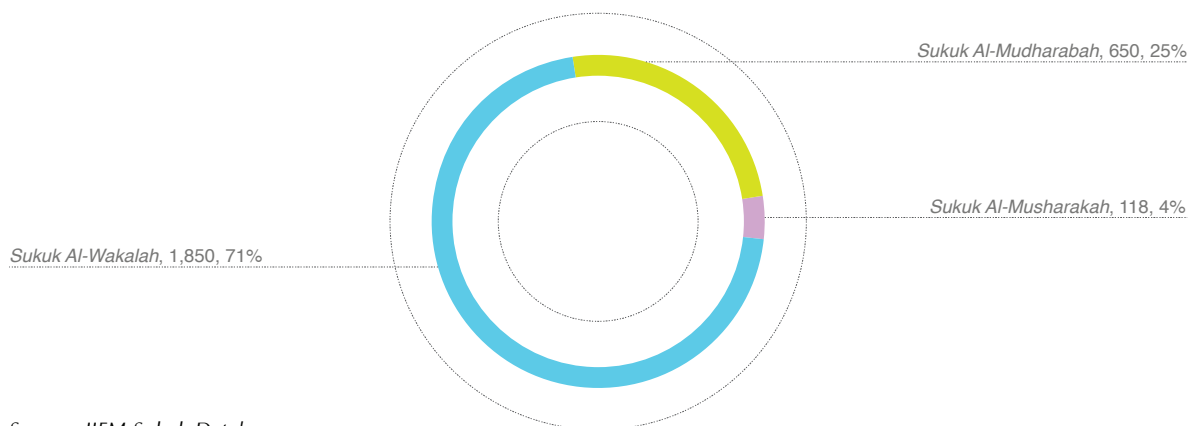
Source: IIFM Sukuk Database

Fls Sukuk Issuances (Jan 2001 - Dec 2017)



Source: IIFM Sukuk Database

Fls Sukuk Issuances (Jan 2017 - Dec 2017)

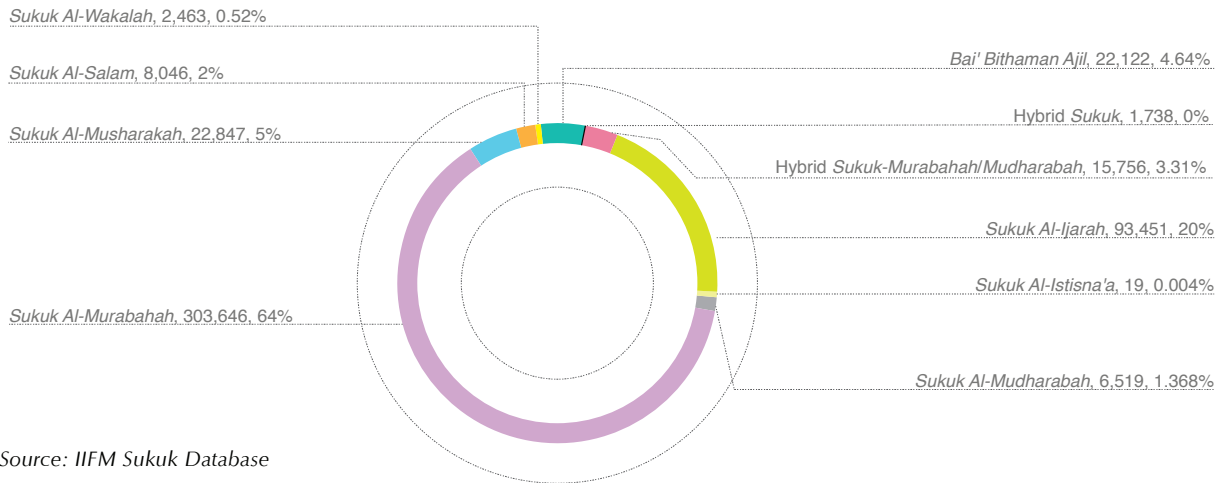


Source: IIFM Sukuk Database

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

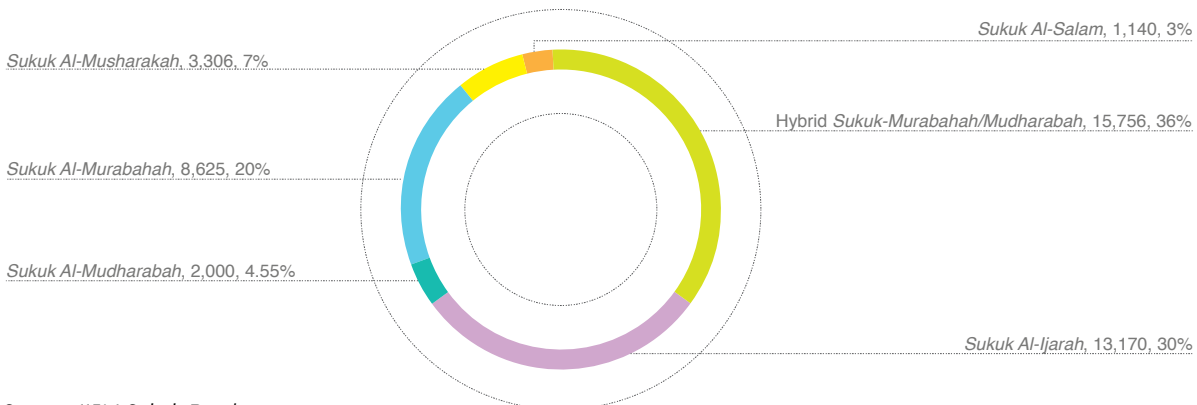
Chart 4D: Structural Distribution of Domestic Sukuk Issuances by Issuer Status (USD Millions)

Sovereign Sukuk Issuances (Jan 2001 - Dec 2017)



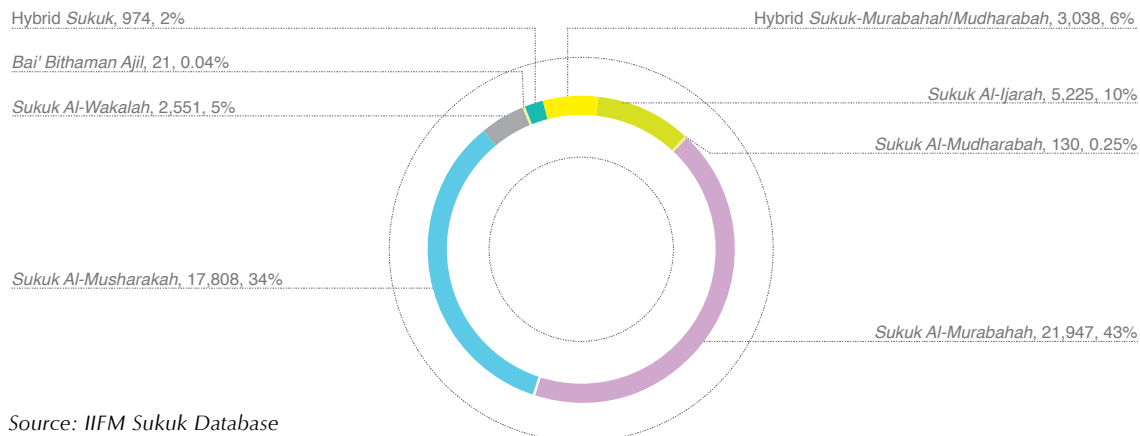
Source: IIFM Sukuk Database

Sovereign Sukuk Issuances (Jan 2017 - Dec 2017)



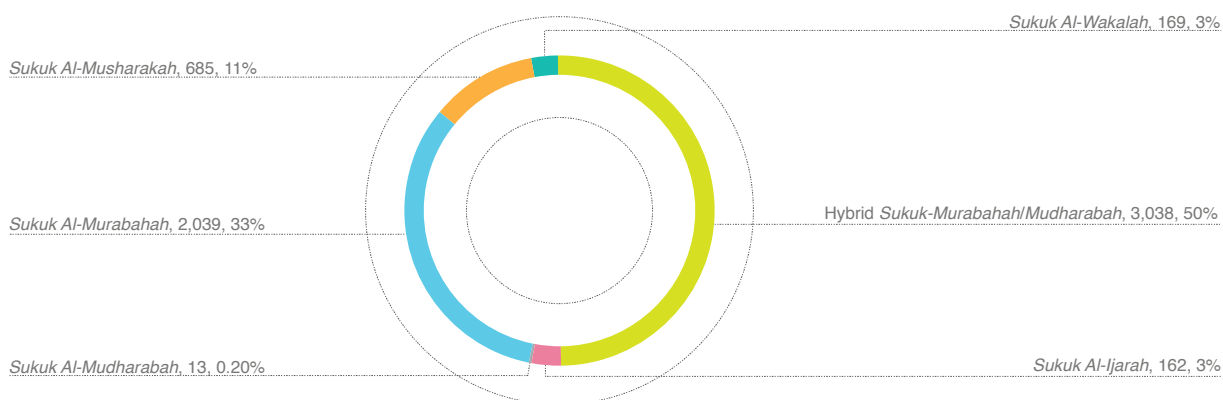
Source: IIFM Sukuk Database

Quasi-Sovereign Sukuk Issuances (Jan 2001 - Dec 2017)



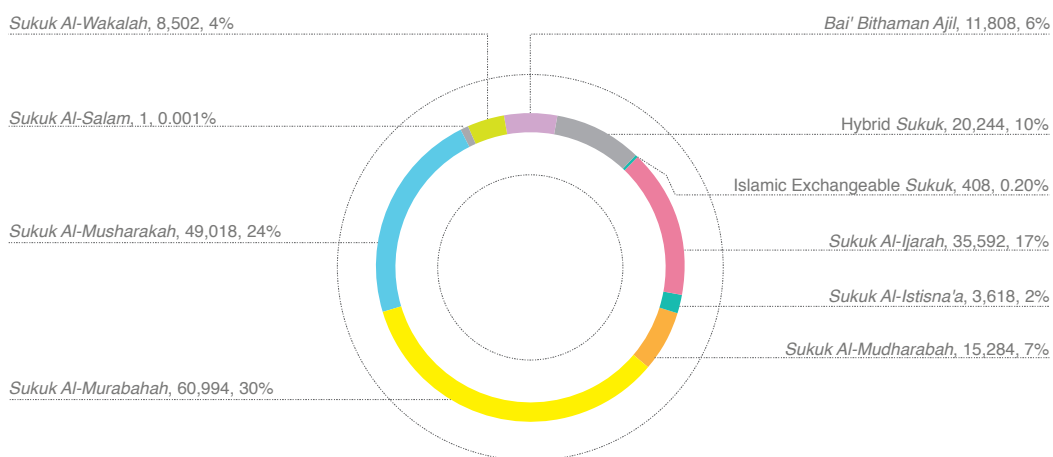
Source: IIFM Sukuk Database

Quasi-Sovereign Sukuk Issuances (Jan 2017 - Dec 2017)



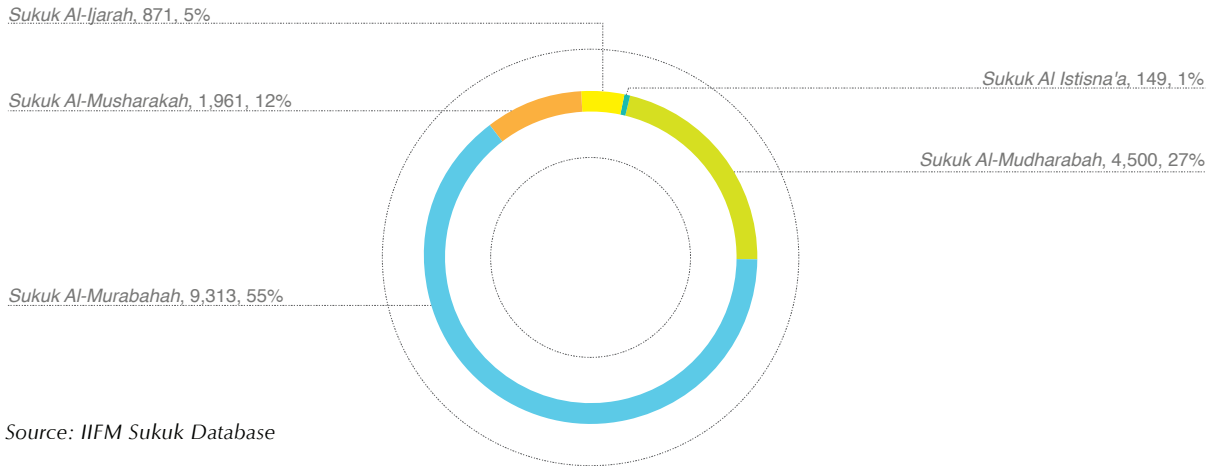
Source: IIFM Sukuk Database

Corporate Sukuk Issuances (Jan 2001 - Dec 2017)

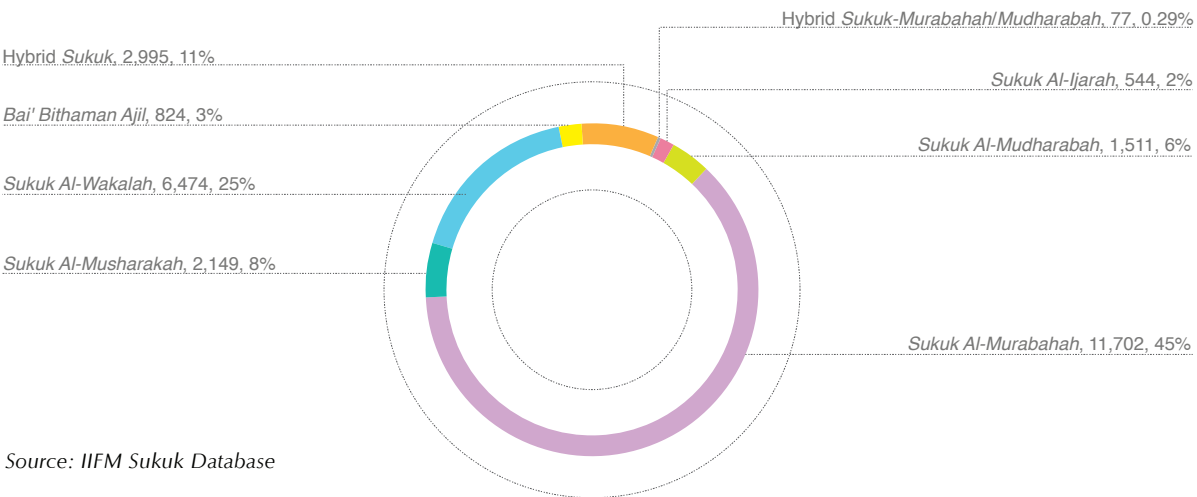


Source: IIFM Sukuk Database

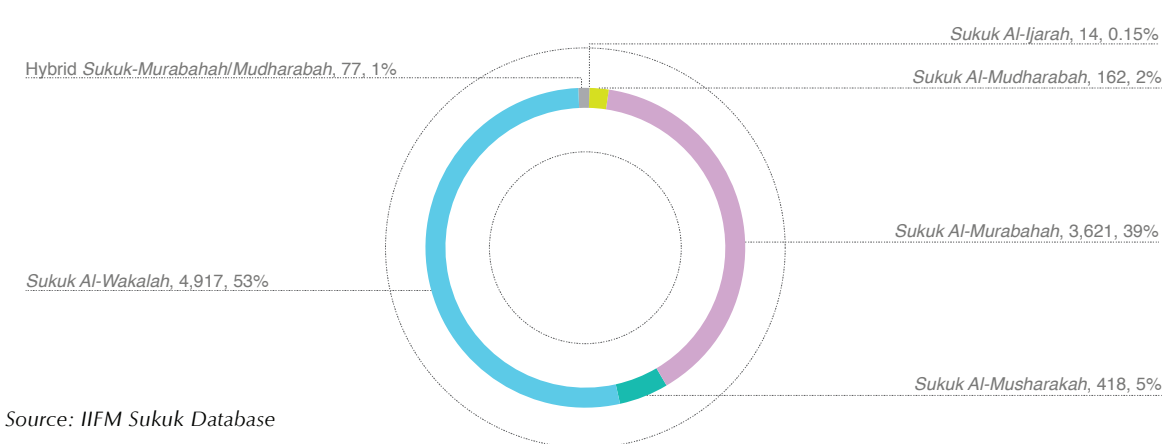
Corporate Sukuk Issuances (Jan 2017 - Dec 2017)



Fls Sukuk Issuances (Jan 2001 - Dec 2017)



Fls Sukuk Issuances (Jan 2017 - Dec 2017)



1.10 GEOGRAPHICAL DISTRIBUTION OF GLOBAL SUKUK MARKET

Asia continues to be the dominant player in the global *Sukuk* market. In terms of region, Asia accounts for 72.1% of global *Sukuk* issuances since the inception of the market. The regional market shares are depicted in Table 8 below. GCC is the second largest destination of *Sukuk* issuance with a market share of 23.3%, and it continues to be one of the key regions driving the *Sukuk* market.

Among the jurisdictions, Malaysia is a market leader and a dominant player in terms of issuances, with a market share of 62.5% as of 2017. Other jurisdictions in order of their approximate share in the global market are the UAE (7.3%), Saudi Arabia (9.7%), Indonesia (6.4%), Bahrain (2.8%), Qatar (2.6%) and Turkey (2%). The number of jurisdictions who are directly or indirectly issuing *Sukuk* are increasing year-over-year which in turn is keeping the *Sukuk* market progressive.

TABLE 8: REGIONAL DISTRIBUTION OF GLOBAL ISSUANCES (JAN 2001 - DEC 2017)

ASIA & FAR EAST	Number of Issues	Amount USD Millions	% of Total Value
Bangladesh	4	37	0.004%
Brunei Darussalam	149	9,583	0.98%
China	1	97	0.01%
Hong Kong	5	3,196	0.33%
Indonesia	244	62,816	6.41%
Iran	1	144	0.01%
Japan	3	190	0.02%
Malaysia	5,711	612,305	62.53%
Maldives	1	3	0.0003%
Pakistan	83	15,930	1.63%
Singapore	16	1,498	0.15%
Sri Lanka	1	3	0.0003%
Total	6,219	705,802	72.1%
GCC & MIDDLE EAST	Number of Issues	Amount USD Millions	% of Total Value
Bahrain	392	27,720	2.83%
Jordan	3	272	0.03%
Kuwait	18	3,658	0.37%
Oman	7	3,523	0.36%
Qatar	30	25,851	2.64%
Saudi Arabia	122	95,215	9.72%
United Arab Emirates	110	71,895	7.34%
Yemen	2	253	0.03%
Total	684	228,387	23.3%

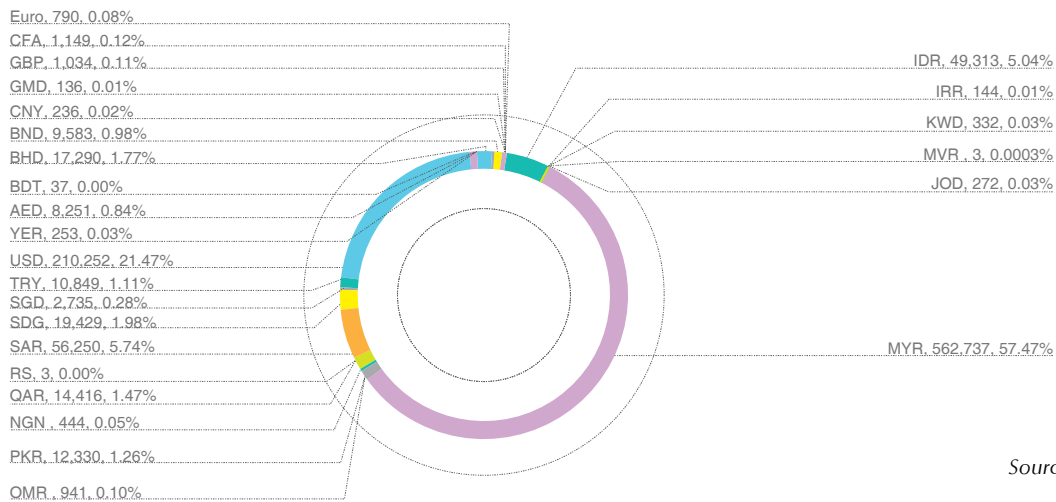
Table continued on next page.

AFRICA	Number of Issues	Amount USD Millions	% of Total Value
Gambia	210	136	0.01%
Ivory Coast	2	460	0.05%
Nigeria	4	594	0.06%
Senegal	2	445	0.05%
South Africa	1	500	0.05%
Sudan	30	19,559	2.00%
Togo	1	245	0.02%
Total	250	21,938	2.2%
EUROPE & OTHERS	Number of Issues	Amount USD Millions	% of Total Value
France	1	1	0.0001%
Germany	3	206	0.0211%
Luxembourg	3	280	0.0286%
Turkey	183	19,783	2.02%
United Kingdom	9	1,368	0.14%
USA	5	1,367	0.14%
Kazakhstan	1	77	0.01%
Total	205	23,082	2.36%
Grand Total	7,358	979,209	100%

Source: IIFM Sukuk Database

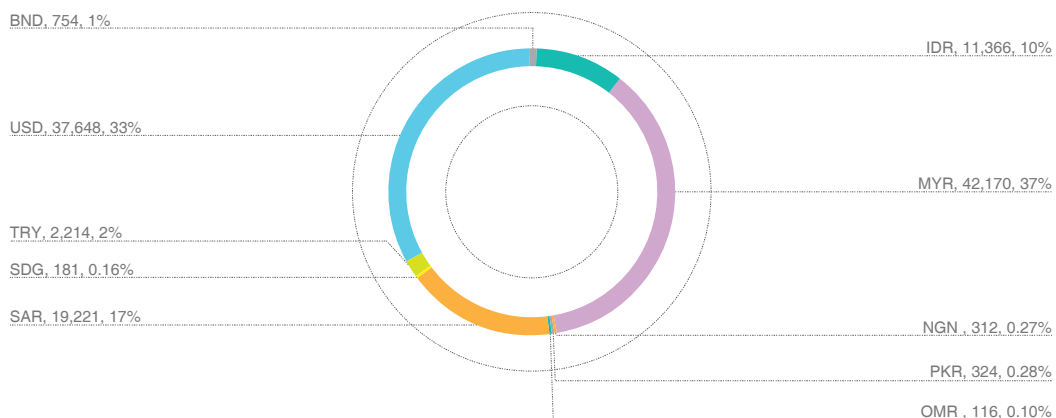
Chart 5A on the next page shows the currency-wise distribution of the global *Sukuk* market. Malaysian Ringgit is the dominant currency as the Malaysian market is mostly local currency based. *Sukuk* issuance denominated in USD are 21.4% of the entire global *Sukuk* market. It is heartening to see that *Sukuk* have been issued in 24 different currencies apart from USD and the Malaysian Ringgit. As more and more sovereigns step up to provide liquidity in their local markets, we might see the significance of GCC, Indonesia, Turkey, Pakistan and other Asian currencies rising over time.

Chart 5A: Global *Sukuk* Issuances Currency Distribution (Jan 2001 - Dec 2017) All Tenors, In USD Millions



Source: IIFM Sukuk Database

Chart 5B: Global *Sukuk* Issuances Currency Distribution (Jan 2017 - Dec 2017) All Tenors, In USD Millions



Source: IIFM Sukuk Database

1.11 *SUKUK* MATURITIES 2017 THROUGH 2019

This section provides a snapshot of *Sukuk* matured in the year 2017 and about to mature in the coming two years in the international and domestic markets. Depending upon economic and market conditions, this may represent additional liquidity being made available into the system as well as hint at prospective re-issuance in the pipeline.

Tables 9A, 9B and 9C show the maturity picture in the international market. The *Sukuk* maturity in 2017 works out to be USD 10 billion, redemptions in 2018 and 2019 will be quite sizeable at USD 17 billion and USD 15 billion respectively. In 2018, the biggest two individual *Sukuk* maturity come from the Government of Qatar at USD 2 billion and Ooredoo at USD 1.2 billion, while UAE based entities collectively account for almost USD 5.5 billion of the total maturing *Sukuk*. For 2019, UAE based Al Hilal Bank, Fly Dubai, Drake & Scull etc., will have a combined maturity of around USD 4 billion. In fact, almost half, or USD 7.1 billion of the USD 15 billion of maturing *Sukuk*, came from the GCC region.

TABLE 9A :INTERNATIONAL *SUKUK* MATURED 2017, AMOUNT ≥ USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	<i>SUKUK</i> TYPE	<i>SUKUK</i> STRUCTURE	USD MILLION OR EQUIVALENT	TENOR (YEARS)	MUTURITY DATE
2014	The International Finance Facility for Immunisation (IFFIm)	United Kingdom	USD	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	500	3	4-Dec-17
2014	Central Bank of Bahrain (CBB)	Bahrain	USD	Sovereign	<i>Sukuk Al-Wakalah</i>	100	3	22-Apr-17
2012	First Resources Limited	Singapore	USD	Corporate	<i>Sukuk Al-Musharakah</i>	131	5	10-Dec-17
2012	Golden Agri-Resources	Indonesia	USD	Corporate	<i>Sukuk Al-Murabahah</i>	481	5	19-Nov-17
2012	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	500	5	14-Oct-17
2012	Qatar International Islamic Bank	Qatar	USD	Fis	Hybrid <i>Sukuk</i>	700	5	11-Oct-17
2012	Qatar Islamic Bank	Qatar	USD	Fis	<i>Sukuk Al-Wakalah</i>	750	5	3-Oct-17
2012	First Resources Ltd	Singapore	USD	Corporate	<i>Sukuk Al-Musharakah</i>	189	5	31-Jul-17
2012	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	800	5	25-Jun-17
2012	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	100	5	25-Jun-17
2012	Dubai Islamic Bank	United Arab Emirates	USD	Fis	<i>Sukuk Al-Ijarah</i>	500	5	30-May-17
2012	Banque Saudi Fransi	Saudi Arabia	USD	Corporate	<i>Sukuk Al-Wakalah</i>	750	5	22-May-17
2012	Government of Dubai	United Arab Emirates	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	600	5	25-Apr-17
2012	Saudi Electricity Company	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Ijarah</i>	500	5	28-Mar-17
2012	Majid Al Futtaim Properties	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Wakalah</i>	400	5	7-Feb-17
2012	First Gulf Bank	United Arab Emirates	USD	Fis	Hybrid <i>Sukuk</i>	500	5	18-Jan-17
2012	Tamweel Funding	United Arab Emirates	USD	Corporate	Hybrid <i>Sukuk</i>	300	5	18-Jan-17
2012	Emirates Islamic Bank	United Arab Emirates	USD	Fis	<i>Sukuk Al-Musharakah</i>	500	5	18-Jan-17
2007	DP World	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Mudharabah</i>	1,500	10	2-Jul-17
2007	Malayan Banking Berhad, Malaysia (Maybank)	Malaysia	USD	Fis	<i>Sukuk Al-Ijarah</i>	300	10	3-May-17
Total Maturity Value						10,100		

Source: IIFM Sukuk Database

TABLE 9B: INTERNATIONAL SUKUK MATURING 2018, AMOUNT > USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MILLION OR EQUIVALENT	TENOR (YEARS)	MUTURITY DATE
2016	Al Hilal Bank Sukuk Company LTD	United Arab Emirates	USD	Fis	<i>Sukuk Al-Wakalah</i>	225	2	13-Dec-18
2015	The International Finance Facility for Immunisation (IFFIm)	United Kingdom	USD	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	200	3	17-Sep-18
2013	Aldar Properties	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Ijarah</i>	750	5	3-Dec-18
2013	Ooredoo Q.S.C	Qatar	USD	Corporate	<i>Sukuk Al-Murabahah</i>	1,250	5	3-Dec-18
2013	Dar Al Arkan	Saudi Arabia	USD	Corporate	Hybrid Sukuk	300	5	25-Nov-18
2013	Majid Al Futtaim	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Mudharabah</i>	500	5	24-Oct-18
2013	Khazanah Nasional Bhd	Malaysia	SGD	Quasi-Sovereign	Islamic Exchangeable Sukuk	482	5	24-Oct-18
2013	Ras al Khaimah	United Arab Emirates	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	500	5	21-Oct-18
2013	Turkey Treasury	Turkey	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1,250	5	10-Oct-18
2013	Al Hilal Bank	United Arab Emirates	USD	Fis	<i>Sukuk Al-Wakalah</i>	500	5	8-Oct-18
2013	Golden Agri-Resources	Indonesia	USD	Corporate	<i>Sukuk Al-Murabahah</i>	154	5	5-Aug-18
2013	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	1,000	5	1-Jul-18
2013	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	330	5	1-Jun-18
2013	Dar Al Arkan	Saudi Arabia	USD	Corporate	Hybrid Sukuk	450.00	5	24-May-18
2013	Based on Ownership	Turkey	USD	Corporate	<i>Sukuk Al-Ijarah</i>	500	5	2-May-18
2013	Sharjah Islamic Bank	United Arab Emirates	USD	Fis	<i>Sukuk Al-Wakalah</i>	500	5	9-Apr-18
2013	Dubai Electricity and Water Authority (DEWA)	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al-Ijarah</i>	1,000	5	5-Mar-18

Table continued on next page.

2013	Sime Darby Berhad	Malaysia	USD	Corporate	<i>Sukuk Al-Ijarah</i>	400	5	29-Jan-18
2013	Sime Darby Berhad	Malaysia	USD	Corporate	<i>Sukuk Al-Ijarah</i>	400	5	24-Jan-18
2013	Sime Darby Berhad	Malaysia	USD	Corporate	<i>Sukuk Al-Ijarah</i>	400	5	24-Jan-18
2012	Abu Dhabi Islamic Bank	United Arab Emirates	USD	Fis	Hybrid <i>Sukuk</i>	1,000	6	12-Nov-18
2012	Government of Turkey	Turkey	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1,500	6	26-Mar-18
2012	Government of Qatar	Qatar	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	2,000	6	11-Jul-18
2012	Emirates Islamic Bank	United Arab Emirates	USD	Fis	<i>Sukuk Al-Musharakah</i>	500	6	11-Jul-18
2011	Central Bank of Bahrain (CBB)	Bahrain	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	750	7	22-Nov-18
2011	Government of Indonesia	Indonesia	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1,000	7	21-Nov-18
Total Maturity Value						17,841		

Source: IIFM *Sukuk* Database

TABLE 9C: INTERNATIONAL *SUKUK* MATURING 2019, AMOUNT ≥ USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	<i>SUKUK</i> TYPE	<i>SUKUK</i> STRUCTURE	USD MILLION OR EQUIVALENT	TENOR (YEARS)	MUTURITY DATE
2017	Al Hilal Bank	United Arab Emirates	USD	Fis	Hybrid <i>Sukuk</i>	100	2	7-Aug-19
2016	Government of Bahrain	Bahrain	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	450	3	17-May-19
2014	Government of Pakistan	Pakistan	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1,000	5	3-Dec-19
2014	FlyDubai	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Wakalah</i>	500	5	26-Nov-19
2014	Drake&Scull	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Murabahah</i>	120	5	12-Nov-19
2014	Government of Luxembourg	Luxembourg	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	220	5	7-Oct-19
2014	The Goldman Sachs Group, Inc.	USA	USD	Corporate	<i>Sukuk Al-Wakalah</i>	500	5	23-Sep-19
2014	Government of Hong Kong	Hong Kong	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1,000	5	11-Sep-19

Table continued on next page.

2014	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	1,000	5	17-Jul-19
2014	Government of Turkey	Turkey	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	188	5	30-Jun-19
2014	Albaraka Turk	Turkey	USD	Corporate	<i>Sukuk Al-Wakalah</i>	350	5	30-Jun-19
2014	Kuveyt Turk Katilim Bankasi A.S (KFH-Turkey)	Turkey	USD	Fis	Hybrid <i>Sukuk</i>	500	5	26-Jun-19
2014	Government of United Kingdom	United Kingdom	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	340	5	25-Jun-19
2014	Dar Al Arkan Real Estate Development Company (Dar Al Arkan)	Saudi Arabia	USD	Corporate	<i>Sukuk Al-Wakalah</i>	400	5	27-May-19
2014	Damac Properties	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Ijarah</i>	650	5	9-Apr-19
2014	Bumitama Agri Ltd	Singapore	USD	Corporate	<i>Sukuk Al-Musharakah</i>	153	5	18-Mar-19
2014	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	1,500	5	6-Mar-19
2014	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	1,500	5	28-Feb-19
2014	Dubai Investments Park	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al-Wakalah</i>	300	5	20-Feb-19
2014	Malaysia Export-Import Bank (Mexim)	Malaysia	USD	Sovereign	<i>Sukuk Al-Wakalah</i>	300	5	10-Feb-19
2013	Perusahaan Penerbit SBSN Indonesia	Indonesia	USD	Sovereign	<i>Sukuk Al-Ijarah</i>	1,500	6	17-Mar-19
2013	Dubai Islamic Bank	United Arab Emirates	USD	Fis	<i>Sukuk Al-Murabahah</i>	1,000	6	19-Mar-19
2012	Emaar Properties	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Ijarah</i>	500	7	18-Jul-19
2012	Jebel Ali Free Zone	United Arab Emirates	USD	Corporate	<i>Sukuk Al-Wakalah</i>	650	7	19-Jun-19
2012	Khazanah Nasional Bhd	Malaysia	USD	Quasi-Sovereign	<i>Sukuk Al-Musharakah</i>	358	7	21-Mar-19
2006	East Cameron Gas Company	USA	USD	Corporate	<i>Sukuk Al-Musharakah</i>	167	13	15-Jun-19
2006	FEC Cables (M) Sdn Bhd	Malaysia	USD	Corporate	<i>Sukuk Al-Murabahah</i>	130	13	14-Jun-19
Total Maturity Value						15,375		

Source: IIFM Sukuk Database

The three tables 10A, 10B and 10C below provide the maturity profile of the domestic *Sukuk* market. USD 24 billion of domestic *Sukuk* matured in the year 2017 while the year 2018 and 2019 will see maturities of around USD 15 billion and USD 22 billion respectively. The *Sukuk* maturities in 2017 were mainly from Asia/Far East and GCC amounting to around USD 15.4 billion and USD 5.2 billion respectively. While the *Sukuk* maturities for the years 2018 and 2019, roughly 66% (USD 10.4 billion) & 59% (USD 13.6 billion) of the total value of maturing *Sukuk* comes from Malaysia, the other jurisdictions such as Indonesia, GCC, Sudan & Turkey will have a number of *Sukuk* maturing during these two years.

TABLE 10A: DOMESTIC *SUKUK* MATURED 2017, AMOUNT > USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	<i>SUKUK</i> TYPE	<i>SUKUK</i> STRUCTURE	USD MILLION OR EQUIVALENT	TENOR (YEARS)	MUTURITY DATE
2016	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Wakalah</i>	112	1	27-Mar-17
2016	Central Bank of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al-Salam</i>	114	1	21-Apr-17
2016	Central Bank of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al-Salam</i>	114	1	23-Mar-17
2016	Central Bank of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al-Salam</i>	114	1	19-Feb-17
2016	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	112	1	23-Sep-17
2016	Central Bank of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al-Salam</i>	114	1	21-Jan-17
2016	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	112	1	2-Feb-17
2016	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	112	1	2-May-17
2016	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	112	1	11-Jan-17
2016	Cagamas Berhad	Malaysia	SGD	Corporate	<i>Sukuk Al-Wakalah</i>	103	1	11-Mar-17
2016	Government of Indonesia-Spn-s Nt	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	1,500	1	11-Mar-17
2016	Government of Sudan	Sudan	SDG	Sovereign	<i>Sukuk Al-Musharakah</i>	3,068	1	2-Jan-17
2014	Cagamas Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	219	3	3-Nov-17
2014	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al-Ijarah</i>	472	3	25-Jun-17

Table continued on next page.

2014	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	1,246	3	23-Nov-17
2014	Bank Rakyat (Bank Kerjasama Rakyat Malaysia Bhd)	Malaysia	MYR	IFIS	<i>Sukuk Al-Musharakah</i>	174	3	24-Mar-17
2014	Sme Bank Berhad	Malaysia	MYR	IFIS	<i>Sukuk Al-Wakalah</i>	183	3	20-Mar-17
2014	Ministry of Finance Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	1,664	3	5-Mar-17
2014	Qatar	Qatar	QAR	Sovereign	<i>Sukuk Al-Murabahah</i>	1,921	3	16-Jan-17
2013	Central Bank	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	328	4	27-Dec-17
2013	Bgsm Management Sdn Bhd	Malaysia	MYR	Corporate	Hybrid <i>Sukuk</i>	232	4	18-Apr-17
2013	Malakoff Power Sdn. Bhd.	Sudan	SDG	Sovereign	<i>Sukuk Al-Ijarah</i>	312	4	2-Jan-17
2012	Government of Sudan	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	196	5	21-Dec-17
2012	Uem Land Holdings Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	228	5	23-Nov-17
2012	Intiaz Sukuk Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Wakalah</i>	162	5	28-Sep-17
2012	Hsbc Amanah	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	320	5	29-Aug-17
2012	Celcom Transmission	Bahrain	BHD	Sovereign	<i>Sukuk Al-Ijarah</i>	424	5	17-Jul-17
2012	Central Bank of Bahrain	Malaysia	MYR	Corporate	<i>Sukuk Al-Ijarah</i>	132	5	13-Jul-17
2012	Cagamas Berhad	Saudi Arabia	SAR	Corporate	Hybrid <i>Sukuk</i>	173	5	25-Jun-17
2012	Olayan Group	Malaysia	MYR	Corporate	<i>Sukuk Al-Wakalah</i>	125	5	14-Jun-17
2012	Johor Corporation	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	104	5	27-Apr-17
2012	Government of Indonesia	Saudi Arabia	SAR	IFIS	<i>Sukuk Al-Murabahah</i>	400	5	28-Mar-17
2012	Saudi British Bank	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	209	5	21-Mar-17

Table continued on next page.

2012	Government of Indonesia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,157	5	29-Mar-17
2011	Government of Malaysia (Gii)	Malaysia	MYR	Corporate	<i>Sukuk Al-Ijarah</i>	164	6	25-Nov-17
2011	Manjung Island Energy Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	492	6	17-Jun-17
2010	Pengurusan Aset Air Berhad	Malaysia	MYR	IFIS	<i>Sukuk Al-Musharakah</i>	179	7	20-Sep-17
2010	Am Islamic Bank Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Ijarah</i>	254	7	1-Sep-17
2010	Celcom Transmission Bhd Saudi Electricity Company	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	1,867	7	5-May-17
2007	Projek Lebuhraya Utara-selatan Berhad (Plus)	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	1,059	10	27-Dec-17
2007	Hijrah Pertama Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Ijarah</i>	866	10	30-Jan-17
2007	Pakistan Water And Power Development Authority (Wapda)	Pakistan	PKR	Quasi-Sovereign	<i>Sukuk Al-Ijarah</i>	133	10	15-Jul-17
2007	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Musharakah</i>	870	10	15-Jun-17
2007	Nucleus Avenue Malaysia Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	205	10	24-Apr-17
2007	Nucleus Avenue Malaysia Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	205	10	24-Aug-17
2006	Projek Lebuhraya Utara-selatan Berhad (Plus)	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	171	11	16-Jun-17
2003	Sks Power Sdn Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Istisna'a</i>	1,471	14	11-Mar-17
Total Maturity Value						24,005		

Source: IIFM Sukuk Database

TABLE 10B: DOMESTIC SUKUK MATURING 2018, AMOUNT > USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MILLION OR EQUIVALENT	TENOR (YEARS)	MUTURITY DATE
2017	Danainfra Nasional Bhd	Malaysia	Domestic	FIs	<i>Sukuk Al-Murabahah</i>	175	1	30-May-18
2017	Danainfra Nasional Bhd	Malaysia	Domestic	Fis	<i>Sukuk Al-Murabahah</i>	250	1	25-Apr-18
2017	Government of Malaysia	Malaysia	Domestic	Sovereign	<i>Sukuk Al-Murabahah</i>	125	1	20-Sep-18
2017	Government of Malaysia	Malaysia	Domestic	Sovereign	<i>Sukuk Al-Murabahah</i>	125	1	11-May-18
2017	Rukun Juang Sdn Bhd	Malaysia	Domestic	Corporate	<i>Sukuk Al-Wakalah</i>	124	1	19-Sep-18
2017	Government of Malaysia	Malaysia	Domestic	sovereign	<i>Sukuk Al-Mudharabah</i>	125	1	26-Jan-18
2016	Government of Turkey	Turkey	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	731	2	28-Sep-18
2016	Government of Turkey	Turkey	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	640	2	17-Feb-18
2015	Government Investment Issue	Malaysia	Domestic	Sovereign	<i>Sukuk Al-Murabahah</i>	941	3	15-May-18
2015	Central Bank of Bahrain (Cbb)	Bahrain	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	265	3	8-Jan-18
2014	Government of Senegal	Senegal	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	201	4	18-Jul-18
2013	Bgsm Management Sdn Bhd	Malaysia	Domestic	Corporate	<i>Sukuk Al-Musharakah</i>	113	5	27-Dec-18
2013	Boustead Holdings Berhad	Malaysia	Domestic	Corporate	<i>Sukuk Al-Musharakah</i>	103	5	23-Dec-18
2013	Boustead Holdings Berhad	Malaysia	Domestic	Corporate	<i>Sukuk Al-Musharakah</i>	104	5	23-Dec-18
2013	Malakoff Power Sdn .Bhd.	Malaysia	Domestic	Corporate	<i>Sukuk Al-Murabahah</i>	101	5	17-Dec-18
2013	Uem Land Holdings Berhad	Malaysia	Domestic	Corporate	<i>Sukuk Al-Murabahah</i>	214	5	13-Dec-18
2013	Cagamas Berhad	Malaysia	Domestic	Corporate	Hybrid <i>Sukuk</i>	105	5	28-Oct-18
2013	Gamuda Berhad	Malaysia	Domestic	Corporate	Hybrid <i>Sukuk</i>	127	5	28-Oct-18
2013	Qatar Central Bank	Qatar	Domestic	Sovereign	<i>Sukuk Al-Murabahah</i>	137	5	10-Sep-18
2013	Golden Assets International Finance Ltd	Malaysia	Domestic	Corporate	<i>Sukuk Al-Murabahah</i>	154	5	5-Aug-18

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2013	Swiber Capital Pte. Ltd.	Singapore	Domestic	Corporate	<i>Sukuk Al-Wakalah</i>	150	5	2-Aug-18
2013	Qatar Central Bank	Qatar	Domestic	Sovereign	<i>Sukuk Al-Murabahah</i>	137	5	10-Jun-18
2013	Government of Malaysia	Malaysia	Domestic	Sovereign	<i>Bai' Bithaman Ajil</i>	1,300	5	1-Dec-18
2013	Marafiq Sukuk	Saudi Arabia	Domestic	Corporate	Hybrid <i>Sukuk</i>	667	5	21-May-18
2013	Almarai Company	Saudi Arabia	Domestic	Corporate	Hybrid <i>Sukuk</i>	347	5	31-Mar-18
2013	Gamuda Berhad	Malaysia	Domestic	Corporate	Hybrid <i>Sukuk</i>	126	5	21-Mar-18
2013	Government of Malaysia	Malaysia	Domestic	Sovereign	<i>Bai' Bithaman Ajil</i>	969	5	8-Aug-18
2012	Government of Indonesia)	Indonesia	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	261	6	30-May-18
2012	Government of Indonesia	Indonesia	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	156	6	26-Apr-18
2012	Government of Indonesia	Indonesia	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	104	6	12-Apr-18
2011	Manjung Island Energy Berhad	Malaysia	Domestic	Corporate	<i>Sukuk Al-Ijarah</i>	164	7	25-Nov-18
2011	Government of Malaysia (Gii)	Malaysia	Domestic	Sovereign	<i>Bai' Bithaman Ajil</i>	959	7	14-Nov-18
2011	Sarawak Energy	Malaysia	Domestic	Corporate	<i>Sukuk Al-Musharakah</i>	231	7	23-Jun-18
2011	Pengurusan Aset Air Berhad	Malaysia	Domestic	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	492	7	17-Jun-18
2011	Central Bank of Bahrain (Cbb)	Bahrain	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	530	7	27-Apr-18
2011	Al Rajhi Cement	Jordan	Domestic	Corporate	<i>Sukuk Al-Ijarah</i>	119	7	25-Apr-18
2011	Government of Malaysia (Gii)	Malaysia	Domestic	Sovereign	<i>Bai' Bithaman Ajil</i>	1,147	7	28-Aug-18
2011	Government of Malaysia	Malaysia	Domestic	Sovereign	<i>Sukuk Al-Murabahah</i>	492	7	23-Feb-18
2010	Qatar Central Bank	Qatar	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	343	8	1-Jun-18
2008	Saudi Hollandi Bank	Saudi Arabia	Domestic	Fls	<i>Sukuk Al-Mudharabah</i>	207	10	30-Dec-18
2008	Indonesian Government Shariah Securities (Perusahaan Penerbit Sbsn Indonesia)	Indonesia	Domestic	Sovereign	<i>Sukuk Al-Ijarah</i>	204	10	26-Aug-18

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2008	Syarikat Prasarana Negara Berhad ("Prasarana")	Malaysia	Domestic	Corporate	<i>Sukuk Al-Ijarah</i>	309	10	30-May-18
2008	Salam International Investment	Qatar	Domestic	Corporate	<i>Sukuk Al-Musharakah</i>	138	10	27-Mar-18
2006	Projek Lebuhraya Utara-selatan Berhad (Plus)	Malaysia	Domestic	Corporate	<i>Bai' Bithaman Ajil</i>	211	12	15-Jun-18
2006	Malayan Banking Berhad, Malaysia (Maybank)	Malaysia	Domestic	Fls	<i>Bai' Bithaman Ajil</i>	395	12	15-May-18
2005	Konsortium Lebuhraya Utara-timur (KI) Sdn	Malaysia	Domestic	Corporate	<i>Sukuk Al-Istisna'a</i>	205	13	5-Oct-18
2005	Cagamas Berhad	Malaysia	Domestic	Corporate	<i>Sukuk Al-Musharakah</i>	539	13	8-Dec-18
Total Maturity Value						15,762		

Source: IIFM Sukuk Database

TABLE 10C: DOMESTIC *SUKUK* MATURING 2019, AMOUNT > USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	<i>SUKUK</i> TYPE	<i>SUKUK</i> STRUCTURE	USD MILLION OR EQUIVALENT	TENOR (YEARS)	MUTURITY DATE
2017	Rukun Juang Sdn Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	124	2	19-Sep-19
2016	Qatar Government Sukuk	Qatar	QAR	Sovereign	<i>Sukuk Al-Wakalah</i>	165	3	16-Aug-19
2016	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al-Ijarah</i>	766.993	3	29-Mar-19
2016	Government of Indonesia- Sr008	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	2,331	3	11-Mar-19
2016	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al-Ijarah</i>	1109	3	15-Feb-19
2015	Sukuk Perumahan Kerajaan (Spk)	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	118	4	21-Feb-19
2014	Hsbc Amanah Malaysia Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Wakalah</i>	118	5	16-Oct-19
2014	Bumitama Agri Ltd	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	118	5	2-Sep-19
2014	Rantau Abang Capital (Imtn)	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	353	5	28-Aug-19
2014	Midciti Sukuk Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	122	5	25-Apr-19
2014	Perbadanan Tabung Pendidikan Tinggi Nasional (Ptpn)	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	122	5	28-Mar-19
2014	Bank Rakyat (Bank Kerjasama Rakyat Malaysia Bhd)	Malaysia	MYR	IFIS	<i>Sukuk Al-Musharakah</i>	128	5	24-Mar-19
2014	Sme Bank Berhad	Malaysia	MYR	IFIS	<i>Sukuk Al-Wakalah</i>	122	5	20-Mar-19
2014	Gamuda Berhad	Malaysia	MYR	Corporate	Hybrid <i>Sukuk</i>	122	5	13-Mar-19
2014	Syarikat Prasarana Negara Berhad (Oprasarana)	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	457	5	12-Mar-19
2014	National Commercial Bank	Saudi Arabia	SAR	IFIS	<i>Sukuk Al-Murabahah</i>	1,300	5	20-Feb-19
2014	Ministry Of Finance (Indonesia)	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	166	5	11-Feb-19
2014	Pengurusan Air Spv Berhad (Pasp)	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	301	5	7-Feb-19
2014	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al-Murabahah</i>	1,097	5	16-Jan-19

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2013	Bgsm Management Sdn Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	224	6	27-Dec-19
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	204	6	17-Dec-19
2013	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	1,248	6	22-May-19
2013	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	953	6	30-Apr-19
2013	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	1,112	6	30-Apr-19
2013	Malakoff Power Sdn. Bhd.	Malaysia	MYR	Corporate	Hybrid <i>Sukuk</i>	232	6	18-Apr-19
2012	Banque Saudi Fransi	Saudi Arabia	SAR	Corporate	<i>Sukuk Al-Mudharabah</i>	506.60	7	18-Dec-19
2012	Saudi Hollandi Bank	Saudi Arabia	SAR	IFIS	<i>Sukuk Al-Murabahah</i>	373.00	7	26-Nov-19
2012	Celcom Transmission	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	481	7	29-Aug-19
2012	Tanjung Bin Power	Malaysia	MYR	Corporate	<i>Sukuk Al-Ijarah</i>	168	7	16-Aug-19
2012	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al-Murabahah</i>	347	7	12-Jul-19
2012	Johor Corporation	Malaysia	MYR	Corporate	<i>Sukuk Al-Wakalah</i>	251	7	14-Jun-19
2012	Saudi Arabia National Industrialisation Company	Saudi Arabia	SAR	Corporate	Hybrid <i>Sukuk</i>	533.30	7	21-May-19
2012	Government of Malaysia (Gii)	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,463	7	30-Mar-19
2012	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al-Ijarah</i>	313	7	21-Mar-19
2012	Al Marai Company	Saudi Arabia	SAR	Corporate	Hybrid <i>Sukuk</i>	266.60	7	7-Mar-19
2011	Manjung Island Energy Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Ijarah</i>	164	8	25-Nov-19
2011	Pengurusan Aset Air Berhad	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Murabahah</i>	164	8	17-Jun-19
2009	Saudi Hollandi Bank	Saudi Arabia	SAR	IFIS	<i>Sukuk Al-Mudharabah</i>	193.30	10	25-Dec-19
2009	Khazanah Nasional Bhd	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al-Musharakah</i>	425	10	27-Aug-19
2006	Projek Lebuhraya Utara-selatan Berhad (Plus)	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	161	13	17-Jun-19

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2006	Penang Port Sdn Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Istisna'a</i>	183	13	31-Mar-19
2005	Ranhill Powertron Sdn Bhd	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	142	14	26-Jun-19
2005	Projek Lebuhraya Utara-selatan Berhad (Plus)	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	634	14	17-Jun-19
2005	Projek Lebuhraya Utara-selatan Berhad (Plus)	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	634	14	9-Jun-19
2005	Time Engineering (Musyarakah One Capital Bhd)	Malaysia	MYR	Corporate	<i>Sukuk Al-Musharakah</i>	658	14	4-Apr-19
2004	Saj Holdings Sdn Bhd	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	337	15	25-Oct-19
2004	Kapar Energy Ventures Sdn Bhd	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	895	15	8-Jul-19
2004	Guthrie Property Development	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	197	15	19-Mar-19
2004	Ranhill Utilities Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al-Murabahah</i>	184	15	1-Jan-19
Total Maturity Value						22,786		

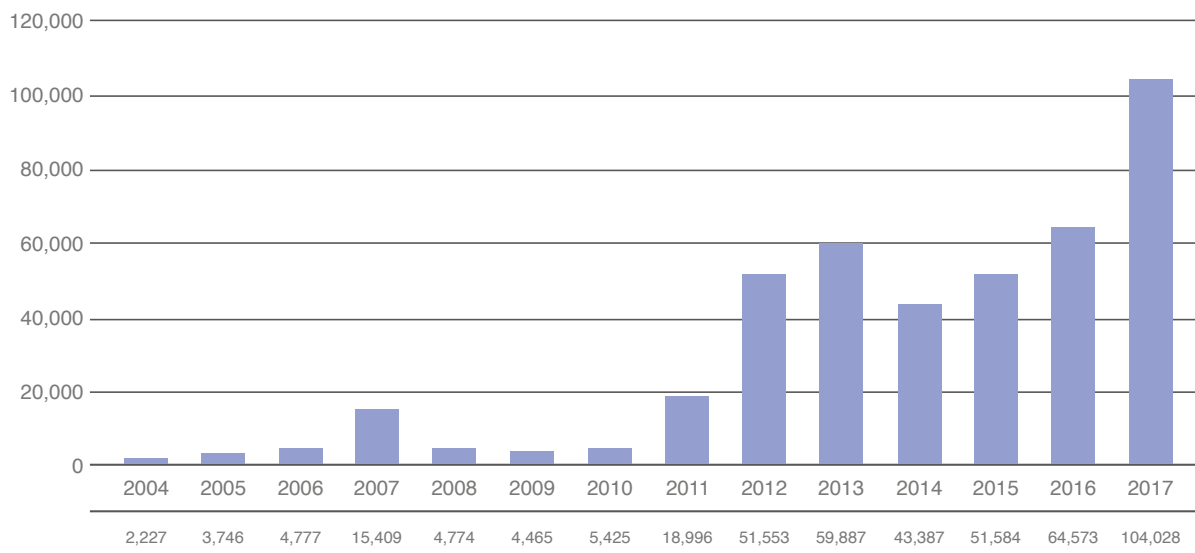
Source: IIFM Sukuk Database

1.12 *SUKUK* OUTSTANDING

On the back of a record number of global *Sukuk* issuances during 2012 to 2017, the outstanding *Sukuk* issuances in 2017 reached USD 434.8 billion as compared to USD 367 billion in 2016, which is a clear indication of growing interest in *Sukuk*. The supply and demand gap remains to be bridged, but the signs are encouraging. Another interesting fact is that the share of longer tenor *Sukuk* is increasing particularly starting in the year 2015, where there was an adjustment in the short term *Sukuk* market.

The following Chart 6A provides a clear picture on outstanding Global *Sukuk*, covering both international and domestic *Sukuk*:

Chart 6A: Total Global *Sukuk* Outstanding as at 31st December 2017

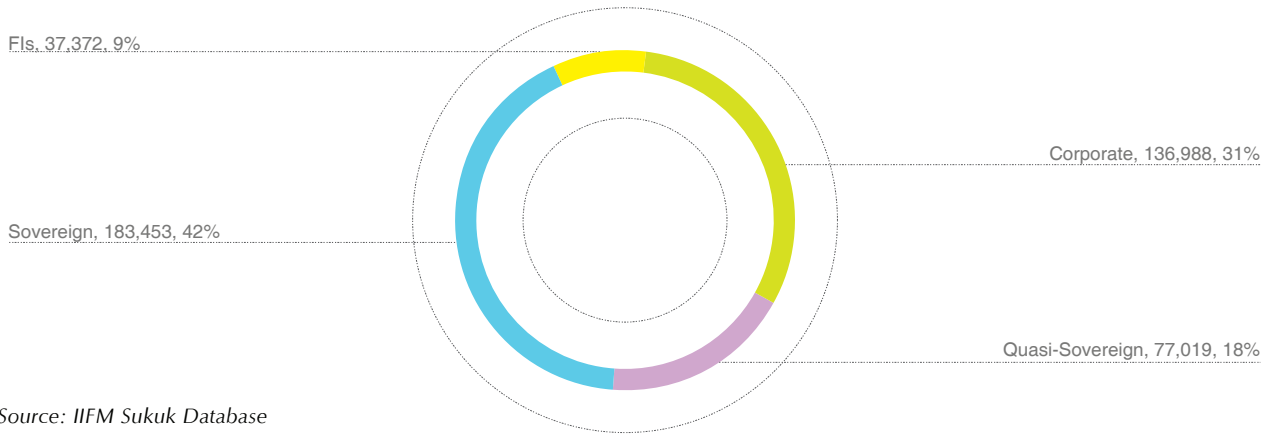


Source: IIFM *Sukuk* Database

Total Global *Sukuk* Outstanding USD 434,833 Millions

The breakdown for sovereign, quasi-sovereign, corporate and FIs works out to be 42%, 18%, 31% and 9% respectively. It is interesting to note that domestic issuances, particularly those with tenor of one year or less that matured in 2017, were not re-financed or their issuance declined. The following Chart 6C provides information on outstanding Domestic *Sukuk*:

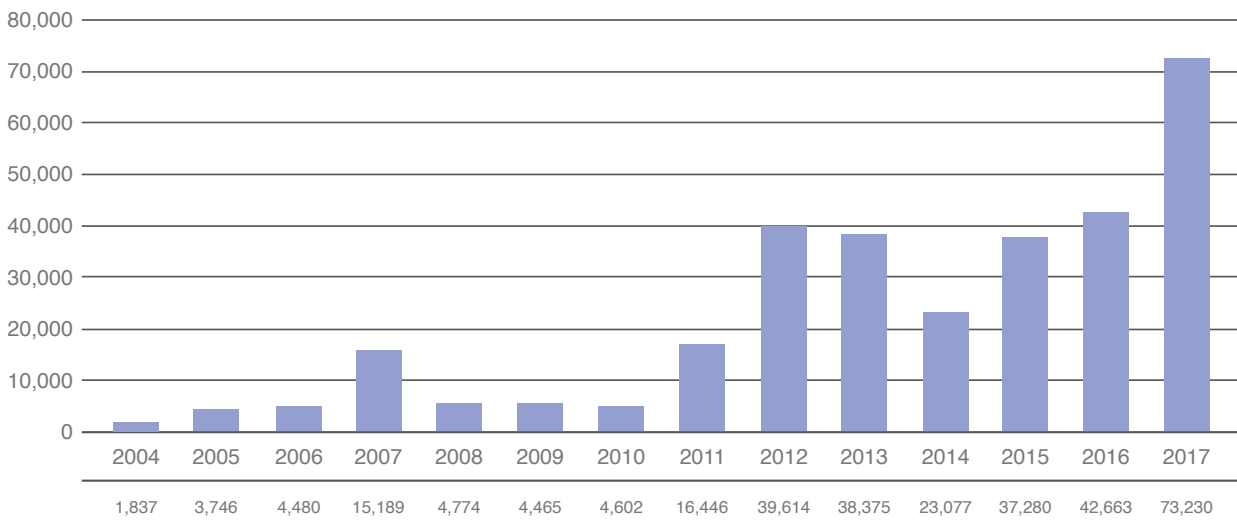
Chart 6B: Total Global *Sukuk* Outstanding by Issuer Status as of 31st December 2017



Source: IIFM *Sukuk* Database

The outstanding split of domestic *Sukuk* between sovereign, quasi sovereign, corporate and FIs works out to be 42%, 14.7%, 36%, & 7% respectively.

Chart 6C: Total Domestic *Sukuk* Outstanding as of 31st December 2017

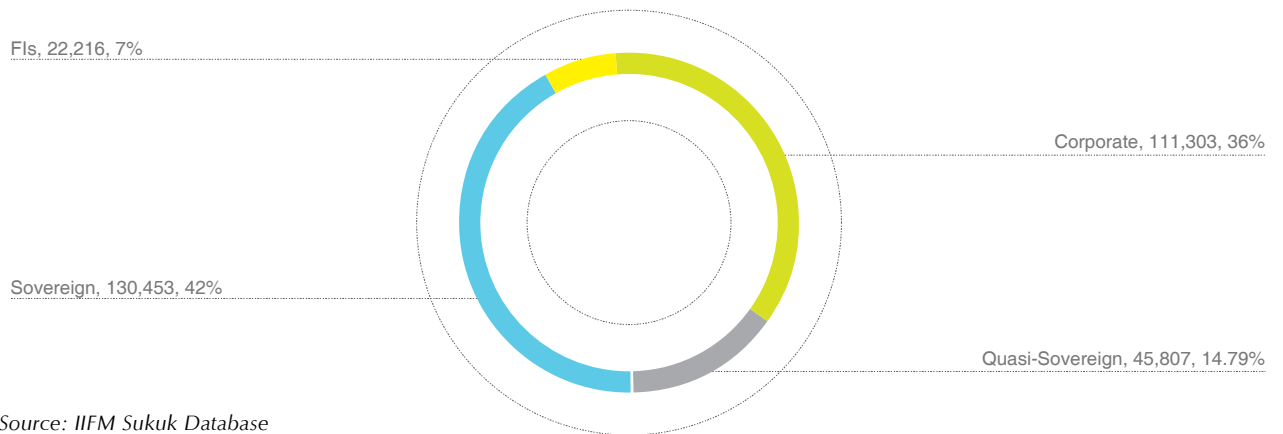


Source: IIFM *Sukuk* Database

Total Domestic *Sukuk* Outstanding USD 309,779 Millions

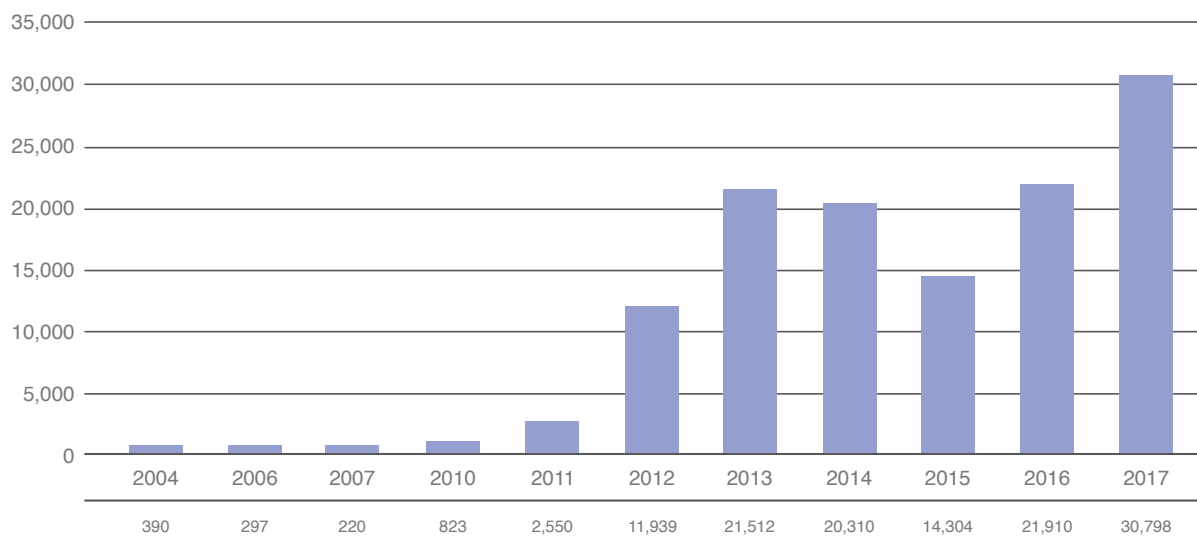
The international outstanding *Sukuk* pattern Chart 6E below presents a similar to domestic outstanding *Sukuk* picture where after a drop in 2015, the outstanding *Sukuk* increased from 2017 issuances.

Chart 6D: Total Domestic *Sukuk* Outstanding by Issuer Status as of 31st December 2017



In case of international *Sukuk* outstanding, the split between all sovereigns, corporate and FIs works out to be 67-33.

Chart 6E: Total International *Sukuk* Outstanding as of 31st December 2017

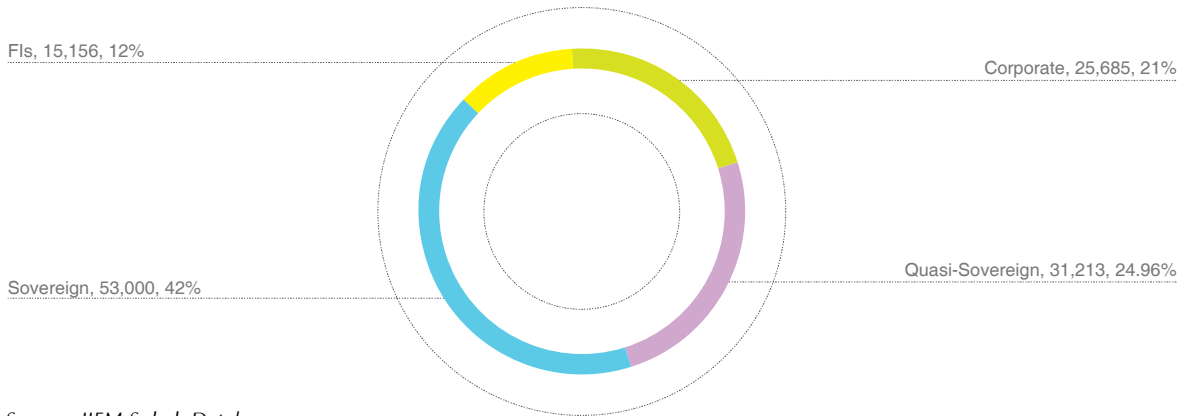


Source: IIFM Sukuk Database

Total International *Sukuk* Outstanding USD 125,054 Millions

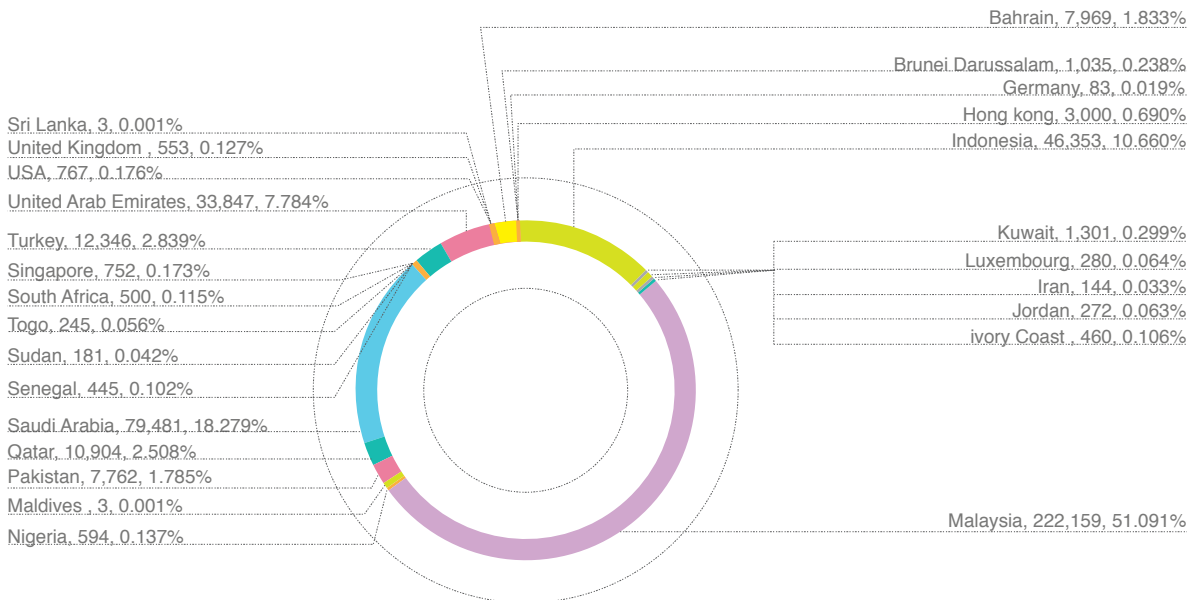
Of the total volume of global *Sukuk* outstanding from a country perspective, 90.5% is represented by just five countries i.e. Malaysia 51%, Saudi Arabia 18.2%, Indonesia 10.7%, UAE 7.8% and Turkey 2.8%. Right behind them are Qatar 2.4%, Bahrain 1.8% and Pakistan 1.8%.

Chart 6F: Total International *Sukuk* Outstanding by Issuer Status as of 31st December 2017



Source: IIFM Sukuk Database

Chart 6G: Country Wise Breakdown of *Sukuk* Outstanding as of 31st December 2017



Source: IIFM Sukuk Database



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CHAPTER TWO



*SHARI'AH RULINGS AND REGULATIONS
FOR THE ISSUANCE AND TRADING
OF SUKUK AL-IJARAH*

SHARI'AH RULINGS AND REGULATIONS FOR THE ISSUANCE AND TRADING OF SUKUK AL-IJARAH

PREPARED BY: DR. AHMED RUFAl - IIFM



*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.*

2.1 PREFACE

A consequent effect of the remarkably fast growing Islamic financial services is *Sukuk*. The Council of the Islamic *Fiqh* Academy of the Organization of Islamic Conference (OIC) and the rest of the relevant Islamic institutions have legitimized the concept and issuance of *Sukuk*. This paved the way for an alternative source of financing to meet the needs of Islamic issuers and investors who are not allowed to invest in interest (*Riba*) based conventional bonds under the *Shari'ah* (Islamic Law) principles.

Sukuk has been a vehicle carrying the opportunity to provide resources compatible with *Shari'ah* principles. Its market has dramatically grown to become one of the fastest emerging alternative instruments and a significant capital markets tool which is increasingly used globally by governments, government-held entities, corporations etc.

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

Sukuk in general reflect participation in the underlying asset so that what is traded is not merely debt as each certificate must represent an undivided interest in the asset. In the light of the prohibition of interest (*Riba*) under the *Shari'ah* (i.e. Islamic Law) trading in pure debt instruments is forbidden. Hence, *Sukuk* are structured to achieve a desired economic objective in a manner which conforms to the principle and spirit of *Shari'ah*.

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

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

The primary objective of this article and chapter is to elaborate on the *Shari'ah* rulings and regulations for the issuance and trading of *Sukuk Al-Ijarah* by Islamic financial institutions. It also provides its definition, types, characteristics and the use of *Ijarah* contract as its underlying structure in accordance with the *Shari'ah* Standard of the Accounting and Auditing Organization for Islamic Financial Institutions (the "AAOIFI") and the International Islamic *Fiqh* Academy of the OIC, resolution regarding *Sukuk Al-Ijarah*.

2.2 AL-IJARAH SUKUK DEFINITION

The Term "*Ijarah*" Linguistically and Technically

Linguistically/Literally, the term "*Ijarah*" means a lease.

Technically, it means, an agreement that permits one party (the lessee) to use an asset or property owned by another party (the lessor) for an agreed-upon price over a fixed period of time. (It is a lease or service contract that involves benefiting or usufruct of certain assets or work for an agreed payment within an agreed period i.e. the transfer of the usufruct of an asset to another person in exchange for a rent claimed from him).

Al-Ijarah Sukuk

Al-Ijarah Sukuk is defined as, certificates of equal value that represent undivided shares (*Hisas Sha'i'ah*) in the ownership of tangible assets or their income-generating utilities. In other words, it is an Islamic certificate for the buying and leasing of assets by the investors to the issuer and such *Sukuk* shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors.

2.3 AL-IJARAH SUKUK CONCEPT AND OBJECTIVE

The Concept

The concept of *Al-Ijarah Sukuk* is based upon the principle of securitization (*taskik*, or *tawriq* or *tasnid*), which means the issuance of financial certificates amenable to circulation, based upon an investment project producing a revenue stream. In other words, to issue tradable securities which are based on an investment project that generates income. This certainly excludes conventional bonds, which represent debts and interest (i.e. *Riba*).

The Objective

The objective of *Al-Ijarah Sukuk* is conversion of the tangible assets and the utility arising from them (that is associated with leasing contracts) into financial certificates (i.e. *Sukuk*) that it is possible to trade in secondary markets.

2.4 USE OF IJARAH AS THE UNDERLYING STRUCTURE OF AL- IJARAH SUKUK

Al-Ijarah Sukuk are governed by the provisions of *Ijarah* contract in Islamic jurisprudence and its *Shari'ah* rules and principles. So the most important of these provisions and requirements that should be considered when using *Ijarah* as the underlying structure for the issuance of *Al-Ijarah Sukuk* are the following:

Rules Governing Benefit and Leased Property

1. The leased asset must be capable of being used while preserving the asset, and the benefit from an *Ijarah* must be lawful in *Shari'ah*.
2. The subject matter of *Ijarah* may be a share in an undivided asset held in common with the lessee (i.e., tenant), whether the lessee is a partner with the lessor (i.e., the property owner) or not.
3. An *Ijarah* contract may be executed for a house, etc., even with a non-Muslim, if the use to be made of it is permissible, unless the lessor knows in advance, or has reason to presume, that the use will be for an impermissible purpose (i.e., non *Shari'ah* compliance purpose).
4. The lessee must use the leased asset in a suitable manner or in conformity with common practice, and comply with conditions which are acceptable in *Shari'ah*. He must also avoid causing damage to the leased asset by misuse through misconduct or negligence.
5. If the benefit from the leased asset is impaired wholly or partially as a result of the lessee's misconduct while the property remains under lease, the lessee is obliged to restore or repair the usufruct. Rent for the time during which the benefit is lost is not to be waived.
6. The lessor may not stipulate that the lessee will undertake the major maintenance of the asset that is required to keep it in the condition necessary to provide the contractual benefits under the lease. The lessor may delegate to the lessee the task of carrying out such maintenance at the lessor's cost. The lessee should carry out operating or periodical (ordinary) maintenance.
7. The leased asset is the responsibility of the lessor throughout the duration of the *Ijarah*, unless the lessee commits misconduct or negligence. The lessor may take out permissible insurance on it whenever possible, and such insurance expenses must be borne by the lessor. The lessor may take this into account implicitly when the lease rental is to be fixed. However, he may not, after the contract is signed, charge the lessee any cost in excess of the cost anticipated at the time of fixing the rent. The lessor may also delegate the lessee the task of taking out insurance at the lessor's expense.
8. In General:
 - The leased asset must be capable of being used while preserving the asset, and the benefit from an *Ijarah* must be lawful in *Shari'ah* i.e. the subject of the *Ijarah* must have a valuable use. Things without a usufruct cannot be leased.
 - The ownership of the asset(s) must remain with the Trustee and only the usufruct right may be transferred to the originator (therefore anything which can be consumed cannot be leased by way of an *Ijarah*).
 - As ownership of the asset(s) must remain with the Trustee, the liabilities arising from the ownership must also rest with the Trustee (as owner). An asset remains the risk of the Trustee throughout the lease period (in the sense that any harm or loss caused by the factors beyond the control of the Originator is borne by the Trustee).

- Any liabilities relating to the use of the asset(s), however, rest with the Originator (as lessee).
- The Originator (as lessee) cannot use an asset for any purpose other than the purpose specified in the *Ijarah* (or lease) agreement. If no purpose is specified, the Originator can use such asset for the purpose it would be used for in the normal course of its business.
- The asset(s) must be clearly identified in the *Ijarah* (and identifiable in practice).
- Rental must be determined at the time of contract for the whole period of the *Ijarah*. Although it is possible to split the term of the *Ijarah* into smaller rental periods where different amounts of rent may be calculated for each such rental period. The amount of rental must be fixed at the start of each such rental period and *Shari'ah* will consider each rental period as a separate lease.
- If an asset has totally lost the function for which it was leased, and no repair is possible, the *Ijarah* shall terminate on the day on which such loss (a "Total Loss") has been caused. If there has been a Total Loss, the Trustee may have the right/ability to substitute or replace the affected asset. In reality however, it would only look to do so if the Originator (as service agent) is able to use the insurance (or *Takaful*) or any other total loss proceeds to procure substitute or replacement assets.
- If a Total Loss is caused by the misuse or negligence of the Originator, the Originator will be liable to compensate the Trustee for depreciation in the value of the affected asset, as it was immediately before such Total Loss.
- In the event that an asset has only suffered partial loss or damage, the *Ijarah* will continue to survive with respect to that asset.

Rules Governing Lease Rentals

1. The lease rental may be in cash or in kind (goods) or benefit (service). The rental must be specified, either as a lump sum covering the duration of the *Ijarah* contract, or by installments for parts of the duration. It may also be for a fixed or variable amount, according to whatever designated method the two parties agree upon.
2. The rental is made obligatory by the contract and the lessor's entitlement to the rental runs from the time when the lessee starts to benefit from the asset or once the lessor makes the usufruct of the asset available to the lessee, and the entitlement to the rental does not necessarily commence on the date of signing the *Ijarah* contract. The rental period may be paid entirely in advance or in installments during a period equivalent, or more or less, to the duration of the *Ijarah*. However, if the asset is made available only after a period longer than what customary practices deem proper, then no payment shall be obligatory.
3. In case the rental is subject to changes (floating rental), it is necessary that the amount of the rental of the first period of the *Ijarah* contract be specified in lump sum. It is then permissible that the rentals for subsequent periods be determined according to a certain benchmark. Such benchmark must be based on a clear formula which is not subject to dispute, because it becomes the determining factor for the rentals of the remaining periods. This benchmark should be subject to a ceiling, on both maximum and minimum levels.
4. It may be agreed that the rental should consist of two specified parts: one to be paid or transferred to the lessor and the other to be held by the lessee to cover any expenses or costs approved by the lessor, such as the cost of major maintenance, insurance, etc. The

excess of the second part of the rental shall be treated as an advance to the lessor on account, while the lessor shall bear any shortage.

5. The amendment of future rentals is permissible by the agreement of both parties, i.e. the period for which the lessee has not yet received any benefit. The rentals of any previous periods which have not yet been paid become a debt owed to the lessor by the lessee, and therefore cannot be increased.

2.5 TYPES OF AL-IJARAH SUKUK AND ITS SHARI'AH RULINGS AND REGULATIONS

The types of *Al-Ijarah Sukuk* are as follows:

Certificate of Ownership of Leased Assets

These are certificates of equal value issued either by the owner of a leased asset or a tangible asset to be leased by promise. They are also issued by a financial intermediary acting on behalf of the owner with the aim of selling the asset and recovering its value through subscription so that the holders of the certificates become owners of the assets.

Certificates of Ownership of Usufructs

Certificates of ownership of usufructs of existing assets are of two types:

1. Certificates of equal value issued by the owner of an existing asset either on his own or through a financial intermediary, with the aim of leasing the asset and receiving the rental from the revenue of subscription so that the usufruct of the assets passes into the ownership of the holders of the certificates.
2. Certificates of equal value issued by the owner of the usufruct of an existing asset (lessee), either on his own or through a financial intermediary, with the aim of subleasing the usufruct and receiving the rental from the

revenue of the subscription so that the holders of the certificates become owners of the usufruct of the asset.

Certificates of Ownership of Usufructs of Described Future Assets

These are certificates of equal value issued for the purpose of leasing out tangible future assets and for collecting the rental from the subscription revenue, so that the usufruct of the described future asset passes into the ownership of the holders of the certificates.

Certificates of Ownership of Described Future Services

These are certificates of equal value issued for the purpose of providing future services through a described provider (such as educational benefits from a university without naming the educational institution) and obtaining the fee in the form of subscription income so that the holders of the certificates become owners of the services.

2.6 CERTIFICATES OF OWNERSHIP OF USUFRUCTS: AN EXPLANATION

1. Certificates of Ownership of the Usufruct of Existing Assets

The issuer of these certificates is the seller of a leased asset or an asset to be leased on promise and the subscribers are the buyers of the asset, while the funds mobilised through the subscription are the purchase price of the asset. The certificate holders become joint owners of the usufruct sharing its benefits and risks.

2. Certificates of Ownership of Described Usufruct to be Made Available in the Future

The issuer of these certificates is the seller of usufruct of an asset to be made available in the future as per specification. The subscribers

are buyers of the usufruct; the funds mobilised through subscription are the purchase price of the usufruct. The certificate holders become joint owners of the undivided usufruct sharing its benefits and risks.

3. Certificates of Ownership of Services

The issuer of these certificates is the seller of services and the subscribers are the buyers of the services, while the funds mobilised through subscription are the purchase price of the services.

The certificate holders are entitled to sell the profits of all the types that are listed at (1), (2) and (3) and are entitled to the income from the resale of such usufruct.

2.7 TRADING OF AL-IJARAH SUKUK AND THEIR REDEMPTION

1. It is permissible, after closing subscription, allotment of *Sukuk* and commencement of activity, to trade in and redeem investment *Sukuk* that represent common ownership of tangible assets, usufructs or services. As for trading or redemption prior to the commencement of activity, it is necessary to observe the rules of the contract of currency exchange (i.e. *Sarf*) along with the rules for debts (receivables) when liquidation is complete and the assets are receivables or when the assets represented by the *Sukuk* are sold for a deferred price.

2. In the case of negotiable *Sukuk*, it is permissible for the issuer to undertake, through the prospectus of issue, to purchase at market value, after the completion of the process of issue, any certificate that may be offered to him. However, it is not permissible for the issuer to undertake to purchase the *Sukuk* at their nominal value.

3. The certificates may be traded through any known means, that do not contravene the rules of the *Shari'ah*; such as registration, electronic

means or actual transmission by the bearer to the purchaser.

4. It is permissible, immediately upon issue and up to the date of maturity, but after the passing of ownership of the assets to the holders of the *Sukuk*, to trade in *Sukuk* that represent ownership of existing leased assets or assets to be leased on promise.

5. It is permissible for the issuer to redeem, prior to maturity, certificates of ownership of leased assets at the market price or at a rate agreed upon, at the date of redemption, between the certificate holder and the issuer.

6. It is permissible to trade in securities of ownership of usufructs of tangible assets prior to a contract for sub-leasing the assets. When the assets are sub-leased, the certificate represents rent receivables, which makes it a debt owed by the second lessor subject to the rules and regulations for disposal of debts.

7. It is permissible for the issuer to redeem *Sukuk* of ownership of the usufruct of tangible assets from the holder, after allotment and payment of the subscription price, at the market price or at a price agreed upon between the parties at the time of redemption, on the condition that the subscription amount or redemption price is not deferred.

8. It is not permissible to trade in certificates of ownership of usufructs of a described asset before the asset from which usufruct is to be made available is ascertained, except by observing the rules for disposal of receivables. When the asset is ascertained, trading in *Sukuk* of usufruct of such asset may take place.

9. It is permissible to trade in securities of ownership of services to be provided by a specified party prior to sub-leasing such services. When the services are sub-leased, the certificate represents rent receivables to be collected from the second lessee. In this

case, the certificate represents a debt and is, therefore, subject to the rules and regulations of disposal of debts.

10. It is not permissible to trade in securities of ownership of services to be provided by a party to be specified in the future before the source from which the services would be provided is identified, except by observing the rules for dealing in debts. When the source of services is identified, trading in such *Sukuk* may take place.

11. It is permissible to set up a parallel *Ijarah* on tangible assets by employing the same description for the usufruct that was provided to the holders of the *Sukuk* in cases detailed in items 6.7 and 6.9; provided the two contracts remain independent.

12. It is permissible for the second buyer of the usufruct of existing and specified assets to resell them. The buyer is also entitled to issue certificates in this respect.

2.8 CONCLUSION

Based on the above-mentioned definition, rulings, regulations and provisions of *Al-Ijarah Sukuk* as per the *Shari'ah* Standard of the Accounting and Auditing Organization for Islamic Financial Institutions (the "AAOIFI") and the International Islamic *Fiqh* Academy's resolution regarding *Sukuk Al-Ijarah*, the characteristics of *Al-Ijarah Sukuk* can be summarized as follows:

First:

Al-Ijarah Sukuk is a special lease project on the benefits or services of certain or designated beneficiaries. Its instruments are governed by the provisions of the *Ijarah* contract in Islamic jurisprudence and its legal rules.

Second:

Al-Ijarah Sukuk do not represent a fixed amount of money, nor are they debts owed by a certain entity, neither a natural nor a legal entity. They are only financial certificates that represent diffused/undivided shares in the ownership of a tangible asset being put to use, such as real estate, an airplane or a ship, or a pool of such assets, whether of the same or differing specifications, when they are leased and, thus, yield a defined revenue as a result of the lease contract.

Third:

Al-Ijarah Sukuk may bear the name of their owners, in which case a transfer of ownership is accompanied by an entry in a specific registry or by writing the name of the new owner on the certificate each time ownership is transferred; or they may be anonymous certificates, such that a transfer of ownership is simply effected by a physical transfer of the certificate to the new owner.

Fourth:

It is permitted to issue *Sukuk* that represent ownership of a leased tangible asset, when the conditions are met for property that may validly be the subject of a rental (*Ijarah*) lease, such as real estate, an airplane, a ship, etc., as long as the *Sukuk* represent ownership of real tangible assets that are being leased and, thus, yield a defined revenue.

Fifth:

It is permitted for the owner of a *Sukuk* certificate to sell it on the secondary market to any buyer at a price agreed upon between them. It doesn't matter if the price is the same as, less than, or more than the price at which it was bought. That is in consideration of the fact that the value of assets is subject to the market factors of supply and demand.

Sixth:

The owner of a *Sukuk* certificate has a right to his share of the revenue (i.e., the rent) at the times stipulated as terms for the *Sukuk* when they were issued, minus those expenses for which the lessor is responsible related to the upkeep of the property and other obligations entailed by the leasing contract.

Seventh:

A renter who has the right to sublet is permitted to issue *Al-Ijarah Sukuk* that represent the ownership of the usufruct that he/she took possession of by the lease contract with the intention of subleasing.

The condition for that is that the *Sukuk* be issued before the contracts are signed with the (sublet) lessees. It makes no difference if the rent for the secondary leases is the same as, less than, or more than the rent for the original lease. However, if leases have already been signed with the second-tier lessees, then it is not permitted to issue *Sukuk* because they would now represent debts owed by the lessees to the *Sukuk* issuer.

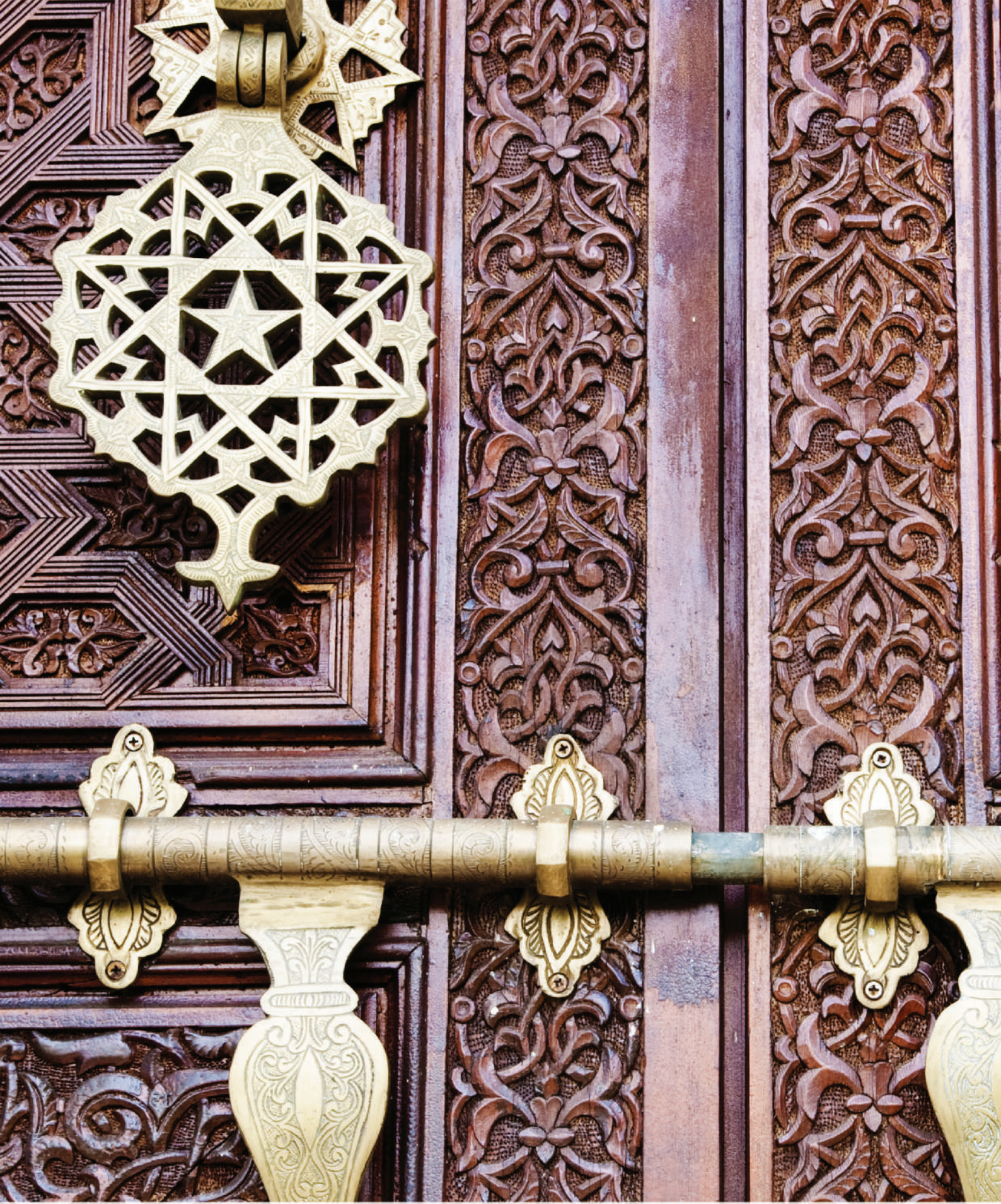
Eighth:

It is not permitted for the issuer or administrator of the *Sukuk* to guarantee the value of the *Sukuk* certificate itself or the revenue; and if the leased assets should be damaged or destroyed, it is the *Sukuk* certificate holders who will bear the loss.

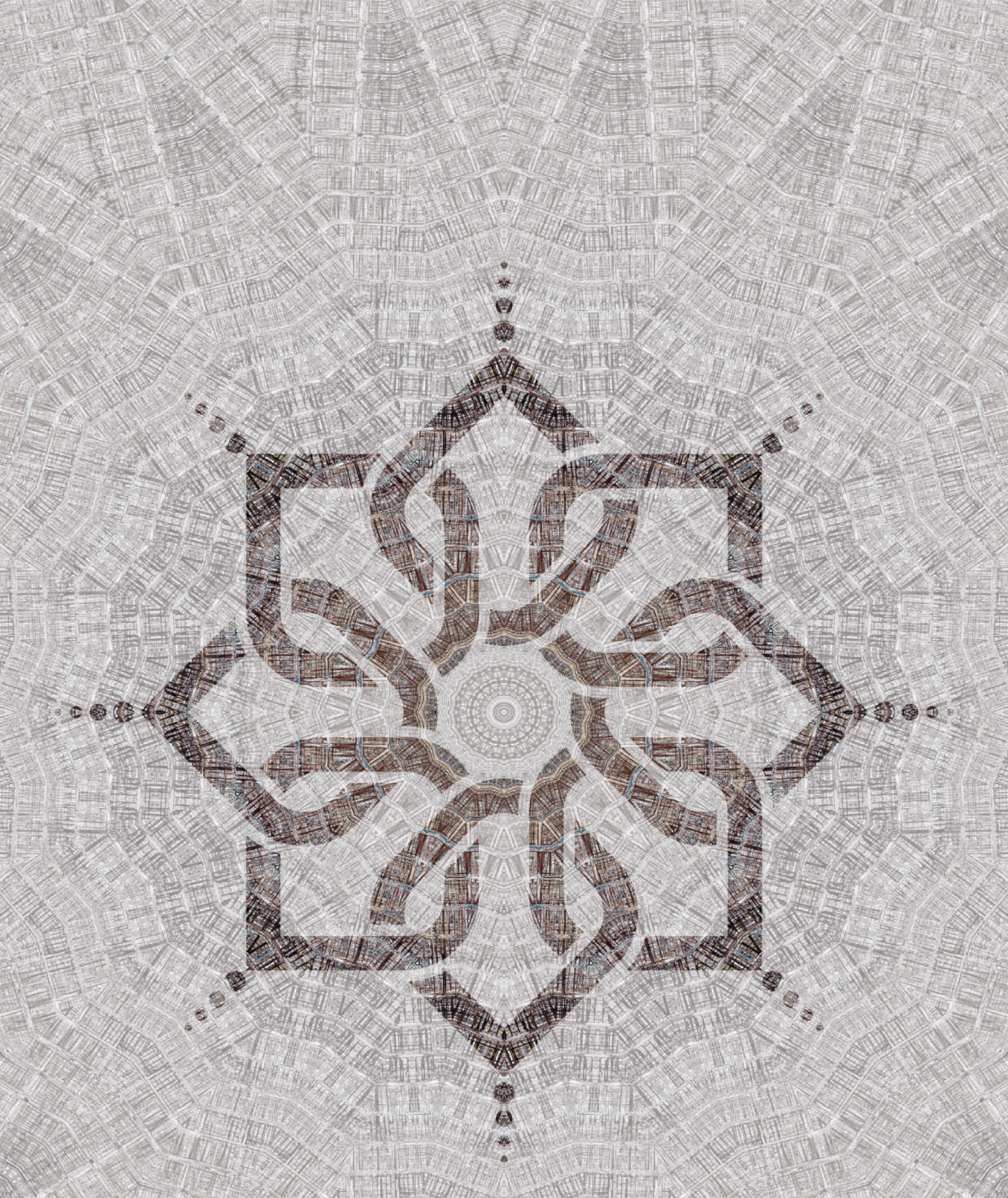
To sum up, these are general *Shari'ah* rulings and regulations regarding the issuance of *Al-Ijarah Sukuk*. The *Shari'ah* is open to any new developments related to the structure of *Al-Ijarah Sukuk* in the future as well as all other areas in the Islamic finance industry because the principles and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

SOURCES

- Accounting and Auditing Organization for Islamic Financial Institutions (the "AAOIFI"), *Shari'ah* Standard No. 9 (*Ijarah* and *Ijarah Muntahiyah Bittamlik*) and *Shari'ah* Standard No. 17 (*Investment Sukuk*).
- International Islamic *Fiqh* Academy of the OIC, resolution No. 137 (3/15) Regarding *Sukuk Al-Ijarah*.



CHAPTER THREE



CASE STUDIES: SELECTED *SUKUK* ISSUANCES
(CONTRIBUTIONS)

3.1 AL BARAKA BANKING GROUP

USD 400 MILLION ADDITIONAL TIER 1 PERPETUAL *SUKUK* ISSUANCE

BY: K. KRISHNAMOORTHY, EXECUTIVE VICE PRESIDENT

HEAD OF STRATEGIC PLANNING

AND DR. MOHAMED MUSTAPHA KHEMIRA, FIRST VICE PRESIDENT

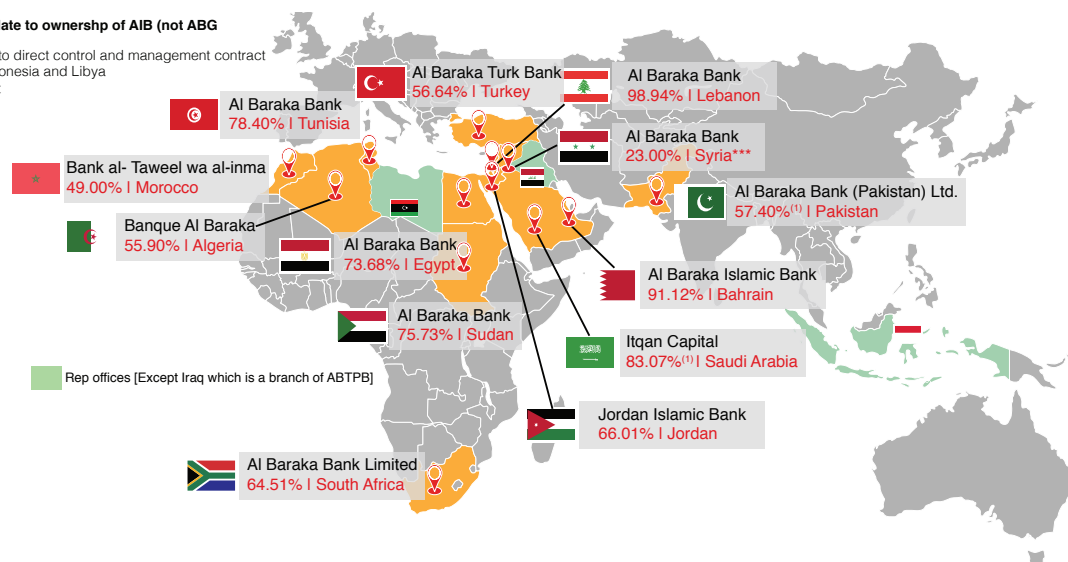
STRATEGIC PLANNING, AL BARAKA BANKING GROUP B.S.C.

(1) Ownership percentages relate to ownership of AIB (not ABG)

* Consolidated with ABG due to direct control and management contract

** Representative offices in Indonesia and Libya

*** Under Management contract



ABSTRACT ON ABG *SUKUK*

The Al Baraka Banking Group B.S.C (ABG), a Bahrain-based leading Islamic banking group, successfully completed the issuance of its first Islamic *Sukuk* issue in the amount of USD 400 million. The *Sukuk* issue is an Additional Tier 1 Perpetual *Sukuk* that is compliant with Basel III as per the Central Bank of Bahrain rules. The *Sukuk* structure is a *Shari'ah* compliant *Mudarabah*, with a profit rate for an initial 5-year term set at an expected return of 7.875% p.a., with 5-year resets thereafter. The issue is currently listed on the Irish Stock Exchange plc.

OBLIGOR BACKGROUND

Al Baraka Banking Group B.S.C. (ABG or the Group) was incorporated in Bahrain on 27 June 2002. While the Group was initially incorporated for the purpose of holding the interests of its two shareholders in, at the time, ten Islamic banks, the Group is now the parent company of 12 Islamic banks and one Islamic investment company (each, a Unit) in addition to two representative offices. The Group conducts business through 675 branches (as of 31 December 2017), spread across 16 countries. ABG offers, through its units, retail, corporate, treasury and investment banking services, strictly in accordance with the principles of the Islamic *Shari'ah*. Its authorized capital is USD 1.5 billion, while its total equity is at about USD 2.5 billion. The total assets of the Group have grown from USD 4.1bn in 2003 to USD 25.5bn, as of 31 December 2017. In addition, the Group's total income has grown from USD 43mn in 2003 to USD 207mn in 2017. The Group is rated BB+ (long-term) by S&P and BBB+ (long term) by both the Islamic International Rating Agency and Dagong Global Credit Company Limited.

SUKUK SUMMARY

Issuer:	ABG <i>Sukuk</i> Limited
Obligor / Mudareb:	Al Baraka Banking Group B.S.C.
Obligor Rating:	S&P: BB+ (negative)
Certificates Rating:	Not rated
Sukuk Structure:	<i>Mudarabah</i>
Status of the Certificates and the Obligations of the Obligor under the <i>Mudarabah</i> Agreement:	The Certificates will constitute unsecured obligations of the Trustee and will rank <i>pari passu</i> without preference amongst themselves. The payment obligations of the Obligor under the <i>Mudarabah</i> Agreement, constitute direct, unsecured, conditional and subordinated obligations of the Obligor, rank junior to all its senior obligations, rank <i>pari passu</i> with all its <i>pari passu</i> obligations and rank in priority only to all its junior obligations, as detailed in the Preliminary Prospectus.
Issue Size:	USD 400,000,000
Issue type:	Regulation S
Issue Date:	31 May 2017
Maturity Date:	Perpetual
Optional Call Date:	31 May 2022 and on each periodic distribution date thereafter
Reset Date:	31 May 2022 and every 5 years thereafter to a new fixed rate based on the then prevailing 5Y USD mid-swap rate plus a margin of 6.014% per annum
Profit Rate:	7.875% p.a., semi-annual payments
Issue Price:	100.000%
Initial Credit Margin:	601.4bps over 5Y USD mid-swaps
Profit Cancellation:	Profit payments are discretionary and non-cumulative. Profit will not be paid if (i) the Obligor has insufficient distributable funds (ii) the Obligor is in breach of (or such payment would cause a breach of) the applicable regulatory capital requirements (iii) such non-payment is requested by the financial regulator or (iv) the compulsory liquidation of the Obligor, each as detailed in the Preliminary Prospectus
Dividend Restriction:	Following non-payment on any periodic distribution date, the Obligor must not (i) declare or pay any distribution dividend on any ordinary shares of the Obligor or on any of its other securities ranking junior to or <i>pari passu</i> with the Certificates or (ii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any ordinary shares of the Obligor or securities ranking junior to or <i>pari passu</i> with the Certificates until: (a) the next following profit distribution payment is made in full or (b) an amount equal to that amount is duly set aside or provided for in full, each as detailed in the Preliminary Prospectus

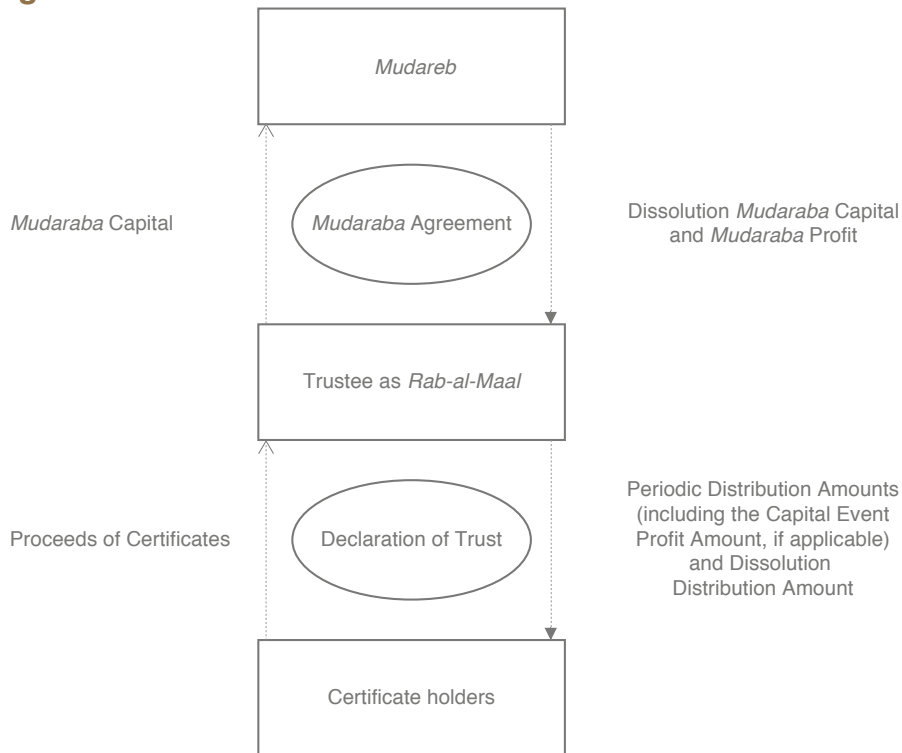
Table continued on next page.

SUKUK SUMMARY

Loss Absorption:	A write-down of the Certificates (in whole or in part, as applicable) will take place if (i) the Obligor is instructed by the financial regulator to write-off or cancel such instruments on the grounds of non-viability or (ii) an immediate injection of capital is required, by way of an emergency intervention, without which the Obligor would become non-viable, as detailed in the Preliminary Prospectus (iii) The Obligor intends to respect the hierarchy of the capital structure while distributing losses
Early Redemption:	Optional Redemption or Tax Event Call at par, Capital Event Call at 101%, as detailed in the Preliminary Prospectus
Governing Law:	English Law
Listing:	Irish Stock Exchange
Form of Certificates:	Registered form evidenced by a Global Certificate, Regulation S
Global Coordinator:	Standard Chartered Bank
Joint Lead Managers:	Bank ABC, Dubai Islamic Bank, Emirates NBD Capital, KFH Capital, Noor Bank, QInvest and Standard Chartered Bank

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

Structure Diagram



PRINCIPAL CASH FLOWS

Payments by the Certificate Holders and the Trustee

On the Issue Date, the Certificate holders will pay the issue price in respect of the Certificates to the Trustee. The proceeds of the issuance of the Certificates will be contributed by the Trustee (as *Rabb al-Mal*) to the *Mudarib* and shall form the initial capital of the *Mudarabah* (the *Mudarabah* Capital). The *Mudarabah* Capital will be invested, on an unrestricted co-mingling *Mudarabah* basis, by the Bank in its general business activities.

Periodic Payments by the Trustee

Unless a Non-Payment Event occurs or a Non-Payment Election has been made, prior to each Periodic Distribution Date, the *Mudarib* shall distribute the profit generated by the *Mudarabah* to both the Trustee and the *Mudarib* in accordance with an agreed profit sharing ratio; 99% to the Trustee (as *Rabb al-Mal*) and 1% to the *Mudarib*. The Trustee shall apply its share of the profit (if any) generated by the *Mudarabah* on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificate holders on such date.

Payments of *Mudarabah* Profit (as defined in the *Mudarabah* Agreement) by the Bank (as *Mudarib*) are at the sole discretion of the Bank (as *Mudarib*) and may only be made in circumstances where a Non-Payment Event has not occurred. The *Mudarib* shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the *Mudarabah* Reserve or otherwise).

Under the terms of the *Mudarabah* Agreement, the *Mudarib* shall be expressly entitled to co-mingle the *Mudarabah* Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities.

Dissolution Payments, Redemption and Variation by the Trustee and the *Mudarib*

The *Mudarabah* 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 set out in the *Mudarabah* Agreement, the Bank (as *Mudarib*) may (acting in its sole and absolute discretion) elect to liquidate the *Mudarabah* in whole, but not in part, on the basis of a final constructive liquidation of the *Mudarabah* in the following circumstances:

- (i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 35 nor more than 65 days' prior notice to the Trustee; or
- (ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 35 nor more than 65 days' prior notice to the Trustee:

- (a) if a Tax Event occurs; or
- (b) if a Capital Event occurs and is continuing. The Bank (as *Mudarib*) and the Trustee undertake in the *Mudarabah* Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or the occurrence and continuation of a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

Principal Transaction Documents

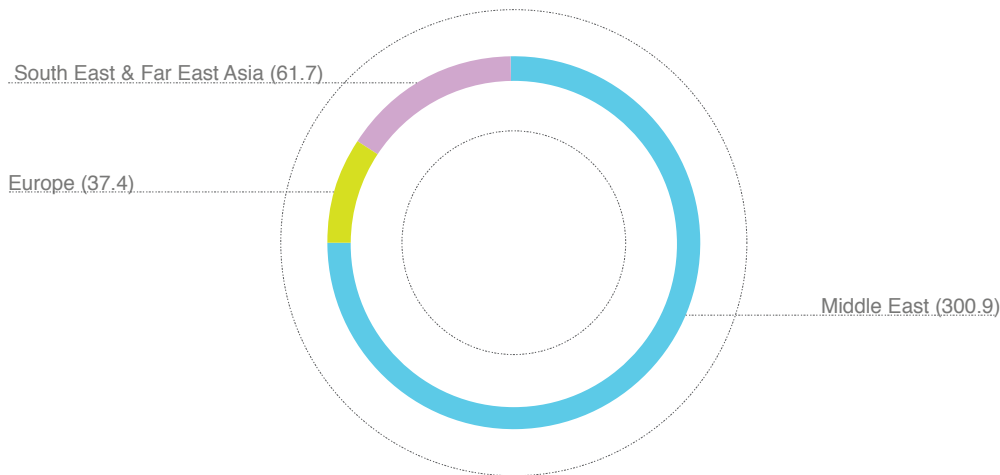
The principal transaction documents are the:

- Declaration of Trust
- Agency Agreement
- *Mudarabah* Agreement

ABG *Sukuk* Investors Geographic Distribution

While the ABG *Sukuk* was offered is tradable and has a continuously changing investors mix, the original geographic distribution of investors was as follows:

ABG *Sukuk* Investors Geographic Distribution as of 31/05/2017 (USD MN)



CONCLUSION

The ABG Additional Tier 1 Perpetual *Sukuk* issue was well received in the GCC, Asian and European markets, and was five times oversubscribed, receiving subscriptions of USD 1.6 billion against the initial requirement of USD 300 million. As a result of the high subscription, it was decided to raise the issue size from USD 300 million to USD 400 million.

Commenting on this transaction, Mr. Adnan Ahmed Yousif, Member of the Board of Directors and President & Chief Executive of ABG, said: “As part of our strategy to expand our capital base, to grow in our existing and new markets and to strengthen the business of our banking units, we successfully completed the first *Sukuk* issuance of Al Baraka Banking Group, which is the first ever Tier 1 *Sukuk* issuance from the Kingdom of Bahrain and the first of its kind in terms of size to be issued by a private sector institution from the Kingdom of Bahrain. This confirms the strong banking and finance reputation and the prestigious position of the Bahrain Financial Center as well as the confidence international markets have in it.”

He added: “All indicators confirm once again the prestigious position and outstanding reputation of Al Baraka Banking Group in regional and global financial markets as a result of its strong track record, its strong financial, technical and human resources, and its broad geographic network.”

SOURCES

- ABG *Sukuk* Limited Prospectus
<http://www.ise.ie/Market-Data-Announcements/Debt/Individual-Debt-Instrument-Data/Dept-Security-Documents/?progID=-1&ulID=9162&FIELDSORT=docId>
- ABG Press Release:
 - Al Baraka Banking Group *Sukuk* Issuance five times: Oversubscribed
 - Al Baraka Banking Group issues USD 400 million Islamic *Sukuk*
<http://www.albaraka.com/default.asp?action=article&id=630>

3.2 EMIRATES REIT (CEIC) LIMITED

USD 400 MILLION 5.125% FIXED RATE

TRUST CERTIFICATES DUE 2022

BY: *AHSAN ALI*, MANAGING DIRECTOR

HEAD OF ISLAMIC ORGANIZATION

STANDARD CHARTERED BANK, DUBAI

On 5th December 2017, Standard Chartered acting as Sole Global Coordinator and Joint Lead Manager successfully priced a USD 400 million 5 year Reg S senior unsecured fixed-rate *Sukuk* for Emirates REIT (CEIC) Limited (Emirates REIT or the Company). The transaction marks Emirates REIT's inaugural international *Sukuk* issuance

Instrument	Senior, unsecured fixed rate trust certificates due 2022
<i>Sukuk</i> Structure	<i>Sukuk Al-Wakalah</i> (based on tangible assets and Commodity <i>Murabahah</i>)
Obligor	Emirates REIT (CEIC) Limited
Obligor principal activities	Real Estate Investment Trust
Issuer	Emirates REIT <i>Sukuk</i> Limited
Issue size & pricing	USD 400 million / 5.125%
Pricing Date	5th December 2017
Sole Global Coordinator	Standard Chartered Bank
Sole Ratings Advisor	Standard Chartered Bank
Joint Lead Managers	Dubai Islamic Bank, Emirates NBD Capital, Warba Bank and Standard Chartered Bank
Legal counsel for Obligor	Clifford Chance LLP (English, DIFC & UAE Law)
Legal counsel for JLMs	Dentons & Co (English, DIFC & UAE Law)
<i>Shari'ah</i> advisor	<i>Shari'ah</i> Supervisory Board of the Obligor, the <i>Shari'ah</i> Supervisory Committee of Standard Chartered Bank and the <i>Shari'ah</i> Board advisers to Dubai Islamic Bank PJSC
Purpose of issue	General Corporate Purposes
Issue Rating	BB+ by Fitch (Stable outlook)
Obligor Rating	BB+ by Fitch (Stable outlook)
Listing	Irish Stock Exchange

HIGHLIGHTS

This landmark transaction marked Emirates REIT's debut issuance in the International *Sukuk* capital markets along with a number of noteworthy successes including:

- The first REIT from the region to access the international *Sukuk* market.
- The tightest spread achieved by a debut real estate issuer from Dubai.
- The first REIT from the region to obtain a credit rating.

OBJECTIVES

Emirates REIT had a number of financing objectives which were achieved via the transaction, including:

- replacement of their existing amortizing secured loans with longer dated fixed-rate bullet funding, allowing it to improve its liquidity (cashflows) and extend its liabilities to better match its asset profile,
- accessing the debt capital markets for the first time and achieving the targeted size and efficient pricing and
- capturing the largest investor base possible and diversifying its funding sources by focusing on European, Asian and Middle Eastern accounts.

OUR PARTNERSHIP: AN UNWAVERING COMMITMENT TO CLIENTS IN EVERY MARKET

Emirates REIT, rated BB+ Stable by Fitch, is the world's largest listed *Shari'ah*-compliant Real Estate Investment Trust, and was incorporated on October 2010 in Dubai International Financial Centre. Emirates REIT's shares are listed on NASDAQ Dubai and it is 38% owned by government related entities (market cap as of December 7, 2017: USD 290 million). The REIT owns and operates a portfolio of high quality real estate assets in Dubai.

The successful closure of this transaction exemplifies our ability to take a debut issuer through the entire debt capital markets journey successfully.

OUR SOLUTION: CREATIVITY AND TEAMWORK

Deal Structure

The client was advised to opt for an "asset-light" *Wakalah Sukuk* structure to allow the company to use its asset base more efficiently for future funding (including *Sukuk* issuances).

The *Wakalah* structure used incorporates a Commodity *Murabahah* component thereby reducing the reliance on tangible assets to a minimum of 55% and the remaining 45% to be structured as a Commodity *Murabahah* which does not require physical assets:

- On the issue date, the *Sukuk* proceeds were used by the trustee to purchase:
 - a portfolio of real estate-related assets for a purchase price of 55% of the issue amount. and
 - certain commodities with a cost price of 45% of the issue amount (to be on-sold to Emirates REIT in consideration for a deferred sale price).
- The trustee subsequently appoints Emirates REIT as its agent to, inter alia:
 - carry out all major maintenance and structural repair, pay all proprietorship taxes and procure insurances in respect of the real-estate assets on behalf of the Trustee,
 - collect all portfolio revenues including the *Murabahah* profit instalments, and
 - ensure that the tangibility ratio remains, at all times, 51% or more.
- At maturity or on a dissolution date Emirates REIT shall, pursuant to a Purchase Undertaking or Sale Undertaking, purchase all of the real-estate assets at an exercise price from the Trustee and pay the deferred sale price then outstanding to the Trustee, the aggregate of

the exercise price and the deferred sale price then outstanding being sufficient to redeem the *Sukuk*.

OUR RESPONSE

Ahead of the *Sukuk* issuance, and given the debut nature of the transaction, it was important to undertake an extensive marketing process and provide investors with sufficient time to complete their credit assessment.

Standard Chartered (as Sole Global Coordinator) and the JLM group worked with the company to announce a global roadshow where more than 70 investors met with senior management in Dubai, Hong Kong, Singapore and London over a period of four days. The feedback received from investors during the roadshow was positive, highlighting the strong credit fundamentals of the Company. Additionally, Standard Chartered worked with an international rating agency, Fitch, to ensure Emirates REIT USD 400 million *Sukuk* issuance is rated to attract the widest possible investor group. The company and the issuance were both rated as BB+ by Fitch.

SUMMARY

The robust and diverse investor interest received in the orderbook, enabled Emirates REIT to price its *Sukuk* 12.5bps tighter than their initial pricing thoughts and saw an oversubscription of 2.1x from 90 accounts.

With this issuance Emirates REIT was successful in achieving all of its intended objectives of diversifying its funding sources and investor base by attracting new investors to its credit, aligning their assets and liabilities profile and achieving tight and efficient pricing.

Outcome and Market Impact

The road show ended on Friday 1 December, and following the weekend, a full day on Monday 4 December was used to collect c. USD 350mn of IOIs from international and regional accounts.

On Tuesday 5 December, at Dubai open, Emirates REIT released initial price thoughts of “low-to-mid 5%” and by London morning, the orderbook was fully covered with quality Asian names in the book (anchored by GCC accounts). London accounts added to the momentum and by noon time, final guidance of 5.25% (+/- 12.5bps) was released to the market.

Finally, on the back of a robust orderbook with high quality international accounts, the Company successfully tightened the transaction by 12.5 bps to 5.125%. The orderbook closed at USD 850mn, representing 2.1x oversubscription from 90 accounts. The offering also saw significant participation by several key international banks and asset managers who took the majority of the deal with 48% and 35% of the issue size respectively.

3.3 GOLD DENOMINATED *IJARAH SUKUK* (GDIS)

BY: MEHMET EMRE ELMADAG, ACTING GENERAL DIRECTOR

EMRE KOKER, CFA, HEAD OF DEPARTMENT

& SELIM PIDECI, TREASURY EXPERT

UNDERSECRETARIAT OF TREASURY / REPUBLIC OF TURKEY

INTRODUCTION

Physical gold has an important place in the daily life of Turkish society. It is not only used as an investment vehicle but also as jewellery and gifts given by people to each other at weddings and other religious affairs. Turks prefer to store their gold in their homes or in safe deposit boxes at banks. According to a working paper released in 2012 by the Central Bank of Turkey, Turkey's total under-the-pillow gold stock is around 2200 tons. The figure was calculated by taking into account production of gold and import/export figures during 1984-2012.

Due to the high demand for physical gold, there is a public institution called Turkish State Mint that prints gold coins on behalf of the Government. Moreover, there are also private refineries that print their own gold coins and bullion in Turkey.

One of the main problems of investing in physical gold is that the investors in Turkey are storing their gold outside of the financial system, which creates "under the pillow gold" (gold stored in individuals' homes) in the country. In this respect one of the main objectives of issuing "gold denominated *Ijarah Sukuk* (GDIS)" is to bring the idle gold into the financial system.

BACKGROUND

After the amendment of The Law on Regulating Public Finance and Debt Management in 2012, The Turkish Treasury established a SPV called Hazine Mustesarligi Varlik Kiralama A.S. (HMKKS) in 2012 to be able to issue *Sukuk* both in local and international markets. HMKKS has issued *Ijarah Sukuk* regularly in local markets since then, according to a calendar that is announced at the beginning of the year.

In the local market, maturities of the fixed lease rate *Ijarah Sukuk* were 2 years between 2012-2015. However, since 2016 besides the 2 year *Ijarah Sukuk*, HMKKS has started to issue a 5 year *Ijarah Sukuk* to create a yield curve.

Moreover, the HMKKS has started to issue CPI indexed *Ijarah Sukuk* since 2016 in the local market to help balance sheet management of corporate investors. Also, in line with our efforts to diversify the investor base and bring the gold stored in individuals' homes into the economy, in October 2017 the HMKKS issued "gold denominated *Ijarah Sukuk* (GDIS)" in local markets to retail investors.

MAIN FEATURES OF GDIS ISSUED IN 2017

The GDIS is an “*Ijarah*” type *Sukuk* similar to the *Sukuk* issued both in local and international markets by HMKKS since 2012. In this respect, in fact, gold is a means of payment; it is just another currency in this *Ijarah* type *Sukuk*. By issuance of GDIS, HMKKS borrows physical gold from investors to buy an asset and lease it back to earn rent income. The rent income is indexed to international gold prices.

The Association of Turkish Participation Banks has announced that gold denominated *Ijarah Sukuk* has an acceptable *Sukuk* structure for investors. The maturity of the GDIS is 728 days (2 years) and investors will receive semi-annual 1.20% TRY denominated lease payments (annual 2.40%) indexed to international gold prices. At the date of the maturity, the principal amount will be transferred to investors’ deposit accounts at the intermediary bank in grams of gold. However, upon request of the investor, the principal amount can be paid physically as 995/1000 purity gold bars of 1 kg produced by refineries which have LBMA certificates or as the Republic Gold Quarter Coins printed by the Turkish State Mint.

TRANSACTION SUMMARY

Structure of <i>Sukuk</i>	<i>Ijarah Sukuk</i>
Maturity	2 years
Lease Payment Period	6 months
Lease Rate (Periodic)	1.2%
Annual Lease Rate	2.4%
Lease Payment	In local currency (TR), indexed to international gold price
Payment at the Maturity	In terms of physical gold or bank accounts as in gram of gold.

In this respect, the GDIS is a “hybrid instrument”. Investors can invest in this instrument by bringing their physical gold, and have the option to have their physical gold returned at the end of maturity. In this structure, gold is a means of payment so that it is a “gold denominated instrument”.

On the other hand, lease payments are indexed to the international gold prices, but paid in local currency. In terms of lease payments, it is a “gold indexed instrument”.

So that the GDIS is a combination of “gold denominated instrument” and “gold indexed instrument”. By this hybrid structure, the Government can preserve its gold reserves because of the local currency payment of lease payments.

The TRY denominated lease payments are calculated by using the London Bullion Market USD/ounce gold AM fixing price on the business day before the payment date. The fixing price is converted

into local currency by the benchmark USD/TRY rate announced by the Central Bank of Turkey on the business day before the payment date.

ISSUANCE TECHNIQUE

The GDIS is issued to retail investors, both residents and nonresidents, via the “demand collection method” in four separate weekly rounds across Turkey through Ziraat Bank, a public commercial bank which has one of the largest branch networks in Turkey.

Four separate rounds were held during October 2017 across Turkey. The information regarding the provinces, the bank branches and the demand collection period for each branch was announced by the Treasury and the Bank.

During the demand collection periods, investors deliver their physical gold to the experts at the intermediary Bank branches. Only 22K and 24K gold is accepted. 22K gold jewellery such as bracelets, necklaces are accepted only if they meet the required conditions. Refinery experts analyze the purity of the physical gold at the Bank branches and have a right to refuse the gold unless it has the predetermined features. Physical gold is accepted at the rate of its purity without any discount. At this stage, investors do not bear any loss. On the contrary, by bringing their physical gold to invest to GDIS, they get rid of any storage cost of their physical gold and moreover, by investing to GDIS they receive semi-annual lease payments.

1000 units of GDIS are transferred to the investors’ account at the intermediary Bank in exchange for 1 gram of 1000/1000 pure gold. Collected physical gold is converted into standard gold bars by refineries and transferred to the Treasury’s gold account in the Central Bank of Turkey.

Taxation Regime, Secondary Market Operations and Issuance Statistics:

In order to make GDIS attractive for investors a tax advantage is introduced. The withholding tax rate is 10% for the TRY denominated *Sukuk* issued in the local market for retail investors. However, the Council of Ministers decided the withholding tax rate to be 0% for the GDIS.

There is no restriction for secondary market operations, the investors can sell or transfer GDIS to another retail investor before maturity. Moreover, investors can sell the GDIS to the intermediary bank at any time and they can receive TRY denominated payment, but they cannot receive physical gold before the maturity. If investors prefer to sell the GDIS to the Bank, the Bank takes into account the current international gold prices for the payment. This is a similar operation for those who want to sell their physical gold to jewelers and receive TRY to cover their daily expenses.

In October 2017, the issuance of GDIS was completed through 344 branches of Ziraat Bank in 81 provinces all over the country. Approximately 6,750 investors invested 1.3 tonnes of gold in this new instrument. Approximately half of the total demand comes from Istanbul, Ankara, Izmir and Antalya provinces. 46% of the investors are between the ages of 25 and 44. The number of female investors (54%) is higher than male investors. In terms of level of education, 29% of the investors are high school graduates and 21% of the investors are university graduates.

CONCLUSION

The gold denominated *Ijarah Sukuk* (GDIS) is an “*Ijarah*” type *Sukuk* similar to the *Sukuk* issued by the Treasury since 2012, both in local currency and US Dollars. In this respect, gold is a means of payment; it is just another currency in this *Ijarah* type *Sukuk*.

By this new instrument, the investors receive lease income for their idle gold stock. Moreover, they have the option to receive physical gold at the end of the maturity.

On the other hand, issuing GDIS Treasury broadens the investor base and raises the gold reserves held by the Central Bank. GDIS has multiple benefits for both investors and the Government, therefore the Treasury plans to issue GDIS in the coming period.

3.4 GOVERNMENT OF PAKISTAN *IJARAH SUKUK*

BY: *SHAIKH MUHAMMAD ASIF*, VICE PRESIDENT

ISLAMIC FINANCIAL ADVISORY SERVICES

SHARI'AH AUDIT & ADVISORY, MEEZAN BANK LIMITED

BASIC INFORMATION:

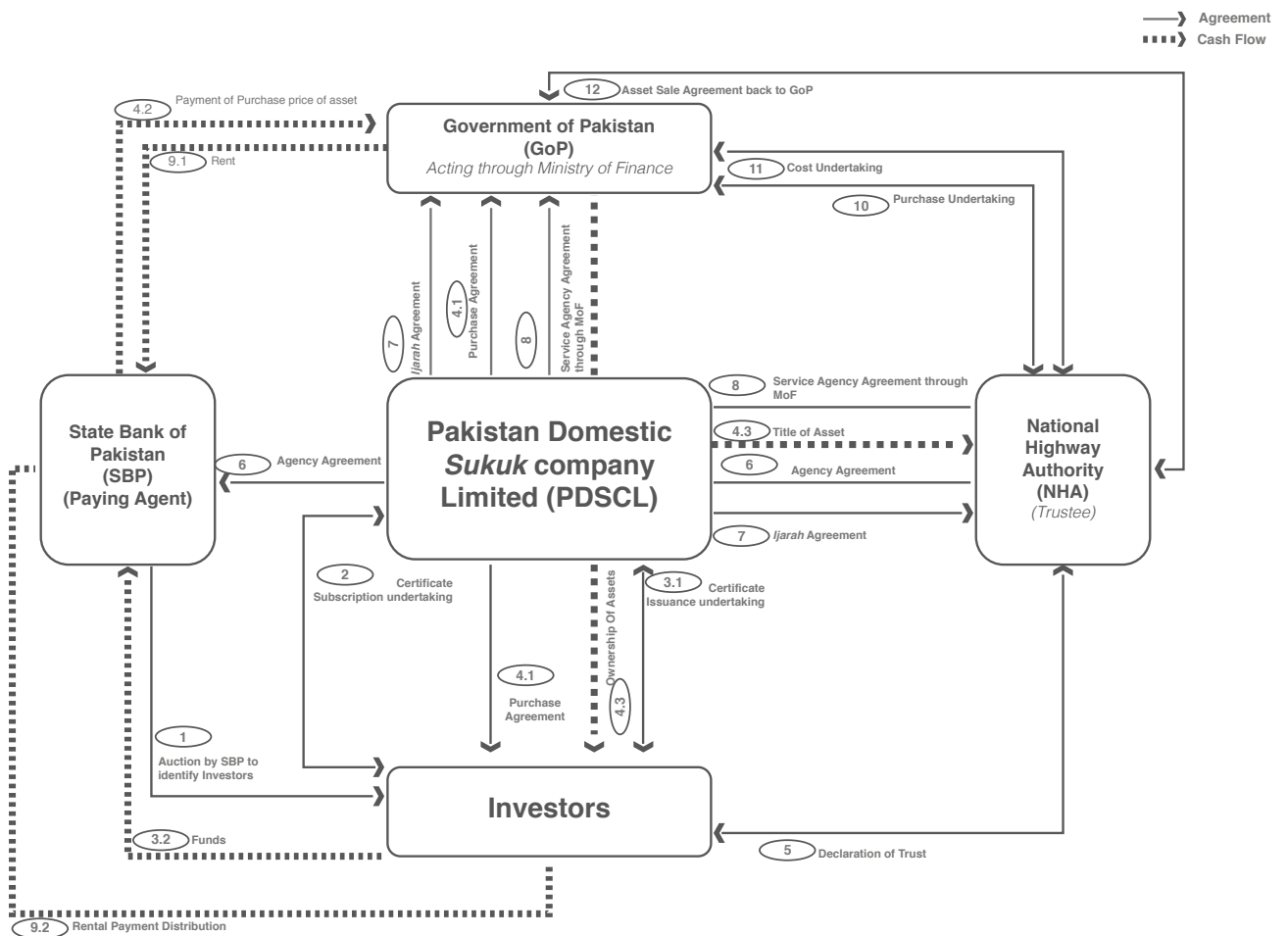
Issuer	Pakistan Domestic <i>Sukuk</i> Company Limited (PDSCL)
Nature of Instrument	Sovereign <i>Sukuk</i> – Medium term <i>Sukuk</i> (the <i>Sukuk</i>)
Structure Type	<i>Ijarah</i>
Issue Size	PKR 71,007 million
Tenor	3 Years
Purpose	The issue aimed to meet the rising fiscal deficit and facilitate the Islamic Banking industry, which has an excess liquidity in the system.
Issue Date	June 29, 2017
Maturity Date	June 29, 2020
Rental Rate	Fixed rental rate of 5.24%
Profit /Return Frequency	Profit will be payable on semi-annual basis
Redemption	<i>Sukuk</i> will be redeemed in lump sum at the expiry of Tenor
Listing	Not listed over the counter
<i>Ijarah</i> Asset	The highway land together with all constructions and improvements thereon on the M1 Motorway i.e. a 155 km long highway connecting Peshawar to Islamabad–Rawalpindi
Trustee	National Highway Authority (NHL)
Governing Laws	Laws of Islamic Republic of Pakistan
Investment Agent	Pakistan Domestic <i>Sukuk</i> Company Limited (PDSCL)
Paying Agent	SBP's Banking Service Corporation (BSC)

BACKGROUND

One of the major challenges that Pakistan’s Islamic banking industry is facing is the excess liquidity on the back of its growing deposit base, which constitutes around 14% of total banking deposits in the country. Whereas, if we look at Government borrowing from conventional means and Islamic avenues, then the ratio is 95.5% and 4.5% respectively. If we further focus our lens on Islamic banking deposits versus GoP *Sukuk*, then in 2011, the outstanding *Sukuk* were around 56% of Islamic banking deposits. In 2017, this percentage substantially dropped to around 22% of Islamic banking deposits, creating a widening gap which is alarming, as it may affect the overall growth trajectory of Islamic banking in the country.

The Government of Pakistan entered the domestic *Sukuk* market, with the issuance of PKR 6.5 Billion, in 2006, a year after it issued its first international sovereign *Sukuk* of USD 600 million. With 3 international and 19 local issues, the GoP has issued 22 Sovereign *Sukuk* in total till date. Out of 19 domestic issues, 16 issues carried a variable rental rate, whereas the last 3 domestic issues carried a fixed rental rate. The following *Sukuk* is the latest issue in the series of fixed rental rate *Sukuk*.

Structure Diagram



THE STRUCTURE - EXPLANATION

1. State Bank of Pakistan (SBP) will conduct an auction through which *Sukuk* Investors (Investors) will be identified.
2. The Investors will execute the Certificate Subscription Undertaking to record the commitments of the Investors to subscribe to the *Sukuk* to be issued by PDSCL. Under the Certificate Subscription Undertaking, the Investors may appoint PDSCL as the Investment Agent of FIs (Financial Institutions). Under the Certificate Issuance Undertaking, The Investment Agent will also give its acceptance to appointment as Agent of Investors.
3. A Certificate Issuance Undertaking will be executed by PDSCL in favor of the Investors, whereby PDSCL will undertake to issue the *Sukuk* to the Investors. Subsequent to the auction for the *Sukuk*, the Investors will provide their funds to SBP BSC (Paying Agent) enabling it to pay (on behalf of the Investors/ Investment Agent) the purchase price of the Assets to GoP upon execution of Purchase Agreement. Each *Sukuk* to be issued will represent an undivided share in the ownership of the identified/ purchased portion of Assets.
4. The PDSCL, acting on behalf of the Investors will enter into a Purchase Agreement with GoP (acting through MoF) for purchase of undivided ownership (expressed in terms of percentage) in the M1 motorway (the Assets) at an agreed price (Purchase Price) equivalent to the *Sukuk* issue amount (being the amount agreed under the *Sukuk* Subscription Undertaking).
5. Pursuant to the Purchase Agreement, ownership of the Assets will be transferred to Investors while the registered title will remain with NHA. NHA will execute a Declaration of Trust in favor of the Investors to the effect that the NHA is holding the registered title in trust for the Investors. Once the ownership of the Assets is transferred to the Investors, a document (Schedule 3 of Purchase Agreement) signed by PDSCL (as Investment Agent and Purchaser) and GoP acting through Ministry of Finance (as Seller) should be executed to prove that the possession of the Assets is handed over to PDSCL as Agent for and on behalf of the Investors which will legally confirm that all the risks and rewards of the Assets have passed on to the Investors.
6. Under the Declaration of Trust, NHA will delegate its duties and powers under the trust to PDSCL, with the exception of holding the registered title to the Trust Assets. SBP-BSC may also be made delegate for the specified purposes.
7. NHA acting as the Trustee (through its Agent or Delegate Trustee i.e. PDSCL), and SBP's Banking Services Corporation (SBP BSC) will execute an Agency Agreement whereby the Trustee will appoint SBP BSC as its Agent (Paying Agent) to collect proceeds from the Investors, collect the rentals from GoP and distribute the same to the Investors, and act as Reference Agent and Registrar for the Investors.
8. Following the purchase of an undivided share in the Assets and obtaining possession through the above mechanism, the Trustee (acting through PDSCL as its Delegate) will enter into an *Ijarah* Agreement with GoP (as Lessee acting through MoF) wherein these Assets will be leased to GoP for a fixed period (3 years), against Lease Rental Payment in accordance with the terms and conditions as specified in the *Ijarah* Agreement. Under the terms and conditions of the *Ijarah* Agreement, GoP will be allowed to nominate any of its affiliates e.g. NHA to use, operate and maintain the proportionate share of *Sukuk* holders in this identified/specified Assets as its nominee.
9. The Lease Rentals for each Rental Period

will comprise an amount equal to the product of

- i. the Rental Rate (as to be decided in the auction of *Sukuk* issue and applicable for the entire lease term)
- ii. the number of days in said rental period divided by 365, and
- iii. the face value of the *Sukuk* issue.
- iv. except for the first rental period, Supplementary Rental for each subsequent period being an amount equivalent to the expenses incurred by the Service Agent in respect of maintenance, repair and insurance / *Takaful* of the *Sukuk* Assets equal to the amount payable by the Trustee (as Lessor) under the Service Agency Agreement (as notified to Trustee by the Service Agent) in respect of the most recently completed rental period.

All routine maintenance is to be done by the Lessee whereas all major maintenance will be the responsibility of the Lessor. For each rental period except for the last period before maturity, major maintenance expenses will be adjusted in the supplemental rent for the succeeding period. In the last rental period before maturity the Lessor will incur all major maintenance expenses. The Service Agent would be required to submit details of all expenses incurred to the Trustee/Delegate two business days before the issuance of the Rental Notices for the next rental period. All expenses will require the approval of the Trustee/Delegate. In the last period before maturity of the *Sukuk*, details of all expenses will be required to be submitted fourteen business days before the maturity date.

The Lease Agreements provide that they shall automatically terminate if a Total Loss Event occurs and the Lessor will be entitled to any insurance/*Takaful* proceeds payable as a result of the Total Loss Event.

10. A Service Agency Agreement will be executed between Trustee and GoP (acting through MoF) whereby GoP will be appointed

as Service Agent to undertake Services relating to the leased assets during the term of the lease in consideration for a nominal fee.

11. GoP (acting through MoF) will provide a Purchase Undertaking in favor of the Trustee to purchase the Assets at the Exercise Price at maturity or upon an Event of Default. The Exercise Price shall be an amount equal to the initial Purchase Price for the Assets plus any other amount due and payable by the GoP, the Exercise Price will not include any accrued and unpaid rentals. The GoP will also be liable to pay all amounts as per the *Ijarah* Agreement at maturity or upon the event of a default. Upon exercise of the Purchase Undertaking at maturity or upon Event of Default and Termination, a Sale and Purchase Agreement shall be executed between the Trustee and GoP (acting through MoF) to evidence the purchase of Assets by GoP. The Purchase Undertaking will also specify all the events under which it will be exercised including a Total Loss Event, the time when a late payment of rental or a GoP default in the performance of any other covenant or obligation in the Purchase Undertaking or Declaration of Trust will be deemed an Event of Default, and all cross default provisions.

12. GoP (acting through MoF) will execute a Cost Undertaking with the Trustee to pay all applicable fees and expenses and provide indemnities associated with the *Sukuk* issuance.

13. The Islamic Banking Department of State Bank of Pakistan shall be responsible for monitoring of: (i) proper execution and (ii) the legal documentation as per the approved *Shari'ah* Structure, to ensure *Shari'ah* Compliance and seamless management throughout the tenor of the *Sukuk* and at the time of maturity of the *Sukuk*.

Trading Opportunities in the Secondary Market:

The *Sukuk* was not listed over the counter. So, limited trading may be witnessed in the secondary market.

Principal Transaction Documents:

The principal transaction documents include the following:

- i. Certificate Subscription Undertaking (by Investors)
- ii. Certificate Issuance Undertaking (by PDSCL)
- iii. Purchase Agreement (between PDSCL and GoP, acting through MoF)
- iv. Declaration of Trust (between NHA, PDSCL and SBP BSC)
- v. Agency Agreement (between NHA, GoP and SBP BSC)
- vi. *Ijarah* Agreement (between PDSCL, as NHA delegate, and GoP)
- vii. Service Agency Agreement (between PDSCL, as NHA delegate, and GoP)
- viii. Purchase Undertaking (by Government of Pakistan)
- ix. Cost Undertaking (by Government of Pakistan)
- x. Sale and Purchase Agreement (between Trustee and GoP, acting through MoF, at Termination)

CONCLUSION

Pakistan's infrastructure needs, for development projects covering China Pakistan Economic Corridor and other projects, can be achieved with the issuance of *Sukuk*. The Government of Pakistan has dominated the total volume of *Sukuk* issued in the country. In order to ensure the sustainable growth of Islamic banking and finance in the country, sovereign *Sukuk* need to be issued on a more frequent basis.

In this regard, besides, regular structures for medium term *Sukuk* other innovative structures may be explored besides exploring the option for introducing *Shari'ah* compliant alternatives for T-Bills using Pakistan Mercantile Exchange Commodity Trading Platform, which would provide necessary depth and breadth to Pakistan's Islamic finance industry.

3.5 IILM *SUKUK*

BY: CAPITAL MARKET DESK, KUWAIT FINANCE HOUSE

BACKGROUND

Since the year 2000, we have witnessed continuous growth in the global *Sukuk* market. Due to its untapped potential, the *Sukuk* market became an attractive one for sovereigns, financial institutions, and corporates. Interest in both domestic and international *Sukuk* increased dramatically. The number of *Sukuk* issuances increased from around 50 in the year 2000 to around 700 issuances by 2015. The total outstanding *Sukuk* in 2015 reached more than 300 billion USD. As a result, liquidity increased.

With the rapid growth of *Sukuk*, and the Islamic finance industry in general, the need for a better functioning Islamic money market became evident. Islamic money markets were underdeveloped and lacked liquid, short-term products to manage liquidity. In October 2010, The International Islamic Liquidity Management Corporation (IILM) was established. IILM was founded with a mandate to address the liquidity management concerns facing Islamic Financial Institutions (IFIs). IILM's current shareholders comprise of nine central banks (Indonesia, Kuwait, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Turkey, and the UAE) and one multilateral institution, the Islamic Corporation for the development of the Private Sector (Islamic Development Bank Group).

Prior to the establishment of the IILM, Islamic money market instruments were limited to central bank products and interbank deposits. Central bank products are issued in local currency only. As for interbank deposits, they are not tradable and expose banks to the risk of the counterparty.

The IILM fills the gap by introducing short-term *Sukuk* (IILM *Sukuk*). IILM *Sukuk* are USD short-term instruments with maturities of up to one year. They are sovereign-backed; therefore assigned a credit rating of A-1 by Standard & Poor's (S&P). Primary Dealers for the IILM *Sukuk* are nominated from different jurisdictions which ensures a liquid, well-supported, cross-border market.

IILM *SUKUK* STRUCTURE

IILM *Sukuk* is classified as *Sukuk Al Wakalah*, whereby the IILM Issuer (a special purpose vehicle SPV) acts as an agent, or *Wakil*, on behalf of the investors. The proceeds raised by the Issuer are invested with IILM Holding, another SPV. IILM Holding acquires and holds *Shari'ah* compliant, income-generating Assets (*Sukuk*). Obligors of the *Sukuk* are sovereign, sovereign-linked entities, or supranational institutions. Cashflows from the underlying *Sukuk* are then transferred from IILM Holding to IILM Issuer in order to repay the investors.

The underlying Asset Pool must maintain a ratio of at least 51% tangible/non-financial assets at all times. Underlying Assets are medium to long-term *Sukuk* with a minimum rating of A by S&P (or its equivalent). Furthermore, no *Sukuk* will be included in the Asset Pool unless it receives approval from the IILM *Shari'ah* Committee.

The *Shari'ah* compliance of the IILM *Sukuk* structure is essential in IILM's goal of creating a more efficient Islamic money market. A wide *Shari'ah* acceptance encourages IFIs to invest in IILM *Sukuk* and helps establish a liquid, cross-border, Islamic money market.

IILM *SUKUK* INVESTORS

IILM *Sukuk* investors are predominantly banks, both Islamic and conventional. That is mainly because IILM *Sukuk* qualifies as a high-quality liquid asset, therefore, receives preferential treatment under Basel III guidelines. It is also profitable for banks as long as the profit rate of the IILM *Sukuk* is higher than the cost of funding. Other than banks, a few Asset managers invest in IILM as an alternative to holding cash.

Geographically, IILM *Sukuk* investors are concentrated in Islamic finance nations. FI's in the GCC, Turkey, and Asia are all investors in the IILM *Sukuk*. Investor distribution differs in

every issuance. There has also been interest in different regions such as Europe and the UK recently.

The IILM *Sukuk* is issued through an auction process, similar to central bank issuances. The profit rate is determined by feedback from the Primary Dealers. Primary Dealers participate in the auction and distribute the IILM *Sukuk* to FIs. They are also required to maintain a presence in the secondary market and provide support for the IILM *Sukuk*.

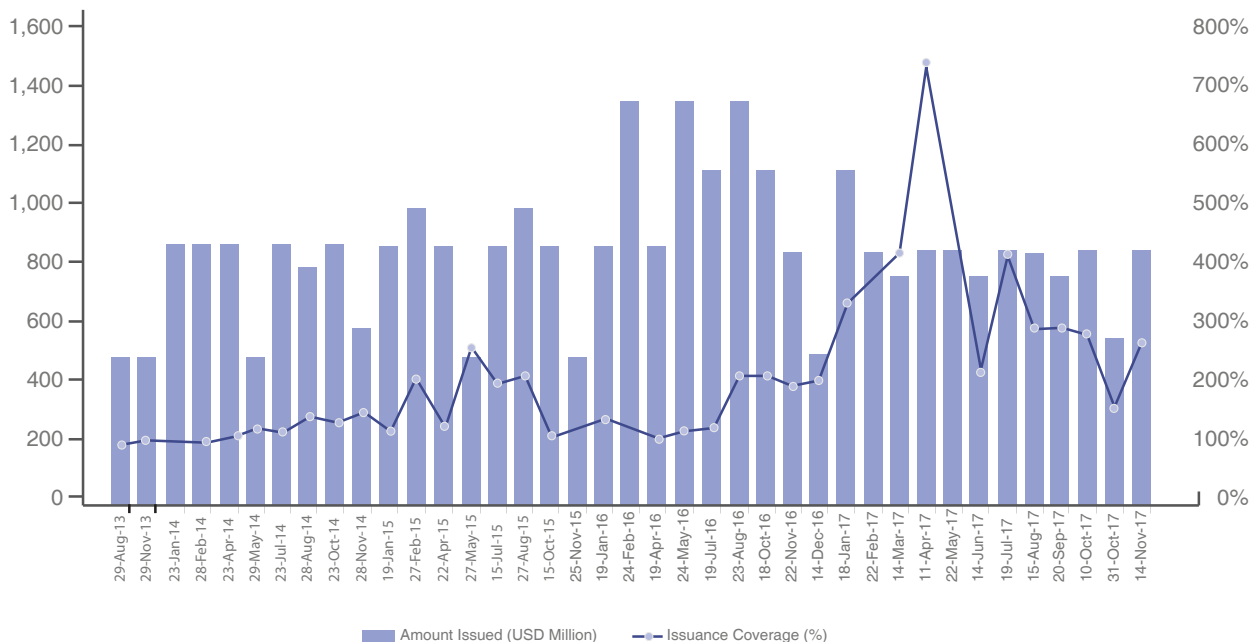
IILM *Sukuk* are different than medium or long-term *Sukuk* in that they are priced according to yield, rather than market price. That is similar to money market products. The bid represents the yield at which one is willing to purchase the IILM *Sukuk*. The offer is the yield at which one is willing to sell the securities.

The first IILM *Sukuk* was issued in August 2013 with a maturity of three months. It was the first short-term *Sukuk* issued in USD. By the end of 2017, IILM were successful in issuing 46 IILM *Sukuk* with maturities of two, three, four, and six months. 38 out of the 46 Issuances were three month *Sukuk*.

Subscription levels for the IILM *Sukuk* Issuances increased notably during that period. The demand for the first IILM *Sukuk* issuance was 103% of the USD 490 million issued. In April 2017, the subscription level peaked with demand reaching more than seven times the amount issued (USD 850 million issuance).

A chart of the IILM *Sukuk* issuances and subscription levels is shown on the next page.

IILM Issuances and Coverage



CONCLUSION

IILM has succeeded in creating a liquid market for short term, high quality *Sukuk*. IILM's success is very significant for the future of Islamic money markets and capital markets. As the Islamic finance industry continues its rapid growth, so does the potential for IILM *Sukuk*.

IILM has not yet issued *Sukuk* with a tenor above six months. By introducing *Sukuk* ranging from seven months up to one year, a short-term curve for Islamic products could be created. That would help establish a benchmark for pricing Islamic products instead of interest-based rates such as LIBOR.

The IILM *Sukuk* programme currently stands at USD 3 billion. That number would have to increase in order for the IILM *Sukuk* to obtain a larger share of the Islamic money markets' activity. A larger programme will also increase the liquidity of IILM *Sukuk*.

Currently, activity in the IILM *Sukuk* has been dominated by the banking sector. As familiarity with the IILM *Sukuk* increases, other players could become active. We could see private banks, pension funds, sovereign wealth funds, and insurance companies play a larger role in the IILM *Sukuk*.

3.6 MEETHAQ BANK (SULTANATE OF OMAN)

SUKUK AL MUSHARAKAH

BY: *TARIQ IMTIAZ KHAN, CFA*

HEAD OF CORPORATE FINANCE & ADVISORY

AT MEETHAQ ISLAMIC BANKING

THE ISLAMIC WINDOW OF BANK MUSCAT SAOG

BACKGROUND

Meethaq Islamic Banking, the Islamic window of Bank Muscat SAOG is the largest Islamic bank in Oman with total assets of OMR 1.2 billion (USD 3.0 billion) and a network of 19 branches. Within a short span of five years, Meethaq has emerged as the leading Islamic financial institution in the country and has played a key role in the development of Islamic banking in Oman which now makes up more than 10% of the total banking assets. Meethaq has been involved in several landmark Islamic financing and capital market transactions including the debut Sovereign *Sukuk* issuance by the Sultanate for which it also won the IFN *Sukuk* Deal of the Year award.

In June 2017, Meethaq issued its own domestic *Sukuk* under OMR 100 million (USD 260 million) Meethaq *Sukuk* Program. This is the first ever *Sukuk* issuance by an Islamic bank in Oman and the first *Sukuk* Program to be established under the *Sukuk* Regulations of the Capital Market Authority, Oman. The primary objective of the issue was to diversify funding sources of Meethaq and to manage ALM Gap requirements. Following are the key highlights of Meethaq *Sukuk*.

SUMMARY OF ISSUANCE

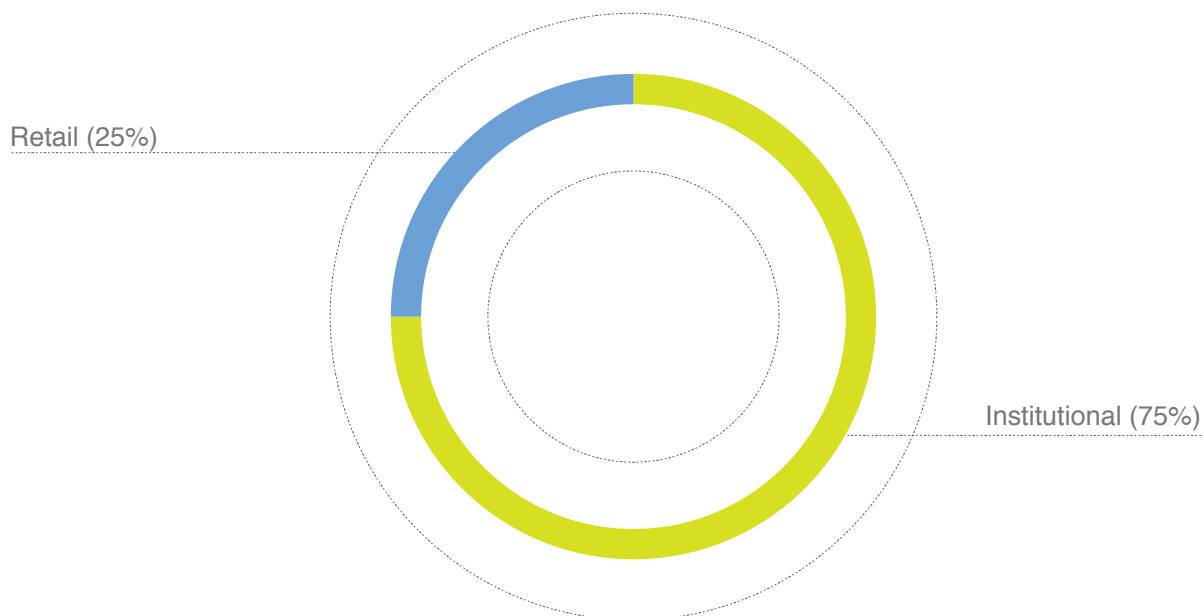
Issuer & Trustee	Meethaq <i>Sukuk</i> Company LLC
Obligor	Meethaq Islamic Banking, the Islamic window of Bank Muscat S.A.O.G.
Issue Size	OMR 45 million (USD 116 million)
Issue Date	13 June 2018
Maturity Date	13 June 2022 (5 years from the Issue Date)
Denomination / Face Value	OMR 1 / certificate
Expected Profit Rate	5.0% p.a. paid semi-annually
Structure	<i>Sukuk Al-Musharakah (Shirkat-ul-Milk)</i>
Listing	Bond and <i>Sukuk</i> Market of Muscat Securities Market, Oman

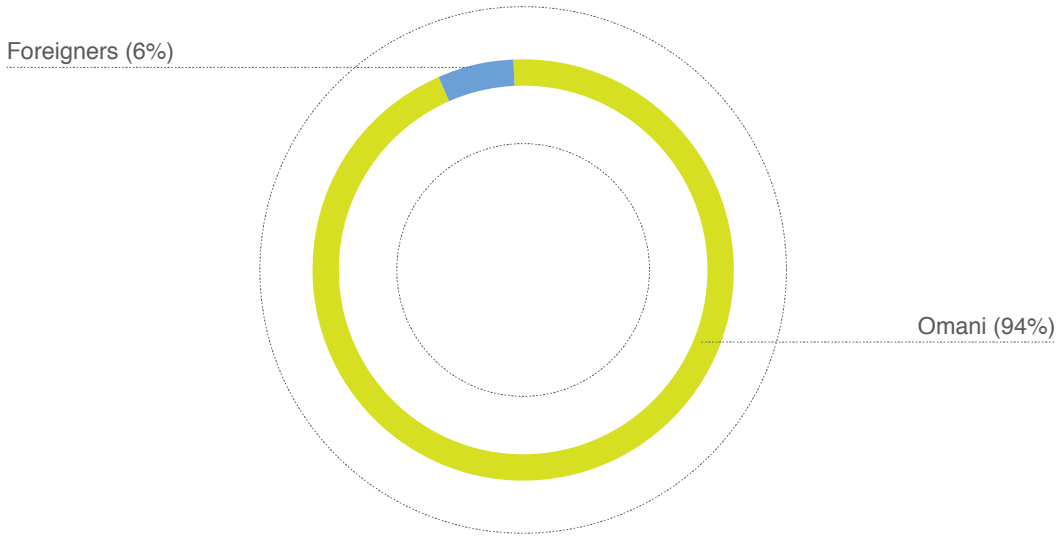
MEETHAQ SHIRKAT-UL-MILK BASED *SUKUK*

Meethaq successfully raised OMR 45 million (USD 115 million) in a challenging environment with constrained liquidity and rising cost of funds. Meethaq priced its five year *Sukuk* at a very competitive rate of 5% per annum despite stiff competition from other issuers. In order to cater to the needs of the general public for *Shari'ah* compliant investment opportunity, Meethaq decided to open the *Sukuk* issue to the retail segment, thus making it the first retail *Sukuk* issuance in the Sultanate. Meethaq also kept Greenshoe Option to accommodate additional demand mainly from institutional investors.

The issuance was upsized from the original size of OMR 25 million to OMR 45 million due to the significant demand from investors and the *Sukuk* was ultimately over-subscribed by two times. 75% of the issue was subscribed by institutional investors whereas 25% of demand came from retail investors. Given that it was a retail offering, a comprehensive marketing campaign was carried out across print, electronic and social media. Several roadshows and seminars were conducted across Oman to create awareness and educate the market about *Sukuk* investment opportunity. This marketing effort will go a long way in deepening Islamic capital markets and pave the way for future *Sukuk* issuances in Oman which offers significant potential for the growth of Islamic finance.

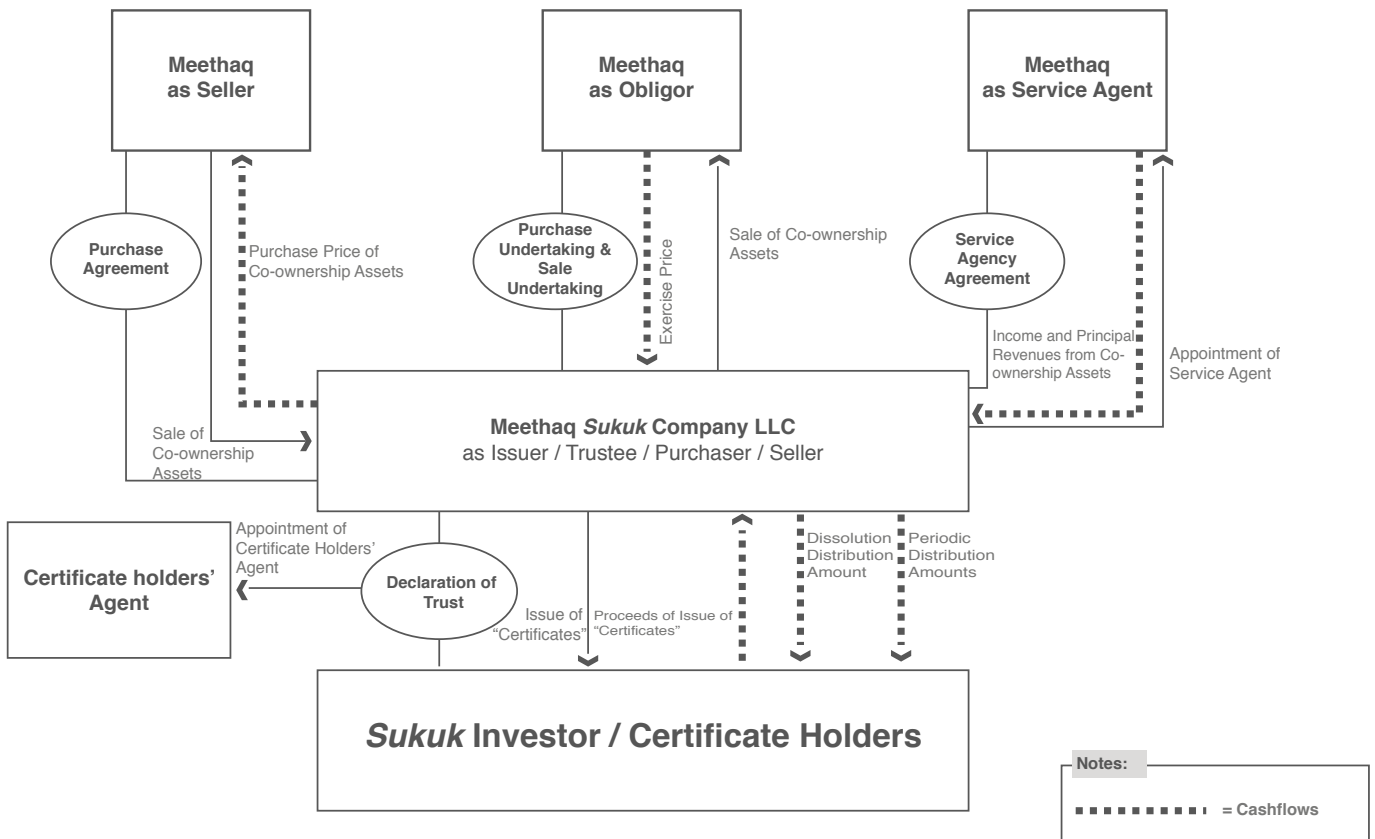
The success of this issue is further underscored by the fact that domestic banks in Oman, which represent the largest investor segment in any capital market issuance, are discouraged by the Central Bank from investing in instruments issued by other banks. Hence, the investor base for Meethaq *Sukuk* was mainly limited to the non-banking segment. Despite this challenge, Meethaq *Sukuk* received an overwhelming response from the investors. Through its rigorous marketing effort, Meethaq also brought a number of first time investors to the Oman Capital Markets who had never invested in any capital market issues before.





SUKUK STRUCTURE

To overcome the challenges of *Wakalah Sukuk*, Meethaq opted for an innovative *Sukuk* structure based on *Shirkat-ul-Milk* since Meethaq has a large asset book based on the same structure. Following is a visualisation of the structure:



1. The *Sukuk* was issued through a Special Purpose Vehicle (SPV) Meethaq *Sukuk* Company LLC, incorporated in Oman. The SPV acted as the Issuer and Trustee for the *Sukuk*.
2. Under a Purchase Agreement, Meethaq (acting as the Seller) agreed to sell to the SPV, a co-ownership interest in a portfolio of *Ijarah* and Diminishing *Musharakah* (DM) assets originated, co-owned and managed by Meethaq (the *Sukuk* assets). The composition of the *Sukuk* assets and the purchase price for such assets are mutually agreed between Meethaq and the SPV and recorded in the Purchase Agreement.
3. Under a Service Agency Agreement, the SPV appointed Meethaq as the Service Agent in relation to the *Sukuk* assets during the tenor of the *Sukuk*. Meethaq maintains separate collection accounts to receive SPV's share in the revenues received from the co-ownership assets.
4. The revenues that represent profit returns from the underlying assets are used to pay *Sukuk* profit. Revenues that represent principal payments relating to the underlying assets are used to purchase additional *Ijarah* and DM assets such that the total value of *Sukuk* Assets at all times is equal to the outstanding face value of the *Sukuk*.
5. If profit returns in any period on the underlying assets are more than the amount needed to pay the relevant periodic distribution, 90% of the excess will be paid to Meethaq as an incentive fee and 10% will be kept in a reserve account. If the profit returns in any period are insufficient to fund the expected profit payment of the *Sukuk*, after accounting for any amounts in the reserve account, Meethaq may provide *Shari'ah* compliant funding or interest free loan to the SPV to make up for the shortfall.
6. On the scheduled maturity date or following a Dissolution Event which is continuing, Meethaq will, (pursuant to the Purchase Undertaking) purchase the *Sukuk* Assets from the Issuer at the Exercise Price. The Exercise Price shall be used by the SPV to pay the redemption amounts to the *Sukuk* holders and outstanding *Sukuk* Certificates will be redeemed.

CONCLUSION

This is the first ever IFIs *Sukuk* and Retail *Sukuk* issuance in Oman which has paved the way for other issuers, specially Islamic IFIs to diversify their funding sources by tapping the capital market. Other Islamic banks and Islamic windows are expected to follow suit by raising funds through *Sukuk*. Several issuers are also exploring retail issuance which remains an untapped investor segment and can allow issuers to achieve competitive pricing.

The *Sukuk* issue was well distributed across several large institutional investors including pension funds, IFIs, corporates as well as high net worth individuals and retail investors which made this issue a big success.

3.7 QUANTUM SOLAR PARK (SEMENANJUNG) SDN BHD MALAYSIA MYR 1 BILLION GREEN SRI *SUKUK* ISSUANCE

BY: *TAHIR ALI SHEIKH*, DIRECTOR AND HEAD ISLAMIC ADVISORY

CLIENT COVERAGE – GROUP WHOLESALING BANKING

& *MOHAMED AYAZ MOHAMED ISMAIL*, DIRECTOR

REGIONAL DEBT CAPITAL MARKETS, CIMB INVESTMENT BANK

ABSTRACT

This case study aims to highlight solar power producer Quantum Solar Park Malaysia Sdn Bhd's MYR 1.0 billion Green Sustainable and Responsible Investment (Green SRI) *Sukuk* issuance in October 2017. It was issued via its wholly-owned Quantum Solar Park (Semenanjung) Sdn Bhd to fund the construction of the largest solar power project of its kind in Southeast Asia.

At the time of issuance, the *Sukuk* marked the world's largest Green SRI *Sukuk* for a large scale solar power project. In addition to being green, it qualified as an eligible SRI *Sukuk* under the Securities Commission Malaysia's SRI framework. The landmark issuance supports the Government of Malaysia's sustainability and renewable energy agenda.

TRANSACTION SUMMARY

Issuer	Quantum Solar Park (Semenanjung) Sdn Bhd (QSP Semenanjung)
Purpose	To finance the development of three 50 MWac solar power plants in Malaysia
Islamic Structure	<i>Murabahah</i> (via a <i>Tawarruq</i> arrangement)
Issue Ratings	AA- by Malaysian Rating Corporation Berhad (MARC)
Issue Size	MYR 1.0 billion
Issue Date	6 October 2017
Tenor	1.5 years – 17.5 years
Governing Law	Malaysian Law
Green Bond Framework Reviewer	Center for International Climate and Environmental Research, Oslo (CICERO)

INSTITUTION BACKGROUND

QSP Semenanjung is a special purpose vehicle that was established to undertake the development of three solar photovoltaic plants of 50 MWac each at Gurun in the Malaysian state of Kedah, Merchang in the state of Terengganu, and Jasin in the state of Melaka on a Build-Own-Operate (BOO) scheme through three project companies namely QSP Kedah, QSP Terengganu and QSP Melaka.

With a combined capacity of 150 MWac, QSP Semenanjung, when completed, will be the largest solar power producer in Malaysia. The total project cost of MYR 1.25 billion was funded on an 80:20 debt-to-equity financing basis. The projects are expected to be instrumental in helping Malaysia reach its ambition of 1 GWac from large scale solar projects by 2020 and contribute towards sustainable electricity supply and the reduction of carbon emission in Malaysia in line with Malaysia's National Renewable Energy Policy and National Green Technology Policy.

The Green SRI *Sukuk* proceeds are to be utilised to partly fund the project cost for each of the three projects.

Scatec Solar Solutions Malaysia Sdn Bhd, which is wholly-owned by Norway's Scatec Solar ASA, is the EPC contractor for the projects. Scatec Solar ASA is an integrated independent solar power producer that develops, builds, owns, operates and maintains solar power plants, and already has an installation track record of close to 600 MW. QSP Malaysia had signed three Power Purchase Agreements (PPAs) with Tenaga Nasional Berhad, the largest electricity utility company in Malaysia and a leading utility company in Asia.

GREEN CERTIFICATION

The Centre for International Climate and Environmental Research Oslo (CICERO) has provided a second opinion (Second Opinion) on the QSP Semenanjung's green bonds framework designed for the projects (Quantum Solar Park Green Bonds Framework) and policies for considering the environmental impacts of the Projects. The aim of CICERO's second opinion on the Quantum Solar Park Green Bonds framework is to assess the Quantum Solar Park Green Bonds Framework's ability to support the QSP Semenanjung's stated objective of promoting the transition to low-carbon and climate resilient growth.

Based on the overall assessment of each project type, the policies guiding the implementation of the Quantum Solar Park Green Bonds Framework and transparency considerations, the Quantum Solar Park Green Bonds Framework has received a 'Dark Green' shading by CICERO. CICERO allocates 'Dark Green' shading for projects and solutions that work to realise the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all the projects' activities.

SUKUK STRUCTURE

1. Prior to the issuance of the Green SRI *Sukuk*, the *Sukuk* Trustee, on behalf of the investors of the Green SRI *Sukuk* (*Sukuk* holders), enters into an agency agreement with QSP Semenanjung to appoint QSP Semenanjung as the agent of the *Sukuk* holders (Agent) to purchase and sell the Commodities. The Agent then enters into a “Sub-Agency Agreement” to appoint the *Sukuk* Trustee to act as the sub-agent (Sub-Agent) to purchase and sell the Commodities. QSP Semenanjung acting as the buyer (Buyer), also enters into a “Sale Agency Agreement” to appoint the *Sukuk* Trustee to act as its agent (Sale Agent) to sell the Commodities in the event QSP Semenanjung (acting as the Buyer) on-sells the Commodities to Bursa Malaysia Islamic Services Sdn Bhd or such other independent commodity platform once it has purchased the Commodities from the *Sukuk* holders via the Sub-Agent.

2. Pursuant to a commodities *Murabahah* master agreement (Commodities *Murabahah* Master Agreement), which is entered into between QSP Semenanjung (in such capacity, the Buyer), the Agent, the *Sukuk* Trustee (acting on behalf of the *Sukuk* holders) and the Sub-Agent, QSP Semenanjung (acting as the Buyer), issues a purchase order (Purchase Order) to the Agent and the Sub-Agent with an irrevocable undertaking to purchase the Commodities from the *Sukuk* holders via the Sub-Agent at the Deferred Sale Price (as defined below).

3. Based on the Purchase Order, the Sub-Agent via the Commodity Trading Participant (CTP) (pursuant to a CTP purchase agreement entered into between the Sub-Agent and the CTP (CTP Purchase Agreement) purchases the Commodities on a spot basis from commodity vendor(s) in the *Bursa Suq Al-Sila'* commodity market or such other independent commodity platform as may be determined by the *Shari'ah* Adviser (Commodity Supplier) at a purchase price equivalent to the Green SRI *Sukuk*

proceeds (Commodity Purchase Price).

4. QSP Semenanjung (acting as the Issuer), issues Green SRI *Sukuk* to the *Sukuk* holders whereby the proceeds thereof are used to pay the Commodity Purchase Price. The Green SRI *Sukuk* evidences amongst other things, the *Sukuk* holders' ownership of the Commodities and once the Commodities are sold to QSP Semenanjung (acting as the Buyer for itself), the *Sukuk* holders' entitlement to receive the Deferred Sale Price.

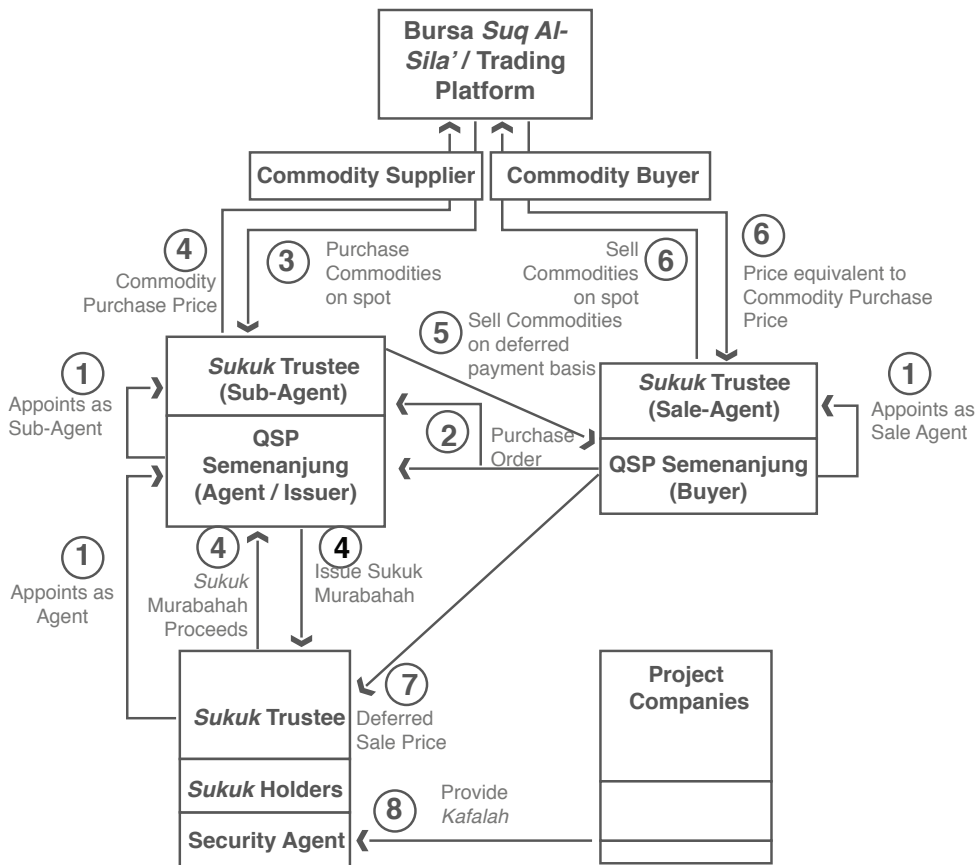
5. Upon acquiring the Commodities the Sub-Agent, pursuant to the undertaking under the Purchase Order, thereafter sells those Commodities to QSP Semenanjung (acting as the Buyer for itself), for a price equivalent to the Commodity Purchase Price plus the Discounted Amount as defined below (if applicable) and the profit margin of the relevant Green SRI *Sukuk* determined prior to issuance of the Green SRI *Sukuk*, payable on a deferred payment basis (Deferred Sale Price), under the commodities sale and purchase agreement (the Sale and Purchase Agreement). “Discounted Amount” means the difference between the nominal value of the Green SRI *Sukuk* and the Commodity Purchase Price in the case of Green SRI *Sukuk* issued at a discount.

6. Upon the purchase of the Commodities and pursuant to the Sale Agency Agreement, the Sale Agent, via the Commodity Trading Participant (CTP), pursuant to a CTP sale agreement entered into between the Sale Agent and the CTP (CTP Sale Agreement), immediately sells the Commodities to a Commodity Buyer on a spot basis for cash, for an amount equivalent to the Commodity Purchase Price.

7. For the Green SRI *Sukuk* shall be issued with periodic profit payments (Periodic Profit Payments). QSP Semenanjung (acting as the Buyer) makes Periodic Profit Payments forming

part of the Deferred Sale Price, on a profit payment date to the *Sukuk* holders during the tenure of the relevant Green SRI *Sukuk* and the final payment on the maturity date of the relevant Green SRI *Sukuk*. Upon the Green SRI *Sukuk* maturity dates or upon the declaration of an event of default (EOD), the Issuer shall pay the Redemption Amount (as defined below) pursuant to its obligation to pay the Deferred Sale Price for the redemption of the Green SRI *Sukuk*. Upon full payment of all amounts due and payable under the Green SRI *Sukuk*, the redeemed Green SRI *Sukuk* shall be cancelled. "Redemption Amount" is the amount equivalent to the Deferred Sale Price determined at the issue date less the aggregate of the Periodic Profit Payment and nominal value paid (if any) less the *Ibra'* (if any).

8. Each of the Project Companies (as defined below) provide an unconditional and irrevocable guarantee under the principle of *Al-Kafalah* to the security agent acting for the *Sukuk* holders (Security Agent) to guarantee the payment of the Green SRI *Sukuk* in such amount which is equivalent to the amount advanced by the Issuer to that Project Company under the relevant intercompany financing documents (Interco Financing Documents) (collectively, the Project Company Guarantees). The Project Company Guarantees would be triggered upon the declaration of any of the EOD, whereupon a claim on all Project Company Guarantees will be made simultaneously. "Project Companies" shall mean Quantum Solar Park (Kedah) Sdn Bhd, Quantum Solar Park (Terengganu) Sdn Bhd and Quantum Solar Park (Melaka) Sdn Bhd (each a Project Company).



CONCLUSION

The Green SRI *Sukuk* received support from the Central Bank of Malaysia and the Securities Commission Malaysia. The support of the regulators was crucial to ensure this landmark transaction. Notable features of this transaction were the following:

The issuance was Green and *Shari'ah*-compliant, one of the first such issuances in the world.

The issuance was the world's largest Green SRI *Sukuk* at the time of issuance.

We believe that fixed income instruments that are both Green and *Shari'ah*-compliant are a new class of *Sukuk* that have great potential in the capital markets. Protecting the environment is in line with the objectives of *Shari'ah*; Green proceeds must be used for environmentally friendly purposes, and more often than not, these would also be *Shari'ah*-compliant.

Innovative and ground-breaking *Sukuk* issuances such as the Green SRI *Sukuk* continue to meet the evolving requirements of issuers and investors.

3.8 REPUBLIC OF INDONESIA

USD 3 BILLION DUAL TRANCHE *SUKUK* ISSUANCE

(COMPRISING 5-YEAR 'GREEN' *SUKUK* AND 10-YEAR *SUKUK*)

BY: *QUDEER LATIF*, PARTNER

JOHANNES JUETTE, PARTNER

AND *SHASHWAT TEWARY*, SENIOR ASSOCIATE

CLIFFORD CHANCE LLP

In January 2018, the Republic of Indonesia completed the annual update of its *Sukuk* issuance programme and also increased the programme limit to USD 25 billion. Following investor meetings in Asia, Europe and the Middle East soon after the update, the Republic successfully issued a total of USD 3 billion in *Sukuk*, through two tranches of 5-year and 10-year maturity. The 5-year tranche is a landmark in Islamic finance, as it was the first ever Sovereign 'Green' *Sukuk* issuance.

SUMMARY OF THE ISSUANCES

The *Sukuk* were issued by Perusahaan Penerbit SBSN Indonesia III, a legal entity established by the Republic solely for the purpose of issuing *Shari'ah* compliant securities in foreign currencies in international markets. The *Sukuk* were structured based on the *Shari'ah* principle of *Wakalah*. The *Sukuk* assets under the issuances consisted of (i) state-owned assets including land and buildings (51%) and (ii) project assets which are under construction or to be constructed (49%).

Abu Dhabi Islamic Bank PJSC, Citigroup, CIMB, Dubai Islamic Bank PJSC and HSBC acted as Joint Lead Managers and Joint Bookrunners on the issuances. PT Bahana Sekuritas, PT Danareksa Sekuritas and PT Trimegah Sekuritas Indonesia Tbk acted as co-Managers on the issuances. Clifford Chance advised the Republic and the Issuer as to US and English law.

The table below sets forth certain key information relating to the issuances:

SUMMARY OF THE ISSUANCES

	5-year 'Green' <i>Sukuk</i>	10-year <i>Sukuk</i>
Issue date	March 1, 2018	March 1, 2018
Scheduled Dissolution Date	March 1, 2023	March 1, 2028
Issue Price	USD1.25 billion	USD1.75 billion
Rate	3.75%	4.40%
Currency	US dollars	US dollars
Listing	SGX and NASDAQ Dubai	SGX and NASDAQ Dubai
Governing law	English law	English law

THE GREEN *SUKUK* FRAMEWORK

In January 2018, the Republic adopted a Green Bond and Green *Sukuk* Issuance Framework (the Framework), under which it plans to finance and/or re-finance 'Eligible Green Projects' through the issuance of Green bonds and Green *Sukuk*.

The Framework notes that Indonesia is strongly committed to combating climate change and is also one of the nations most susceptible to climate-induced disasters. Its extensive tropical landscape and seascape with high biodiversity, high carbon stock values and energy and mineral resources are all contributing factors for the nation to be at the forefront of climate action and environmental protection. Furthermore Indonesia's position close to the global ocean conveyor system makes it particularly vulnerable to natural disasters that are likely to be exacerbated by climate change.

It is with this background that the Republic of Indonesia adopted the Framework and subsequently undertook the landmark Green *Sukuk* issuance (the first issuance under the Framework).

THE GREEN *SUKUK* ARCHITECTURE

The Framework follows the ICMA's Green bond principles from June 2017. It provides that the proceeds from any Green bond or Green *Sukuk* issuance will be used exclusively to finance or re-finance expenditure directly related to 'Eligible Green Projects'. Eligible Green Projects are projects which promote the transition to low-emission economy and climate resilient growth, including climate mitigation, adaptation, and biodiversity in accordance with the criteria and process set out in the Framework.

The Framework lists the following sectors within which Eligible Green Projects must fall:

- Renewable energy
- Energy efficiency
- Resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction
- Sustainable transport
- Waste-to-energy and waste management
- Sustainable management of natural resources
- Green tourism
- Green buildings
- Sustainable agriculture

Furthermore, the Framework describes the process for project evaluation and selection as an Eligible Green Project and the process for the management of the proceeds of any Green *Sukuk* or Green bond issuance. The Framework also provides that the Republic of Indonesia will prepare and publish an annual Green bond and Green *Sukuk* report, which will contain, among other matters, brief descriptions of the projects to which the Green bond and Green *Sukuk* projects have been allocated; and the amount of proceeds allocated to such projects.

Pursuant to the recommendation in ICMA's Green bond principles, the Center for International Climate Research (CICERO) issued a framework opinion and second party opinion in relation to the Framework.

MARKET RECEPTION

The *Sukuk* attracted interest from a diverse group of domestic and international investors, with the 5-year tranche generating a geographic distribution of 32% to Islamic investors (Middle East and Malaysia), 10% to Indonesia, 25% to Asia (excluding Indonesia and Malaysia), 18% to USA and 15% to Europe. The 10-year tranche generated a geographic distribution of 24% to Islamic investors (Middle East and Malaysia), 10% to Indonesia, 12% to Asia (excluding Indonesia and Malaysia), 22% to USA and 32% to Europe.

3.9 WARBA BANK KUWAIT

USD 250,000,000 TIER 1 *SUKUK* ISSUANCE

BY: ISMAIL E. DADABHOY, ADVISOR

INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)

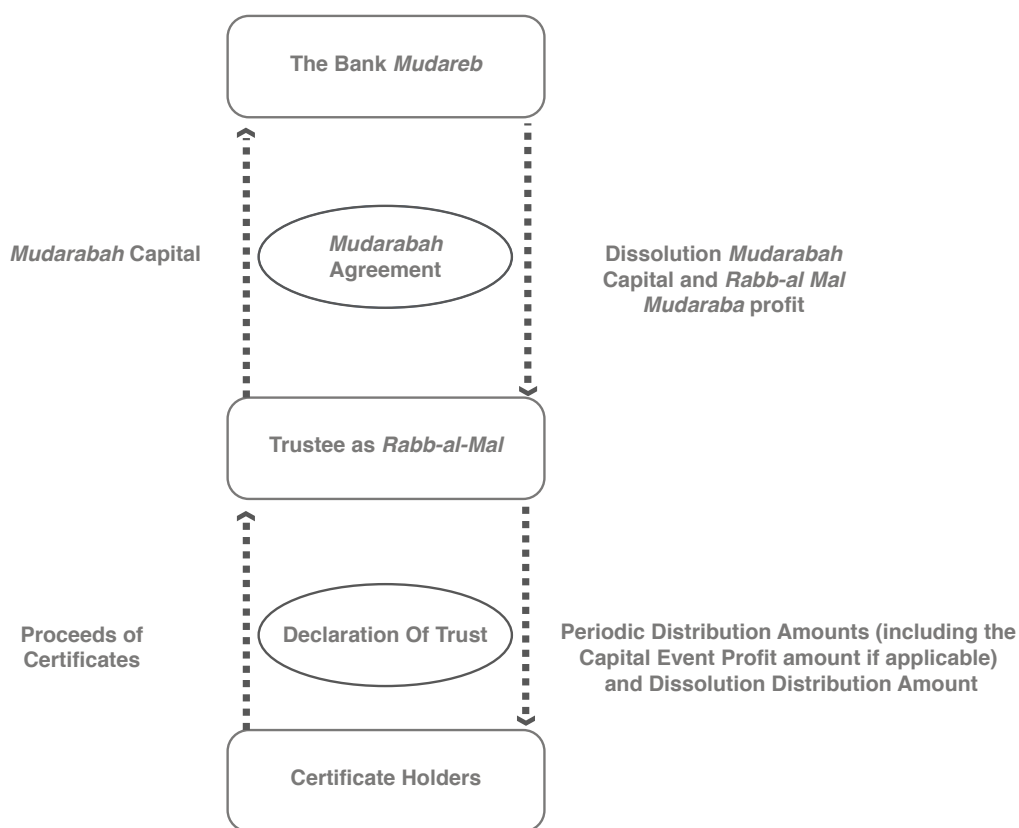
TRANSACTION SUMMARY

Issuer	Warba Tier 1 <i>Sukuk</i> Limited Basel III compliant Capital <i>Sukuk</i>
Obligor	Warba Bank K.S.C.P
Country of Transaction	Kuwait
Issue Type & Format	Subordinated Tier 1 Capital Certificate / Reg S
Issue Size	USD 250,000,000
Denomination	USD 200,00 and integral of USD 1,000
Issue Rating	<i>Sukuk</i> is not rated. Warba Bank is rated A+ by Fitch and Baa2 by Moody's
Pricing Price	100.00 %
Tenor	Perpetual with Call after 5 year
Maturity	Perpetual and accordingly do not have Fixed or Final Maturity
Call Date	First Call-14 Mar 2022 or at any Periodic Distribution Date Thereafter
Profit Rate	6.50% per annum fixed to call date
Profit Rate After Call Date	First Call date and every Five year reset at 5Yr Rate plus 4.374% p.a
Issue Date	14 Mar 2017
Periodic Distribution Date	14 March and 14 September every year commencing 14 Sept 2017
Issue Format	Global Certificate Format. Book entry Euroclear and Clearstream
Listing	Irish Stock Exchange and Nasdaq Dubai
Governing Law	English Law
Trustee	Maple FS Limited - Cayman Island
Delegate	BNY Mellon Corporate Trustee Services Limited
Principal Paying and Calculation Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon, (Luxembourg) S.A
Global Coordinator	Standard Chartered Bank
Joint Lead Manager	Arab Banking Corp B.S.C, Emirates NBD PJSC, KAMCO Investment Company K.S.C (Public), KFH Capital Investment Company KSCC, Noor Bank PJSC and Standard Chartered Bank

Warba Bank is an Islamic Bank that is publicly listed on the Kuwait Stock Exchange. Established in 2010, Warba Bank has twelve branches and offers a full-fledged and integrated range of banking and investment services in compliance with the principles of Islamic *Shari'ah*. The bank offers solutions to its corporate and retail customers through its four main groups: Retail Banking Group, Corporate Banking Group, Investment Group, and Treasury Group. This young bank has achieved five quality recognitions in 2016, including Best Investment bank in Kuwait, and Fastest growing Bank in Kuwait. The *Mudarabah* capital *Sukuk* is part of the bank's strategy in strengthening its capital base in order to sustain the bank's growth strategy.

Structure Description and Principal Cash Flows

Below is a simple flow chart and description of the *Mudarabah* transaction underpinning the Warba Tier 1 *Sukuk*.



Payments by the Certificate Holders and the Trustee

Investor proceeds from the issuance of the Certificates will be contributed by the Trustee (as *Rabb al-Mal*) to the *Mudarib* and shall form the initial capital of the *Mudarabah* (the *Mudarabah* Capital) pursuant to the *Mudarabah* Agreement. The *Mudarabah* Capital will be co-mingled with shareholders equity and invested, on an unrestricted co-mingling *Mudarabah* basis, by the Bank in its general business activities carried out through the General *Mudarabah* Pool. Following the investment of the *Mudarabah* Capital, the *Mudarabah* Capital shall constitute pro rata undivided assets in the General *Mudarabah* Pool (the *Mudarabah* Assets).

Periodic Payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the *Mudarib* shall distribute the profit generated by the *Mudarabah* to both the Trustee and the *Mudarib* in accordance with an agreed profit sharing ratio (99% to the Trustee (as *Rabb al-Mal*) and 1% to the *Mudarib*). The Trustee shall apply its share of the profit (if any) generated by the *Mudarabah* on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificate holders on such date.

Payments of *Rabb-al-Maal Mudarabah* Profit (as defined in the *Mudarabah* Agreement) by the Bank (as *Mudarib*) are at the sole discretion of the Bank (as *Mudarib*) and may only be made in circumstances where a Non-Payment Event has not occurred.

The *Mudarib* shall not have any obligation to make any subsequent payment in respect of such unpaid profit whether from its own cash resources, from a reserve account (the *Mudarabah* Reserve) or otherwise.

If the *Rabb al-Mal Mudarabah* Profit payable to the Trustee (as *Rabb al-Mal*) on any *Mudarabah* Profit Distribution Date is greater than the then applicable Periodic Distribution Amount due to any Certificate holder on such date, the amount of any excess shall be credited to the *Mudarabah* Reserve.

Dissolution and Redemption

The *Mudarabah* is a perpetual arrangement with no fixed maturity date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in the *Mudarabah* Agreement, the Bank (as *Mudarib*) may, at its discretion, liquidate the *Mudarabah* in whole, but not in part, on the basis of a final

constructive liquidation of the *Mudarabah* in the following circumstances:

- (i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 35 nor more than 65 days' prior notice to the Trustee; or
- (ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 35 nor more than 65 days' prior notice to the Trustee:
 - (a) upon the occurrence of a Tax Event; or
 - (b) upon the occurrence of a Capital Event.

Shari'ah Approval

The *Sukuk* structure and its documents have been approved by

- The *Shari'ah* Supervisory Board of the Bank
- The *Fatwa* and *Shari'ah* Supervisory Board of KFH Capital Investment Company KSCC,
- The *Fatwa* and *Shari'ah* Supervisory Board of Noor Bank PJSC
- The *Shari'ah* Supervisory Committee of Standard Chartered Bank

Transactional Documents

The principal transaction documents are as follows:

- 1) Declaration of Trust
- 2) Agency Agreement
- 3) *Mudarabah* Agreement

Investors demand

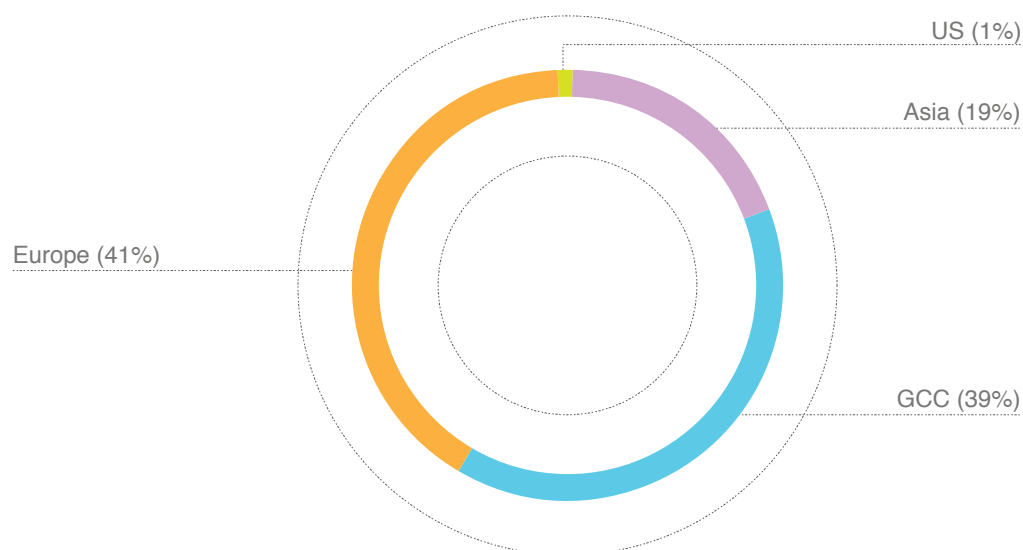
An extensive road show spanning six days and covering investors meeting in Hong Kong, Singapore, Dubai and London, in addition to conference calls, resulted in a highly successful transaction which was more than 5.3 times oversubscribed. The scarcity of Kuwaiti banks' issuance coupled with Warba's inaugural issue resulted in an order book of USD 1.3 billion

allowing to compress its initial price guidance of 7% - high 6's to close at 6.5%.

Geographical distribution

The inaugural *Sukuk* received investor demand from Asia, Middle East, Europe and the US. It attracted a diverse group of investors comprising of banks treasury, quasi-government institutions, private banks, fund managers, pension funds and insurance companies.

Percentage Allocation to Each of the Region



CONCLUSION

Warba's debut issuance raising long term funds from the international capital market has been a success story for the fastest growing bank in Kuwait. It attracted huge demands from investors that lead to shaving off almost 50bp from its initial guidance.

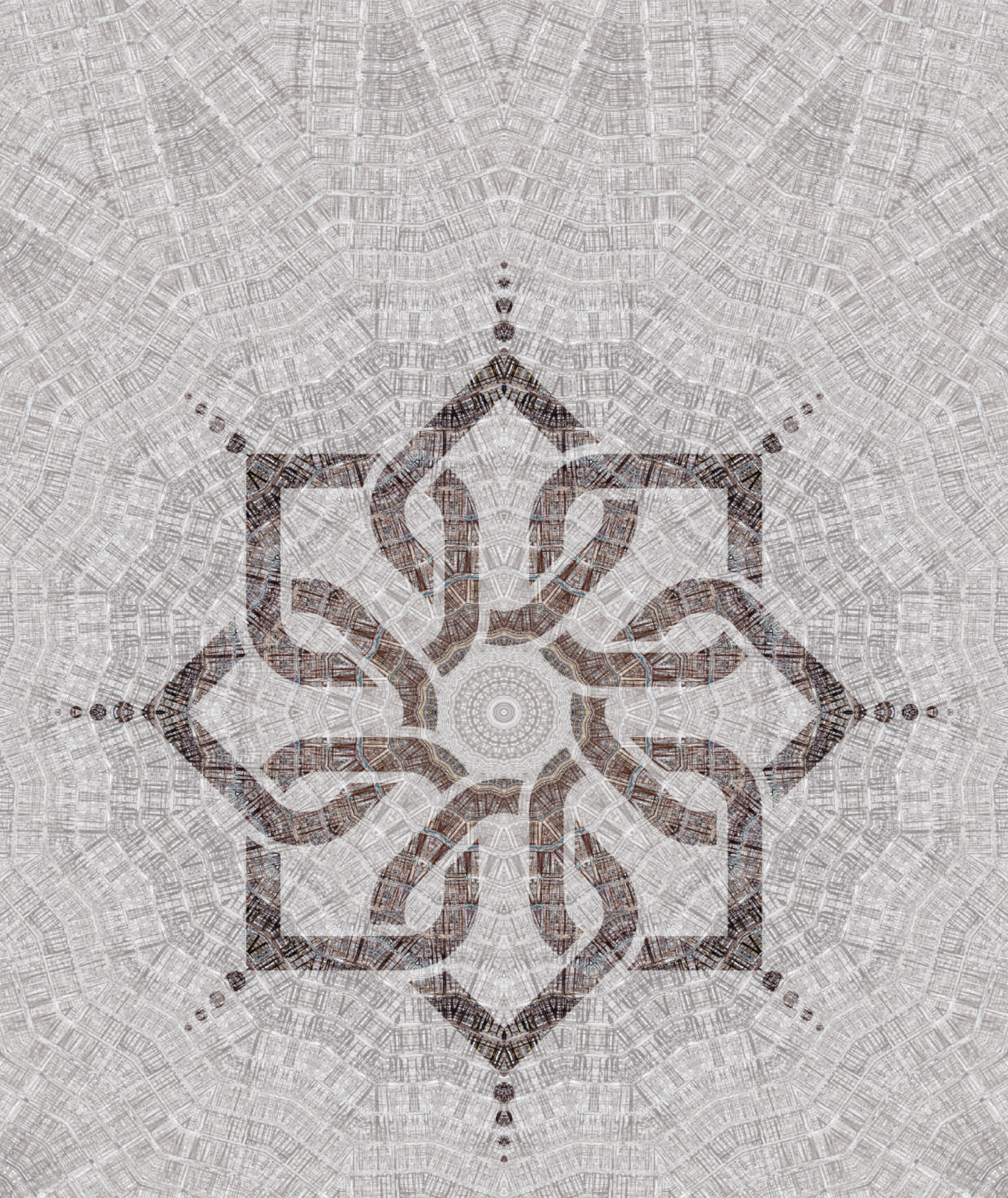
As a *Mudarabah Sukuk*, the investors' funds are to be invested with the bank's own funds and the assets will be comingled. Any profits derived from this arrangement will be shared 99% for the investor and 1% for the bank. However, the periodic distribution is at the sole discretion of the bank. Furthermore, should the bank make a Non-Payment election, then no periodic distribution will be made and the bank will have no obligation to make any subsequent payment in respect of any unpaid periodic distribution.

SOURCES

- Prospectus
- Warba Bank
- Nasdaq Dubai
- Reuters
- Warba Bank Annual Report



CHAPTER FOUR



ARTICLE CONTRIBUTIONS

4.1 A NEW APPROACH TO *JALB AL-MANFA'AH* THROUGH SUSTAINABLE SOCIAL INCLUSION *SUKUK*

BY: DR. HATIM EL-TAHIR, DIRECTOR

ISLAMIC FINANCE KNOWLEDGE CENTER (IFKC), DELOITTE

THE CONTEXT

It is widely acknowledged that the primary objective of Islamic law is the realization of its benefit to mankind, concerning their affairs both in this world and the hereafter. Yet, these objectives, also known as *Maqasid*, are believed to achieve the preservation and protection of five fundamental values: religion (*Deen*), life (*Nafs*), lineage (*Nasl*), intellect (*Aql*) and property (*Mal*).

The Qur'an clearly states:

"And we have sent you (O Muhammad) not but as a mercy for the universe" (*al-Anbiya*:107)

In explaining the above verse, Ibn Qayyim states:

"The *Shari'ah* aims at safeguarding the people's interest and preventing them from harm in this world and the next: this is a necessity that is needed by all mankind. Thus the main objective of Islamic law is to bring benefits to mankind and to prevent them from harm (*Jalb Al-Manfa'ah Wa Dar' Al-Mafsadah*).

This article suggests a new approach to the work of '*Jalb Al-Manfa'ah*'¹ or benefit to mankind, which arguably can be achieved through the development of investment instruments (*Sukuk*) which propagate social and economic inclusion. It features a description of a *Shari'ah*-based approach, to design investment products which maps social good projects that help social and economic inclusion, especially in the realm of education, housing and healthcare. The discussion will also highlight the size of social projects and investments made by the Islamic Development Bank Group (IDB) within its economic block – the Organization of Islamic Cooperation (OIC).

¹ *Jalb Al-Manfa'ah*: An Arabic word which means in interpreting the *Shari'ah* objectives, bring benefit to mankind.

THE SURGE OF SOCIAL FINANCE

Social finance has become an increasingly important strategic priority for politicians, government officials, and business leaders. People's demands for better welfare systems and social infrastructures are now evident in most nations around the world including the most fortunate Western economies.

Concurrently, initiatives for financing social good have blossomed and different innovative structures have emerged in recent years. The objective to fund projects that will improve the lives of people and protect our planet has been the key to this development. What is broadly known; achieving social and economic inclusion.

Michael Porter asserts that 'economic growth alone is not sufficient to advance societies and improve the quality of life for citizens'. He further claims, true success, and growth that is inclusive requires achieving both economic and social progress. Furthermore, Habib Ahmed et.al (2015) pointed out that 'Islamic finance has strong potential in promoting financial stability, financial inclusion and shared prosperity, and infrastructure development, which will set an enabling environment for timely implementation of Sustainable Development Goals (SDGs)'.

However, the newly emerged term of 'social finance' has loosely been defined as 'achieving social progress, through the investment in social infrastructure projects and social enterprises'. This phenomenon has taken different forms and formats with varying scales and scopes. Key to these forms of financing and investments are the socially responsible investment funds, social impact bonds, green bonds and green *Sukuk*, to name a few.

Despite this growth of structures and instruments of social finance, which advocate investing in sustainable businesses and socially responsible investment, the Islamic

finance industry and its institutions have made insignificant contributions to what is essentially proponent, and advocate similar values of its essence – the *Shari'ah* objectives.

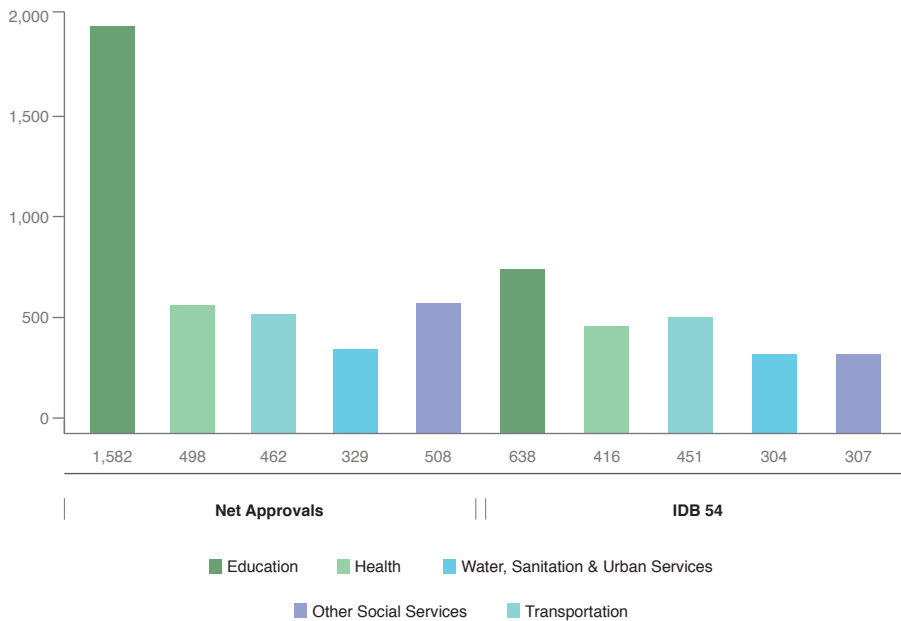
Hence, it is essential for the Islamic finance industry to contribute and fill the gap in social finance. Developing a new approach which embeds the *Maqasid al-Shari'ah*, essentially built around inclusive social and economic goals is required. This new approach can be aligned to the best practices of SDGs.

Before we look at how this approach can be developed, it will be helpful to look at the scale of social projects financed by the Islamic Development Bank (IDB) in recent decades.

THE IDB AND OIC INITIATIVE

In response to the increasing development needs of the IDB’s Member Countries – the Organization of Islamic Cooperation (OIC), the former has emphasized the strategy of funding projects of priority which are aimed at economic and social inclusion on member countries. To understand this in figures, the overall financing social projects, since its inception, have reached USD 128.7 billion in 2017. Net Approvals increased significantly from USD 4.8 billion in the first decade to USD 82 billion in the latest decade (2017).²

IDB Net Social Project Approvals by Sector from Inception (Jan 1976 till Dec 2017)



Source: IDB Group Data

IDB Group Approvals by Country and Sector

USD 49 billion went to the MENA region, followed by Asia & Latin America (USD 37.8 billion); sub-Saharan Africa (USD 21.7 billion) and Europe & Central Asia (USD 18.5 billion). It is not surprising that the majority of the Net Approvals for sub-Saharan Africa and Europe & Central Asia were in the transport sector, whereas, for MENA and Asia & Latin America, they were in the energy sector, reflecting the diverse developing priorities in the region.

The top five beneficiaries of IDB Group financing are Bangladesh (15%), Egypt (9.1%), Pakistan (8.9%), Turkey (8.4%) and Morocco (5.3%). The total financing for these five countries represents about 46.6 % of total IDB group net approvals.

Clearly, there is a need for more capital to finance social infrastructure projects in the OIC nations as well as globally. The following section breaks down the imperative social project requirements, as reported by the United Nation’s classification of Sustainable Development Goals (SDGs). This table represents key priorities which have been overlooked in addressing the needs of the social common good.

² IDB, 2017 Fourth Quarter Update <https://www.isdb.org/irj/portal/anonymouse?NavigationTarget=navurl://fe68ebaa6541fcf4c62134ea6d389185>

THE OVERLOOKED PRIORITIES

Table 1 below shows the priority social issues addressed by the UN's SDGs which synergize with the key five *Shari'ah* objectives identified above. These priority needs will form the basis of developing a hypothetical model to design investment instruments to fund social projects in the OIC marketplace. It charts a catalogue of social and economic challenges in the world. The basic needs of mankind, which are similarly addressed by the *Maqasid al-Shari'ah* above. These selected group of social needs will form a solid base to design a *Shari'ah*-based investment instruments to fund social infrastructure projects and help improve living conditions in many parts of the world.

TABLE 1: SOCIAL NEEDS BASED ON THE UN SUSTAINABLE DEVELOPMENT GOALS









Social Need	<i>Shari'ah Maqasid</i>	Sectors and Issues
	Life (<i>Nafs</i>)	<ul style="list-style-type: none"> • 767 million people live below the international poverty line of D1.90 a day. • In 2016, almost 10% of the world's workers lived with their families on less than D1.90 per person per day. • The overwhelming majority of people living below the poverty line belong to two regions: Southern Asia and sub-Saharan Africa.
	Life (<i>Nafs</i>)	<p>Hunger</p> <ul style="list-style-type: none"> • Globally, one in nine people in the world today (815 million) are undernourished. • The vast majority of the world's hungry people live in developing countries, where 12.9 % of the population is undernourished. • Asia is the continent with the most hungry people – two thirds of the total. • Southern Asia faces the greatest hunger burden, with about 281 million undernourished people. <p>Food security</p> <ul style="list-style-type: none"> • Agriculture is the single largest employer in the world, providing livelihoods for 40% of today's global population. It is the largest source of income and jobs for poor rural households. • Investing in smallholder women and men is an important way to increase food security and nutrition for the poorest, as well as food production for local and global markets.
	Lineage (<i>Nasl</i>) Life (<i>Nafs</i>)	<p>Child health</p> <ul style="list-style-type: none"> • 17,000 fewer children die each day than in 1990, but more than six million children still die before their fifth birthday each year. • Despite determined global progress, an increasing proportion of child deaths are in sub-Saharan Africa and South Asia. Four out of every five deaths of children under age five occur in these regions.
	Intellect (<i>Aql</i>)	<ul style="list-style-type: none"> • Enrolment in primary education in developing countries has reached 91% but 57 million children remain out of school. More than half of children that have not enrolled in school live in sub-Saharan Africa. • An estimated 50 % of out-of-school children of primary school age live in conflict-affected areas. 103 million youth worldwide lack basic literacy skills, and more than 60% of them are women.
	Lineage (<i>Nasl</i>)	<ul style="list-style-type: none"> • About two thirds of countries in the developing regions have achieved gender parity in primary education. • In South Asia, only 74 girls were enrolled in primary school for every 100 boys in 1990. By 2012, the enrolment ratios were the same for girls as for boys. • In sub-Saharan Africa, Oceania and Western Asia, girls still face barriers to entering both primary and secondary school.

Table continued on next page.

Social Need	Shari'ah Maqasid	Sectors and Issues
	Life (<i>Nafs</i>)	<ul style="list-style-type: none"> • 2.6 billion people have gained access to improved drinking water sources since 1990, but 663 million people are still without. • Water scarcity affects more than 40% of the global population and is projected to rise. • Floods and other water-related disasters account for 70% of all deaths related to natural disasters
	Life (<i>Nafs</i>) Property (<i>Mal</i>)	<ul style="list-style-type: none"> • Many challenges exist to maintaining cities in a way that continues to create jobs and prosperity while not straining land and resources. Common urban challenges include congestion, lack of funds to provide basic services, a shortage of adequate housing and declining infrastructure.
	Religion (<i>Deen</i>) Intellect (<i>Aql</i>)	<ul style="list-style-type: none"> • The rate of children leaving primary school in conflict-affected countries reached 50 per cent in 2011, which accounts to 28.5 million children, showing the impact of unstable societies on one of the major goals of the post 2015 agenda: education.

Source: United Nations, SDGs

SHARI'AH-BASED INVESTMENT PRODUCTS

The key components of the proposed *Shari'ah*-based investment products is outlined in Figure 2.

Three main elements have been identified:

- Embedding the *Maqasid Al-Shari'ah* in designing a specific investment product to address a specific social need and serve a particular social purpose (inner 5-layer framework).
- Align the product structure with one or more of the UN's SDGs to ensure consistency of serving global sustainable business practices (the middle-dotted-layer of SDGs).
- Embrace good principles of responsible investment and sound governance frameworks which leverage capital intellect and technology (the 4-layer framework: governance, process, technology and people).

The proposed approach is aimed at addressing strategic social priorities and needs to achieve *manfa'ah* and improve the lives of people and societies. The faith-based products which are built in line with best practices will gain international recognition and acceptance.

In practice, the proposed new investment structures - SBIPst will be developed primarily to address social needs and projects which impact on the society and create economic value - providing services to improve the social and economic lives of the community.

Figure 2: Shari’ah-based Investment Products (SBIPs)



Source: Developed by the author.

CONCLUSION

To conclude, it may be best to give a scenario of a possible social inclusion investment opportunity for Islamic investment institutions, and see how a SBIP can address a social need in our society and make an economic impact.

By way of illustration, we consider the objectives of *nasl* and *nafs* in *Maqasid al-Shari’ah* and map these two objectives with those of the UN’s sustainable development goals – SDG #3 good health and well-being, for developing an investment instrument with clear objectives to invest in child healthcare. The Islamic investment bank will develop a suitable business model, structure and investment strategy to invest in improving child healthcare in a particular market of say the OIC. Figure 3: Mapping of the SDG’s to *Maqasid Al-Shari’ah*, shows an alarming social crisis in this sector which presents an opportunity for the Islamic finance industry and investment houses to contribute towards its improvement. Clearly, there are business and financial risks associated with this kind of investment. However, there are successful investment models developed in the private healthcare sector in Western economies, surely different models can be considered to develop SBIPs and achieve these set goals.

The *Shari’ah*-based Investment Products (SBIPs) can be structured to mobilize savings and individual investors such as Retail Funds and can be listed and traded in exchanges. The regulation, documentation and necessary policy required for structuring these SBIPs are beyond this conceptual approach and can be addressed in another opportunity.

4.2 CORPORATE *SUKUK* AND THE IMPORTANCE OF RATING

BY: RAJAN PARAMESRAN, CHIEF RATING OFFICER
MALAYSIAN RATING CORPORATION (MARC)

INTRODUCTION

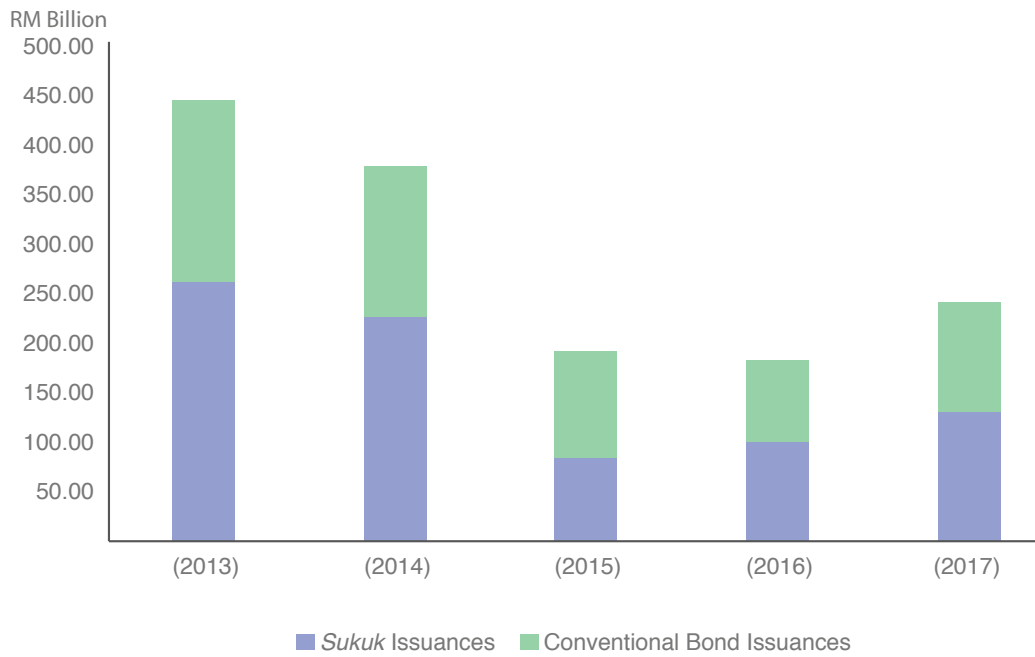
Global *Sukuk* issuance has grown exponentially over the last three decades, recording a total issuance of USD 110.4 billion in 2017, an increase of 18.5% over 2016 according to Bloomberg. The growth has rebounded strongly from a sharp decline in 2015, largely due to the central bank of Malaysia's decision to discontinue the issuance of short-term investment *Sukuk*, which reflects a shift in strategy rather than any weakness in the *Sukuk* market.

Of the *Sukuk* volume issued in 2017, a substantial 32.8% was corporate *Sukuk* issuance. This underscores the rapid growth of corporates using *Sukuk* financing to support their operations whether in expanding production capacities, making strategic investments or funding acquisitions. Financial institutions have also been issuing sizeable *Sukuk* for liquidity management. The increase in volume, with significant oversubscription of most *Sukuk* issued, reflects the growing confidence of investors from the Islamic and non-Islamic world alike in placing their funds in instruments that are in accordance with *Shari'ah*-compliant principles and can provide competitive yields.

In Malaysia, corporate *Sukuk* issuance has continued to surpass conventional bond issuance as a key mode of raising financing. A significant portion of this has been for infrastructure development and project financing, reflecting the versatility and the viability of *Sukuk* financing as an alternative source of financing. At end-2017, corporate *Sukuk* issuance stood at MYR 133.7 billion, almost twice the conventional bond issuance of MYR 106.4 billion. During the year, a Chinese state-owned enterprise issued its first Ringgit *Sukuk* of MYR 400 million in the domestic bond market to part-finance a water infrastructure project, reflecting growing acceptance. This *Sukuk* issuance was rated AA by MARC and was oversubscribed.

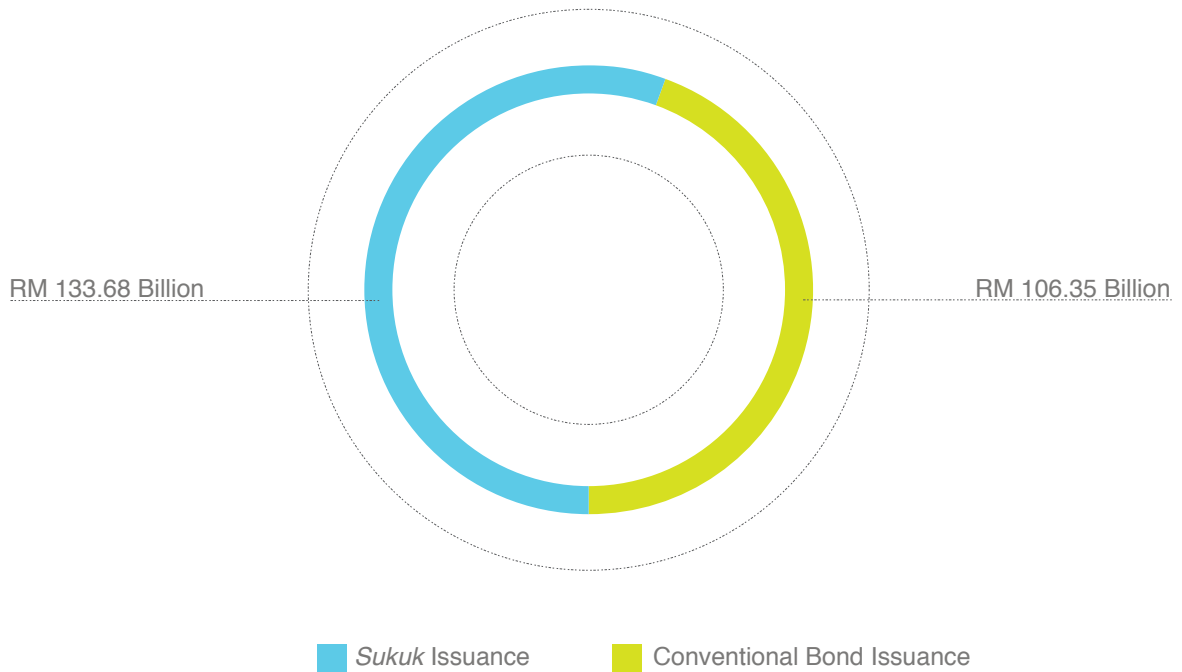
Despite the stellar growth of corporate *Sukuk* thus far, an important factor in sustaining continued growth would be the availability of an independently assessed credit quality opinion for corporate *Sukuk*. Such assessments would not only provide investors with credit knowledge to take appropriate investment decisions, but also help widen the pool of investors, particularly to include those who lack the resources to undertake credit research on their own. In this regard, ratings from reputable credit rating agencies would continue to be a significant factor in developing a viable *Sukuk* financing market. As with the historic growth of bonds in the US, particularly from the 1920s onwards, the provision of an independent third-party opinion on the safety of financial instruments remains an important pillar in the foundation of capital market development.

Malaysian *Sukuk* and Corporate Bond Issuances



Source: Bloomberg, MARC

2017 Malaysian Issuances



Source: Bloomberg, MARC

ROLE OF RATING

Ratings represent an in-depth credit-risk analysis of a *Sukuk* and provide a relative ranking of the default loss probability for that *Sukuk* compared with other rated *Sukuk*. This means that ratings can forecast the potential credit loss from a default or missed payment on the *Sukuk*. The ease with which the credit risk of the *Sukuk* can be inferred by the alphanumeric symbols assigned to the rated *Sukuk* boosts the attractiveness of ratings. Ratings are also transparent as they are derived from well-founded methodologies that are accessible to issuers, investors, financial intermediaries and other market participants to validate. Ratings can be undertaken on a wide variety of *Sukuk* products such as mortgage and structured finance, whether long-term or short-term. Other key benefits for corporates to have their *Sukuk* rated are as follows:

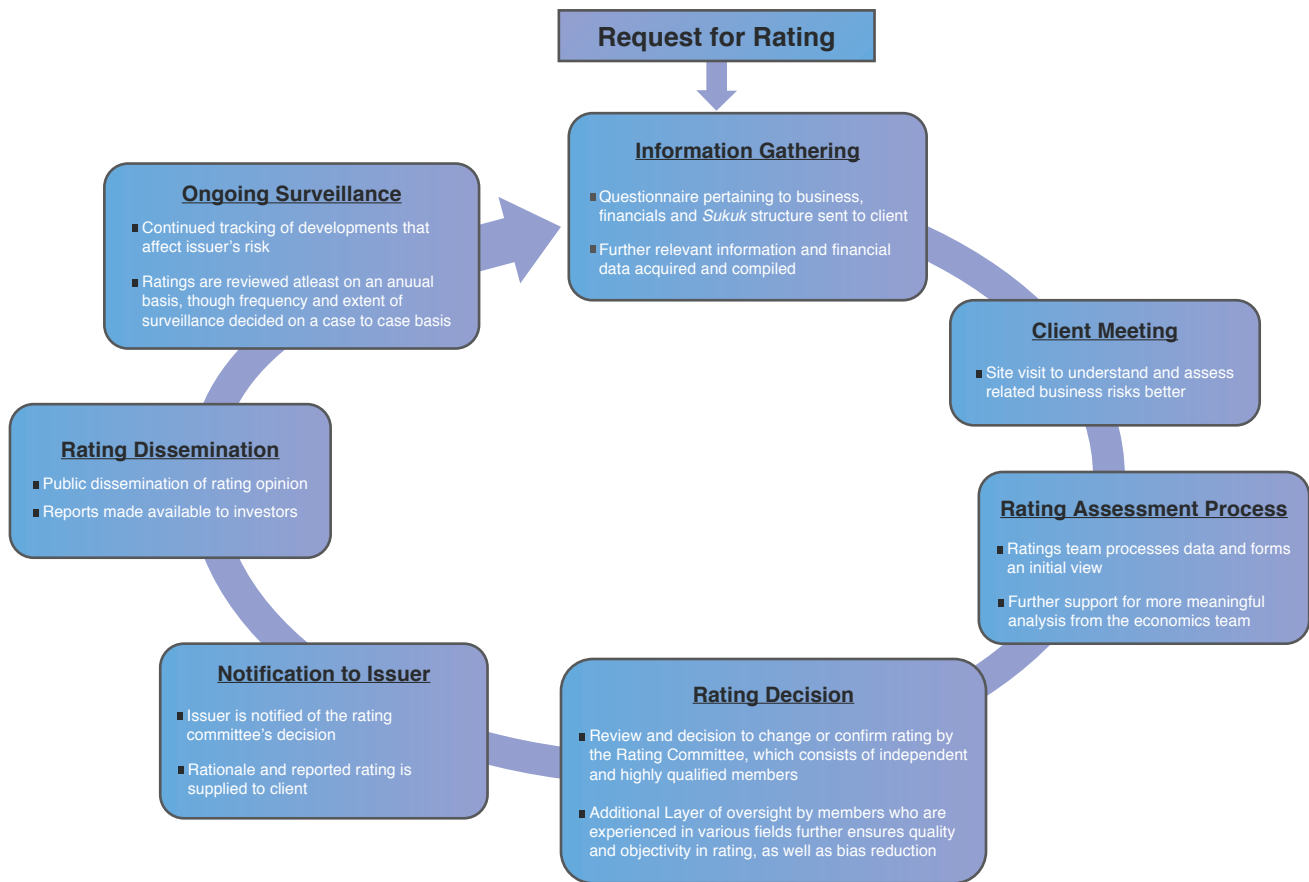
- Ratings facilitate the appropriate pricing of the *Sukuk* instrument through benchmarking; the higher a *Sukuk* is rated, the lower the financing cost on the *Sukuk*, and correspondingly the issuer would incur lower funding costs. For unrated corporate *Sukuk*, investors may demand a higher risk premium to compensate for the potential default risk, which could be heightened by investors' perception of credit quality in the absence of sufficient credit analysis. This would result in higher funding costs.
- A rated *Sukuk* generally has more marketability and liquidity as investors' confidence in undertaking the transaction would be strengthened by the rating. Ratings also help in building investment portfolios, formulating guidelines for permissible investments based on ratings and diversifying risk through appropriate selection of *Sukuk*, maturity structures and other security features.
- Timely rating action – affirmation, downgrades or upgrades, outlook revisions – are requisite for all rating transactions and therefore provide indication to investors on the direction of credit risk and the appropriate adjustments to the portfolio that need to be made.
- Concomitant with access to a larger pool of investors, corporates with rated *Sukuk* will have wider access to capital by raising confidence in the *Sukuk*. For corporate *Sukuk* by lesser known issuers or issuers from countries with a less developed capital market framework, different economic systems and accounting principles, a rating would provide the necessary confidence as it would include an assessment on cross-border risk, cultural and other issues in addition to business and financial risks.
- Ratings from established credit rating agencies, given their longstanding experience through credit cycles, market dislocation and rapid technological changes, provide an independent, reliable and cheaper alternative to credit assessments that are undertaken by investors. The analysis provided by a credit rating agency can be compared with private credit assessment.
- Ratings are also used by regulators and financial institutions for capital allocation which enhances the need for corporate *Sukuk* to be rated for wider acceptance. Islamic financial institutions have used corporate *Sukuk* for capital and liquidity management to comply with the requirements of Basel III.

RATING IS MORE PERTINENT TO CORPORATE SUKUK

While the aforementioned advantages of obtaining a rating are common to both corporate *Sukuk* and conventional bond issuers, fundamental differences between these two types of financial instruments suggests why obtaining ratings on corporate *Sukuk* may matter more. Corporate *Sukuk* are relatively more complex than conventional bonds in that the *Shari'ah*-compliant instruments would involve contractual obligations. These are issued on the basis of one or more Islamic contracts, often with one dominant Islamic financial contract and multiple supporting contracts. This suggests that market participants in corporate *Sukuk* would need to be sufficiently knowledgeable on the contract issues to be able to fully comprehend the risks associated with the contracts or otherwise may find themselves in a weak situation in case of *Sukuk* default or during resolution. In this regard, ratings would convey to investors their potential exposure to the various risks inherent in the contractual obligations under the corporate *Sukuk* transactions. However, it needs to be reiterated that ratings do not entail an analysis of *Shari'ah* compliance risk and the appropriateness of the issue's underlying *Shari'ah* concept. These tasks are undertaken by *Shari'ah* advisers in accordance with the regulatory framework for *Sukuk* issuance.

COMPREHENSIVE RATING PROCESS

In analysing the credit risk of the corporate *Sukuk*, credit rating agencies in general undertake a comprehensive rating process by employing time-tested frameworks and methodologies. Given its access to private information when the credit rating is solicited by an issuer, a credit rating agency can provide additional and pertinent information compared to other information intermediaries. For MARC, the process primarily involves assessing the business and financial risks on the *Sukuk* issuer and sponsor, cash flow analysis of the underlying assets, governance and *Sukuk* structures. By ascertaining the right *Sukuk* methodology, evaluating the credit quality of participants in the transactions to perform their roles, appraising enhancement and structural protections and legal analysis, the comprehensive approach enables MARC to highlight any credit risk factors and shortcomings that the corporate structure may have. MARC's comprehensive rating process is on the next page:



Source: MARC

RATING SURVEILLANCE

Credit rating agencies, in addition to assigning initial ratings, monitor ratings on an ongoing basis and undertake annual rating reviews that could lead to ratings affirmation, upgrading and downgrading as warranted. The continuous monitoring is instrumental in broadening the appeal of a rated corporate *Sukuk* to investors. As corporate credit quality can easily erode through unplanned debt-funded acquisitions or be impacted by sudden policy changes, technology disruption and increased environmental risks, among other factors, rating surveillance remains key in alerting market participants of any weakening trend. Conversely, any significant boost to earnings would be highlighted on a timely basis.

CONCLUSION

As the level of credit risk increases with the growth in corporate *Sukuk*, there is a need for prudent and objective credit assessments that can be provided by established credit rating agencies, whose validity of credit opinions can be examined by their records on standards of accuracy over time. Through established regulatory framework, protecting investors, maintaining fair and orderly capital markets and facilitating capital formation remain key to supporting the development of vibrant corporate *Sukuk*. While the increasing globalisation of credit markets offer new financial opportunities for investors, there has been a corresponding increase in the need for accurate credit information that incorporates real-time adjustments to material changes in credit quality. For corporate *Sukuk*, this can only be conveyed by ratings.

4.3 GREEN SUKUK

BRIGHTER FUTURE TOWARDS GREENER PASTURES

BY: SECURITIES COMMISSION MALAYSIA

THE GLOBAL GREEN LANDSCAPE

The concept of green financing is fast becoming topical within both the conventional and Islamic finance space. This is attributable to the paradigm shift towards sustainability, with green finance increasingly emerging as a significant segment of the global financial market while supporting transformation efforts in many parts of the world towards a green economy.

Estimates show that by 2030 the world needs up to USD 90 trillion¹ worth of infrastructure investments. This presents a significant opportunity for green finance to be part of mainstream investment and financing solutions. According to United Nations Environment estimates, the number of policy measures related to green initiatives for the financial system has reached approximately 200 measures across 60 countries². Furthermore, Climate Bonds Initiative reported that in 2017 green bond issuances surpassed the significant USD 100 billion benchmark to reach USD 156.7 billion, setting a new global record.

ESSENCE OF GREEN SUKUK

It is apparent that green bonds are making their mark in the global capital markets today. According to the World Bank, a green bond is essentially a financial instrument that is issued to raise capital specifically to support climate-related or environmental projects³. Asia requires USD 1.7 trillion⁴ a year for infrastructure investments (a significant portion of which are consistent with the green agenda), while the actual amount pledged each year is closer to USD 880 billion – a substantial shortage from the region's needs. In this context, green *Sukuk* is seen as an innovative Islamic financial instrument in closing this gap as it gains traction.

The appeal of Green *Sukuk* is its potential to attract a more diverse investor universe as it is available to both conventional and Islamic investors. For the Islamic investors, there are significant commonalities in the principles and values underlying both green and Islamic financing. Green finance is very much aligned to Islamic finance in terms of advocating positive values such as social responsibility, shared prosperity and sustainable growth. Under the *Maqasid Al Shari'ah* the protection of *Maal* (property) is one of the pillars and the protection and/or preservation of the environment falls under this objective.

¹ The Sustainable Infrastructure Imperative: Financing for Better Growth and Development, United Nations

² The Financial System We Need: From Momentum to Transformation, UNEP

³ World Bank

⁴ World Bank data

THE DEMONSTRATION EFFECT

Green *Sukuk* Gaining Momentum in Malaysia

In Malaysia, development in the green financing segment has led to another significant milestone in product innovation under both the sustainability and the Islamic capital market agendas. This milestone was the launch of the world's first green *Sukuk* in July 2017 under the Securities Commission Malaysia's Sustainable and Responsible Investment (SRI) *Sukuk* framework, which further strengthened Malaysia's value proposition as a regional center for *Shari'ah*-compliant SRI as envisaged under the country's Islamic Fund and Wealth Management Blueprint. Tadau Energy issued a MYR 250 million *Sukuk* for the purpose of undertaking a solar photovoltaic (PV) project, with the ultimate goal of conserving the environment by providing an environmentally friendly, clean and sustainable power supply.

This was then followed by a MYR 1 billion green *Sukuk* issuance to fund three large-scale solar projects by Quantum Solar Park (Semenanjung) Sdn Bhd, the largest solar-related green *Sukuk* thus far. However, the largest green *Sukuk* lodged in Malaysia to-date is by the Malaysian government-linked investment institution Permodalan Nasional Berhad (PNB). PNB launched its MYR 2 billion green *Sukuk* programme in December 2017 to fund its 83-storey office space which forms part of the Merdeka PNB118 tower project within the Warisan Merdeka. The Merdeka PNB118 Tower is pre-certified at the highest level (Platinum) under the Green Building Index (GBI).

The momentum for green *Sukuk* gained further traction with the issuance by Sinar Kamiri Sdn Bhd ("Sinar Kamiri") in early 2018. Sinar Kamiri is a special purpose vehicle set up to undertake the development of a 49 megawatts (MW) solar PV facility in Perak, Malaysia.

Green SRI *Sukuk* Lodgments in Malaysia as of February 2018

As of February 2018, there had been four green SRI *Sukuk* lodgments in Malaysia totaling MYR 3.5 billion which are detailed in the table below:

BASIC INFORMATION

Issuer	Programme Size (mil)	Issue Date	Utilisation of Proceeds
Tadau Energy Sdn Bhd	MYR 250	27 July 2017	To construct a 50MW solar PV power plant
Quantum Solar Park (Semenanjung) Sdn Bhd	MYR 1,000	6 October 2017	To construct three 50MW solar PV power plants
PNB Merdeka Ventures Sdn Bhd	MYR 2,000	29 December 2017	To fund an 83-storey office space forming part of the Merdeka PNB118 tower project
Sinar Kamiri Sdn Bhd	MYR 245	30 January 2018	To construct a 49MW solar PV power plant

Source: SC Malaysia

THE REGULATORY ECOSYSTEM

An Evolution Towards Green Financing via *Sukuk*

The Securities Commission Malaysia (SC)'s development of a facilitative regulatory ecosystem plays an instrumental role in driving the growth of the *Sukuk* market. This development has led to greater innovation and collaboration resulting in a broader and deeper market that has seen increased participation from issuers, investors and intermediaries. All these have translated into a vibrant and thriving *Sukuk* market with significant potential for further growth, enhancing Malaysia's leadership in this market segment. Furthermore, the SC is capitalizing on this leadership to support its key priority in fostering the SRI ecosystem within the Malaysian capital market to enhance its positioning as the regional center for *Shari'ah*-compliant SRI.

In 2014, the SC launched the SRI *Sukuk* framework to facilitate the financing of sustainable and responsible investment initiatives. These initiatives relate to SRI projects encompassing natural resources, renewable energy and energy efficiency, community and economic development and *Waqf* properties/assets. The framework forms part of the SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers which is also aligned to the rising trend of green and social impact bonds introduced globally to promote sustainable and responsible investing. The inaugural *Sukuk* issued under this framework was the MYR 100 million SRI *Sukuk* Ihsan by Khazanah Nasional in 2015, a social-impact *Sukuk* which is part of a MYR 1 billion programme to fund the development of trust schools.

Further development of the SRI segment has reinforced SC's push for sustainable and green financing. Green *Sukuk* issued under the SC's SRI *Sukuk* framework are compatible with the

International Capital Market Association's Green Bond Principles (GBP) – an internationally accepted and widely used standard for the development of national green bond guidelines.

To complement the SRI *Sukuk* framework and promote greater utilization of green *Sukuk* as a fundraising channel, several incentives have been introduced to attract green issuers including:

- Tax deduction until year of assessment 2020 on issuance costs of SRI *Sukuk* approved or authorized by or lodged with the SC.
- MYR 6 million Green SRI *Sukuk* Grant Scheme administered by Capital Markets Malaysia, to defray independent expert review costs incurred by *Sukuk* issuers.
- Tax exemption for recipients under the Green SRI *Sukuk* Grant Scheme from year of assessment 2018 to 2020.

Initiatives undertaken in Malaysia to support sustainable growth and meet investor interest for green investments are also part of the Association of Southeast Asian Nations Capital Markets Forum's (ACMF) broader efforts in developing green finance within the ASEAN region. In November 2017 the ACMF, which is chaired by the SC, launched the ASEAN Green Bond Standards (AGBS) based on the GBP. The AGBS is to be used only for issuers and/or projects in the region and specifically excludes fossil fuel-related projects.

PROSPECTS FOR GREEN *SUKUK*

On Track Towards a Brighter Future

Green *Sukuk*, which is emerging as an important component of social finance towards a greener economy, is generating interests in both the green sector and the *Sukuk* market. In this regard, Malaysia's experience in facilitating green *Sukuk* issuance by developing the necessary framework and ecosystem for enabling a Green *Sukuk* market is potentially a key driver in bridging Islamic finance, SRI and the green industry at the international level.

This development can be viewed as timely and progressive given the increasing awareness and demand for green and sustainable development projects globally, which bodes well for the future of green *Sukuk*. Broader understanding and appreciation of the similarities in the underlying principles of Islamic, SRI and green finance will also support the development of the green *Sukuk* market. A critical element in ensuring the sustained growth of this market, however, is close collaboration among the various relevant stakeholders which will enable green *Sukuk* to be an efficient and effective cross-border financing and investment instrument for issuers and investors respectively.

4.4 THE IMPACT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS ON SUKUK MARKET DEVELOPMENT

BY: *STELLA COX CBE*, MANAGING DIRECTOR
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DDCAP GROUP

INTRODUCTION

Responsible investment can be broadly defined as an approach to investing which incorporates environmental, social and governance (ESG) factors in investment and financing decisions to deliver sustainable returns over the long-term and manage investment risk more effectively. This development started over twenty years ago, and since then, a global momentum driven by the financial community's recognition that ESG factors play a significant role in determining investment risk and return has developed. During that period, investors have become increasingly discerning, insisting on increasing levels of transparency around their investments and business activities.

Responsible investment applies a holistic approach to the inclusion of any data or information that can have substantive impact on asset performance. It is entirely suited even to those investors focused solely on financial gain, supported by the rationale that ESG factors have a material impact on profitability and should therefore not be ignored. Investors, issuers and beneficiaries have also developed a more evolved understanding that issues such as climate change, pollution, corruption, labour conditions and diversity present a significant reputational and value risk to investments as well as to their owners and stakeholders.

Responsible investment is not the same as Socially Responsible Investing (SRI). However, there are environmentally and socially targeted investment and financing products in both that overlap and these, in combination, can serve to form part of a responsible investment strategy. The nomenclature within the responsible investment subset can be confusing, descriptors are numerous and ever-evolving, including green financing, impact investing, ethical investing and sustainable investing. Frequently grouped together themselves, their specific focuses are not a pre-requisite of responsible investment practice. Whilst responsible investment practices incorporate environmental, sustainability and social welfare considerations and therefore have similarities, investors and beneficiaries who also adopt SRI values endeavour to combine financial return with moral or ethical return with the purpose of satisfying measurable social and environmental objectives.

Islamic financial market practitioners have long argued that Islamic finance has impact beyond comparable, conventional financial market alternatives because funds are raised and invested in asset backed and asset based transactions through equitable, contractual arrangements that promote partnership and the sharing of profit and loss for the benefit of the wider economy.

RATIONALE FOR ESG INVESTMENT AND FINANCING

Previously, corporations made contributions to worthy causes from profits and after payment of dividends to shareholders, but there is now a growing consensus that the objectives of generating profit and doing good (in whatever form, be it tackling environmental concerns, poverty alleviation, humanitarian crisis management or resourcing healthcare or education) are not mutually exclusive and, in fact, can be achieved in tandem.

THE GREEN BOND/SUKUK NEXUS

Against this backdrop, the Islamic capital markets appear to have embraced the trend towards sustainable investing, particularly in Southeast Asia. Mirroring growing demand from conventional market investors for green assets, there is a similar trend developing in the Islamic space. This is small to date but undoubtedly growing.

By way of explanation, a green bond is one that commits the bond issuance proceeds to environmentally conscious investments. Green *Sukuk* can therefore be issued for similar purposes. From a structuring perspective, a green *Sukuk* is essentially no different to a conventional *Sukuk* but the investment parameters of proceeds will be further defined to accommodate ESG guidelines, as well as *Shari'ah* stipulation.

Like green bonds, green *Sukuk* are gaining further acceptance as issuers look to alternative sources of financing, especially in the context of energy related infrastructure projects. Guidelines for issuance of *Sukuk* that are conscious of environmental considerations and/or have social impact are a work in progress. Positively, the green bond market shares many of the characteristics of its *Sukuk* counterpart in that both are focused on issues

generally extraneous to the instrument itself, i.e. it must satisfy stakeholder criteria within the context of relevant environmental concerns – essentially investment considerations shared by participants in both the conventional and Islamic markets.

Interestingly, adoption of standards within the responsible investment subsets has been principles-based and largely voluntary to date, so there is divergence both in investor requirements and management approach. Over time membership organisations and associations such as the United Nations' endorsed Principles for Responsible Investment (PRI), which started in 2006 and has become the world's leading proponent of responsible investment, have been formed to bring some consistency of approach in terms of policy, procedure, practice and reporting.

At the time of writing, there are over 1900 signatories to PRI divided between asset owners, investment managers and service providers. Some 1% are currently from OIC countries and still fewer, to date, are from the Islamic financial sector. DDCAP Group is one of them.

SOVEREIGN ESG SUKUK ISSUANCE AND MARKET INFRASTRUCTURE DEVELOPMENT

In recently published commentary CIMB Group Holdings Bhd suggested that sovereigns would issue between three and five global *Sukuk* in 2018, a percentage of those as green *Sukuk*. Certainly they will represent "green shoots" but the trend will likely continue to extend its foothold as governance frameworks for green bonds and *Sukuk* develop.

Malaysia was the first country to formally adopt SRI guidelines. In August 2014 the Securities

Commission Malaysia launched the Sustainable and Responsible Investment framework to establish guidelines integrating Islamic finance and Environmental, Social and Governance (ESG) as Malaysia sought to carve a niche in the ESG space. This was followed in June 2015 with an issue by Malaysia's sovereign wealth fund, Khazanah Nasional Berhad, of the first social impact *Sukuk* in June 2015, raising RM 1 billion (USD 266 million) dedicated to educational projects. A second tranche issued in August 2017 included a retail offering, which provided the public (rather than corporate/institutions) an opportunity for impact investing. In both cases, the *Sukuk* issues were oversubscribed.

Also in Malaysia, where the green agenda is a high priority, Tadau Energy incorporated social responsibility in its investment mandate and in June 2017 issued the world's first ever green *Sukuk*, amounting to MYR 250 million (USD 58.4 million). The proceeds will be used to finance a major solar-power project in Sabah state. The *Sukuk* was a joint effort between Malaysia's Securities Commission, Bank Negara and the World Bank Group. Interestingly, the *Sukuk* also involved Chinese participation given that Tadau Energy is owned by China's Edra Power.

In October 2017, Quantum Solar Park of Malaysia issued a green *Sukuk* for MYR 1 billion (USD 238 million), which again was oversubscribed and strongly encouraged by the Malaysian authorities with tax incentives for both issuers and investors.

In September 2016, the authorities in Indonesia unveiled their debt master plan aimed at raising *Sukuk* to 50% of total sovereign debt issuance over the next 10 years with resultant proceeds to be deployed in government funding of infrastructure, education and agriculture projects. Additionally, Oritan Jasa Keuangan (OJK), the country's financial services regulatory authority, is formulating a green bond framework which would also incorporate the issuance of green *Sukuk*, thereby tapping

both the Islamic and conventional markets. The move is intended to complement Indonesia's *Sukuk* masterplan. A key objective of which is to encourage Indonesian firms to follow suit and issue *Sukuk* to provide Islamic banks with additional *Shari'ah* compliant securities that can support liquidity management and ratio requirements.

In January 2018, Reuters reported that Indonesia was considering adding a "green tranche" to its upcoming US dollar *Sukuk* issuance. That issuance of USD 1.25 billion, with five year tenor, took place in February 2018 whereupon Indonesia became the first major Asian sovereign to issue a green bond of any type. Bankers involved with the transactions reported "remarkable demand" enabling pricing to be tightened by the issuer. Following on from the world's first green *Sukuk* issue noted above, this issuance is significant and far reaching, not just for Indonesia but equally so for the Islamic financial industry and the green movement. Prospectively it could act as a blueprint for the USD 26 trillion infrastructure requirement for Asia (based on estimates of the Asian Development Bank) where green finance /green *Sukuk* are expected to be an important conduit to meet some of these funding needs.

Within the GCC, there has been considerable interest in green *Sukuk* although, to date, there have not been any issuances. The Dubai Supreme Council of Energy has announced a partnership with the World Bank to develop a green investment strategy, which will potentially incorporate *Sukuk* as well. The Dubai Clear Energy Business Council has discussed the issuance of green *Sukuk* with the Dubai Supreme Council of Energy (DSCE but, again, there have not been any issues to date.

MULTILATERAL ENGAGEMENT WITH ESG PRINCIPLED INVESTMENTS

At the United Nations Global Warming Conference in Paris held in 2015, the Islamic Development Bank (IDB) indicated its interest in issuing green *Sukuk* to finance climate-related projects.

In May 2016 the United Nations Development Programme (UNDP) entered into a Memorandum of Understanding (MoU) with the IDB to strengthen their bilateral relationship with the purpose of supporting the effective implementation and achievement of the 17 Sustainable Development Goals (SDGs). Their collaboration is focused on areas of priority including crisis response and recovery, peace-building, poverty reduction, youth employment, innovation, disaster risk reduction, climate change, sustainable energy, capacity development and knowledge sharing. Geographically, co-operation extends beyond the Arab states to include Africa, Central and South Asia, as well as Southeast Asia and the Pacific.

The UNDP and the IDB actually entered into an initial MoU as long ago as 1986 and have had various subsequent collaborations. Through those efforts, the IDB has extended more than USD 240 million over a ten year period for projects relating to agriculture, electricity and housing under the UNDP's Programme of Assistance to the Palestinian People.

Under the 2016 MoU, the focus will be on upscaling ongoing initiatives and exploring new opportunities including:

- Project development and implementation around shared priority areas and competitive advantages in crisis response and recovery, poverty reduction, youth employment, disaster risk reduction and climate change.
- Development of private sector partnerships to promote inclusive markets and develop

business models for inclusive development and increased entrepreneurship – including progressing the Global Impact Investing Programme for blending Islamic finance and other private sector resources to achieve the SDGs.

- Strategy Development and SDG alignment by working together to align key IDB Member Country Partnership Strategies to the SDG.
- Promoting systematic institutional co-operation, by broadening channels of research, analysis and information exchange.

In 2016 the IDB and its development partners launched the USD 2.5 billion Life and Living Fund (LLF), the largest development initiative of its kind in the Middle East. In a period extending from launch to 2021 the LLF will provide up to USD 2.5 billion of concessional financing aimed at saving and improving lives. The LLF is blending USD 500 million grant of funding with USD 2 billion of the IDB's own capital to enable the IDB to accelerate its concessional financing of health, agriculture and basic infrastructure for the IDB's lower income member countries. Major LLF donors include the IDB's own Islamic Solidarity Fund for Development, the Bill & Melinda Gates Foundation, the Qatar Fund for Development, the King Salman Humanitarian Aid and Relief Foundation and the Abu Dhabi Fund for Development.

Most recently the IDB, through a statement made by its President, Dr. Bandar Hajjar, at the IMF/World Bank meeting in Washington DC in October 2017, affirmed its intention to extend its *Sukuk* issuance programme in support of financing medium to long-term projects that are principally focused on the SDG objectives.

On a supranational level, the most noteworthy transaction to date has been the successful USD 500 million *Sukuk* issuance in November 2014 by the International Finance Facility

for Immunization Company (IFFIm), an AA rated obligor. IFFIm raises funds within the international capital markets to accelerate the availability of funds for immunisation programmes and health system enhancement by Gavi, the Vaccine Alliance. 79% of Gavi's funding is from the government and the balance is from private sector funding. IFFIm's unique public-private partnership presents a compelling case study. Its financial base consists of legally binding grant payments (approx. USD 6.3 billion) from its nine sovereign donors, of which the UK is the largest in terms of funding amount and tenor of commitment, whilst the World Bank is IFFIm's Treasury Manager. Until the 2014 announcement, IFFIm had raised some USD 5 billion equivalent from the conventional capital markets in support of Gavi over an eight year period. IFFIm's inaugural *Sukuk* was followed in September 2015 with its USD 200 million sophomore issue.

Proceeds of the *Sukuk* funded children's immunisation programmes in the world's poorest countries. The 2014 landmark transaction was the first socially responsible *Sukuk* and was also the largest *Sukuk Al-Murabahah* in the public markets at the time of issuance and the largest inaugural *Sukuk* offering by a supranational. The 3-year issue was co-ordinated by Standard Chartered Bank with joint lead managers Barwa Bank, CIMB, National Bank of Abu Dhabi and NCB Capital. Oversubscribed, the investor base was strongly diversified with 85% of the order book primarily from core *Shari'ah* compliant investors. Regional distribution was 21% into Asia, 11% Europe and 68% Middle East and Africa, with banks accounting for 74% of the allocation and public sector investors, including central banks, taking 26%.

ESG IMPACT ON THE *SUKUK* MARKET

If green bonds gain momentum, for which the signs are encouraging, there is likely to be a resultant impact on the origination, issuance and placement of *Sukuk*. From an investor perspective, positive developments are likely to occur. Most governments are now treaty bound to observe ESG criteria in the domestic projects that they undertake, the most prominent of such treaties being the Paris Climate Accord of 2015. As a result, bond and *Sukuk* holders are increasingly likely to be given government undertakings regarding adherence to ESG values when sovereigns come to market, particularly in the energy and infrastructure space.

A broadening of the investor base is likely to evolve through retail market focused issuance where many target investors are millennials, who have become a dominant force in the green bond and ethical markets. In the next few years, millennials will inherit the largest ever transfer of generational wealth and they are proactive investors in the SRI environment. Globally, millennials are potentially set to control USD 24 trillion by 2020 according to Deloitte. Such investors tend to be better educated, better informed and socially minded. A similar phenomenon can be seen in the more affluent Muslim countries, which each have significant millennial populations that are proportionally greater than those of non-Muslim countries.

A further impact will be the prospective availability of currently inaccessible *Waqf* funds (many managed by governments) which, because of their social emphasis, demand SRI principles are applied to every investment made, including *Sukuk*. Although not easily quantified, these funds are estimated to run into billions of dollars across the GCC, Southeast Asia and Turkey.

In terms of governance, it will be a period of education and growing awareness for the

Sukuk market and its investors that will likely be shared from the green bond market experience. Documentation and *Shari'ah* harmonisation will still present some challenges. Commentators suggest that the early success for green *Sukuk* in Malaysia may have been supported by the centralised *Shari'ah* Supervisory Board at Bank Negara working with the Securities Commission to enact the SRI framework. That output has enabled Malaysia to take an early leading position in the green *Sukuk* space, proving again that the most accelerated development and growth in Islamic financial practice is driven by top down engagement.

Although, as noted earlier, adoption of ESG principles has previously been typically voluntary and self-governed, bodies such as the PRI are encouraging their signatories and members to be transparent in their reporting, through companies' internal reports being subjected to third party validation. As legislation and regulation pertaining to green investments evolves, we might expect the approach to ESG validation to become more formalised. It is apparent already that our counterparts from other SRI subsets have been proactive in growing their own understanding of the Islamic financial industry's approach to *Shari'ah* audit procedures and, in parallel, Islamic finance is forming its own thought leadership for a broader, SRI focused dialogue. RFI Foundation, a think tank for responsible finance, was established in 2015 with the aim of bringing together various forms of responsible finance practice, including Islamic, to promote consensus as a basis for convergence between standards, practices and regulations.

CONCLUSION

There would appear to be many principles of Islamic financial practice that are complementary to impact investing. Both focus on creating financial systems that are more responsive to the real economy and provide a more holistic approach for all stakeholders.

Given the ethos that underlies Islamic financial practice, other subsets of the SRI community should be encouraged to explore opportunities to develop forms of collaboration with *Shari'ah* compliant investors and financiers. Initially this could be simply on the basis of gaining greater understanding and awareness of the fundamental principles and practices adhered to by each investor group. However, with that accomplished, there is still the matter of working out where those focuses and values might complement each other, overlap or even converge with the objective of originating practical and compelling financial solutions.

This article has considered various, positive examples of Islamic financial market policy formers, influencers, organisations and institutions seeking to explore and collaborate with other parts of the SRI community. It is important that such collaborations develop. Endorsement by organisations such as the UN Environment Programme - Finance Initiative (UNEP FI), which included Islamic finance during a global roundtable session co-presented by the RFI Foundation in Dubai in 2016, assists in developing a profile and also serves to encourage the participation of the government, as well as the institutional market, investors and asset owners. This has been effectively demonstrated by the responsible investment momentum driven by the growth and success of the PRI during the last ten years.

A proactive response to ESG trends and changing market dynamics is essential. UK Asset Manager

Arabesque suggests that the quality of ESG data is at 10% of what it will be in five years' time. Global reporting initiatives have been instrumental in bringing ESG data to the market. Relevant data sets are enormous and complex and cannot be processed efficiently and effectively using traditional methods. The term 'big data' refers to the collection of these data sets and research last year by Standard & Poor's suggested 80% of managers had planned to increase their big data investments in 2017. The emergence of big data has coincided with the ESG trend, further embedding it in global financial discussion and practice and it is important that the Islamic financial sector and its firms are committed to similar investment, research and development initiatives.

Whereas the stewardship embraced by Islamic financial practitioners reflects social impact and governance, it is a financial industry subset that has developed from the emerging markets, many of which have economies driven by traditional energy and fuel revenue. Accordingly, related environmental issues and their long-term effects have historically been less of a consideration. This perspective is changing and interestingly outside of multilateral accord and government policy, this is being driven by investor demands, particularly by millennials. Therefore the prospects for rapid growth in green *Sukuk* issuance within energy linked infrastructure is high, given the combined effect of policy formation, global infrastructure and social welfare needs. That likelihood is further supported by a prospective investor base that is more socially aware, committed to working towards the objectives of a fairer society and aligned with the reasoning that responsible investment and profit are not mutually exclusive.

4.5 WAQF-ALIGNED DEVELOPMENT TARGETED SUKUK INNOVATION FOR INFRASTRUCTURE AND SOCIAL FINANCING

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Sukuk issuance is now an established practice of fund mobilization in the Islamic finance sphere. Over the years, *Sukuk* have been utilized for raising funds to finance specific projects as well as for financing general private and public expenditures. The world has also experimented with several kinds of contractual and financial structures in *Sukuk* to suit various needs. Preferences of investors and issuers, the nature of the financed projects, market competition, regulatory environment, governance methods, and general economic conditions are all factors that have contributed to and influenced the growth and evolving nature of *Sukuk* structures. With the growth of the *Sukuk* market, the world has also witnessed several cases of defaults in *Sukuk* resulting in legal disputes as well as jurisdictional contests. In recent years, a new phenomenon in the form of perpetual *Sukuk* also took hold. Perpetual *Sukuk* are *Sukuk* with no contractual maturity. Islamic banking institutions issue them to manage their own risk and to meet the tier-1 capital adequacy and high-quality liquid assets regulatory requirements. In the face of this growth, increasing variety, and experimentations in *Sukuk*, there are two key socio-economic development needs to which the *Sukuk* market has not yet given its due attention; despite the suitability of *Sukuk* based financing to meet those needs. The first is the financing for development of physical infrastructure and energy. The second is the financing of social needs. Both are important.

The present note presents the possibilities available in these two spheres through a new structure termed '*Waqf*-Aligned Development Targeted *Sukuk*' (WADTS). Along with explaining the differences and similarities of WADTS with other such social impact bonds and Socially Responsible Investment (SRI) *Sukuk*, the note also discusses the only three *Sukuk* that have been issued with the social, environmental, and health improvement objectives.

Waqf-Aligned Development Targeted *Sukuk* are not a single type but a family of *Sukuk* that are (1) development oriented (2) stage-wise outcomes-based finance products that (3) tap *Waqf* initiatives and *Waqf* resources as catalyst (not as main financing) to (4) facilitate the main financing and completion of (5) specific (6) development oriented projects. They involve raising social investment to pay fully or partly for interim returns to investors in socially useful projects or infrastructure projects that improve social and developmental outcomes and reduce long-term costs.

By instituting *Waqf* simply as an incentive provider (or sometimes cost absorber) for overcoming some key hurdles in Public Private Partnership (PPP) financed projects, these *Sukuk* can help in attracting long-term private investment and enhancing social and economic impact. By changing the mix of front-loading and back-loading of these incentives *Awqaf* can fine-tune the policy impact, improve social and developmental outcomes and reduce long-term costs.

WAQF-ALIGNED DEVELOPMENT TARGETED SUKUK (WADTS) FOR PPP TYPE PROJECTS

Hurdles in financing of PPP projects

PPP type projects are capital intensive, long-term projects that have both revenue generating capacity and large positive externalities for the economy. Once completed and when their utilization begins as planned, they can contribute significantly to social and economic development. However, because of their capital intensiveness and the fact that long periods are required to complete and recover the investments, the financing of these projects poses several difficulties. Moreover, given the nature of infrastructure, the benefits of the project are not all internalized by the government sponsors and the investors while its construction and operating costs are private. Thus, the infrastructure projects are underprovided by the market. Furthermore, they face the risk of non-completion because of cost overruns and inefficient utilization due to inflated projection of benefits at the planning stage.

There is detailed literature and accumulated experience in conventional financing of PPP projects identifying the difficulties and current methods in vogue to manage those difficulties. The high capital requirements for infrastructure projects means that governments in developing countries would not be able to finance the projects solely from their own revenue sources. Financing from private investors (domestic and foreign) will be needed, and financing from multilateral financial institutions may also be required. However, investment from the private sector may not be easy to obtain for large infrastructure projects because of:

- Uncertainties, particularly political uncertainties and doubts about consistency in regulatory and economic policies over the period.
- Concerns that the project may not be

completed or political competition and interference would cause delays.

- Cost overruns, that usually happen, if not due to delays then, due to underestimation of costs and over reporting of benefits at the offering stage.
- A host of other economic and governance issues, including political interference.

Vagliasindi (2013) endorses the above reasons by stating some key requirements for success in attracting private sector investment in PPP financed infrastructure projects (say supply of drinkable water or electric power). He identifies the following requirements:¹

- Placement of support mechanisms, which play a bigger role in affecting the level of investment.
- Regulatory certainty is vital for attracting investors to the projects.
- Control for corruption and reduction of degree of political competition helps investors enter the markets, indicating that investors seem to be adequately protected against risks.
- Market size (as measured by population) matters more than the “affordability” level of consumers (as measured by income) for attracting investment in PPPs.

Many of these difficulties are non-financial in nature and beyond the capacity of a single financial instrument to mitigate. However, WADT *Sukuk* have the potential to address these non-financial constraints to some extent, in addition to overcoming the financial difficulties that are the realm of structured financial products.

¹ Vagliasindi, Maria (2013). Revisiting Public-Private Partnerships in the Power Sector, World Bank: Washington DC, DOI: 10.1596/978-0-8213-9762-6

How can WADT *Sukuk* overcome some of these hurdles?

To understand how WADT *Sukuk* can overcome some of these problems, take the following case:

Suppose specific purpose *Sukuk* for a Public Private Partnership (PPP) project in supply of drinkable water are to be issued (Energy, Communications, Transport, Infrastructure, and Food supply are other possible sectors). Since the selected project would be revenue generating, economically viable, and nationally important (hence consistency in government support is expected) it would be attractive to investors. These *Sukuk* would also be tradable in secondary markets. However, the problem in this and many infrastructure projects is that due to long gestation periods the investors may have to wait a long time before revenue can be generated. This feature makes this investment unattractive. This problem opens up an important role for *Awqaf* institutions.

One option for *Awqaf* institutions is to directly invest in the project long-term and take up all or a large chunk of the project. However, this may not be possible because of various reasons such as:

- (1) the *Awqaf* do not have such large amounts of cash available, nor can they liquidate their assets to invest in said project.
- (2) If the project becomes entirely *Waqf* owned, there can be issues in transfer of ownership in BoT as well as in secondary market trading of *Sukuk*².
- (3) The project may be of national strategic importance hence cannot be easily sold to others.

The other option, which we advocate, is that a *Waqf* (or many *Awqaf* together) agree to make

periodic incentive payments to the investors during the gestation period of the project (i.e., during the initial period when revenue stream has not yet started) which will be adjusted in later periods. This arrangement of payout stream will be attractive to the investors allowing them to commit the money for long term. It will thus be a good arrangement to attract a diversified set of investors with an appetite for varying holding periods. *Waqf* will work as a tipping factor (catalyst) to influence investors to invest and hold at least during the gestation phase, later they might like to remain there as the project passes into success phase. The payout from *Waqf* will be periodic, staggered and contingent on completion of various phases of the project. Thus it will also be a driver for timely completion. The arrangement is good for bringing in a diversified set of investors and not just institutional investors.

What are the advantages of this arrangement to *Awqaf*? Suppose a *Waqf* is for easing thirst. A project to develop infrastructure for drinking water is aligned with the objectives of this *Waqf*. So, facilitating the development of this project through providing money to pay for the advance returns to investors as an incentive device would be possible under *Shari'ah*, and it would be economically viable because it involves low amounts as compared to the large financing requirements of the whole project. This combination of *Waqf* and private-public financing allows the larger project to remain with the sponsors (be it a government or a group of private parties or some other entity) without necessarily becoming a *Waqf* property which has its own restrictions. The impact of *Waqf* towards the cause for which it was established will be amplified.

² Note that this is when the project itself becomes a *Waqf* or substituted for the *Waqf* assets. If the *Waqf* is making only an investment out of its income, then such investment asset does not automatically become *Waqf*; it will remain as sellable and transferrable asset.

The payout from the *Waqf* to the investors in a water project is like '*Juala*'. That is, the *Waqf* announced that whoever invests in a water project would get rewards in stages as the project develops towards completion. The arrangement requires either:

- (1) publicly observable progress of the project
or
- (2) an independent monitoring agency that announces the stage-wise progress of the project, so that the *Waqf* could remain confident that it is not being cheated by overstatement of the progress and investors can remain confident that they will not be cheated by understatement of the progress.

INNOVATIVENESS

Why is the idea innovative?

It is innovative because it integrates *Waqf* with development financing to increase the impact of development at a lower cost. The objectives of the *Waqf* are aligned with the development objectives of financing. It is innovative because no one has done it yet. It is innovative because it requires *Waqf* to play only a catalyst role in attracting investment for infrastructure and social projects.

Has any institution or organization launched a financial product similar to this?

Not yet, but its nearest cousins may be the Development Impact Bonds, *Ihsan Sukuk* in Malaysia to finance education, and the Triple Win *Murabahah* Financing of vaccination program by IDB together with Bill & Melinda Gates Foundation.

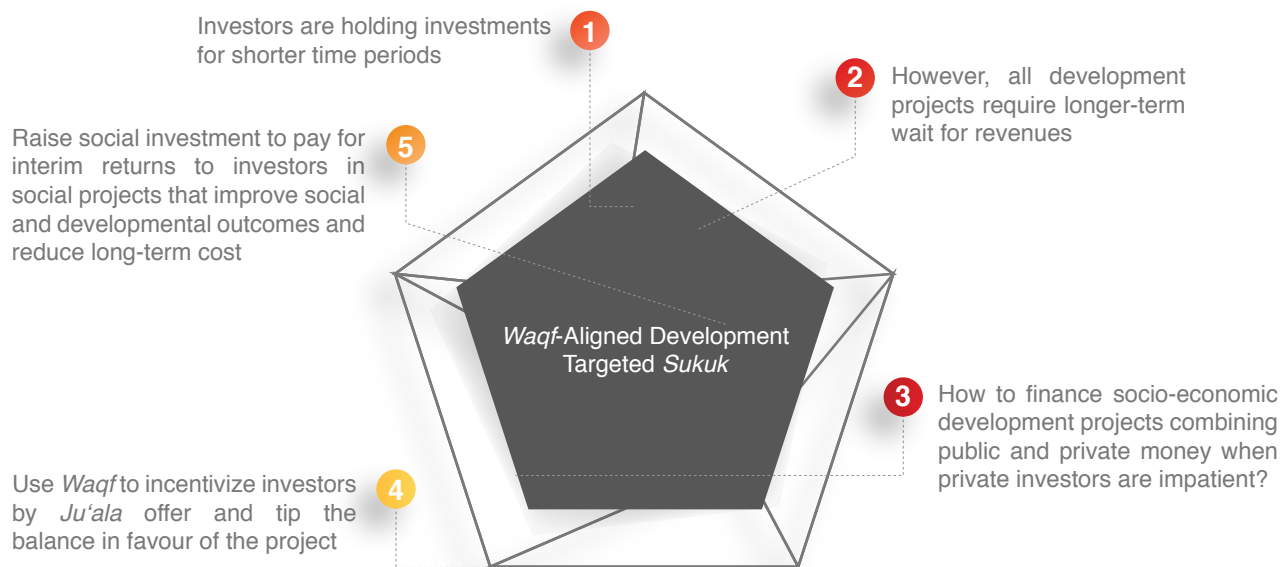
The difference here is that the project investors are taking the risk of the project while the *Waqf* is coming in as an incentive maker to cover for initial period risks. Moreover, the *Sukuk* so structured are tradable (unlike *Murabahah*

financing) and *Shari'ah* compliant (unlike the bonds). The product helps revive the role of *Awqaf* and makes them active and integrated with economic development.

Where does the innovation lie in *Waqf*-Aligned Development Targeted *Sukuk*?

The key innovation lies in the following aspects:

- Integration of *Awqaf* with private and public-sector investments for economic development.
- Bringing *Awqaf* to incentivize long-term private (for profit) sector investment.
- Combining *Juala* in *Sukuk* to create performance-based payment.
- Bringing in a diversified set of investors to complete the project (private for-profit investors, socially inclined impact investors, government, and social investors like *Awqaf*).

Figure 2: Features of the Concept

RISKS AND RISK MITIGATES

Like any financial product, WADTS are not immune to risks. They carry project risk that comprises of political as well as operational risks. But these are the risks in carrying out any actual work for economic development and implementation of projects. Operational risks that are unique to WADTS are a moral hazard of two kinds that are interrelated.

The first risk is the possible misuse of *Waqf* money to incentivize private investors. But this risk can be managed and justified because we need involvement of social investors as well as profit-seeking investors for the completion of public good projects. A way to mitigate the risk faced by the *Waqf* money is to have clearly defined objectives of the *Waqf* and clearly established purposes of the infrastructure project. Then ensuring that the objectives of the project and its output are aligned with the objectives of the *Waqf*, that is, providing the incentive payments, provides the first defence against misuse of *Waqf* resources.

The second risk stems from the fact that the project is modelled as beneficiary, not as investment, of the *Waqf*. The *Waqf* is benefiting the society in provision of the needed public good indirectly through incentivising the socially useful project. The question arises, what are the controls available with the *Waqf* to influence the outcome of the project (or the construction of the project)?

The risk mitigation to address these concerns would be in either (1) developing a mechanism for publicly observable progress of the project or (2) creating an independent monitoring agency that announces the stage-wise progress of the project. So that the payments from *Waqf* will be contingent on this progress report, and the *Waqf* could remain confident that it is not being cheated by overstatement of the progress, and investors can remain confident that they will not be cheated by understatement of the progress.

An additional risk mitigate could also be devised. Instead of outright incentive contribution, the *Waqf* can make a loan to the project to affect the interim payments to the investors. This loan will be returned in a later period when revenues are generated. If the project fails the loan can be recalled, and some value can be recovered from the sale of the project assets.

REPLICABILITY

Can this idea be replicated, where and how?

For the success of an innovation it should be replicable in many settings. WADTS are replicable in many projects. However, they will need adjustment according to local circumstances, institutional quality and *Waqf* initiatives.

The main assumptions for replicability are:

1. A long gestation period before the project starts generating revenue is a strong deterrent in attracting investment.
2. There is a critical level of institutional quality and good governance available in the country. This is a key determinant in attracting investment and successful completion of infrastructure projects through PPP. Making payments from *Awqaf* contingent on stage-wise completion of the project will work as a sweetener as well as

an information signal to the investors about the progress of the project.

COST OF CARRY ADVANTAGE IN WADTS

WADTS allow for stage-wise and in-time mobilization of capital according to the needs of the project at each stage. Thus, it can avoid cost of carry that is faced by issuance of bonds for big projects. Cost of carry occurs when sponsors raise the entire amount of money upfront while the actual deployment of funds in the project will take place gradually over a period of time³. The issuers are then faced with the problem of finding placements where the excess funds can be securely invested to earn a return to pay to the borrowers whose periodic payments become due immediately. The upfront mobilization of funds is out of fear that funds may not be available later. In WADTS, if the project's construction is progressing well, the incentives provided by the payment from the *Waqf* help a great deal in raising funds only according to the needs of each stage. Like the concept of just-in-time inventory system to reduce the cost, WADTS allow just-in-time fund mobilization to reduce the cost of carry.

³ See World Bank (2017), Mobilizing Islamic Finance for Infrastructure Public Private Partnerships, Report 2017, Box 3.2, page 37.

EXTENSION OF THE CONCEPT: AN ALTERNATIVE PRODUCT WITH DIRECT IMPACT ON BENEFICIARIES

There can be some difficulties in quick acceptance of the above proposed WADTS product in some communities due to two reasons:

1. The people are not direct beneficiaries of the *Waqf* in the *Waqf*-Aligned Development Targeted *Sukuk* (WADTS). Rather, *Waqf* financially incentivizes private investors to do social good by investing in a project that benefits society. Society may like to see that the benefits of *Waqf* directly accrue to the people who are beneficiaries of the *Waqf*. If one layer of separation or indirectness is possible between the *Waqf* payments and transfer of *Waqf* benefits to its intended beneficiaries, then two or multilayer indirectness is also possible. Since we know that all economic activities have some social effects, and if we can choose those economic activities that do not have net negative social effects, then any economic activity can be justified for financing by any *Waqf*. Hence, an important objective of the institution of *Waqf*, to earmark the transfer of benefits to certain people or society for social purpose, would be lost. Therefore, to protect a *Waqf* against possible misuse of its assets, strong checks and balances are needed. The easiest check is to require that the benefits of *Waqf* directly accrue for the purpose and to the people who are designated beneficiaries of the *Waqf*. The question is how to do this while incentivizing private investors to invest in socially beneficial PPP projects.

2. Another possible difficulty could arise from the organizational structure of large *Awqaf*. In the management of (large) *Awqaf*, the philanthropy activities department is separate from the investment department. The *Waqf* investment department pursues high rates of

returns with minimum risk to the *Waqf* capital and it is highly market oriented and focused on its financial goals. The philanthropy department is oriented towards the social goals defined by the *Waqif*, and it works with the amount of money transferred to it by the investment department as net earnings from *Waqf* investment. Thus, the investment department may not be concerned with the social goal. It will never allow incentive payments to the other private investors in a project deemed socially beneficial if there are no competitive returns to the *Waqf* money. Moreover, the investment department of *Waqf* may not at all be concerned with the social dimension of the project in its investment decisions. Whereas the WADTS assume that the philanthropy department is also taking the financial decisions.

If the above two problems are faced due to existing social milieu or due to organizational setting of a separate philanthropy arm and the investment arm of *Waqf*, then a new product can be offered. It is a variant on the above idea of WADTS but has direct accrual of benefits to the target beneficiaries, and provides investment focus for the *Waqf* with claim on 'output of the project'.

The new arrangement consists of issuing two kinds of *Sukuk* for private sector financing of the project (that has social benefits as well as revenue stream in future). A-*Sukuk* are targeted for private investors, which are normal *Sukuk* that pay out financial returns. These *Sukuk* pay returns even during the gestation period of the project. This feature will incentivize private investors to choose this project over other projects of a similar nature. B-*Sukuk* are targeted for *Waqf* institutions. The proceeds of these *Sukuk* will create necessary liquidity to

⁴ This section is the outcome of discussion and joint thinking with Sami al-Suwailem.

pay a rate of return to the investors during the gestation period of the project. These *Sukuk* payout in the form of x% of the output of the project (an output sharing arrangement) when the project starts generating the output or in the form of X amount of output of the project (a *salam*, advance purchase arrangement). The output thus received by the *Waqf* will be distributed to the beneficiaries of the *Waqf*. Thus, the *Waqf* directly benefits the beneficiaries in addition to generating indirect benefits for them through creating incentives to private investors to join the project.

The payments to the private investors during the gestation period will still remain contingent on stage-wise completion of the project. This feature will help keep the moral hazard problem in control. The type B-*Sukuk* has an additional feature of being convertible into shares of the project in case of default (defined in terms of not completing each stage of the project in its due time and generating output less than the output targeted for the project in the feasibility report).

These two types of future claims of *Waqf*: (i) on the output of the project and (ii) on the ownership of the project assets, along with its ability to distribute the output to *Waqf*'s beneficiaries, address the two problems raised above. That is, society's preference for *Waqf* to directly benefit the target population and the investment department's single-minded pursuit of higher returns with minimum risk.

Figure 3: Type-A Sukuk

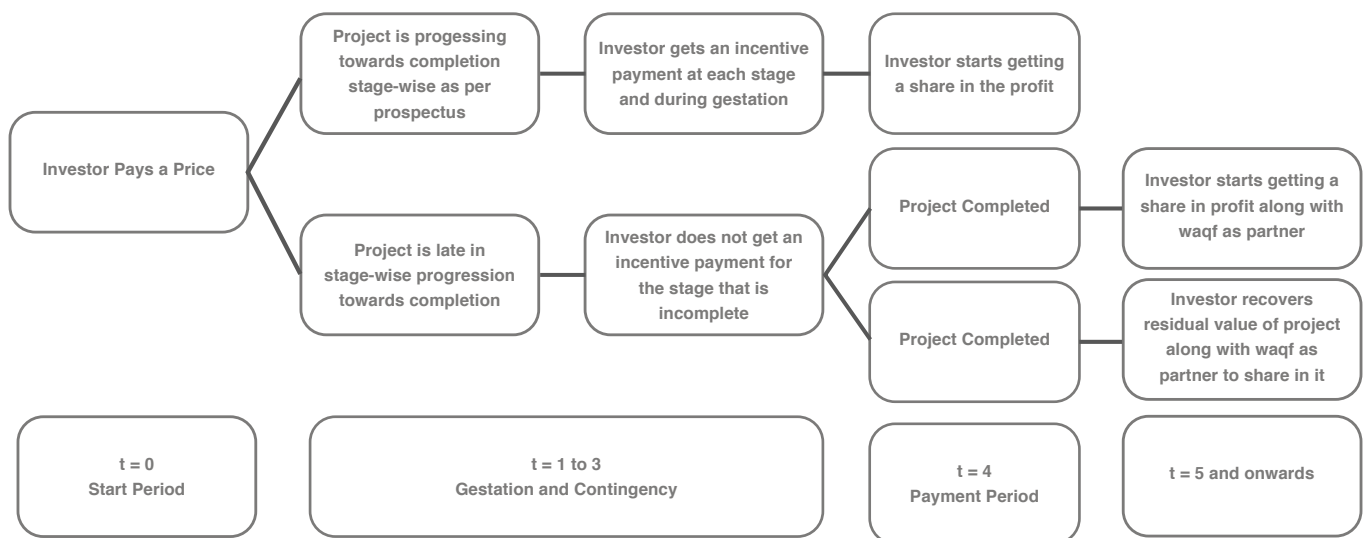
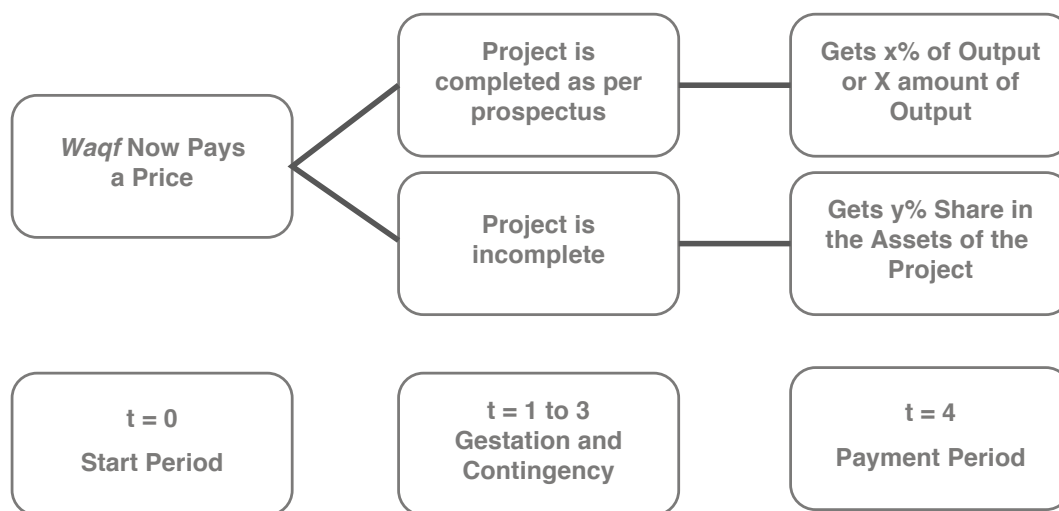


Figure 4: Type-B Sukuk Payout Structure**CONCLUSION**

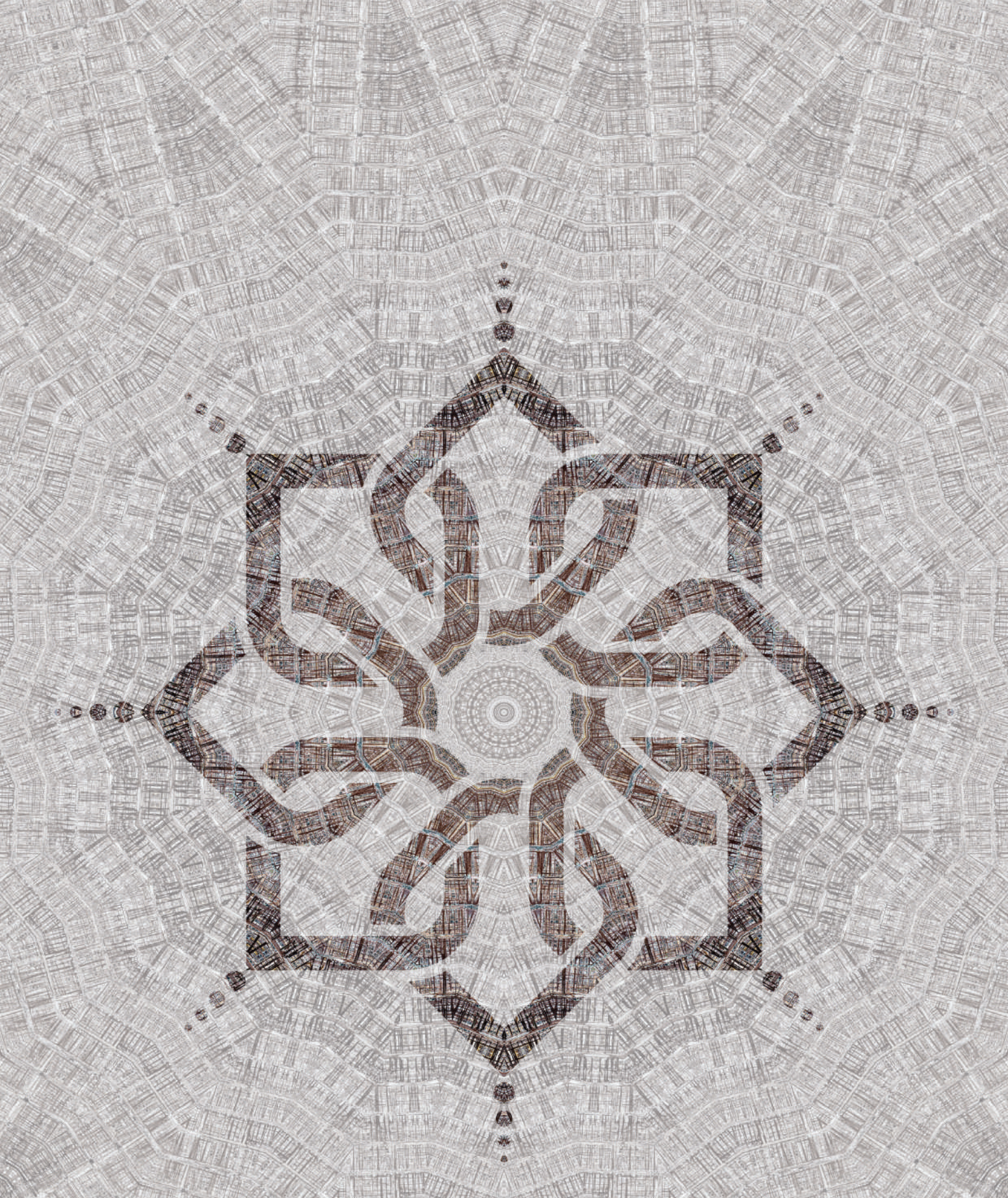
An idea of *Waqf*-Aligned Development Targeted *Sukuk* (WADTS) is developed. WADTS are a family of *Sukuk* that are development oriented, stage-wise outcomes-based finance products. They tap *Waqf* initiatives and *Waqf* resources as catalysts (not as main financing) to facilitate the main financing and completion of specific, development-oriented projects. They involve raising social investment to pay fully or partly the interim returns to investors in socially useful projects or infrastructure projects that improve social and developmental outcomes and reduce long-term costs. WADTS can reduce cost of carry in fund mobilization and can be devised in different classes to target different types of investors.

Although use of WADTS is discussed here in the context of PPP type projects to show how these *Sukuk* can overcome the hurdle of interim payments during the gestation period, these *Sukuk* have wider application in overcoming various small but key difficulties, including even the non-financial constraints, that hold back profit motivated private sector investment in socially beneficial economic development projects. WADTS can be designed to combat corruption, develop the missing legal framework in a country for introduction of Islamic finance, and to incentivize green projects as well as social impact creating projects through *Waqf* provided subsidies and performance-based incentives. The key innovation is *Shari'ah* compliant use of '*Juala*' offered by *Awqaf* in the *Sukuk* structure. The *Waqf*, being an outside party when it steps in as voluntary incentive provider, assumes a new economic development role for itself which is powerful, resilient and applicable in a variety of circumstances.

It is now up to the practitioners of Islamic finance to transform this concept of *Waqf*-Aligned Development Targeted *Sukuk* (WADTS) into a practical financial product. This process itself will create many amendments and incorporate new features that will expand the frontiers of Islamic finance.



CHAPTER FIVE



*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 those countries which have made great strides in launching new Islamic financial products in an innovative manner. It has been quite active in the *Sukuk* market and issues short and long-term instruments at regular intervals. As much as 18.3% of the 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 201 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 collateralized by a commodity (Residue Gas). They are issued through a fixed-rate tender procedure. The CBB Monetary Policy Committee sets the rate of return.

2. SUKUK AL-IJARAH

2.1 SHORT TERM IJARAH SUKUK

Short term *Ijarah Sukuk* were first issued in August 2005 (149 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. *Ijarah Sukuk* are based on assets owned by the Government of Bahrain. They are issued through a fixed-rate tender procedure. The CBB Monetary Policy Committee sets the rate of return.

2.2 LONG TERM IJARAH SUKUK (DOMESTIC)

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

Features of local long term *Ijarah Sukuk*:

- In issuing these instruments the Government of Bahrain sells an asset to the investors and then rents it back from them at a predetermined rental rate via a rental contract (the Ministry of Finance chooses the asset which is to be used for a new issue).
- The Government will also issue a binding promise to buy back the asset at its par value at the end of the rental period.
- A prospectus is prepared which gives details on the issue amount, currency, rental return, issue date and maturity date.
- On the date of the rental payment the CBB transfers the return amount to the participating institutions' respective accounts (semi-annually).

Auction procedure for *Sukuk Al-Salam* and *Ijarah Sukuk*:

- Invitation letters which contain details on a forthcoming issue are circulated to the institutions eligible to participate.
- The institutions submit a tender bid to the CBB indicating the quantity they would like to acquire through the Scripless Securities Settlement System (SSSS).
- Tenders are then allotted pro-rata to interested institutions according to their quantity contributions.
- The SSS system notifies the participating institutions of the result of the tender allotment.
- Settlement takes place by debiting the participating banks' Real Time Gross Settlement (RTGS) system accounts with the CBB.
- The 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.

2.3 LONG TERM IJARAH SUKUK (INTERNATIONAL)

- The Kingdom of Bahrain successfully priced the second issue of USD 850 million Rule 144A/RegS 7-year *Sukuk* with a structure of 51% *Ijarah* and 49% *Commodity Murabaha*. Exceptionally strong investor reception allowed the transaction to be priced inside the tight end of the revised price guidance; 5bps inside Bahrain's outstanding secondary curve for the 7.5-year *Sukuk* and 12-year bond.
- International *Ijarah Sukuk* were first issued in June 2009 (4 issues to date).

Auction procedure for long-term International *Ijarah Sukuk*:

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

Figure 1: CBB's Long Term *Ijarah Sukuk* (Local)

Issue No	Issue Date	Maturity Date	Return	Issue Amt.	Return Date
LI/1	04-Sep-01	04-Sep-06	5.250%	USD 100 million	04-Mar 04-Sep
LI/2	27-Feb-02	27-Feb-05	4.250%	USD 70 million	27-Aug 27-Feb
LI/3	29-Aug-02	29-Aug-07	4.000%	USD 80 million	28-Feb 28-Aug
LI/4	19-Nov-02	19-Nov-05	3.000%	USD 50 million	19-May 19-Nov
LI/5	27-Feb-03	27-Feb-06	3.000%	USD 80 million	27-Aug 27-Feb
LI/6	02-Apr-03	02-Apr-08	3.750%	USD 100 million	02-Oct 02-Apr
LI/7	27-May-03	27-May-08	% 60 B.P Over 6m LIBOR	USD 250 million	27-Nov 27-May
LI/8	15-Dec-03	15-Dec-06	% 30 B.P Over 6m LIBOR	USD 50 million	15-Jun 15-Dec
LI/9	30-Jun-04	30-Jun-09	% 45 B.P Over 6m LIBOR	USD 250 million	30-Jun 30-Dec
LI/10	20-Jul-04	20-Jul-14	5.125%	BD 40 million	20-Jan 20-Jul
LI/11	28-Feb-05	28-Feb-10	4.500%	BD 30 million	28-Feb 28-Aug
LI/12	21-Nov-05	21-Nov-11	5.600%	USD 230 million	21-May 21-Nov
LI/13	03-Oct-07	03-Oct-12	% 30 B.P Over 6m LIBOR	BD 95 million	03-Apr 03-Oct
LI/14	20-Mar-08	20-Mar-13	% 75 B.P Over 6m LIBOR	USD 350 million	20-Sep 20-Mar
LI/15	17-Jun-09	17-Jun-14	6.247%	USD 750 million	17-Dec 17-Jun
LI/16	24-Sep-09	24-Sep-12	3.75%	BD 165 million	24-Mar 24-Sep
LI/17	07-Apr-11	07-Apr-16	5.50%	BD 200 million	07-Oct 07-Apr
LI/19	17-Jul-12	17-Jul-17	4.300%	BD 160 million	17-Jan 17-Jul
LI/20	13-May-13	13-May-15	1.450%	BD 100 million	13-Nov 13-May
LI/21	08-Jan-15	08-Jan-18	3.000%	BD 100 million	08-Jul 08-Jan
LI/22	19-Jan-15	19-Jan-25	5.500%	BD 250 million	19-Jul 19-Jan
LI/23	09-Jul-15	09-Jan-25	5.000%	BD 200 million	09-Jan 09-Jul
LI/24	17-Jul-17	17-Jul-20	4.20%	BD 125 million	17-Jan 17-Jul
LI/25	28-Jan-2018	8-Jan-21	4.80%	BD 100 million	08-Jan 08-Jul

Source: Central Bank of Bahrain

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

Issue Type	Issue No.	Issue Date	Maturity Date	Return	Issue Amt.	Return Date
<i>Ijarah Sukuk</i>	LI/18	22-Nov-11	22-Nov-18	6.273%	USD 750 million	22-May 22-Nov
<i>Ijarah/Murabaha</i>	1	12-Oct-16	12-Feb-24	5.624%	USD 1 billion	12-Feb 12-Aug
<i>Ijarah/Murabaha</i>	2	20-Sep-17	20-Mar-25	5.250%	USD 850 MN	20-Mar 20-Sep

Source: Central Bank of Bahrain

ISLAMIC STANDING FACILITIES OFFERED BY THE CBB AGAINST THE IJARAH SUKUK

Islamic *Sukuk* Liquidity Instrument (ISLI)

The mechanism of the Islamic *Sukuk* Liquidity Instrument (ISLI), which was launched in June 2008, is based on sale and purchase transactions meant to help Islamic banks in managing their liquidity. It involves three separate *Sukuk* sale and purchase transactions requiring three parties; namely the *Sukuk* owner (the bank in need of liquidity), the intermediary bank (the market maker) and the CBB, which offers the liquidity. The *Sukuk* are sold and then repurchased according to the following procedure involving the three parties:

- Bank A (Seller): sells the *Sukuk* to Bank B (Market Maker) and receives the liquidity needed; should be any CBB-licensed bank which invests in eligible *Sukuk*.
- Bank B (Market Maker) sells the *Sukuk* to the CBB which is the second purchaser that offers required liquidity.
- At maturity, the CBB sells back the *Sukuk* to the undertaking bank (Bank A), the first seller and owner of the *Sukuk*.

CBB *Wakalah* Facility

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

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 field. With nearly one-fifth of the Bahrain government's financing needs being met through *Sukuk* we can expect continued activity in the near and medium term future. Having a sophisticated *Sukuk* issuance program in place, the Kingdom serves as a role model for other countries which are entering this arena.

5.2 BRUNEI DARUSSALAM

SUKUK MARKET DEVELOPMENT

BY: MONETARY AUTHORITY OF BRUNEI DARUSSALAM (AMBD)

OVERVIEW

1. DATA OF SUKUK ISSUANCE

a. Sovereign Sukuk

On 7th December 2017, the Government of Brunei Darussalam through its agent, Autoriti Monetari Brunei Darussalam (AMBD), issued its 152nd series of *Sukuk* which is worth BND 100 million. With this issuance, the Brunei Government has issued over USD 11.46 billion worth of short-term *Sukuk Al-Ijarah* securities since its first offering on April 6, 2006.

b. Quasi-Sovereign Sukuk

There are no quasi-sovereign *Sukuk* being issued during the period of January 2017 to December 2017.

c. Corporate Sukuk

There are no corporate *Sukuk* being issued during the period of January 2017 to December 2017.

The Government *Sukuk Al-Ijarah* issuances, for the period of January 2017 to December 2017 are as follows:

Year	Series	Issuance Date	Tenor (Days)	Amount (BND)
2017	141	12-Jan-17	91	100,000,000
	142	2-Feb-17	91	100,000,000
	143	23-Mar-17	182	100,000,000
	144	13-Apr-17	364	50,000,000
	145	4-May-17	91	100,000,000
	146	15-Jun-17	91	100,000,000
	147	6-Jul-17	91	100,000,000
	148	17-Aug-17	273	50,000,000
	149	21-Sep-17	91	100,000,000
	150	12-Oct-17	364	32,400,000
	151	2-Nov-17	91	100,000,000
	152	7-Dec-17	91	100,000,000

BND 1 = USD 0.7158

d. Secondary Market Trading

There has been no secondary market trading activity in 2017.

2. Legal and Regulatory Framework for *Sukuk* in Brunei Darussalam

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

Any type of investment instruments or securities, including *Sukuk*, fall within the purview of the SMO and the SMR. Prior to any issuance, offer or distribution of these investment instruments or securities in Brunei Darussalam by way of a public offering, a registration statement and prospectus requirements set out in the SMO and the SMR are, in general, required to be complied with. Additionally, any Islamic securities or financial products including *Sukuk* are also regulated under the Syariah Financial Supervisory Board Order, 2006 (SFSBO). Under the SFSBO, these Islamic securities or financial products are required to be submitted to the Syariah Financial Supervisory Board (SFSB) for approval. The SFSB acts as the final authority for the ascertainment of the Laws of Islam for the purposes of Islamic banking business, *Takaful* business, Islamic financial business, Islamic development financial business and any other business which is based on *Syariah* principles.

At this point of time, AMBD is currently enhancing its legal and regulatory framework to facilitate the growth of *Sukuk* market in Brunei Darussalam.

3. Moving Forward

AMBD is currently working on developing the domestic money market, both the conventional and Islamic money market, and will include issuing shorter tenor *Sukuk*. This project will provide benchmark rates for the shorter end of the curve.

5.3 INDONESIAN SUKUK MARKET CONTINUOUS PROGRESS

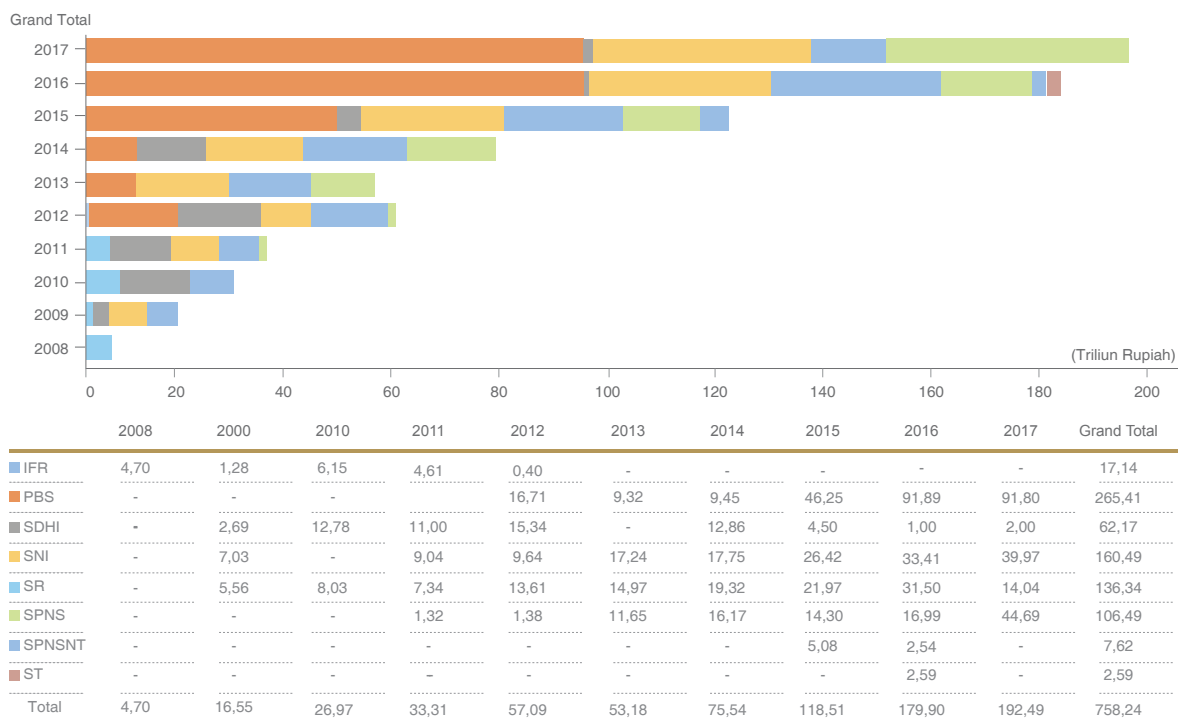
BY: BANK INDONESIA (BI)

Continuing a rapid development of *Sukuk* in the last couple of years, both government and corporate *Sukuk* have seen positive improvement in 2017. The government of Indonesia has consistently issued government *Sukuk* (namely SBSN) and the same as the corporate one with more varieties of corporate *Sukuk* issued to the market. For the government, SBSN is an integral part of the fiscal policy to finance infrastructure development in Indonesia.

Since the approval of Act Number 19 year 2008 on SBSN, the issuance of the first series of SBSN namely Islamic Fixed Rate (IFR) was worth IDR 15 trillion and the total issuance of SBSN has been amounted IDR 764.51 billion circa 2008. After that initiation, varieties of *Sukuk* are available in the market, such as Retail *Sukuk* (SR), Indonesian Global *Sukuk* (SNI), Pilgrimage *Sukuk* (SDHI), Treasury *Sukuk* (SPN-S), Project Based *Sukuk* (PBS) and the most recent one (issued in 2016) was Saving *Sukuk* (ST). Up to the end of 2017, total accumulated SBSN was accounted IDR 192.5 trillion or 17% of the total government bonds.

Compared to 2016 in which the total of SBSN was IDR 179.9 trillion, SBSN has inflated 51.8% in 2017. These figures reflect that the Government of Indonesia has a strong commitment to regularly issue *Sukuk* Negara in both domestic and global markets to support the development of the global Islamic financial market and attract investors to fast-growing Islamic financial institutions in Indonesia.

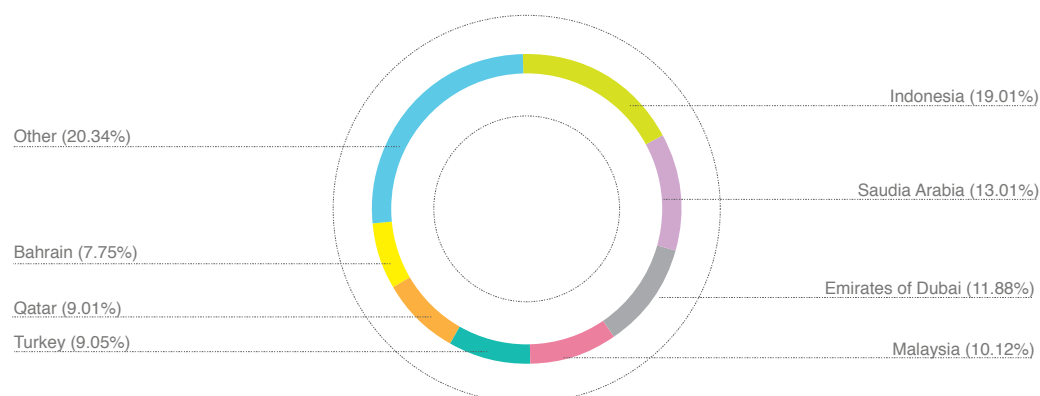
Figure 1: Trend of Indonesia Sovereign Sukuk Issuance



SBSN Portfolio Development in 2017

Continuing the previous part above, the total IDR 192.5 trillion SBSN is composed of PBS IDR 91.8 trillion (47.7% of the total SBSN), SPN-S IDR 44.7 trillion (23.2% of the total SBSN), SNI IDR 39.9 trillion (20.7% of the total SBSN), SR IDR 4 trillion (2% of the total SBSN) and SDHI IDR 2 trillion (1% of the total SBSN). The continued domination of PBS reflects the government's need to finance long term and strategic projects; particularly infrastructure projects by using SBSN funds. The examples of government *Sukuk* issued in 2017 were retail *Sukuk* SR-009 maturing on March 10th 2020 with 6.9% coupon rate, global *Sukuk* SNI 0322 maturing on 29th March 2022 with 3.4% and SNI 0327 maturing on 29th March 2027 with 4.15%. These SR intended for the short-term investment and SNI denominated in USD for foreign investors. The continued domination of these two SBSN series shows the strong interest of retail investors (SR targets retail investors) and positive expectation on domestic economy from foreign investors. Besides, in the international market space, the total issuance of Indonesia sovereign *Sukuk* has reached USD 69.2 billion, accounting for 19.01% of the total global *Sukuk* issuance (see figure 2). Based on this fact, it demonstrates that the Government of Indonesia has committed to enhance its Islamic finance credentials and to continue setting liquid and on-the-run benchmarks in the global *Sukuk* arena. Henceforth, Indonesia is leading in international sovereign *Sukuk* issuers with the considerations of establishing an Islamic Global Medium-Term Notes (GMTN) for more flexible issuance in terms of timing, size amount, and product. Indonesia also pioneered to continue innovation in Global *Sukuk* Structuring through *Wakala Sukuk* structure.

Figure 2: Global *Sukuk* Issuance Portfolio



Structures (Contracts) of SBSN

Since its first appearance in 2008, there have been four SBSN structures (contracts) namely:

- (1) *Ijarah* sale and lease back;
- (2) *Ijarah Al-Khadamat*;
- (3) *Ijarah* asset to be leased; and
- (4) *Wakalah*.

A contract of *Ijarah* sale and lease back is consistently employed in IFR, SNI, and SPN-S instruments while *Ijarah Al-Khadamat* is an SDHI instrument. Furthermore, an *Ijarah* asset to be leased is utilized under PBS and SR instruments while *Wakalah* is utilized in SNI instrument. Each SBSN structure has different underlying assets.

For instance,

- (i) in *Ijarah Sale* and Lease Back contract, the underlying assets are state-owned assets,
- (ii) in *Ijarah Asset to Lease Back* contract, the underlying *Sukuk* are infrastructure projects and,
- (iii) in *Wakalah* contract, the underlying *Sukuk* are state-owned assets or infrastructure projects.

In issuing SBSN, the government can employ a Special Purpose Vehicle (SPV) named Perusahaan Penerbit SBSN (PP SBSN) Indonesia, that legally acts as the issuer as well as the trustee, or the government can also directly issue SBSN instead of using PP SBSN. For the latter option, the government should choose its own trustee. Furthermore, the issuance mechanism in the domestic market uses an auction mechanism held every two weeks based on the annual calendar of issuance. The SBSN auction participants consist of banks (both conventional and Islamic bank) and securities companies. Instead of the auction mechanism, SBSN (especially Retail *Sukuk* and Saving *Sukuk*) issuance also employ book building mechanisms or private placement as in the case of SDHI. For its global *Sukuk* issuance (SNI), the government adopts book building and private placement mechanisms. In terms of the ownership of SBSN, as depicted in figure 3 below, by majority the SBSN is owned by the banks with the ownership constitutes 45.47% as the SBSN is tradable in the market.

Figure 3: SBSN Ownership

INSTITUTIONS	Oct-16		Dec-16		Mar-17		Jun-17		Oct-17		Dec-17	
	Milliar	%	Milliar	%	Milliar	%	Milliar	%	Milliar	%	Milliar	%
TRADABLE	244,438	85.26	245,708	86.22	274,492	87.48	297,424	88.33	339,039	89.63	342,989	89.74
Total Bank	122,591	43.21	123,549	43.35	128,439	40.93	139,030	41.29	175,847	46.49	173,797	45.47
Conventional Banks	100,874	35.55	101,492	35.61	101,746	32.43	109,461	32.51	136,577	36.11	136,312	35.66
Sharia Banks	21,717	7.65	22,057	7.74	26,693	8.51	29,569	8.78	39,270	10.38	37,486	9.81
Bank Indonesia	594	0.21	-	-	1,689	0.54	9,524	2.83	4,442	1.44	8,959	2.34
Insurance Company	47,984	16.91	49,981	17.54	53,738	17.13	56,102	16.66	58,638	15.50	35,960	9.41
Pension Fund	13,672	4.82	14,072	4.94	13,678	4.36	14,295	4.25	15,062	3.98	39,467	10.33
Individual	19,497	6.87	19,061	6.69	28,681	9.14	24,350	7.23	22,437	5.93	21,873	5.72
Mutual Fund	11,355	4.00	12,171	4.27	12,901	4.11	14,229	4.23	16,749	4.43	17,235	4.51
Non Resident	11,991	4.23	8,867	3.11	15,795	5.03	19,108	5.67	21,035	5.56	21,199	5.55
Others	16,755	5.91	18,008	6.32	19,570	6.24	20,786	6.17	23,829	6.30	24,498	6.41
NONTRADABLE	39,282	14.74	39,282	13.78	39,282	12.52	39,282	11.67	39,221	10.37	39,221	10.26
Ministry of Religious Affairs	36,697	13.83	36,697	12.88	36,697	11.70	36,697	10.90	36,697	9.70	36,697	9.60
Individual	2,585	0.91	2,585	0.91	2,585	0.82	2,585	0.77	2,524	0.67	2,524	0.66
TOTAL	283,721	100.00	284,991	100.00	313,774	100.00	336,706	100.00	378,260	100.00	382,210	100.00

Note:

* In million Rupiah

*Not Included SUN Ownership

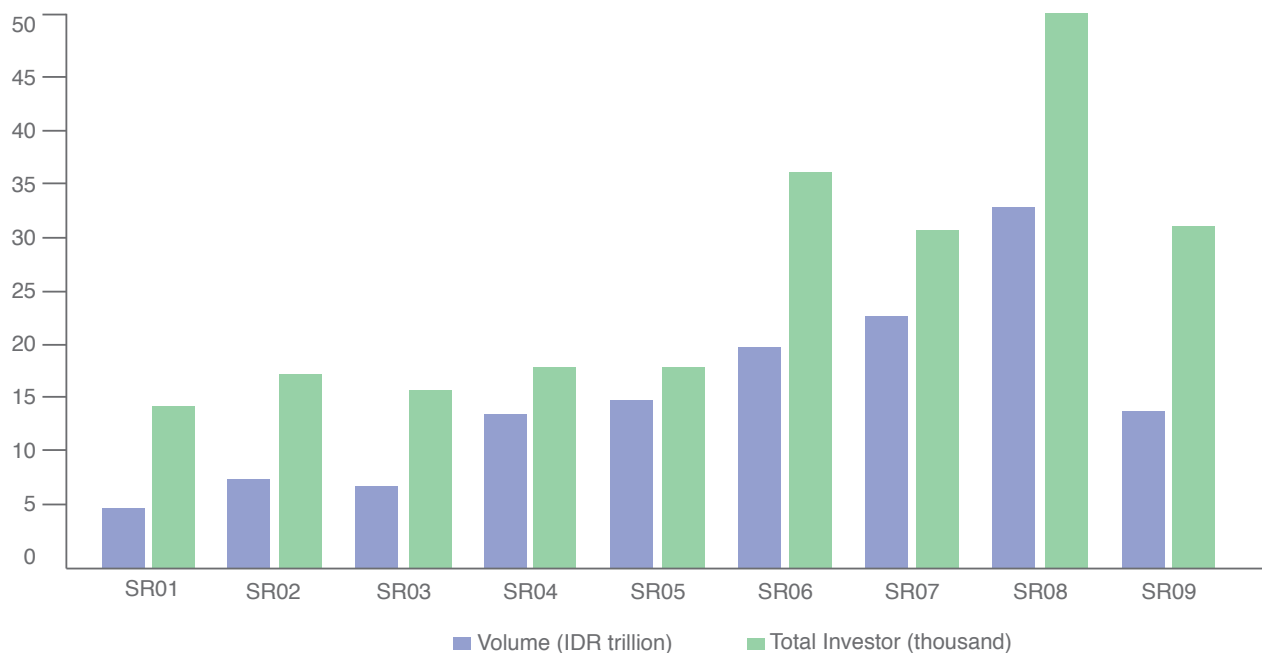
Others consist of corporate, Securities Company, Foundation, etc.

SBSN Contracts and Investors Development

In order to widen the net of investors, the government issues quite a few categories of SBSN both in domestic and global *Sukuk* markets. However, concerning the high number of the Indonesian Muslim population, the government targets retail investors by relying on Retail *Sukuk* (SR series). Fortunately, the volume of SR series is increasing from year to year, from only IDR 5.56 trillion in its first issuance to IDR 31.5 trillion in 2017 with sr08 and has been sold to 14.29 thousand investors (in

the first issuance) and 48.44 thousand investors (in SR08), respectively (see figure 2) . However, in 2017 with SR 09 issuance, the volume is declining due to a decreasing liquidity need to finance the government projects in accordance with the government’s budget and strategic plans.

Figure 3: Total Retail Sukuk Issuance

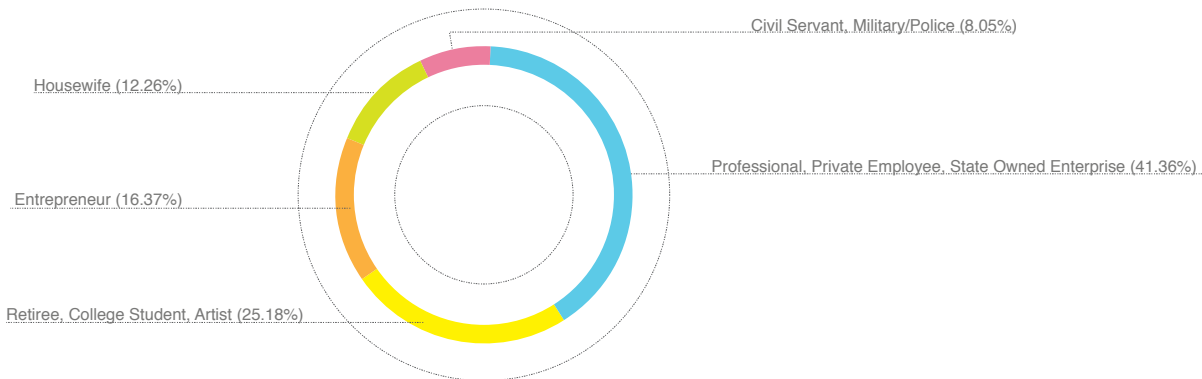


	SR01	SR02	SR03	SR04	SR05	SR06	SR07	SR08	SR09
Volume (IDR trillion)	5.56	8.03	7.34	13.61	14.97	19.32	21.96	31.5	14.03
Total Investor (thousand)	14.29	17.23	15.85	17.61	17.78	34.69	29.71	48.44	29.84

Based on the composition of investors, from 29,840 investors of SR-09 (see figure 3), the highest portion is professional, private employees, and state owned enterprise (41.36%), followed by retirees, college students and artists (25.18%), entrepreneurs (16.37%), house wives (12.26%), professionals (4.84%) and civil servants, military/police (8.05%). Such an investors’ composition reveals that SR has successfully become “a financial inclusion” SBSN as this series of SBSN attracts thousands of individual investors and it can transform investors’ investment behaviors from a savings-oriented society to an investment-oriented society via SR.

Additionally, in 2013 the government started to issue PBS in order to directly fund its projects, particularly infrastructure development (energy, telecommunication, transportation, agriculture, manufacturing and housing), public services and local industry empowerment, in accordance with its strategic policy. In fact, government projects which have been fully funded by PBS, are for instance, Double track rail of Cirebon Kroya under the Ministry of Transportation, Infrastructure for higher education under the Ministry of Religion and Railroads in Greater Jakarta, Central Java, and Sumatra, under the Ministry of Transportation.

Figure 4: Distribution of Profession



Following SR and PBS, SNI dominates the global *Sukuk* market (sovereign *Sukuk* issuer in USD) which contributed 22.47% of the total international sovereign *Sukuk* issuance and it is claimed to be number one in this category. Continuing from 2016, the Government issued SNI-0322 and SNI-0327 with 5 years tenure and 10 years tenure respectively. These issuance series were listed in Singapore Stock Exchange and Nasdaq Dubai. Again, SNI-0322 and SNI-0327 were granted as the largest sovereign *Sukuk* issuance denominated in US Dollar. This has expanded the investor base from Asia in 2016 to the United States and Europe in 2017, with the majority proportion of 29% each as depicted in figure 5 below. The basis investors of these *Sukuk* issuance are fund managers (with the proportion of 48%), followed by international banks at 39% (see figure 6). These series of SNI have been supported by a stable Baa3 rating from Moody’s, BB+ from Standard and Poor, and BBB- from Fitch.

Figure 5: Distribution of Demography

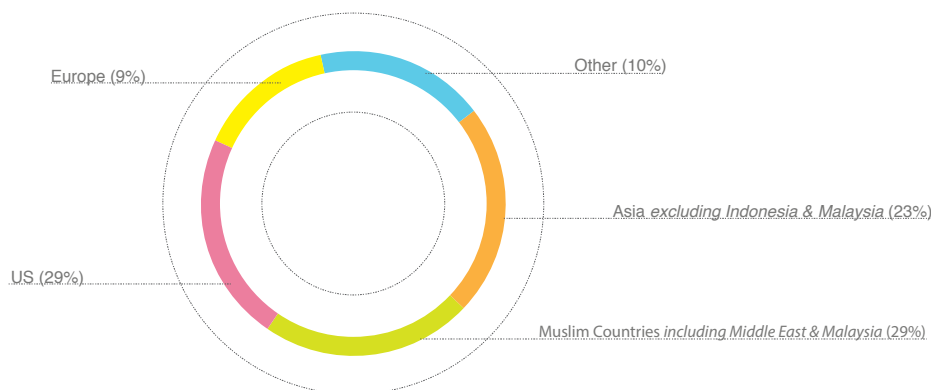


Figure 6: Distribution of Type Investors



Market Development of SBSN

The trend of SNI (*Sukuk Negara*) performance in the primary market in 2017 remains stable. The incoming bid of SNI-0327 issuance is consistently high – amounting to USD 5.97 billion or 33.50% higher than the awarded amount of USD 1 billion. This shows a good appetite from the investors to invest in Indonesian sovereign *Sukuk*. Meanwhile in the domestic market, SBSN (for example PBS and SPN-S series) also have an outstanding performance as shown in higher incoming bid as compared to the awarded bid (see figure 8). The year 2017 becomes the highest incoming bid of the PBS series so far. This consistently exceptional performance sends a strong message that there is huge potential for local investors to invest in SBSN especially since SBSN tends to offer a higher coupon rate than the bank’s interest rate. Nonetheless, SBSN is not as liquid as the conventional sovereign bonds (namely SUN) in the secondary market. This is due to limited number of stock (supply) compared to SUN. Taking this condition into account, the government keeps increasing

Figure 7: Sukuk Negara Global Issuance

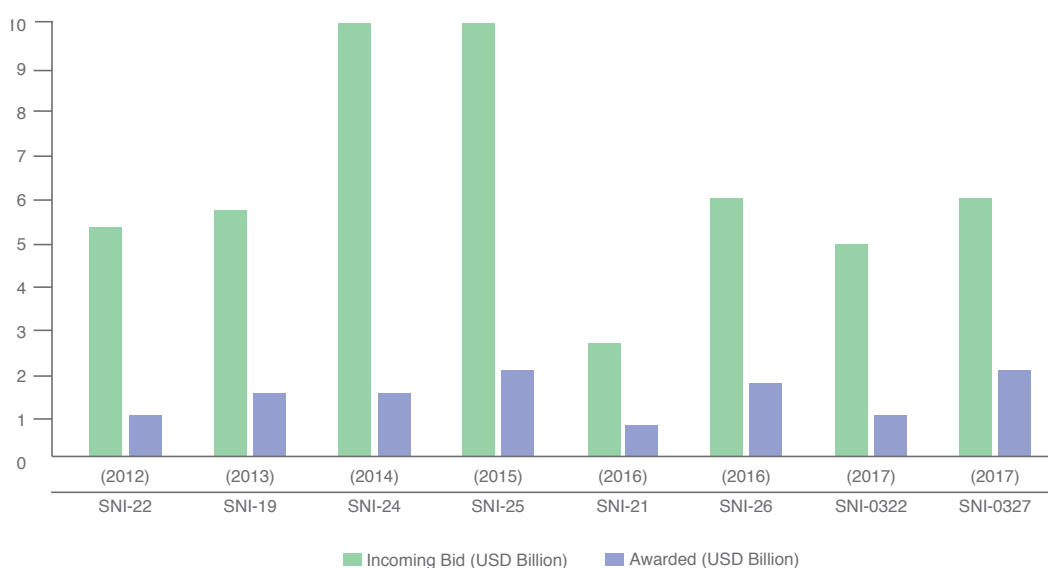
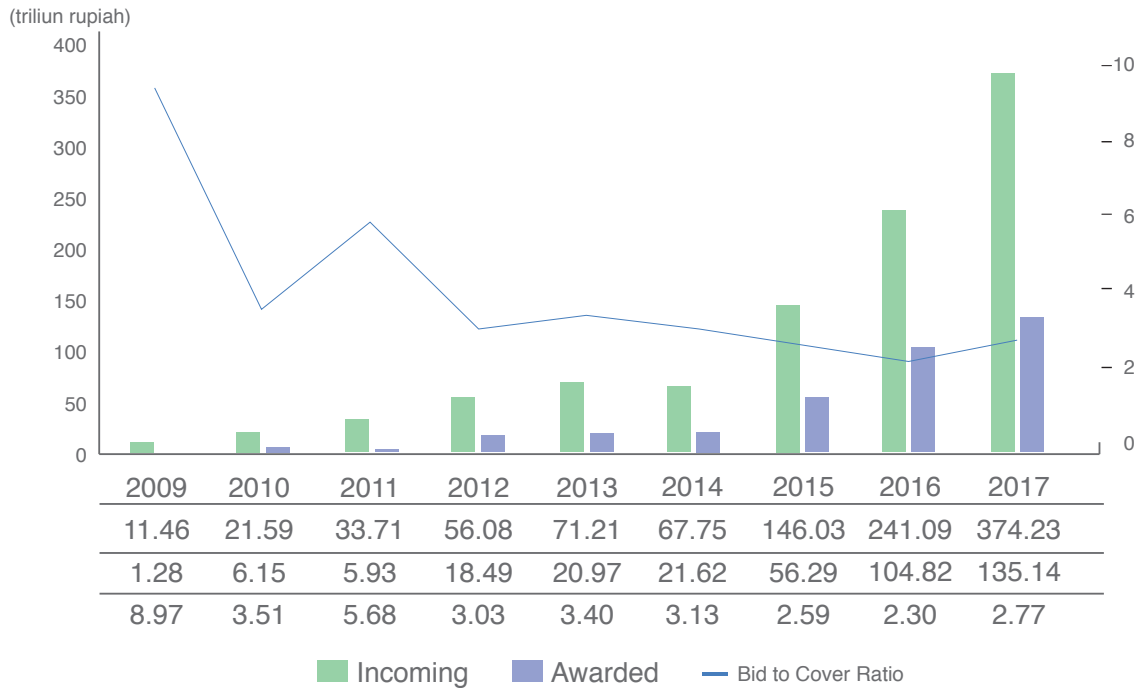


Figure 8: Project Based Sukuk (PBS Auction)

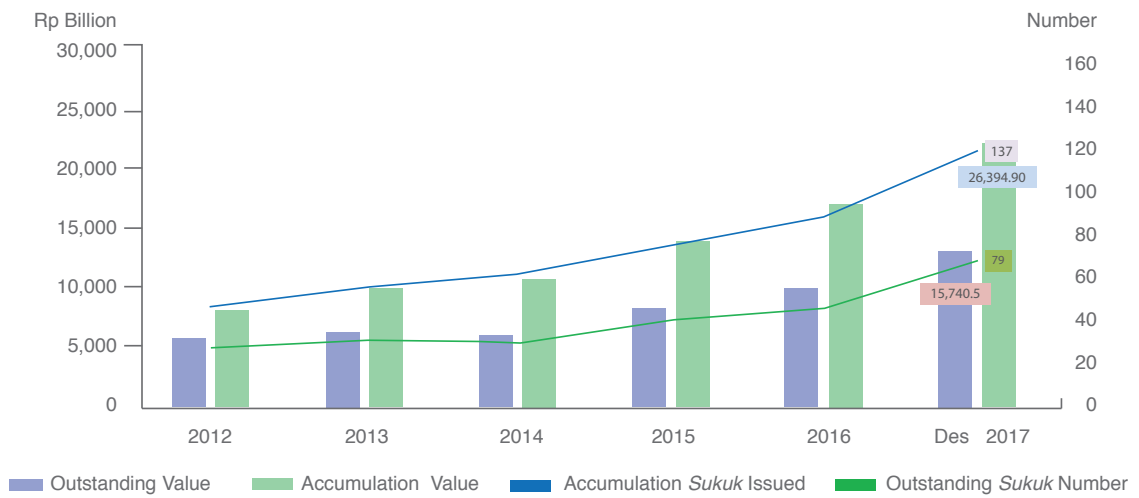


the supply of SBSN by issuing different types of SBSN to absorb more funds, attract greater and more diverse investors and deepen the Islamic financial markets. Instead of inflating the issuances and enlarging the *Sukuk* market, the government also regularly educates investors on the potential of investment in *Sukuk*. In conclusion, *Sukuk* Negara in 2017 shows a consistently excellent performance due to robust demand in both the domestic and international markets. As the most populous Muslim country, Indonesia aims to be a leading sovereign *Sukuk* issuance with a strong base of investors. An increasing number in the *Sukuk* Negara variant can also attract more domestic and foreign investors as well as increase funded projects for both commercial and public services. Widening the investor net by increasing product diversification is one of the key drivers for good market development.

Development of Corporate Sukuk

Following the government *Sukuk* (SBSN), corporate *Sukuk* also depicts positive progress. At the end of 2017, there were 37 outstanding corporate *Sukuk* valued at IDR 6.27 trillion and thus there have been 137 accumulated corporate *Sukuk* in the market, amounting to IDR 15.74 trillion or 3.98% of the total domestic *Sukuk* market (see figure 9). Compared to 2016, corporate *Sukuk* development in 2017 improved promisingly with an increase of 32.52% as compared to 2016 where it amounted to IDR 11.88 trillion. Till the end of 2017, corporate *Sukuk* utilised two types of contracts (*Ijarah* and *Mudharabah*). From 79 outstanding corporate *Sukuk* at the moment, there were 62 corporate *Sukuk* with *Ijarah* contract (78.48%) whilst 17 corporate *Sukuk* using *Mudharabah* contract (21.52%) with the amount of IDR. 11.60 trillion (73.69%) and the amount of IDR 4.14 trillion (26.31%) for *Ijarah* and *Mudharabah* contracts respectively.

Figure 9: Trend of Corporate Sukuk Development



5.4 SUKUK MARKET DEVELOPMENTS IN TURKEY

BY: THE CAPITAL MARKETS BOARD OF TURKEY (CMB)

Turkey is the 17th largest economy in the world. As one of the leading emerging markets, Turkey offers a wide range of investment opportunities thanks to its dynamic and strong growth market characteristics. The Turkish financial market is traditionally dominated by public sector securities. Despite the government's high borrowing demand, progress in favor of private sector issuances has been observed in recent years. Within that trend, the share of private sector securities in total outstanding securities started to increase by 2010.

Within total outstanding securities, the share of private sector instruments increased from 17.6% in 2010 to 26% as of November 2017. The main motive behind that increase was the growth in the corporate debt market including *Sukuk* issuances.

Table 1: Private Sector Debt Base - Issuances

(USD Million)	2013	2014	2015	2016	2017
Lease Certificates	844	2,075	1,251	9,74	2,211
Debt Securities	45.514	55.651	39,929	32.904	43,312

Turkey has carried out numerous key reforms in capital markets in order to enhance financial infrastructure, improve institutional capacity and increase the diversity of financial products and services. Under the Istanbul Financial Center Action Plan there is a national initiative to develop the securities market in Turkey, including Islamic capital markets. In order to develop regulatory framework for private Turkish *Sukuk*, important milestones have been completed in the last few years. When the first *Sukuk* regulation was introduced in 2010, it was designed basically to enable interest-free financing and investment in the form of a leasing (*Ijarah*) transaction. Then in 2011, tax inequalities on *Ijarah Sukuk* compared to conventional products were solved.

Sukuk issuance regulations currently in force have been published under the Capital Market Law (CML) in 2012. While "Asset Leasing Company" (ALC) was defined as an issuer to fulfill the SPV's role for issuances in the first regulation, with the Law, ALCs have been

identified as "Capital Market Institutions" which are regulated and supervised by the CMB. By doing that, extra protection and confidence for *Sukuk* investors have been brought. The main points regulated in the CML regarding *Sukuk* and ALCs are as follows:

- All kinds of assets and rights can be subject to issuance.
- ALC cannot conduct activities other than those specified in its articles of association and no real rights may be established in favor of third persons on the assets and rights it holds except those permitted in its articles of association.
- ALC cannot lease or transfer assets and rights against the interests of *Sukuk* holders. Until *Sukuk* have been redeemed, the assets and rights taking place in the portfolio of ALC cannot be pledged other than for the purpose of collateral, cannot be put up as collateral, cannot be attached even for the purpose of collecting public receivables, cannot be included in bankruptcy estates and cannot

be subject to any cautionary injunction even when the management or audit of the issuer is transferred to public institutions.

- In the event that the issuer cannot fulfill obligations arising from *Sukuk* issuance in due time, its management or audit is transferred to public institutions, its permission of activity is cancelled or it goes bankrupt; the income generated from the assets in its portfolio shall be used primarily in payments to be made to *Sukuk* holders. CMB is authorized to take all kinds of measures for the purpose of protecting the rights of *Sukuk* holders.
- CMB is authorized to determine:
 - Principles and procedures concerning the establishment of ALC, its articles of association, activity principles,
 - Types and qualities of the assets and rights ALC can take over and the keeping of records related to them,
 - ALC's management, liquidation and termination principles.

The most important change about *Sukuk* is the preliminary measures prescribed in the event of default or in cases such as the transfer of originator's management to public institutions. CMB, in these cases has been designated with a broad authority to take all necessary measures to protect the rights of *Sukuk* investors. Furthermore, under the CMB *Sukuk* Communiqué published in June 2013:

- The scope of underlying assets is widened and diversified.
- New *Sukuk* structures have been introduced. In addition to *Ijarah Sukuk*, five new internationally well-known *Sukuk* structures have been designed:
 - Lease certificates based on ownership (covered *Ijarah-Wakalah Sukuk*)
 - Lease certificates based on management agreements (asset based *Ijarah-Wakalah Sukuk*)
 - Lease certificates based on partnership (*Musharakah* and *Mudarabah Sukuk*)

- Lease certificates based on purchase and sale (*Murabahah Sukuk*)
- Lease certificates based on independent contractor agreement (*Istisna Sukuk*)
- A combination of those above mentioned and any other structure accepted by the CMB.
- In the Communiqué the issue amount has been restricted to 90% of the underlying asset's fair value for lease certificates based on ownership and independent contractor agreement (*Ijarah* and *Istisna*).
- Circumstances that necessitate the determination of market value of assets and rights are stated clearly according to International Valuation Standards by appraisal firms entitled by the CMB.
- The founders of ALC have been extended and diversified since ALC is accepted as a capital market institution in the CML.
- In order to prevent conflict of interests between ALC and the originator, an independent board member requirement has been regulated and for important decisions an affirmative vote from independent members is required.

Furthermore in order to raise the demand for *Sukuk* in the collective investment sector, new pension fund structures investing only in interest free instruments have been introduced.

In order to make *Sukuk* issues more accessible, tax and fee exemptions were extended with a legal amendment to cover all lease certificates in 2016. Also in 2016, in line with the goals of promoting the companies' access to finance and cushioning their financial costs, a 50% discount had been applied for the CMB fees on the issuances of capital market instruments including *Sukuk*.

In terms of issuance data, between 2011 and 2017, a total of 172 private sector *Sukuk* issuances have been realized. Similar to conventional debt securities markets, private *Sukuk* is also dominated by the banking sector with Participation (Islamic) banks. Out of the

172 issues, only 15 were non-financial corporate issues. In line with effective, reliable and flexible regulatory framework, the volume of *Sukuk* issues has reached significant levels. However, due to a sharp fall in commodity prices and high foreign exchange rates, a decline was observed in funds raised by *Sukuk* issuances in 2015 and 2016. But Table 1 displays that a recovery in private *Sukuk* issuances is observable in 2017 after two successive contraction years.

From an integrated approach to both the sovereign and private *Sukuk* issuances, Table 2 and Table 3 show the general trends and average maturities in the market in the last five years. Sovereign *Sukuk* issuances almost double the private *Sukuk* issuances within that period. Meanwhile, the maturity gap between those two different issuers group is much higher for domestic issuances rather than the cross border ones.

Table 2. Private *Sukuk* Issuances (2013-2017)

Private <i>Sukuk</i> Issues (2013-2017)	Total <i>Sukuk</i> Issuances (USD Million)	Average Maturity (Year)
Cross border	2.473	5.51
Domestic	4.881	1.03
Total	7.354	

Table 3. Sovereign *Sukuk* Issuances (2013-2017)

Private <i>Sukuk</i> Issues (2013-2017)	Total <i>Sukuk</i> Issuances (USD Million)	Average Maturity (Year)
Cross border	4.500	6.50
Domestic	8.082	2.86
Total	12.582	

As shown on the tables above, the majority of *Sukuk* issues are made domestically. Additionally, sale to private investors as an issuance method is more common in Turkey.

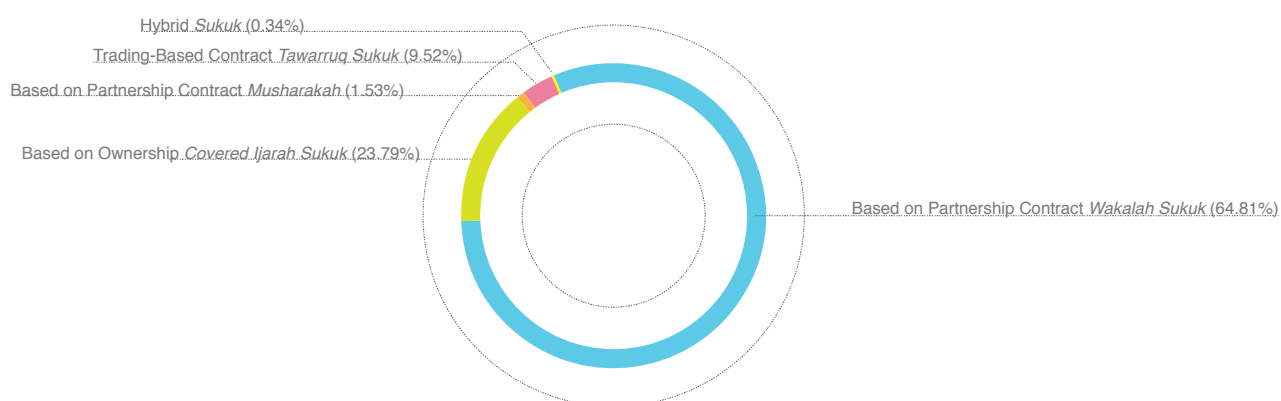
In line with the CMB regulations, when *Sukuk* is offered to the public it needs to be listed at Borsa Istanbul. Secondary trading of *Sukuk* in Turkey is mostly dominated by sovereign issues. For corporate *Sukuk*, preferences of retail investors may be mentioned as a disadvantage for second hand transactions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

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

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

In 2016, the Treasury issued its first longer term (5 year) maturity *Sukuk* in order to enhance liquidity and provide a benchmark yield curve. Again in 2016, another important *Sukuk* issuance took place, 5 year CPI linked *Sukuk* was sold to the domestic market for the same reason. Subsequently, gold indexed *Ijarah Sukuk* was introduced in 2017 by the Treasury with the aim of bringing idle gold into the economy. As shown in the chart below, *Sukuk* generally issued in Turkey are based on ownership (*Ijarah*), trading (*Murabahah*) and management contracts (*Wakalah*) whereas the underlying assets of these *Sukuk* issuances are real estate, commodities listed in London Commodity Exchange or Bursa Suq-al-Sila, and bank receivables or loans respectively.

Chart 1. Types of Private *Sukuk* Issuances



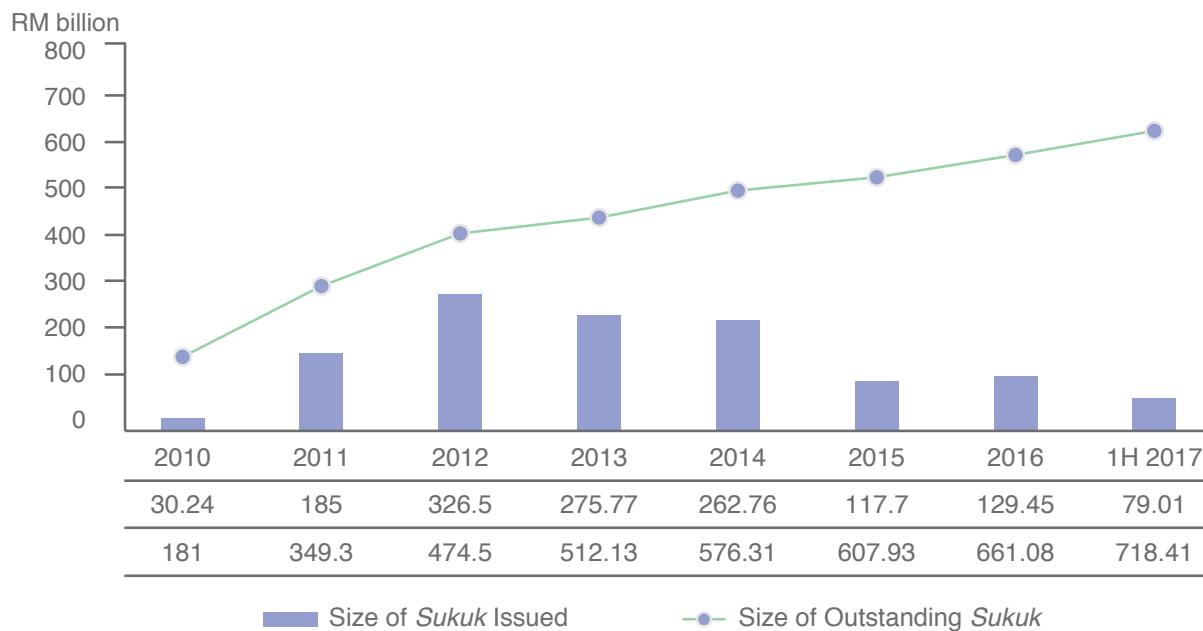
5.5 SUKUK MARKET IN MALAYSIA

BY: LABUAN FINANCIAL SERVICES AUTHORITY (LABUAN FSA)

The *Sukuk* market in Malaysia continues to thrive while supported by Malaysia’s conducive issuance environment, facilitative policies for investment activities and comprehensive Islamic financial infrastructure. Malaysia maintained its lead by country with a market share of 28.8% in the first half of 2017. Malaysia recorded RM 138.7 billion (+20.6% y-o-y) of *Sukuk* issuance as of end-October 2017. The growth was led by increased issuance by quasi-government (+32.2% or RM 38.2 billion), government (+17.7% or RM 46.5 billion) and corporate (+17.7% or RM 54.0 billion) sectors.

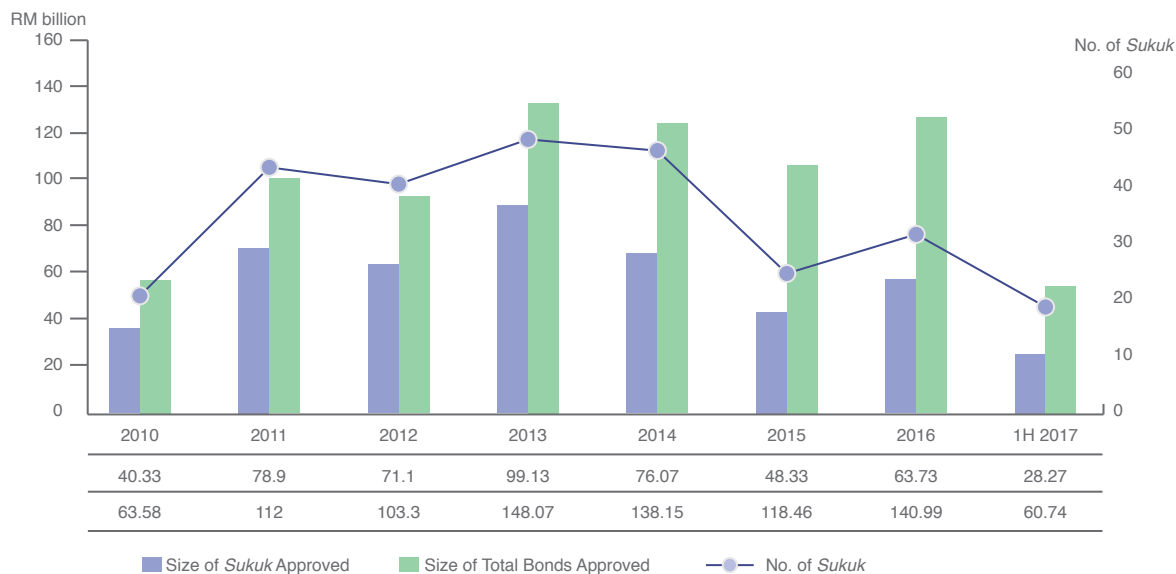
The domestic *Sukuk* market in Malaysia serves as an important and attractive platform for government and corporate entities to raise long-term funds for various economic, business and infrastructure development needs. In the first half of 2017, *Sukuk* issuances by the government and corporates amounted to RM 79.01 billion, representing 53.30% of total bond issuances. Total *Sukuk* outstanding amounted to RM 718.41 billion or 57.40% of total bonds outstanding. Corporate *Sukuk* issuances represented 66.89% of total private debt securities (PDS) issuances while corporate *Sukuk* outstanding accounted for 73.8% of total PDS outstanding. As of end October 2017, corporate *Sukuk* outstanding reached RM 446.53 billion compared to that of conventional bonds at RM 148.79 billion, constituting 75.01% of total outstanding bonds. The total issuance of corporate *Sukuk* amounted to RM71.38 billion compared to that of conventional bonds at RM 27.76 billion.

Figure 1: Total *Sukuk* Issued and Total *Sukuk* Outstanding



Source: Malaysian ICM bulletin

Figure 2: Corporate Sukuk Approved



Source: Malaysian ICM bulletin

In Malaysia, the *Sukuk* market provides customised solutions to sovereign and corporate issuers through a variety of *Sukuk* structures using different Islamic contracts such as *Ijarah*, *Murabahah*, *Musharakah*, *Wakalah* or hybrid structures based on combinations of *Shariah* contracts. The *Sukuk* structures are backed by real economic activity and have the ability to tap into a wider investor base from both the Islamic and conventional spectrum (including foreign investors).

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. *Sukuk* issued both by the Malaysian government and Malaysian multinational firms denominated in foreign currency has contributed to the internationalisation of Islamic finance and enhanced liquidity in the global Islamic finance market. In the area of sustainable and responsible financing, the Securities Commission (SC), Central Bank of

Malaysia and the World Bank Group are working together to develop the green *Sukuk* market – an innovative channel to address global funding gaps in green financing – under the SC’s Sustainable and Responsible Investment (SRI) *Sukuk* framework. Malaysia’s first green *Sukuk* was issued by Tadau Energy Sdn Bhd on 27 July 2017 for RM 250 million. The launch of Malaysia’s first green *Sukuk* marks another significant milestone in product innovation that strengthens Malaysia’s position as a leading Islamic finance marketplace as well as its value proposition as a centre for sustainable finance.

To complement the SRI *Sukuk* framework and promote greater utilisation of green *Sukuk* as a fundraising channel, several incentives were introduced to attract green issuers including:

- (i) Tax deduction until year of assessment 2020 on issuance costs of SRI *Sukuk* approved or authorised by or lodged with the SC;
- (ii) Income tax exemption to the issuers of the Green SRI *Sukuk* grant for applications received by the SC from 1 January 2018 to 31 December 2020;

- (iii) Tax incentives for green technology activities in energy, transportation, building, waste management and supporting services activities; and
- (iv) Financing incentives under the Green Technology Financing Scheme (GTFS) with total fund allocation of RM 5 billion until 2022.

Following the inaugural RM 100 million SRI *Sukuk* introduced in 2015, the second tranche of RM 100 million SRI *Sukuk* was launched in June 2017 via an independent special purpose vehicle, Ihsan *Sukuk* Bhd, spearheaded by Khazanah Nasional Bhd.

Figure 3: The Evolution of Malaysia’s *Sukuk* Market



Source: MIFC

In addition to the fiscal incentives accorded to SRI *Sukuk* and green *Sukuk*, Malaysia also offers other attractive fiscal incentives to enhance the breadth and depth of the *Sukuk* market. Among the incentives accorded is the extension of tax deduction on the expenses incurred on the issuance of *Sukuk* approved by the Securities Commission (SC) and Labuan FSA based on the principles of *Ijarah* and *Wakalah* until 2018. Double deduction is also granted for 3 years until 2018 on additional prescribed expenses on the issuance of retail *Sukuk* under the principles of *Mudharabah*, *Musharakah*, *Istisna*, *Murabahah* and *Bai’ Bithaman Ajil* based on *Tawarruq*, *Ijarah* and *Wakalah*. To foster the secondary market development of *Sukuk*, Bursa

Malaysia provides a listing platform for *Sukuk* denominated in ringgit and foreign currencies issued by local and international listed and non-listed entities under an “exempt regime” which does not provide for the paper to be quoted or traded over the exchange. The listing of *Sukuk* promotes greater transparency and governance as the listed *Sukuk* would have higher visibility and transparency with disclosure of information being made to the Exchange and the public. The listing would also be useful for the profiling of the issuers to facilitate future fund raising exercises by attracting investments from a wider segment of institutional and high net worth investors.

Figure 4:
Sukuk listing under Bursa Malaysia's exempt regime as of June 2017

No. of Issuers	24
No. of Programmes	34

Source: Malaysian ICM bulletin

The mid-shore jurisdiction of Malaysia, Labuan International Business and Financial Centre (Labuan IBFC) provides a flexible regime for *Sukuk* issuances and investments to facilitate cross-border financial flows in the Asia Pacific region as well as internationally. Labuan IBFC complements Malaysia in offering a conducive environment for *Sukuk* issuance with the following benefits:

(i) Well-developed Islamic Finance Infrastructure:

- Comprehensive legal, regulatory and *Shariah* framework to ensure certainty and integrity in Islamic financial transactions.
- Breadth and depth of the Islamic capital market with wide range of Islamic financial instruments as well as diversified and skilled financial service providers.
- Pool of talent in structuring new innovative Islamic financial instruments.
- Wide investor base from Islamic and conventional financial institutions, pension funds and fund management companies.

(ii) Supportive Islamic Finance Ecosystem:

- Tax neutrality on all Islamic financial instruments and transactions.
- Stamp duty exemption on *Sukuk* documentation.
- Liberal foreign exchange administration policy free to use proceeds in and out of the country.

- Mutual recognition of *Shariah* opinions issued in other jurisdictions.

(iii) Strategic Location:

- Labuan IBFC is the gateway to Asia Pacific markets and economic opportunities, making it well placed for attracting investors for *Sukuk* issuance.
- Competitive pricing, which may be better as compared to conventional bond pricing due to the high demand of *Sukuk* in the region.

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*.

Figure 5:
Sukuk listing under Labuan International Financial Exchange (LFX) as at 30/11/2017

Issuer Name	Currency (Size)	Listing Date	Maturity Date
Danga Capital Berhad (Khazanah) - Trust Certificates Due 2020 ^{ER}	SGD 900,000,000	12 Aug 2010	11 Aug 2020
Wakala Global Sukuk Berhad - Series 2 - Trust Certificates Due 2021 ^{ER}	USD 800,000,000	7 Jul 2011	6 Jul 2021
Indah Capital Ltd - Exchangeable Trust Certificates Due 2019 ^{ER}	SGD 600,000,000	25 Oct 2013	24 Oct 2018
EXIM Sukuk Malaysia Berhad - Multicurrency Senior Sukuk	USD 300,000,000	20 Feb 2014	19 Feb 2019
Cahaya Capital Limited - Multicurrency Senior Sukuk ^{ER}	USD 500,000,000	19 Sept 2014	18 Sept 2021
PETRONAS Global Sukuk Ltd - US\$1250000000 Trust Certificates due 2020 ^{ER}	USD 1,250,000,000	19 Mar 2015	18 Mar 2020
Malaysia Sovereign Sukuk Berhad - US\$1,000,000,000 3.043 per cent. Trust Certificates due 2025 ^{ER}	USD 1,000,000,000	23 Apr 2015	22 Apr 2025
Malaysia Sovereign Sukuk Berhad - US\$500,000,000 4.236 per cent. Trust Certificates due 2045 ^{ER}	USD 500,000,000	23 Apr 2015	22 Apr 2045
Danga Capital Berhad - U.S.\$750,000,000 Trust Certificates due 2021 ^{ER}	USD 750,000,000	2 Mar 2016	1 Mar 2022
Malaysia Sukuk Global Berhad - USD1,000,000,000 Series 1 Trust Certificates Due 2026 ER	USD 1,000,000,000	28 Apr 2016	27 Apr 2026
Malaysia Sukuk Global Berhad - USD500,000,000 Series 2 Trust Certificates Due 2046 ER	USD 500,000,000	28 Apr 2016	27 Apr 2046
Bagan Capital Ltd - USD398.8 million Exchangeable Trust Certificates due 2021 ^{ER}	USD 398,800,000	26 Sept 2016	23 Sept 2021

*ER : This instrument is also listed on Exempt Regime platform Bursa Malaysia

Source: Labuan International Financial Exchange (LFX)

The facilitative Islamic financial ecosystem and infrastructure in Malaysia and Labuan IBFC contributes towards enhancing the dynamism of *Sukuk* in funding real economic activities and sustainable finance to achieve more balanced, sustainable and inclusive growth globally.

5.6 SUKUK MARKET IN PAKISTAN

BY: STATE BANK OF PAKISTAN (SBP)

OVERVIEW

Sukuk have become an essential part of the Islamic financial system. In line with the global trend, the *Sukuk* Market has been consistently gaining ground in Pakistan's growing Islamic finance industry. There has been a concerted push by regulatory authorities in Pakistan to promote the Islamic finance industry on a sustainable basis. Regular *Sukuk* issuance has been a key element of this strategy as *Sukuk* make a number of options available to Islamic financial institutions for effective liquidity management.

Pakistan joined the global *Sukuk* market with the issuance of its first international sovereign *Sukuk* of USD 600 million in 2005 and its first domestic *Sukuk* a year later. Since then, four international *Sukuk* amounting to USD 3.6 billion and 107 domestic *Sukuk* amounting to Rupees (Rs) 1204.28 billion have been issued. Details of both international and domestic *Sukuk* are given below:

Table 1: Status wise *Sukuk* issuance in Pakistan

Listing Status	Number of issues	Amount in billion Rs
Privately Placed	99	1156.58
Listed	8	47.70
Total	107	1204.28

1. Overall Domestic *Sukuk* Market

Overall 107 *Sukuk* have been issued in the domestic market as of December 31, 2017. Nineteen (19) of these are Government of Pakistan (GoP) *Ijarah Sukuk* while the remaining 88 have been issued by corporate or quasi-sovereign entities. Major investors in *Sukuk* issues are commercial banks, mutual funds, employees funds and other financial institutions. These *Sukuk* are medium term and most of them are privately placed, though a

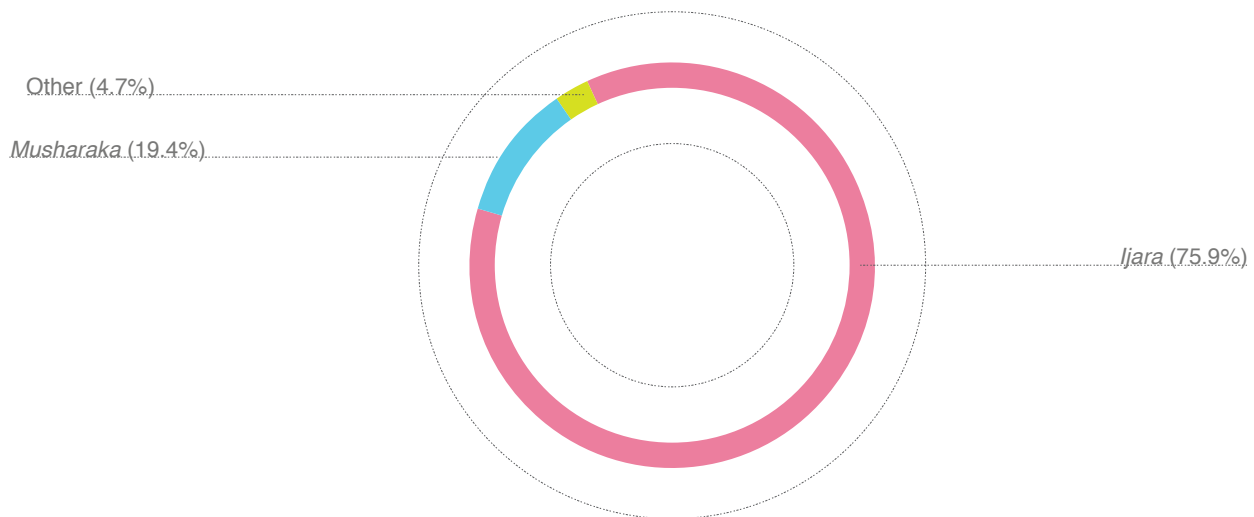
few corporate *Sukuk* have also been listed at the stock exchange (**Table 1**).

a) Sukuk Distribution According to Structure

In terms of *Sukuk* structure, the most widely used structure in the domestic *Sukuk* market is *Musharaka* (55 issues) followed by *Ijarah* (28 issues). However, in terms of value, *Ijarah* dominates the *Sukuk* market with 75.9% value of total *Sukuk* issues (**Figure 1**).

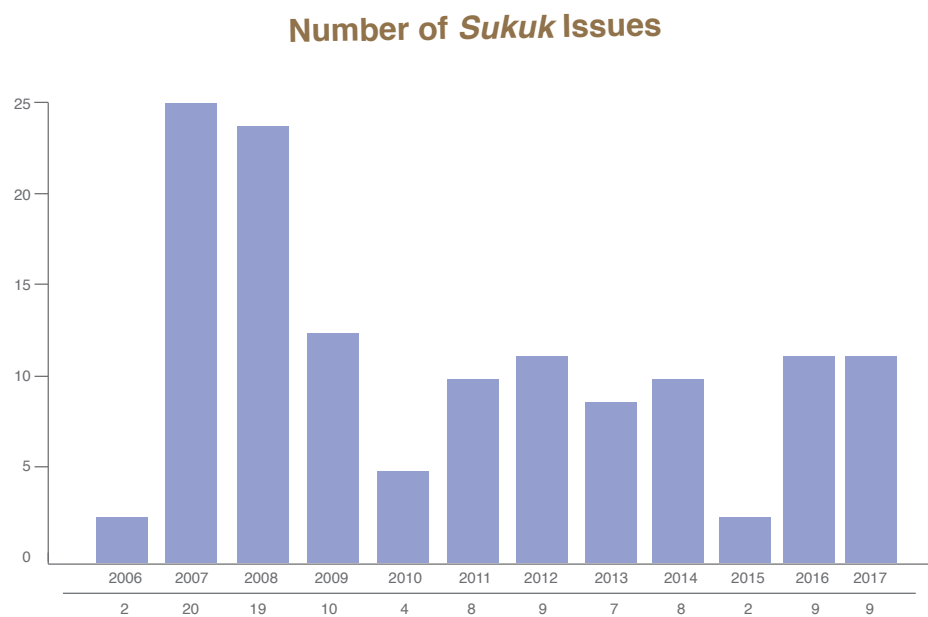
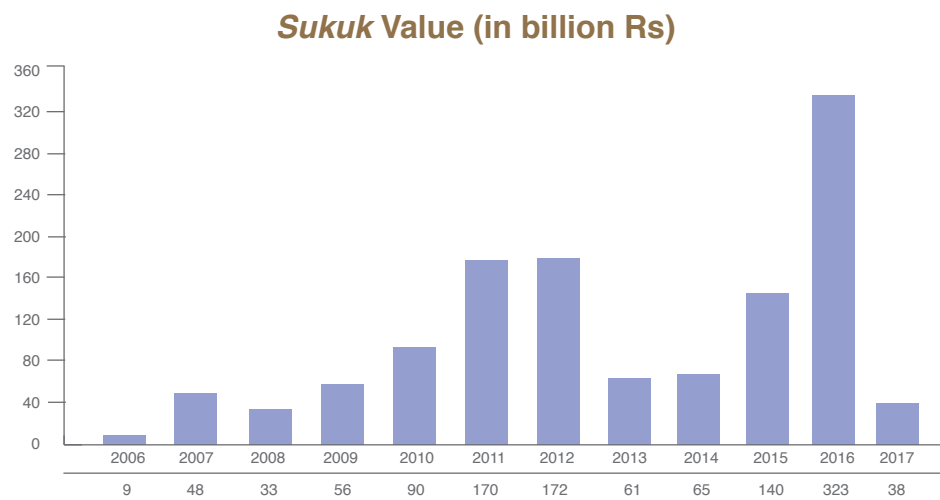
The main reason: *Ijarah Sukuk*, which are generally of a higher value compared to other *Sukuk* issued in Pakistan, have a major share in the overall market, as all GoP *Sukuk* are *Ijarah* based.

Figure 1: Domestic Sukuk Distribution According to Structure



b) Chronological Development of Pakistan's Sukuk Market

Although a late entrant to the *Sukuk* market, Pakistan has been experiencing steady growth in *Sukuk* since 2007. The growth slowed down in 2008 in terms of value but started picking up again especially during 2010-12 and in the years 2015 and 2016. During 2017, Nine *Sukuk* were issued in total valuing Rs 38 billion (**Figure 2**).

Figure 2: Domestic *Sukuk* Summary by Year

Details of *Sukuk* issuance according to year reveal that the number of issuances has remained limited since 2006. However, there has been a considerable increase in terms of value resulting towards high annual averages. This may be due to the fact that most of the issuances in this period have come in the form of high value sovereign *Ijarah Sukuk*.

c) Entity-Wise Sukuk Issuance

Entity wise distribution analysis reveals that corporate *Sukuk* had the major share in total *Sukuk* issuances in Pakistan till 2009 when a structural shift from corporate to sovereign *Sukuk* took place. Corporate *Sukuk* issuances declined while GoP *Sukuk* shares rose since then. As of December 2017, sovereign *Sukuk* maintained their major share of nearly 73% in total value of *Sukuk* issued in the country, followed by quasi-sovereign with 16.4% and corporate *Sukuk* with 10.5%. Corporate *Sukuk* showed improvement in their share from last year's share of 8.9% (**Table 2**).

Table 2: Entity-wise & Year-wise Sukuk Distribution (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	27.1	55.7	17.2
2011	15.9	72.7	11.4
2012	11.5	79.3	9.2
2013	10.7	78.5	10.8
2014	11	78.3	10.7
2015	9.2	79.3	11.5
2016	8.9	74.2	16.9
2017	10.5	73.1	16.4

i. GOP Ijarah Sukuk

Pakistan Domestic *Sukuk* Company Limited (PDSCCL), a public sector company, has been issuing GoP *Ijarah Sukuk* in the domestic market since 2008. Since the issuance of the first GoP *Ijarah Sukuk* up to December 2017, there have been 19 auctions of GoP *Sukuk*. Out of these, 16 *Sukuk* valuing around Rs 669 billion were on the basis of a variable rental rate. The outstanding value in this category of *Sukuk* amounted to around Rs 118 billion (**Table 3**).

Table 3: Summary of 3 Years *Ijarah Sukuk* by the Government of Pakistan (Variable Rental Rate)

Issue	Issue Date	Amount of <i>Sukuk</i> (Rs in millions)
GOP <i>Ijarah Sukuk</i> - 1	26/9/2008	6,522.50
GOP <i>Ijarah Sukuk</i> - 2	29/12/2008	6,000
GOP <i>Ijarah Sukuk</i> - 3	11/3/2009	15,325
GOP <i>Ijarah Sukuk</i> - 4	17/9-2009	14,396
GOP <i>Ijarah Sukuk</i> - 5	15/11/2010	51,837
GOP <i>Ijarah Sukuk</i> - 6	20/12/2010	37,174
GOP <i>Ijarah Sukuk</i> - 7	7/3/2011	47,539.70
GOP <i>Ijarah Sukuk</i> - 8	16/5/2011	45,803.70
GOP <i>Ijarah Sukuk</i> - 9	26/12/11	70,269.10
GOP <i>Ijarah Sukuk</i> - 10	2/3/2012	38,123.90
GOP <i>Ijarah Sukuk</i> - 11	30/4/2012	29,632.00
GOP <i>Ijarah Sukuk</i> - 12	28/6/2012	48,765.80
GOP <i>Ijarah Sukuk</i> - 13	18/9/2012	47,017.80
GOP <i>Ijarah Sukuk</i> - 14	28/3/2013	43,018
GOP <i>Ijarah Sukuk</i> - 15	25/6/2014	49,537
GOP <i>Ijarah Sukuk</i> – 16	18/12/2015	117,723
Total Value		668,684.50
Total Outstanding		117,723

Three GoP *Ijarah Sukuk* amounting to around Rs 268 billion were issued on the basis of a fixed rental rate. The entire amount in this category stood outstanding as these *Sukuk* will mature in or beyond 2019 (**Table 4**).

Table 4: Domestic *Ijarah Sukuk* by the Government of Pakistan (Fixed Rental Rate)

Auction	Issue Date	(in million Rs)
GISF-1	15/02/2016	116,256.70
GISF-2	29/03/2016	80,400
GISF-3	30/06/2017	71,007
Total		267,663.70

ii. Corporate Sukuk

Corporate *Sukuk* have witnessed a decline in issuance size since 2008. In 2017, eight corporate *Sukuk* worth around Rs 23 billion have been issued. The cumulative value of 88 corporate *Sukuk*, issued until end December 2017, amounted to around Rs 324 billion (**Table 5**).

Table 5: Cumulative Year wise Domestic (Pakistan) Corporate Sukuk Summary

Year	Amount (Rs in millions)	No of Issues
2006	8,625	2
2007	48,055	20
2008	20,563	17
2009	26,178	8
2010	80,00	2
2011	64,00	5
2012	88,79	5
2013	18,000	6
2014	15,200	7
2015	22,000	1
2016	126,172	7
2017	23,068	8
Total	323,940	88

2. International Sukuk by the Government of Pakistan

Pakistan has so far issued four international *Sukuk*: the first worth USD 600 million in 2005, followed by the second, third, and fourth valuing USD 1000 million each in 2014, 2016, and 2017, respectively (**Table 6**). These international *Sukuk* were issued for a period of five years each and attracted a positive response from investors.

Table 6: International Sukuk by the Government of Pakistan

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

3. Developments during 2017

The domestic corporate *Sukuk* market is regulated by the Securities and Exchange Commission of Pakistan (SECP). During 2017, SECP took the following important measures for improving the domestic corporate *Sukuk* market in the country:

i. Promulgation of *Sukuk* (Privately Placed) Regulations, 2017: SECP notified *Sukuk* (Privately Placed) Regulations, 2017 on August 21, 2017. These regulations are applicable to issues of *Sukuk* privately placed by any company, Special Purpose Vehicle or body corporate to the Qualified Institutional Buyers (QIBs) and shall not apply to an Issue by any company, Special Purpose Vehicle or body corporate specifically setup by the Federal Government or any provincial Government for the purposes of issue of *Sukuk*, under any other law.

ii. Promulgation of *Shariah* Advisors Regulations, 2017: SECP notified *Shariah* Advisors Regulations, 2017 on November 15, 2017. These regulations are applicable on:

(a) every person providing *Shariah* advisory services to a company or an entity registered, licensed, and/or regulated by the Commission;

(b) every company claiming to be a *Shariah* compliant company except:

- an insurance or a *Takaful* company; and
- a banking company or any other company which is regulated by the State Bank of Pakistan; and

(c) every company or entity claiming its securities to be *Shariah* compliant securities.

iii. Drafting of *Shariah* Standards of Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI): SECP notified draft *Shariah* Standards of Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) on November 29, 2017 for public consultation before its adoption.

FUTURE PROSPECTS

Being an emerging economy, Pakistan's huge infrastructural needs require consistent domestic and foreign investments. *Sukuk*, as an effective investment tool, can play an important role in financing various infrastructure projects and the developmental needs of the country's economy. Considering its vitality, the Government of Pakistan has been in coordination with all stakeholders to increase the size of the *Sukuk* market in the country.

CONCLUSION OF IIFM *SUKUK* REPORT 2018

During the year 2017, the global *Sukuk* market remained attractive for both issuers as well as investors. The entry of large size sovereign issuance by the government of Saudi Arabia and increased issuances from established jurisdictions helped in the growth of the primary market.

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

The demand for *Sukuk* from GCC countries namely Bahrain, Saudi Arabia, UAE, Oman; other Islamic jurisdictions including Malaysia, Indonesia, Turkey, Pakistan, Sudan, Brunei Darussalam as well as the Islamic Development Bank and the African region remain the main force in maintaining the appeal and growth of the *Sukuk* market. There is a likelihood of *Sukuk* issuance by Chinese companies through Hong Kong or Malaysia, where the legal framework to issue *Sukuk* is already in place. *Sukuk* also continues to attract issuances from the African region where there are enormous infrastructure and development needs.

In recent years, several of the Islamic jurisdictions mentioned above have been regularly issuing benchmark *Sukuk* in domestic as well as international markets. Moreover, some jurisdictions, including African countries, have adopted Bahrain's strategy of regularly issuing short-term *Sukuk* to support the liquidity and investment requirements of Islamic financial institutions based in its jurisdiction. Bahrain, Brunei Darussalam, Indonesia, Malaysia, Sudan and Turkey were the most frequent issuers of short-term *Sukuk* in 2016.

The other useful development in this context is increasing issuance by the International Islamic Liquidity Management Corporation (IILM) in the short-term international *Sukuk* market. This offers an alternative liquidity management avenue to Islamic financial institutions which are active in the short-term market and looking for low risk securities.

The *Sukuk* market witnessed a number of milestone *Sukuk* issuances such as *Sukuk* issued by Quantum Solar Park, Equate Petroleum Company, Islamic Development Bank, Gold Indexed *Ijarah Sukuk* (Turkish Treasury), Saudi Aramco and many others in 2017.

The issuance of more debut *Sukuk* and the refinancing of maturing *Sukuk* has contributed in maintaining the positive *Sukuk* volume trajectory and this trend is expected to continue. Moreover, stable to rising commodity prices including oil, a gradual rise in the reference rates and the budgetary and development requirements of certain Islamic jurisdictions are expected to contribute to *Sukuk* issuance volumes in 2018 and 2019. The use of gold in *Sukuk* issuance by the Turkish Treasury is also an interesting development and it is likely that more issuances involving gold will be made in the coming year.

The trend of issuing *Sukuk* on a fixed profit rate is expected to continue given the fact that the investor base is much more diverse as compared to the early years of *Sukuk* issuance when the

investors were generally financial institutions. The *Sukuk* issued on fixed profit rates provide more trading opportunities and help the development of the secondary *Sukuk* market.

Sukuk issuances in non-local currency, for example, an issuer based in GCC floating a Malaysian Ringgit *Sukuk* or a Malaysian *Sukuk* issuance in Singapore Dollar or Chinese Yuan etc., did not take place in 2017; however, 2018 may see some issuance of non-local currency *Sukuk*.

Another new development was the application of the Dodd Frank rule of a 5% take-up by the issuer in the case of the Government of Saudi Arabia's international *Sukuk* issuance of USD 9 billion. However, no other *Sukuk* issuance was made on this basis and perhaps this could be a one-time occurrence.

The risk mitigation/hedging documentation as well as Foreign Exchange and Rate of Return product standard templates published by IIFM are providing further certainty to investors in *Sukuk* by hedging their profit rate or currency risk. The recent publication of ISDA/IIFM Credit Support Deed for Cash Collateral (Variation Margin) during 2017 also helped Islamic financial institutions to meet new regulatory margin requirements.

During 2017, the share of sovereign issuances in the domestic market remained robust; contributing 55% of total issuance value followed by corporate issuances of 25%, mainly due to the deep corporate *Sukuk* market in Malaysia. The shares of the corporate sector excluding Malaysia remained stagnant in issuance volume.

In 2017, quasi-sovereign issuances in the international market had a good year with an issuance contribution of 37% while sovereign issuances contributed 48%. The corporate and financial institutions declined to 7% and 8% respectively, which once again indicated that the pace of corporate issuance lacks momentum outside of Malaysia.

On a cumulative basis for the period of 2001 to 2017, Malaysia is the top *Sukuk* issuer with combined domestic and international issuances of USD 612 Billion, followed by Saudi Arabia with 95 billion, the UAE with USD 68 Billion and Indonesia with USD 63 Billion. Malaysia, due to its deep capital market, continues to maintain its lead over its peers in the Far East and the GCC; however, the increase in issuances from Saudi Arabia, Indonesia, UAE, Bahrain etc may result in a reduction of the Malaysian share of the global *Sukuk* market in coming years.

The *Wakalah* structure maintained its lead over the *Ijarah* structure as the one most widely used by issuers in the international market in 2017. It was the most popular and widely used structure with a market share of a whopping 51%. It was followed by a new Saudi Arabia led sovereign 24% share of Hybrid *Sukuk* – *Murabahah/Mudharabah*. *Sukuk Al-Ijarah*, *Sukuk Al-Mudharabah*, *Hybrid Sukuk Ijarah/Murabahah* and *Sukuk Al-Murabahah* had market shares of 12%, 3%, 9% and 1% respectively.

At the domestic level, in 2017, *Murabahah* remains the most used structure with a market share of 30%, followed by new Hybrid *Sukuk Murabahah/Mudharabah* of 24% while the use of *Sukuk Al-Ijarah* decreased to 18% as compared to 33% in 2016. *Sukuk Al-Musharakah*, *Sukuk Al-Mudharabah* and *Sukuk Al-Wakalah* structures have market shares of 8%, 9% and 10% respectively. The year 2017 presents a balanced structure preference, which is desirable and good for the *Sukuk* market as the concern of dependence on one particular structure has been addressed.

2017 was a very good year in terms of international *Sukuk* issuances and the year closed at USD 37.6 billion *Sukuk* issuances as compared to USD 31.2 billion in 2016. The volume of short-term international *Sukuk* issuance in 2017 and 2016 works out to USD 9.8 billion and USD 9.3 billion respectively which means that longer tenor *Sukuk* issuances were USD 27.8 billion and USD 21.9 billion respectively.

The international outstanding *Sukuk* increased to around USD 125 billion, which is an improvement over last year; though the supply and demand gap still remains.

Several landmark global *Sukuk* issuances from Malaysia, Saudi Arabia, Turkey, UAE, Indonesia, Bahrain are in the pipeline for 2018, indicating that the *Sukuk* market will maintain its appeal and growth prospects in the coming years. Corporate issuance, particularly from the GCC, may remain under pressure as the ongoing Dana Gas legal battle is having a dampening effect.

As far as domestic *Sukuk* markets are concerned, *Sukuk* issuances during 2017 were USD 79 billion compared to USD 57 billion in 2016. Malaysia has maintained a dominant share in terms of both volume and value, and remains the largest domestic *Sukuk* issuer with 73.3% on a cumulative basis for the 2001-2017 period. Though countries like Indonesia, UAE, Saudi Arabia and Turkey are emerging as potential leaders, Bahrain has also kept up its regular *Sukuk* issuances and has seen several landmark issues.

The domestic *Sukuk* market in a number of jurisdictions is becoming active, particularly Saudi Arabia, Indonesia, Turkey and Pakistan. Central banks are providing avenues to Islamic banks and other investors to invest their surplus liquidity in government *Sukuk* programs designed to provide a level playing field to Islamic financial institutions. Moreover, a number of countries such as Gambia, Ivory Coast, Senegal and Bangladesh are developing their domestic *Sukuk* markets.

The total outstanding Domestic *Sukuk* as of 2017 stood at around USD 309.8 billion, which is around 50 billion higher than the previous year. As predicted in the last edition of the IIFM *Sukuk* Report, the issuance figures during the coming years will improve as sovereigns, quasi-sovereigns and, to some extent, corporates and financial institutions in jurisdictions like Malaysia, Indonesia, Turkey and several other countries are getting more active in *Sukuk* issuances.

The US Dollar continues to be the favoured currency for attracting international investors around the globe. Local currency *Sukuk* will develop in the coming years as more OIC countries develop their domestic *Sukuk* markets. This trend is taking shape with Indonesia, Turkey, Pakistan and the GCC countries issuing local currency *Sukuk*. Sovereign or sovereign linked entities currently dominate issuance in these countries and this flow will continue, since the sovereign needs to fund its budget while also setting up the local benchmark curves and funding huge infrastructure projects.

Cross-border international *Sukuk* maturities in 2017 were USD 10.1 billion. This was more than offset by the entry of sovereign *Sukuk* by Saudi Arabia and reissuances by established *Sukuk* issuing jurisdictions. The *Sukuk* maturities during 2018 and 2019 will be quite high, amounting to USD 33.2 billion, and need to be replaced. Based on the *Sukuk* issuance pipeline and market news, it is expected that these maturities will be replaced by existing and new entrants. However, sovereign issuances will need to continue providing support.

Short-term *Sukuk* with a maturity of 1 year or less are essential in the development of Islamic inter-bank markets and they play a key role in the liquidity management of financial institutions. In the year 2017, Malaysia, Sudan, Bahrain, Indonesia, Turkey and Brunei Darussalam were the main issuers of short-term *Sukuk*. The short-term *Sukuk* market, though limited to few jurisdictions, presents balanced issuances from various jurisdictions. The entry of IILM in the short-term international *Sukuk* market also helps the development of this important market.

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

Another important aspect, which is critical to the development of the *Sukuk* market, is the role of the corporate sector. As mentioned in the analysis part, the volume of corporate issuances in most of the *Sukuk* issuing jurisdictions (except Malaysia) is lower than expected. There are several reasons for a subpar performance by the corporate sector in issuing *Sukuk* such as economic conditions, government policies towards a particular sector, cash flow issues, tax incentives etc.

The most important issue surrounding corporate *Sukuk* is default and restructuring. The legal battle of the Dana Gas *Sukuk* was an unprecedented event and may lead to legal and policy changes for corporate issuers in particular.

The *Sukuk* market continues to evolve, and in recent years, it has witnessed over-reliance on certain *Sukuk* structures such as *Wakalah*, *Mudarabah*, and *Murabahah*. This development in particular needs to be monitored, as a structurally diversified global *Sukuk* market is recommended.

GLOSSARY

(A) General Islamic Finance Terms

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

Ju'alah	Service Fee (Rendering a service against a reward)
Mafsadah	Damages. Anything declared harmful by shari'ah, or anything hindering the achievement of the general objectives of Sh
Manfa'ah	Benefit or utility
Maqasid al-Shari'ah	The general objectives of Shari'ah.
Murabahah	Sale contract with a disclosure of the asset cost price and profit margin to the buyer.
Mudarabah	Profit sharing contract. It is an investment partnership, whereby the investor provides capital to the entrepreneur in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The entrepreneur loses only his share of the expected income.
Mudarib	Entrepreneur of a Mudarabah joint venture contract.
Musharakah	Profit and loss sharing contract. It is an investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested.
Musharakah Mutanaqisah	Refers to a contract whereby one of the partners promises to buy the equity share of the other gradually until the title is completely transferred to him. (This is known as diminishing Musharakah).
Murtahin	A party who asks for collateral.
Musawamah	Bargain on price. Sale contract without the disclosure of the asset cost price and profit margin to the buyer.
Muwakkil	The principal/investor who appoints the agent (Wakil) to carry out a specific job on his behalf.
Rabb al-Mal	Owner of capital (the investor) in Mudarabah joint venture contract.
Ra's-al-Mal	The capital. The money or property which an investor invests in a profit-seeking venture contract.
Rahin	Chargor
Shari'ah	Is often referred to as Islamic law. It is the rulings contained in and derived from The Holy Qur'an and the Sunnah [i.e. sayings and living example of the Prophet Muhammad (peace be upon him)]. These cover every action performed by an individual or a society. It is primarily concerned with a set of values that are essential to Islam and the best manner of their protection. The essential values of the Shari'ah include those of faith, life, intellect, lineage, property, fulfillment of contracts, preservation of ties of kinship, honoring the rights of one's neighbor. It also includes sincerity, trustworthiness and moral purity and so forth.
Shari'ah Scholar	The Islamic Shari'ah scholar is an individual who is well-versed with the necessary knowledge of the Shari'ah teachings and principles.
Shari'ah Compliant Product	The product meets the requirements of Shari'ah. In other words, this is the term used in Islamic finance to indicate that a financial product or activity that complies with the requirements of the Shari'ah..

Shari'ah Board	Is the committee of well-versed Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of Shari'ah compliant products. It is recommended the scholars of a Shari'ah board to be well versed and competent in Shari'ah and its approaches to economics and finance.
Shari'ah Advisor	Is an independent Islamic trained scholar that advises Islamic institutions on the compliance of the products and services with the Shari'ah.
Takaful	Islamic insurance. Structured as a charitable collective pool of funds based on the idea of mutual assistance.
Tawarruq	Reverse Murabahah, for the purpose acquiring cash through trade activities.
Tamwil Majm'a li Muamalaat Tijariah	Refers to a participation agreement for trade finance transactions.
Wa'ad	Promise/undertaking. Such as a promise to buy or sell certain goods in a certain quantity at a certain time in the future at a certain price.
Wakalah	Agency. A contract of agency in which one party appoints another party to perform a certain task on its behalf.
Wakil	In a Wakalah contract, a representative/agent, who acts on behalf of the principal/investor.
Wakalah bi al-Istithmar	Agency contract for investment.
Wathiqah Hamish al Rahn al Naqdi	Refers to Credit Support Deed for Cash Collateral (Variation Margin).

(B) Sukuk Report Seventh Edition Glossary

Term	Meaning
Sukuk	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".
Sukuk Al- Istithmar	Refers to Investment Sukuk. Investment Sukuk are of different types. Such as Certificates of ownership in leased assets and Certificates of ownership of usufructs.
Sukuk mulkiyat al Maujudaat al Muajjarah	Certificates of ownership in leased assets.
Sukuk mulkiyat al Manaf 'i	Are Certificates of ownership of usufructs (are of different types).
Al-Ijarah Sukuk	An Islamic certificate for the buying and leasing of assets by the investors to the issuer and such Sukuk shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors.
Istisna'a Sukuk	Are certificates of equal value issued with the aim of mobilizing funds to be employed for the production of goods so that the goods produced come to be owned by the certificate holders. (This type of Sukuk has been used for the advance funding of real estate development, major industrial projects or large items of equipment such as: turbines, power plants, ships or aircraft (construction/manufacturing financing).

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



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