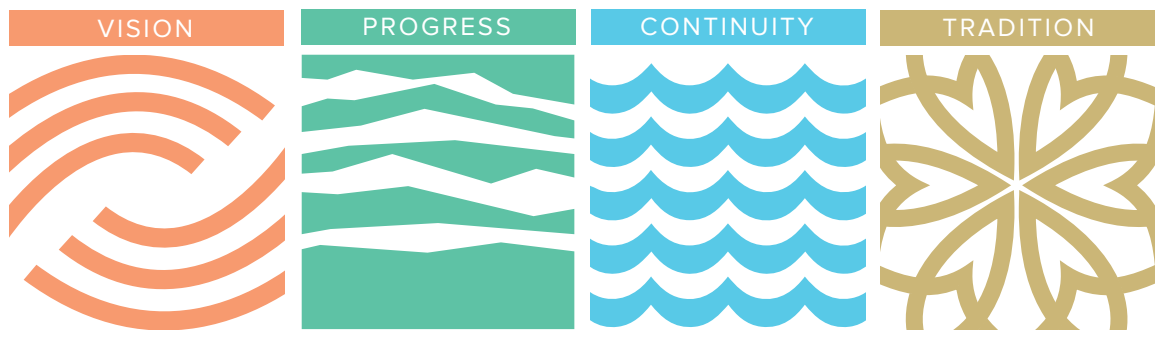


# SUKUK REPORT



## A COMPREHENSIVE STUDY OF THE GLOBAL SUKUK MARKET

JULY 2017 | 6TH EDITION



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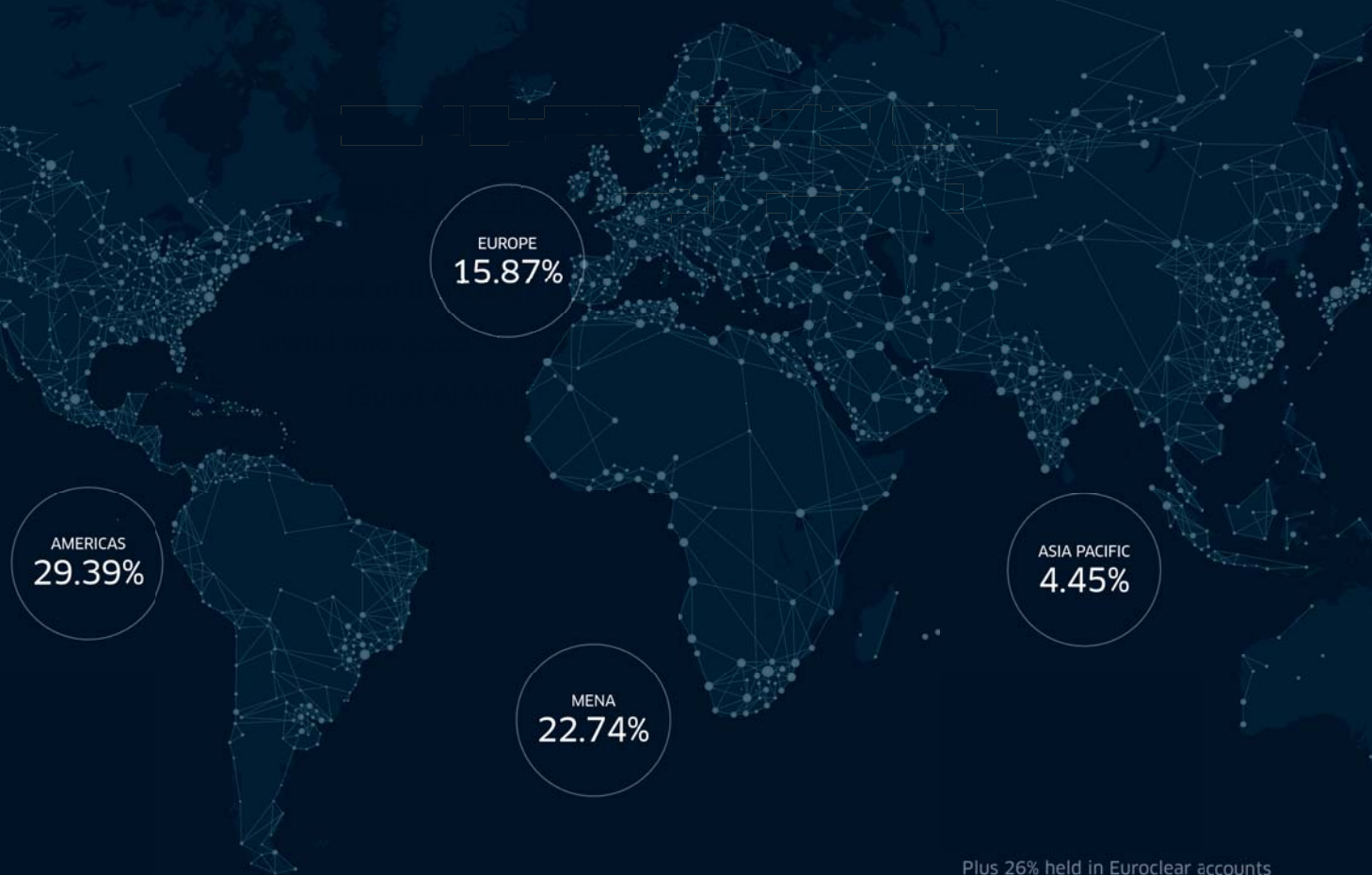
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In the Name of Allah, the Most Gracious, the Most Merciful



# About International Islamic Financial Market (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 plays its role in market unification by developing best practices at the global level and achieving Shari'ah harmonization through its efforts for creation of a robust, transparent and efficient Islamic finance industry. IIFM also contributes in creating industry awareness by organizing specialized seminars and technical workshops as well as publishing research reports.

IIFM was founded in 2002 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 as a neutral and non-profit organization. Besides the founding members, IIFM is also supported by certain regulatory and government bodies such as Indonesia Financial Services Authority, Dubai International Financial Centre Authority, Nasdaq Dubai, State Bank of Pakistan, The National Bank of Kazakhstan, and by a number of international and regional financial institutions active in Islamic finance as well as other market participants.

IIFM was formed under Royal Decree No (23) Year 2002 of the Kingdom of Bahrain.

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Islamic Development Bank

Islamic International Arab Bank

Ithmaar Bank

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Khaleeji Commercial Bank

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Turkiye Is Bankasi

United Gulf Bank

Ziraat Katilim Bankasi

# Research, Database Management & Review Team

Mr. Ijlal Ahmed Alvi

Dr. Ahmed Rufai

Mr. Ismail Dadabhoy

Mr. Usman M. Naseer

Mr. Babar Naseer

Mr. Tareq Fouad

# Disclaimer

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

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# Abstract

This research report studies the growth and the development of international and domestic *Sukuk* issuances in recent years globally and sheds light on the different *Sukuk* structures widely used in various jurisdictions that are active in issuing *Sukuk*.

In addition the report aims to provide a deeper understanding of the mechanisms of this most popular financial instrument in the Islamic Capital Market with some case studies and articles.

The *Sukuk* market continues to evolve and expand to new regions with the bulk of issuances coming from sovereign and quasi-sovereign entities which is having a positive impact on the development of *Sukuk* market.

In order to create depth in the *Sukuk* market, there is a need for corporate entities to become more active in issuing *Sukuk* taking lead from jurisdictions like Malaysia.

In recent years, the structural preference of issuers has shifted to *Murabahah*, *Wakalah* and *Mudarabah* modes from structures requiring more tangible assets. Striking a right balance in diversification of *Sukuk* structures is needed in order maintain orderly growth of the market.

This research report provides invaluable information on the prospects and trends of the global *Sukuk* market and highlights some major issuances around the world.

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



# Acknowledgment

This research report was supported and sponsored by Nasdaq Dubai, Bank ABC Islamic, Labuan FSA, Autoriti Monetari Brunei Darussalam and DDCAP Group. We are immensely thankful to these institutions for their commendable financial contribution which made the publication of this report a reality.

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

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

We take this opportunity to express our profound gratitude and deep regards to the Central Bank of Bahrain (CBB) for its constant and continued support. We would also like to thank the IIFM Board of Directors and Member institutions for their unwavering and unreserved support to IIFM in all its endeavours. Lastly, IIFM would like to acknowledge its research team for their hard work in preparing and compiling this research report.

## بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

In the Name of Allah, the Most Gracious, the Most Merciful  
All praise is due to Allah, the Lord of the Worlds. The Beneficent, the Merciful.  
Peace and blessings be upon the Messenger of Allah, his family, Companions,  
and whosoever follows their guidance.

# Chairman's Foreword



**Khalid Hamad**  
Chairman - IIFM

It is with pleasure that I present to you the latest edition of much awaited IIFM *Sukuk* Report. It is a great effort on part of IIFM to provide this additional service to the Islamic finance industry as there is a dearth of authentic data and research material on *Sukuk*. The team has worked tirelessly to come out with this report and have tried its best to take into account the valuable comments received from the industry.

The report finds that the global *Sukuk* issuances during 2016 stood at USD 88 billion, which is an increase of 44% over 2015 issuances of around USD 61 billion. The longer tenor *Sukuk* issuances supported by sovereigns continue to grow and among the positive developments have been the entrance of new jurisdictions such as Jordan and Togo. In addition, there have been some exceptional issuances in 2016 such as the USD 398.8 million first of its kind exchangeable *Sukuk* by Malaysia's Khazanah Nasional Berhad with exposure into China's water utility sector. In Pakistan, the USD 955 million equivalent *Sukuk* was issued for project financing by hydropower company Neelum Jhelum with government guarantee. On the retail front, Indonesia issued its largest *Sukuk* offering of USD 2.37 billion equivalent.

In recent years, *Sukuk* have been issued for fulfilling the varied financing needs of the issuers such as enhancement of bank's capital base, monetary or budgetary management, project financing, aircraft financing etc. which is an encouraging sign and I hope that the opportunities offered by this fixed income Islamic finance instrument is optimized in the coming years.

The broadening of the investor base has added to the gap between demand and supply. However, some maturing *Sukuk* were reissued and coupled with new issuances the momentum is in positive territory.

There is an increasing need for addressing the various challenges which comes with the growth of any financial product and has to be tackled by creating greater transparency and harmonization in the documentation and product structures. In this regard, the standardization of agreements will contribute to the alleviation of some of the problems that occur in the field of *Sukuk* issuance such as the Dana Gas issue which is present in the minds of all the industry stakeholders and will have implications for Islamic finance requiring consolidation efforts at all levels to avoid such problems in the future.

With these humble submissions, I leave you with the 6th Edition of the IIFM Global *Sukuk* Report. Happy reading, and please continue to provide us with your feedback.

## بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

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

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

## CEO's Message



**Ijlal Ahmed Alvi**  
CEO – IIFM

*Sukuk* market is one of the driving force of the Islamic finance industry and the ongoing efforts by key stakeholders such as central banks, regulators and Islamic standard-setting organizations are directed towards making this flagship instrument robust in terms of its structure, documentation, legality and *Shari'ah* harmonization.

The *Sukuk* market has witnessed strong preference for certain structures such as *Wakalah* and *Murabahah*. This development needs to be monitored in order to avoid the issue of over-reliance on few structures. For the orderly and transparent development of the *Sukuk* market, standardization of documentation and market practices will greatly assist in achieving this important goal.

It is pleasing to note that the IIFM *Sukuk* Report has established itself as a premium source of information on *Sukuk* market trends and is being used as a reference point in a number of publications, forums and research papers. The *Sukuk* analysis is based on well established database maintenance process which involves issuance data verification by various key jurisdictions. Authentic data is essential for reliable and comprehensive analysis and IIFM makes every effort to ascertain this aspect even if more time is required to publish the report.

I am pleased to present this 6th Edition of the IIFM *Sukuk* Report to all industry stakeholders in particular governments, financial institutions, corporates and academia. The report provides in-depth analysis, historical and current trends, case studies, country reports and other information which is not readily available.

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

The publication of this report is made possible due to the cooperative endeavour from a number of institutions and individuals from various jurisdictions, which is always a key stimulus for IIFM to publish this report every year.

Special word of thanks to Central Bank of Bahrain, Labuan FSA, Bank Indonesia, Autoriti Monetari Brunei Darussalam, Central Bank of Sudan, Capital Market Board of Turkey, State Bank of Pakistan and Securities Commission Malaysia for providing *Sukuk* issuance data verification and other important relevant information.

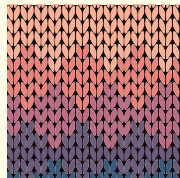
Profound gratitude to the IIFM Board of Directors and members institutions for their support in IIFM standardization initiatives and other projects such as making regular publication of this report possible. I am also thankful to the IIFM research team for their tireless efforts and devotion in successful completion of this report.

Considering the positive feedback received on previous reports, I am confident that the readers will find this report informative as well as a key source of reference.

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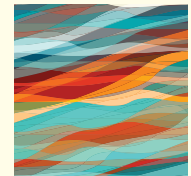


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# Introduction

*Sukuk* market remained resilient in the face of, at times, challenging economic conditions and maintained its appeal with issuers as well as expanding its investor base to new regions and types of investors.

This 6th Edition of *Sukuk* research report aims to track *Sukuk* issuances globally during 2001-2016 period with special emphasis on the year 2016. The Report covers current as well as historical trends to create better understanding of the development of this important Islamic Capital Market instrument. An invaluable part of the report is that of listing the maturing *Sukuk* over the next two years.

To deliver an accurate information on the global *Sukuk* issuances, verified data on various worldwide *Sukuk* issuances from January 2001 to December 2016 was collected. The focus in this practice is to collate data from writing materials relating to the topic of the research. This includes prospectuses, publications, articles, magazines, online research, and information service providers. Data collected was then filtered with respect to different criteria such as chronology, geographic distribution, issuer status, country of origin etc. and depicted in the form of charts and tables for better understanding. Some jurisdictions and institutions have assisted IIFM in the verification of the data as well.

This research report is divided into five stand-alone chapters, in addition to this introduction and a conclusion. Chapter One discusses overview of worldwide *Sukuk* issuances particularly for the year 2016 with comparison since the start of *Sukuk* issuance in 2001 (prepared by IIFM). Chapter Two comprises case studies of selected landmark *Sukuk* issuances during 2016 (prepared by IIFM). Chapter Three highlights some selected *Sukuk* Issuances during 2016 (case studies by contributors). Chapter Four consists of article contributions on important *Sukuk* related topics (by contributors). Chapter Five highlights the *Sukuk* market in selected IIFM member countries (by jurisdictional contributors).

The objective of the report to orient those interested in the *Sukuk* market to the nature of *Sukuk* field and how it can be useful for those who need to gain some basic as well as more in-depth knowledge and background from the research on this important segment of the Islamic financial system.

CHAPTER  
**ONE**



A WEAVE OF  
UNIFICATION

# OVERVIEW OF THE GLOBAL *SUKUK* MARKET

## 1.1 *SUKUK* MARKET MAINTAINS ITS CONSOLIDATION PHASE

The aim of this Chapter is to provide insight on the changes and developments in the Global *Sukuk* market during the year 2016.

The Global *Sukuk* market closed the year on an optimistic note due to stability in the commodity prices, expectation that the reference rate will be raised gradually, and pick-up in Corporate *Sukuk* issuances in certain jurisdictions leading to healthy *Sukuk* issuance pipeline. Another encouraging development is that number of issuers around the world are recognizing *Sukuk* as a viable alternative source of financing for infrastructure development, aircraft financing, project financing, corporate general purpose needs, capital adequacy, budgetary requirements etc.

The continued interest from well established sovereign, quasi sovereign and financial institution issuers such as Governments of Bahrain, Indonesia, Malaysia, UAE, Qatar, Turkey, Islamic Development Bank, Khazanah Nasional, Kuveyt Turk, Tenaga Nasional, DP World, Malaysian Airlines etc. has also kept the *Sukuk* market active.

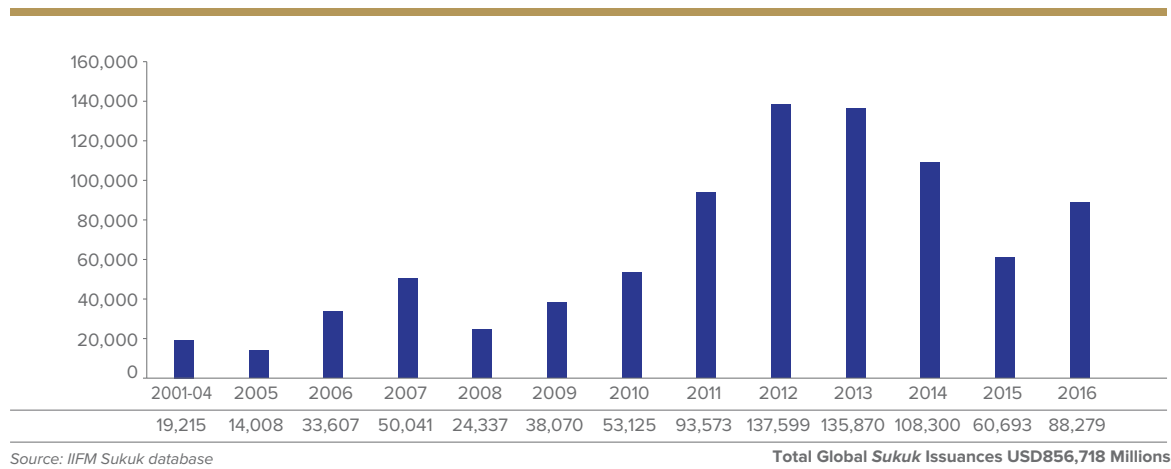
The new issuers such as Etihad Airways, Oman Telecom, Government of Togo, Government of Jordan, Neelum Jhelum (Pakistan) etc. have helped in keeping the growth trajectory of *Sukuk* issuance intact.

The issuances of short-term *Sukuk* by a growing number of jurisdictions from Far East, GCC, Africa, Asia (Pakistan, Bangladesh), International Islamic Liquidity Management Corporation (IILM), Kuveyt Turk Participation Bank etc. is assisting in fulfilling the short-term liquidity requirements of Islamic financial institutions.

## 1.2 GLOBAL SUKUK ISSUANCES

Total global issuances amounted to USD 88.3 billion in 2016. As illustrated in Chart 1A below, global *Sukuk* issuance has increased from USD 60.7 billion in 2015 to USD 88.3 billion in 2016, around 44% jump in volume. The increase in volume during 2016 was due to steady issuances from Asia, GCC, Africa and certain other jurisdictions while Malaysia continue to dominate the *Sukuk* market, though share of countries like Indonesia and Turkey increased as well.

**CHART 1A : TOTAL GLOBAL SUKUK ISSUANCES (JAN 2001 DEC 2016) - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**



The following Table1 gives a clear picture on the selected value leaders Global *Sukuk* issuances during 2016:

**TABLE 1: SELECTED VALUE LEADERS - GLOBAL SUKUK ISSUANCES & TRENDS (USD500 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	ISSUANCE CURRENCY	MILLIONS USD OR EQUIVALENT	TENOR (YEARS)
2016	Etihad Airways	USD	1,500	5
2016	Maxis Broadband	MYR	551	5
2016	Kuveyt Türk	USD	500	5
2016	Tenaga Nasional	USD	750	10
2016	Government of Pakistan	USD	1,000	5
2016	Government of Bahrain	USD	1,000	7
2016	Government of Turkey	TRY	731	2
2016	Neelum Jhelum	PKR	955	10
2016	Emaar Properties	USD	750	10
2016	Sharjah Islamic Bank	USD	500	5
2016	Government of Oman	USD	500	6
2016	Government of Turkey	USD	1,000	5
2016	Bank Al Jazira	SAR	533	10
2016	Noor Bank	USD	500	Perpetual
2016	DP World	USD	1,200	7

Table continued on next page

2016	Emirates Islamic Bank	USD	750	5
2016	Ezden Holding Group	USD	500	5
2016	Government of Malaysia	USD	1,000	10
2016	Dubai Islamic Bank	USD	500	5
2016	Government of Indonesia	USD	1,750	10
2016	Government of Malaysia	MYR	899	11
2016	Axiata Group	USD	500	10
2016	Islamic Development Bank	USD	1,500	5
2016	Khazanah Nasional	USD	750	5
2016	Government of Pakistan	PKR	1,109	3
2016	Government of Sharjah	USD	500	5
2016	Government of Indonesia	IDR	5,168	7

Source: IIFM *Sukuk* database

As seen among the landmark issuances, the year 2016 was again led by sovereigns and quasi-sovereigns in terms of issuance. The pace of corporate and IFIs *Sukuk* issuances, especially in countries outside of the GCC and Malaysia continues to drag though Pakistan has emerged on the scene with few benchmark size issuances.

Non-Local Currency *Sukuk* (*Sukuk* issued in a jurisdiction by a foreign issuer) continued in 2016 though only few issuances actually materialized namely Cagamas Berhad Malaysia (in SGD), Islamic Development Bank (in MYR) and Gulf Investment Corporation (in MYR).

In future, a standardized mechanism for *Shari'ah* compliant foreign currency hedging, such as that developed by IIFM, will facilitate borrowers to issue *Sukuk* in other jurisdictions without exposing the *Sukuk* holders to foreign exchange risk.

The year 2009 trend of fixed rate *Sukuk* issuances has continued in 2016 while floating rates tied to a benchmark have not been a common occurrence in the *Sukuk* market. The trend of fixed rate issuances is expected to continue at least over the next few years as the policy of gradual rise in the benchmark rate is expected. Following are landmark Fixed Profit Rate *Sukuk* Issuances during 2016:

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

ISSUE YEAR	ISSUER	TYPE OF ISSUED SUKUK	ISSUANCE CURRENCY	INTERNATIONAL DOMESTIC	SUKUK STRUCTURE	USD MN OR EQUIVALENT	RATE OF RETURN	TENOR (YEARS)
2016	Ahli United Bank	IFI's	USD	International	<i>Sukuk Al Mudharabah</i>	200	5.5	Perpetual
2016	Qatar Islamic Bank	IFI's	QAR	Domestic	<i>Sukuk Al Wakalah</i>	208	2.75	Perpetual
2016	Government of Togo	Sovereign	CFA	Domestic	<i>Sukuk Al Ijarah</i>	245	6.5	10
2016	Government of Ivory Coast	Sovereign	CFA	Domestic	<i>Sukuk Al Ijarah</i>	245	5.75	5
2016	Jambatan Kedua	Quasi-Sovereign	MYR	Domestic	<i>Sukuk Al Murabahah</i>	225	3.52	10
2016	PTPTN	Quasi-Sovereign	MYR	Domestic	<i>Sukuk Al Murabahah</i>	337	3.85%	25.33
2016	Boubyan Bank	IFI's	USD	International	<i>Sukuk Al Mudharabah</i>	250	6.75	Perpetual
2016	ICD - IDB Group Company	Quasi-Sovereign	USD	International	<i>Sukuk Al Wakalah</i>	300	2.468	5
2016	Axiata Group	Corporate	USD	International	<i>Sukuk Al Wakalah</i>	500	4.24	10
2016	Sime Darby	Quasi-Sovereign	MYR	Domestic	<i>Sukuk Al Wakalah</i>	494	5.65	Perpetual
2016	Maybank Islamic	IFI's	MYR	Domestic	<i>Sukuk Al Murabahah</i>	225	22.9	10

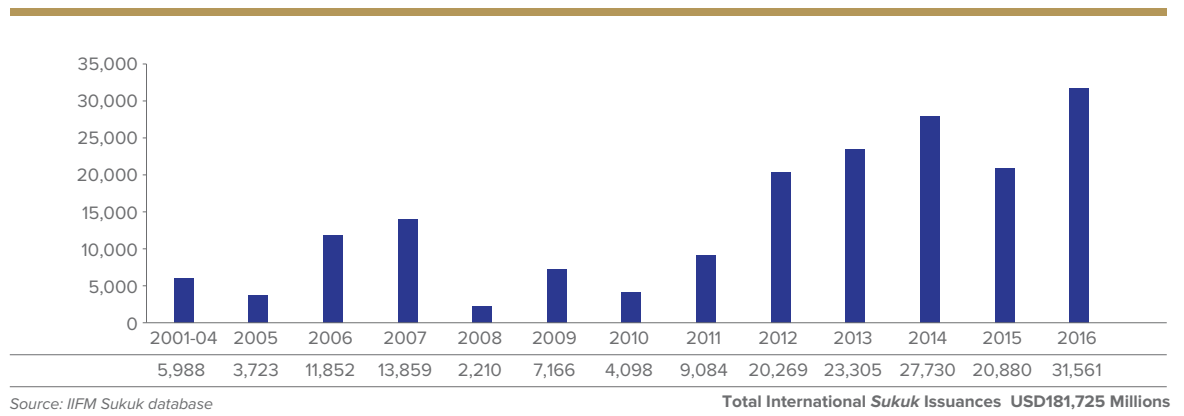
Source: IIFM Sukuk database



### 1.3 INTERNATIONAL *SUKUK* ISSUANCES

Total international *Sukuk* issuances stood at USD 31.56 billion in 2016 which translates into an increase of USD 10.68 from 2015 level of USD 20.88 billion – this is so far the highest value of issuance recorded since the inception of the *Sukuk* market.

**CHART 1B : TOTAL INTERNATIONAL *SUKUK* ISSUANCES (JAN 2001 - DEC 2016) - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**



The increase in *Sukuk* issuances was mainly due to higher short-term *Sukuk* issuances by IILM and also by quasi sovereign and sovereigns, while issuances from corporates and Islamic financial institutions remain subdued.

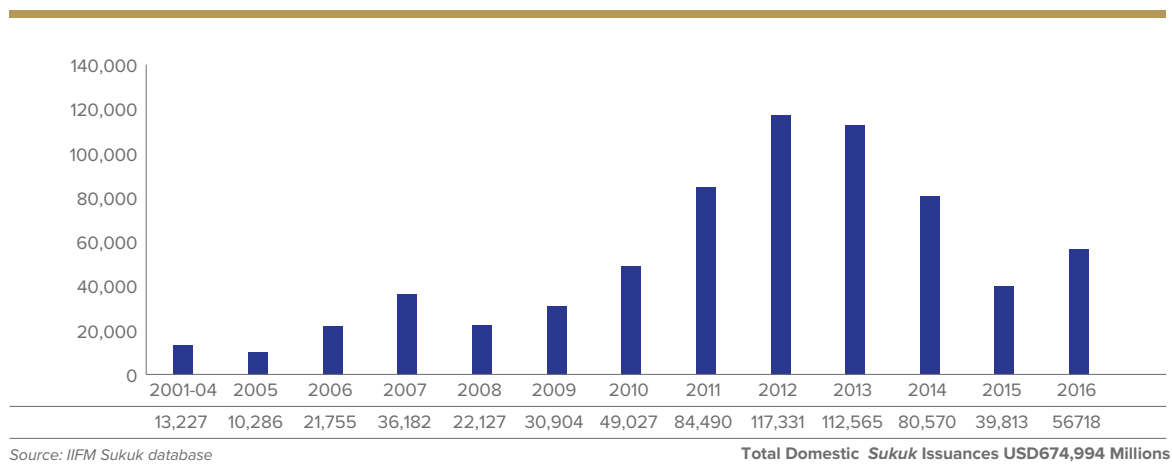
A few milestones achieved in the international *Sukuk* market in the year 2016 are as follows:

- a) Khazanah Nasional issued USD 399 million Exchangeable *Sukuk* with exposure into China's Water Utility Sector which is first of its kind with this unique feature
- b) Etihad Airways issued USD 1.5 billion *Sukuk* based on *Wakalah* structure. The transaction is backed by rights to travel as well as rights to services associated with such travel. This was the largest aviation and corporate issuance in the MENA region

## 1.4 DOMESTIC *SUKUK* ISSUANCE

Chart 1C below shows the domestic *Sukuk* issuances have increased from their 2015 level of USD 39.81 billion to USD 56.71 billion, the biggest chunk of this increase is coming from the Malaysian market which is USD 29 billion.

**CHART 1C : TOTAL DOMESTIC *SUKUK* ISSUANCES (JAN 2001 - DEC 2016) - ALL TENORS, ALL CURRENCIES, IN USD MILLIONS**



If we analyze the domestic issuances excluding Malaysia, there was a marginal rise in the domestic *Sukuk* issuances from the rest of the world standing at approximately USD 27.5 billion in 2016 as against USD 13.5 billion in 2015. Among the major players in the domestic market outside of Malaysia is its neighboring Muslim country Indonesia. Indonesia issued its largest ever domestic Retail *Sukuk* worth USD 2.37 billion in 2016 while total issuance during 2016 amounts to USD 11 billion against USD 2 billion in 2015. Turkey, though still small in terms of value of *Sukuk* issuance, increased its local currency *Sukuk* issuances from USD 920 million in 2015 to USD 3 billion in 2016. Pakistan also issued USD 4 billion in 2016 domestic *Sukuk* during the same year.

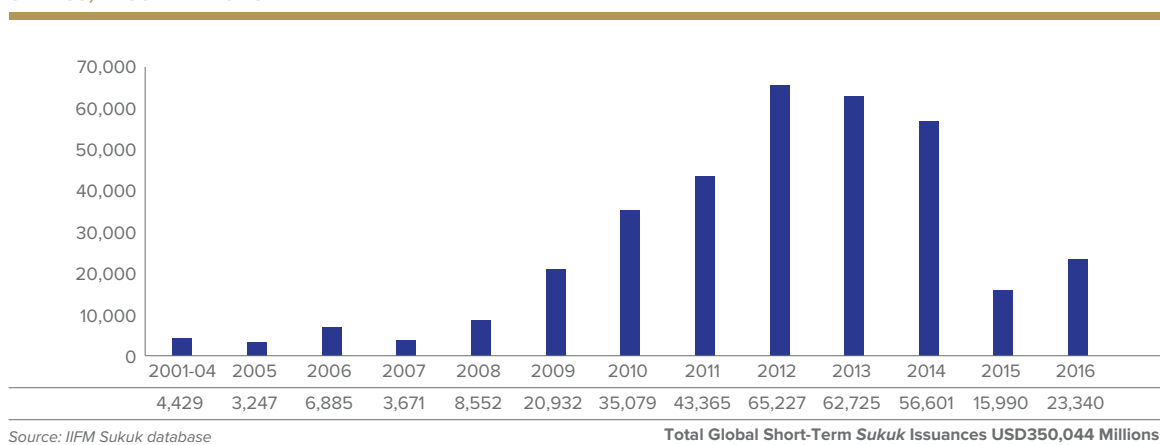
A few milestones achieved in the domestic *Sukuk* market in the year 2016 are as follows:

- Government of Indonesia issued to date the largest Retail *Sukuk* amounting to USD 2.37 billion
- Kingdom of Jordan made a debut *Sukuk* issuance of around USD 47.9 million and became one of the new entrants in the *Sukuk* market
- The Malaysian Public Sector Home Financing Board issued a maiden MYR 4 billion *Sukuk* to finance the provision of housing financing to the civil servants. The *Sukuk* was issued in tranches of 3 to 30 years.
- Hydropower Company, Neelam Jhelum, issued Government of Pakistan guaranteed USD 955 million *Sukuk* for project financing purposes

## 1.5 SHORT-TERM *SUKUK* MARKET

Short-term *Sukuk* with maturity of 1 year or less are indispensable in meeting liquidity needs of Islamic financial institutions. As shown in Chart 2A below, total global short-term *Sukuk* issuance since the inception of the *Sukuk* market stands at USD350 billion. It peaked at USD65 billion in the year 2012, declining marginally in the years 2013 and 2014 mimicking the trend in the global all-tenor *Sukuk* issuances shown in Chart 1A recording a major adjustment in 2015 due to a policy change by Bank Negara Malaysia (BNM). During 2016 short-term *Sukuk* issuance was USD23.3 billion against 2015 issuance of USD15.9 billion which translates into a healthy 46% increase in issuances.

**CHART 2A : TOTAL GLOBAL SHORT-TERM *SUKUK* ISSUANCES (JAN 2001 - DEC 2016) - ALL CURRENCIES, TENOR 12 MONTHS OR LESS, IN USD MILLIONS**



Malaysia has been the clear value leader in the short tenor *Sukuk* market and its market share of the total 'global short-term *Sukuk* issuances from 2001-2016 is 86% (USD303 billion) against market share of 88% (USD288 billion) for 2001-2015 period. Other regular issuers in the short-term market are Indonesia, Sudan, Gambia, Bahrain, Brunei and to some extent Turkey. However this group of issuers have formed around 11% of the total short-term market since the beginning.

IILM also based in Malaysia, started its short-term issuances in the year 2013, moving some of the share of the short-term market from Malaysian sovereign category to quasi-sovereign category. The government of Indonesia stepped up its *Sukuk* issuance while Turkey started issuing sovereign, IFIs as well as short-term *Sukuk*. However, even with the advent of new issuers, Malaysia's share of the short-term *Sukuk* market including IILM during 2016 remains dominant with the total market share of 61%.

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

**TABLE 3: TOTAL GLOBAL SHORT-TERM SUKUK ISSUANCE – ALL CURRENCIES ≤ 12 MONTHS (JAN 2001 – DEC 2016)**

<b>ASIA &amp; FAR EAST</b>	<b>NUMBER OF ISSUES</b>	<b>AMOUNT USD MILLIONS</b>	<b>% OF TOTAL VALUE</b>
Bangladesh	4	37	0.011%
Brunei Darussalam	135	8,547	2.44%
Indonesia	40	3,964	1.13%
Malaysia	2,434	303,075	86.58%
Pakistan	8	141	0.04%
Singapore	3	221	0.06%
<b>Total</b>	<b>2,624</b>	<b>315,985</b>	<b>90.3%</b>

<b>GCC &amp; MIDDLE EAST</b>	<b>NUMBER OF ISSUES</b>	<b>AMOUNT USD MILLIONS</b>	<b>% OF TOTAL VALUE</b>
Bahrain	299	12,934	3.69%
Oman	1	130	0.04%
Saudi Arabia	6	1,301	0.37%
United Arab Emirates	1	100	0.03%
Yemen	1	234	0.07%
<b>Total</b>	<b>308</b>	<b>14,698</b>	<b>4.2%</b>

<b>AFRICA</b>	<b>NUMBER OF ISSUES</b>	<b>AMOUNT USD MILLIONS</b>	<b>% OF TOTAL VALUE</b>
Gambia	210	136	0.04%
Sudan	14	16,254	4.64%
<b>Total</b>	<b>224</b>	<b>16,390</b>	<b>4.7%</b>

<b>EUROPE &amp; OTHERS</b>	<b>NUMBER OF ISSUES</b>	<b>AMOUNT USD MILLIONS</b>	<b>% OF TOTAL VALUE</b>
Turkey	84	2,971	0.85%
<b>Total</b>	<b>84</b>	<b>2,971</b>	<b>0.85%</b>
<b>Grand Total</b>	<b>3,240</b>	<b>350,044</b>	<b>100%</b>

Source: IIFM Sukuk database

Chart 2B below shows the international short-term *Sukuk* issuance since January 2001. The short-term market has mainly been a domestic one till 2013. International issuances (hard currency issuances) only picked at the advent of IILM which is now regularly issuing USD based short-term *Sukuk* for the purpose of liquidity management and its share in 2016 has risen to 40% of total short-term *Sukuk* issuances. 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 2016, USD MILLIONS)**

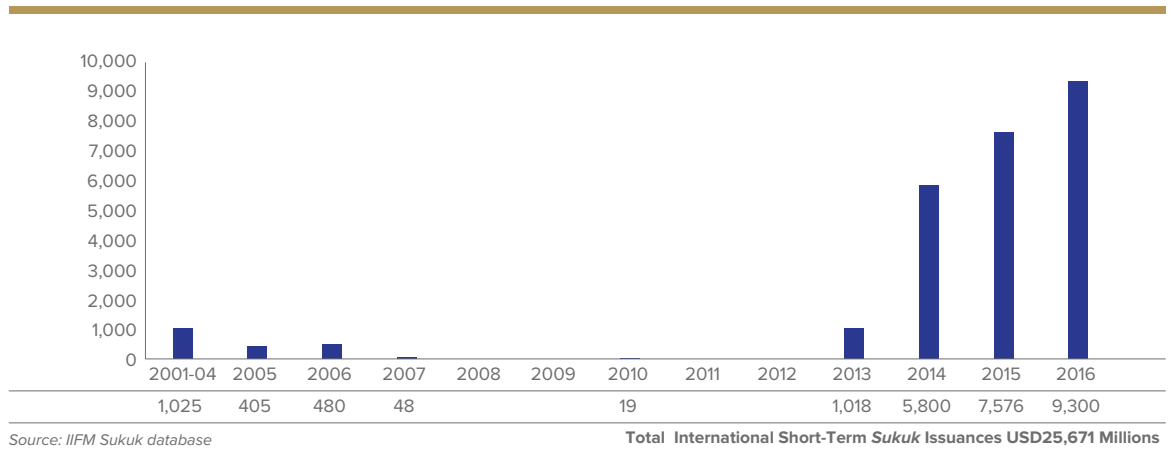
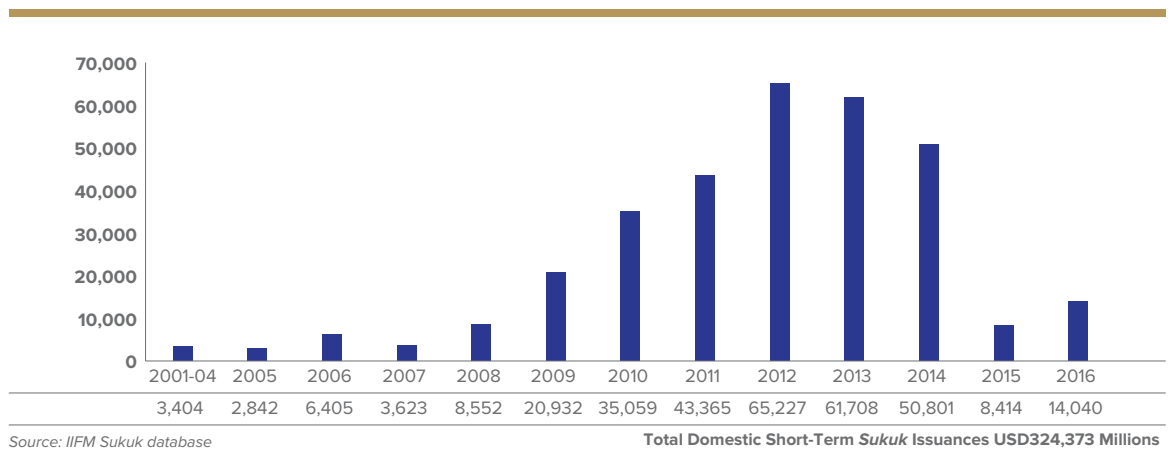


Chart 2C below shows that domestic short-term issuances during 2001 to 2014 mirrors Chart 2A, or global short-term issuances, which is because domestic issuances on average have been over 80% of all short-term issuances, except for 2015 where the share of the total short-term issuances fall to just over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

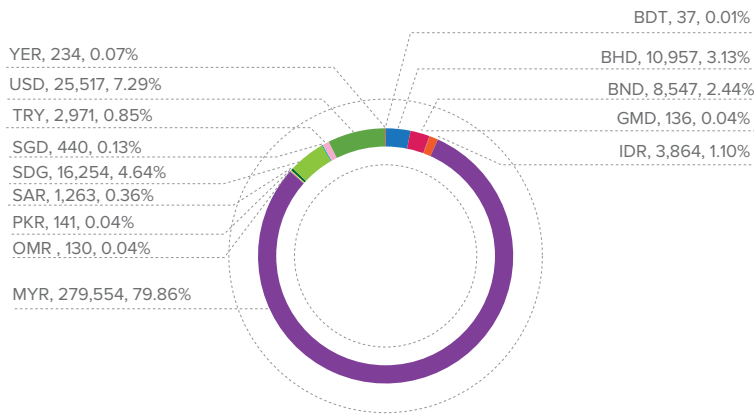
**CHART 2C : TOTAL DOMESTIC SHORT-TERM *SUKUK* ISSUANCES ≤ 12 MONTHS (JAN 2001 - DEC 2016, USD MILLIONS)**



It is interesting to note that during 2001-2014 period, the short-term market was clearly dominated by domestic issues and all domestic issuances were overshadowed by issuances from Malaysia. However, starting 2015 the short-term market started balancing where the market share of international short-term *Sukuk* reached around 40% of total issuances in 2016.

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

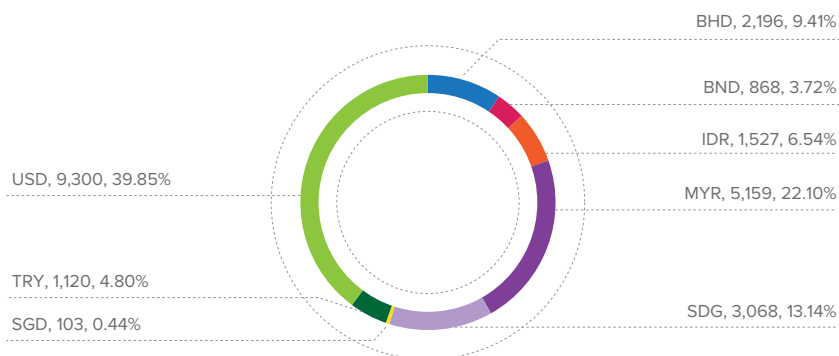
**CHART 2D (A): GLOBAL SHORT-TERM *SUKUK* ISSUANCES ≤ 12 MONTHS, CURRENCY BREAK-UP (JAN 2001 - DEC 2016, AMOUNT IN USD MILLIONS)**



Source: IIFM Sukuk database

As explained in Chart 2D (B) below the short-term market presents a more balanced look since inception where US Dollar leads the currency break-up with market share of around 40% followed by Malaysian Ringgit, Sudanese Pound, Bahraini Dinar, Indonesian Rupiah, Brunei Dollar and others.

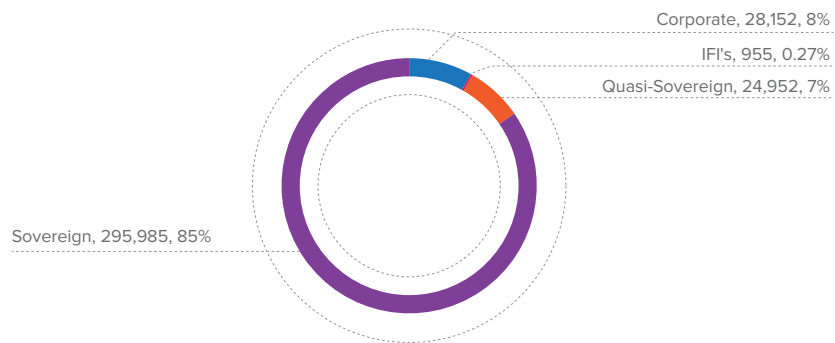
**CHART 2D (B): GLOBAL SHORT-TERM *SUKUK* ISSUANCES ≤ 12 MONTHS, CURRENCY BREAK-UP (JAN 2016 - DEC 2016, AMOUNT IN USD MILLIONS)**



Source: IIFM Sukuk database

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

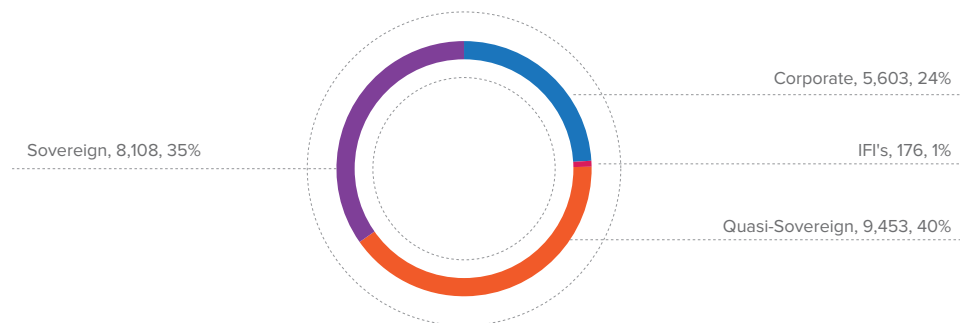
**CHART 2E (A): GLOBAL SHORT-TERM *SUKUK* ISSUANCES ≤ 12 MONTHS, BY ISSUER TYPE (JAN 2001 - DEC 2016, AMOUNT IN USD MILLIONS)**



Source: IIFM *Sukuk* database

Chart 2E (B) below provides information on issuances from sovereign, quasi sovereign, corporate and IFIs during 2016.

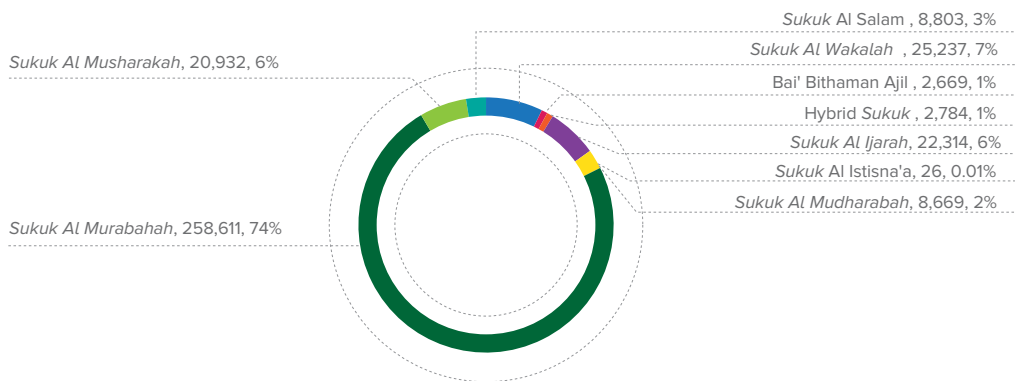
**CHART 2E (B) : GLOBAL SHORT-TERM *SUKUK* ISSUANCES ≤ 12 MONTHS, BY ISSUER TYPE (JAN 2016 - DEC 2016, AMOUNT IN USD MILLIONS)**



Source: IIFM *Sukuk* database

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

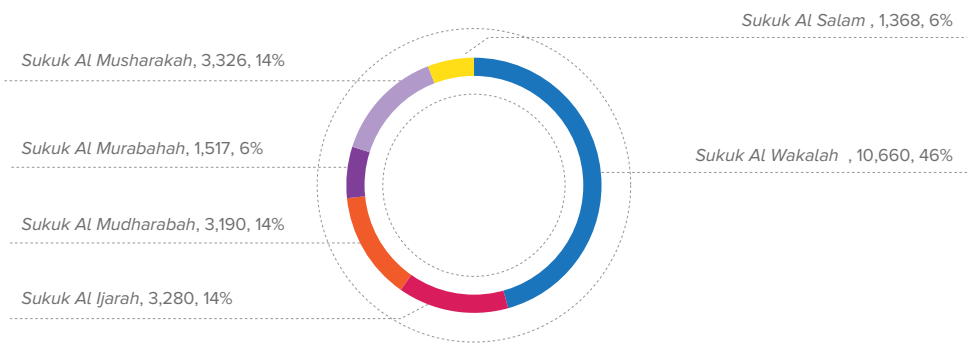
**CHART 2F (A) : GLOBAL SHORT-TERM SUKUK ISSUANCES ≤ 12 MONTHS, STRUCTURE BREAK UP (JAN 2001 - DEC 2016, AMOUNT IN USD MILLIONS)**



Source: IIFM Sukuk database

Chart 2F (B) below provides information on structure break-up during the year 2016 where *Wakalah* structure has taken a more dominant role, however, *Sukuk* issued under *Wakalah* structure generally involves *Ijarah* and *Murabahah* which means that the share of *Murabahah* could be higher.

**CHART 2F (B) : GLOBAL SHORT-TERM SUKUK ISSUANCES ≤ 12 MONTHS, STRUCTURE BREAK UP (JAN 2016 - DEC 2016, AMOUNT IN USD MILLIONS)**



Source: IIFM Sukuk database

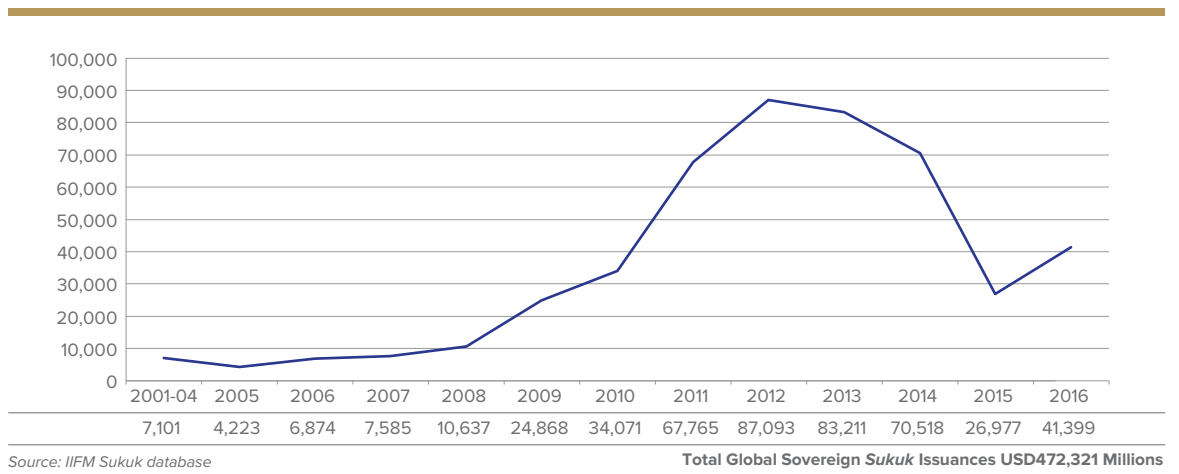


**1.6 DISTRIBUTION OF THE GLOBAL SUKUK ISSUANCES BY ISSUER STATUS**

The sovereign *Sukuk* issuances have risen sharply during 2008-2014 period while in 2015 there was a downward trend mainly due to adjustment in short-term *Sukuk* issuances; however, longer tenor sovereign *Sukuk* market continues to be resilient. There is an upward trend in sovereign issuances in 2016 and indications are that 2017 could see even higher volume. It will not be wrong to say that sovereigns provide a strong foundation to the *Sukuk* market.

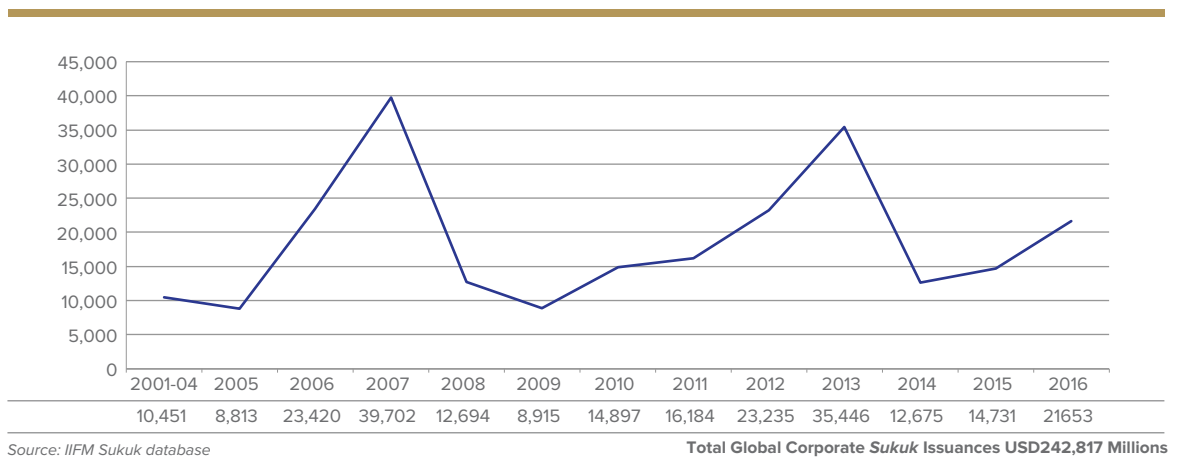
As of end 2016, total sovereign *Sukuk* issuance since inception stands at USD472 billion, which is around 55% of all global *Sukuk* issuances. Chart 3A below shows the trend of sovereign *Sukuk* issuances since the year 2001:

**CHART 3A : GLOBAL SOVEREIGN SUKUK ISSUANCES (JAN 2001 - DEC 2016) - ALL TENOR, ALL CURRENCIES, IN USD MILLIONS**



The trend in the global sovereign issuances is very encouraging in the sense that it shows the *Sukuk* market has a very strong base which is unwavering in the face of economic uncertainties. The growth in the issuances had remained constant and independent of the financial sector slowdown in the post 2007 period. However, the same is not true for the corporate sector issuances. As market sense would dictate, the issuances in the corporate sector seem to follow the economic cycle, going up in good economic conditions and slumping during economic slowdowns. The following Chart 3B shows the global corporate issuances since 2001:

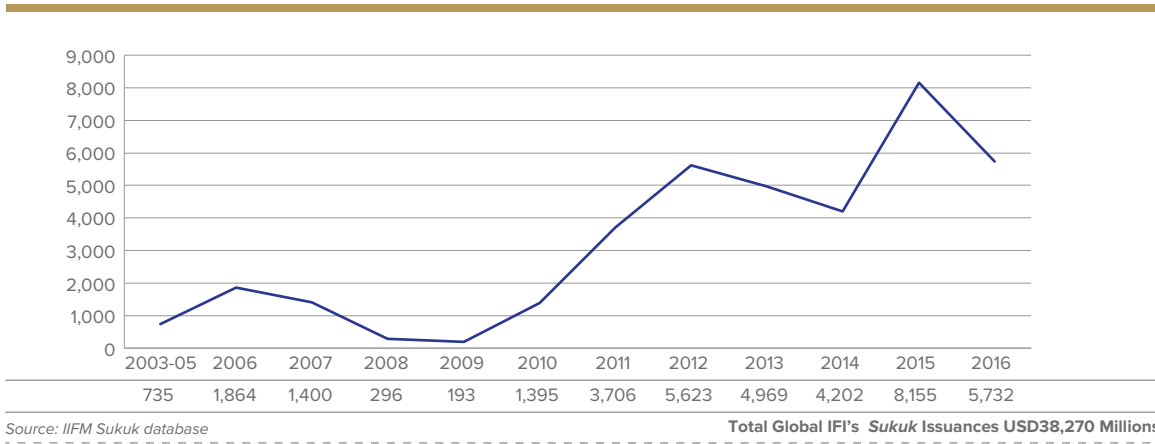
**CHART 3B : GLOBAL CORPORATE SUKUK ISSUANCES (JAN 2001 - DEC 2016) - ALL TENOR, ALL CURRENCIES, IN USD MILLIONS**



As can be seen, the corporate issuances peaked in 2007 and 2013 and dropped almost 30% and 40% in the following years 2008 and 2014 respectively. This is typical of corporate sector response even in the conventional world as they are first to cut back on spending, expansion and development projects in the wake of an economic downturn. It is however encouraging to note that corporate sector issuances have stabilized in 2015 and there is a slight upward trend in 2016, indicative of rising hope that corporate sector, as the case in Malaysia, will become a major issuer of *Sukuk* at least in the well established Islamic jurisdictions.

Chart 3C below shows the trend line for IFIs issuances since 2003:

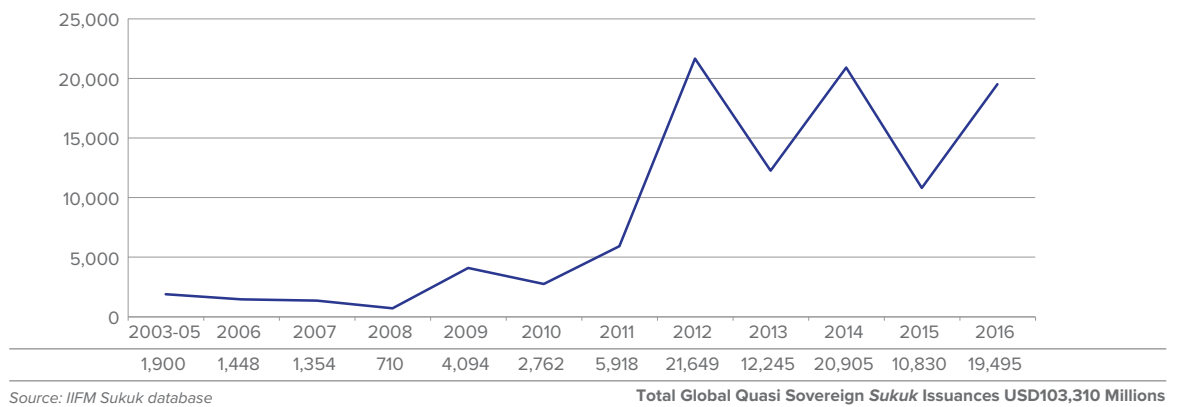
**CHART 3C : Global IFIs *Sukuk* Issuances (Jan 2001 - Dec 2016) - All Tenor, All Currencies, In USD Millions**



The financial institutions are the major investors in *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 IFIs. Although IFIs have been issuing *Sukuk* since inception; however, starting 2010 IFIs became more active as an issuer for not only liquidity management purposes but also to meet the Basel Capital Adequacy requirements by issuing Tier 1 & Tier 2 *Sukuk*. Abu Dhabi Islamic Bank became the first issuer of perpetual *Sukuk* and since then a number of IFIs in various jurisdictions are regularly issuing 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 2016) - ALL TENOR, ALL CURRENCIES, IN USD MILLIONS**

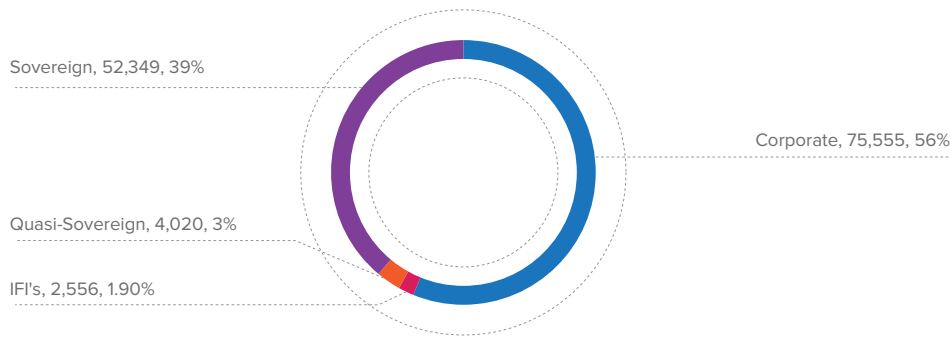


The quasi-sovereign issues between 2003 and 2011 mainly came from the finance ministry of the Malaysian government, Khazanah Nasional and the Saudi-based Islamic Development Bank. The sudden peak in 2012 came from large issuances from Malaysia based PLUS Berhad (almost USD9.7 billion) and two Saudi-based entities Saudi Electricity Company (USD1.75 billion) and the General Authority of Civil Aviation (USD 4 billion). IILM entered the market with its short-term *Sukuk* in 2013, starting with 2 *Sukuk* worth USD980 million in 2013, reaching upto USD9.30 billion in 2016. The surge in 2016 comes mainly from the IILM getting more active in the short-term market while in the longer tenor market is supported by issuances such as Tenaga Nasional USD750 million, DP World USD1,250 million, WAPDA Pakistan USD955 million and Khazanah Nasional USD1,500 million. It is interesting to note that in both the international and domestic *Sukuk* markets, the mix of sovereign/quasi-sovereign, corporate and IFI issuers has been following a consistent pattern with the former rising in prominence.

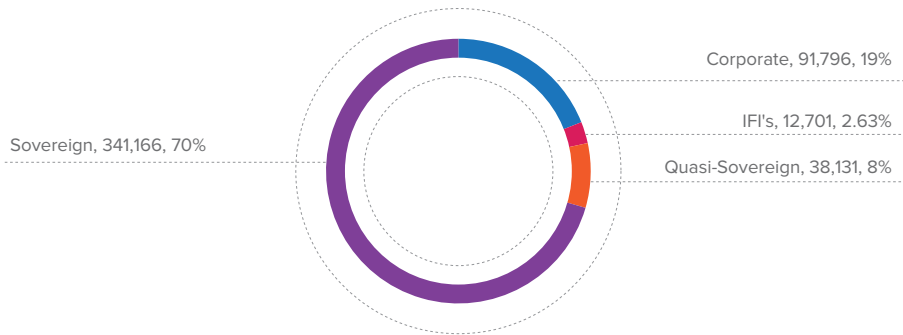
The Three pie charts in Chart 3E give a clear picture of domestic *Sukuk* issuances:

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

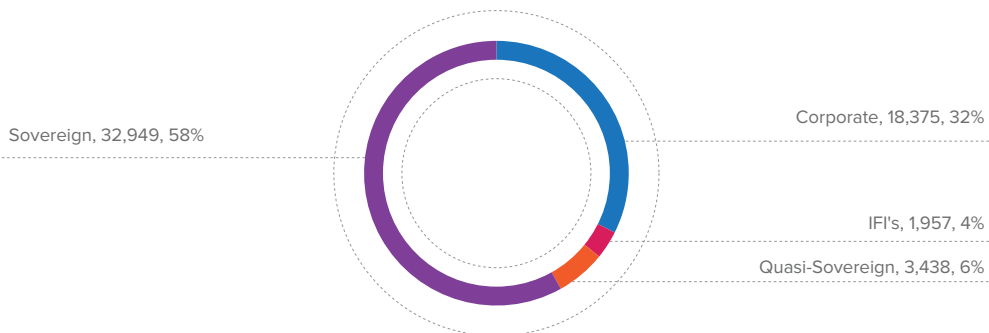
DOMESTIC *SUKUK* ISSUANCES Jan 2001-Dec 2009



DOMESTIC *SUKUK* ISSUANCES Jan 2010-Dec 2015



DOMESTIC *SUKUK* ISSUANCES Jan 2016- Dec 2016

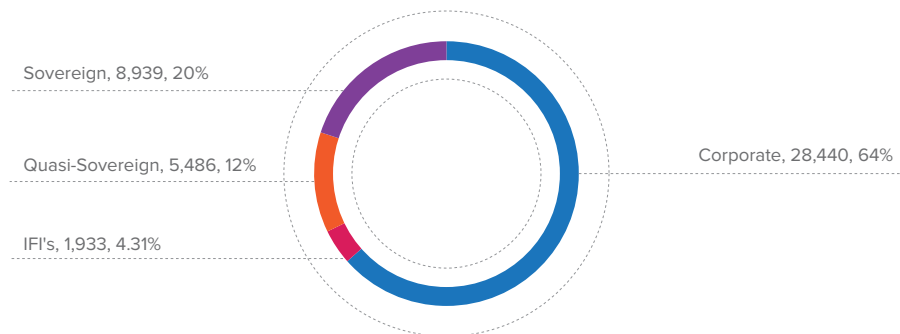


Source: IIFM Sukuk database

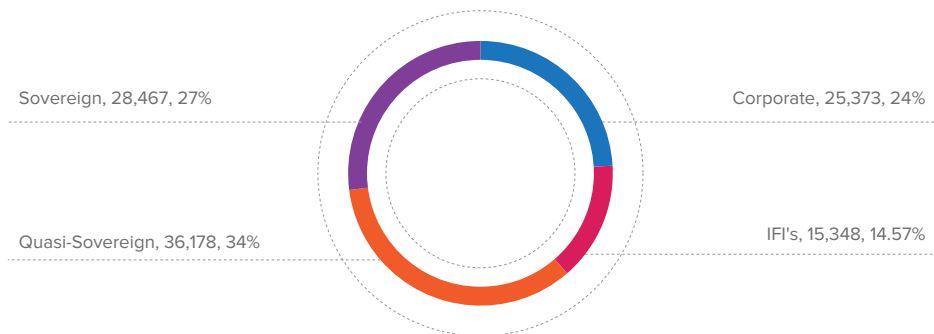
The pie charts in Chart 3F below show the respective shares of the sovereign, quasi-sovereign, corporate and IFI issuers in the international market. The share of sovereign & quasi-sovereign issuers in the international *Sukuk* market has risen steadily from only 22% of the entire issuance in the period 2001 - 2009 to a whopping 61% in the period 2010 - 2015. During 2016 quasi sovereign issuers took the lead and their share has risen to 51% of the total issuances followed by 27% issuances by sovereigns. The issuances by corporates and IFIs remain stagnant.

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

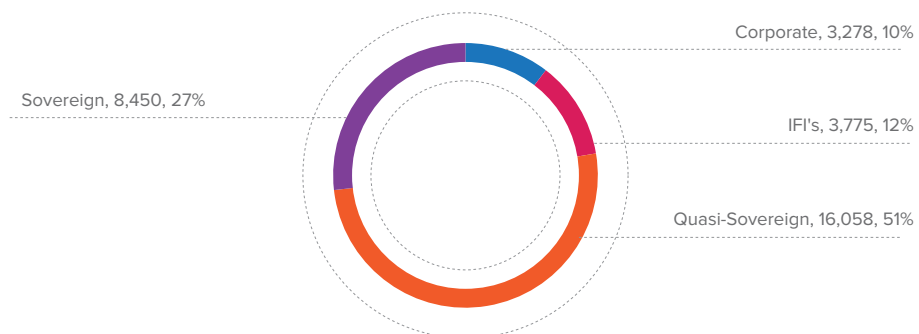
INTERNATIONAL SUKUK ISSUANCES Jan 2001- Dec 2009



INTERNATIONAL SUKUK ISSUANCES Jan 2010- Dec 2015



INTERNATIONAL SUKUK ISSUANCES Jan 2016- Dec 2016



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 the Landmark *Sukuk* issuances in the Sovereign, Quasi-Sovereign, Corporate, and IFI categories during 2016:

**TABLE 4A: GLOBAL SOVEREIGN SUKUK ISSUANCES - SELECTED VALUE LEADERS (2016, USD200 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL DOMESTIC	SUSD MN OR EQUIVALENT	RATE OF RETURN	TENOR (YEARS)
2016	Government of Oman	1	Oman	USD	International	<i>Sukuk Al Ijarah</i>	500	6
2016	Government of Turkey	1	Turkey	USD	International	<i>Sukuk Al Ijarah</i>	1,000	5
2016	Government of Sharjah	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	500	5
2016	Government of Sudan	1	Sudan	SDG	Domestic	<i>Sukuk Al Musharakah</i>	3,068	1
2016	Government of Indonesia	4	Indonesia	IDR	Domestic	<i>Sukuk Al Ijarah</i>	11,385	6
2016	Government of Malaysia	14	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	9,551	11
2016	Government of Indonesia	2	Indonesia	USD	International	<i>Sukuk Al Wakalah</i>	2,500	7
2016	Government of Bahrain	2	Bahrain	USD	International	<i>Sukuk Al Ijarah</i>	1,450	5
2016	Government of Malaysia	2	Malaysia	USD	International	<i>Sukuk Al Wakalah</i>	1,500	20
2016	Government of Pakistan	2	Pakistan	PKR	Domestic	<i>Sukuk Al Ijarah</i>	1,876	3
2016	Government of Turkey	4	Turkey	TRY	Domestic	<i>Sukuk Al Ijarah</i>	2,059	3
2016	Government of Pakistan	1	Pakistan	USD	International	<i>Sukuk Al Ijarah</i>	1,000	5

Source: IIFM Sukuk database

TABLE 4B: GLOBAL CORPORATE SUKUK ISSUANCES - SELECTED VALUE LEADERS (2016, USD200 MILLIONS OR &gt;, TENOR &gt; 1 YEAR)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL DOMESTIC	SUKUK STRUCTURE	USD MN OR EQUIVALENT	AVERAGE TENOR (YEARS)
2016	Etihad Airways	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	1,500	5
2016	Maxis Broadband	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	551	5
2016	Neelum Jhelum	1	Pakistan	PKR	Domestic	<i>Sukuk Al Mudharabah</i>	1,064	5
2016	LPPSA	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	202	20
2016	Emaar Properties	1	United Arab Emirates	USD	International	<i>Sukuk Al Murabahah</i>	750	10
2016	Ezden Holding Group	1	Qatar	USD	International	<i>Sukuk Al Wakalah</i>	500	5
2016	Pengurusan Air	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	225	7
2016	Malaysia Airlines	1	Malaysia	MYR	Domestic	<i>Sukuk Al Musharakah</i>	225	Perpetual
2016	Axiata Group	1	Malaysia	USD	International	<i>Sukuk Al Wakalah</i>	500	10
2016	Danga Capital	1	Malaysia	MYR	Domestic	<i>Sukuk Al Musharakah</i>	337	10
2016	Rawabi Vallianz Offshore Services	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al Ijarah</i>	267	5
2016	Danainfra Nasional	4	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	899	28

Source: IIFM Sukuk database

TABLE 4C: GLOBAL IFIs SUKUK ISSUANCES - SELECTED VALUE LEADERS (2016, USD200 MILLIONS OR &gt;, TENOR &gt; 1 YEAR)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL DOMESTIC	SUKUK STRUCTURE	USD MN OR EQUIVALENT	AVERAGE TENOR (YEARS)
2016	Kuveyt Türk	2	Turkey	USD	International	<i>Sukuk Al Wakalah</i>	850	8
2016	Ahli United Bank	1	Kuwait	USD	International	<i>Sukuk Al Mudharabah</i>	200	Perpetual
2016	Sharjah Islamic Bank	1	United Arab Emirates	USD	International	<i>Sukuk Al Ijarah</i>	500	5
2016	Qatar Islamic Bank	1	Qatar	QAR	Domestic	<i>Sukuk Al Wakalah</i>	208	Perpetual
2016	Al Hilal Bank	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	225	2
2016	Bank Al Jazira	1	Saudi Arabia	SAR	Domestic	<i>Sukuk Al Wakalah</i>	533	10
2016	Boubyan Bank	1	Kuwait	USD	International	<i>Sukuk Al Mudharabah</i>	250	Perpetual
2016	Noor Bank	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	500	Perpetual
2016	Emirates Islamic Bank	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	750	5
2016	Dubai Islamic Bank	1	United Arab Emirates	USD	International	<i>Sukuk Al Wakalah</i>	500	5
2016	Maybank Islamic	1	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	225	10

Source: IIFM Sukuk database



TABLE 4D: GLOBAL QUASI-SOVEREIGN SUKUK ISSUANCES - SELECTED VALUE LEADERS (2016, USD200 MILLIONS OR &gt;, TENOR &gt; 1 YEAR)

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	INTERNATIONAL DOMESTIC	SUKUK STRUCTURE	USD MN OR EQUIVALENT	AVERAGE TENOR (YEARS)
2016	Tenaga Nasional	1	Malaysia	USD	International	<i>Sukuk Al Wakalah</i>	750	10
2016	DP World	1	United Arab Emirates	USD	International	<i>Sukuk Al Mudharabah</i>	1,200	7
2016	Neelum Jhelum	1	Pakistan	PKR	Domestic	<i>Musharakah</i>	955	10
2016	Sime Darby	1	Malaysia	MYR	Domestic	<i>Sukuk Al Wakalah</i>	494	Perpetual
2016	Islamic Development Bank	2	Saudi Arabia	USD	International	<i>Sukuk Al Wakalah</i>	2,700	5
2016	Jambatan Kedua	2	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	427	10
2016	Khazanah Nasional	2	Malaysia	USD	International	<i>Sukuk Al Wakalah</i>	1,500	5
2016	PTPTN	2	Malaysia	MYR	Domestic	<i>Sukuk Al Murabahah</i>	562	18

Source: IIFM Sukuk database

## 1.7 ANATOMY OF INTERNATIONAL SUKUK ISSUANCES

The international *Sukuk* market, which forms just under 21.50% of overall Global *Sukuk* issuances since 2001, is still the driver of the *Sukuk* market. Denominated in USD and other stable currencies, the international *Sukuk* issues are now being issued in longer tenors which include up to 30 years and perpetual. The international *Sukuk* with medium to long term tenors maintained growth in volume during 2016 while the size of international short-term *Sukuk* have also grown mainly due to issuances by IILM.

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

A look at table 5 below shows us that the UAE has been a clear volume and value leader in the international *Sukuk* market since 2001. There have been a total of 90 *Sukuk* issues worth USD60.2 billion in the UAE and together with Saudi Arabia, Qatar and Bahrain, the four GCC countries command over 58% of the entire international *Sukuk* issuances. In the year 2016 around 52% of the international issues came from these four countries. Malaysia also has a formidable presence in the international *Sukuk* market commanding around 20% of all international issuances since 2001.

Table 5 illustrates the regional break-up of the total international *Sukuk* issuance during the period Jan 2001 – Dec 2016:

**TABLE 5: REGIONAL BREAK - UP OF INTERNATIONAL ISSUANCES JAN 2001 - DEC 2016**

ASIA & FAR EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
China	1	97	0.05%
Hong Kong	4	2,196	1.21%
Indonesia	13	10,503	5.78%
Japan	3	190	0.10%
Malaysia	73	44,854	24.68%
Pakistan	3	2,600	1.43%
Singapore	4	711	0.39%
Total	101	61,150	33.60%
GCC & MIDDLE EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bahrain	101	9,310	5.12%
Kuwait	15	2,577	1.42%
Oman	2	582	0.32%
Qatar	12	10,185	5.60%
Saudi Arabia	43	26,305	14.48%
United Arab Emirates	90	60,244	33.15%
Total	263	109,203	60.10%
AFRICA	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE

Table continued on next page

South Africa	1	500	0.28%
Sudan	1	130	0.07%
Total	2	630	0.30%

EUROPE & OTHERS	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
France	1	1	0.00%
Germany	2	83	0.05%
Luxembourg	3	280	0.15%
Turkey	20	7,566	4.16%
United Kingdom	9	1,368	0.75%
USA	5	1,367	0.75%
Kazakhstan	1	77	0.04%
Total	41	10,742	5.91%
<b>Grand Total</b>	<b>407</b>	<b>181,725</b>	<b>100%</b>

Source: IIFM Sukuk database

Table 6 gives a list of selected value leaders of *Sukuk* issuances in 2016. The largest of the value leaders, that is with issuance amounts of USD1 billion and above include sovereign, quasi-sovereign entities as well as corporates, namely the governments of Malaysia, Indonesia, Pakistan and the Islamic Development Bank. In 2016 the corporate issuances of USD1 billion and above are both UAE based Etihad Airways and DP World.

**TABLE 6: INTERNATIONAL SUKUK ISSUANCES – SELECTED VALUE LEADERS (2016, USD200 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	AVERAGE TENOR (YEARS)
2016	Etihad Airways	1	United Arab Emirates	USD	Corporate	Sukuk Al Wakalah	1,500	5
2016	Tenaga Nasional	1	Malaysia	USD	Quasi-Sovereign	Sukuk Al Wakalah	750	10
2016	Ahli United Bank	1	Kuwait	USD	IFI's	Sukuk Al Mudharabah	200	Perpetual
2016	Emaar Properties	1	United Arab Emirates	USD	Corporate	Sukuk Al Murabahah	750	10
2016	Sharjah Islamic Bank	1	United Arab Emirates	USD	IFI's	Sukuk Al Ijarah	500	5
2016	Government of Oman	1	Oman	USD	Sovereign	Sukuk Al Ijarah	500	6

Table continued on next page

2016	Al Hilal Bank	1	United Arab Emirates	USD	IFI's	<i>Sukuk Al Wakalah</i>	225	3
2016	Government of Turkey	1	Turkey	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,000	5
2016	Boubyan Bank	1	Kuwait	USD	IFI's	<i>Sukuk Al Mudharabah</i>	250	Perpetual
2016	Noor Bank	1	United Arab Emirates	USD	IFI's	<i>Sukuk Al Wakalah</i>	500	Perpetual
2016	DP World	1	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al Mudharabah</i>	1,200	7
2016	Emirates Islamic Bank	1	United Arab Emirates	USD	IFI's	<i>Sukuk Al Wakalah</i>	750	5
2016	Ezdan Holding Group	1	Qatar	USD	Corporate	<i>Sukuk Al Wakalah</i>	500	5
2016	ICD - IDB Group Company	1	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	300	5
2016	Dubai Islamic Bank	1	United Arab Emirates	USD	IFI's	<i>Sukuk Al Wakalah</i>	500	5
2016	Axiata Group Bhd	1	Malaysia	USD	Corporate	<i>Sukuk Al Wakalah</i>	500	10
2016	Government of Sharjah	1	United Arab Emirates	USD	Sovereign	<i>Sukuk Al Ijarah</i>	500	5
2016	Government of Indonesia	2	Indonesia	USD	Sovereign	<i>Sukuk Al Wakalah</i>	2,500	8
2016	Government of Bahrain	2	Bahrain	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,450	5
2016	Government of Malaysia	2	Malaysia	USD	Sovereign	<i>Sukuk Al Wakalah</i>	1,500	20
2016	Islamic Development Bank	2	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	2,700	5
2016	Khazanah Nasional	2	Malaysia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	1,500	5
2016	Kuveyt Türk	2	Turkey	USD	IFI's	<i>Sukuk Al Wakalah</i>	850	8
2016	Government of Pakistan	1	Pakistan	USD	Sovereign	<i>Sukuk Al Ijarah</i>	1,000	5

Source: IIFM Sukuk database

### 1.8 ANATOMY OF DOMESTIC *SUKUK* ISSUANCES

The domestic market forms around 78.80% of the entire *Sukuk* market. The domestic market consists of longer tenor as well as short-term *Sukuk* denominated in over 22 different currencies where Government of Jordan is a new entrant in 2016. Malaysia has been the dominant player, commanding around 76.40% of the total domestic *Sukuk* market. The other major jurisdictions for domestic issuances in 2016 were Saudi Arabia, Bahrain, Indonesia, Brunei, UAE, Qatar and Turkey.

In the years to come, we might see a rise in domestic *Sukuk* issuance in countries other than Malaysia as the financial institutions that were scooping up Bank Negara's short-term issues (now discontinued) for their liquidity management purposes might pressurize other local governments to step up and meet their needs for liquidity. However, it also depends upon the oil market situation and the overall global economy.

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

**TABLE 7A: REGIONAL BREAK-UP OF GLOBAL ISSUANCES (JAN 2001 - DEC 2016)**

ASIA & FAR EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bangladesh	4	37	0.01%
Brunei Darussalam	137	8,829	1.31%
Indonesia	195	31,822	4.71%
Iran	1	144	0.02%
Malaysia	5,106	515,662	76.40%
Maldives	1	3	0.00%
Pakistan	71	12,006	1.78%
Singapore	12	788	0.12%
Sri Lanka	1	3	0.00%
<b>Total</b>	<b>5,528</b>	<b>569,295</b>	<b>84.30%</b>

GCC & MIDDLE EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bahrain	265	14,748	2.18%
Jordan	3	272	0.04%
Kuwait	1	332	0.05%
Oman	3	825	0.12%
Qatar	16	14,416	2.14%
Saudi Arabia	52	37,179	5.51%
United Arab Emirates	14	8,251	1.22%
Yemen	2	253	0.04%
<b>Total</b>	<b>356</b>	<b>76,275</b>	<b>11.30%</b>

Table continued on next page

AFRICA	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Gambia	210	136	0.02%
Ivory Coast	2	460	0.07%
Nigeria	2	133	0.02%
Senegal	2	445	0.07%
Sudan	27	19,248	2.85%
Togo	1	245	0.04%
Total	244	20,666	3.10%

EUROPE & OTHERS	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Germany	1	123	0.02%
Turkey	96	8,635	1.28%
<b>Total</b>	<b>97</b>	<b>8,758</b>	<b>1.30%</b>
<i>Source: IIFM Sukuk database</i> <b>Grand Total</b>	<b>6,225</b>	<b>674,994</b>	<b>100%</b>

The domestic market comprised of longer tenor as well as short-term issuances of 12 months and under. In the year 2016, the selected domestic value leaders given in Table 7B below, were governments of Malaysia, Indonesia, Turkey, quasi issuances from Pakistan (Neelum Jehlum), corporate issuance from Malaysia by Maxis Broadband. The domestic issuances include sovereign, quasi sovereign, corporate and IFIs which is an encouraging development.

**TABLE 7B: DOMESTIC SUKUK ISSUANCES – SELECTED VALUE LEADERS (2016, USD200 MILLIONS OR >, TENOR > 1 YEAR)**

ISSUE YEAR	ISSUER	NUMBER OF ISSUES	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	AVERAGE TENOR (YEARS)
2016	Maxis Broadband	1	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	551	5
2016	LPPSA	1	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	202	20
2016	Qatar Islamic Bank	1	Qatar	QAR	IFI's	<i>Sukuk Al Wakalah</i>	208	Perpetual
2016	Government of Togo	1	Togo	CFA	Sovereign	<i>Sukuk Al Ijarah</i>	245	10
2016	Government of Ivory Coast	1	ivory Coast	CFA	Sovereign	<i>Sukuk Al Ijarah</i>	245	5
2016	Government of Senegal	1	Senegal	CFA	Sovereign	<i>Sukuk Al Ijarah</i>	245	10
2016	Bank Al Jazira	1	Saudi Arabia	SAR	IFI's	<i>Sukuk Al Wakalah</i>	533	10
2016	Pengurusan Air	1	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	225	7
2016	Neelum Jehlum	1	Pakistan	PKR	Quasi-Sovereign	<i>Sukuk Al Musharakah</i>	955	10

Table continued on next page

2016	Malaysia Airlines	1	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	225	Perpetual
2016	Sime Darby	1	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	494	Perpetual
2016	Danga Capital	1	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	337	10
2016	Rawabi Vallianz Offshore Services	1	Saudi Arabia	SAR	Corporate	<i>Sukuk Al Ijarah</i>	267	5
2016	Maybank Islamic	1	Malaysia	MYR	IFI's	<i>Sukuk Al Murabahah</i>	225	10
2016	Government of Sudan	1	Sudan	SDG	Sovereign	<i>Sukuk Al Musharakah</i>	3,068	1
2016	Danainfra Nasional Berhad	4	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	899	28
2016	Government of Indonesia	4	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	11,385	6
2016	Government of Malaysia	14	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	9,551	11
2016	Government of Pakistan	2	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	1,876	3
2016	Government of Turkey	4	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	2,059	4
2016	Jambatan Kedua	2	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	427	10
2016	PTPTN	2	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	562	18

Source: IIFM Sukuk database

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

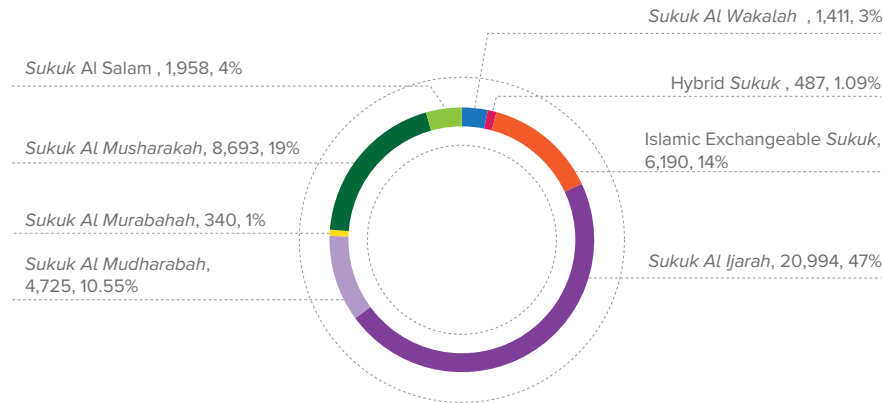
In terms of *Sukuk* structure, characteristics and participants, there is a difference between international and domestic *Sukuk* markets hence the popularity of various *Sukuk* financing structures also differ between the two markets.

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 47% during 2001-2009 period. Since then the share of *Ijarah* started declining and as mentioned in the last *Sukuk* report there was a drop of 5% during 2010-2014 period. In the year 2015, a sudden and major shift from *Ijarah* to *Wakalah* model took place and this continued in 2016 where *Sukuk Al Wakalah* share rose to 77% amounting to USD24.2 billion of the total international issuances while *Sukuk Al Ijarah* share declined to 16% amounting to USD4.9 billion.

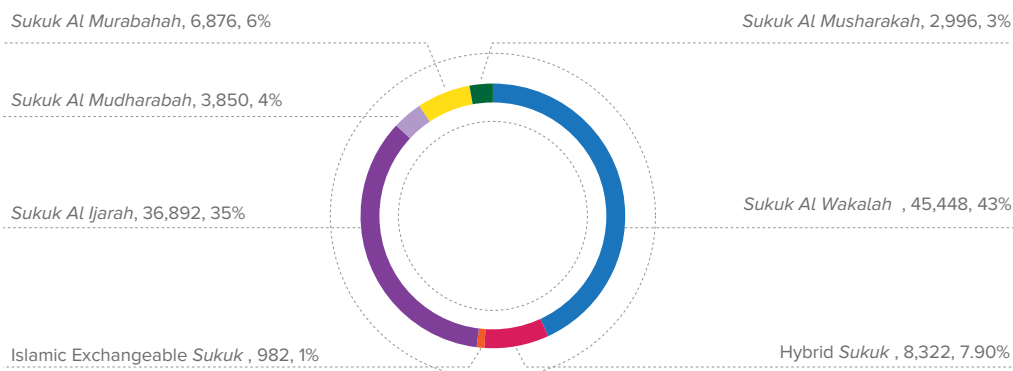
In terms of structure, *Sukuk Al Wakalah* is generally a combination of *Ijarah* with *Murabahah* and is like a hybrid structure. The *Sukuk Al Wakalah* provides flexibility in structuring and the issue of shortage of available assets is

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

INTERNATIONAL SUKUK ISSUANCES Jan 2001- Dec 2009

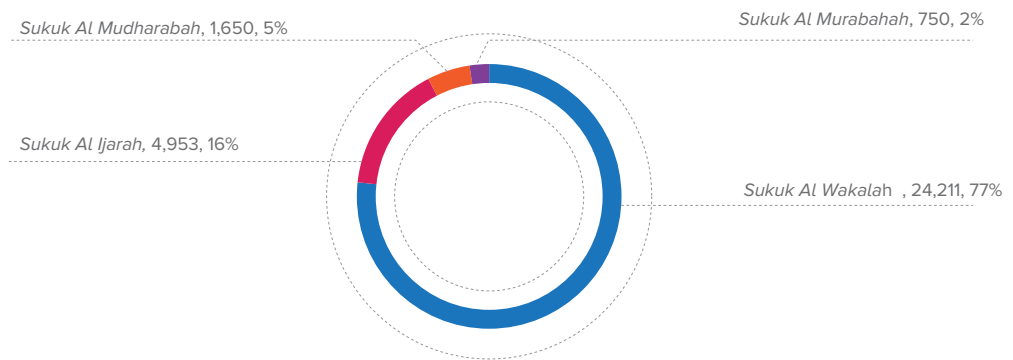


INTERNATIONAL SUKUK ISSUANCES Jan 2010- Dec 2015





INTERNATIONAL SUKUK ISSUANCES Jan 2016- Dec 2016



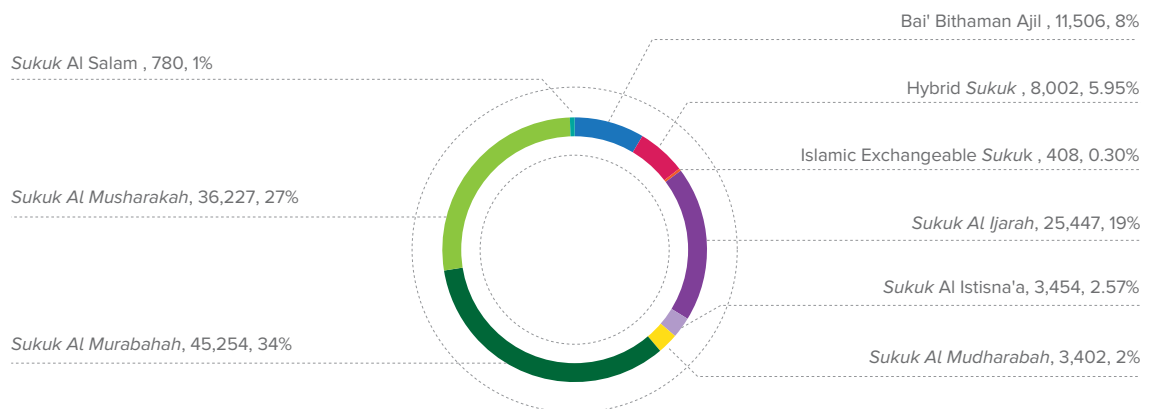
Source: IIFM Sukuk database

reduced, however, over reliance on one structure needs to be collectively assessed by the industry.

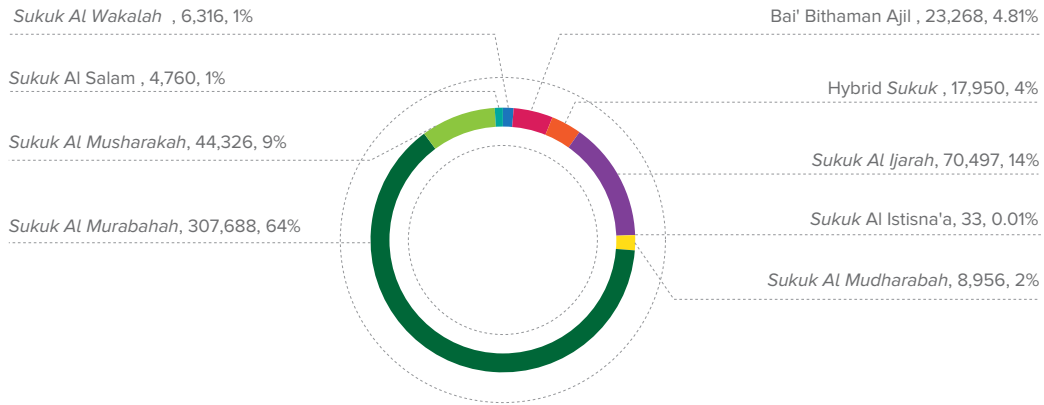
In the domestic market, as shown in chart 4B below, *Sukuk Al Murabahah* has historically been and continues to be the most dominant structure for *Sukuk* issuance even in 2016 where USD 21.7 billion or 38% of total domestic issuances were based on the *Murabahah* structure. However, in 2016 *Ijarah*, *Mudharabah* and *Wakalah* are also part of the structural mix which is desirable from the diversity point of view.

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

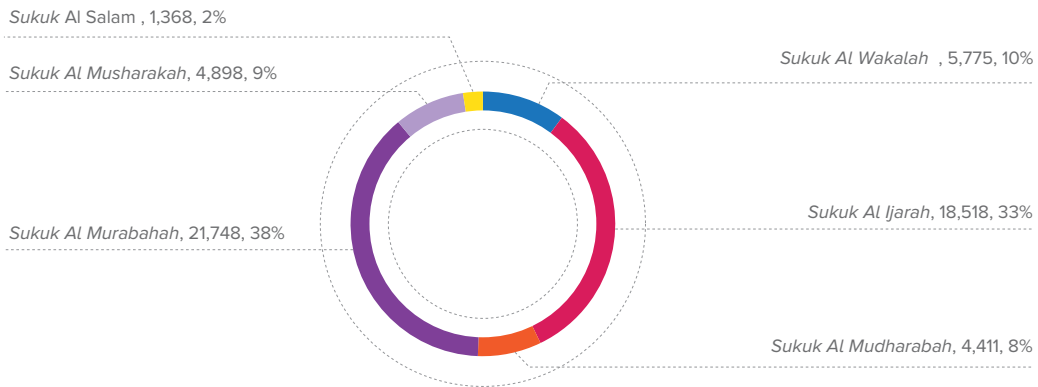
DOMESTIC SUKUK ISSUANCES Jan 2001-Dec 2009



DOMESTIC SUKUK ISSUANCES Jan 2010-Dec 2015



DOMESTIC SUKUK ISSUANCES Jan 2016- Dec 2016



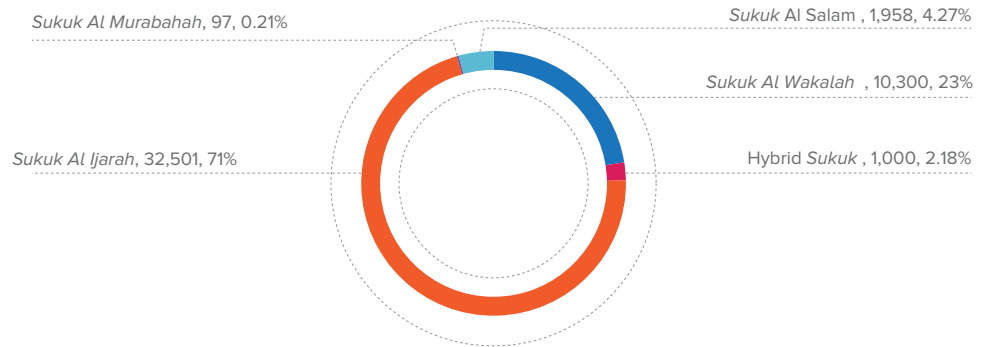
Source: IIFM Sukuk database

Chart 4C below shows the structural distribution of international *Sukuk* issuances by the type of issuer i.e. sovereign, quasi-sovereign, corporate and IFI issuers for the whole period of January 2001-2016. On an overall basis, it seems that *Sukuk Al Ijarah* has historically been the favorite structure of international issuers. However, in recent years including 2016, *Wakalah* and *Ijarah* are the two most preferred structures by most of the issuers except quasi-sovereign where *Sukuk Al Wakalah* share is 72%.

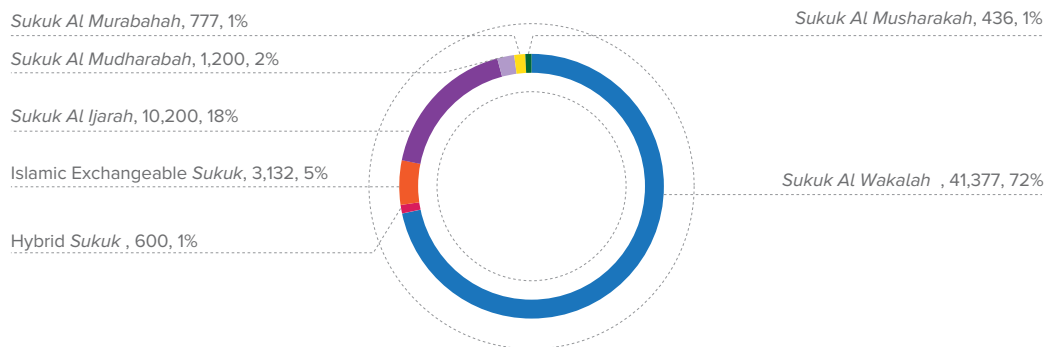
Islamic Exchangeable *Sukuk* is another innovative structure where Khazanah Nasional of Malaysia has taken lead in issuing this type of *Sukuk*. Perhaps this model can be replicated by issuers in other jurisdictions as well.

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

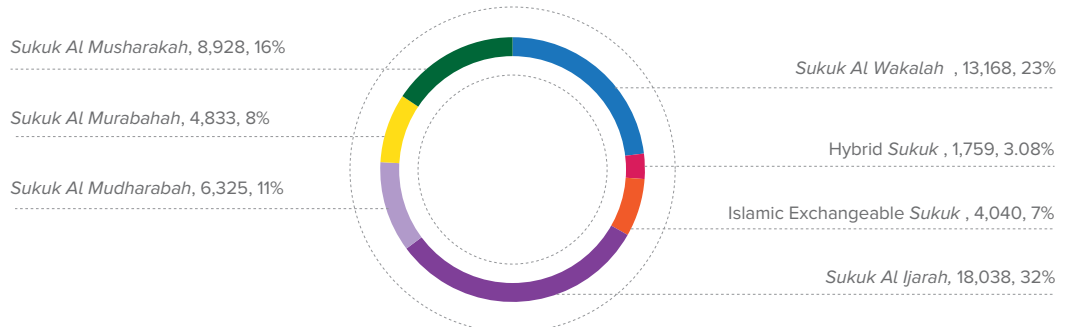
Sovereign *Sukuk* Issuances Jan 2001-Dec 2016



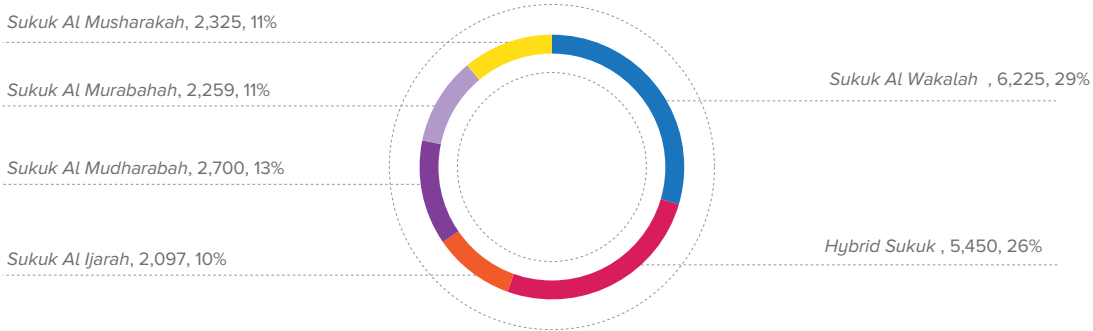
QUASI-SOVEREIGN SUKUK ISSUANCES Jan 2001-Dec 2016



CORPORATE SUKUK ISSUANCES Jan 2001-Dec 2016



IFI SUKUK ISSUANCES Jan 2001-Dec 2016

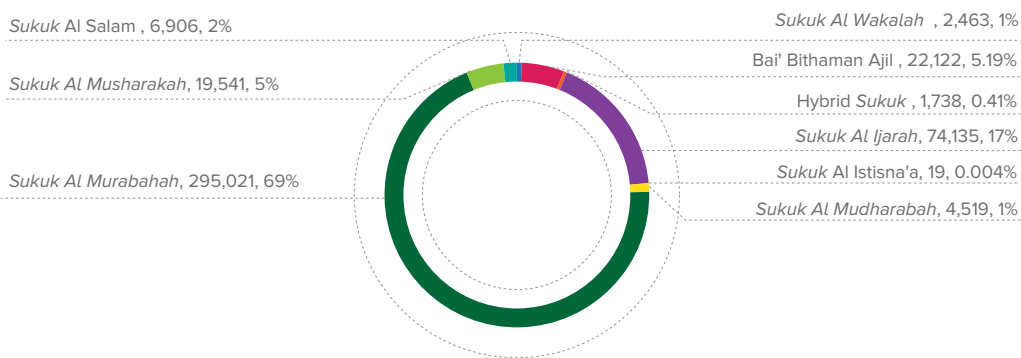


Source: IIFM Sukuk database

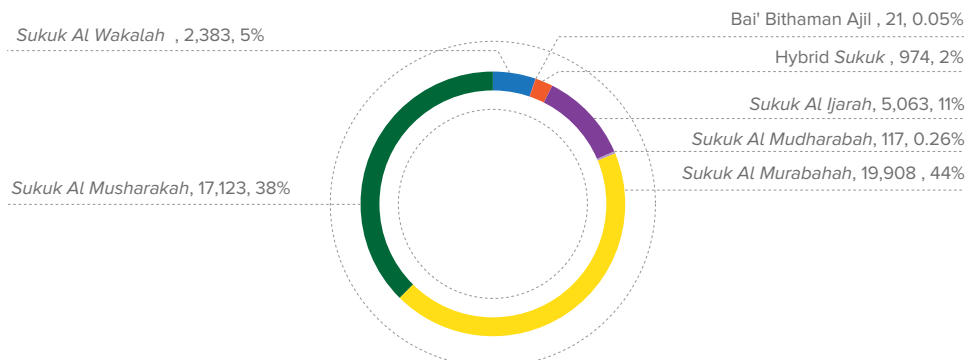
Similarly, as depicted in Chart 4D below, in the domestic market, on a historical basis, *Murabahah* has been the most favoured structure with the issuers being sovereign, quasi-sovereign, corporates and IFIs. The quasi-sovereign, corporate and IFI issuers in domestic markets also use *Musharakah*, *Mudharabah*, *Ijarah* and *Wakalah* quite extensively while sovereign issuers tend to use *Murabahah* more than any other structure perhaps due to ease of structuring *Sukuk Al Murabahah*.

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

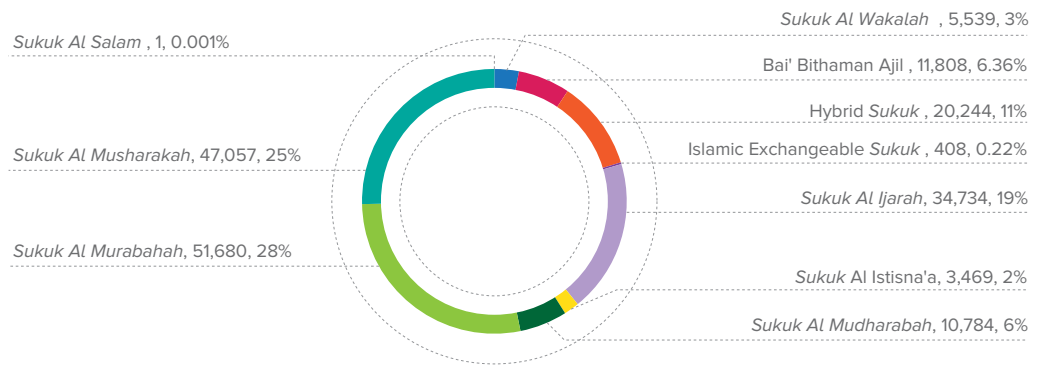
SOVEREIGN SUKUK ISSUANCES Jan 2001-Dec 2016



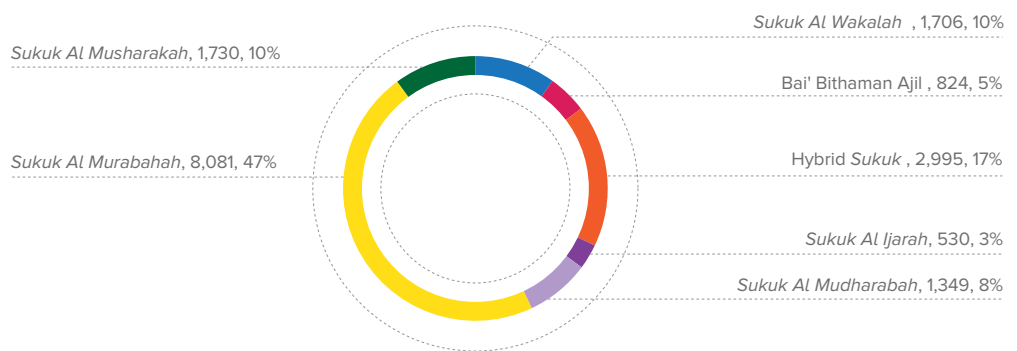
QUASI-SOVEREIGN SUKUK ISSUANCES Jan 2001-Dec 2016



CORPORATE SUKUK ISSUANCES Jan 2001-Dec 2016



IFI SUKUK ISSUANCES Jan 2001-Dec 2016



Source: IIFM Sukuk database

## 1.10 GEOGRAPHICAL BREAK-UP OF GLOBAL SUKUK MARKET

Asia continues to be the dominant player in the global *Sukuk* market. In terms of region, Asia accounts for 73.6% of global *Sukuk* issuances since inception of the market. The regional market shares are depicted in Table 8 below. GCC is the second largest destination of *Sukuk* issuance with market share of 21.6% 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 market share of 65.4% as of 2016. Other jurisdictions in order of their approximate share in the global market are the UAE (8%), Saudi Arabia (7%), Indonesia (5%), Bahrain (3%), Qatar (3%) and Turkey (2%). The number of jurisdictions which are directly or indirectly issuing *Sukuk* are increasing year-over-year which in turn is keeping the *Sukuk* market progressive.

**TABLE 8: REGIONAL BREAK - UP OF GLOBAL ISSUANCES (JAN 2001 -DEC 2016)**

ASIA & FAR EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bangladesh	4	37	0.004%
Brunei Darussalam	137	8,829	1.03%
China	1	97	0.01%
Hong Kong	4	2,196	0.26%
Indonesia	208	42,325	4.94%
Iran	1	144	0.02%
Japan	3	190	0.02%
Malaysia	5,179	560,516	65.43%
Maldives	1	3	0.004%
Pakistan	74	14,606	1.70%
Singapore	16	1,498	0.17%
Sri Lanka	1	3	0.004%
Total	5,629	630,445	73.60%
GCC & MIDDLE EAST	NUMBER OF ISSUES	AMOUNT USD MILLIONS	% OF TOTAL VALUE
Bahrain	366	24,058	2.81%
Jordan	3	272	0.03%
Kuwait	16	2,908	0.34%
Oman	5	1,407	0.16%
Qatar	28	24,601	2.87%
Saudi Arabia	95	63,483	7.41%
United Arab Emirates	104	68,495	8.00%
Yemen	2	253	0.03%
Total	619	185,478	21.60%

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<b>AFRICA</b>	<b>NUMBER OF ISSUES</b>	<b>AMOUNT USD MILLIONS</b>	<b>% OF TOTAL VALUE</b>
Gambia	210	136	0.02%
ivory Coast	2	460	0.05%
Nigeria	2	133	0.02%
Senegal	2	445	0.05%
South Africa	1	500	0.06%
Sudan	28	19,378	2.26%
Togo	1	245	0.03%
Total	246	21,296	2.50%

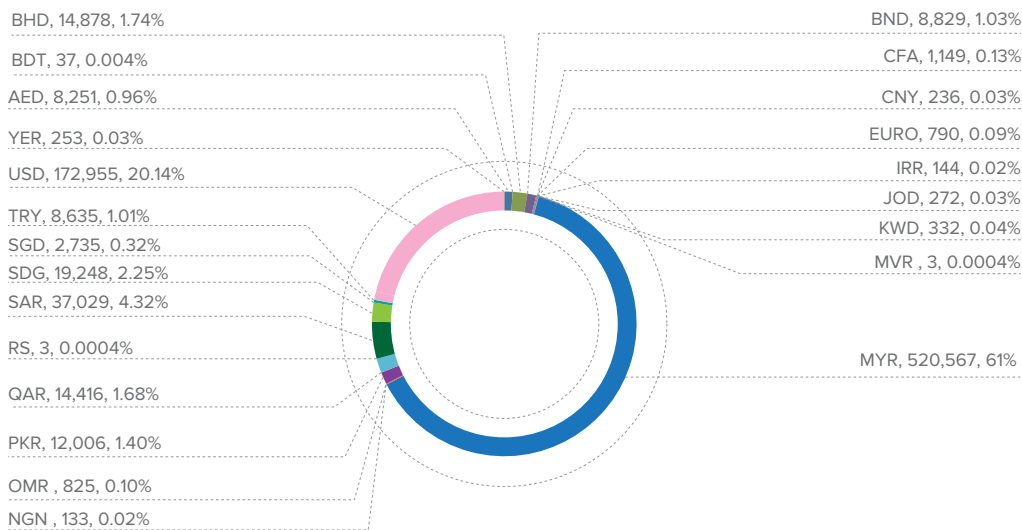
<b>EUROPE &amp; OTHERS</b>	<b>NUMBER OF ISSUES</b>	<b>AMOUNT USD MILLIONS</b>	<b>% OF TOTAL VALUE</b>
France	1	1	0.0001%
Germany	3	206	0.02%
Luxembourg	3	280	0.03%
Turkey	116	16,201	1.89%
United Kingdom	9	1,368	0.16%
USA	5	1,367	0.16%
Kazakhstan	1	77	0.01%
Total	138	19,500	2.28%
Grand Total	6,632	856,718	100%

Source: IIFM Sukuk database

Chart 5 below shows a currency-wise break-up of the overall global *Sukuk* market. Malaysian Ringgit is the dominant currency as the Malaysian *Sukuk* market is mostly local currency based. *Sukuk* issuance denominated in USD are 21% of the entire global *Sukuk* market. It is reassuring to see that *Sukuk* have been issued in 22 different currencies apart from USD and the Malaysian Ringgit. As more and more sovereigns step up to provide liquidity in their local markets, we might see the GCC and other Asian currencies rising over time.

**1.11 SUKUK MATURITIES 2016 THROUGH 2018**

**CHART 5 : GLOBAL SUKUK ISSUANCES CURRENCY BREAK-UP - ALL TENORS (JAN 2001 - DEC 2016, USD MILLIONS)**



Source: IIFM Sukuk database



This section provides a snapshot of *Sukuk* matured in the year 2016 and about to mature in the coming two years in the international and domestic markets. Depending upon the economic and market conditions, it may represent additional liquidity being made available into the system hinting at prospective re-issuances.

Tables 9A, 9B and 9C show the maturity picture in the international market. The *Sukuk* maturity in 2016 works out to be USD7.3 billion, redemptions in 2017 and 2018 will be quite sizeable at USD10.8 and USD17.1 billion respectively. In 2017, the biggest two individual *Sukuk* matured were DP World (USD1.2 billion) and Islamic Development Bank (USD1.3 billion) while UAE based entities collectively account for almost USD5 billion of the total maturing *Sukuk*. For 2018, UAE based Dubai Electricity & Water Authority (DEWA) and Abu Dhabi Islamic Bank (ADIB) - Islamic Development Bank (IDB), Governments of Indonesia, Turkey, Ooredoo (Qatar) will have combined maturity of around USD10 billion. In fact almost USD11.25 billion of the USD17.1 billion of maturing *Sukuk* come from the GCC region.

**TABLE 9A: INTERNATIONAL *SUKUK* MATURED 2016, AMOUNT > USD 100 MILLION**

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	<i>SUKUK</i> TYPE	<i>SUKUK</i> STRUCTURE	USD MN OR EQUIVALENT	TENOR (YEARS)	MATURITY DATE
2015	Cagamas	Malaysia	SGD	Corporate	<i>Sukuk Al Murabahah</i>	116	1	25-Sep-16
2015	Government of Indonesia	Indonesia	USD	Sovereign	<i>Sukuk Al Ijarah</i>	100	1	27-Jul-16
2013	Golden Assets International Finance	Indonesia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	1,000	3	11-Mar-16
2011	Abu Dhabi Commercial Bank	United Arab Emirates	USD	IFI	Hybrid <i>Sukuk</i>	500	5	30-Nov-16
2011	Kuveyt Türk Katılım Bankası	Turkey	USD	IFI	Hybrid <i>Sukuk</i>	350	5	31-Oct-16
2011	Gulf Investment Corporation	Kuwait	MYR	Corporate	<i>Sukuk Al Wakalah</i>	254	5	3-Aug-16
2011	First Gulf Bank	United Arab Emirates	USD	IFI	Hybrid <i>Sukuk</i>	650	5	2-Aug-16
2011	Almana Group	Qatar	USD	Corporate	<i>Sukuk Al Wakalah</i>	215	5	28-Jul-16
2011	Government of Malaysia	Malaysia	USD	Sovereign	<i>Sukuk Al Wakalah</i>	1,200	5	6-Jul-16
2011	HSBC Bank Middle East Limited	United Arab Emirates	USD	IFI	Hybrid <i>Sukuk</i>	500	5	2-Jun-16
2011	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	750	5	25-May-16
2011	Sharjah Islamic Bank	United Arab Emirates	USD	IFI	<i>Sukuk Al Wakalah</i>	400	5	25-May-16
2011	Gulf Investment Corporation	Kuwait	MYR	Corporate	<i>Sukuk Al Wakalah</i>	197	5	1-Mar-16

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2011	Emaar Properties	United Arab Emirates	USD	Corporate	<i>Sukuk Al Ijarah</i>	500	5	3-Aug-16
2007	Sharjah Electricity and Water Authority (SEWA)	United Arab Emirates	USD	Quasi-Sovereign	<i>Sukuk Al Ijarah</i>	350	9	26-Feb-16
2006	Qatar Real Estate Investment Company (QREIC)	Qatar	USD	Corporate	<i>Sukuk Al Musharakah</i>	270	10	18-Sep-16
Total Maturity Value						7,352		

Source: IIFM Sukuk database

**TABLE 9B: INTERNATIONAL SUKUK MATURING 2017, AMOUNT > USD 100 MILLION**

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	TENOR (YEARS)	MATURITY 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	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	100	3	22-Apr-17
2013	Dana Gas	United Arab Emirates	USD	Corporate	<i>Sukuk Al Mudharabah</i>	425	5	8-May-18
2012	First Resources Limited	Singapore	MYR	Corporate	<i>Sukuk Al Musharakah</i>	131	5	10-Dec-17
2012	Golden Agri Resources	Indonesia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	481	5	19-Nov-17
2012	Islamic Development Bank	Saudi Arabia	USD	Quasi-Sovereign	<i>Sukuk Al Wakalah</i>	500	5	14-Oct-17
2012	Qatar International Islamic Bank	Qatar	USD	IFI	<i>Hybrid Sukuk</i>	700	5	11-Oct-17
2012	Qatar Islamic Bank	Qatar	USD	IFI	<i>Sukuk Al Wakalah</i>	750	5	3-Oct-17
2012	First Resources	Singapore	MYR	Corporate	<i>Sukuk Al Musharakah</i>	189	5	31-Jul-17

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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	IFI	<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	IFI	<i>Hybrid Sukuk</i>	500	5	18-Jan-17
2012	Tamweel Funding	United Arab Emirates	USD	Corporate	<i>Hybrid Sukuk</i>	300	5	18-Jan-17
2012	Emirates Islamic Bank	United Arab Emirates	USD	IFI	<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 (Maybank)	Malaysia	USD	IFI	<i>Sukuk Al Ijarah</i>	300	10	3-May-17
Total Maturity Value						10,800		

Source: IIFM Sukuk database

TABLE 9C: INTERNATIONAL SUKUK MATURING 2018, AMOUNT &gt; USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	TENOR (YEARS)	MATURITY DATE
2016	Al Hilal Bank	United Arab Emirates	USD	IFI	<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	Qatar	USD	Corporate	<i>Sukuk Al Murabahah</i>	1,250	5	3-Dec-18
2013	Dar Al Arkan	Saudi Arabia	USD	Corporate	<i>Hybrid Sukuk</i>	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	Malaysia	SGD	Quasi-Sovereign	<i>Islamic Exchangeable Sukuk</i>	482	5	24-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	IFI	<i>Sukuk Al Wakalah</i>	500	5	8-Oct-18
2013	Golden AgriResources	Indonesia	MYR	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	Dar Al Arkan	Saudi Arabia	USD	Corporate	<i>Hybrid Sukuk</i>	450	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	IFI	<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

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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
2012	Abu Dhabi Islamic Bank	United Arab Emirates	USD	IFI	<i>Hybrid 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	IFI	<i>Sukuk Al Musharakah</i>	500	6	11-Jul-18
2011	Central Bank of Bahrain	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						17,111		

The three tables 10A, 10B and 10C below provide the maturity profile of the domestic *Sukuk* market. USD15.7 billion of domestic *Sukuk* matured in the year 2016 while in the years 2017 and 2018 will see maturities of around USD23 billion and USD15 billion respectively. The *Sukuk* maturities in 2016 were mainly from Asia/Far East and GCC amounting to around USD2.42 billion and USD4.58 billion respectively. While the *Sukuk* maturities for the years 2017 and 2018, roughly 46% (USD10.54 billion) and 64% (USD9.6 billion) of the total value of maturing *Sukuk* comes from Malaysia. The other jurisdictions such as Indonesia, GCC, Sudan and Turkey will have a number of *Sukuk* maturing during these two years.

**TABLE 10A: DOMESTIC SUKUK MATURED 2016, AMOUNT > USD 100 MILLION**

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	TENOR (YEARS)	MATURITY DATE
2015	Saudi Bin Laden	Saudi Arabia	SAR	Corporate	<i>Sukuk Al Murabahah</i>	275	1	15-Jul-16
2015	Autoriti Monetari Brunei Darussalam	Brunei Darussalam	BND	Sovereign	<i>Sukuk Al Ijarah</i>	141	1	16-Apr-16
2013	BGSM Management	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	325	3	27-Dec-16
2013	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Murabahah</i>	137	3	10-Sep-16
2013	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	1,251	3	22-Jul-16
2013	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Murabahah</i>	137	3	10-Jun-16
2013	Cagamas	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	147	3	28-May-16

Source: IIFM Sukuk database

2013	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	433	3	28-Mar-16
2013	Pakistan Domestic Sukuk Company Limited	Pakistan	PKR	Corporate	<i>Sukuk Al Ijarah</i>	424	3	28-Mar-16
2013	Perusahaan Penerbit	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	1,567	3	27-Feb-16
2013	UMW Holdings	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	142	3	8-Feb-16
2013	Government of Sudan	Sudan	SDG	Sovereign	<i>Sukuk Al Ijarah</i>	753	3	2-Jan-16
2013	Malakoff Power	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	232	3	18-Apr-16
2012	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,127	4	8-Aug-16
2011	Manjung Island Energy	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	113	5	25-Nov-16
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,333	5	14-Sep-16
2011	Nakheel Group	United Arab Emirates	AED	Corporate	<i>Sukuk Al Ijarah</i>	1,034	5	25-Aug-16
2011	SapuraKencana Petroleum	Malaysia	MYR	Corporate	<i>Sukuk Al Mudharabah</i>	158	5	5-Aug-16
2011	Kencana Petroleum	Malaysia	MYR	Corporate	<i>Sukuk Al Mudharabah</i>	167	5	5-Aug-16
2011	Sarawak Energy	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	165	5	23-Jun-16
2011	Saudi International Petrochemical Company	Saudi Arabia	SAR	Corporate	<i>Sukuk Al Mudharabah</i>	480	5	18-Jun-16
2011	Pengurusan Aset Air	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	459	5	17-Jun-16
2011	Sudan Financial Services	Sudan	SDG	Sovereign	<i>Hybrid Sukuk</i>	286	5	1-May-16
2011	Pengurusan Aset Air	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	169	5	29-Apr-16
2011	Cagamas	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	131	5	24-Feb-16
2011	First Investment Company	Kuwait	KWD	Corporate	<i>Sukuk Al Wakalah</i>	332	5	20-Feb-16
2011	Pengurusan Aset Air	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	329	5	8-Feb-16
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,322	5	1-Dec-16
2010	Cagamas	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	160	6	20-Oct-16

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2009	Khazanah Nasional	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Musharakah</i>	138	7	24-Apr-16
2007	Nucleus Avenue Malaysia	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	205	9	24-Apr-16
2006	Khazanah Nasional	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Musharakah</i>	565	10	8-Dec-16
2006	Bank Pembangunan Malaysia	Malaysia	MYR	IFI	<i>Sukuk Al Murabahah</i>	921	10	12-Apr-16
2003	New Pantai Expressway	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	128	13	31-Oct-16
Total Maturity Value						15,687		

TABLE 10B: DOMESTIC SUKUK MATURING 2017, AMOUNT &gt; USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	TENOR (YEARS)	MATURITY DATE
2016	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	112	1	21-Sep-17
2016	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	112	1	21-May-17
2016	Cagamas	Malaysia	SGD	Corporate	<i>Sukuk Al Wakalah</i>	103	1	11-Mar-17
2016	Government of Indonesia	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	21-Jan-17
2014	Cagamas	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	219	3	31-Nov-17
2014	Government of Pakistan	Pakistan	PKR	Sovereign	<i>Sukuk Al Ijarah</i>	472	3	21-Jun-17

Source: IIFM Sukuk database

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)	Malaysia	MYR	IFI	<i>Sukuk Al Musharakah</i>	174	3	24-Mar-17
2014	SME Bank	Malaysia	MYR	IFI	<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 Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Murabahah</i>	1,921	3	16-Jan-17
2013	BGSM Management	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	328	4	27-Dec-17
2013	Malakoff Power	Malaysia	MYR	Corporate	<i>Hybrid Sukuk</i>	232	4	18-Apr-17
2013	Government of Sudan	Sudan	SDG	Sovereign	<i>Sukuk Al Ijarah</i>	312	4	2-Jan-17
2012	UEM Land Holdings	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	196	5	21-Dec-17
2012	Imtiaz Sukuk Berhad	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	228	5	23-Nov-17
2012	HSBC Amanah	Malaysia	MYR	Corporate	<i>Sukuk Al Wakalah</i>	162	5	28-Sep-17
2012	Celcom Transmission	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	320	5	29-Aug-17
2012	Central Bank of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al Ijarah</i>	424	5	17-Jul-17
2012	Cagamas	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	132	5	13-Jul-17
2012	Olayan Group	Saudi Arabia	SAR	Corporate	<i>Hybrid Sukuk</i>	173	5	25-Jun-17
2012	Johor Corporation	Malaysia	MYR	Corporate	<i>Sukuk Al Wakalah</i>	125	5	14-Jun-17
2012	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	104	5	27-Apr-17
2012	Saudi British Bank	Saudi Arabia	SAR	IFI	<i>Sukuk Al Murabahah</i>	400	5	28-Mar-17
2012	Government of Indonesia	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	209	5	21-Mar-17
2012	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,157	5	29-Mar-17
2011	Manjung Island Energy	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	164	6	25-Nov-17
2011	Pengurusan Aset Air	Malaysia	MYR	Quasi-Sovereign	<i>Sukuk Al Murabahah</i>	492	6	17-Jun-17

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2010	Am Islamic Bank	Malaysia	MYR	IFI	<i>Sukuk Al Musharakah</i>	179	7	20-Sep-17
2010	Celcom Transmission	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	254	7	1-Sep-17
2010	Saudi Electricity Company	Saudi Arabia	SAR	Corporate	<i>Hybrid Sukuk</i>	1,867	7	5-May-17
2007	Projek Lebuhraya Utara-Selatan	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	WAPDA - Pakistan	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	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	205	10	24-Apr-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	31-Mar-17
Total Maturity Value						23,007		

TABLE 10C: DOMESTIC SUKUK MATURING 2018, AMOUNT &gt; USD 100 MILLION

ISSUE YEAR	ISSUER	ISSUER COUNTRY	ISSUANCE CURRENCY	SUKUK TYPE	SUKUK STRUCTURE	USD MN OR EQUIVALENT	TENOR (YEARS)	MATURITY DATE
2016	Government of Turkey	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	731	2	28-Sep-18
2016	Government of Turkey	Turkey	TRY	Sovereign	<i>Sukuk Al Ijarah</i>	640	2	17-Feb-18
2015	Government Investment Issue	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	941	3	15-Mar-18
2015	Central Bank of Bahrain	Bahrain	BHD	Sovereign	<i>Sukuk Al Ijarah</i>	265	3	8-Jan-18
2014	Government of Senegal	Senegal	CFA	Sovereign	<i>Sukuk Al Ijarah</i>	201	4	18-Jul-18

Source: IIFM Sukuk database

2013	BGSM Management	Malaysia	MYR	Corporate	Sukuk Al Musharakah	113	5	27-Dec-18
2013	Boustead Holdings	Malaysia	MYR	Corporate	Sukuk Al Musharakah	103	5	23-Dec-18
2013	Boustead Holdings	Malaysia	MYR	Corporate	Sukuk Al Musharakah	104	5	23-Dec-18
2013	Malakoff Power	Malaysia	MYR	Corporate	Sukuk Al Murabahah	101	5	17-Dec-18
2013	UEM Land Holdings	Malaysia	MYR	Corporate	Sukuk Al Murabahah	214	5	13-Dec-18
2013	Cagamas	Malaysia	MYR	Corporate	Hybrid Sukuk	105	5	28-Oct-18
2013	Gamuda	Malaysia	MYR	Corporate	Hybrid Sukuk	127	5	28-Oct-18
2013	Qatar Central Bank	Qatar	QAR	Sovereign	Sukuk Al Murabahah	137	5	10-Sep-18
2013	Golden Assets International Finance	Malaysia	MYR	Corporate	Sukuk Al Murabahah	154	5	5-Aug-18
2013	Swiber Capital	Singapore	SGD	Corporate	Sukuk Al Wakalah	150	5	2-Aug-18
2013	Qatar Central Bank	Qatar	QAR	Sovereign	Sukuk Al Murabahah	137	5	10-Jun-18
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' Bithaman Ajil	1,300	5	1-Dec-18
2013	Marafiq Sukuk	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	667	5	21-May-18
2013	Almarai Company	Saudi Arabia	SAR	Corporate	Hybrid Sukuk	347	5	31-Mar-18
2013	Gamuda	Malaysia	MYR	Corporate	Hybrid Sukuk	126	5	21-Mar-18
2013	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' Bithaman Ajil	969	5	8-Aug-18
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	261	6	30-May-18
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	156	6	26-Apr-18
2012	Government of Indonesia	Indonesia	IDR	Sovereign	Sukuk Al Ijarah	104	6	12-Apr-18
2011	Manjung Island Energy	Malaysia	MYR	Corporate	Sukuk Al Ijarah	164	7	25-Nov-18
2011	Government of Malaysia	Malaysia	MYR	Sovereign	Bai' Bithaman Ajil	959	7	14-Nov-18
2011	Sarawak Energy	Malaysia	MYR	Corporate	Sukuk Al Musharakah	231	7	23-Jun-18
2011	Pengurusan Aset Air	Malaysia	MYR	Quasi-Sovereign	Sukuk Al Murabahah	492	7	17-Jun-18
2011	Central Bank of Bahrain	Bahrain	BHD	Sovereign	Sukuk Al Ijarah	530	7	27-Apr-18
2011	Al Rajhi Cement	Jordan	JOD	Corporate	Sukuk Al Ijarah	119	7	25-Apr-18

2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Bai' Bithaman Ajil</i>	1,147	7	28-Aug-18
2011	Government of Malaysia	Malaysia	MYR	Sovereign	<i>Sukuk Al Murabahah</i>	492	7	23-Feb-18
2010	Qatar Central Bank	Qatar	QAR	Sovereign	<i>Sukuk Al Ijarah</i>	343	8	1-Jun-18
2008	Saudi Hollandi Bank	Saudi Arabia	SAR	IFI	<i>Sukuk Al Mudharabah</i>	207	10	30-Dec-18
2008	Government of Indonesian	Indonesia	IDR	Sovereign	<i>Sukuk Al Ijarah</i>	204	10	26-Aug-18
2008	Cagamas	Malaysia	MYR	Corporate	<i>Sukuk Al Murabahah</i>	100	10	30-Jul-18
2008	Syarikat Prasarana Negara	Malaysia	MYR	Corporate	<i>Sukuk Al Ijarah</i>	309	10	30-May-18
2008	Salam International Investment	Qatar	QAR	Corporate	<i>Sukuk Al Musharakah</i>	138	10	27-Mar-18
2006	Projek Lebuhraya Utara-Selatan	Malaysia	MYR	Corporate	<i>Bai' Bithaman Ajil</i>	211	12	15-Jun-18
2006	Malayan Banking	Malaysia	MYR	IFI	<i>Bai' Bithaman Ajil</i>	395	12	15-May-18
2005	Konsortium Lebuhraya Utara-Timur	Malaysia	MYR	Corporate	<i>Sukuk Al Istisna'a</i>	205	13	5-Oct-18
2005	Cagamas	Malaysia	MYR	Corporate	<i>Sukuk Al Musharakah</i>	539	13	8-Dec-18
Total Maturity Value						14,937		

Source: IIFM Sukuk database

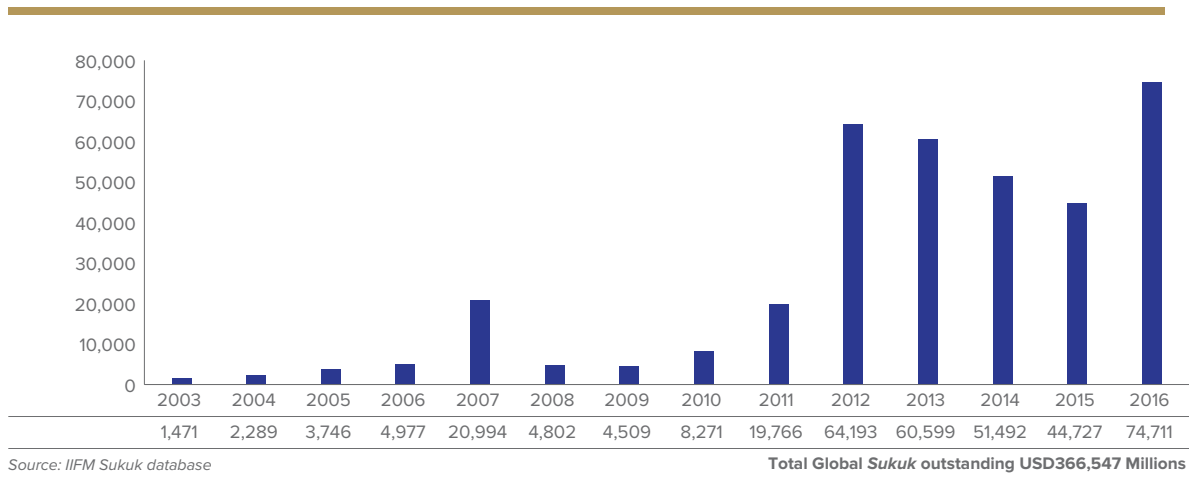
**1.12 SUKUK OUTSTANDING**

On the back of record number of global *Sukuk* issuances during 2012 to 2014, the outstanding *Sukuk* issuances in 2016 reached USD367 billion as compared to USD321 billion in 2015 which is a clear indication of growing interest in *Sukuk* though supply and demand gap remains to be bridged. Another interesting fact is that the share of longer tenor *Sukuk* is increasing mainly from year 2015 when there was an adjustment in the short-term *Sukuk* market.

Following charts provide a clear picture on outstanding *Sukuk* both international and domestic *Sukuk*:

It is note worthy that the past domestic issuances particularly one year or less tenor that matured in 2015 were not refinanced or the issuances declined.

**CHART 6A : TOTAL GLOBAL SUKUK OUTSTANDING AS OF 31ST DECEMBER 2016**

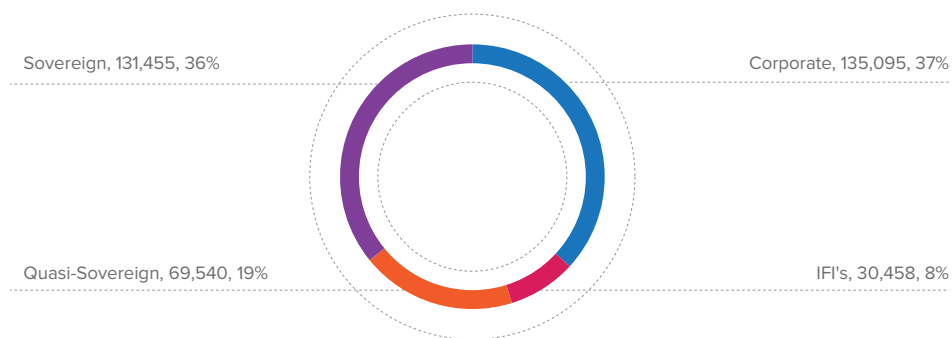


Source: IIFM Sukuk database

Total Global Sukuk outstanding USD366,547 Millions

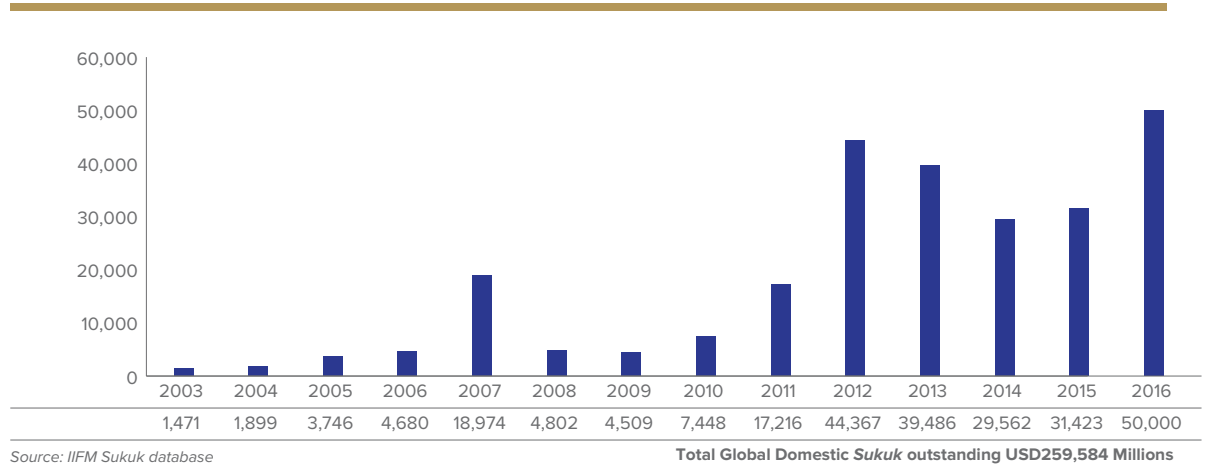
Taking into account all issuances, the breakdown for sovereign, quasi sovereign, corporate and IFI works out to be 36%, 19%, 37% and 8% respectively.

**CHART 6B : TOTAL GLOBAL SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31ST DECEMBER 2016**



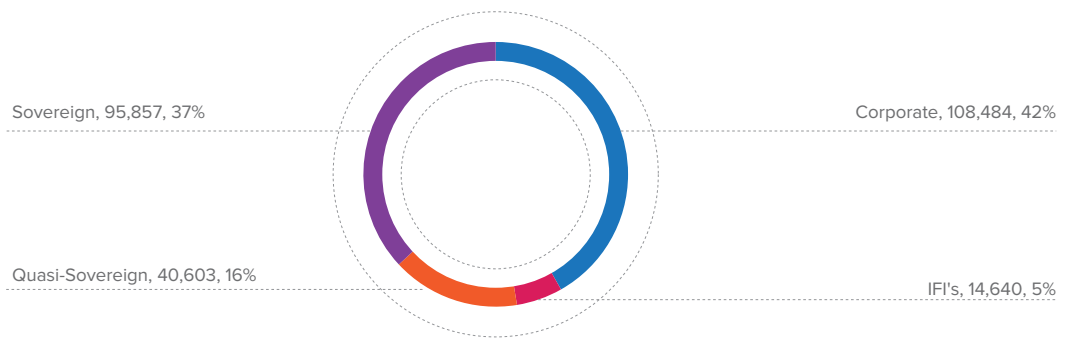
Source: IIFM Sukuk database

**CHART 6C : TOTAL DOMESTIC SUKUK OUTSTANDING AS OF 31ST DECEMBER 2016**



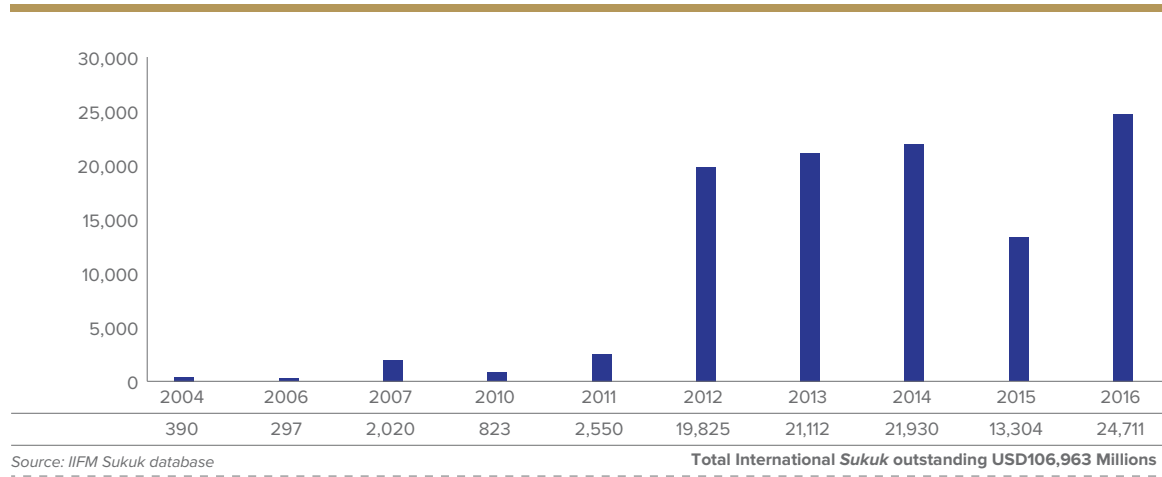
The outstanding split of domestic Sukuk between sovereign, quasi-sovereign, corporate and IFIs works out to be 37%, 16%, 42%, & 5% respectively.

**CHART 6D : TOTAL DOMESTIC SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31 DEC 2016**



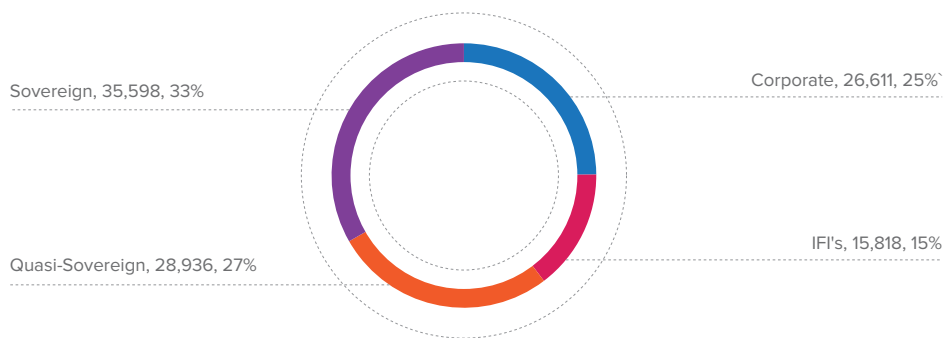
The international outstanding *Sukuk* pattern is similar to domestic outstanding *Sukuk* where after a drop in 2015 the outstanding *Sukuk* increased from 2016 issuances.

**CHART 6E : TOTAL INTERNATIONAL SUKUK OUTSTANDING AS OF 31ST DECEMBER 2016**



In case of international *Sukuk* outstanding, the split between sovereigns (including quasi-sovereign) and corporates (including IFIs) works out to be 60-40.

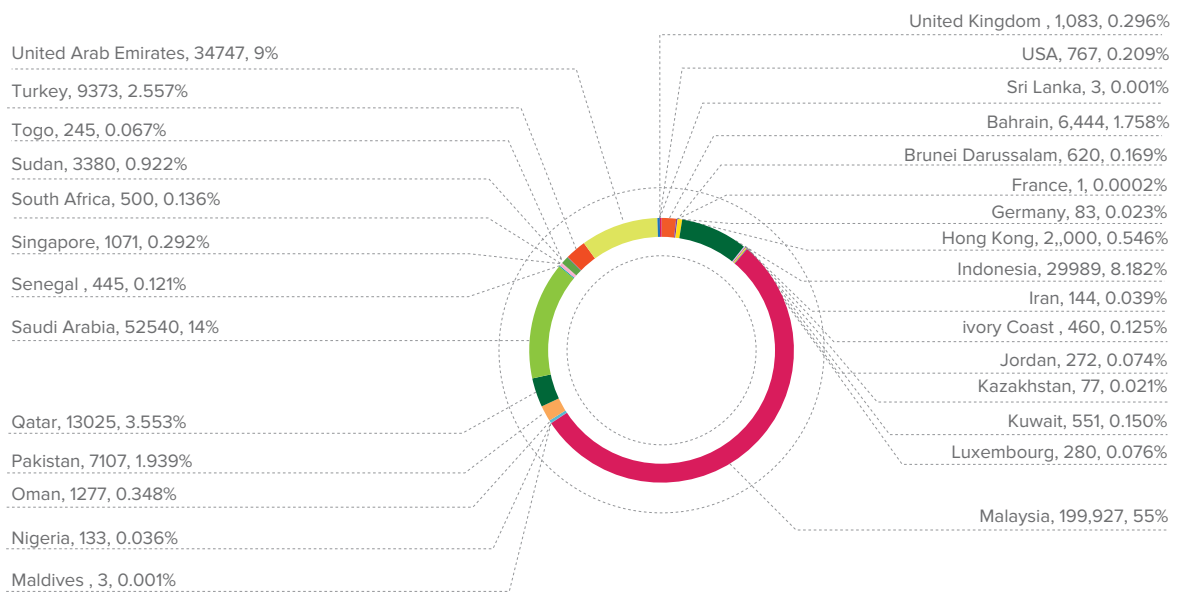
**CHART 6F : TOTAL INTERNATIONAL SUKUK OUTSTANDING BY ISSUER STATUS AS OF 31ST DECEMBER 2016**



Source: IIFM Sukuk database

Of the total volume of global Sukuk outstanding from a country perspective, 89% is represented by just 5 countries i.e. Malaysia 55%, Saudi Arabia 14%, UAE 9%, Indonesia 8%, Qatar 3%. Right behind them are Turkey 2.5% and Bahrain 1.7%.

**CHART 6G : COUNTRY WISE BREAKDOWN OF GLOBAL SUKUK OUTSTANDING AS OF 31ST DEC EMBER 2016 (DOMESTIC & INTERNATIONAL) ALL TENORS, ALL CURRENCIES IN USD MILLIONS**



Source: IIFM Sukuk database

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CHAPTER  
**TWO**



SUCCESS IN  
HARMONY

# CASE STUDIES: RECENT DEVELOPMENT IN THE SUKUK MARKET

## 2.1 EZDAN HOLDING GROUP (QATAR) - SUKUK AL WAKALAH

PREPARED BY MS. GHAZAL ZAHID KHAN

### ABSTRACT ON EZDAN SUKUK

The Ezdan *Sukuk* is the debut *Sukuk* from Ezdan Holding Group, one of the largest real estate development companies in the Gulf region and ranked 42 in all industries category on Forbes list of 500 largest Arab corporations in 2015. The USD 500 million *Sukuk* is also the largest real estate capital market transaction from Qatar. It is the first tranche of a USD 2 billion (or equivalent in other currencies) *Sukuk* facility approved by Ezdan's shareholders in April 2016. Issued in May 2016, the Ezdan *Sukuk* was the first corporate *Sukuk* in 2016 from Qatar and was well received by investors despite being a debut issue because of the reputation of the company as a leading player in the real estate market.

### SUKUK SUMMARY

<b>Issuer SPV</b>	Ezdan <i>Sukuk</i> Company
<b>Obligor</b>	Ezdan Holding Group
<b>Issue Type</b>	Corporate
<b>Wakil</b>	Ezdan (referred to as Service Agent in the prospectus)
<b>Structure type</b>	Combination <i>Wakalah</i> structure ( <i>Ijarah</i> + commodity <i>Murabahah</i> )
<b>Issue size</b>	USD 500 million
<b>Issue Date</b>	May 2016
<b>Maturity date</b>	May 2021
<b>Tenor</b>	5 years
<b>Issue price</b>	99.45%
<b>Return</b>	4.38%
<b>Fix or Variable</b>	Fixed
<b>Return frequency</b>	Semi-annual
<b>Pricing = Spread over mid-swaps,</b>	Priced at 333bps over five-year mid-swaps
<b>Book Runners</b>	Emirates NBD Capital, Abu Dhabi Islamic Bank, Barwa Bank, Mashreqbank and HSBC
<b>Listing</b>	Irish Stock Exchange
<b>Rating</b>	Ba1 by Moody's and BBB- by S&P
<b>Governing Law</b>	English and Qatari law

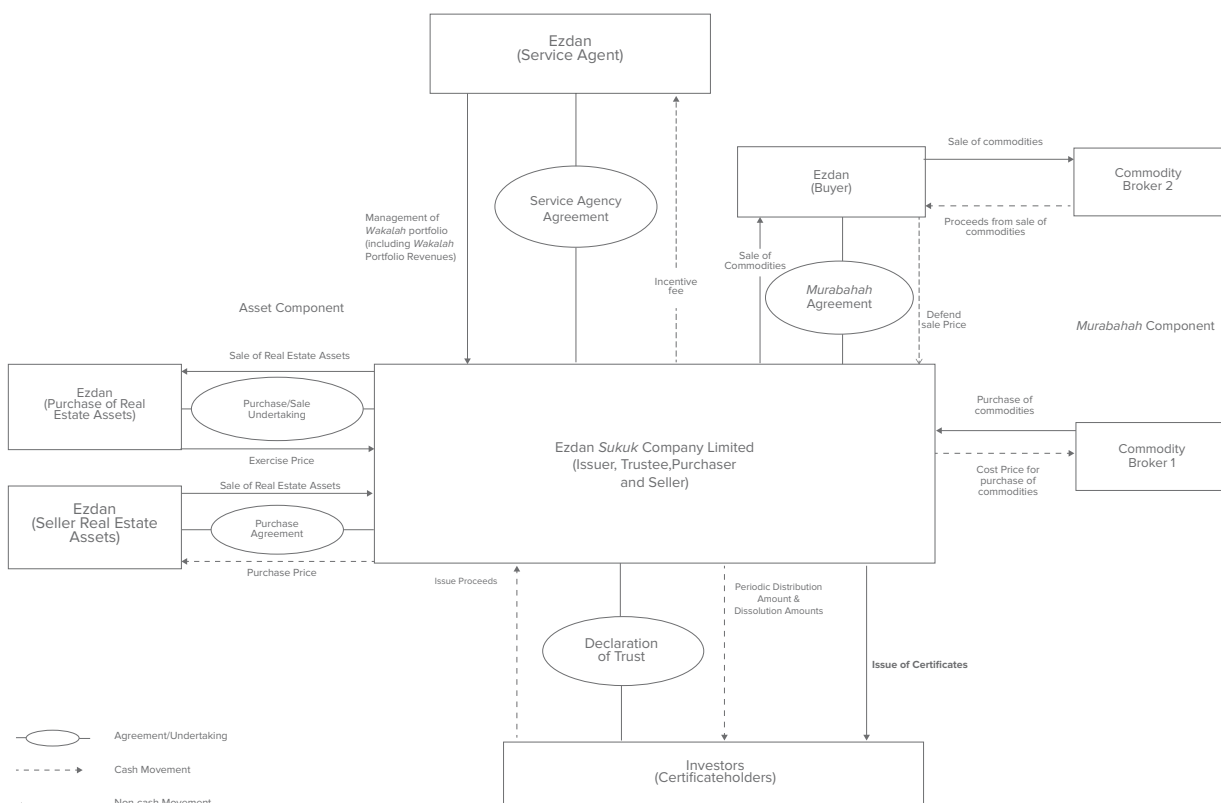
**OBLIGOR BACKGROUND**

Ezdan Holding Group is a multi-billion dollar shareholding company based in Qatar and one of the largest in the Gulf region based on market capitalization. Ezdan was founded in 1960 as a sole proprietorship by Sheikh Thani Bin Abdullah Al-Thani of the Royal family of Qatar under his name. It was converted into a limited liability company in 1993 and eventually became a Qatari shareholding company (QSC) in 2007 with listing on the then Doha Stock Exchange in 2008. In October 2012, the company assumed its current name, Ezdan Holding Group Q.S.C. The Group is a major player in the domestic real estate market as a developer, owner and operator of a large number of projects in the residential, commercial, retail and hospitality sectors. Some of its projects are residential houses in the villages of Al Wakrah, Gharafa and Wukair, the Ezdan Mall in Gharafa and two more Ezdan malls coming up in Al Wakrah and Al Wukair, and a three star hotel by the name of Ezdan Hotel Westbay, with a four star and a five star hotel due to open in end 2016. Since 2012, and as part of a diversification strategy, the Group has established a significant portfolio of financial investments in companies operating principally in the banking and insurance, health and media sectors. Notable among its principal investments in the financial sector are Qatar Islamic insurance company, Qatar International Islamic Bank and Qatar Islamic Bank.

**SUKUK STRUCTURE AND CASH FLOWS**

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

**STRUCTURE DIAGRAM**



### SUKUK STRUCTURE

The Ezdan *Sukuk* is based on a simple structure of combination *Wakalah*. It will manage a minimum of 51% of assets through *Wakalah* within which the *Sukuk* utilizes the structure of *Ijarah* on real estate assets a maximum of 49% of assets will be invested into commodity *Murabahah*.

### PARTIES TO THE SUKUK

The following are parties to the structure:

- Ezdan *Sukuk* Company, the SPV as Issuer and Trustee.
- Ezdan Holding Group as *Wakil* (Service Agent) for managing and investing the *Sukuk* proceeds and as Obligor for payments and distributions of the *Sukuk*.

### TRANSACTION FLOW

The following is a description of the structure in detail:

- On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to Ezdan *Sukuk* Company in the capacity of Trustee.
- Pursuant to the Purchase Agreement Ezdan, in the capacity of Seller will sell to the Purchaser (SPV), and the Purchaser will agree to purchase and receive from the Seller, interests in a portfolio of *Wakalah* Assets (mostly real estate) comprising the Initial Asset Portfolio, together with all the rights, title, interests, benefits and entitlements in the assets, for an amount equal to the Purchase Price, which will be payable on the Issue Date. The Purchaser will use a minimum of 51 per cent of the Issue Proceeds of any Series under the *Sukuk* program to purchase such *Wakalah* assets.
- The Master *Murabahah* Agreement will be entered into between the Trustee (in its capacity as "Seller") and Ezdan (in its capacity as the "Buyer"). The Trustee will enter into a Commodity *Murabahah* Investment for each series of Trust Certificates with the Buyer using a maximum of 49 per cent of the issue proceeds. Pursuant to the *Murabahah* Agreement, the Seller will enter into purchase transactions with the Commodity Supplier to purchase Commodities at the Commodity Purchase Price. Ezdan irrevocably and unconditionally undertakes to purchase the Commodities so acquired by the Seller for the Deferred Sale Price (to be paid

in the currency and amounts and on the redemption date specified beforehand through a Letter of Offer and Acceptance).

- Pursuant to the Service Agency Agreement, the Trustee will appoint Ezdan in its capacity as Service Agent (or *Wakil*) to manage the *Wakalah* Portfolio relating to each Series. Besides adhering to other conditions in the *Wakalah* Service Plan, the *Wakil* has to ensure that at anytime the Tangibility Ratio does not fall below 33% of total *Wakalah* assets. The *Wakil* has the responsibility to manage the *Wakalah* Portfolio such that the value of the *Wakalah* Assets, when aggregated with the outstanding Deferred Sale Price, is at all times at least equal to the aggregate face amount of the Certificates then outstanding so that together the two amounts will adequately meet redemption value of the Certificates. Ezdan in the capacity of *Wakil* will also be responsible for maintain records for the collection of all amounts due in respect of the Deferred Sale Price and the *Wakalah* Assets including all rentals and other amounts or distributions accruing to the Trustee (on behalf of the Certificateholders) under the *Wakalah* Portfolio during each *Wakalah* Distribution Period. Any shortfalls between the amount collected by the Trustee and the amount payable to the Certificateholders on a distribution date will be met by Ezdan in the capacity of Obligor. In case of excess, Ezdan will be entitled to retain any outstanding balance in the Reserve account as 'Incentive Payment' in the capacity of *Wakil*.
- The Purchase Undertaking will be executed as a deed by Ezdan in its capacity as the Obligor pursuant to which Ezdan will irrevocably undertake to purchase all of the Trustee's Interests in the Asset Portfolio on the scheduled or early redemption date, as the case may be. The prospectus also has a very clear provision in case a sale of assets cannot be affected for any reason in order to realize the full amount of the redemption price. In such case Ezdan as obligor under the purchase undertaking is required to make payment to the Trustee or its Delegate immediately on demand of an amount equal to the Purchase Price by way of restitution.

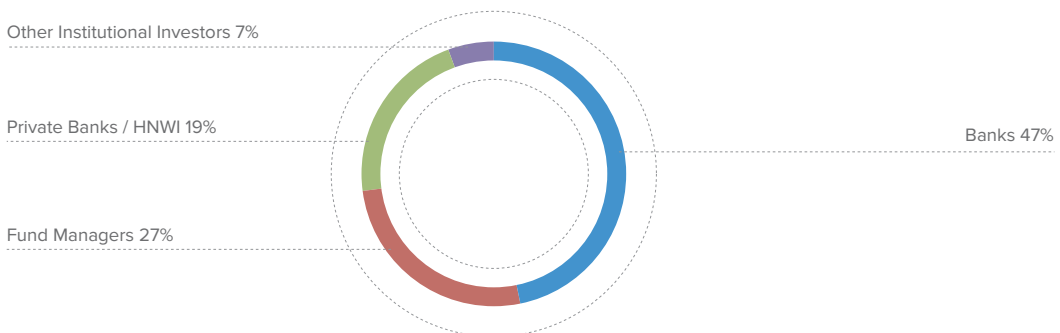
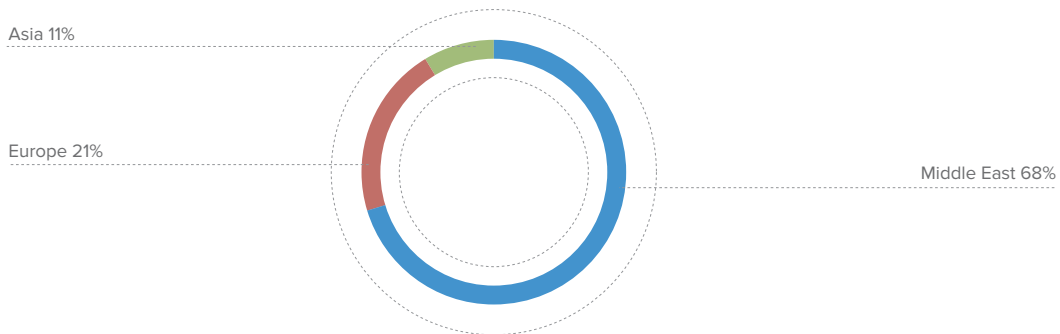
**PRINCIPAL TRANSACTION DOCUMENTS**

The principal transaction documents are:

- Declaration of Trust
- Service Agency (*Wakalah*) Agreement
- Master *Murabahah* Agreement
- Master Purchase Agreement
- Purchase Undertaking

**DISTRIBUTION OF INVESTORS**

The *Ezdan Sukuk* was oversubscribed by 1.67 times. The *Sukuk* was subscribed by a good mix of investors both by geographic area and investor type. Investors from the Middle East took the biggest chunk of the *Sukuk* (68%). By investor type, banks took up 47% of the *Sukuk* offering. The two pie charts below show the distribution of investors by geography and investor type



### CONCLUSION

The Ezdan *Sukuk* was well received by investors. The *Sukuk* won the debut bond/*Sukuk* deal of the year award by the Bonds, Loans and *Sukuk* Middle East awards in 2016. Bonds, Loans & *Sukuk* awards have been established to give recognition to companies making a smooth transition from loan funding to the capital markets. The CEO of Ezdan Holding Group, while commenting on the company's *Sukuk* remarked, "Ezdan embarked on a financing program in 2014 which aimed to diversify liquidity pools for the company and ensure that it had access to markets that provided them with an optimal structure and pricing. The USD 500 million *Sukuk* is a crucial step along this journey, and central to our funding strategy going forward."

### REFERENCES

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- Ezdan *Sukuk* Company Profile from *Sukuk* Database of [www.sukuk.com](http://www.sukuk.com)

## 2.2 KHAZANAH NASIONAL BERHAD - EXCHANGEABLE *SUKUK*

### ABSTRACT ON KHAZANAH EXCHANGEABLE *SUKUK*

The Khazanah Exchangeable *Sukuk* is the seventh exchangeable *Sukuk* offered by Khazanah, providing investors with exposure into China's growing water utility sector by offering the option to exchange *Sukuk* certificates into shares of Beijing Enterprises Water Group (BEWG). The *Sukuk* is another one among the growing trend of hybrid or equity-linked *Sukuk*, which are gaining popularity in the turbulent capital markets. The Khazanah Exchangeable *Sukuk*, however, is the first ever USD-denominated exchangeable *Sukuk*, which references a stock that is not *Shari'ah* compliant at issuance. Certificate holders will have the option of cash settlement by the Obligor if the shares do not comply with *Shari'ah* requirements at the time of redemption.

Khazanah intends to use the proceeds of the *Sukuk* as additional working capital and for other general corporate purposes related to its principal business activities.

### *SUKUK* SUMMARY

<b>Issuer SPV</b>	Bagan Capital Limited
<b>Obligor</b>	Khazanah Nasional Berhad
<b>Wakeel</b>	Khazanah Nasional Berhad
<b>Structure type</b>	<i>Wakalah</i> structure, exchangeable <i>Sukuk</i>
<b>Issue size</b>	USD 398.8 million
<b>Issue Date</b>	September 2016
<b>Maturity date</b>	September 2021
<b>Tenor</b>	Five years, with the option of early dissolution by the Issuer at the end of three years
<b>Return</b>	It is a zero coupon <i>Sukuk</i>
<b>Fix or Variable</b>	n/a
<b>Return frequency</b>	n/a
<b>Pricing = Spread over mid-swaps,</b>	Priced at 43% exchange premium
<b>Book Runners</b>	Bank of America Merrill Lynch, CIMB Islamic, Deutsche Bank
<b>Listing</b>	Labuan International Financial Exchange, Bursa Malaysia, Singapore Exchange
<b>Rating</b>	Not rated
<b>ISIN</b>	XS148656550
<b>Governing Law</b>	English and Malaysian law variously for various documents



### **OBLIGOR BACKGROUND**

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

The principal activity of Khazanah is investment holding. The primary objectives of Khazanah are: (a) to manage the investments entrusted to it by the Government; and (b) to undertake new investments where there are strategic opportunities, in new sectors and in new markets. Khazanah has investments in over 80 companies involved in various sectors such as financial institutions, healthcare, infrastructure and construction, media and communication, leisure and tourism, property, power, agriculture, innovative technology and life sciences as well as transportation and logistics. Historically, substantially all of the companies Khazanah invested in were incorporated in Malaysia and conducted their

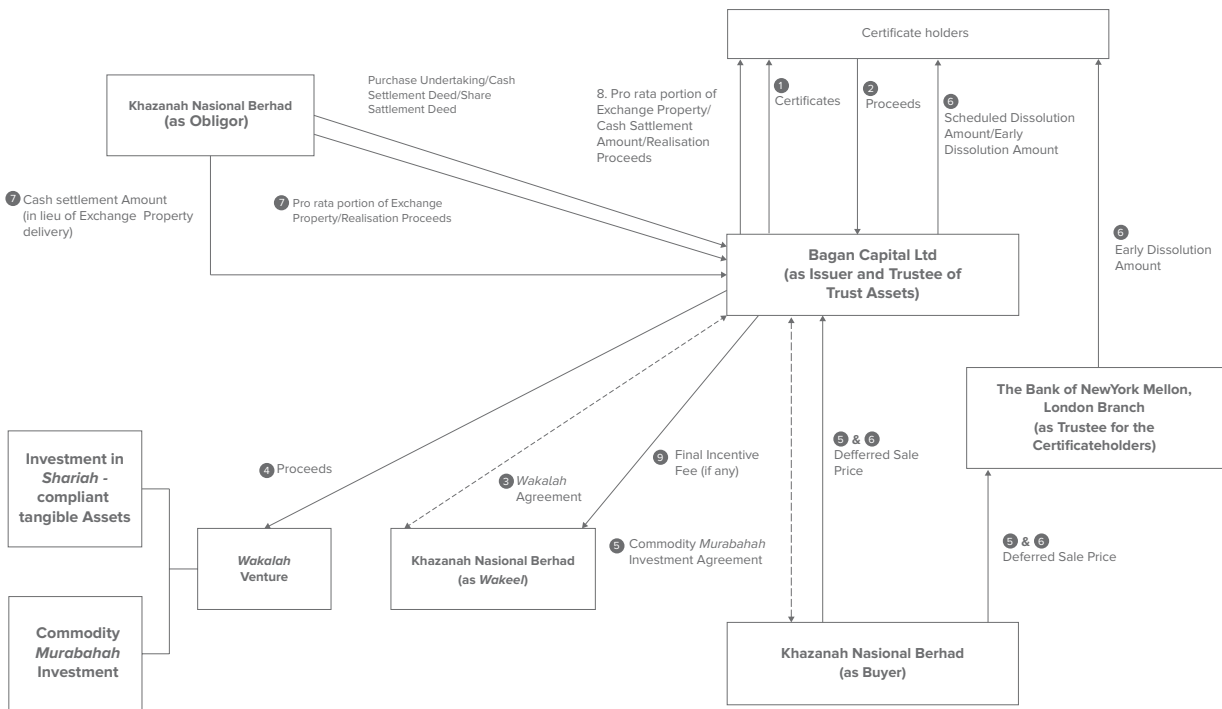
principal business activities within Malaysia. However, since 2005 Khazanah has acquired substantial business interests outside Malaysia as well. Khazanah has been issuing a wide range of government secured *Sukuk*, *Shari'ah* compliant Exchangeable Trust Certificates, and *Shari'ah* compliant medium term *Sukuk* under the Ringgit-Denominated (as well as Multi-currency) Islamic Securities Issuance Program since it started issuing *Sukuk* in 1999. The current *Sukuk* is the seventh issue offered by Khazanah based on an exchangeable format.

### **BACKGROUND OF UNDERLYING SECURITY**

The underlying security of the exchangeable *Sukuk* certificates, referred to as 'Exchange Property' in the prospectus, are 399,856,758 shares of Beijing Enterprises Water Group Limited (BEWG). The company is one of the leading integrated water and sewerage treatment solutions service providers in China. It is listed on the Hong Kong Stock exchange. It is part of a larger BEWG Group, which has water plants in 19 provinces in China and some autonomous regions as well as water and sewerage plants in Malaysia and Portugal.

**SUKUK STRUCTURE AND CASH FLOWS**

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



**STRUCTURE DIAGRAM**

**SUKUK STRUCTURE**

The Khazanah exchangeable *Sukuk* will be managed on the basis of the Islamic structure of *Wakalah*. *Wakalah* certificates represent projects or activities that are managed on the basis of investment agency by appointing an agent (in this case Khazanah Nasional) to manage the operation on behalf of the certificate holders. Mainly though, this is an equity-linked structure whereby the *Sukuk* certificates can be exchanged for shares of Beijing Enterprises Water Group Limited (BEWG), depending upon the price or unit value of the shares during the life of the *Sukuk*.

**PARTIES TO THE SUKUK**

The following are parties to the structure:

- Bagan Capital, the SPV as Issuer and Trustee.
- Khazanah Nasional as Trustee and *Wakeel* for

managing and investing the *Sukuk* proceeds and as Obligor for payments and distributions of the *Sukuk*.

**TRANSACTION FLOW**

The following is a description of the structure in detail:

- Bagan Capital, as the Issuer, acts as Trustee on behalf of the Certificate holders.
- Bagan Capital and Khazanah will enter into a *Wakalah* Agreement pursuant to which Khazanah will be required to manage the *Wakalah* venture in the capacity of *Wakil*. The *Wakalah* venture will initially comprise investments in certain *Shari'ah* compliant tangible assets, namely, USD 199.4 million of the total proceeds into shares of Telekom Malaysia. The rest of the USD 199.4 million will be channeled into commodity *Murabahahs*. At any point in time, the value of the *Wakalah* venture must have the equivalent of at least 33% of its total value in *Shari'ah* compliant

tangible assets (*this is a positive upgrade from a Shari'ah compliance viewpoint as compared to the Khazanah SRI Sukuk issued last year. The SRI Sukuk only required that 33% of the value of the assets should be in Shari'ah compliant tangible form at the point of initial investment, whereas the Bagan Capital Sukuk maintains that requirement for the whole term of the certificates*).

- Khazanah, in its capacity as the Obligor will issue a Purchase Undertaking in favour of the Issuer (for the benefit of the Certificate holders) and the Trustee under which the Obligor undertakes to purchase from the Issuer all of the *Shari'ah* compliant Tangible Assets comprised in the Investments at their Purchase Price on the Scheduled or early Dissolution/Redemption Date, as the case may be, provided that there will be no Certificates outstanding upon payment of the Purchase Price.
- The Commodity *Murabahah* Investment Agreement will be entered into between Khazanah as Buyer, the Issuer and CIMB Islamic Bank Berhad as facility agent for the amount of USD 199.4 million. Pursuant to the Agreement, the Buyer shall deliver to the Issuer a purchase order and an undertaking to buy commodities on the settlement date specified in the purchase order. The Issuer shall sell the commodities so purchased on its behalf by the Facility Agent to the Buyer on the settlement date specified in the purchase order in consideration for the Aggregate Deferred Sale Price payable in accordance with the terms of the Commodity *Murabahah* Investment Agreement. Unless the certificates are exchanged, redeemed, or purchased and cancelled, the Certificates will be redeemed at 100 per cent of their Nominal Value on 23 September 2021 and this dissolution or redemption amount will be funded by the Purchase Price payable by the Obligor pursuant to the terms of the Purchase Undertaking plus the Aggregate Deferred Sale Price payable by the Obligor (acting as Buyer) under the Commodity *Murabahah* Investment Agreement.
- As the *Sukuk* is exchangeable, the Exchange Property comprises 399,856,758 shares of BEWG. Provided the Obligor does not need to exercise the cash settlement right, Certificateholders will initially be entitled to receive 1,002.6498 shares for each \$1,000 nominal value of certificates. According to our calculations, this comes to an exchange price of roughly USD 0.997 per share of BEWG. The current price of the company's share as of 31st January and based on an exchange rate of USD 1=HKD 7.7582 is the equivalent of USD 0.697. It will only be feasible for Certificateholders to exercise their exchange right once the BEWG share rises above USD 0.997 per share.
- Each Certificateholder has the right to exchange a Certificate at any time during the Exchange Period which starts from November 2016.

If the Exchange right is exercised by a certificateholder, the *Shari'ah* Board will determine the *Shari'ah* compliance of the exchange property, or the shares of BEWG, by applying the Business Activity Test and the Financial Ratio Test. If the shares of BEWG are not *Shari'ah* compliant at the time of exercise of exchange rights by the certificateholder, it will be necessary to make cash settlement. When the payment of a Cash Settlement Amount is required to satisfy the Exchange Right, the Issuer (on behalf of each Certificateholder) will as an overriding right (to be exercised solely upon request by the relevant Certificateholder pursuant to the relevant Exchange Notice), pursuant to a unilateral irrevocable mandatory undertaking provided by the Obligor in a Share Settlement Deed, have the option to require the Obligor to purchase the relevant portion of *Shari'ah* -compliant Tangible Assets comprised in the *Wakalah* Venture in full from the Issuer in exchange for the relevant portion of the Exchange Property (which is the shares of BEWG). The Obligor or Khazanah has a similar overriding right, pursuant to a unilateral irrevocable mandatory undertaking provided by the Issuer on behalf of each certificateholder in a Cash Settlement Deed, to have the option to purchase the *Shari'ah* compliant Tangible Assets comprised in the *Wakalah* Venture in full or in part (in which case the other part of a Certificateholder's Exchange Right shall be satisfied by the delivery of the relevant portion of Exchange Property) from the Issuer for an amount of cash in U.S. dollars equal to the Cash Settlement Amount.

If, on the other hand, the shares of BEWG are determined as *Shari'ah* compliant at the time exercise of exchange rights, a pro-rata share of the exchange property will be delivered to the certificateholder.

- The Certificates may also be redeemed at the option of the Issuer at their Early Dissolution Amount on the relevant date fixed for dissolution in whole or in part, at any time after three years from issuance, i.e. starting from 23 September 2019 upto the scheduled redemption date provided that the Exchange Property Value exceeds 130 per cent of the Early Dissolution Amount. The Issuer also has the right to early redemption at any time during the life of the *Sukuk* if less than 10 per cent of the aggregate Nominal Value of the Certificates originally issued is outstanding. Such Early Dissolution Amount will also be funded by the Purchase Price payable by the Obligor pursuant to the terms of the Purchase Undertaking (provided no Certificates remain outstanding after giving effect to such notice of dissolution) and the Aggregate Deferred Sale Price payable by the Obligor (acting as Buyer) under the Commodity *Murabahah* Investment Agreement.

#### PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

- Trust deed
- *Wakalah* Agreement
- The Commodity *Murabahah* Investment Agreement
- The Purchase undertaking
- The cash settlement deed
- The share settlement deed

#### GEOGRAPHIC DISTRIBUTION OF INVESTORS

The *Sukuk* certificates were subscribed by a mix of long-only funds, arbitrage funds, hedge funds as well as asset managers across Asia and Europe. (Source: Islamic Finance News)

#### CONCLUSION

Khazanah's Exchangeable *Sukuk* was well received by investors. The transaction achieved the highest exchange premium (43%) for a zero coupon and zero yield exchangeable *Sukuk* since 2007 in Asia Pacific ex-Japan. The unique characteristics and features of the structure of this *Sukuk* is that it allows Muslim investors to participate as Khazanah would satisfy any exchanges via a cash settlement if BEWG shares do not meet the financial ratios for *Shari'ah* compliance on the date of the exchange.

The structure also provides the *Sukuk* holder the option to request for Khazanah to settle the exchange right by delivering BEWG shares in lieu of cash, subject to the terms and conditions of the *Sukuk*.

#### REFERENCES

- Prospectus of Bagan Capital Ltd.
- Press Release from official website of Khazanah Nasional dated 01 September 2016.
- Case Study from Islamic Finance News titled "Khazanah Nasional's Exchangeable *Sukuk*: An Inovative two-for-one deal", dated 12 October 2016 <http://islamicfinancenews.com>
- News item from IslamicFinance.com titled "Khazanah *Sukuk* Offers Exposure into China's Growing Water Utility Sector", dated 04 September, 2016 <https://www.sukuk.com/article/khazanah.....>

## 2.3 KUYEYT TURK PARTICIPATION BANK – TIER 2 *SUKUK AL WAKALAH*

### ABSTRACT

The Kuveyt Turk Fixed Rate Resettable Tier 2 (Kuveyt Turk *Sukuk*) Certificates are Basel III compliant *Sukuk* certificates issued with a face value of USD 350 million with a fixed profit rate which is resettable after five years. The *Sukuk* is the first issuance in Turkey with an investment grade. It is also the largest Tier 2 *Sukuk* issued by a Turkish participation bank. The certificates utilize a *Wakalah* structure, with the *Wakalah* assets comprising certain tangible assets as well as *Murabahah* receivables. The deal marks the first issuance by Kuveyt Türk of Basel III compliant Tier 2 *Sukuk*.

### SUKUK SUMMARY

<b>Issuer SPV</b>	KT <i>Sukuk</i> Company
<b>Obligor</b>	Kuveyt Turk
<b>Issue Type</b>	Corporate
<b>Structure type</b>	<i>Wakalah</i>
<b>Issue size</b>	USD 350 million
<b>Issue Date</b>	February 2016
<b>Maturity date</b>	February 2026 with Trustee call option in February 2021
<b>Tenor</b>	10 years, callable in the 5th year
<b>Issue price</b>	100%
<b>Return</b>	7.9% until February 2021; subsequently, calculated as the annual mid-swap rate for US dollar based 5 year swaps plus a margin of 6.75%
<b>Fix or Variable</b>	Fixed for first 5 years, variable for the last 5 years if not called.
<b>Return frequency</b>	Semi-annual, February and August every year
<b>Book Runners</b>	Dubai Islamic Bank, Emirates NBD, Noor Bank, HSBC, KFH Capital, QIn-vest and KAMCO
<b>Listing</b>	Irish Stock Exchange
<b>Rating</b>	BBB- by Fitch Ratings
<b>ISIN</b>	XS1323608635
<b>Governing Law</b>	English and Turkish

### OBLIGOR BACKGROUND

Kuveyt Türk Katılım Bankası, which translates to Kuveyt Turk Participation Bank, is a full service *Shari'ah* compliant bank operating primarily in the Republic of Turkey and is a subsidiary of Kuwait Finance House, a well-known financial institution incorporated in the State of Kuwait. Kuveyt Turk was established in 1989 and is currently operating more than 350 branches in Turkey, with approximately 40% of its branch network based in Istanbul. Besides being owned 62% by Kuwait Finance House, the bank is co-owned by the General Directorate for Foundations (18%), the Public Institution for Security (9%), and the Islamic Development Bank (9%).

Kuveyt Türk has been quite active in the Turkish capital market. In fact the bank has been given credit for introducing interest-free capital markets to Turkey by issuing the country's first ever *Sukuk* in 2010. The bank was awarded "Turkey's Leading *Sukuk* Issuer" award in 2016 at 'Capital Markets Awards' held by Turkish Capital Markets Association. The award was handed over by President Erdoğan to Kuveyt Turk for being the largest *Sukuk* issuer in 2016.

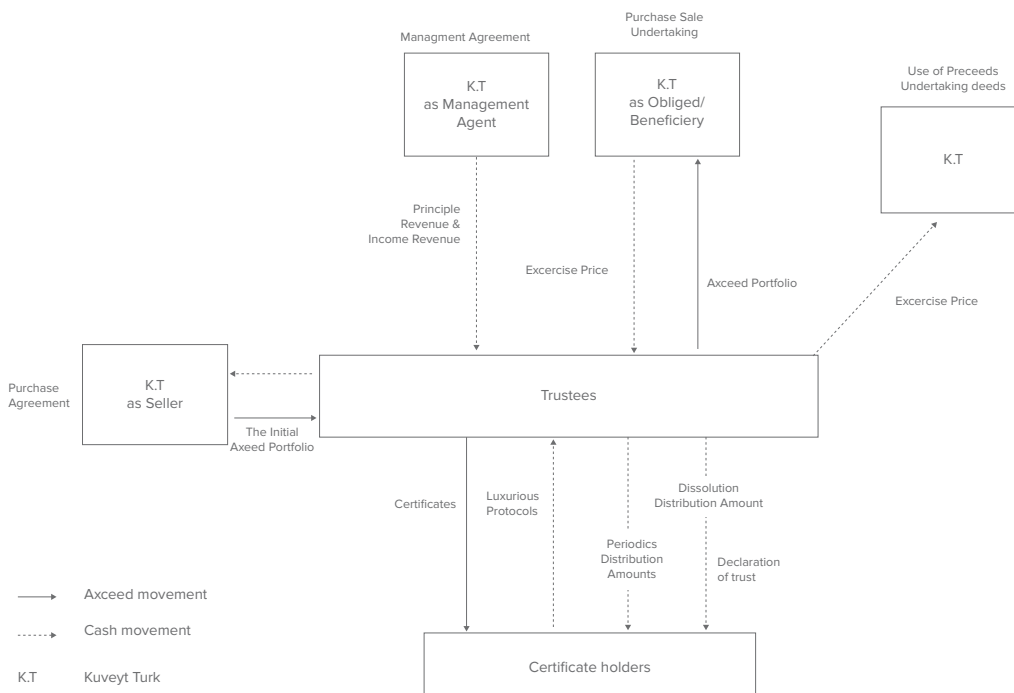
Besides the Tier-II *Sukuk* of 350 million dollars in February 2016, the bank also issued domestic lease certificates of 300 million Turkish Lira in May 2016 and international *Sukuk* of 500 million dollars in October 2016. In 2015, Kuveyt Turk had issued 21 *Sukuk* of approximately USD 271 million (1 billion 524 thousand Turkish Lira) and three lease certificates

totaling USD 180 million (800 million ringgit) . hence being a prolific issuer in the capital market.

**SUKUK STRUCTURE AND CASH FLOWS**

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

**STRUCTURE DIAGRAM**



**SUKUK STRUCTURE**

The Sukuk is based on *Wakalah*. Kuveyt Turk will manage the assets on the basis of a *Wakalah* or management agreement, and the portfolio of assets so managed comprise of real estate assets and *Murabahah* receivables.

**PARTIES TO THE SUKUK**

The following are parties to the structure:

- KT Sukuk Company, the SPV as Issuer and Trustee.
- Kuveyt Turk as Managing Agent (*Wakeel*) for managing and investing the Sukuk proceeds.

**TRANSACTION FLOW**

The following is a description of the structure in detail:

- On the Closing Date, the Certificate holders will pay the issuance proceeds in respect of the Certificates to the SPV as Trustee. The Trustee will enter into the Purchase Agreement with Kuveyt Türk (in its capacity

as the “Seller”). Pursuant to the Purchase Agreement the Seller will sell a portfolio (the “Initial Asset Portfolio”) of certain constituent assets (the “Constituent Assets”) to the Trustee and the Trustee will purchase the Initial Asset Portfolio using the proceeds of the issue of the Certificates. The Constituent assets comprise of *Ijarah* assets, Tangible Investment Sukuk and *Murabahah* receivable contracts. According to the prospectus, a tangibility ratio of 33⅓% needs to be maintained at all times. A case study from IFN3 mentions an underlying assets breakup of 33% for real estate and machinery and 66% for *Murabahah* receivables).

- The Trustee will also enter into the Management Agreement on the Closing Date with Kuveyt Türk as Managing Agent of the Asset Portfolio. Pursuant to the Management Agreement, the Managing Agent is responsible for making all periodic distributions to certificate holders through a Transaction Account.

If on the relevant Payment Date, the amount standing to the credit of the Transaction Account is less than the relevant Periodic Distribution Amounts payable on the Certificates, the Managing Agent will pay into the Transaction Account from the Reserve Collection Account an amount equal to the shortfall and will procure a liquidity facility if any shortfall remains. Also pursuant to the Management Agreement, the managing agent has to ensure that the Tangible Constituent Assets Value is at least equal to 33⅓ per cent of the *Sukuk* Assets Value at all times.

- Kuveyt Türk will grant the Purchase and Asset Portfolio Undertaking on the Closing Date in favour of the Trustee/SPV by which Kuveyt Türk will undertake to purchase all of the Trustee's rights, interests, benefits and entitlements in, to and under the Asset Portfolio on the Scheduled Dissolution Date. Similarly the Trustee will grant the Sale and Transfer Undertaking on the Closing Date in favour of Kuveyt Türk pursuant to which, Kuveyt Türk may, following the occurrence of a Trustee Call or any other event that calls for dissolution, oblige the Trustee to sell all of its rights, interests, benefits and entitlements in, to and under the Asset Portfolio at an amount equal to the dissolution amount payable to the certificate holders.

#### PRINCIPAL TRANSACTION DOCUMENTS

The principal transaction documents are:

- Declaration of Trust
- Management (*Wakalah*) Agreement
- Purchase Agreement
- Purchase and Asset Portfolio Undertaking
- Sale and Transfer Undertaking

#### DISTRIBUTION OF INVESTORS

The Kuveyt Türk *Sukuk* was offered as an open subscription through public placement and is tradable.

#### CONCLUSION

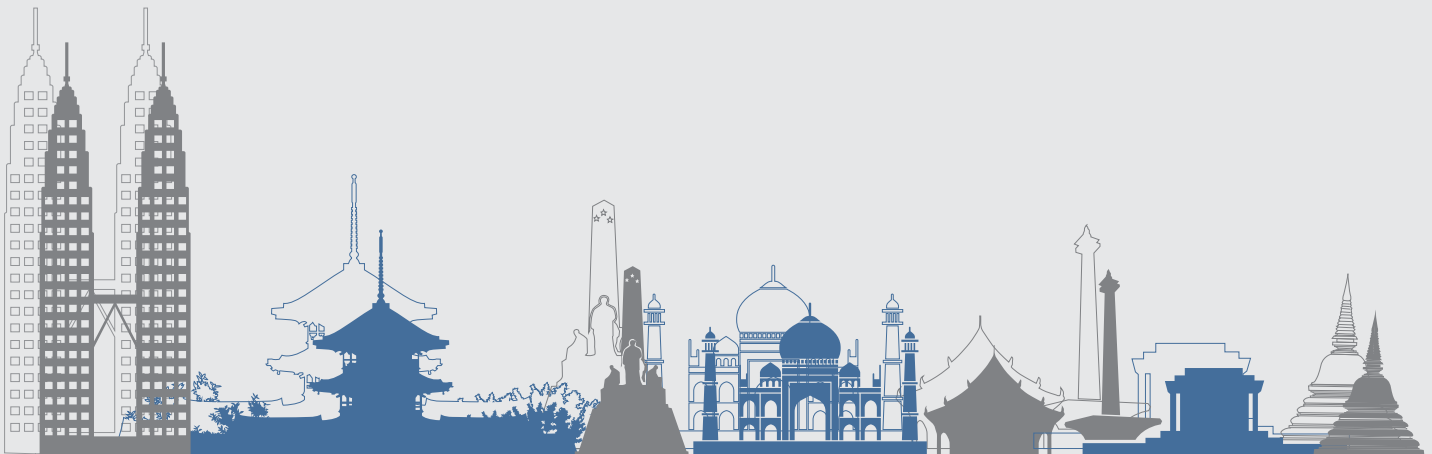
The Kuveyt Türk *Sukuk* has a few distinctions to its credit. It is the first *Sukuk* issuance in Turkey with an investment grade, having been rated BBB- by Fitch. It is the largest Tier 2 *Sukuk* issued by a Turkish participation bank. It is also the highest ever amount issued abroad by any Turkish bank. The CEO of Kuveyt Türk, Mr. Ufuk Uyan, stated that "The Basel III compliant Tier 2 *Sukuk* will raise the capital adequacy ratio of our bank allowing for stronger growth. He was also quoted as saying that "It is seen that our issuance will serve as a benchmark for other overseas issues to take place in Turkey. As a matter of fact, when all the issues of other banks in 2016 are compared, this is the most successful issue in terms of the demand level and the cost. Ongoing development and improvement of investment banking and confidence of *Sukuk* investors in the sector and our country as well as the strong equity structure and quality asset structure of Kuveyt Türk have become influential in successful closing of this issue."

#### REFERENCES

- Prospectus of KT *Sukuk* Company Limited.
- News item titled 'Clifford Chance advises on Kuveyt Türk's first issuance of Basel III compliant Tier 2 *Sukuk*' dated 21 Feb, 2016. <https://www.cliffordchance.com/news/news/2016/02/clifford-chance-advises-on-kuveyt-tuerk-s-first-issuance-of-base.html>
- Press release titled 'Kuveyt Türk issued Basel III Compliant USD 350 million Tier 2 *Sukuk*' dated 18 Feb 2016. <https://www.kuveytturk.com.tr/en/about-us/about-kuveyt-turk/news/kuveyt-turk-issued-basel-iii-compliant-usd-350-million-tier-2-sukuk->
- Press release titled 'Kuveyt Türk wins 'Turkey's Leading *Sukuk* Issuer' Award' dated 4 Nov, 2016. <https://www.kuveytturk.com.tr/en/about-us/about-kuveyt-turk/news/kuveyt-turk-wins-turkeys-leading-sukuk-issuer-award>
- Case study titled 'Kuveyt Türk's *Sukuk*: First Capital Boosting Instrument with Investment Grade Rating' dated 11 May 2016. <http://islamicfinancenews.com>
- Profile of the *Sukuk* from <http://cbonds.com/emissions/issue/196675>

# CONNECTING ASIA'S ECONOMIES

THE LEADING MIDSHORE BUSINESS AND FINANCIAL CENTRE



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

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

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



CHAPTER  
**THREE**



AIMING FOR  
PERFECTION

# CASE STUDIES: SELECTED *SUKUK* ISSUANCES (CONTRIBUTIONS)

## 3.1 AHLI UNITED BANK (KUWAIT) - TIER 1 *SUKUK* AL MUDARABAH

BY CITI ISLAMIC INVESTMENT BANK E.C. (BAHRAIN)

### BACKGROUND

On 18th October 2016, Ahli United Bank Kuwait priced a debut USD 200 million RegS PerpNC5 Tier 1 *Sukuk* offering with a 5.500% profit rate, from an orderbook in the region of USD 700 million. The offering followed a 4-day roadshow across the UAE, Switzerland, London and Singapore. Citi acted as Joint Bookrunner and Billing & Delivery Agent on the issue.

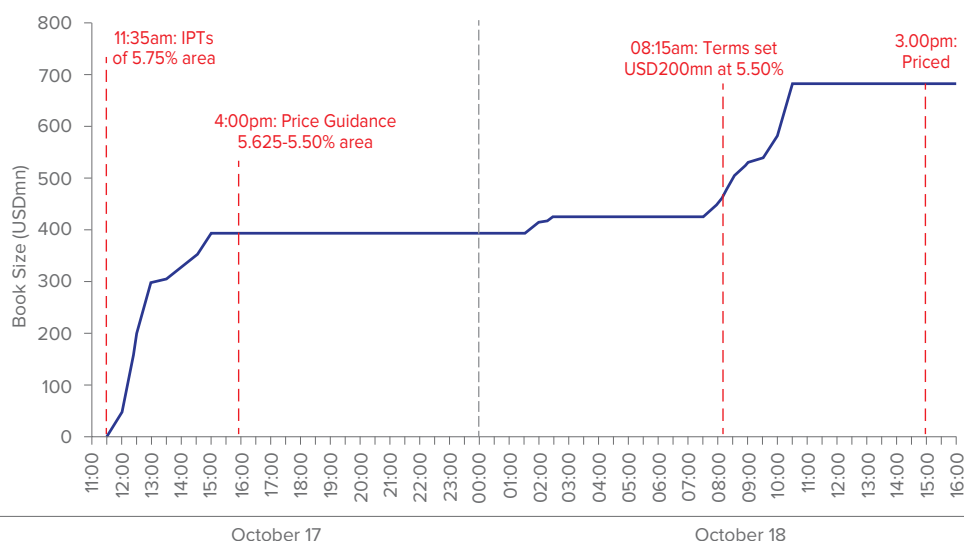
### TRANSACTION OVERVIEW

- 2nd Additional Tier 1 capital raise from the Ahli United Group of banks and a debut bond issue for AUB Kuwait (74.8% owned by Ahli United Bank BSC)
- Lowest coupon / profit rate ever achieved for a Kuwaiti bank Basel III compliant AT1 and joint lowest profit rate for a USD RegS GCC *Sukuk* AT1 offering
- Optimise capital structure in light of already strong CET1 capital position in excess of Kuwaiti Basel III requirements (including D-SIB Buffer of 0.5%)
- Diversify investor base and introduce AUBK's credit story to international investors, while raising non-dilutive and cost-effective capital at a cost effective way (lower cost than raising new common equity)

### TRANSACTION RATIONALE

- Strengthen AUBK's Tier 1 and Total Capital position relative to regional peers and to support its growth

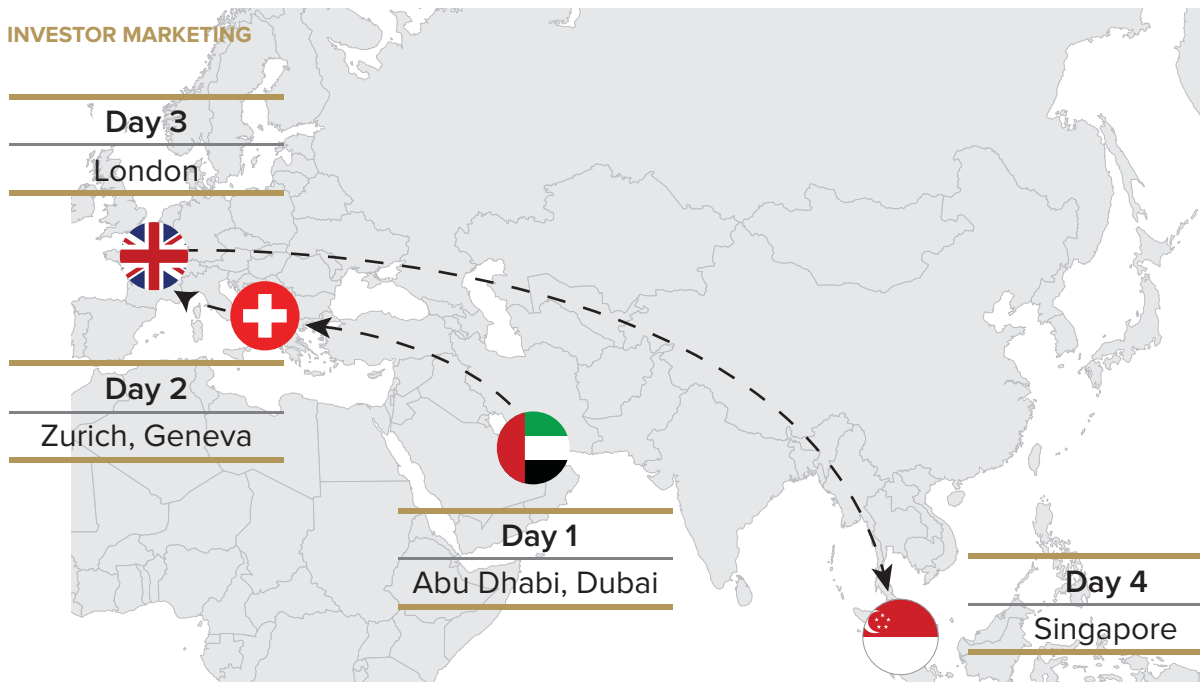
### ORDERBOOK PROGRESSION



\*Chart reflects final order sizes

**EXECUTION HIGHLIGHTS**

- On 10th October 2016, AUBK announced a four day roadshow to visit the UAE, Switzerland, London and Singapore to educate investors on the credit story, macroeconomic backdrop, transaction rationale and instrument structure
- Following conclusion of meetings, on Monday 17th October, at 11.35am UKT orderbooks were officially opened with initial price thoughts of 5.750% area yield
- By 3.30pm orderbooks had reached c. USD 400 million, allowing the syndicate group to tighten guidance to 5.500-5.625% area and announced that orderbooks were oversubscribed and due to go subject the following morning
- Shortly after London open the following day (8.15am UKT) syndicates set the yield at 5.500%, the tight end of price guidance, for a USD 200 million offering, and books went subject at 10.30am UKT
- At 3.00pm UKT, the Perpetual non-call 5 offering priced at par with a 5.500% profit rate
- The final orderbook was in the region of USD 700 million



**AUBK USD 200 MILLION 5.50% PERPNC5 AT1 *SUKUK*: SUMMARY TERMS**

<b>Description</b>	Tier 1 Capital Certificates (the Certificates)
<b>Issuer (<i>Rabb al-Mal</i>)</b>	Ahli United <i>Sukuk</i> Limited, a limited liability exempted company incorporated under the laws of the Cayman Islands
<b><i>Mudarib</i></b>	Ahli United Bank K.S.C.P (AUBK or the Bank)
<b><i>Mudarib</i> Ratings</b>	A2, Stable (Moody's) / A+, Stable (Fitch)
<b>Issue Ratings</b>	Unrated
<b>Size / Pricing Date</b>	USD 200 million/ 18 October 2016
<b>Ranking</b>	Deeply subordinated, senior only to Ordinary Shares and all payment obligations in respect of Common Equity Tier 1 Capital
<b>Maturity</b>	Perpetual
<b>Optional Redemption</b>	Callable (at par) on 25 October 2021 (the First Call Date) and every semi-annual Periodic Distribution Date thereafter, subject to the Redemption and Variation Conditions
<b>Periodic Distributions</b>	<ul style="list-style-type: none"> <li>• Fixed profit rate of 5.50% per annum, payable semi-annually in arrear, from the Issue Date until the First Call Date and thereafter reset to a new fixed rate every 5 years thereafter equal to the then prevailing 5-Year Mid-Swap Rate + 422.6bps (initial credit spread) payable semi-annually in arrear</li> <li>• Non-cumulative discretionary profit payments by the Bank</li> <li>• Mandatory non-payment upon (i) the Bank having insufficient Distributable Funds, (ii) breach by the Bank of Applicable Regulatory Capital Requirements, or (iii) the request of the Financial Regulator</li> </ul>
<b>Dividend Stopper</b>	<ul style="list-style-type: none"> <li>• If any profit distribution amount (or any part thereof) is not paid on any profit distribution date, the Bank must not: <ul style="list-style-type: none"> <li>- declare or pay any distribution, dividend or other payment on its Ordinary Shares (other than any such distribution, dividend or other payment declared prior to the applicable profit distribution date) or any of its securities ranking junior to or pari passu with the Certificates (other than when required by their terms); or</li> <li>- redeem, purchase, cancel, reduce or otherwise acquire any of its Ordinary Shares or securities ranking junior to or pari passu with the Certificates (other than when required by their terms)</li> </ul> </li> </ul> <p>In each case unless or until the next two consecutive profit distribution amounts are made in full (or an equivalent amount has been duly set aside or provided in full) on the Certificates</p>

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**Non-Viability  
Loss Absorption**

- On the occurrence of a Non-Viability Event, the Certificates shall be written-down permanently in whole or in part to the extent required
- A Non-Viability Event means that the Financial Regulator has informed the Bank in writing that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur:
- the Bank is instructed by the Financial Regulator to write-off or convert Tier 1 or Tier 2 capital instruments, on the grounds of non-viability; or b) an immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.
- It is the Bank's intention to respect the hierarchy of the capital structure, to the extent possible, while distributing losses on a Non-Viability Event
- Certificateholders acknowledge that there shall be no recourse to the Financial Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event

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**Special  
Redemption /  
Variation Events**

- Tax Event (Additional Amounts), at par, subject to the Redemption and Variation Conditions
- Capital Event (full or partial disqualification from Tier 1 Capital), at par, subject to the Redemption and Variation Conditions
- Alternatively, limited variation is allowed to cure a Tax Event or a Capital Event, subject to the Redemption and Variation Conditions

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**Redemption and  
Variation  
Conditions**

Any variation or early redemption is subject to (a) the Bank not being in breach of Applicable Regulatory Capital Requirements, (b) prior consent of the Financial Regulator and (c) in case of a Tax Event or Capital Event, the change of law or regulation giving rise to the right to redeem or vary occurring after the Issue Date

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**Listing**

Irish Stock Exchange and NASDAQ Dubai

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**Format / Governing Law**

Regulation S / English law

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**Denominations**

USD 200,000 and integral multiples of USD 1,000 in excess thereof

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**Joint Lead  
Managers**

citi+2

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### 3.2 DP WORLD – *SUKUK AL MANAF'I*

#### BY QUDEER LATIF, PARTNER AND STUART URE, PARTNER CLIFFORD CHANCE LLP

The global Islamic financial services market is estimated to be worth somewhere in the region of USD 2 trillion. Its potential for continued growth has made it attractive to investors who are looking to take advantage of the opportunities it presents. As a result, raising finance through Islamic financial instruments has become increasingly popular amongst corporates as an alternative source of funding

#### SUMMARY OF ISSUANCE

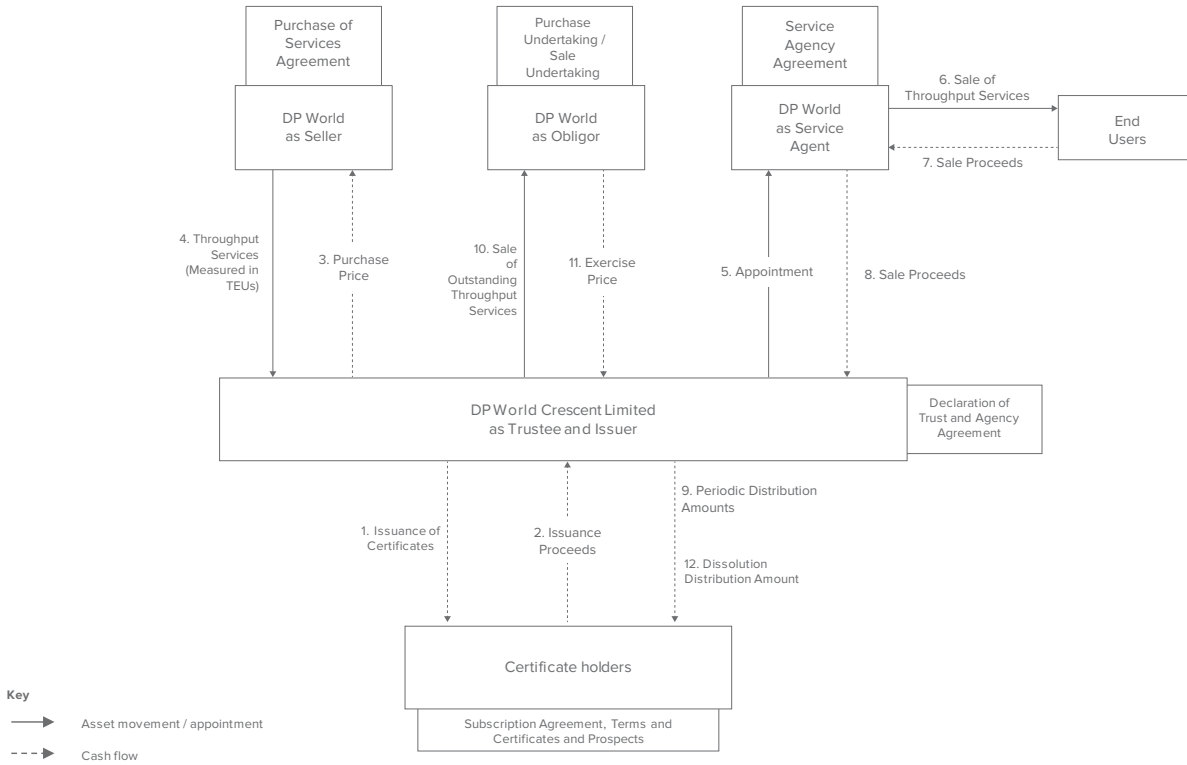
<b>Obligor</b>	DP World
<b>Issuer and Trustee</b>	DP World Crescent Limited
<b>Issue Date</b>	31 May 2016
<b>Scheduled Dissolution Date</b>	31 May 2023
<b>Issue Price</b>	USD 1,200,000,000
<b>Face Amount</b>	USD 200,000 and integral multiples of USD 1,000 in excess thereof
<b>Rate</b>	3.908%
<b>Currency</b>	US Dollars
<b>Form</b>	Global Certificates
<b>Exchange</b>	London Stock Exchange and NASDAQ Dubai
<b>Governing Law</b>	English Law

In May of 2016, DP World established its USD 3,000,000,000 *Sukuk* programme. Shortly after establishment DP World issued USD 1,200,000,000 of *Sukuk* under the programme. The *Sukuk* offered a competitive periodic distribution amount set at a rate of 3.908 per cent per annum. The issuance was very well received by investors and was oversubscribed.

DP World is one of the largest container terminal operators in the world by capacity and throughput. At its container terminals it provides a number of services, including (i) lifting containers on and off vessels, (ii) storing containers; and (iii) facilitating the delivery and receipt of containers (being Throughput Services). These Throughput Services are measured by the ports industry in twenty foot equivalent units (or TEUs). Since the

Throughput Services could be quantified and attributed with a value, and due to DP World's extensive Throughput Services capacity, a capacity based *Sukuk-al-Manaf'i* structure was utilised for the transaction. Whilst capacity based *Sukuk* are not new in the market and have been issued by a number of issuers before, primarily airlines, this was the first time that Throughput Services had been used as the underlying asset and further highlighted that Islamic financing continues to evolve and diversify into new asset classes.

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



A special purpose vehicle was incorporated in the Cayman Islands to act as the issuer of the *Sukuk* certificates of each series (the Certificates) and trustee for the investors subscribing for the *Sukuk* of each series (the Certificateholders) (the Trustee). In respect of each series to be issued under the programme, DP World need to identify an amount of Throughput Services that would be sufficient to fund the principal amount of the Certificates and any profit payments due under Certificates and to provide additional Throughput Services to cater for the potential risk of any delay in payment under the Certificates.

On the issue date of a series, the Trustee will issue Certificates to Certificateholders in consideration for a cash payment (the Issuance Proceeds) from the Certificateholders to the Trustee. The Trustee will use the Issuance Proceeds to purchase the relevant Throughput Services from DP World. Whilst the Throughput Services are sold on the issue date they are only made available to the Trustee in portions at the beginning of each periodic distribution period.



The Trustee will hold the Throughput Services on trust for the benefit of the Certificateholders. This ensures that the Certificateholders have an undivided beneficial ownership interest in the underlying Throughput Services as declared by the Trustee pursuant to a declaration of trust. This beneficial ownership interest of the Throughput Services along with certain other documentation provides the Certificateholders with a right to receive payments under it.

Next, DP World, as service agent of the Trustee, will be required to sell a prescribed quantity of Throughput Services for a minimum sale price during each periodic distribution period. The minimum sale price multiplied by the fixed quantity is intended to generate an amount equal to the periodic distribution amounts owed to the Certificateholders at the end of the relevant periodic distribution period. In the event that DP World is unable to sell the prescribed quantity then it will be obliged to purchase the unsold quantity for itself. In the event that DP World sells any of the prescribed quantity for less than the minimum sale price and as a result of which there is a shortfall between the amount generated from the sale of the Throughput Services and the amount due to the Certificateholders, then DP World shall be liable to indemnify the Trustee for the shortfall.

Finally, during the periodic distribution period ending on the scheduled dissolution date, DP World is required

to sell a larger quantity of Throughput Services at the minimum sale price in order to generate sale proceeds that are sufficient to cover the profit payment due in that final period and the principal amount of the Certificates then outstanding. The Trustee will use these sale proceeds to pay the dissolution distribution amount to the Certificateholders and redeem the Certificates.

If a dissolution event occurs or for any other reason the Certificates are to be redeemed either in whole or in part prior to the scheduled dissolution date, the Throughput Services will be sold back to DP World for an exercise price sufficient to facilitate that redemption. These redemption mechanics were documented in unilateral undertakings from each of the Trustee and DP World in favour of the other party.

The structure also featured reserve account mechanics in case any Throughput Services were sold for a price greater than the minimum sale price.

The transaction structure was held to be *Shari'ah* compliant by the *Shari'ah* Advisory Board of Citi Islamic Investment Bank E.C., the Executive *Shari'ah* Committee of HSBC Saudi Arabia Limited, the *Shari'ah* Supervision Board of Dubai Islamic Bank and Dar Al Sharia and the *Shari'ah* Supervisory Board of First Gulf Bank P.J.S.C

### 3.3 GOVERNMENT OF OMAN – *SUKUK AL IJARAH*

BY AHSAN ALI, MANAGING DIRECTOR, HEAD OF ISLAMIC ORGANIZATION STANDARD CHARTERED BANK DUBAI

#### *SUKUK AL IJARAH*

On 29th June, 2016 the Government of the Sultanate of Oman (the Government or the Sultanate or Oman) represented by the Ministry of Finance (MoF) successfully priced a USD 500 million privately placed *Sukuk*.

<b>Instrument</b>	Fixed-rate trust certificates due 14th July 2022
<b><i>Sukuk</i> Structure</b>	<i>Sukuk-al-Ijarah</i>
<b>Obligor</b>	Government of the Sultanate of Oman represented by the Ministry of Finance
<b>Obligor principal activities</b>	Sovereign
<b>Issuer</b>	Oman Sovereign <i>Sukuk</i> SAOC
<b>Issue size &amp; pricing</b>	USD 500 million / 3.500% per annum payable semi-annually
<b>Repayment</b>	Principal to be repaid via 3 equal repayments at the end of the 48th month, 60th month and 72nd month from the issue date
<b>Pricing Date</b>	29 June 2016
<b>Placement Agent</b>	Standard Chartered Bank
<b>Legal counsel for issuer</b>	Clifford Chance LLP
<b>Legal counsel for Placement Agent</b>	Allen & Overy LLP; Al Busaidy Mansoor Jamal & Co.
<b><i>Shari'ah</i> advisor</b>	Standard Chartered Bank <i>Shari'ah</i> Supervisory Committee
<b>Purpose of issue</b>	General budgetary purposes
<b>Issue Rating</b>	Baa1 (Moody's)
<b>Obligor Rating</b>	Baa1 (Moody's) / BBB- (S&P)

#### HIGHLIGHTS

This landmark transaction marked the Sultanate's debut issuance in the International *Sukuk* capital markets. It clearly demonstrated the Sultanate's unique investor access and achieved the following highlights:

- Inaugural international *Sukuk* from the Sultanate of Oman
- Despite the amortizing repayment schedule and the private placement nature of the issuance, investor appetite for the issuance was exceptionally strong
- Priced 15-20bps inside where a new conventional bond from Oman would have priced
- 100% placed with Islamic investors diversifying Oman's investor base and ensuring there is no cannibalization of demand on Oman's conventional bond in the secondary market

### OBJECTIVES

Oman had a number of financing objectives which were achieved via the transaction, including (i) establishing a tight benchmark for the Government in the international *Sukuk* markets, (ii) pricing inside its conventional bond offering, (iii) diversify investor base, (iv) ensure there is no cannibalization of demand on the Sultanate's bond, and (v) raise a minimum USD 500mn privately placed issue size. All of these targets were successfully achieved and the Sultanate clearly demonstrated its unique investor appeal to the international *Sukuk* market.

### OUR PARTNERSHIP: AN UNWAVERING COMMITMENT TO CLIENTS IN EVERY MARKET

The Government has maintained its focus on diversifying its economy particularly towards the development of the industrial, services and agriculture sector and increasing the share of the non-petroleum sector in the nation's GDP. For 2015, GDP in the non-oil sector expanded by 2.3%. The Sultanate's key differentiating strengths include its well-developed human capital, stable political environment, strong ties with GCC member countries, low debt levels and its favorable business environment. The Sultanate's CPI at 0.06% in 2015 is also one of the lowest in the region and reflects sound government policies.

With Standard Chartered's deep commitment to development of Oman's financial markets, strong track record in Islamic structuring and *Sukuk* execution, this transaction is Standard Chartered's second deal for the Sultanate, having previously acted as a Joint Lead Manager on the Sultanate's 2015 local currency *Sukuk* issuance.

### OUR SOLUTION: CREATIVITY AND TEAMWORK DEAL STRUCTURE

As this was the Sultanate's inaugural international *Sukuk* issuance, and is a private placement, Standard Chartered's recommendation was to structure the transaction as a *Sukuk-al-Ijarah* to attract the widest Islamic investor base:

- On the issue date, certain real-estate assets, comprising a plot of land earmarked for development, were purchased by an SPV from the Sultanate which were subsequently leased back to the Sultanate pursuant to a lease arrangement in consideration of payment of lease rentals - the *Sukuk* assets were selected after extensive due diligence by the legal counsel and *Shari'ah* advisors, keeping in mind the local regulatory and legal framework;
- The lease payments were benchmarked to the periodic distribution amounts payable under the *Sukuk*;
- Pursuant to a purchase undertaking, the Government has granted the SPV the right to require the Government to purchase the assets from the SPV, upon the occurrence of a termination event or at maturity of the *Sukuk*, for an amount equivalent to the outstanding amount under the *Sukuk* plus any accrued but unpaid lease rentals.

The *Sukuk* structure also benefits from a "tap" feature which essentially allows the Sultanate to issue additional tranches and consolidate them with the existing issuance, providing the Sultanate even more flexibility for a potential future issuance.

### OUR RESPONSE

Despite markets turning volatile on the back of BREXIT and the wider global uncertainties when the private placement *Sukuk* was priced, Standard Chartered's pre-identified investors remained firm on their bids. With this issuance the Sultanate has also successfully demonstrated the ease of accessing Islamic liquidity, opening up an additional avenue for prospective Omani entities to raise funds from international markets. Furthermore, there was no impact to the *Sukuk* pricing despite the Sultanate's private placement style issuance and amortizing repayment schedule.

### OUTCOME AND MARKET IMPACT

While the public bond that Oman priced in early June was trading wider than the level targeted for the private placement and the global markets still under the BREXIT shock, Standard Chartered's pre-identified investors remained committed. The Sultanate's private placement style issuance and the amortizing repayment schedule had no pricing impact and instead the *Sukuk* priced 15-20bps inside where Oman would have raised conventional liquidity.

The superior credit profile of Oman in the international *Sukuk* market not only led to tighter pricing but also enabled the Sultanate to place 100% of its issuance with new investors. One of the most crucial objectives for the government on this issuance was to ensure there is no demand cannibalization on its bond in secondary markets and this was successfully achieved with 100% of the *Sukuk* being placed with Islamic investors. Firm investor demand enabled the Sultanate to re-price its curve, reduce its overall cost of borrowing, diversify investor base and establish a tight international *Sukuk* benchmark.

Furthermore, the government clearly demonstrated its superior *Sukuk* credentials by accessing the international *Sukuk* markets in less than a year after pricing its debut OMR *Sukuk* in 2015, and achieved a privately placed issue size of USD 500 million 15-20bps inside of where a conventional bond would have priced.

### CONCLUSION

The Sultanate's debut international *Sukuk* issuance represents an impressive outcome as the transaction was executed fully in line with the Government's objectives. Strong investor demand enabled the Sultanate to price its *Sukuk* 15-20bps inside where Oman would have raised conventional liquidity. Furthermore, the Government was able to successfully establish a liquid benchmark for future International *Sukuk* issuance by the Sultanate and by Shaikh Muhammad Asif, Vice President & Manager, Islamic Financial Advisory Services, Meezan Bank Limited other domestic entities.

### 3.4 MEEZAN BANK LIMITED (PAKISTAN) – TIER 1 *SUKUK AL MUDARABAH*

BY SHAIKH MUHAMMAD ASIF, VICE PRESIDENT & MANAGER, ISLAMIC FINANCIAL ADVISORY SERVICES, MEEZAN BANK LIMITED

#### INSTITUTION BACKGROUND:

Meezan Bank Limited (Meezan or MBL or the Bank) was incorporated in Pakistan on January 2, 1997, as an Investment Finance Company under the Companies Ordinance, 1984, the Bank carried on its business of *Shari'ah* compliant investment banking. The Bank has a vision of establishing Islamic banking as banking of first choice... – which led Meezan to start commercial banking operations, in 2002, with the acquisition of Societe Generale Pakistan, a French leading bank. Meezan converted all its operations into *Shari'ah*-compliant modes. Currently, the Bank is engaged in corporate, commercial, consumer, investment and retail banking activities besides offering its *Shari'ah* advisory services.

Meezan is the premier and largest Islamic bank in Pakistan and it has been one of the fastest growing banks in the history of the country's banking sector. MBL is rated AA and A1+ for long term and short-term respectively by JCR-VIS. Since its incorporation, the Bank has grown at a considerable pace. As at 31 December 2015, MBL registered an asset base of over PKR 532 billion, with a network of over 550 branches across 140+ cities. The Bank operates strictly under the principles of Islamic *Shari'ah* and is well-recognized for its product development capability and Islamic banking research and advisory services.

#### TRANSACTION SUMMARY:

MBL proposed to issue *Sukuk* of up to PKR 6,000 million, inclusive of a Green Shoe Option of PKR 2,000 million, in nominal value with tenure of 10 years, but on account of encouraging response from the market, MBL ended up with the issuance of *Sukuk* worth PKR 7,000 million at denominated face value of PKR 1 million each. The *Sukuk* was proposed to be rated, unsecured, subordinated and privately placed Tier-II *Mudarabah Sukuk (Sukuk)*. The issue aimed to contribute towards MBL's Tier-II Capital for complying with its Capital Adequacy Ratio (CAR) prescribed by the State (Central) Bank of Pakistan (SBP), under its Basel III framework. The *Sukuk* proceeds intended to be invested in the General Pool /other businesses of MBL as allowed by its Memorandum and Articles of Association under a *Mudarabah* relationship.

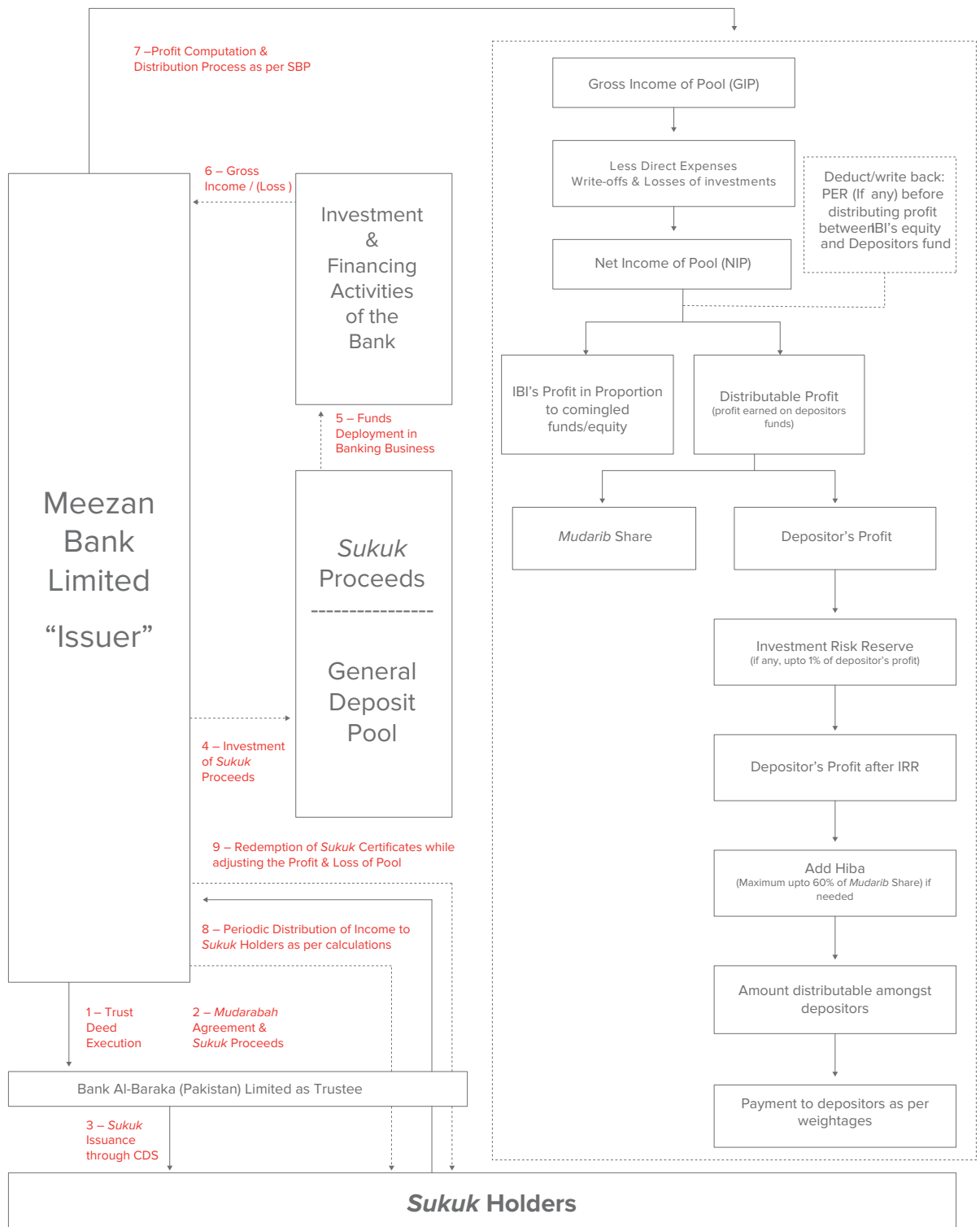
The *Mudarabah* Profit was proposed to be computed on the basis of Profit Sharing Ratio and monthly weightages announced in advance by Meezan Bank Limited. Due to overwhelming response from the market, MBL, through the price discovery process, achieved to offer the *Sukuk* at the expected profit that may be similar to 6 month KIBOR plus 50 bps, against initially proposed 70 bps to 75 bps, subject to the rules of *Mudarabah*. The *Sukuk* issue is callable, with SBP's prior approval, on any profit payment date on or after five (5) years from the date of issue. The Call Option once announced will be irrevocable. The *Sukuk* will be redeemed at the fair value which will be arrived at by adjusting attributable profit/loss.

**BASIC INFORMATION:**

<b>Issuer &amp; Mudarib</b>	Meezan Bank Limited (MBL or Bank)
<b>Nature of Instrument</b>	Rated, Unsecured, Subordinated and Privately Placed Tier-II <i>Sukuk</i> based on <i>Mudarabah</i> (the <i>Sukuk</i> )
<b>Structure Type</b>	<i>Mudarabah</i>
<b>Issue Size</b>	PKR 7,000 million
<b>Tenor</b>	Ten (10) years from the date of disbursement
<b>Purpose</b>	<ul style="list-style-type: none"> <li>• The issue aimed to contribute towards MBL's Tier-II Capital for complying with its CAR prescribed by the SBP, under its Basel III framework.</li> <li>• The <i>Sukuk</i> proceeds intended to be invested in the General Pool /other businesses of MBL under a <i>Mudarabah</i> relationship</li> </ul>
<b>Issue Date</b>	September 22, 2016
<b>Maturity Date</b>	September 21, 2026
<b>Mudarabah Agreement</b>	The proceeds of the <i>Sukuk</i> will be the capital of <i>Mudarabah</i> contributed by the <i>Sukuk</i> Holders ( <i>Rab-ul-Maal</i> ) under the <i>Mudarabah</i> Agreement
<b>Expected Profit</b>	Base Rate (6 Months KIBOR) plus 50 bps subject to rules of <i>Mudarabah</i>
<b>Profit Calculation</b>	<i>Mudarabah</i> profit is to be calculated on the basis of profit sharing ratio and monthly weightages announced, in advance, by MBL subject to <i>Shari'ah</i> rules of <i>Mudarabah</i> and regulatory guidelines on pool management
<b>Profit /Return Frequency</b>	Semi-annual (In arrears)
<b>Placement Mechanism</b>	The <i>Sukuk</i> are transferred to investors via book entry CDS account with Central Depository was mandatory requirement
<b>Tradability / Transferability</b>	Yes – <i>Sukuk</i> are inducted in the Central Depository System of Central Depository Company of Pakistan Ltd. and can be privately traded and transferred in line with Central Depository Act and CDC regulations
<b>Listing</b>	Not listed over the counter
<b>Instrument Rating</b>	AA- (Double A Minus) by JCR-VIS Credit Rating Company Limited
<b>Trustee</b>	Al-Baraka Bank (Pakistan) Limited
<b>Governing Laws</b>	Laws of Islamic Republic of Pakistan
<b>Call Option</b>	Meezan may call the <i>Sukuk</i> , with prior approval of SBP on or after five years from the date of issue, subject to not less than 15 days prior notice being given to the investors. The Call Option once announced will be irrevocable. The <i>Sukuk</i> will be redeemed at the fair value which will be arrived at by adjusting attributable profit / loss.

**SUKUK STRUCTURE AND DIAGRAM:**

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



**DIAGRAM EXPLANATION:**

1. Meezan Bank appoints the Trustee (Bank Al-Baraka-Pakistan) through Trust Deed to act on behalf of the Prospective *Sukuk* Holders for the protection of their rights.
2. Under *Mudarabah* Agreement, prospective *Sukuk* holders, acting as *Rab-ul-Maal*, will deposit their funds through Trustee with the Bank who shall act as *Mudarib*. The Bank, will periodically declare the Profit Sharing Ratio and weightages to this special LCY *Sukuk* at the start of each month, along with announcement of weightages for other remunerative deposit categories.
3. The Bank shall issue the *Sukuk* certificates through Central Depository System representing the *Sukuk* proceeds that shall be deposited with the Bank.
4. The proceeds of the *Sukuk* will be invested into the general pool of the Bank and shall be classified as special LCY *Sukuk*. *Sukuk* Holders shall be partners with other members of general pool.
5. The funds of general pool shall be deployed for *Shari'ah* permissible financing, investment and other permissible banking business activities.
6. The general pool funds generate gross income / loss for its onward distribution
7. The profit and loss emanating from the pool, shall be managed in accordance with the *Mudarabah* rules and SBP profit and loss distribution guidelines.
8. *Sukuk* income is semi-annually distributed to *Sukuk* holders.
9. The redemption of *Sukuk* would be made after 10 years in bullet form.

**NOTE:**

1. Upon the occurrence of Point Of Non-Viability ("PONV"), as determined by SBP, the *Sukuk* will be converted into common shares of Meezan Bank. Such conversion will be the termination of *Mudarabah* relationship and issuance of common shares will be treated as payment of *Mudarabah* capital back to *Rab-ul-Maal*. The conversion into common shares will be done after consideration of the fair value of *Sukuk* after taking into account the share of *Sukuk* in the profit or loss of the general pool and the market value of MBL's common share at the time of conversion.
2. After conversion of *Sukuk* into common shares, the Issuer's liability under the same shall rank equal to equity and will be subordinated to all other

indebtedness of the issuer including liabilities towards depositors.

3. The Bank can stop payment or profit or principal redemption upon the order of SBP. However, such profit will not be forfeited and payable soon after the lifting of restrictions by the regulator.

**UNDERTAKING:**

1. There is no separate undertaking being executed. However, in order to structure the call option, *Sukuk* holders undertake to sell their share in *Sukuk* to MBL upon exercise of Call option by the Bank at the face value of the *Sukuk* adjusted for profit and loss of the general pool. This undertaking is covered in the Terms and Conditions of *Mudarabah* Agreement and Trust Deed.

**SHARI'AH & TECHNICAL ASPECTS:**

Option of *Sukuk* Write-off: Basel Committee of Banking Supervision Basel III rules allow, at national discretion, non-equity capital instruments to be written off or converted to common shares upon a trigger event. Having such a provision can't be acceptable under *Shari'ah*. However, the Central Bank of Pakistan encourages the option of conversion into common shareholders so the provision of write-off is waived on account of *Shari'ah* requirement.

**a. Subordination:** As an inherent feature of Tier-II *Sukuk*, it has to be Sub-ordinated to qualify for consideration as Tier-II capital. Whereas from *Shari'ah* perspective, being part of general pool as partner with other depositors, rights of one partner can't be subordinated as compared to other partners. So this point was resolved as that in case of event of occurrence of the Point of Non-Viability ("PONV") as determined by SBP, the *Mudarabah* relationship between the Issuer and the *Sukuk* Holders shall be terminated and the *Sukuk* proceeds shall be immediately converted into Common Shares, making the *Sukuk* subordinated to all other indebtedness of the Issuer including depositors.

**b. Lock In Clause:** On account of this clause, the *Sukuk* holders will neither be paid the profit nor redemption amount in respect of the *Sukuk*, if such payment will result in a shortfall in the Issuer's Minimum Capital Requirement (MCR) or CAR or results in an increase in any existing shortfall in MCR or CAR. However, in such an event the *Mudarabah* relationship will continue between the Bank and the *Sukuk* holders and any



unpaid profit due or principal amount with adjustment of profit / loss of General pool will remain as payable to *Sukuk* holders.

- c. Loss Absorbency:** The *Sukuk* will be subject to Loss Absorbency, under which the *Sukuk*, at the option of the SBP, will be fully and permanently converted into Common Shares upon the occurrence of PONV as determined by SBP or for any other reason as may be directed by SBP. Determination of conversion formula was a challenge as converting *Sukuk* fair value against the market value of common shares that is assumed to be quite low at the occurrence of PONV. Conversion at such value would dilute the ownership of existing shareholders, so the central bank proposed to have a certain cap on the price of conversion. However, from *Shari'ah* perspective the capping of conversion price wasn't allowed. So, the conversion pricing formula wasn't fixed but it will be decided at the time of such conversion with the consent of SBP. In principle, the conversion formula will be linked to the market value of the Common Shares on the date of PONV trigger event and the fair value of the *Sukuk* determined

by adjusting attributable profit / loss of the General Pool and any amount of profit held during the Loss Absorbency period.

**PRINCIPAL TRANSACTION DOCUMENTS: THE PRINCIPAL TRANSACTION DOCUMENTS INCLUDE THE FOLLOWING:**

1. Trust Deed (Between Trustee and the Bank for protection of *Sukuk* holders' rights)
2. *Mudarabah* Agreement (Between Bank being *Mudarib* and *Sukuk* Holders being *Rab-ul-Maal*)

**Geographical Distribution of Investors:**

The *Sukuk* was only offered to local Investors.

**Distribution by Investors Type:**

Banks – 63.2%  
 Asset Managers / Funds – 21.4%  
*Takaful* / Pension – 14.2%  
 Others – 1.2%

**Trading Opportunities in the Secondary Market:**

The *Sukuk* are not listed over the counter for public trading. However, private trading can be done in *Sukuk* as the same are available in the Central Depository System and shall be transferred in line with Central Depository Act and of Central Depository Company's regulations.

**CONCLUSION:**

Basel III reforms are aimed to strengthen the regulations, supervision and risk management of the banking sector and several Islamic banks, across the globe, including Malaysia, Saudi Arabia, Turkey and United Arab Emirates, have issued such *Sukuk* instruments to raise their capital. In Pakistan, this is a second issuance of such type, but this is the first time that regulatory requirements like option of write-off, subordination etc. are effectively addressed without compromising the *Shari'ah* compliance. The *Sukuk* was well received by local investors, including Banks, Funds, *Takaful* / Pension schemes, etc. The issuance served its purpose as MBL Capital Adequacy Ratio improved from 11.16% in June 2016 to 14.9% in September 2016, primarily on account of the issuance of Tier-II *Mudarabah* Capital *Sukuk*. This would further pave the way for other Islamic Banks in the country to boost their capital and improve their Capital Adequacy Ratio through issuance of such Tier II *Sukuk* instruments. Successful subscription of this issue also reflects the availability of liquidity in the local market for such a quality instrument.

### 3.5 NEELUM JHELUM OF PAKISTAN – PROJECT FINANCE *SUKUK*

#### BY BANK ALFALAH

##### SUMMARY

<b>Issue</b>	Unlisted, Rated & Secured, Privately Placed										
<b>Issuer</b>	Neelum Jhelum Hydropower Company (Pvt) Limited (NJHPC)										
<b>Investment Agent</b>	Pak Brunei Investment Company Limited										
<b>Issue Amount (<i>Sukuk</i>)</b>	The total Facility Amount ( <i>Sukuk</i> ) will be of PKR 100 billion Schedule for disbursement is as follows:										
	<table border="1"> <thead> <tr> <th>Disbursement</th> <th>June 2016</th> <th>Sep 2016</th> <th>Mar 2017</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Amount (in PKR billion)</td> <td>30</td> <td>35</td> <td>35</td> <td>100</td> </tr> </tbody> </table>	Disbursement	June 2016	Sep 2016	Mar 2017	Total	Amount (in PKR billion)	30	35	35	100
Disbursement	June 2016	Sep 2016	Mar 2017	Total							
Amount (in PKR billion)	30	35	35	100							
<b>Structure</b>	Diminishing <i>Musharakah</i>										
<b>Purpose</b>	The proceeds of the Issuance to be utilized to partially finance construction of 969MW Neelum Jhelum Hydropower Project located in District Muzaffarabad, Azad Jammu & Kashmir										
<b>Investors / Financers</b>	The issue was taken up entirely by Pakistani commercial banks and development finance institutions (DFIs)										
<b>Instrument Rating</b>	AAA by JCR-VIS (a local Pakistani credit rating agency)										
<b>Tenor</b>	Weighted Average Life: 6.5 years (2 year grace period, 8 years repayment period)										
<b>Grace Period</b>	Two years from first disbursement										
<b><i>Sukuk</i> Redemption</b>	<ul style="list-style-type: none"> <li><i>Sukuk</i> will be redeemed in Sixteen (16) equal semi-annual instalments and therefore follows an amortizing structure</li> <li>The first such redemption will be due at the end of the thirtieth (30th) month from first disbursement</li> </ul>										
<b>Early Redemption / Call Option</b>	Early redemption is allowed at any point in time (after 12 months since the last asset purchase agreement) with 60 days' notice. Redemptions can occur only on profit payment dates										
<b>Profit Benchmark/Rental</b>	6-Month Karachi Inter Bank Offer Rate (KIBOR)										
<b>Profit/Rental Payments</b>	Semi-annually in arrears										
<b>Security (Fully Collateralized)</b>	<ul style="list-style-type: none"> <li>Unconditional and irrevocable first Demand Guarantee(s) of the President of Islamic Republic of Pakistan covering the entire amount of respective facilities along with profit payments</li> <li>All unencumbered present and future assets of NJHP under <i>Sukuk</i> arrangement for <i>Shari'ah</i> compliance</li> <li>Exclusive lien over Debt Payment Account for the benefit of the Investors</li> <li>In case of any shortfall in Debt Payment Account, WAPDA will provide the difference on behalf of NJHPC</li> </ul>										
<b>Covenants</b>	<p>Salient Financial Covenants</p> <ul style="list-style-type: none"> <li>Minimum Current Ratio of 1:1x (including current portion of long term liabilities) to be maintained by the Company during the entire Tenor of the Issuance</li> <li>Maximum Debt/Equity ratio of 75:25 for NJHPC or as permitted under NEPRA (National Electric Power Regulatory Authority) tariff</li> <li>Minimum DSCR of 1.2x for NJHPC</li> </ul>										

**PAKISTAN *SUKUK* STRUCTURAL ISSUES AND EXPLANATION**

*Sukuk* issuance in Pakistan is done on a bank syndication format with issuances commonly referred to as a “Facility” rather than an “Issue”. Consequently, term sheets reflect bank financing rather than capital market terminology. In keeping with the ‘loan format’ where multiple disbursement may be made, *Sukuk* in relation to the same project may be issued in multiple tranches with each tranche representing a particular disbursement and a new *Sukuk* issue. *Sukuk* utilized for project financing also typically have a grace period when only periodic distributions are made followed by an amortising principal repayment period. Whilst an amortising structure obviously impacts the weighted average life (WAL) of the issue, tenor is usually depicted simply as the total life of the financing inclusive of grace and repayment periods.

Due to central bank regulations, the *Sukuk* are collateralized as any financing from banks requires the latter to take security in order to qualify as ‘debt’. Often

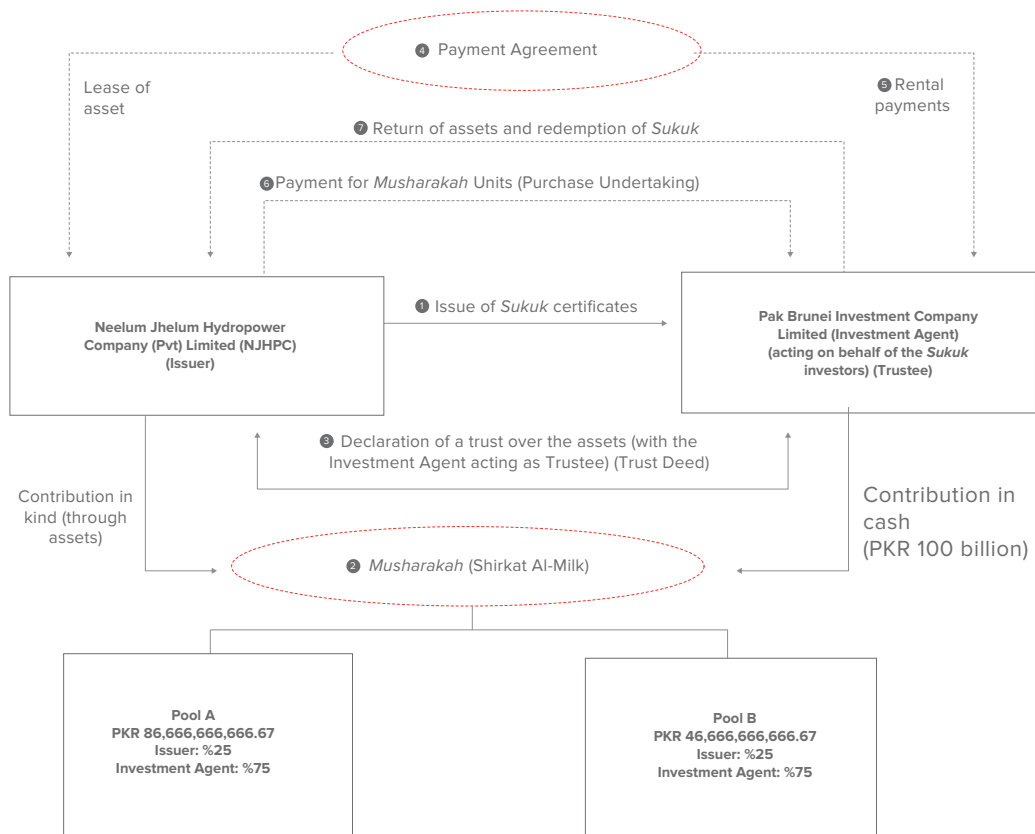
this leads to full collateralization where assets that are part of the *Shari’ah* structure invariably form a part of the security package.

The capital markets regulator also requires all potential oversubscription to be pre-approved in regulation that applies to both debt and equity offerings. Consequently, debt issuances require approval for “green shoe” options.

Regardless of whether *Sukuk* are listed or unlisted, public or privately placed, banks provide the primary investor base and as explained above, drive the issue’s structural features. Secondary market trading is also limited given the ‘buy and hold’ nature of the investor base.

Given that a bank syndication format is followed, the *Sukuk* are ‘hard’ underwritten by the participating banks with pricing not based on a book-building process. Also, the bank investor base prefers issues benchmarked to KIBOR (Karachi Interbank Offer Rate) so all issues to date have been done as floating rate notes (FRNs).

**TECHNICAL ASPECTS FROM LEGAL AND SHARI’AH POINT OF VIEW**



## STRUCTURE

1. Neelum Jhelum Hydropower Company (Private) Limited (NJHPC), the “Issuer,” issued *Sukuk* certificates to Pak Brunei Investment Company Limited, the “Investment Agent” acting on behalf of the *Sukuk* investors.
2. NJHPC and the Investment Agent entered into a *Musharakah* Agreement (Shirkat Al-Milk) whereby NJHPC sold a beneficial interest for PKR 100 billion in Pool A and Pool B of *Musharakah* assets to the Investment Agent. The Investment Agent purchased the assets in three disbursements (tranches), each of which represented a *Sukuk* issuance (with different tenors but the same maturity) and acquired a 75% share in the *Musharakah* Assets while NJHPC contributed the remaining 25% of the *Musharakah* assets. The list of specific assets is disclosed in the *Musharakah* Agreement. Under the *Musharakah* the two parties became “co-owners” of the *Musharakah* Assets. However, legal title of the assets remained with NJHPC with a beneficial interest provided to the Investment Agent.
3. NJHPC declared a Trust over the *Musharakah* Assets to ensure that these are held for the benefit of the *Sukuk* investors. The Investment Agent has been appointed as Trustee to hold the assets and security for the benefit of *Sukuk* investors in accordance with the provision of the Trust Deed.
4. The Investment Agent entered into a Payment Agreement with NJHPC which effectively functions as the *Ijarah*, with the former acting as the lessor and the latter as lessee. The Payment Agreement contains all the requisite terms and conditions governing the rental flows.
5. Pursuant to the Payment Agreement, NJHPC will pay rental to the Investment Agent which will be used to make periodic distributions to the *Sukuk* investors.
6. The *Sukuk* follows an amortising structure. Principal redemption on the *Sukuk* will commence from year 3 onwards and will result in a diminishing share of the *Musharakah* by the Investment Agent in favour of NJHPC. NJHPC has entered into a Purchase Undertaking pursuant to which NJHPC will purchase from the Investment Agent the *Musharakah* Units on each principal redemption date (or in case of Events of Default and upon termination of the *Sukuk*)
  - The Investment Agent’s share of *Musharakah* Assets constitutes 16 Units, with a value of PKR

6.25 billion each amounting to the total investment of PKR 100 billion by the *Sukuk* holders. One Unit will be repurchased at the end of each of the 16 semiannual repayment periods over the 8 year repayment period (following a 2 year grace period). The Investment Agent will distribute the proceeds of the sale of the *Musharakah* Units to the *Sukuk* investors.

- The Transaction Documents will not be required to be amended upon each principle redemption.
7. Outstanding *Sukuk* amount of PKR 100 billion will also be decreased by the principal amount of the *Musharakah* reduction (PKR 6.25 billion) for each period from year 3 onwards.

## ADDITIONAL TECHNICAL ASPECTS

- Covenants – standard negative pledge and financial covenants are in place.
- Maintenance –
- NJHPC acts as the Managing Co-owner of the *Musharakah*, responsible for the major and ordinary maintenance and repair on the *Musharakah* Assets on behalf of the *Musharakah*. NJHPC shall pay all relevant and applicable ownership taxes and expenses charged on behalf of the *Musharakah* and shall have the right to claim reimbursement of the agreed service expense amount incurred in an expense period. The Investment Agent will reimburse the expense incurred to NJHPC by setting it off against the rental payable.
  - If any deduction or withholding is required by applicable law to be made by NJHPC (except income tax) the amount of the payment (buyout payments and rent) due from NJHPC shall be increased to equal the payment which would have been due if no deduction had been required.
- Substitutability – NJHPC is permitted to make any additions, improvements, substitutions or alterations to the *Musharakah* Assets.
- *Takaful* / Insurance – the Investment Agent will take out, on a best effort basis, ownership related risks *Takaful* from a reputable company offering protection under the Islamic concept of *Takaful*. Until *Takaful* is available, the *Musharakah* Assets may be insured with a conventional insurance company.
- Partial Loss – if the Partial Loss is caused by NJHPC, NJHPC will repair the damage to the *Musharakah* Assets and the Investment Agent may share with NJHPC the insurance payment amount. If the Partial

Loss is not caused by NJHPC, the Investment Agent will be responsible for the cost.

- Total Loss – if a Total Loss occurs:
  - The Payment Agreement will terminate.
- The Investment Agent will be entitled to the *Takaful* proceeds payable as a result of the Total Loss to

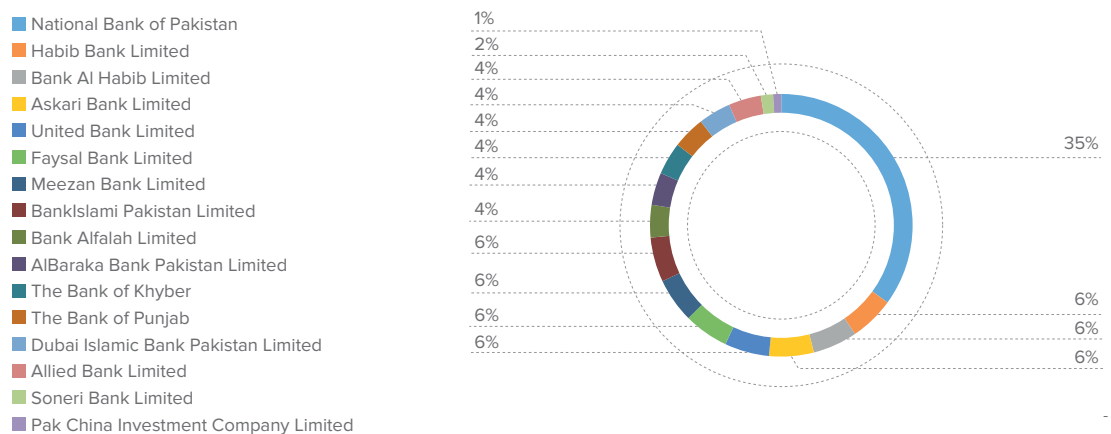
the extent of the Investment Agent’s share in the proceeds.

- Will entitle the Trustee to call an Event of Default and make a claim under the Government of Pakistan Guarantee.

**INVESTOR TAKE-UP**

The Issue was subscribed to entirely by Pakistani commercial banks and DFIs as shown below:

January 16th, 2017



**GEOGRAPHICAL DISTRIBUTION OF THE INVESTORS**

The Issue was taken up entirely by commercial banks in Pakistan.

**TRADING OPPORTUNITIES IN THE SECONDARY MARKET**

No secondary market trading can be done till all disbursements are complete. Since the issue was unlisted, secondary trading is expected to be limited.

**SHARI’AH GUIDELINES ON THE PURCHASE UNDERTAKING**

The Purchase Undertaking refers to the buy-back of *Musharakah* units as per the amortising structure of the transaction as explained above. The value of each unit (PKR 6.25 billion) has been agreed in advance and is equivalent to a reduction in the principal amount of the underlying Payment Agreement and total size of the *Sukuk* issuance. Given that there is an implied lease underlying the Diminishing *Musharakah* structure, the buy-back of the units is not required to be at market value.

### 3.6 TENAGA NASIONAL BERHAD (MALAYSIA) – *SUKUK AL WAKALAH*

BY MOHAMAD SAFRI SHAHUL HAMID, SENIOR MANAGING DIRECTOR / DEPUTY CHIEF EXECUTIVE OFFICER,  
CIMB ISLAMIC BANK

#### ABSTRACT

This case study aims to highlight the USD 750.0 million *Sukuk* issuance in October 2016 by Malaysia's largest electricity utility company, Tenaga Nasional Berhad (TNB), via TNB Global Ventures Capital Berhad (TNB Global) which is a special purpose company.

The issuance marks the inaugural issuance under TNB Global's USD 2.5 billion Multicurrency *Sukuk* Issuance Programme, which utilises a *Wakalah* structure designed to provide TNB the flexibility in determining the composition of underlying assets for each issuance under the programme. The tangible portion of any issuance pursuant to the programme may comprise i) rights to services (related to the supply of electricity in Malaysia); ii) property assets; and/or iii) *Shari'ah* compliant shares. The non-tangible portion may include i) electricity receivables; and/or ii) *Shari'ah* compliant commodities. For this first issuance, 100% rights to services were used as the underlying asset.

The well-received issuance marked TNB's return to the international debt capital market after more than a decade as well as its debut in the international *Sukuk* market. Proceeds from the *Sukuk Wakalah* will be utilised by TNB for its *Shari'ah* compliant general corporate purposes.

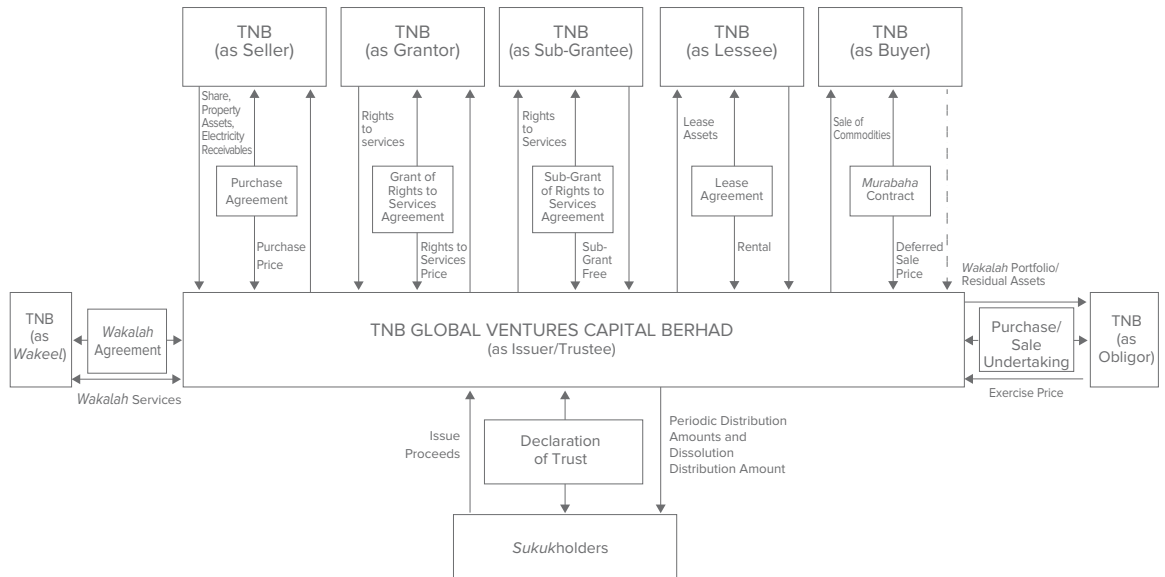
#### TRANSACTION SUMMARY

<b>Issuer</b>	TNB Global
<b>Obligor</b>	TNB
<b>Islamic Structure</b>	<i>Wakalah</i>
<b>Issue Ratings</b>	A3 by Moody's, BBB+ by S&P
<b>Issue Size</b>	USD 750.0 million
<b>Issue Date</b>	19 October 2016
<b>Maturity Date</b>	19 October 2026
<b>Tenor</b>	10 years
<b>Yield</b>	3.244% p.a.
<b>Spread to US Treasury</b>	1.45%
<b>US Treasury</b>	1.794%
<b>Issue Price</b>	100%
<b>Issue Format</b>	Reg S
<b>Governing Law</b>	English Law and Malaysian Law (for asset-related documents)

**INSTITUTION BACKGROUND**

TNB is the largest electricity utility company in Malaysia and one of the largest in the region, with an asset base totalling RM110.7 billion. TNB is also the most experienced energy player in Malaysia, with a history spanning 65 years. Its core businesses span the entire value chain of electricity production and supply encompassing generation, transmission and distribution. TNB’s generation division operates six thermal power stations and three major hydroelectric power generating schemes in addition to supporting the operations and maintenance of three independent power producers (IPPs). TNB’s transmission division connects power generated by TNB and the IPPs throughout Peninsular Malaysia while TNB’s distribution division supplies end users.

**PROGRAMME STRUCTURE**



## TRANSACTION STEPS

1. Under a Master Declaration of Trust, as supplemented by each Supplemental Declaration of Trust, the Issuer issues *Sukuk* to *Sukuk* holders and receives the *Sukuk* proceeds.
2. Where applicable, the Issuer, as Purchaser, applies a portion of the *Sukuk* proceeds to purchase assets (property assets, *Shari'ah*-compliant shares, electricity receivables or a combination thereof) from TNB, as Seller.
3. Where applicable, the Issuer, as Grantee, applies a portion of the *Sukuk* proceeds in consideration of accepting the transfer by way of grant, the rights to services from TNB, as Grantor.
4. Where applicable, the Issuer, as Sub-Grantor, transfers by way of sub-grant the Rights to Services to TNB, as Sub-Grantee, for the Sub-Grant Fee.
5. Where applicable, the Issuer, as Lessor, leases the Lease Assets to TNB, as Lessee, for the Rental.
6. Where applicable, the Issuer applies a portion of the *Sukuk* proceeds to purchase *Shari'ah*-compliant commodities from a Commodity Supplier and then sells the commodities to TNB, as Buyer, pursuant to a Commodity *Murabahah* Investment in consideration for a deferred sale price. The Buyer will then sell the commodities either directly or through an agent to a Commodity Buyer.
7. On the issue date, the value of the tangible assets constituting the *Wakalah* Portfolio shall be equal to at least 51% of the *Sukuk* proceeds. Following the issue date and at all times thereafter, the value of the tangible assets constituting the *Wakalah* Portfolio shall be equal to no less than 33% of the value of the *Wakalah* venture.

8. The Issuer appoints TNB as *Wakeel* to provide the *Wakalah* Services, which include services related to the *Wakalah* Portfolio, Shares, Property Assets, and the Commodity *Murabahah* Investment.
9. On the Scheduled Dissolution Date or in certain specified circumstances, TNB, as Obligor, undertakes to purchase the *Wakalah* Portfolio at the Exercise Price.

For the first issuance, 100% rights to services were used as the underlying asset. "Rights to Services" means the right to participate in the supply of electricity in Malaysia, the right to operate and maintain certain installations in connection with the supply of electricity in Malaysia; and the right to receive all revenues, distributions and other monies at any time payable in respect of the services.

## PRINCIPAL TRANSACTION DOCUMENTS

1. Master Declaration of Trust;
2. Agency Agreement;
3. Master Asset Sale and Purchase Agreement;
4. Master Grant of Rights to Services Agreement;
5. Master Sub-Grant of Rights to Services Agreement;
6. Master Lease Agreement;
7. *Wakalah* Agreement;
8. Purchase Undertaking;
9. Sale Undertaking;
10. Substitution Undertaking; and
11. Master *Murabahah* Agreement.



**DISTRIBUTION BY GEOGRAPHY**

<b>Asia</b>	77%
<b>Europe</b>	14%
<b>Middle East</b>	9%

**DISTRIBUTION BY INVESTOR TYPE**

<b>Fund managers</b>	46%
<b>Insurance/Pension funds</b>	26%
<b>Banks</b>	22%
<b>Sovereign wealth funds</b>	4%
<b>Private banking</b>	2%

**CONCLUSION**

The *Sukuk* attracted overwhelming interest from a diverse group of Islamic as well as conventional investors, comprising asset management companies, financial institutions, insurance companies and sovereign wealth funds. The strong participation from a wide base of investors for the *Sukuk* showcased the confidence of global investors in TNB's strong credit fundamentals and the scarcity value of issuances by TNB.

Notable features of this transaction were the following:

- The issuance was the largest and lowest priced Asian corporate USD *Sukuk* in 2016 at the time of issuance.
- The transaction is the first ever *Sukuk* in Asia to use rights to services as 100% underlying asset for the *Sukuk*.

The *Sukuk* furthers the steady evolution of the *Sukuk* market as a whole, with new classes of tangible assets continuing to emerge and providing issuers with a number of options beyond the traditional typical *Ijarah* assets.

# ETHOS

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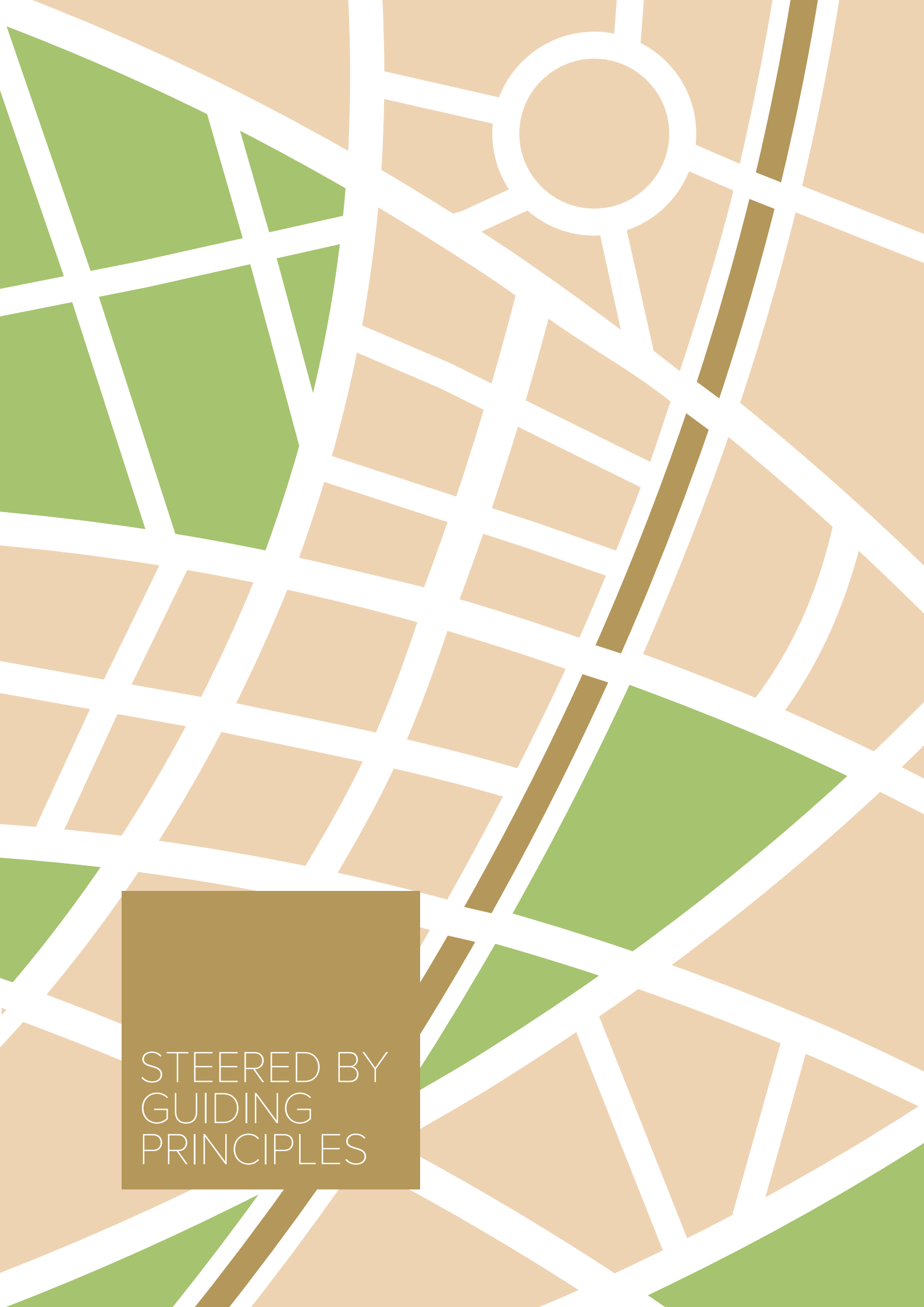
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CHAPTER  
**FOUR**

The background features a complex, abstract geometric pattern. It consists of various irregular shapes in shades of green and tan, separated by thick white lines. A prominent white circle is located in the upper right quadrant. A dark brown rectangular box is positioned in the lower left, containing the text.

STEERED BY  
GUIDING  
PRINCIPLES

# ARTICLE CONTRIBUTIONS

## 4.1 GCC SUKUK – A TRADER’S PERSPECTIVE OF 2016

BY IBRAHIM BITAR, HEAD OF TRADING, NOOR BANK

The GCC *Sukuk* market opened 2016 in a risk-off mode induced by global growth fears and by a dramatic 76% drop in oil prices over the previous year and a half. Oil prices had dropped to levels not seen since 2003. GCC economies that are largely dependent on the income from energy sales went from enjoying balanced fiscal budgets to having to find ways to fund large deficits. With the growing debt to GDP ratios, rising from 40% in 2014 up to 80% in Bahrain for example, and increasing fiscal deficits, the rating agencies downgraded several GCC countries. Standard and Poor’s downgraded Bahrain three notches to BB-, Oman two notches to BBB- and Saudi Arabia two notches to A-.

GCC sovereigns, with their large reserve positions, have demonstrated the ability to manage the crisis so far. They have shown the willingness to take hard measures, tackling issues once considered taboo, in order to adjust their economies to the reality of living with lower oil prices. During the year GCC Governments sold foreign assets, cut subsidies, availed funds from local, regional and international banks and accessed global debt capital markets to reach the deep foreign institutional investor base.

Oil prices, after bottoming near USD 26 a barrel in February, rebounded to mid-USD 50 a barrel providing some relief and establishing a level of confidence in the GCC credit markets. In December, oil producers agreed on production cuts and it appeared that, barring a world recession, oil prices had stabilized.

2016 turned out a lot better than most had feared for the GCC credit markets. As a broad measure of improvement, the Saudi 5-year CDS tightened 27% versus the JPMorgan Emerging Market Bond Index (EMBI) that tightened just 18%. Most *Sukuk* tightened on average 50 bps versus dollar swap rates as the year progressed.

The rates fluctuations had a significant impact on *Sukuk* performance. Rates dropped to new lows in the first half of the year with the 10-year swap rate reaching 1.25% in July after Brexit. That turned out to be the bottom as rates kept rising, along with inflation expectations, as global growth accelerated and the new Trump US administration advocated aggressive pro-growth reflationary policies.

Debt Capital Markets remained opened for regional issuers and proved to be a good source of funding to address fiscal deficits, despite the structural concerns surrounding lower oil prices. GCC hard currency debt issuance rose to a record USD 56 billion in 2016 up from USD 18 billion the previous year. Saudi Arabia dominated proceedings with a USD 17.5 billion record-breaking jumbo issuance with USD 67 billion in bids.

However, GCC *Sukuk* issuance lagged that of conventional bonds in 2016, representing just 18% of the overall GCC bonds issued. This is understandable as conventional borrowing is faster and issuers needed to get to market quickly, ahead of competing supply and before any potential further deterioration of conditions. *Shari’ah* compliant issuance is more difficult to structure and care needs to be taken into consideration to ensure maximum acceptance by existing and new investors. We are expecting that this will rebalance in the future as issuers want to tap the large demand

for *Shari'ah* compliant investments. The key to this growth will be the keenly awaited *Sukuk* issue by Saudi Arabia, expected in the first half of 2017.

Within the GCC, high yield *Sukuk* were the best performers in 2016. Damac 2019 *Sukuk* was the best performer tightening and amazing 340 bps over the year. It was closely followed Dar Al Arkan 200 bps tighter and Pakistan 2019 185 bps tighter. Investment grade names underperformed ranging between 30 bps wider and 45 bps tighter. The worst performer was the Qatar 2018 that widened 30 bps. The best performers in the IG space were Saudi Electric *Sukuk* and Dubai Sovereign *Sukuk* that tightened 40 bps.

Hard currency *Sukuk* new issues included existing issuers and first time issuers. The first time issuers were: Boubyan Bank (USD 250 million Tier 1 Perpetual), Ahli United Bank of Kuwait (USD 200 million Tier 1 Perpetual), Islamic Corporation for the Development of the Private Sector (USD 300 million 2021), Ezdan (USD 500 million 2021), Unity (USD 1.5 billion 2021), and Khadrawy Limited (USD 913 million 2025 Amortiser with a 2021 average life). The latter Khadrawy *Sukuk* is to fund Emirates airlines airplane orders with a guarantee from the United Kingdom Government's Export Credits Guarantee Department.

Among the existing issuers, there were USD 7 billion Sovereign issues with only USD 1.5 billion from the GCC: Bahrain (USD 1 billion 2024), *Sharjah* Sovereign (USD 500 million 2021), Indonesia (USD 750 million 2021 and USD 1.75 billion 2026), Pakistan (USD 1 billion 2021), Malaysia (USD 1 billion 2026 and USD 500 million 2046), and Turkey (USD 1 billion 2021). On the supranational side, Islamic Development Bank issued two 2021 *Sukuk* totaling USD 2.75 billion. From financial issuers there was USD 3.35 billion in issues: Dubai Islamic Bank (USD 500 million 2021), Emirates Islamic Bank (USD 1 billion 2021), Noor Bank Tier 1 (USD 500 million Perpetual), *Sharjah* Islamic Bank (USD 500 million 2021), Kuveyt Turk (USD 500 million 2021 and USD 350 million 2026 NC5 Tier 2). On the corporate side there was approximately USD 2 billion in issues: DP World (USD 1.2 billion 2023), and Emaar (USD 750 million 2026).

A significant milestone took place when JP Morgan included *Sukuk* in their Emerging Markets Bond Index, Corporate EMBI, Government Bond Index – Emerging Markets, and Asia Credit Indices starting in October 2016. The inclusion added liquidity to the *Sukuk* market and reduced the yield premium at which non-GCC *Sukuk* had been trading. The Indonesia *Sukuk*, for example, is now trading 15 to 20 bps wider than the Indonesian conventional bond, down from 35 to 40 bps. Similarly, Turkish *Sukuk* are trading about flat to the conventional down from 10 to 15 bps wider.

As we think about the future trading environment over the short to medium term, it is important to understand the significant impact that jumbo size issuances from the GCC are having on the secondary trading of GCC paper. Until recently, GCC credit had largely been an off-index investment for international asset managers. However GCC credit is now becoming an important part of the Emerging Market investment world as it grows as a proportion of overall Emerging Markets credit. Consequently, GCC credit's correlation with Emerging Markets, and with developed market rates, is likely to increase.

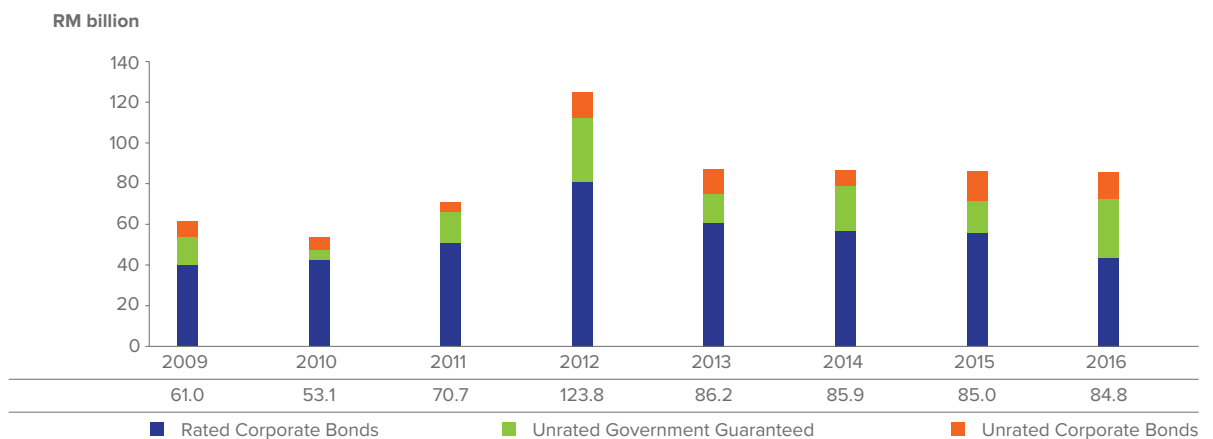
## 4.2 MALAYSIAN RATING CORPORATION BERHAD INSIGHTS ON SUKUK RATING IN MALAYSIA

BY SHARIDAN SALLEH, VICE PRESIDENT AND RAJAN PARAMESRAN, CHIEF RATING OFFICER MALAYSIAN RATING CORPORATION BERHAD (MARC)

Since ringgit-denominated corporate *Sukuk* were first issued circa 2001, MARC has remained at the forefront of rating *Sukuk*, playing a key role in the development of a robust Islamic capital market in Malaysia. By providing credit assessment on *Sukuk*, MARC helps to shore up investor confidence in the acceptance of a wide range of *Sukuk* structures. From rating the first global corporate USD dollar *Sukuk* issued by a special purpose vehicle owned by Kumpulan Guthrie Berhad in 2001, MARC has undertaken rating for many types of *Sukuk* issuances including the largest *Sukuk* issuance of RM23.35 billion *Sukuk Musharakah* Programme by Projek Lebuhraya Usahasama Berhad in 2012.

*Sukuk* issuances in Malaysia have continued to grow, cementing Malaysia's position as the largest *Sukuk* market in the world. As at 31 December 2016, MARC has assigned a total of 683 issue ratings with a total rated value of RM491.0 billion, of which RM329.0 billion or 66% are *Sukuk*. Recognising MARC's role in rating *Sukuk*, the rating agency was named Best Islamic Rating Agency 2016 in the Global Islamic Finance Awards (GIFA) in September 2016.

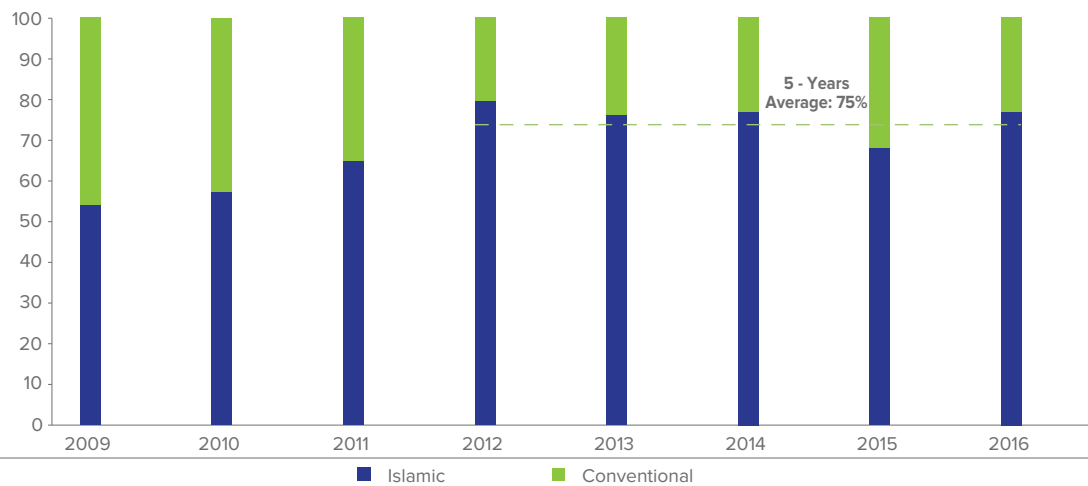
### EXHIBIT 1: MALAYSIAN CORPORATE BOND ISSUANCE (RM BILLION)



Source: MARC, Bond Pricing Agency Malaysia Bhd

Despite the challenging business environment in recent years, corporate bond issuances have been steady, averaging at RM85 billion per annum between 2013 and 2016 as shown in Exhibit 1 (2012 was an exceptional year due to a large corporate issuance). However, of significance is the increased proportion of *Sukuk* over conventional bond issuances in the domestic market. As evident in Exhibit 2, the proportion of *Sukuk* has steadily increased, accounting for an average of 75% of all ringgit-denominated corporate issuances in Malaysian over the last five years.

#### EXHIBIT 2: MALAYSIAN CORPORATE BOND ISSUANCE BY PRINCIPLE (%)



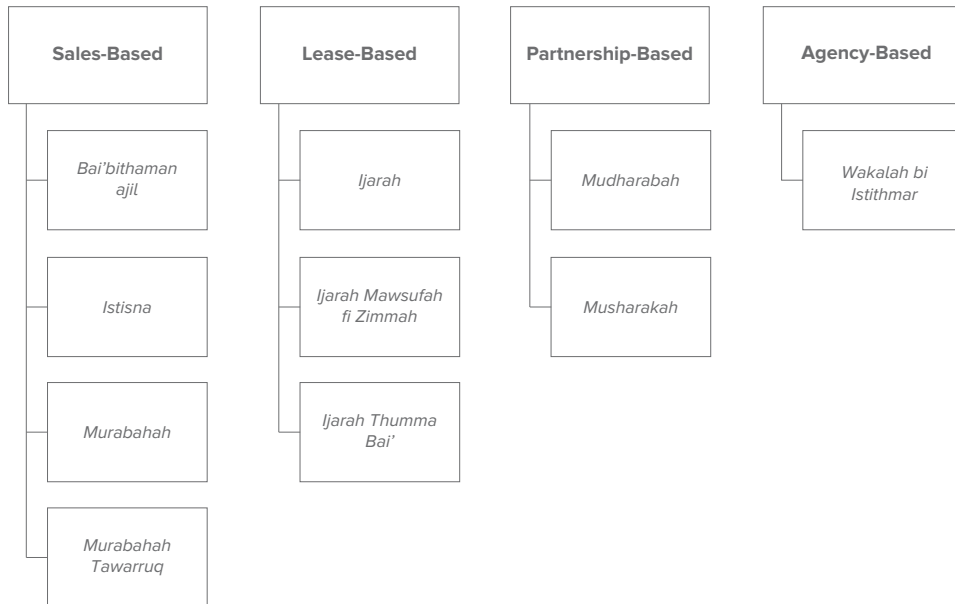
Source: MARC, Bond Pricing Agency Malaysia Bhd

#### COMMON *SUKUK* STRUCTURES ISSUED IN MALAYSIA

The *Shari'ah* Advisory Council has endorsed domestic *Sukuk* structures that are classified as sale-based, lease-based, partnership-based or agency-based.



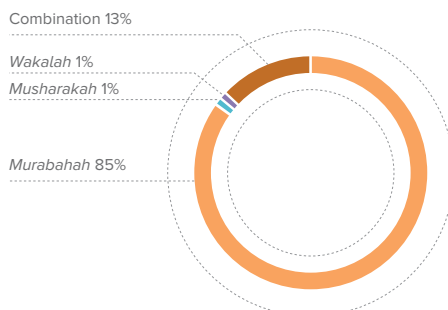
**EXHIBIT 3: CLASSIFICATION OF APPROVED DOMESTIC SUKUK STRUCTURES BASED ON UNDERLYING CONTRACT**



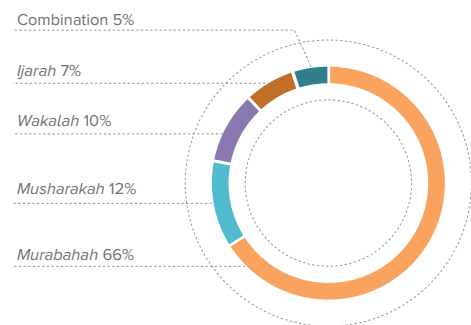
Source: Dusuki, A.W. and Mokhtar, S. (2010)

Malaysia's Sukuk universe comprises a variety of structures based on leases, investment, agency and combinations of Shari'ah contracts. The Murabahah, Musharakah and Ijarah Sukuk structures are commonly used although Murabahah Sukuk structure (including Sukuk commodity Murabahah based on Tawarruq) dominate corporate Sukuk approvals. Of late, Sukuk Wakalah have gained traction due to its advantage of not having to rely heavily on the existence of underlying physical assets.

**EXHIBIT 4A: BREAKDOWN OF CORPORATE SUKUK APPROVED/LODGED IN 1H2016**



**EXHIBIT 4B: BREAKDOWN OF CORPORATE SUKUK APPROVED/LODGED IN 2015**



Source: MARC and Securities Commission Malaysia

### REGULATORY FRAMEWORK SUPPORTIVE OF DOMESTIC SUKUK ISSUANCE GROWTH

The Malaysian regulatory regime, through Securities Commission Malaysia, has kept pace with the growth of *Sukuk* structures, incorporating relevant changes to bolster confidence in Islamic instruments. The regulator ensures every *Sukuk* issued is fully *Shari'ah* compliant and facilitates a relatively high level of standardization in *Sukuk* structures. Under a two-tier *Shari'ah* governance framework – *Shari'ah* Advisory Council (SAC) at the national level and registered *Shari'ah* advisers at the industry level - *Sukuk* are structured using *Shari'ah* rulings, principles and concepts endorsed by the council. *Shari'ah* advisers provide advice on all aspects of Islamic securities, ensuring compliance with applicable *Shari'ah* principles.

Malaysian regulators have remained proactive. For instance, while certain jurisdictions on asset-backed *Sukuk* have expressed concerns on legal status of beneficial owners, the SAC has resolved this issue with both legal and beneficial ownership recognised from a *Shari'ah* perspective provided that all rights and liabilities attached to the underlying assets are attained by the beneficial owner.

The Securities Commission also launched the lodge and launch framework in 2015 to allow *Sukuk* as well as other financial products to be launched once the required information is lodged with the agency via its online submission system. The framework enhances the approval process and at the same time facilitates a more informed investment decision-making process through greater emphasis on disclosure of relevant information.

Among its other measures, the Securities Commission has removed the mandatory rating requirement on *Sukuk* and bonds with effect from January 1, 2017 to further liberalise the domestic capital market. Nonetheless, given that credit rating is an essential component of *Sukuk* market and that MARC's track record and its monitoring capabilities to provide timely insights on credit suggest that its services will continue to be sought after by issuers and investors alike.

### MARC'S SUKUK RATING APPROACH UNDERPINNED BY CREDIT RISK DRIVERS

In assessing the credit strength of the *Sukuk*, MARC focuses on the economic substance and credit risk drivers of the *Sukuk*.

- **Analysis of the basic structure of the *Sukuk*:** MARC considers the structure of the *Sukuk* to ascertain the rating methodology to be used. The assigned rating will reflect the performance of the securitised assets, structural features of the transaction and credit enhancement if applicable.
- **Assessment of key transaction parties:** MARC considers the roles of key participants in the transaction: originator/borrower, lessee(s) or obligor(s), guarantor(s), contractor, servicer/back-up servicer as well as the credit quality of each participant and ability to perform their roles, and the corresponding implications of such for the risk profile of the *Sukuk*.
- **Asset and cash flow analysis:** The most important driver of the rating assigned to 'asset-backed' and non-recourse or limited recourse project finance *Sukuk*. The valuation of the asset(s) forms an important part of MARC's review where redemption of *Sukuk* is to be partially or wholly derived from refinancing or disposing the asset(s) to third parties.
- **Assessment of credit enhancement and structural protections:** MARC assesses the internal credit enhancements such as reserve accounts, payment waterfalls and collateral value in addition to external credit support which may be provided by the originator/borrower or third party guarantor(s).
- **Legal analysis:** The perfection of legal interest in the underlying assets and the insulation of the assets from insolvency or reorganisation of the originator/seller are important not only in the context of any securitisation but also from the perspective of any secured financing.

### SOME SUKUK STRUCTURES RATED BY MARC

The six most common *Sukuk* structures employed in domestic corporate, structured and project finance transactions and summary explanations of the steps taken for the rating:

#### 1. IJARAH SUKUK STRUCTURE

TSH *Sukuk Ijarah* Sdn Bhd's RM100 Million *Sukuk Ijarah* Commercial Paper (ICP) Programme and RM300 Million *Sukuk Ijarah* Medium-Term Notes Programme (2008). Initial short- and long-term ratings of MARC-1IS/Stable and AA-IS/Stable ratings.

The *Ijarah Sukuk* structure provided for the originator, TSH Resources Berhad (TSH), to sell and lease back identified assets to/from the seller/originator. The issuer leased the identified assets to its parent TSH for fixed *Ijarah* payments determined prior to the issuance of the *Sukuk* ICP and *Sukuk* MTN. TSH provided a purchase undertaking to acquire the identified assets at the exercise price upon maturity and/or occurrence of event of default. *Sukuk* holders ultimately rely on TSH's corporate credit quality rather than the *Sukuk* structure. Accordingly, MARC considered the default risk of the *Sukuk* to be linked to the credit strength of originator TSH and rated the *Sukuk* at the same level as TSH's senior unsecured debt obligations.

#### 2. MURABAHAH SUKUK STRUCTURE

TTM *Sukuk* Berhad's RM600 Million *Sukuk Murabahah* (2010). Initial rating of AAAs/Stable.

TTM SPV was appointed as the purchase agent for the *Sukuk* holders to purchase and sell *Shari'ah*-compliant commodities. Trans Thai-Malaysia (Thailand) Ltd (TTMT) is the owner and operator of the second phase of the Trans Thailand Malaysia (TTM) gas pipeline and separation project. The source of repayment for the *Sukuk* is from TTMT's repayment of the intercompany loan which had been structured to match the maturity profile of the *Sukuk*. A linkage to TTMT was established through cross-acceleration and cross-default provisions between the *Sukuk* and the syndicated bank loan taken to finance the first phase of the gas pipeline and separation project. The

final *Sukuk* rating incorporated rating uplift from the project's standalone credit profile based on liquidity support likely to receive from national oil company PETRONAS, which has a 50% equity stake in TTMT.

#### 3. ISTISNA'A SUKUK STRUCTURE

Konsortium Lebuh raya Utara-Timur (KL) Sdn Bhd's RM780 million Redeemable Secured Serial *Sukuk Istisna'a* (2005). Initial rating of A+IS/Stable.

The proceeds were used to fund the construction of a greenfield urban toll road, the Duta Ulu Klang Expressway (DUKE). The issuer, Konsortium Lebuh raya Utara-Timur (KL) Sdn Bhd (Kesturi), was a single purpose private limited company awarded toll-road concession on DUKE. The *Sukuk* was structured as a parallel *Istisna'a*.

#### 4. WAKALAH SUKUK STRUCTURE

Tanjung Bin O&M Berhad's RM470 million *Sukuk Wakalah* (2013). Initial rating of AA-IS/Stable.

The issuer Tanjung Bin O&M Berhad assumed the roles of *Wakil* and obligor. The *Sukuk* proceeds were primarily utilised to part-finance the acquisition of a power plant operation and maintenance (O&M) business under a long-dated operation and maintenance agreement (OMA). The economic substance of the transaction, in MARC's view, is akin to a monetisation of the OMA which was novated to the issuer/*Wakil* pursuant to the acquisition. MARC's *Sukuk* analysis focused on the credit strength of O&M contract counterparty and parent/O&M sub-contract counterparty.

#### 5. MUDARABAH SUKUK STRUCTURE

Weststar Capital Sdn Bhd's RM900 million *Sukuk Mudarabah* Programme (2012). Initial rating of AAIs/Stable.

An issuing vehicle fully owned by Weststar Aviation Services Sdn. Bhd (Weststar), Weststar Capital assumed the role of issuer, *Mudariib* and obligor under the *Mudarabah* transaction. The *Sukuk* were secured by a deed of assignment of Weststar's rights to revenue

and income to be received under five 10-year service contracts with five oil majors, a third party first legal charge over 11 AgustaWestland helicopters. The rating was based primarily on the credit quality of the payment flows generated by the five service contracts and the favourable position of the *Sukuk* in payment waterfall.

#### **6. MUSHARAKAH SUKUK STRUCTURE**

Projek Lebuhraya Usahasama (PLUS) Berhad's RM23.35 billion *Sukuk Musharakah* Programme (2011). Initial rating of AAAIS /Stable.

Under the *Sukuk* programme, investors of each tranche form a *Musharakah* venture as part of the financing arrangement. The *Sukuk* issued by PLUS Berhad will be repaid with future operating cash flows from the acquired portfolio of tolled expressways, the concessions of which will be novated to the issuer. The final rating incorporated a two-notch support uplift from PLUS Berhad's standalone credit assessment on the basis of the government's ownership level in the entity, as well as the guarantee by the government for the unsecured *Sukuk* to be issued by the company.

### 4.3 POTENTIAL SOLAR SUKUK: A CATALYST TO BROADEN EQUITY CAPITAL IN ENERGY SECTOR

BY DR. HATIM EL-TAHIR, DIRECTOR - ISLAMIC FINANCE KNOWLEDGE CENTRE (IFKC), DELOITTE

#### SUSTAINABILITY DRIVES INNOVATION

The global energy landscape will experience a major transformation, with renewables and natural gas being the big winners in the race to meet energy demand growth until 2040, according to the latest edition of the World Energy Outlook, the International Energy Agency's (IEA) flagship publication. The latter also reported that a cumulative USD44 trillion in investment is needed in global energy supply, 60% of which goes to oil, gas, and coal extraction and supply, and nearly 20% to renewable energies. An extra USD23 trillion is required for improvements in energy efficiency. Evidently, solar farms make a significant part of this new emerging industry, as shown in the below chart.

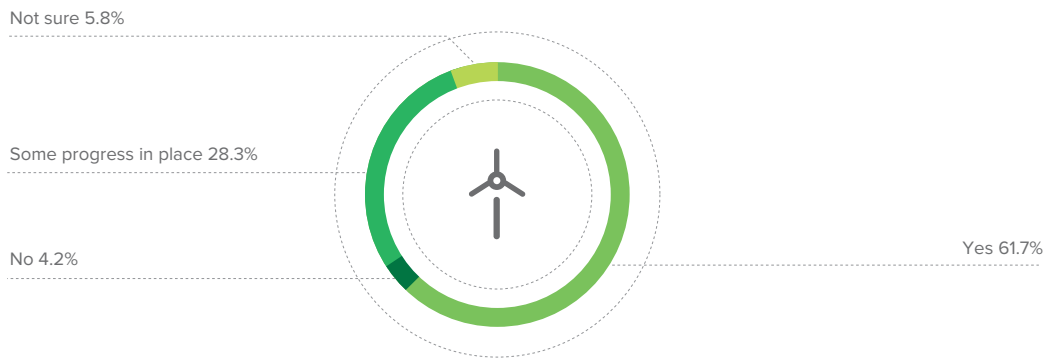
Governments, businesses and civil societies – around the world - have increasingly been interested in adapting their investment policies and practices to the United Nation-led initiatives centered on three interlinked themes: sustainability, climate change and social and responsible investment principles. Precisely, the UN's Sustainable Development Goals (SDGs), the UN principles for responsible investment (PRIs), the world's leading proponent of responsible investment, and the Environmental, Social and Governance (ESG) guidelines, all of which promote investment with social values impeded on them to achieve sustainable development and make an impact in our lives and planet.

#### CORPORATES AND GOVERNMENTS COMMITMENT

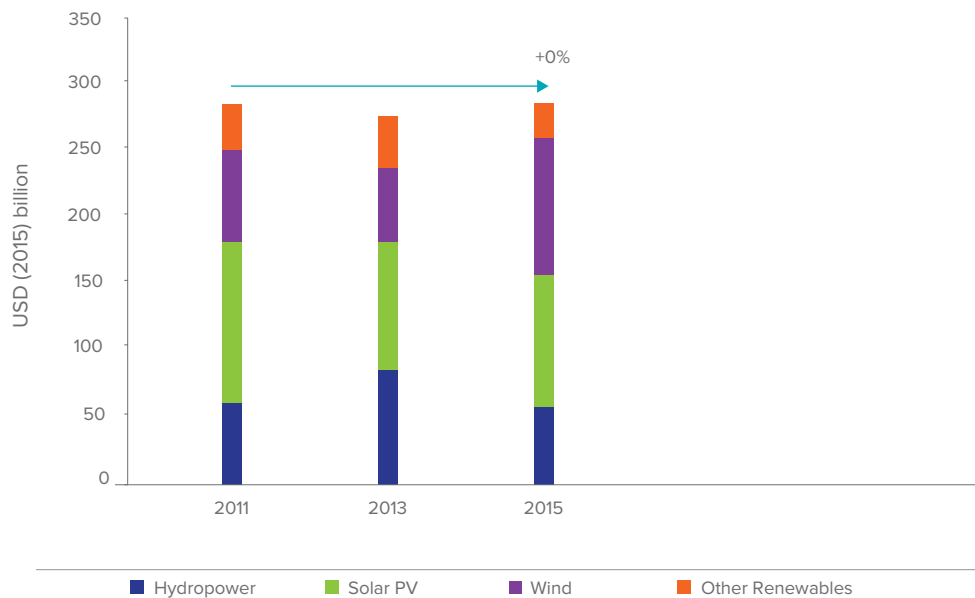
Taking the above concepts to mainstream investment environment, corporates and governments have made a tremendous commitment to renewable energy and set targets and strategies to support sustainability goals. In particular, the UAE has established ambitious energy efficiency programs supported by the presence of the International Renewable Energy Agency (IRENA), working out of Abu Dhabi and supported by Abu Dhabi Fund for Development (ADFD). The presence of IRENA and other Multilateral Development Banks (MDBs) in the Middle East will undoubtedly boost awareness required of the solar energy and create real opportunities for the private sector, financial institutions, as well as energy manufacturers, operators and distributors.

In a recent energy report published by Deloitte, 61.7% of the participants agree on the availability of a defined renewable energy strategy in their market, and another 28.3% believe there is some progress in place.

Is there a defined renewable energy strategy / initiative in your market / jurisdiction?



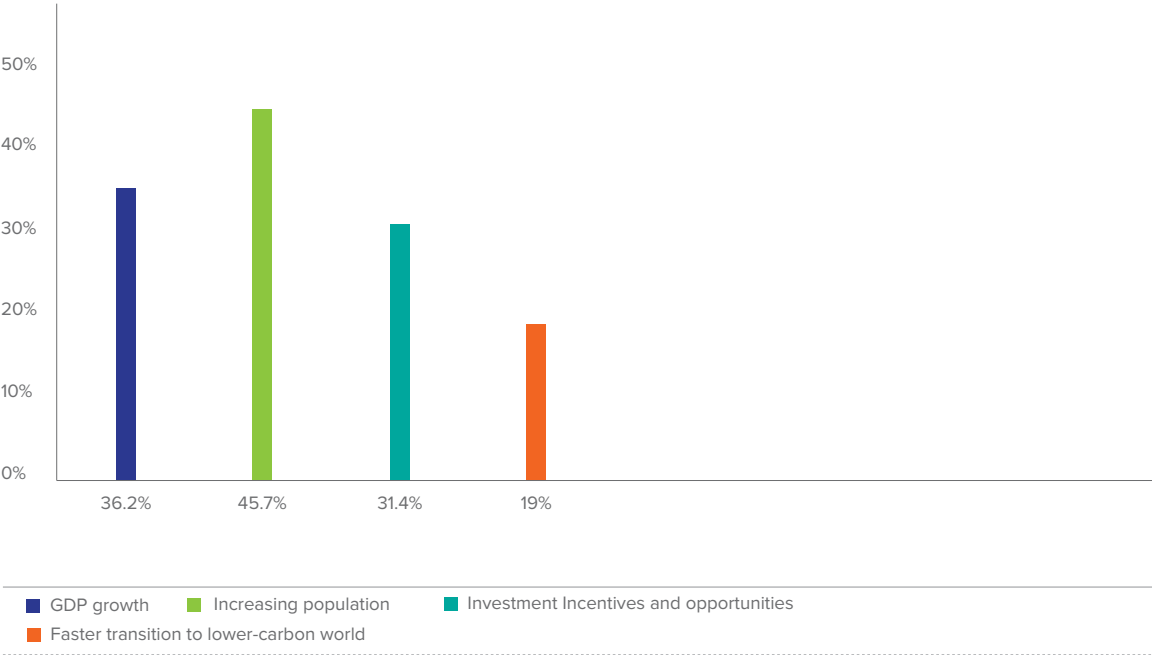
Global Renewable Power Investment



**SOARING DEMAND FOR ENERGY**

Economic growth, increasing population and high energy demand in the region have created a need for more power projects, as seen in Deloitte’s report. 45.2% agree that the main driver of energy in the market is the increase in population. Thus, there is a global trend for exploitation of alternative energy sources, especially in light of the current decline in cost of renewable energy.

**What are the main drivers of energy demand in your market?**



Moreover, the energy sector remains attractive to foreign and local investors, owing to the favorable global business environment and proactive sustainable and environment regulatory changes.

However, the financing decisions of corporates have also been affected by the rising need for funding infrastructure projects in Europe, the US, Asia, Africa and the Middle East. This is evident in the growth of the green bond market in many parts of the world.

**BROADENING CAPITAL THROUGH ISLAMIC FINANCE**

No doubt, Islamic project finance is increasingly playing a crucial role in financing infrastructure projects in the Middle East and elsewhere in the world. Needless to say, this niche industry creates numerous opportunities for both governments and private sector corporates to diversify their sources of capital and project financing needs.

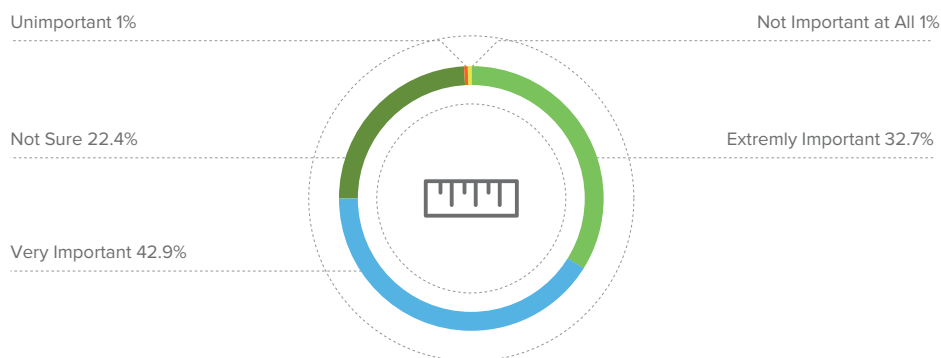
In recent years, with alternative energy such as solar taking a lead, project financing through *Sukuk* will undoubtedly be a focus of market institutions and issuers, in the core markets, supported by international multilateral development banks (MDBs), to raise capital for the numerous solar projects in the Middle East and Asia in particular.

This view was supported by a recent Deloitte energy survey (2016). Broadly, energy and investment practitioners advocate the proposition to have Islamic finance as a new way of broadening capital equity, as indicated in the below chart, three-quarters (75.6%) of respondents believe that there is a need for broadening equity capital in energy and renewable energy investment through Islamic Finance.

Whilst this is the interest of industry practitioners, the pace of change cannot be easily observed without considerable legislation and investment regulatory reforms in markets where debt and capital regulation are still in its nascent stages. Renewable energy regulation is far from reaching maturing levels achieved in Europe and the US. As such, energy regulators, capital market authorities and Islamic finance standard-setters will need to proactively design and promote new innovative *Shari'ah*-compliant investment structures and provide technical and business support services to nurture this potentially big industry.

However, as demonstrated above, the current pattern's emphasis on solar as an alternative energy source and the strategic initiatives, currently taking place in Abu Dhabi's landmark Masdar and Sheikh Mohamed

**How important is the need broaden equity capital in energy investment through Islamic Finance?**





Bin Rashid Al Maktoum Solar Park in Dubai and similar ambitious projects in KSA, Morocco, Jordan and Egypt, will certainly create a worthwhile opportunity for Islamic financiers and investors to tap on.

#### THE CASE FOR SOLAR SUKUK

Generally, structuring a *Shari'ah* compliant financing instrument and the use of Islamic finance models, in infrastructure projects, such as *Ijarah*, *Mudaraba* or *Wakalah* investment, depend largely on the economic conditions, regulation and the type of assets and services required in a particular project.

What is certain is structuring a successful solar farm project often requires considering a number of economic factors. Adopting *Sukuk* structures which worked well in financing infrastructure in many parts around the world such as Malaysia, Turkey, KSA and UAE help our understanding of what structures will be suitable to solar projects.

This section highlights the key parties and considerations to structure finance of a prospective solar farm. For the purpose of illustration, we designed and proposed a 'scenario-based' solar farm to generate 100 MW to supply electricity for 10,000 residential homes.

The diagram below charts the main parties involved and the *Sukuk* structure to raise the required capital.

The two-phase project; procurement (construction) phase and operation phase, will require a two-tier transition to manage business and market risks, achieve *Shari'ah*

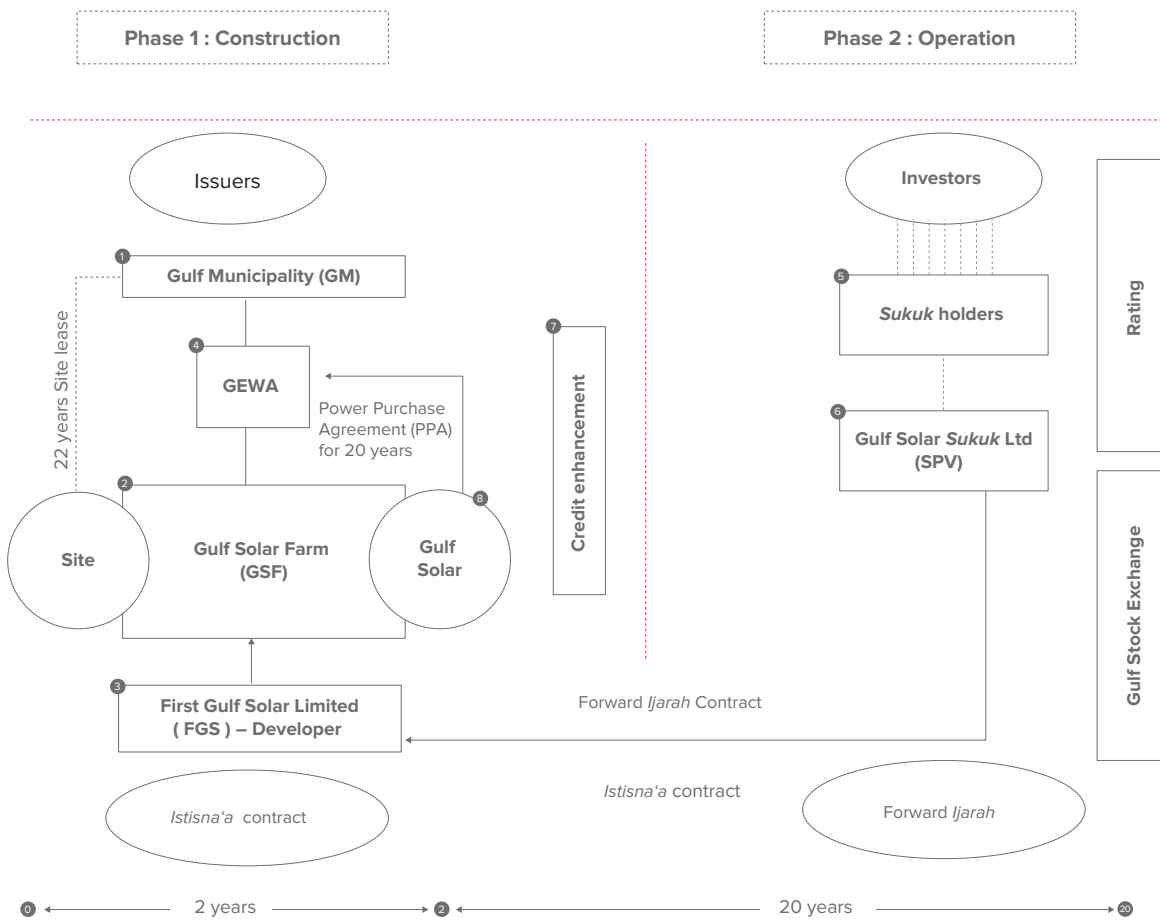
and attract interest from investors. More precisely, a combination of a 'forward *Ijarah* with *Istisna'a* contract' *Sukuk*, where the latter contract is required to finance the project asset (Gulf Solar Farm).

#### OUR INSIGHTS

Depending on the market and regulatory environment where the solar project is built, a number of investment incentives and benefits could be attained from the use of the *Sukuk*. Here are a few points worth considering when structuring a solar *Sukuk*.

- The main *Shari'ah* objective of isolating two-phase project discussed below i.e construction and operation is achieved through a combination of two key Islamic finance contracts: *Istisna'a* and forward *Ijarah*.
- To ensure cash flows and liquidity at the construction phase, it may be good idea to have some form of credit enhancement and guarantees.
- To ensure a reasonable liquidity of the solar *Sukuk*, it is advisable to have the *Sukuk* rated and listed in an exchange. This will enable investors to dispose of the *Sukuk* according to their investments choices.
- To make the solar *Sukuk* more attractive to institutional investors, issuers may wish to consider offering future equity component, hence structure the *Sukuk* with a feature of 'convertible *Sukuk*', allowing equity investment to *Sukuk*-holders, at a future date of the tenure or the project period.

**Gulf Solar Sukuk -USD 100 million -22 years -100 MW – Project Structure**



**Legend**

1. Asset originator (GM)
2. The project asset (GSF)
3. Developer (FGS LTD)
4. Electricity distributor – off taker (GEWA)
5. Financers (Sukuk-holders)
6. Special Purpose Vehicle (SPV)
7. Credit Enhancement Institution
8. Service manager (Gulf Solar)

**Project Overview**

- Gulf Municipality (GM)-project originator is seeking finance to build a 100 MW solar plant (Gulf Solar Farm).
- GM aims to procure an Independent Power Project (IPP) to build the project asset in one of its suitable sites.
- GM will purchase the (Renewable Energy Certificates (RECs), through its affiliate; Gulf Electricity & Water Authority (GEWA).
- GEWA will enter with Gulf Solar (service manager) into a Power Purchase Agreement (PPA).

**Transaction Highlights**

- Construction Phase:**
- A special purpose vehicle (SPV) will be set up to act as trustee of Sukuk holders also known as investors.
  - Gulf Solar Sukuk (SPV) signs an Istisna'a contract with the project originator (GM), to construct the project asset (Gulf Solar Farm).
  - A tech-know how developer (First Gulf Solar LTD) will deliver the project asset.
  - Upon completion (two years), title and asset ownership pass to the Gulf Solar Sukuk (SPV).
- Operation Phase:**
- GM (the project originator) will also sign a Forward Ijarah with Gulf Solar Sukuk to lease the Solar Farm.
  - The completion of the solar plant, Gulf Solar Sukuk (SPV) leases the solar farm to project originator (GM)
  - Both parties are subject to a purchase undertaking where the project originator (GM) will repurchase the solar farm from the Gulf Solar Sukuk (SPV).

#### 4.4 SECURITIES AND COMMODITIES AUTHORITY (SCA)SUKUK REGULATION

BY DR. OBAID SAIF AL ZAABI, ACTING CEO, SECURITIES & COMMODITIES AUTHORITY

##### INTRODUCTION

This regulation conforms to the UAE's vision, particularly Dubai's ambitious strategy of becoming the global capital of Islamic Economy. The regulation aims to strengthen the UAE's role as a key financial hub and home of global Islamic economy and demonstrates SCA's commitment towards greater transparency and market efficiency as well as creating a positive and compelling story about new financial tools available in the UAE's financial markets.

The regulation was enacted following the issuance of the Dubai Financial Market's (DFM) 'Standard for Issuing, Acquiring, and Trading *Sukuk*'. The government of Dubai also announced a huge number of *Sukuk* in the region. These recent advances in *Sukuk* regulation are further proof that the *Sukuk* market is growing and that Dubai is positioning itself to become the capital of Islamic economy.

*Sukuk* regulation aims to follow best international practices and provides cutting edge market standards with the goal of modernizing the country's financial markets.

The regulation covers 28 articles and comprises several scopes of application, including:

- Issuance and listing rules.
- Conditions and documents required for requesting approval for issuance and primary listing.
- Conditions and documents required for requesting Approval for a dual listing.
- *Sukuk* issuance and listing applications' register.
- The listing, trading, clearance and settlement of *Sukuk*.
- The obligors' continuing obligations for a primary listing of *Sukuk*.
- Continuing obligations for retail *Sukuk*.
- Suspension and cancellation of listing and many other related issues.
- Penalties and fines.

##### RULES FOR ISSUANCE AND LISTING (CONCERNING APPLICANT)

The regulation demands that obligor must meet the following conditions:

- The obligor's constitutional documents should not contain any restrictions which prevent the applicant

from acting in his capacity in matters related to the issuance and listing of *Sukuk* as per the rules of the regulation.

- In the event of a primary listing for retail *Sukuk* the obligor must have been established in the UAE outside a financial free zone.

The regulation requires the obligor to ensure that all information given to SCA and the markets is accurate, correct and complete. Furthermore, the obligor is to ensure that no proceeds made from the issuance of the *Sukuk* is used for any other purpose that is not *Shari'ah* compliant.

##### RULES FOR ISSUANCE AND PRIMARY LISTING OF SUKUK

Applications for issuance and principal listing of *Sukuk* must meet the following conditions:

1. The *Sukuk* must be approved by the *Shari'ah* Committee of the applicant. If the applicant has no *Shari'ah* Committee then it must be approved by a

*Shari'ah* committee agreed upon by the arranger .

2. Unless otherwise specified by SCA, the nominal value of the *Sukuk* issuance to be listed must not be less than ten million United Arab Emirate Dirhams (AED10,000,000) or its equivalent in any foreign currency.

#### **RULES FOR SUKUK TRADING, CLEARANCE AND SETTLEMENT**

The regulation provides that:

1. Listed *Sukuk* may be traded, cleared and settled inside or outside the market but must be done in accordance with market procedures.
2. Any trading in principally listed *Sukuk* conducted outside the market must be recorded in a special record provided solely for that purpose by the market and this must be done within the period stipulated by the market.
3. Any trading in primary listed *Sukuk* conducted outside the market shall be null and void if not recorded according to Clause (2) of this Article.

#### **ADVANTAGES OF THE SCA SUKUK REGULATION**

- SCA *Sukuk* regulation, approved in 2014, structured *Sukuk* as an ownership tool and not a debt instrument thus showing SCA's intention of using as a mechanism for high-level *Shari'ah* compliant trading rather than merely a lending platform.
- The regulation reduces the minimum nominal value of issuance from Dh50 million to Dh10 million, which

underscores the government of Dubai's commitment in bolstering the economy through the use of *Sukuk*.

- The review and approval time-frames of applications for issuance and the listing of new issuers has been shortened to a five (5) day period..
- The regulation also provides that *Sukuk* must be approved by a *Shari'ah* committee prior to any listing to mitigate and manage risk thus creating more transparency in the market.
- The *Sukuk* may be traded on the market or over-the-counter (OTC).
- A trustee must be appointed to represent the interests of the *Sukuk* holders.
- The *Sukuk* legislation poses no additional obstacle or complication for UAE issuers wishing to access local market to raise funds.
- *Sukuk* issuers are no longer required to provide a quarterly report since they are now required to provide audited annual financial statements within 180 days of the year-end.
- The new regulation is consistent with and has been benchmarked on current global best practices in the *Sukuk* industry and has also been structured to dispense with unnecessary requirements that might have otherwise made the process time consuming, cumbersome and therefor unappealing to issuers.
- There is now no requirements for an issuer to obtain a credit rating.
- In the event that the *Sukuk* are convertible, then the prospectus must include details of the conversion.

## 4.5 SUKUK ISSUANCE IN AFRICA: A PROSPECT FOR FURTHER GROWTH

### BY ISLAMIC CORPORATION FOR PRIVATE SECTOR DEVELOPMENT (ICD)

#### OVERVIEW

Africa is on the brink of a major transformation. The continent possesses immense potential in becoming the new powerhouse of the world, underpinned by strong macroeconomic growth, a growing consumer base, strong retail markets and a young population.

With Africa's future growth story, especially seeing that the continent is home to a quarter of the world's Muslim population. As an alternative type of funding, Islamic finance and its inherent characteristics lend themselves well to facilitating and promoting sustainable further development in the continent.

In particular, *Sukuk* as an alternative means to mobilise medium to long-term savings and investments from a huge investor base, continues to be an important source of much-needed capital to meet the ever-increasing demand for sustainable infrastructure development across the globe. *Sukuk* has proven its viability and dynamism as a global product for fund-raising and investment activities in the international financial markets and this has been a key driver behind the interest in Islamic finance.

#### SUKUK ISSUED IN THE CONTINENT

Bridging Africa's infrastructure gap as a means of addressing the continent's numerous developmental challenges therefore, cannot be understated. Evidence have shown that when developing countries focus on upgrading their infrastructure, economies and people's lives will inherently transform for the better.

Ultimately, the burden of financing Africa's infrastructure projects can shift away from banks towards the *Sukuk* market. In this regard, the Islamic Corporation for the

Development of the Private Sector (ICD), the private sector arm of Islamic Development Bank (IDB), the largest *Sharia'ah* compliant multilateral development bank in the world, continues to play an instrumental role in establishing important milestones for the development of Islamic capital markets in Africa.

To date, Africa has witnessed a growing share of mostly sovereign *Sukuk* issuances. While states such as Sudan and Gambia have issued *Sukuk* in the past, it was in 2014 that Senegal debuted the region's largest *Sukuk* issuance (USD 208 million), with ICD acting as one of the lead arrangers. Following Senegal, South Africa became the third non-Muslim country after Hong Kong and the U.K to sell government debt that adheres to *Shari'ah* law by issuing a USD 500 million 5.75-year *Sukuk* in September 2014. Looking to emulate Senegal and South Africa's successful move into the *Sukuk* market, Cote d'Ivoire have since made inauguraldebut in 2015 of USD 260 million. ICD was involved as lead arranger in all of the sovereign issuances in Africa (except for South Africa's *Sukuk*).

## OVERVIEW OF SOME SELECTED SUKUK ISSUANCES IN THE CONTINENT

### 1. FCTC Senegal sovereign Sukuk the largest issuance in the continent

Item	FCTC Senegal Sovereign Sukuk
Type	Sovereign
Sector	Infrastructure/Education
Structure	<i>Ijarah</i>
Currency	XOF
Issue Amount	XOF100,000,000,000 (USD 208 million)
Tenure	48 months
Issue Date	23 June 2014
Purpose of Issuance	The proceeds will be used to finance projects of economic and social development to the State

In June 2016, Senegal launched its second *Sukuk* issuance, valued at USD 350 million. Accordingly, the funds raised will be used to finance Senegal's economic and social development projects, including the urban center of Diamniadio, a drinking water supply program, and a road and street lighting program.

### 2. Togo issuance

Togo issued its maiden *Sukuk* worth USD 277 million with a 10-year maturity with ICD's support. This makes Togo the third state in the West African Economic and Monetary Union (WAEMU) to issue a *Sukuk* after Senegal and Cote d'Ivoire.

### 3. Côte d'Ivoire issuance

Following its five-year *Sukuk* program with ICD, Cote d'Ivoire issued its second sovereign *Sukuk* valued at USD 263 million in August 2016.

It's worth noting to recall that The Regional Stock Exchange (BRVM) in the WAEMU admitted in its listing the first five *Sukuk* amounting USD 1.3 billion issued by Côte d'Ivoire, Senegal and Togo. This first listing reflects the commitment of the BRVM for the development of Islamic finance in the Regional Financial Market WAEMU. It will enhance the attractiveness and liquidity of its Islamic bonds, particularly for individual holders, while ensuring the success of future issuances by WAEMU States. This includes the continent's northern counterparts such as Tunisia, Egypt and Morocco.

## SUKUK ISSUANCES IN AFRICA 2016 - 2017 HOPE AND OPPORTUNITY

Indeed, the recent sovereign issues in Africa will not only serve as an impetus for other African governments to follow suit and diversify its financing instruments via *Sukuk*, but it will help the Islamic finance industry to mature and expand outside of the industry's core centers in the Middle East and Southeast Asia.

In encouraging news, it has been reported that several African countries are in the midst of preparing legislation to facilitate *Sukuk* issuances. In fact the BCEAO (The central Bank of 8 countries in the WAEMU zone) have already announce that they will implement Islamic finance regulations before the end of 2017, advanced works is ongoing now with Kenya, Uganda and Tanzania to facilitate Islamic finance in their respective financial market.

Moving forward, it is crucial for entrants of the newly minted sector in Africa to recognize the multi-dimensional challenges that will need to be confronted. Increasing awareness and the acute understanding of *Shari'ah* compliant products as well as employing a comprehensive marketing strategy is important to educate and engage new customers in order to increase penetration levels. In addition, creating an enabling environment for Islamic finance to thrive as well as implementing a nation-wide strategy to develop the sector and ensure its success should also be tailored to the specific characteristics of the country, including, in particular, the size of the economy and its conventional financial system. If appropriate measures are undertaken, Islamic finance in general including *Sukuk* issuances will be able to help in the solid foundation of sustainable and inclusive growth in Africa.

## 4.6 SUKUK LISTINGS AND BENCHMARKING

### BY TAHIR MAHMOOD, HEAD OF BUSINESS DEVELOPMENT, NASDAQ DUBAI

While the *Sukuk* sector has had a quiet year in terms of issuance, listings have continued to increase. New *Sukuk* listings rose 9% by total value in 2016 in the four main listing centres of Dubai, Dublin, London and Kuala Lumpur, reaching 28.5 billion USD dollars compared to 26.1 billion USD dollars in 2015. The rise was all the more notable because total issuance in 2016 was little changed from the year before. As a proportion of issuance, listings were also higher in 2016 than 2014, demonstrating a clear trend towards issuers opting for listed status on a well respected exchange.

Nasdaq Dubai was the leading market for listings in all three years, taking 40% of new listings on the four venues in 2016 at 11.5 billion USD dollars. Our issuers see numerous benefits from listing, including high visibility to investors regionally and globally, and the confidence that is generated in the marketplace by their decision to place their securities in a regulated environment. Another critical advantage that comes with listing is transparency. *Sukuk* issuers on Nasdaq Dubai are required to make various disclosures to the market that keep investors and potential investors informed about important developments relating to the issuing entity. These include interim and annual financial reports and accounts, changes in ownership of the issuer and changes in the Board such as appointments or resignations, as well as periodic distributions and other information about the issuer that may affect the market value of the securities. Moreover, all disclosures must be made in a timely manner, and announced through a recognized disclosure mechanism that has wide distribution such as Nasdaq Dubai's CANDI system. This includes displaying disclosures on financial information terminals such as Bloomberg and Thomson Reuters as well as on the exchange's website.

### EXPANDING INVESTOR BASE

All of these features are greatly appreciated by investors. In any asset class, transparency or lack of it can make the difference between an investor choosing a security or walking away from it, as well as impacting market value. Even though they are not traded on exchanges, *Sukuk* are no different. This is particularly important at a time when issuers are increasingly seeking investment from sources that are not traditional purchasers of Islamic financial products. DP World's 1.2 billion USD dollar *Sukuk* issued in 2016, for example, received strong investor demand from around

the world including the US and Europe, according to the company. Ahli United Bank also noted strong demand from Europe for its 200 million USD dollar *Sukuk*. Investors from such regions may be especially sensitive to the level of transparency provided regarding a *Sukuk* issuance, given their lack of familiarity with the asset class. The knowledge that a *Sukuk* is or will be listed may play a critical role in their decision-making. Investors from Muslim countries who are already familiar with *Sukuk* are also likely to appreciate the extra transparency.

Growing awareness of this investor sentiment largely explains the increasing trend amongst issuers towards listing their *Sukuk*, for all types of issuers and from all parts of the world where issuances take place. Nasdaq Dubai's 2016 listings comprised eight from the UAE, including in the transport, infrastructure, finance and

property sectors, and eight from overseas, including multilateral lenders, banks and the governments of Indonesia and Hong Kong.

### BENCHMARKING

As well as listing, investors look for transparency in the *Sukuk* market in other ways as well. Indices that track *Sukuk* performance by total return, price movement, yield and other measures play a critical role. The market has been well served by a number of *Sukuk* indices for several years, but gaps in coverage remained. In October 2016 Nasdaq Dubai launched a series of new benchmarks in conjunction with IdealRatings, consisting of a global *Sukuk* index, covering all currencies, and five sub-indices covering issuances in USD dollars only. These reflect issuances by distinct segments of

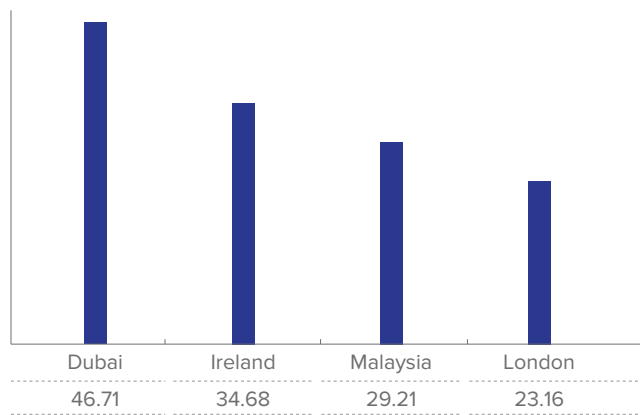
the market, which are: investment grade; sovereigns; corporates; financial institutions; and GCC issuances. Together they track a universe of more than 1,800 *Sukuk*, with eligibility criteria including a minimum issue size of 100 million USD dollars. The indices add a valuable new stream of information to investors’ existing trading tools to help them make more successful short and long term trading decisions.

entrants such as Morocco and Nigeria preparing to join the market as issuers, and traditional players gearing up for renewed activity, the *Sukuk* sector will continue to expand in both geographic reach and investor base. The need for transparency across the industry has never been stronger and Nasdaq Dubai will increase its activities to meet this demand.

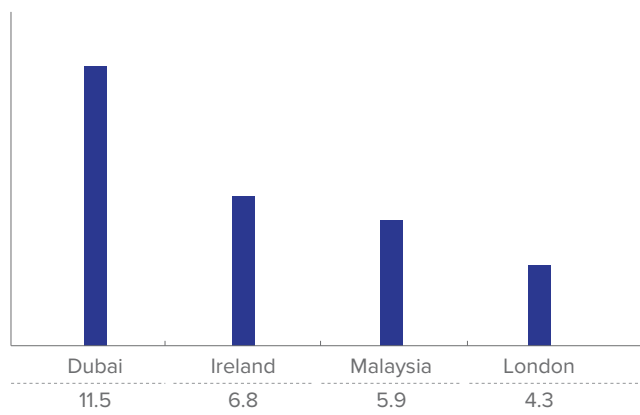
**OUTLOOK**

Early indications point to another active year for *Sukuk* listings in 2017. Dubai aims to increase its lead in listed value, currently standing at 46.7 billion USD dollars with Dublin next at 34.7 billion USD dollars. With new

**Sukuk listing centres by nominal value– Dec 2016 (USD billion)**



**New listings of Sukuk in 2016 (USD billion)**





#### 4.7 THE SUKUK MARKET FROM A EUROPEAN PERSPECTIVE

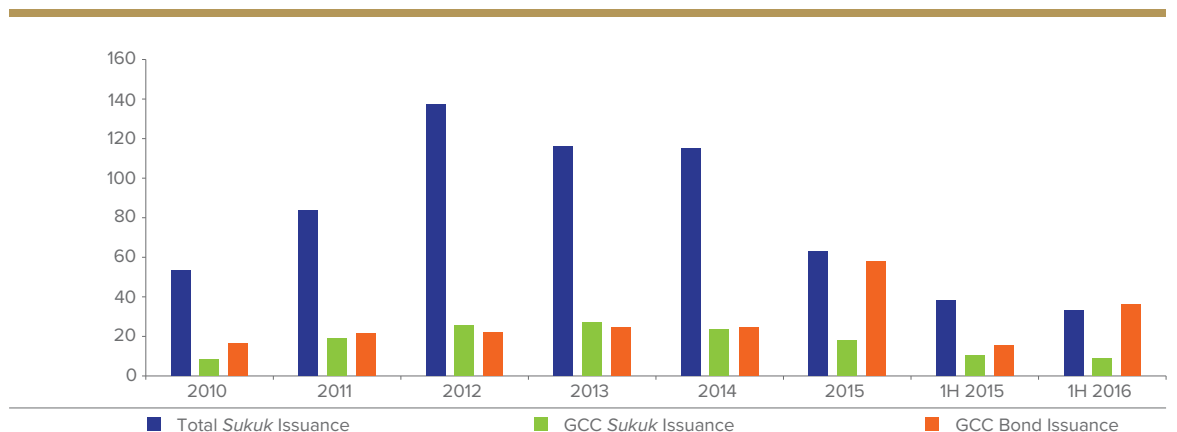
BY STELLA COX CBE, MANAGING DIRECTOR, LAWRENCE OLIVER, DEPUTY CEO AND CASSIM DOCRAT, REGIONAL DIRECTOR DDCAP GROUP

##### INTRODUCTION

Beginning from early 2015, it has been a challenging two years for the *Sukuk* market. According to Standard & Poor's (S&P) this is a trend likely to continue through to 2017. Various market analysts earlier predicted that, due to the significant drop in the oil price since mid-2014, the *Sukuk* market would actually gain momentum, contributing to fill the liquidity gap that would likely arise in key markets in the Gulf Co-operation Council ("GCC"), whose mainstay is oil income, and South East Asia particularly Malaysia, the world's largest issuer of *Sukuk*. By contrast, total *Sukuk* issuance actually declined in the first half of 2016 by some 12.5% as compared to the same period in 2015 according to S&P. Indeed in 2015, the global *Sukuk* market fell by over 50% compared to the previous year. According to the Islamic Financial Services Industry (IFSI) Stability Report 2016, the percentage of short-term *Sukuk* also declined, due in part to the cessation of short-term *Sukuk* normally issued by Bank Negara, Malaysia. Meanwhile that of *Sukuk* with maturities of three to five years and five to ten years increased to 22% and 39% respectively in 2015. S&P forecast total *Sukuk* issuance for 2016 as in the range of USD 50 billion to USD 55 billion compared to USD 62 billion in 2015. Another decline but not as significant a drop as in 2015 and overall not dissimilar to that observed in the conventional fixed income markets.

The broader trends in the global economy have not been supportive either, due to uncertainty over the future direction of interest rates coupled with a decline in commodity prices. Furthermore, the demand for energy and metals from the world's largest consumer, being China, has declined markedly as that country adjusts to a subdued global business climate. Moreover, there has been a contraction in liquidity across the board both in the Islamic as well as the conventional markets, which has further impacted *Sukuk* issuance as investor appetite has been impacted.

##### Total Sukuk Issuance 2010 – 2016



Sources: Zawya, S&P Global Ratings

(Data as of September 2016, Credits: Fitch Ratings)

A similar picture is apparent amongst corporate issuers, who have revised their market strategies pending improved clarity in the interest rate environment and some return of more usual levels of liquidity. A degree of market momentum is starting to manifest however. Thomson Reuters (TR) noted in its latest Liquidity Management Report for 2016 that private sector, corporate *Sukuk* issuances were likely to reach USD 24 billion in 2016 compared to USD 22 billion in 2015. This was largely driven by regional banks' endeavours to supplement Tier 1 capital to satisfy Basel III requirements, amongst them Bank Al Jazira (USD 533 million), Noor Bank (USD 500 million) and Dubai Islamic Bank (USD 500 million).

S&P also projects that the GCC will require some USD 275 billion of financing for projects during 2017-2019, with some 50% of that amount being raised through conventional bond and *Sukuk* issuance.

#### A EUROPEAN PERSPECTIVE

In Europe, the single event in 2016 that is likely to have a significant impact on the future direction of Islamic finance in general, and the *Sukuk* market in particular, is the final outcome of the EU Referendum, popularly referred to as "Brexit". Currently, European investors hold approximately 20% of all global *Sukuk* in issuance according to Thomson Reuters *Sukuk* Perceptions & Forecast for 2016. This trend is likely to continue. However, European investors' growing enthusiasm for *Sukuk* assets may also be a significant factor in encouraging European sovereigns to again consider raising funding through the Islamic capital market, both for diversification purposes and as a source of funding for much needed infrastructure investment in Europe.

Despite widely articulated concern about the outcome of Brexit, it is possible that the UK will be amongst those best positioned in Europe to achieve such wider market access. Amongst European nations, the Islamic finance industry has developed strongly in the UK over the last 30 years and is now at a stage where it offers alternatives and even competes with offerings from conventional banking. The UK has become a leader in Islamic finance in the western world, with over 20 banks in the UK offering Islamic financial services of one form or another and, since 2004, with its financial regulator having issued six licenses to wholly *Shari'ah*-compliant

Islamic banks whose assets totalled USD 3.6 billion in 2014.

The prospect of wider engagement with the global *Sukuk* market has been a key driver for developing Islamic finance in the UK which, through London, is the major global centre for issuing and trading international debt instruments. In terms of its *Shari'ah* compliant offering, the publication titled "Accessing the Global Markets through London", published in January 2017, stated that over USD 48 billion has been raised to date through 65 issues of *Sukuk* listed on the London Stock Exchange (LSE). Additionally, the inaugural GBP 200million UK sovereign *Sukuk* issued in 2014 (the first sovereign *Sukuk* by a non OIC member) was viewed as a major success, not just for the UK but in setting precedents, both amongst European governments and those of other, secular countries.

Order books for the UK sovereign issue totalled GBP2.3billion, which represented an oversubscription of nearly 12 times the issuance size. This was followed by UK Export Finance (UKEF) introducing a *Shari'ah* compliant guarantee programme for British exporters, further emphasising the commitment the UK has made to becoming the major hub for Islamic finance in the western world. In March 2015, it was announced that UKEF would provide its guarantee in support of the USD 913 million *Sukuk* issued by Dubai's Emirates Airline. The *Sukuk* attracted a diverse investor base, with approximately 39 per cent of investment originating from the Middle East and Asia, 32 per cent from Europe and 29 per cent from the United States. Emirates Airlines *Sukuk* issuance, supported by UKEF, achieved a number of firsts. Not only was it *Shari'ah* compliant, it was the largest debt capital markets issuance ever from the aviation sector with an export credit agency guarantee and the first time that *Sukuk* had been issued to raise funding prior to delivery of an aircraft.

Since the 1980s, the UK has also evolved an eco-system of major accounting firms, law firms and professional service firms drawing on the City of London's reputation in global finance. It has since added specialisations in all aspects of Islamic finance, through firms which can advise, structure and place Islamic products from the UK but with a global reach. In combination with the legislative changes previously introduced and supported

by government to level the financial playing field (including the reform of debt issuance arrangements to enable income return profit payments to be treated with equivalence to interest payments), the depth of ancillary services availability provides a solid infrastructure for UK activities. In a post-Brexit world, the UK may not receive previously assigned EU funding for some of its infrastructure and economic regeneration projects and will seek alternative funding sources. Funding through *Sukuk* and other *Shari'ah* compliant banking and capital markets instruments has the potential to play a role in offsetting an element of the adverse impact of that, given that the UK has built up an expertise in Islamic finance that distinguishes its credentials in the western world. Such long-term market experience would likely also contribute to support opportunities available to other EU countries, particularly for infrastructure projects in sectors such as water, energy, transportation, manufacturing and information technology where the role of professional financial services firms from the UK and elsewhere in Europe could again be pivotal.

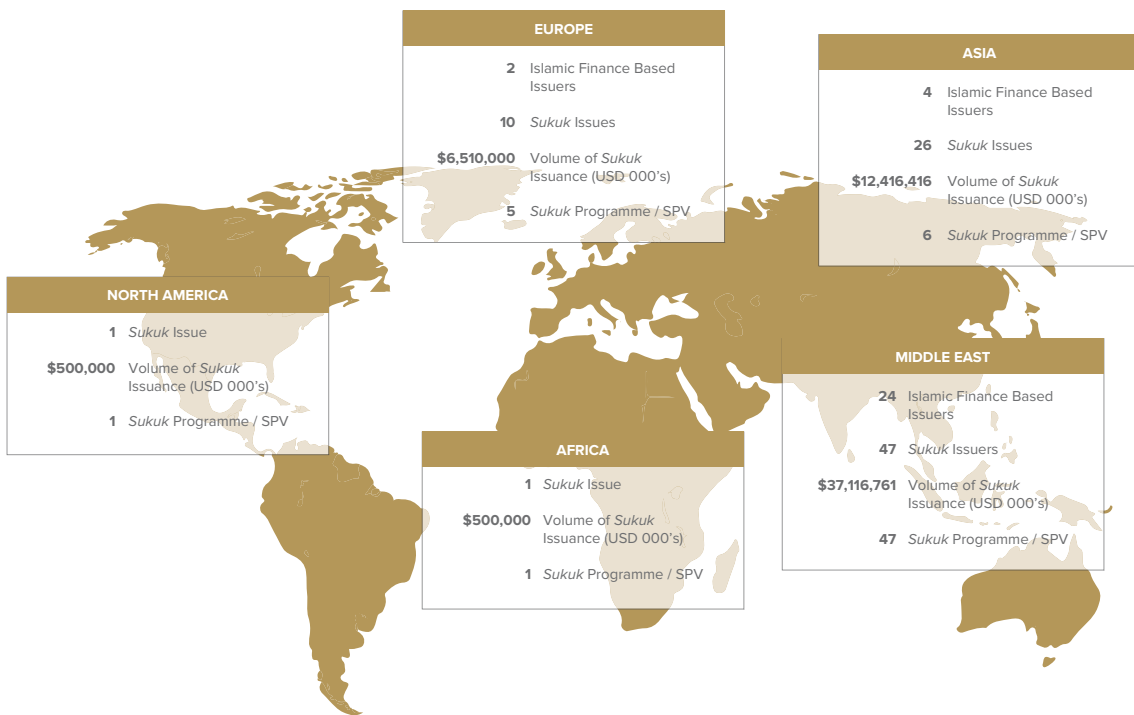
In contrast to the UK, the Islamic financial services industry in Europe has progressed more slowly since its own establishment in the 1980s. Luxembourg and Ireland have provided other hubs for Islamic fund management, for capital markets issuance and certain related professional financial services. Unlike the UK, there has been limited progress made in authorising *Shari'ah* compliant banking licenses in wider Europe. Currently, the sole Islamic bank representative outside of the UK is a branch of Kuveyt Turk Participation Bank authorised in Germany. However, like the UK, Europe is also likely to tap into the *Sukuk* market for its infrastructure funding requirement. Another incentive for European countries to issue *Sukuk* in the short-term may be that, given their credit quality, well rated European issuers securities will likely obtain high quality liquid asset (HQLA) classification which would help many investor institutions in terms of their liquidity coverage ratio requirement under Basel III. Such assets held within liquidity buffers for regulatory purposes must be of high credit quality and also liquid. For European issuers able to satisfy the criteria, there is potential to diversify their investor and funding base and, for investors, there is the opportunity to access much needed HQLA, hence satisfying some of the demands of an increasingly burdensome regulatory landscape.

From a European investor's point of view, yields have been low or even negative for prolonged periods across the European marketplace. As the European Central Bank has recurrently injected liquidity to combat deflationary pressures, some investors are actively looking at emerging market instruments to enhance yields and, again, the *Sukuk* market could be well positioned to benefit from this trend. It may also add context as to why European investors are said to hold up to 20% of all outstanding *Sukuk* in issuance according to the aforementioned Thomas Reuters 2016 Forecast. Regulation, in general, is a challenge for European states looking to establish a strong Islamic financial sector. Whilst some countries including the United Kingdom, Germany and Luxembourg have taken a leading role in this regard, Luxembourg issuing its own inaugural Euro 200 million *Sukuk* after the UK in 2015 and with Ireland, Germany and France reportedly seeking to do more, the unique nature and complexities of Islamic finance combined with the specific requirements of existing regulation and legislation that still exist in each country mitigates against a simple path to a unified framework across the European Union. Hence, challenges remain for *Sukuk* in that harmonisation of regulations and of documentation have been the two major inhibiting factors in Europe, as well as globally, to broadening and deepening the Islamic capital market.

Concurrently, moves are afoot across the wider Islamic financial services industry for greater standardisation. The International Monetary Fund recently advised GCC governments to integrate *Sukuk* issuance into their debt-management strategies. The Islamic Development Bank (IDB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are working separately on introducing more standardization to the legal documentation as is the International Islamic Financial Market ("IIFM"). AAOIFI, along with various financial regulators within the core Islamic markets, have also been focused on working towards strengthening *Shari'ah* governance through implementation of more widely applicable *Shari'ah* standards.

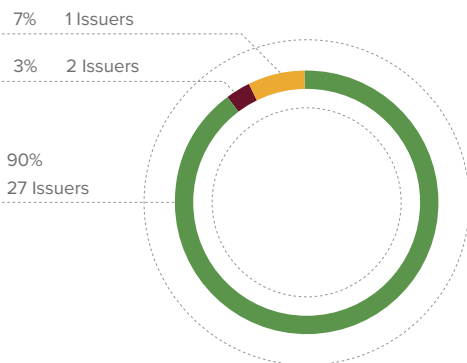
Currently, compared with conventional bonds, the market perceives *Sukuk* as a more complex product, involving higher costs and longer timeline to issuance. This could partly explain the disparity between *Sukuk* and bond issuance in the GCC in 2015, where conventional bond

issuance far exceeded *Sukuk* issuance. It may also explain why the latest fund raising for Saudi Arabia (also being the largest to date for any emerging market at USD 17.5 billion) was through the conventional bond market rather than through *Sukuk*. Stakeholders have now understood that standardisation could be the key to the *Sukuk* market's future success and this should have an enormous impact across the industry, prospectively facilitating the wider acceptance of *Sukuk* as an asset class and also as acceptable security for HQLA purposes in more markets than is currently the case.

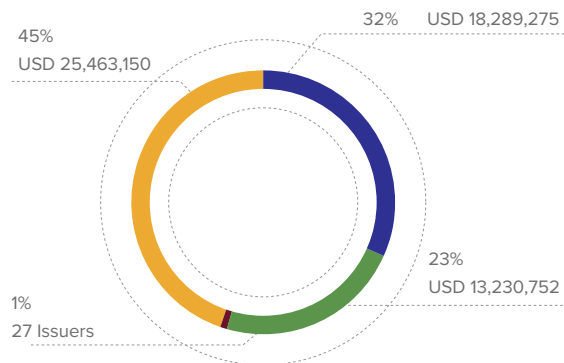


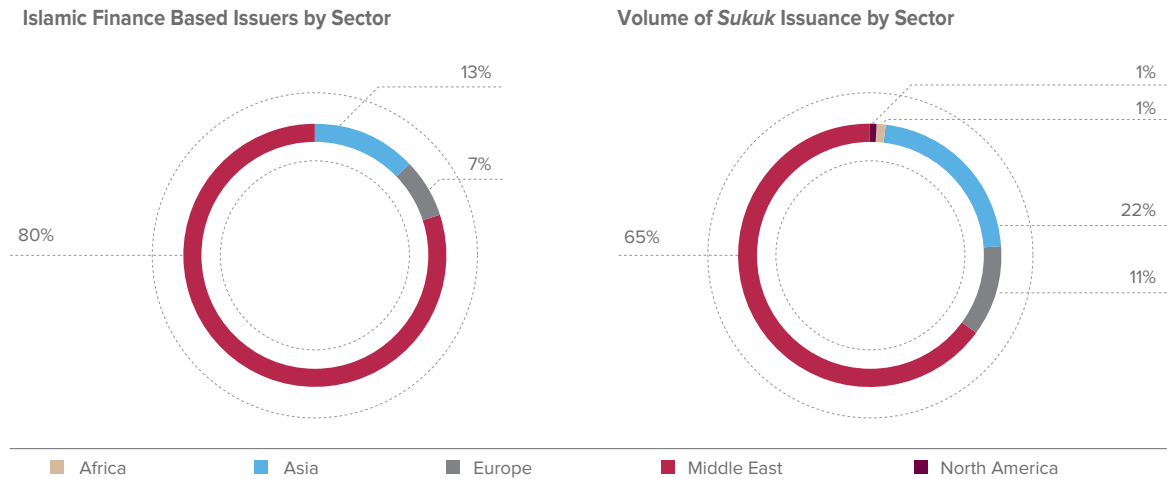
(Data as of September 2016, Credits: Fitch Ratings)

Islamic Finance Based Issuers by Sector



Volume of Sukuk Issuance by Sector





(Data as of September 2016, Credits: Fitch Ratings)

## CONCLUSION

Despite the apparent global decline of *Sukuk* issuance since early 2015, it is likely that the market will improve as the demand for financing increases within the context of a tight liquidity environment, ongoing necessity for governments to develop and fund national infrastructure and banks and financial institutions seeking to strengthen their balance sheets and improve liquidity ratios to satisfy regulatory stipulations. The continuing low oil price and the very real possibility of an interest rate rise may prompt greater demand as many GCC governments look to fund their budget deficits through *Sukuk* as well as conventional bond issuance. The fact that countries as geographically diverse as Uganda, South Korea, Thailand and China are looking to access the Islamic capital market suggests growing global acceptance of the product dynamics.

Economic growth is driven by investment in infrastructure. According to a whitepaper by Deloitte published in November 2016, the OECD estimates a minimum requirement of USD 71 trillion by 2030 and the UK government alone has identified a national infrastructure pipeline with a value of nearly STG500 million extending to 2021, 50% of which is to be financed and delivered by the private sector.

This demand, in turn, augers well for wider European market prospects, where the UK has taken a lead position but where greater harmonisation within Europe regarding regulation and a concomitant push from the Islamic finance industry to simplify the process, documentation, timeline and governance of *Sukuk* issuances will provide an enabling environment conducive to *Sukuk* becoming a more established subset of the European debt capital market.

CHAPTER  
**FIVE**



STRIVING FOR  
GREATER  
TRANSPERANCY

# SUKUK MARKET IN SELECTED IIFM MEMBER COUNTRIES

## 5.1 Government of Bahrain Sukuk Issuances

### SUKUK AL SALAM AND SHORT/LONG TERM SUKUK AL JARAH DOMESTIC AND INTERNATIONAL BY CENTRAL BANK OF BAHRAIN (CBB)

#### INTRODUCTION

The Kingdom of Bahrain is one of the countries which have made great strides in launching new Islamic financial products in an innovative manner. It was one of the first governments in the world to start a sovereign *Sukuk* program, as early as 2001. Since then it has been quite active in the *Sukuk* market and issues short and long term instruments at regular intervals. As much as 19% of Bahrain government's total financing needs are fulfilled through Islamic instruments. It is therefore an important element in helping the government address its deficits and plan for future development.

#### 1. SUKUK AL SALAM

Started in June 2001 and having 191 issues to-date, *Sukuk Al Salam* account for the bulk of the government's short-term Islamic financing needs. *Sukuk Al Salam* is an instrument based on sale and purchase contracts. The Government of Bahrain undertakes to sell commodities to be delivered in the future to the investors for advance payment in the value of securities issued. The investor will receive the proceeds arising from sale of commodities to an independent party (third party) who is completely and partially different from the seller at a price exceeding the forward buying price. These securities are collateralised by a commodity (Residue Gas). They are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee. There are three contracts which have to be agreed upon and signed.

#### 2. SUKUK AL IJARAH

##### 2.1 Short-term *Sukuk Al Ijarah*

Short-term *Sukuk Al Ijarah* was first issued in August 2005 (139 issues to date). These *Sukuk* are issued on a monthly basis and have a 6-month (182 days)

maturity. *Sukuk Al Ijarah* is an instrument which takes the form of Islamic leasing contracts. *Sukuk Al Ijarah* are instruments based on Leasing contracts for an assets owned by the Government of Bahrain. In issuing *Sukuk Al Ijarah*, the Government of Bahrain sells an asset to the investors who will buy before renting back to the Government at a predetermined rental rate, via a rental contract. The Government will also issue a binding promise to buy back the asset at its par value at the end of the rental period. There are four contracts which have to be agreed upon and signed. They are issued through a fixed-rate tender procedure. The rate of return is set by the CBB Monetary Policy Committee.

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

Long term *Sukuk Al Ijarah* were first issued in September 2001 (23 issues to date) upon the request of the Ministry of Finance. They are based on assets owned by the government of Bahrain.

##### Features of long term local *Sukuk Al Ijarah*



**issuances are as follows:**

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

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

- Invitation letters which contain details on a forthcoming issue are circulated to the institutions eligible to participate.
- The return rate is sent by e-mail to the eligible institutions one week prior to the issue day and is made available in the SSS System
- The institutions submit a tender bid to the CBB indicating the quantity they would like to acquire through the Scripless Securities Settlement System (SSSS) and by email for indirect members .
- 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 direct participating banks' Real Time Gross Settlement (RTGS) system accounts with the CBB..
- The settlement date is normally two business days after the tender date.
- At the maturity date of the issue, RTGS credits the successful participant's settlement account with the allotted amount plus the return.
- 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.

- On the date of the rental return for the long term *Ijarah* issuance , the CBB will transfer the rental return amount to the participating institutions' respective accounts (semi-annually).
- CBB has a *Shari'ah* Committee which reviews the procedures undertaken with the issuance of Islamic Leasing Securities in the form of a *Fatwa*.

**2.3 Long term Sukuk Al Ijarah (International)**

- The Kingdom of Bahrain successfully priced a USD 1,000 million Rule 144A/RegS long 7-year *Sukuk* with a structure of 51% *Ijarah* and 49% Commodity *Murabahah*. The transaction marks a milestone for Bahrain by achieving its largest fundraising at a single issuance window.
- International *Ijarah Sukuk* were first issued in June 2009 (2 issues to date).

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

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

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

Issue No	Issue Date	Maturity Date	Return Rate	Issue Amt.	Return Date
Issue No. LI/1	04-Sep-01	04-Sep-06	5.250%	USD100 million	04-Mar 04-Sep
Issue No. LI/2	27-Feb-02	27-Feb-05	4.250%	USD70 million	27-Aug 27-Feb
Issue No. LI/3	29-Aug-02	29-Aug-07	4.000%	USD80 million	28-Feb 28-Aug
Issue No. LI/4	19-Nov-02	19-Nov-05	3.000%	USD50 million	19-May 19-Nov
Issue No. LI/5	27-Feb-03	27-Feb-06	3.000%	USD80 million	27-Aug 27-Feb
Issue No. LI/6	02-Apr-03	02-Apr-08	3.750%	USD100 million	02-Oct 02-Apr
Issue No. LI/7	27-May-03	27-May-08	% 60 B.P Over 6m LIBOR	USD250 million	27-Nov 27-May
Issue No. LI/8	15-Dec-03	15-Dec-06	% 30 B.P Over 6m LIBOR	USD50 million	15-Jun 15-Dec
Issue No. LI/9	30-Jun-04	30-Jun-09	% 45 B.P Over 6m LIBOR	USD250 million	30-Jun 30-Dec
Issue No. LI/10	20-Jul-04	20-Jul-14	5.125%	BD40 million	20-Jan 20-Jul
Issue No. LI/11	28-Feb-05	28-Feb-10	4.500%	BD30 million	28-Feb 28-Aug
Issue No. LI/12	21-Nov-05	21-Nov-11	5.600%	USD230 million	21-May 21-Nov
Issue No. LI/13	03-Oct-07	03-Oct-12	% 30 B.P Over 6m LIBOR	BD95 million	03-Apr 03-Oct
Issue No. LI/14	20-Mar-08	20-Mar-13	% 75 B.P Over 6m LIBOR	USD350 million	20-Sep 20-Mar
Issue No. LI/16	24-Sep-09	24-Sep-12	3.75%	BD165 million	24-Mar 24-Sep
Issue No. LI/17	07-Apr-11	07-Apr-16	5.50%	BD200 million	07-Oct 07-Apr
Issue No. LI/19	17-Jul-12	17-Jul-17	4.300%	BD160 million	17-Jan 17-Jul
Issue No. LI/20	13-May-13	13-May-15	1.450%	BD100 million	13-Nov 13-May
Issue No. LI/21	08-Jan-15	08-Jan-18	3.000%	BD100 million	08-Jul 08-Jan
Issue No. LI/22	19-Jan-15	19-Jan-25	5.500%	BD250 million	19-Jul 19-Jan
Issue No. LI/23	09-Jul-15	09-Jan-25	5.000%	BD200 million	09-Jan 09-Jul

FIGURE 2: CBB'S LONG TERM SUKUK AL IJARAH (INTERNATIONAL)

Issue Type	Issue Date	Maturity Date	Return Rate	Issue Amt.	Return Date
Issue No. LI/15	17-Jun-09	17-Jun-14	6.247%	USD750 million	17-Dec
					17-Jun
Issue No. LI/18	22-Nov-11	22-Nov-18	6.273%	USD750 million	22-May
					22-Nov
Ijarah/Murabahah Issue No.1	12-Oct-16	12-Feb-24	5.624%	USD 1 billion	12-Feb
					12-Aug

### ISLAMIC STANDING FACILITIES OFFERED BY THE CBB AGAINST THE SUKUK AL IJARAH:

#### 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 who is the second purchaser which offers required liquidity. the 1st purchaser/2nd seller should be any CBB-Licensed bank that brokers the sale of Sukuk.

- 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 Central Bank for one week. The agreement of the Wakalah Facility has been developed, based on a standard contract of the International Islamic Financial Market (IIFM). Retail Islamic banks appoint the CBB as an agent (*Wakil*) to invest the cash on behalf of the bank (*Muwakkil*). The *Wakil* will invest these funds in the investment portfolio allocated in advance, and contains US Dollar & Bahraini Dinars demonitaed Islamic Sukuk and BHD Cash. The current duration of the Wakalah is one week and is 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 AUTORITI MONETARI BRUNEI DARUSSALAM (AMBD)

#### 1. OVERVIEW

##### 1.1 Data of *Sukuk* Issuances

###### a. Sovereign *Sukuk*

On the 1st of December 2016, the Government of Brunei Darussalam through its agent, Autoriti Monetari Brunei Darussalam (AMBD), issued its 140th series of *Sukuk* which is worth BND 100 million. With this issuance, the Brunei Government has issued over BND 10.4282 billion worth of short-term *Sukuk Al-Ijarah* securities since its maiden offering on April 6, 2006.

The Government *Sukuk Al-Ijarah* issuances, for the period of January 2016 to December 2016 are as follows:

Year	Series	Issuance Date	Tenor (Days)	Amount (BND)
2015	115	12-Feb-15	273	100,000,000.00
	116	26-Mar-15	91	100,000,000.00
	117	16-Apr-15	364	100,000,000.00
	118	14-May-15	182	100,000,000.00
	119	11-Jun-15	91	100,000,000.00
	120	30-Jul-15	182	100,000,000.00
	121	20-Aug-15	273	100,000,000.00
	122	10-Sep-15	91	100,000,000.00
	123	08-Oct-15	364	25,000,000.00
	124	19-Nov-15	182	100,000,000.00
2016	125	10-Dec-16	91	100,000,000.00
	126	28-Jan-16	91	100,000,000.00
	127	18-Feb-16	91	100,000,000.00
	128	24-Mar-16	182	100,000,000.00
	129	14-Apr-16	364	50,000,000.00
	130	28-Apr-16	91	100,000,000.00
	131	19-May-16	273	20,000,000.00
	132	02-Jun-16	91	100,000,000.00
	133	28-Jul-16	91	100,000,000.00
	134	04-Aug-16	182	60,000,000.00
	135	18-Aug-16	91	100,000,000.00
	136	22-Sep-16	182	100,000,000.00
	137	13-Oct-16	364	38,200,000.00
	138	03-Nov-16	91	100,000,000.00
	139	17-Nov-16	273	5,000,000.00
	140	01-Dec-16	91	100,000,000.00

BND 1 = USD 0.7158

b. Quasi-Sovereign *Sukuk*

There are no Quasi-Sovereign *Sukuk* being issued during the period of January 2016 to December 2016.

c. Corporate *Sukuk*

There are no Corporate *Sukuk* being issued during the period of January 2016 to December 2016.

d. Secondary Market Trading

There has been 1 secondary market trading activity in Q4 2016.

## 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 both administered by Autoriti Monetari Brunei Darussalam (AMBD). Securities in particular are regulated by the SMO and the SMR, and any *Shari'ah* or Islamic component of any securities would be additionally governed by the Syariah Financial Supervisory Board Order, 2006 (SFSBO).

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

All types of securities, as defined in the Schedule to the SMO are caught within the scope of the SMO and SMR. Generally, any person who wishes to make an offer to sell or sell securities by way of a public offering are required to firstly file with AMBD a dated registration statement and the prospectus, and thereafter declared effective by AMBD, and comply with any other requirements stipulated in the SMO and SMR.

Additionally, all Islamic financial products, including Islamic securities, are regulated under the SFSBO. The SFSBO provides for the establishment of the Syariah Financial Supervisory Board (SFSB), which is 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 businesses which are based on

*Shari'ah* principles, and is supervised and regulated by the Ministry of Finance. All Islamic financial products including *Sukuk* are required to be submitted before the Syariah Financial Supervisory Board (SFSB) for approval.

## 3. MOVING FORWARD

In 2017 the Brunei Government plans to issue its first long-term *Sukuk Al-Ijarah* under a new programme called the Brunei Dollar *Sukuk Al-Ijarah* Programme. Work is currently underway to ensure its successful issuance.

This will further extend the benchmark rate and attract corporates and Government-linked companies to use these issuances as benchmarks and modes of alternative financing. AMBD is also considering the possibility of undertaking market operations for banking system liquidity-smoothing purposes, which would help anchor the short end of the yield curve. With these developments, AMBD hopes that it could help widen the investor base and later generate interest of non-government securities issuance such as corporate *Sukuk*.

As for infrastructure development on the *Sukuk* Market in Brunei Darussalam, AMBD has initiated the Payment & Settlement Systems project in 2013. Under this project, the Central Securities Depository (CSD) system will have functionalities that will support depository, registration, auction, trading, collateral and settlement. On cash settlement, payment instructions on *Sukuk* transactions will be sent from the CSD system to be settled in the Real Time Gross Settlement (RTGS) system. The RTGS system has gone live since 7th November 2014 and the development of the CSD system is currently on-going and the project is scheduled to be completed by the second quarter of 2017.

AMBD is also planning to set up a National Numbering Agency, which will be responsible for registering and numbering of all securities in Brunei Darussalam by

utilizing standard global identifiers such as the ISIN that will allow for greater transparency in the global marketplace.

Furthermore, in an effort to boost the capital markets, both AMBD and the Ministry of Finance are currently laying down the groundworks for the establishment of a national stock exchange. With the establishment of the stock exchange, AMBD plans to trade Government *Sukuk* in the secondary market. Moreover, the stock exchange will facilitate greater regional integration, particularly through the ASEAN Capital Market Development and the Asian Capital Market Forum's initiatives by allowing regional companies to raise funds and provide access for regional investors to invest in local companies thereby promoting more foreign investment opportunities.

AMBD is also currently exploring on different *Sukuk* structures for financing its new office building. It is hoped that such activity will promote financial product innovation as a benchmark for other *Sukuk* issuance.

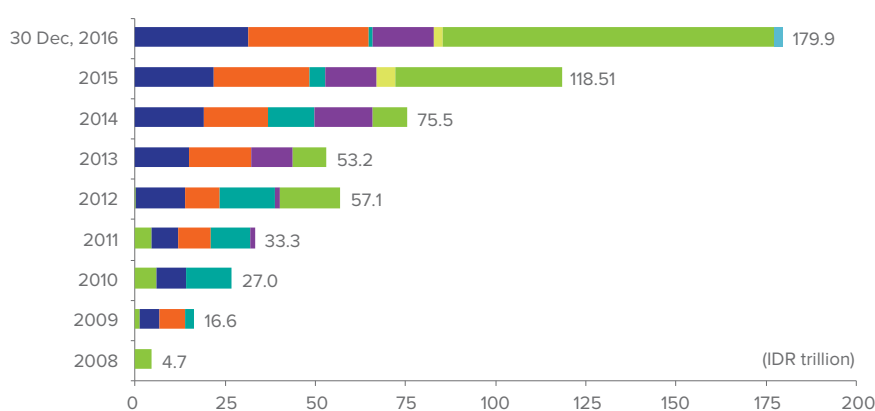
In a further important development for the Capital Markets, and as set out in the AMBD's Financial Sector Blueprint, Brunei plans to become a hub for Islamic funds management. AMBD is holding discussions with a number of potential partners worldwide who are interested in participating in this venture. The Funds Hub concept will involve hosting Islamic funds in Brunei, for which new legal structures are being prepared, and providing trading facilities to match investors and Islamic funds worldwide. The stock exchange will be an important element in this service. The Funds Hub will also be able to host outsourced back office facilities for fund managers entering the Brunei market and provide added-value services such as financial and *Shari'ah* rating. To build the capacity services successfully and quickly, Brunei will collaborate with other major Islamic financial centers, including the United Kingdom, other neighbouring countries in the region and with local academic institutions.

### 5.3 Indonesian Sukuk Market: Continuous Progress

#### BY BANK INDONESIA (BI)

Continuing a rapid development of *Sukuk* in the last couple of years, both the government and corporate *Sukuk* have still faced positive improvement in 2016. The government of Indonesia has consistently issued the government *Sukuk* (namely SBSN) and more varieties of corporate *Sukuk* issued to the market. SBSN was intensively occupied to finance the government projects (in the state budget/APBN) since the approval of the Act Number 19 year 2008 on SBSN which was followed up by the issuance of the first series of SBSN (Islamic Fixed Rate/IFR) worth Rp 15 trillion (USD 1.11 billion). Since then, besides IFR as it does not exist anymore, there have been some series of SBSN available in the market which are 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 2016, total accumulated SBSN was accounted Rp 179.9 trillion (USD 13.4 billion) or 15% of the total government bonds (see figure 1). Compared to 2015 in which total SBSN was Rp 118.5 trillion (USD 8.2 billion), SBSN has increased 51.8% in 2016.

FIGURE 1. TOTAL ACCUMULATED SBSN ISSUANCE



	2008	2009	2010	2011	2012	2013	2014	2015	30 Dec, 2016
IFR	4.7	1.3	6.2	4.6	0.4	–	–	–	–
SR	–	5.6	8.0	7.3	13.6	15.0	19.3	22.0	31.5
SNI	–	7.0	–	9.0	9.6	17.2	17.7	26.4	33.4
SDHI	–	2.7	12.8	11.0	15.3	–	12.9	4.5	1.0
SPNS-S	–	–	–	1.3	1.4	11.7	16.2	14.3	17.0
SPN-S NT	–	–	–	–	–	–	–	5.1	2.5
PBS	–	–	–	–	16.7	9.3	9.4	46.2	91.9
ST	–	–	–	–	–	–	–	–	2.6
Total	4.7	16.6	27.0	33.3	57.1	53.2	75.5	118.5	179.9

Source: Ministry of Finance

### SBSN PORTFOLIO DEVELOPMENT IN 2016

The total Rp 179.9 SBSN is composed of PBS Rp 91.9 trillion or USD 6.8 billion (51% of the total SBSN), SNI Rp 33.4 trillion or USD 2.5 billion (18.6% of the total SBSN), SR Rp 31.5 trillion or USD 2.3 billion (17.5% of the total SBSN), SPN-S Rp 19.5 trillion or USD 1.5 billion (10.8% of the total SBSN), ST Rp 2.6 trillion or USD 0.2 billion (1.5% of the total SBSN) and SDHI Rp 1 trillion or USD 0.07 billion (0.5% of the total SBSN). The domination of PBS, reflects the government needs to finance long term and strategic projects, particularly infrastructure projects by using SBSN funds. The examples of PBS issued in 2016 were PBS006 maturing in September 15th, 2020 with 8.25% coupon rate, PBS009 maturing in January 25th, 2018 with 7.75% coupon rate, PBS011 maturing in August 15th, 2023 with 8.75% coupon rate and PBS012 maturing in November 15th, 2031 with 8.87% coupon rate.

After PBS, there is SR intended for the short-term investment and SNI denominated in USD for foreign investors. The domination of these two SBSN series shows strong interest of retail investors (SR targets retail investors) and positive expectation on domestic economy from foreign investors. In 2016, SR008 maturing in March 10th, 2019 was issued with 8.3% coupon rate and the total investors bidding was Rp 43 trillion (USD 3.2 billion) exceeding the target bidding of only Rp 25 trillion – Rp 30 trillion. Whilst, SNI was issued March 29th, 2016 and has successfully absorbed USD 2.5 billion of the total USD 6.9 billion investor bidding with 3.4%-4.5% coupon rate.

Even, this SNI was claimed to be highest USD sovereign *Sukuk* ever issued (in one issuing time) in the world and the government of Indonesia was awarded the Best *Sukuk* Deal of the Year 2016 by the Global Islamic Finance Award (GIFA). The last but not the least was the SPN-S which was issued in June 16th, 2016 and maturing in December 1st, 2016 with the target amount of Rp 4 trillion or USD 0.3 billion.

### 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 employed in IFR, SNI, and SPN-S instruments while *Ijarah* Al-Khadamat is SDHI instrument. Furthermore, *Ijarah* asset to be leased is utilized under PBS and SR instruments while *Wakalah* is utilized in SNI instrument. Each SBSN structure has different underlying assets. For instances, (i) in *Ijarah* Sale and Lease Back contract, the underlying assets are state-owned assets, (ii) in *Ijarah* Asset to Lease Back contract, the underlying *Sukuk* are infrastructure projects and, (iii) in *Wakalah* contract, the underlying *Sukuk* are either state-owned assets or infrastructure projects.

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



SBSN CONTRACTS AND INVESTORS DEVELOPMENT

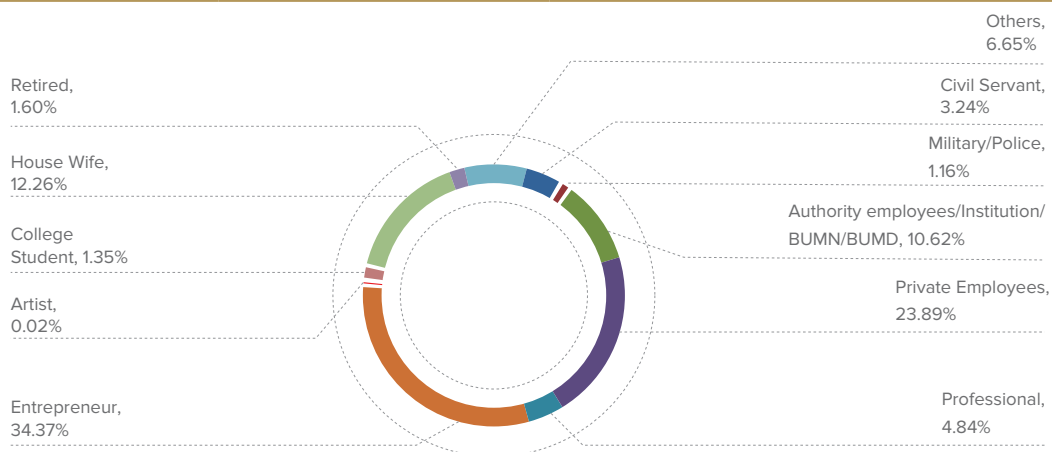
FIGURE 2. TOTAL SUKUK RETAIL ISSUANCE



In order to widen the investors, the government issues quite a few categories of SBSN both in domestic and global *Sukuk* markets. However, concerning the high number of 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 Rp 5.56 trillion or USD 0.4 billion in its first issuance to Rp 31.5 trillion or USD 2.3 billion in its latest issuance and has been sold to 14.29 thousand investors (in the first issuance) and 48.44 thousand investors (in the latest issuance), respectively. In addition, compared to its first issuance in 2009, SR series has changed its contract from *Ijarah* sale and lease back to *Ijarah* asset to be leased (in 2012) with three year tenure.

Based on composition of investors, from 48.44 thousands investor of SR-008, the highest portion is entrepreneurs (34.37%), followed by private employees (23.89%), housewives (12.26%), professionals (4.84%), civil servants (3.24%), military/police (1.16%), retired (1.6%), college students (1.35%) and others (6.65%) (see figure 3). Such 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 saving-oriented society to investment-oriented society via SR.

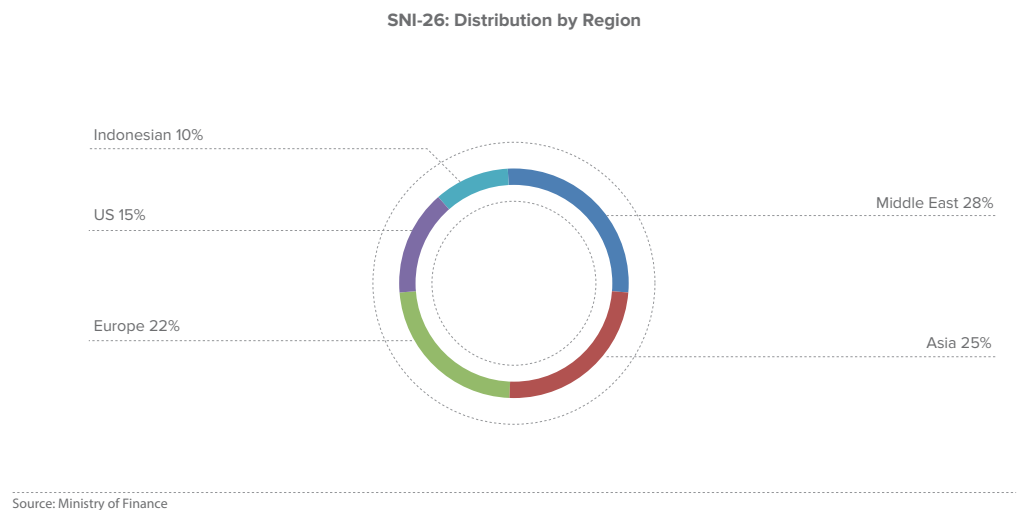
FIGURE 3. SR-008 : DISTRIBUTION BY PROFESSION



In addition, in 2013 the government started to issue PBS in order to directly fund government projects, particularly infrastructure development (energy, telecommunication, transportation, agriculture, manufacturing and housing), public services, local industry empowerment, and another development in accordance with government's strategic policy. In fact, the government projects which have been fully funded by PBS, are for instance Double track rail of Cirebon - Kroya under 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.

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 the number one in this category (see figure 4).

**FIGURE 4. SNI-26: DISTRIBUTION BY REGION**



Even, the year 2016 was noted to be the year of the first time SNI issuance in a dual tranche *Sukuk* series, which are SNI-21 with 5 years tenure and SNI-26 with 10 years tenure. This innovative issuance was part of the Islamic Global Medium Term Notes (Islamic GMTN) Program with a total value of USD 10 trillion or USD 0.7 billion. SNI-21 and SNI-26 series were listed on Singapore Stock Exchange and Nasdaq Dubai, and again, SNI-21 and SNI-26 were granted as the largest sovereign *Sukuk* issuance denominated in US Dollar in Asia as well as the largest number of the government of Indonesia issuance in US Dollar. These series of SNI have been supported by a Baa3 rating from Moody's, BB+ from Standard and Poor, and BBB- from Fitch.

The majority of SNI-26 investors were from the Middle East which contributed 28% of the total investors and the second place was Asian investors counted 25%, followed by European, United States and domestic investors (see

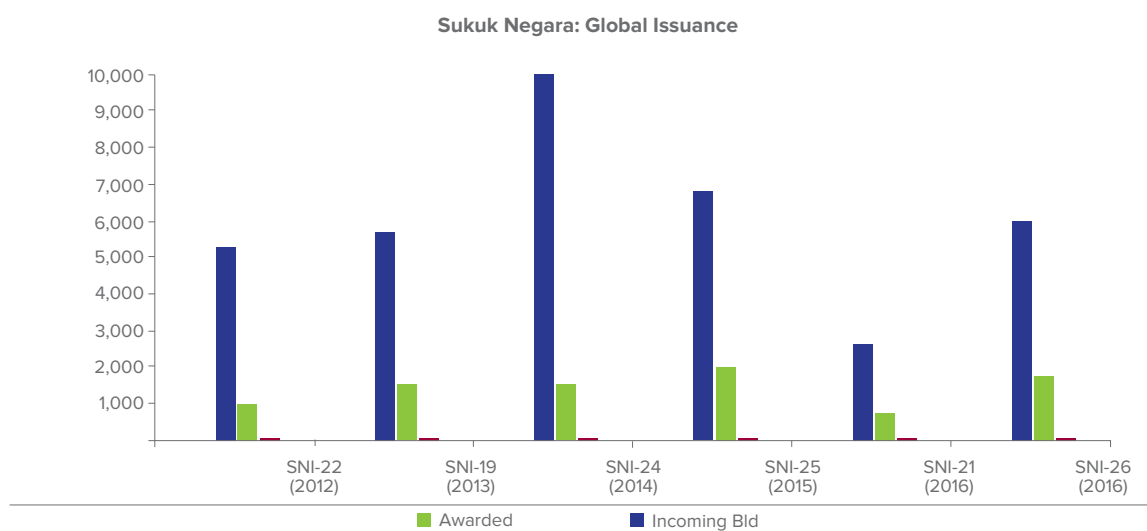
TABLE 1. SNI: GLOBAL ISSUANCE (2009-2016)

Year	2009	2011	2012	2013	2014	2015	2016	
	SNI-14	SNI-18	SNI-22	SNI-19	SNI-24	SNI-25	SNI-21	SNI-26
Format	144A/ Reg S	144A/ Reg S	Islamic GMTN Prog, Reg S/144A	Islamic GMTN Prog, Reg S/144A	Islamic GMTN Prog, Reg S/144A	Islamic GMTN Prog, Reg S/144A	Islamic GMTN Prog, Reg S/144A	Islamic GMTN Prog, Reg S/144A
Tenor	5 years	7 years	10 years	5.5 years	10 years	10 years	5 years	10 years
Issue date	23 Apr 2009	21 Nov 2011	21 Nov 2012	17 Sep 2013	10 Sep 2014	28 May 2015	29 May 2016	
Maturity date	23 Apr 2014	21 Nov 2018	21 Nov 2022	15 Sep 2013	10 Sep 2014	28 May 2025	29 May 2021	29 May 2026
Coupon	8.80% p.a.	4.00% p.a.	3.30% p.a.	6.125% p.a.	4.35% p.a.	4.325% p.a.	3.400%	4.550%
Structure	<i>Ijarah Sale and Lease Back</i>				<i>Wakalah</i>			
Orderbook	USD4.76 billion	USD6.5 billion	USD5.3 billion	USD5.7 billion	USD10 billion	USD6.8 billion	USD2.62 billion	USD5.98 billion
Issue size	USD650 million	USD1 billion	USD1 billion	USD1.5 billion	USD1.5 billion	USD2 billion	USD750 million	USD1.75 billion

Source: Ministry of Finance

## MARKET DEVELOPMENT OF SBSN

FIGURE 5. SNI GLOBAL ISSUANCE



Source: Ministry of Finance

The trend of SNI (*Sukuk Negara*) performance in the primary market from year to year is quite impressive. For example, the auction has been commonly oversubscribed (higher incoming bid than awarded bid) in each issuance since 2012 (see figure 5). This condition reflects good appetite of the global investors to SNI

(*Sukuk Negara*). The highest incoming bid was in the issuance of SNI-24 in 2014 followed by the incoming bid of SNI-25 and SNI-21 in the next issuance. The incoming bid of SNI-26 issuance, however, raised compared to the previous year in which, again, showed a good appetite of the global investors on the Indonesian *Sukuk*

**FIGURE 6. PARTICIPATION BANKS IN SBSN ISSUANCE****Auction Participants of *Sukuk Negara*****1. Bank**

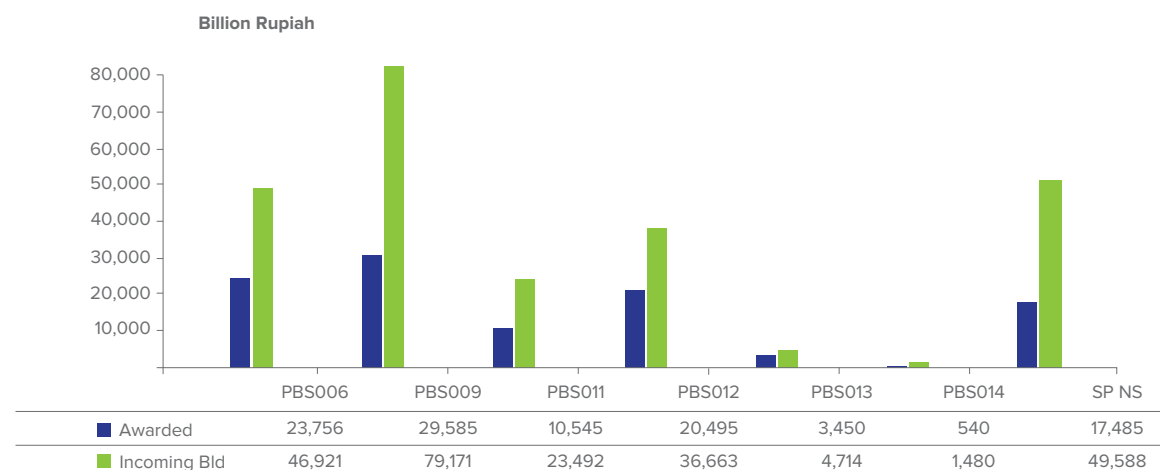
1. Citi Bank
2. Deutsche Bank A.G.
3. P.T. Bank BNP Paribus Indonesia
4. P.T. Bank Central Asia, Tbk
5. P.T. Bank CIB Niaga, Tbk
6. P.T. Bank Mandiri (Persero), Tbk
7. P.T. Maybank Indonesia, Tbk
8. P.T. Bank Negara Indonesia (Persero), Tbk
9. P.T. Bank OSBC NISP, Tbk
10. P.T. Bank Panin, Tbk
11. P.T. Bank Primata, Tbk
12. P.T. Bank Rakyat Indonesia, Tbk
13. Standard Chartered Bank
14. The Hongkong & Shanghai banking corporation limited
15. P.T. Bank BRISyariah
16. P.T. Bank BNISyariah
17. P.T. Bank Syariah Mandiri

**2. Securities company**

1. PT. Bahana Securities
2. PT. Danareksa Sekuritas
3. PT. Mandiri Sekuritas
4. PT. Trimegah Sekuritas, Tbk

Meanwhile, in the domestic market, SBSN (for example PBS and SPN-S series) also have an outstanding performance as shown in higher incoming bid compared to the awarded bid (see figure 7). The highest incoming bid of the PBS series was found in PBS 009. This outstanding performance gives a strong message that there is a huge potential of local investors to invest in SBSN especially since SBSN tends to offer higher coupon rate than the bank's interest rate.

FIGURE 7. PROJECT BASED SUKUK (PBS) AUCTION



Source: Ministry of Finance

Nonetheless, SBSN is not as liquid as the conventional sovereign bonds (namely SUN) in the secondary market. It is because of its limited number of stocks (supply) compared to SUN. Taken into account this condition, the government keeps increasing the supply of SBSN by issuing different types of SBSN to absorb more funds, attract more and wider investors and deepen the Islamic financial markets. So long with increasing the issuances and enlarging the *Sukuk* market, the government keeps educating investors on the potential of investment in *Sukuk*.

*Sukuk* Negara has an excellent demand both in the domestic and global market. As the most populous Muslim country, Indonesia has a strong investor base. Increasing number in *Sukuk* Negara variant also can attract more domestic and foreign investor as well as increase funded projects both for commercial and public service project. Widening investor by increasing product diversification is one of key driver for a good market development.

**DEVELOPMENT OF CORPORATE SUKUK**

Following the government *Sukuk* (SBSN), corporate *Sukuk* also depicts a positive progress. Up to the end of 2016, there are 52 outstanding corporate *Sukuk* valued Rp 11.7 trillion or USD 0.9 billion and thus there have been 100 accumulated corporate *Sukuk* in the market amounted Rp 20.4 trillion or USD 1.5 billion (6.6% of the total domestic *Sukuk* market) (see figure 8). Compared to 2014 and 2015, corporate *Sukuk* development in 2016 was improved promisingly due to higher interest of companies to issue *Sukuk*.

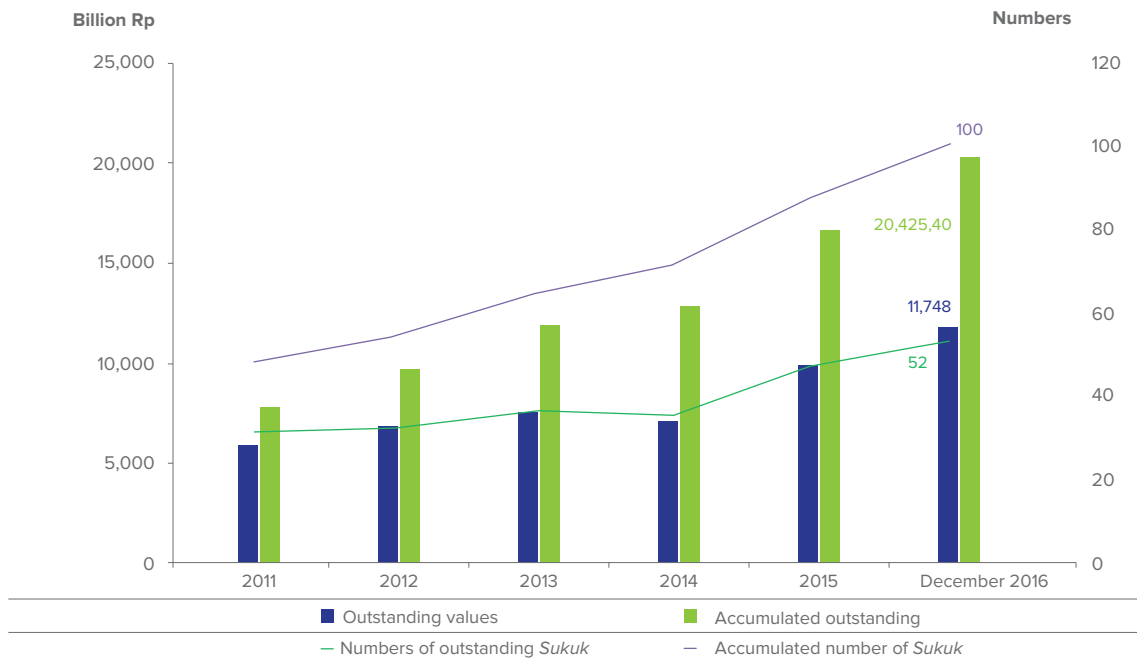
For examples, PT. Indosat, the telecom companies have 14 (fourteen) *Ijarah* based *Sukuk* series valued ranging between Rp 10 billion (USD 0.7 million) to Rp 175 billion (USD 13 million), maturing between 2018 and 2025 and PT. XL Axiata, another telecom company has 3 (three) *Ijarah* based *Sukuk* series valued ranging between Rp 258 billion (USD 19 million) to Rp 425 billion or USD 31.6 million (much bigger than Indosat), maturing between 2018 and 2022. Some state own companies have also issued their corporate *Sukuk* such as PT. PLN (National Electrical Company), PT. Adhi Karya (infrastructure company).

Besides, such non banks, some conventional banks and Islamic banks have had their corporate *Sukuk* as well. For examples are PT. Maybank Indonesia, PT. BPD (Regional Development Bank) West Sumatera, PT. BPD South and West Sulawesi as conventional banks and PT. Bank Muamalat Indonesia, PT. BNI Syariah and PT. BRI Syariah as Islamic banks. Even, BRI Syariah corporate *Sukuk* is the highest single *Sukuk* (Rp 1 trillion) maturing in 2023 with *Mudharabah* contract followed by two series of PT. Bank Muamalat Indonesia corporate *Sukuk* amounted

Rp 0.8 trillion (USD 60 million) and Rp 0.7 trillion (USD 52 million) respectively, to be maturing in 2022 and 2023.

Interestingly, besides non banks and banks, PP. Muhammadiyah, one of the two biggest Islamic organizations in the country (one of which is Nadhatul Ulama) has declared to issue Muhammadiyah *Sukuk* in the near future. PT. SMI (infrastructure company) has established Islamic unit and is ready to issue its corporate *Sukuk*.

FIGURE 8. CORPORATE SUKUK



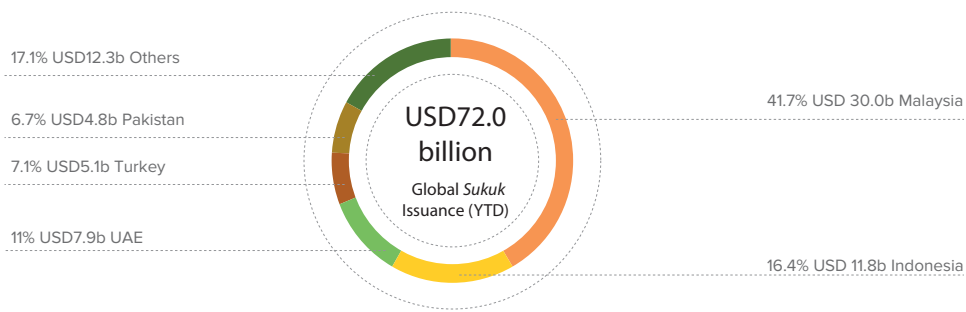
Source: Indonesian Financial Services Authority (OJK)

5.4 Sukuk Market in Malaysia

BY LABUAN FINANCIAL SERVICES AUTHORITY (LABUAN FSA)

Malaysia offers a complete ecosystem for *Sukuk* activities through its conducive issuance environment, facilitative policies for investment activities and comprehensive Islamic financial infrastructure. Malaysia sustains its position as the largest *Sukuk* market worldwide, accounting for 41.7% of the global *Sukuk* issuance market share, followed by Indonesia (16.4%), the United Arab Emirates (11.0%), Turkey (7.1%) and Pakistan (6.7%) as at end-November 2016.

FIGURE 1: GLOBAL SUKUK ISSUANCE



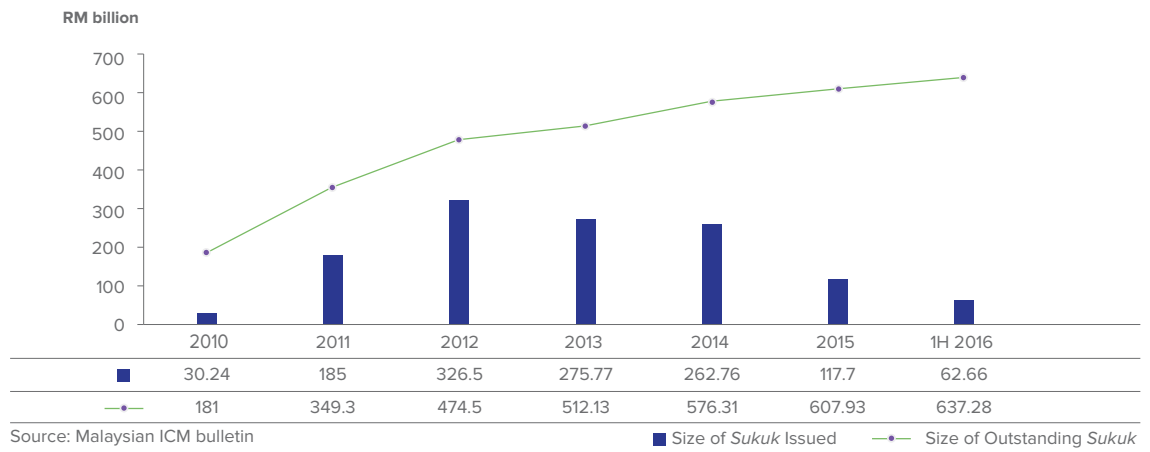
Source: *Sukuk* Snapshot - RAM Ratings

Source: *Sukuk* Snapshot - RAM Ratings

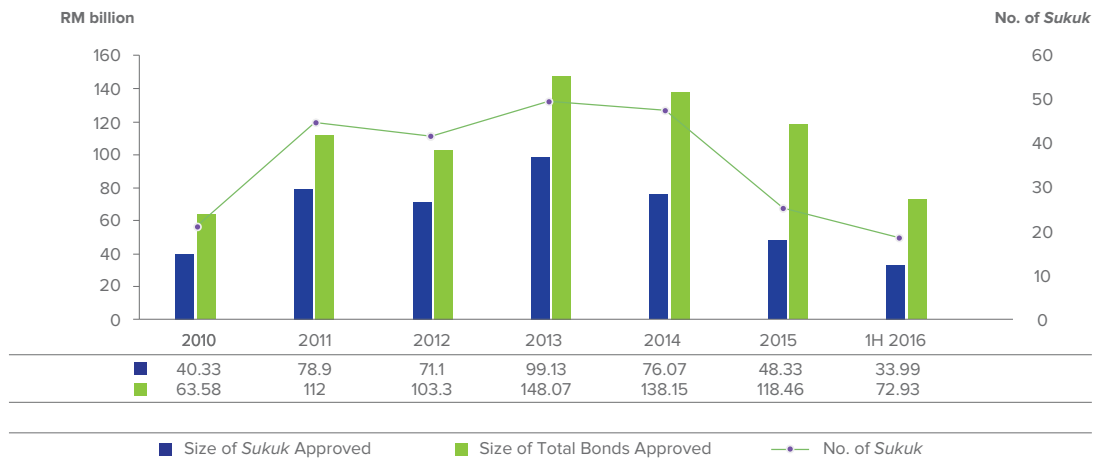
The domestic *Sukuk* market in Malaysia continues to thrive as an important and attractive platform for government and corporate entities to raise long-term funds for various economic, business and infrastructure development needs. In 2015, *Sukuk* issuances by Government and corporates amounted to RM 117.7 billion, representing 43.6% of total bond issuances. Total *Sukuk* outstanding amounted to RM 607.9 billion or 54.0% of total bonds outstanding. Corporate *Sukuk* issuances represented 66.7% of total private debt securities

(PDS) issuances while corporate *Sukuk* outstanding accounted for 71.6% of total PDS outstanding. In the first half of 2016, total *Sukuk* issued stood at RM 62.6 billion or 50.4% of total bonds issued while total *Sukuk* outstanding amounted to RM 637.2 billion or 54.5% of total outstanding bonds. As at end of September 2016, the total issuance of corporate *Sukuk* amounted to RM 51.6 billion compared to that of conventional bonds at RM 14.8 billion. As at end-November 2016, the total amount of *Sukuk* issued reached RM 125.3 billion.

**FIGURE 2 : TOTAL SUKUK ISSUED AND TOTAL SUKUK OUTSTANDING**



**FIGURE 3 : CORPORATE SUKUK APPROVED**

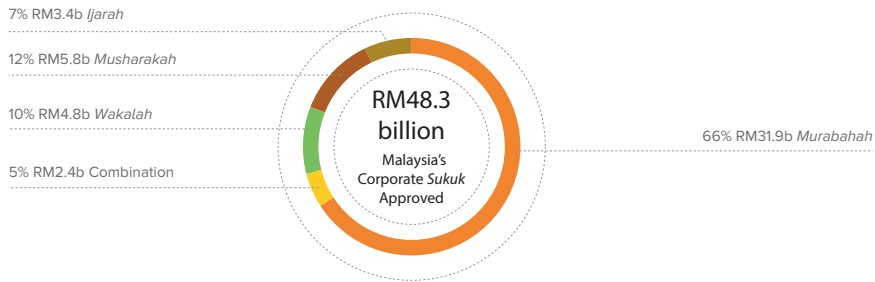


Source: Malaysian ICM bulletin

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 *Shari'ah* contracts. The *Sukuk* structures are backed by real economic activity and has the ability to tap a wider investor base from both Islamic and conventional spectrum including foreign investors.

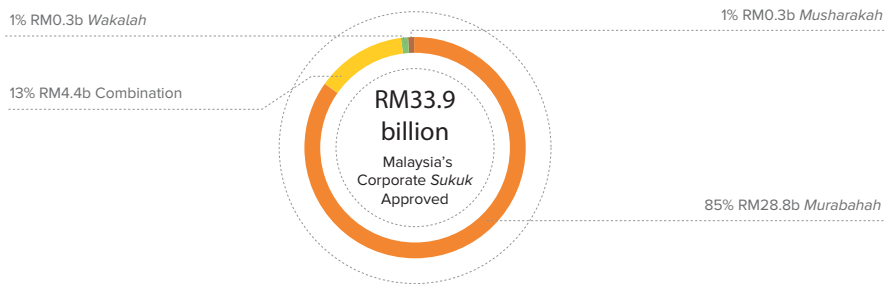


**FIGURE 4 : SIZE OF CORPORATE SUKUK APPROVED BASED ON SHARIAH PRINCIPLE IN 2015**



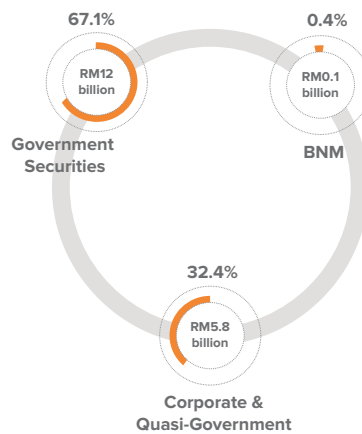
Source: Malaysian ICM bulletin

**FIGURE 5 : SIZE OF CORPORATE SUKUK APPROVED BASED ON SHARIAH PRINCIPLE IN 1H 2016**



Source: Malaysian ICM bulletin

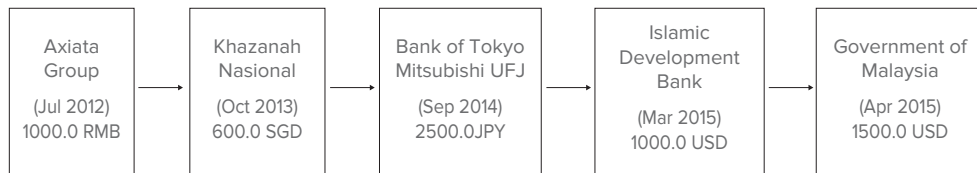
**FIGURE 6 : COMPOSITION OF FOREIGN HOLDINGS OF MALAYSIA SUKUK**



Source: Sukuk Snapshot - RAM Ratings

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

**FIGURE 7 : NOTABLE EMAS SUKUK (MILLION)**



Source: Malaysia International Islamic Financial Centre (MIFC)

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 8 : SUKUK LISTING UNDER BURSA MALAYSIA'S EXEMPT REGIME AS AT JUNE 2016**

<b>No. of Issuers</b>	22
<b>No. of Programmes</b>	28

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. Section 13(5) of the Labuan Islamic Financial Services and Securities Act 2010 allows a Labuan company to issue foreign currency denominated *Sukuk* without prior approval from Labuan Financial Services Authority (FSA) subject to certain conditions that among others, include:

(a) Offers or invitations of *Sukuk*, where –

- (i) the offer or invitation is addressed to an identifiable category of persons to whom it is directly communicated by the person making the offer or invitation or by his appointed agent; or
- (ii) the members of that category in which the offer or invitation is made thereto are the only persons who may accept the offer or invitation and they are in possession of sufficient information to be able to make a reasonable evaluation of the offer or invitation,

and the number of persons to whom the offer or invitation is communicated does not exceed fifty;

(b) Offers or invitations of *Sukuk*, where –

- (i) The first time investment of each of the initial *Sukuk* holders is not less than two hundred and fifty thousand ringgit or the equivalent in any other currency and they are in possession of sufficient information to make a reasonable evaluation of the offer or invitation; or
- (iii) The first time investment of each of the initial *Sukuk* holders is less than two hundred and fifty thousand ringgit or the equivalent in any other currency and the number of persons to whom the offer or invitation is communicated does not exceed fifty and they are in possession of sufficient information to be able to make a reasonable evaluation of the offer or invitation.

In Labuan IBFC, the Labuan International Financial Exchange (LFX) serves as a one-stop full-fledged financial exchange with a complete range of services from listing and trading to clearing and settlement of financial instruments including foreign currency denominated *Sukuk*. As at 30 November 2016, the number of *Sukuk* listed on LFX is 12, representing 38% of the total number

of instruments listed on the exchange.

**FIGURE 9 : SUKUK LISTING UNDER LABUAN INTERNATIONAL FINANCIAL EXCHANGE (LFX) AS AT 30 NOVEMBER 2016**

No.	Issuer Name	Currency (Size)	Listing Date	Maturity Date
1	Danga Capital Berhad (Khazanah) - Trust Certificates Due 2020 ER	SGD 900,000,000	12 Aug 2010	11 Aug 2020
2	Wakalah Global Sukuk Berhad - Series 2 - Trust Certificates Due 2021 ER	USD 800,000,000	7 Jul 2011	6 Jul 2021
3	Indah Capital Ltd - Exchangeable Trust Certificates Due 2019 ER	SGD 600,000,000	25 Oct 2013	24 Oct 2018
4	EXIM Sukuk Malaysia Berhad - Multicurrency Senior Sukuk	USD 300,000,000	20 Feb 2014	19 Feb 2019
5	Cahaya Capital Limited - Multicurrency Senior Sukuk ER	USD 500,000,000	19 Sept 2014	18 Sept 2021
6	PETRONAS Global Sukuk Ltd – USD 1250000000 Trust Certificates due 2020 ER	USD 1,250,000,000	19 Mar 2015	18 Mar 2020
7	Malaysia Sovereign Sukuk Berhad – USD 1,000,000,000 3.043 per cent. Trust Certificates due 2025 ER	USD 1,000,000,000	23 Apr 2015	22 Apr 2025
8	Malaysia Sovereign Sukuk Berhad – USD 500,000,000 4.236 per cent. Trust Certificates due 2045 ER	USD 500,000,000	23 Apr 2015	22 Apr 2045
9	Danga Capital Berhad – USD 750,000,000 Trust Certificates due 2021 ER	USD 750,000,000	2 Mar 2016	1 Mar 2022
10	Malaysia Sukuk Global Berhad – USD 1,000,000,000 Series 1 Trust Certificates Due 2026 ER	USD 1,000,000,000	28 Apr 2016	27 Apr 2026
11	Malaysia Sukuk Global Berhad – USD 500,000,000 Series 2 Trust Certificates Due 2046 ER	USD 500,000,000	28 Apr 2016	27 Apr 2046
12	Bagan Capital Ltd – USD 398.8 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)

Malaysia also offers 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. Expenses incurred on the issuance of Sustainable and Responsible Investment (SRI) *Sukuk* approved by the SC are allowed tax deduction for 5 years until 2020 while double deduction is granted for 3 years until 2018 on additional prescribed expenses on the issuance of retail *Sukuk* under the principles of *Mudarahah*, *Musharakah*, *Istisna'a*, *Murabahah* and *Bai Bithaman al-Ajil* based on *Tawarruq*, *Ijarah* and *Wakalah*.

The progressive advancements in the Islamic ecosystem and infrastructure in Malaysia and Labuan IBFC would contribute towards strengthening further the dynamism of *Sukuk* in catalysing economic and social development not only on the domestic front but also globally by facilitating cross-border investment flows as well as enhancing liquidity in the global Islamic financial services industry

## 5.5 SUKUK MARKET IN PAKISTAN

### BY STATE BANK OF PAKISTAN (SBP)

#### 1. OVERVIEW

*Sukuk* Market is one of the promising sectors in Pakistan's growing Islamic finance industry. *Sukuk* has provided a range of possibilities to Islamic financial institutions for effective liquidity, asset and liability management. Besides, *Sukuk* has played an important role in financing various infrastructure projects and developmental needs of the economy.

Pakistan joined the global *Sukuk* market with issuance of its first international sovereign *Sukuk* of USD 600 million in 2005. In the domestic *Sukuk* market the first *Sukuk* was issued in 2006, and since then *Sukuk* amounting to nearly Rs. 1166.21 billion have been issued. The emergence of *Sukuk* market has helped Islamic banking institutions to diversify their asset mix by providing them an attractive investment avenue besides improving their profitability and earning.

#### 2. OVERALL SUKUK MARKET

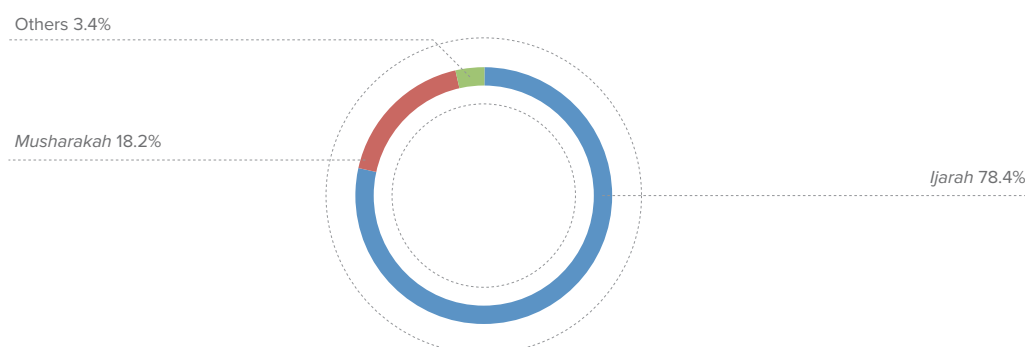
TABLE 1: STATUS WISE SUKUK ISSUANCE IN PAKISTAN

Listing Status	Number of issues	Amount in billion Rs
Privately Placed	91	1123.71
Listed	7	42.5
<b>Total</b>	<b>98</b>	<b>1166.21</b>

Overall 98 *Sukuk* have been issued in the domestic market up to December 31, 2016. Eighteen (18) of these are Government of Pakistan (GoP) *Ijarah Sukuk* while remaining 80 have been issued by corporate or quasi-sovereign entities. The *Sukuk* in Pakistani market till now are in the medium term ranging between 3-7 years. Most of the *Sukuk* issued in Pakistan are privately placed, though, recently few corporate *Sukuk* have also been listed at the stock exchange (Table 1).

#### A) COMMONLY USED SUKUK STRUCTURES

FIGURE 1: MODE WISE BREAKUP OF DOMESTIC SUKUK 2016

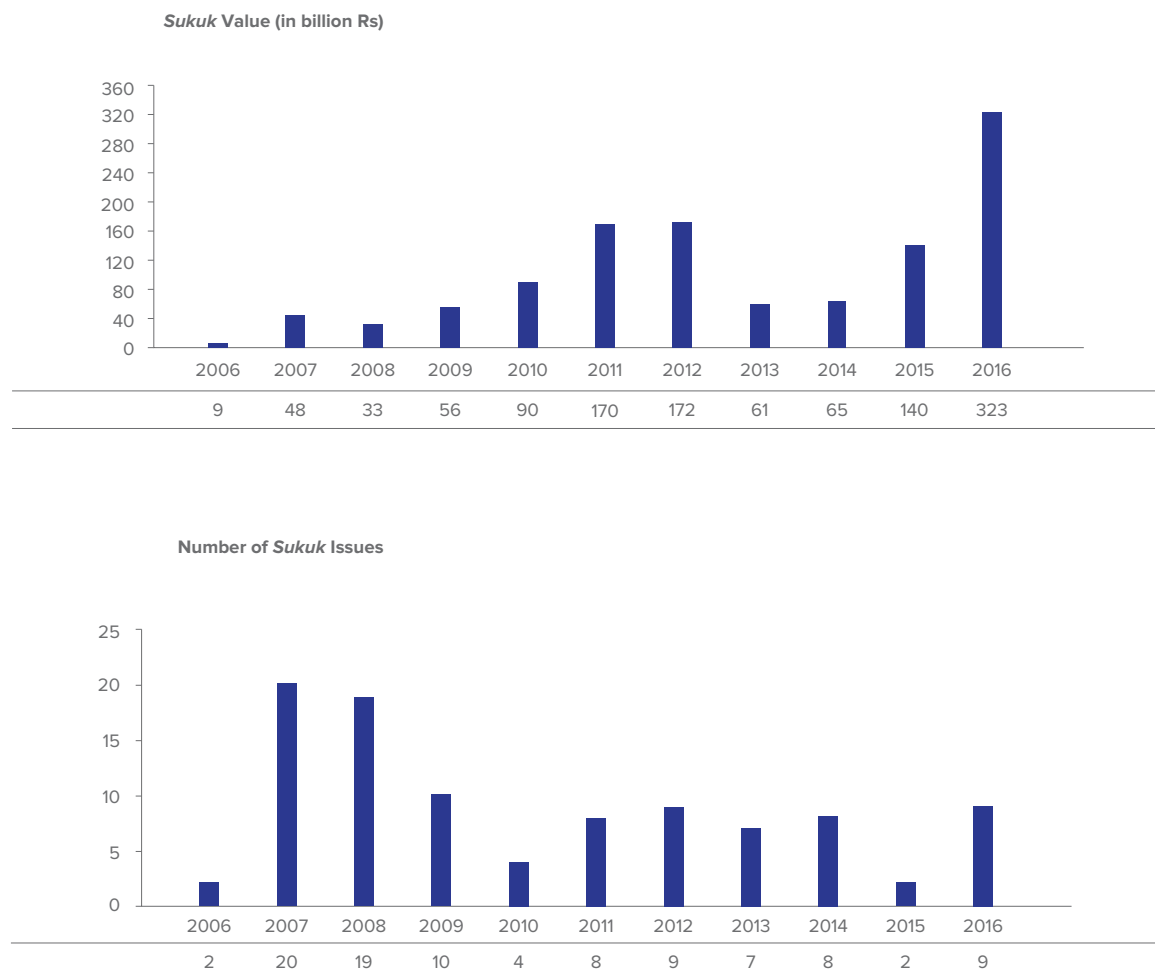


In terms of *Sukuk* structure the most widely used structure is *Musharakah* (51 issues) followed by *Ijarah* (28 issues). However, in terms of value, *Ijarah* dominates the *Sukuk* market with 78.4 percent value of total *Sukuk* issues (Figure 1). The main reason of *Ijarah Sukuk* having a major share in the overall market is that all GoP *Sukuk* are *Ijarah* based having generally larger value compared to other *Sukuk* issued in Pakistan.

## B) CHRONOLOGICAL DEVELOPMENT OF PAKISTAN SUKUK MARKET

Pakistan's entry to *Sukuk* market, though a bit late, but it is growing at significant pace particularly since 2007. It slowed down in 2008 in terms of value, but witnessed considerable development during the period from 2010-12 and in the year 2015 and 2016. It is important to note that the year 2016 remained on top in terms of year wise *Sukuk* value compared to previous years (Figure 2).

FIGURE 2 : YEAR WISE DOMESTIC SUKUK SUMMARY



The above year wise detail of *Sukuk* issuance reveals that the number of issuances has remained limited since 2006; however, there has been a considerable increase in terms of value indicating towards high annual averages. This may be due to the fact that corporate *Sukuk* issuance has witnessed decline and most of the issuances have come in the form of sovereign *Sukuk* i.e. GoP *Ijarah Sukuk* having high values.

### C) ENTITY WISE SUKUK ISSUANCE IN PAKISTAN

Entity wise distribution analysis reveals that corporate *Sukuk* had a major share in total *Sukuk* issuances in Pakistan till 2009 when a structural shift from corporate to sovereign *Sukuk* took place. Corporate *Sukuk* issuances declined while GoP *Sukuk* have managed a considerable share since then. Sovereign *Sukuk* at present has a major share of nearly 74.2 percent in total value of *Sukuk* issued in the country, followed by Quasi-sovereign 16.9 percent and Corporate *Sukuk* 8.9 percent (Table 2).

**TABLE 2: ENTITY WISE & YEAR WISE BREAKUP OF SUKUK VOLUME (CUMULATIVE AS OF END YEAR IN PERCENT)**

Year	Corporate	Sovereign	Quasi-Sovereign
2006	7.2	0.0	92.8
2007	55.5	0.0	44.5
2008	48.6	14.0	37.4
2009	43.3	29.0	27.7
2010	27.1	55.7	17.2
2011	15.9	72.7	11.4
2012	11.5	79.3	9.2
2013	10.7	78.5	10.8
2014	11.0	78.3	10.7
2015	9.2	79.3	11.5
2016	8.9	74.2	16.9

### D) 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 issuance of first GoP *Ijarah Sukuk*, there have been 18 auctions of GoP *Sukuk* (up to December, 2016) amounting to Rs 865.34 billion or nearly 74 percent of the overall *Sukuk* issuance (Table 3).

**TABLE 3: SUMMARY OF 3 YEARS IJARAH SUKUK BY THE GOVERNMENT OF PAKISTAN- AS OF END DECEMBER, 2016**

Issue	Issue Date	Amount of Sukuk (Rs in millions)
GOP Ijarah Sukuk - 1	26/9/2008	6,522.50
GOP Ijarah Sukuk - 2	29/12/2008	6,000.00
GOP Ijarah Sukuk - 3	11/3/2009	15,325.00
GOP Ijarah Sukuk - 4	17/9-2009	14,396.00
GOP Ijarah Sukuk - 5	15/11/2010	51,837.00
GOP Ijarah Sukuk - 6	20/12/2010	37,174.00
GOP Ijarah Sukuk - 7	7/3/2011	47,539.70
GOP Ijarah Sukuk - 8	16/5/2011	45,803.70
GOP Ijarah Sukuk - 9	26/12/11	70,269.10
GOP Ijarah Sukuk - 10	2/3/2012	38,123.90
GOP Ijarah Sukuk - 11	30/4/2012	29,632.00
GOP Ijarah Sukuk - 12	28/6/2012	48,765.80
GOP Ijarah Sukuk - 13	18/9/2012	47,017.80
GOP Ijarah Sukuk - 14	28/3/2013	43,018.00
GOP Ijarah Sukuk - 15	25/6/2014	49,537.00
GOP Ijarah Sukuk – 16	18/12/2015	117,723.00
GOP Ijarah Sukuk – 17	15/2/2016	116,256.00
GOP Ijarah Sukuk – 18	29/3/2016	80,400.00
<b>Total GOP Ijarah Sukuk</b>		<b>865,340.50</b>

**E) CORPORATE SUKUK**

The corporate Sukuk has witnessed decline in issuance size since 2008. Though this is in line with the trend in Sukuk markets around the world, it is imperative to note that global Sukuk has seen slight resurgence in the recent past. In 2016, seven corporate Sukuk worth Rs 126.17 billion have been issued. The share of corporate Sukuk in the overall market is the least among other peers (Table 4).



**TABLE 4: 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
<b>Total</b>	<b>300,872</b>	<b>80</b>

### 3. INTERNATIONAL SUKUK BY THE GOVERNMENT OF PAKISTAN

Pakistan has so far issued three international *Sukuk*: first worth USD 600 million in 2005 followed by second international *Sukuk* valuing USD 1,000 million in 2014 and third *Sukuk* valuing USD 1,000 million in 2016 (Table 5). These international *Sukuk* were issued for the period of five years and attracted an overwhelming response of investors as all three transactions were over-subscribed.

**TABLE 5: INTERNATIONAL SUKUK BY THE GOVERNMENT OF PAKISTAN**

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

#### 4. LEGAL AND REGULATORY FRAMEWORK

The domestic corporate *Sukuk* market is regulated by the Securities and Exchange Commission of Pakistan (SECP). The SECP has over the years taken some important measures for improving the domestic corporate *Sukuk* market. In 2008, the Religious Board for *Mudarabah* of SECP approved the conceptual framework for issuance of *Sukuk* by *Modarabas*. The SECP has issued regulations for Issuance of *Sukuk* 2015 aimed at facilitating issuers besides providing comfort to *Sukuk* investors. Moreover, SECP also recently established a dedicated Islamic finance department.

#### 5. PROSPECTS OF PAKISTAN SUKUK MARKET

*Sukuk* market both globally as well as in Pakistan has witnessed strong growth over the years. This is mainly because of inherent qualities of *Sukuk* as it has the ability to serve as an effective liquidity management tool apart from performing important role in overall development of economy. *Sukuk* market in Pakistan provides opportunity

for both government and corporate entities to raise funds in a *Shari'ah* compliant manner especially in the wake of the China-Pakistan Economic Corridor (CPEC). However, like globally, the *Sukuk* market in Pakistan is confronted with some challenges like limited availability of short-term instruments, effective secondary market, disclosure of usage of *Sukuk* proceedings and limited project specific *Sukuk*.

In this regard, the stakeholders including regulators are working for increasing depth and stability of the *Sukuk* market in Pakistan.

The Government and SBP are committed to promote Islamic finance in the country through enabling regulatory and policy environment. It is believed that Islamic banking and its related fields will flourish more in the days to come, catering to both domestic and international markets.

## 5.6 SUKUK MARKET DEVELOPMENTS IN TURKEY

### BY THE CAPITAL MARKETS BOARD OF TURKEY (CMB)

Turkey is the 18th 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. Turkey has the potential to become a significant financial center, with its young and dynamic population, qualified labor force, growing economy, developed markets, diversified financial products and services, and a strong regulatory framework. Besides advantages, Turkish economy and financial markets also face some challenges. With a low saving rate and high current account deficit, Turkish financial markets have become vulnerable to developments in global markets. Unfavorable conditions for emerging market economies in the recent period, such as the Fed interest rate hikes and a reversal of financial flows from emerging markets along with uncertainties in domestic markets have contributed to a slower growth.

The Turkish financial market is traditionally dominated by public sector securities. Especially, private debt instruments were crowded-out by government bonds till recent years. The share of private sector securities in total outstanding securities has started to increase by 2010. Within total outstanding securities, the share of private sector increased from 17.6 % in 2010 to 26 % as of September 2016. The main motive behind that improvement was the growth in the corporate debt market including *Sukuk* issuances.

**TABLE 1. MAJOR CAPITAL MARKET INSTRUMENTS ISSUANCES**

(USD Million)	2013	2014	2015	2016
Lease Certificates	344	2,075	1,251	976
Debt Securities	36,619	50,482	37,707	33,793
Shares	2,815	1,436	763	503

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 a 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.

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 authorised to determine;
  - Principles and procedures concerning the establishment of ALC, its articles of association, activity principles,
  - Types and qualities of the assets and rights ALC can take over and the keeping of the records related to them,
  - ALC's management, liquidation and termination principles.

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*, 5 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'a Sukuk*)
- Combination of those above mentioned and any other structure accepted by the CMB.
- In the Communiqué the issue amount has been restricted to 90 percent of the underlying asset's fair value for lease certificates based on ownership and independent contractor agreement (*Ijarah* and *Istisna'a*).
- 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, independent board member requirement has been regulated and for important decisions affirmative vote of independent members is required.

Furthermore, in order to raise the demand for *Sukuk* by 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, in 2016 tax and fee exemptions were extended with a legal amendment to cover all lease certificates. Also in 2016, in line with the goals of promoting the companies' access to finance and cushioning their financial costs, fifty percent discount has been applied for the CMB fees on the issuances of capital market instruments including *Sukuk*.

In terms of issuance data, between 2013 and 2016 a total of 105 private sector *Sukuk* issuances have been realized. Similar to conventional debt securities market, private *Sukuk* is also dominated by the banking sector with Participation (Islamic) banks. Out of the 105 issues, only 7 were non-financial corporate issues.

In line with effective, reliable and flexible regulatory framework, volume of *Sukuk* issues has reached significant levels. However, due to sharp fall in commodity prices and high foreign exchange rates, a decline was observed in funds raised by *Sukuk* issuances in 2015 and 2016.

**TABLE 2. PRIVATE SUKUK ISSUANCES (2013-2016)**

Private <i>Sukuk</i> Issues (2013-2016)	Total <i>Sukuk</i> Issuances (USD Million)	Average Maturity (Year)
Cross border	2,669	5.01
Domestic	1,977	0.64
<b>Total</b>	<b>4,646</b>	

**TABLE 3. SOVEREIGN SUKUK ISSUANCES (2013-2016)**

Sovereign <i>Sukuk</i> Issues (2013-2016)	Total <i>Sukuk</i> Issuances (USD Million)	Average Maturity (Year)
Cross border	2,250	7.50
Domestic	6,538	2.39
<b>Total</b>	<b>8,788</b>	

As shown on tables above, the majority of corporate *Sukuk* issues are cross-border while most sovereign 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 public it needs to be listed at Borsa Istanbul. Secondary trading of *Sukuk* in Turkey is mostly dominated by sovereign issues. For corporate *Sukuk*, preferences of retail investors may be mentioned as a disadvantage for second hand transactions as they hold *Sukuk* usually till maturity.

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

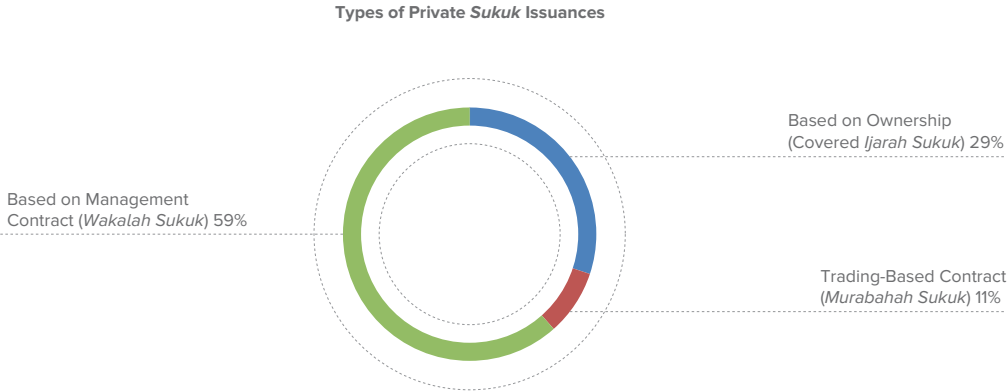
Meanwhile, some significant steps have been taken to introduce Turkish *Sukuk* market for international issuers in recent years. *Sukuk* issued by the Islamic Development Bank has been listed in Borsa Istanbul in 2016. IDB has issued *Sukuk*, which are already traded in

London, Dubai and Malaysia. IDB's listing has been an important landmark as it highlights Istanbul's place as a financial center within the global financial markets.

With respect to creating a benchmark for the *Sukuk* market, Turkish Treasury's 5 year maturity *Sukuk* issuance as well as the one based on the CIFCPI linked *Sukuk* issuances took place in 2016 to serve the secondary market by enhancing the yield curve and market liquidity.

As shown in the chart below, the types of *Sukuk* 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. TYPE OF PRIVATE SUKUK ISSUANCES



# Conclusion

*Sukuk* is firming up its position as one of the main alternative sources of funding not only in the Islamic markets but also garnering interest from Europe, Africa, Asia and countries of the Commonwealth of Independent States (CIS).

During the year 2016, the global *Sukuk* market remained stable with increased issuances from certain established jurisdictions as well as proving attractive to new issuers.

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* particularly from Indonesia. There were some issuances of *Sukuk* in currency other than issuer's home jurisdiction and these issuances were mainly in Malaysian Ringgit and Singaporean Dollars. The investor base also continued to expand coupled with increasing participation from a number of regions.

The demand for *Sukuk* from GCC countries namely Bahrain, Qatar, Saudi Arabia, UAE and 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. *Sukuk* issuance by China will also provide an impetus to international *Sukuk* market and the signs are encouraging as several Chinese companies are considering *Sukuk* issuance through Hong Kong where the legal framework to issue *Sukuk* is already in place. *Sukuk* also continues to attract issuances from the African region where the infrastructural development needs are enormous.

Since recent years, several 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 frequent issuers of short-term *Sukuk* in 2016.

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

The *Sukuk* market witnessed a number of milestone *Sukuk* issuances such as *Sukuk* issued by Etihad Airways, Neelum Jehlum, Khazanah Nasional, Islamic Development Bank, Oman Telecom and many others in 2016.

The issuance of more debut *Sukuk* and the refinancing of maturing *Sukuk* is likely to maintain the positive *Sukuk* volume trajectory. Moreover, stable commodity prices, gradual rise in the reference rates, budgetary and development requirements of certain Islamic jurisdictions are expected to contribute to *Sukuk* issuance volumes in 2017.

The trend issuing *Sukuk* on fixed profit rate is expected to continue for at least the next two years and this will continue to help the development of the secondary *Sukuk* market, which is evident from the country focus reports from Malaysia, Turkey, Indonesia and others.

The trend of *Sukuk* issuances in non-local currency, for example, issuer based in GCC floating a Malaysian Ringgit *Sukuk* or Malaysian *Sukuk* issuance in Singapore Dollar or Chinese Yuan etc., has also continued and this positive development will further contribute in the development of *Sukuk* market. The risk mitigation/hedging documentation as well as Foreign Exchange and Rate of Return product standard templates published by IIFM is 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) is also helping Islamic financial institutions to meet new regulatory requirements.

During 2016, the share of sovereign issuances in domestic market remained robust contributing 58% of total issuance value followed by corporate issuances of 32%, which is mainly due to deep corporate *Sukuk* market in Malaysia. The shares of corporate sector excluding Malaysia had a marginal gain in issuance volume.

In 2016, the quasi-sovereign issuances in the international market had one of the most active year with an issuance contribution of 51% followed by sovereign issuances of 27%. The corporate and financial institutions issuances were 10% and 12%, respectively, which is a clear indication that the pace of corporate issuance lacks momentum.

On a cumulative basis for period 2001 to 2016, Malaysia is the top *Sukuk* issuer with combined domestic and international issuances of USD 560 Billion, followed by the UAE with USD 68 Billion, Saudi Arabia with USD 63 billion and Indonesia with USD 42 Billion. Malaysia due to its deep capital market continues to maintain its lead over its peers from the Far East and GCC; however, the increase in issuances from Turkey, Saudi Arabia, Indonesia, UAE, Qatar, Bahrain etc may reduce the Malaysian share of the global *Sukuk* market in coming years.

In terms of the most widely used structure by issuers in international market in 2016, *Wakalah* structure maintained its lead over *Ijarah* structure and was the most popular and widely used structure with the market share of a whopping 77%, followed by *Sukuk Al Ijarah*, *Sukuk Al Mudharabah*, *Sukuk Al Murabahah* market share of 16%, 5% and 2% respectively.

At domestic level in 2016, *Murabahah* remains the most used structure with the market share of 38%, while the use of *Sukuk Al Ijarah* increased to 33% as compared to 19% in 2015. *Sukuk Al Musharakah*, *Sukuk Al Mudharabah* and *Sukuk Al Wakalah* structures have market share of 9%, 8% and 10% respectively. The year 2016 presents a more balanced structure preference, which is good for the *Sukuk* market as the concern of over reliance on one particular structure seems to be addressed.

The year 2016 was a good year in terms of international *Sukuk* issuances and the year closed at USD 31.5 billion *Sukuk* issuances as compared to 2015 International *Sukuk* issuance of USD 20.9 billion. The volume of short-term international *Sukuk* issuance in 2016 and 2015 works out to USD 9.3 billion and USD 7.6 billion respectively which means that longer tenor *Sukuk* issuances were USD 22.2 billion and USD 13.3 billion respectively.



The international outstanding *Sukuk* are around USD 107 billion, which is a slight improvement over last year, though supply and demand gap still remains.

Considering several landmark global *Sukuk* issuances from Malaysia, Qatar, Turkey, UAE, Saudi Arabia, Indonesia, Bahrain etc in pipeline for 2017 is indicating that the *Sukuk* market will maintain its appeal and growth prospects for the coming few years.

As far as the domestic *Sukuk* market is concerned, Malaysia has maintained its dominating share in terms of both volume and value. Malaysia remains as the largest domestic *Sukuk* issuer with 76.4% on a cumulative basis for 2001-2016 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 Indonesia, Turkey and Pakistan. Central banks are providing avenues to Islamic banks and other investors to invest their surplus liquidity in government *Sukuk* programs designed to provide a level playing field to the Islamic financial institutions. Moreover, a number of countries such as Gambia, Ivory Coast, Senegal, Bangladesh are developing their domestic *Sukuk* market.

The total outstanding Domestic *Sukuk* as of 2016 stood at around USD 260 billion, which is USD 30 billion higher than the previous year. As predicted in last edition of the IIFM *Sukuk* Report, the issuance figures during coming years will improve as sovereigns, quasi-sovereigns and to some extent corporates and financial institutions in jurisdictions like Malaysia, Indonesia and GCC as well as several other countries which are getting more active in *Sukuk* issuances.

Malaysian Ringgit takes the first spot mainly due to its strong and well developed local fixed income market. Malaysia and Singapore continue to attract *Sukuk* issuers from GCC and Japan to raise their funding needs in Malaysian Ringgit or Singaporean Dollars. These issuers took advantage of the fine pricing due to local demands and the attractive currency swap rates that achieved a lower yield as well as to diversify its investors.

Another encouraging development is that issuers from China are considering to issue *Sukuk* from Hong Kong market, which will further improve volume from these type of issuances.

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

Cross-border international *Sukuk* maturities in 2016 is twice the amount matured in 2015 due to the fact that starting 2011 *Sukuk* market was on its way towards recovery after the global financial crisis and most the maturing *Sukuk* emanate from that year. The *Sukuk* maturities during 2017 and 2018 will be around USD 27.6 billion and need to be replaced. Based on *Sukuk* issuance pipeline and market news, it is expected that these maturities will be replaced by existing as well as by new entrants.

Short-term *Sukuk* with maturity of 1 year or less are essential in the development of Islamic Inter-bank market and they play a key role in the liquidity management of the financial institutions. In the year 2016, Malaysia, Sudan, Bahrain, Indonesia, Turkey and Brunei Darussalam were the main issuers of short-term *Sukuk* with a market share of 37%, 21%, 14%, 1.5%, 1.1% and 0.8% respectively. The short-term *Sukuk* market now presents balanced issuances from various jurisdictions. Entry of IILM in short-term international *Sukuk* market is also helping the development of this important market.

The appetite for short-term *Sukuk* is far greater than longer tenor *Sukuk* as evident by these issuers. The trend towards issuing shorter tenor *Sukuk* is improving though it is mainly driven by sovereign issuers and there is a need that the Islamic financial institutions and corporates become active issuers of *Sukuk* to provide diversity and depth to the local markets which is essential in the development of the money market.

Another important aspect, which is critical to the development of *Sukuk* market, is the role of corporate sector. As mentioned in the analysis part, the volume of corporate issuances in most of the *Sukuk* issuing jurisdictions except Malaysia is below expectations. There are several reasons for below par 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 the default and restructuring and in recent months two *Sukuk* namely a subsidiary of Swiber Holding in Singapore and Dana Gas based in *Sharjah* have surfaced.

Dana Gas announcement in June 2017 of declaring its USD 700 million *Sukuk* (restructured in 2013) “unlawful and unenforceable” is an unprecedented event and may have a negative impact on *Sukuk* market in general and corporate *Sukuk* in particular hopefully for the short-term.

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

# Glossary

Term	Meaning
<b>'Aqd</b>	A bilateral contract, agreement etc.
<b>'Aqd al-Muawadah</b>	Contract of exchange in which compensation is given against the goods or services received.
<b>Al-Bai`</b>	Sale contract.
<b>Bai al-'Inah</b>	Sale contract followed by repurchase by the seller at a different price.
<b>Bai al-Salam</b>	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.
<b>Bai al-'Arbun</b>	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).
<b>Bai Bithaman al-Aajil / Bai Mu'ajjal or Bai al-Aajil</b>	Deferred payment sale. It refers to the sale of goods contract on a deferred payment basis.
<b>Bai al-Wafa</b>	Buyback, sale and repurchase, a contract with the condition that when the seller pays back the price of goods sold, the buyer returns the goods to the seller.
<b>Faqih</b>	Is a Muslim Jurist who gives rulings on various juristic issues in the light of the Qur'an and the Sunnah of Prophet Muhammad (peace be upon him).
<b>Fatwa</b>	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.
<b>Fiqh</b>	Refers 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.
<b>Fiqh-al-M 'aamalat</b>	It is Islamic commercial jurisprudence, jurisprudence of financial transactions or the rules of transacting in a Shari'ah compliant manner.
<b>Ijarah</b>	Lease or service contract that involves benefit/usufruct of certain asset or work for an agreed payment within an agreed period.
<b>Ijarah Muntahia bi al-Tamlik</b>	Lease contract which ends with acquisition of ownership of the asset by the lessee.
<b>Istisna'a</b>	Advance purchase of goods or buildings. It is a sale contract by way of order for a certain product with certain specifications and certain mode of delivery and payment (either in cash or deferred).
<b>Global Sukuk (For the purpose of this report)</b>	Both international and domestic <i>Sukuk</i> .
<b>Murabahah</b>	Sale contract with a disclosure of the asset cost price and profit margin to the buyer.
<b>Murabahah</b>	Sale contract with a disclosure of the asset cost price and profit margin to the buyer.

<b>Mudarabah</b>	Profit sharing contract. It is an investment partnership, whereby the investor provides capital to the entrepreneur in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The entrepreneur loses only his share of the expected income.
<b>Mudarib</b>	Entrepreneur of a Mudarabah joint venture contract.
<b>Musharakah</b>	Profit and loss sharing contract. It is an investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested.
<b>Musharakah Mutanaqisah</b>	Refers to a contract whereby one of the partners promises to buy the equity share of the other gradually until the title is completely transferred to him.
<b>(This is known as diminishing Musharakah).</b>	A party who asks for collateral.
<b>Murtahin</b>	A party who asks for collateral.
<b>Musawamah</b>	Bargain on price. Sale contract without the disclosure of the asset cost price and profit margin to the buyer.
<b>Muwakkil</b>	The principal/investor who appoints the agent (Wakil) to carry out a specific job on his behalf.
<b>Rabb al-Mal</b>	Owner of capital (the investor) in <i>Mudarabah</i> joint venture contract.
<b>Ra's-al-Mal</b>	The capital. The money or property which an investor invests in a profit-seeking venture contract.
<b>Rahn</b>	An arrangement whereby a valuable asset is placed as collateral for a debt. The collateral may be disposed off in the event of a default.
<b>Rahin</b>	Chargor
<b>Shari'ah</b>	Is often referred to as Islamic law. It is the rulings contained in and derived from The Holy Qur'an and the Sunnah [i.e. sayings and living example of the Prophet Muhammad (peace be upon him)]. These cover every action performed by an individual or a society. It is primarily concerned with a set of values that are essential to Islam and the best manner of their protection. The essential values of the <i>Shari'ah</i> include those of faith, life, intellect, lineage, property, fulfillment of contracts, preservation of ties of kinship, honoring the rights of one's neighbor. It also includes sincerity, trustworthiness and moral purity and so forth.
<b>Shari'ah Scholar</b>	The Islamic <i>Shari'ah</i> scholar is an individual who is well-versed with the necessary knowledge of the Shari'ah teachings and principles.
<b>Shari'ah Compliant Product</b>	The product meets the requirements of <i>Shari'ah</i> . In other words, this is the term used in Islamic finance to indicate that a financial product or activity that complies with the requirements of the <i>Shari'ah</i> .
<b>Shari'ah Board</b>	Is the committee of well-versed Islamic scholars available to an Islamic financial institution for guidance and supervision in the development of <i>Shari'ah</i> compliant products. It is recommended the scholars of a <i>Shari'ah</i> board to be well versed and competent in Shari'ah and its approaches to economics and finance.
<b>Shari'ah Advisor</b>	Is an independent Islamic trained scholar that advises Islamic institutions on the compliance of the products and services with the Shari'ah.
<b>Takaful</b>	Islamic insurance. Structured as a charitable collective pool of funds based on the idea of mutual assistance.

<b>Tawarruq</b>	Reverse <i>Murabahah</i> , for the purpose acquiring cash through trade activities.
<b>Tamwil Majm'a li Muamalaat Tijariah</b>	Refers to a participation agreement for trade finance transactions.
<b>Wa'ad</b>	Promise/undertaking. Such as a promise to buy or sell certain goods in a certain quantity at a certain time in future at a certain price.
<b>Wakalah</b>	Agency. A contract of agency in which one party appoints another party to perform a certain task on its behalf.
<b>Wakil</b>	In a <i>Wakalah</i> contract, a representative/agent, who acts on behalf of the principal/investor.
<b>Wakalah bi al-Istithmar</b>	Agency contract for investment.
<b>Wathiqah Hamish al Rahn al Naqdi</b>	Refers to Credit Support Deed for Cash Collateral Variation Margin Agreement.
<b>Sukuk Al-Istithmar</b>	Refers to Investment <i>Sukuk</i> . Investment <i>Sukuk</i> are of different types. Such as Certificates of ownership in leased assets and Certificates of ownership of usufructs.
<b>Sukuk</b>	An Arabic term for financial certificate. It is defined as "Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity".
<b>Sukuk Al-Istithmar</b>	Refers to Investment <i>Sukuk</i> . Investment <i>Sukuk</i> are of different types. Such as Certificates of ownership in leased assets and Certificates of ownership of usufructs.
<b>Sukuk Mulkiyat al Maujudaat al Muajjarah</b>	Certificates of ownership in leased assets.
<b>Sukuk Mulkiyat al Manaf'i</b>	Are certificates of ownership of usufructs (are of different types).
<b>Sukuk Al Ijarah</b>	An Islamic certificate for the buying and leasing of assets by the investors to the issuer and such <i>Sukuk</i> shall represent the undivided beneficial rights/ownership/interest in the asset held by the trustee on behalf of the investors.
<b>Sukuk Al Istisna'a</b>	Are certificates of equal value issued with the aim of mobilizing funds to be employed for the production of goods so that the goods produced come to be owned by the certificate holders.
<b>Sukuk Al Mudarabah</b>	Are certificates that represent project or activities managed on the basis of <i>Mudarabah</i> by appointing one of the partners or another person as the <i>Mudarib</i> for the management of the operation.
<b>Sukuk Al Murabahah</b>	Are certificates of equal value issued for the purpose of financing the purchase of goods through <i>Murabahah</i> so that the certificate holders become the owners of the <i>Murabahah</i> commodity.
<b>Sukuk Al Musharakah</b>	Are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, financing a business activity etc., on the basis of any of partnership contract so that the certificate holders become the owners of the project.
<b>Sukuk Al Salam</b>	Are certificates of equal value issued with the aim of mobilizing Salam capital/mobilizing funds so that the goods to be delivered on the basis of Salam come to be owned by the certificate holders.
<b>Corporate Sukuk</b>	Is a <i>Sukuk</i> issued by a corporation as opposed to those issued by the government. It is a major way for companies to raise funds in order to expand its business or for a specific project.

<b><i>Sukuk Al Musharakah</i></b>	Are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, financing a business activity etc., on the basis of any of partnership contract so that the certificate holders become the owners of the project.
<b><i>Convertible or Exchangeable Sukuk</i></b>	Convertible or Exchangeable <i>Sukuk</i> certificates are convertible into the issuer's shares or exchangeable into a third party's shares at an exchange ratio, which is determinable at the time of exercise with respect to the going market price and a pre-specified formula.
<b><i>Domestic Sukuk</i></b>	Hybrid <i>Sukuk</i> combine two or more forms of Islamic financing in their structure such as <i>Istisna'a</i> and <i>Ijarah</i> , <i>Murabahah</i> and <i>Ijarah</i> etc.
<b><i>Global Sukuk</i></b>	A <i>Sukuk</i> issued in local currency.
<b><i>Hybrid Sukuk</i></b>	Hybrid <i>Sukuk</i> combine two or more forms of Islamic financing in their structure such as <i>Istisna'a</i> and <i>Ijarah</i> , <i>Murabahah</i> and <i>Ijarah</i> etc.
<b><i>International Sukuk</i></b>	Are <i>Sukuk</i> issued by a public sector entity that is like sovereign <i>Sukuk</i> . It may carry explicit or implicit government guarantee.
<b><i>Quasi-Sovereign Sukuk</i></b>	Are <i>Sukuk</i> issued by a public sector entity that is like sovereign <i>Sukuk</i> . It may carry explicit or implicit government guarantee.
<b><i>Sovereign Sukuk</i></b>	Are <i>Sukuk</i> issued by a national government. The term usually refers to <i>Sukuk</i> issued in foreign currencies, while <i>Sukuk</i> issued by national governments in the country's own currency are referred to as government <i>Sukuk</i> .





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International Islamic  
Financial Market

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**International Islamic Financial Market**  
7th Floor, Office No. 72  
Zamil Tower, Al Khalifa Avenue  
PO Box 11454, Manama  
Kingdom of Bahrain

T: +973 17500161  
F: +973 17500171  
info@iifm.net  
www.iifm.net