Sukuk & Islamic Banking
Tapping a Growing Pool of Islamic Liquidity

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Agenda

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   *A Growing Pool of Islamic Liquidity*

2 - Sukuk Market
   *Growing and Diversifying*
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Islamic Banks

A Fast Growing Pool of Islamic Liquidity
Islamic Banks

Assets of Islamic finance institutions continue to grow at a faster rate than conventional banks assets

- Financing of Islamic banks CAGR (2008-13)
- Financing of conventional banks CAGR (2008-13), excluding Islamic windows for UAE, KSA & Bahrain countries

Sources:
- Central Banks data - Qatar, Bahrain, Malaysia and Turkey banking systems.
- Annual reports and Moody's BFM data for rated banks - UAE, KSA and Kuwait.
- Annual reports for non rated banks in UAE and KSA.
- Islamic windows assumptions for UAE, KSA and Bahrain.
- Data as of December 2008 and December 2013 for all banking systems.
Islamic Banks
Islamic finance enjoys strong penetration in many markets but still has room to grow

Sources:
* Total Assets data used for Oman banking system.
Central Bank data - UAE, KSA, Kuwait, Qatar, Bahrain, Malaysia and Turkey.
Annual reports and Moody’s BFM data for rated banks- UAE, KSA, Kuwait/ Annual reports for non rated banks – UAE and KSA
Islamic windows assumptions included in Islamic financing for UAE, KSA and Bahrain.
** Oman data from Thomson Reuters study, dated June 2014/ Data as of YE2013 for all banking systems except Oman
Sukuk Markets
Growing, Extending & Diversifying
Global Short-Term & Long-Term Sukuk Issuances
Volumes falling in line with fixed income trends in the GCC & Emerging Markets

2012 was an outlier year due to strong EM inflows and 2014 saw Malaysian issuance reductions offset by new volumes from entrants such as UK, Luxembourg, South Africa, and Hong Kong.

Sources: Islamic Finance Information Service, Moody’s estimates
Sukuk Issuance Trends
Maturities are extending with five and ten year buckets the most common
Sukuk Issuance Trends
Longer Maturities are becoming more common

LT Sukuk Paper Outstanding (H1 2015) - By

1 - 5 yrs 30%
5 - 10 yrs 43%
> 20 yrs 7%
10 - 20 yrs 20%

LT Sukuk Paper Issued by Tenor 2001-2014

1 - 5 yrs 48%
5 - 10 yrs 34%
> 20 yrs 5%
10 - 20 yrs 13%
Infrastructure Financing Drives Longer Maturities
Infrastructure Sukuk concentrated in Malaysia

Huge infrastructure needs in the GCC, Asia and Africa will boost infrastructure Sukuk issuance going forward
International Sukuk Issuances are Increasing

GCC states’ US dollar issuances are driving sukuk globalisation

LT Sukuk Issuance by Currency in 2014

- MYR 42%
- USD 34%
- SAR 8%
- QAR 7%
- IDR 6%
- Others 3%

LT Sukuk Issuance by Currency 2001-2014

- MYR 54%
- USD 25%
- SAR 7%
- QAR 3%
- IDR 3%

International Sukuk Issuance by Country

- United Arab Emirates
- Saudi Arabia
- Malaysia
- Indonesia
- Turkey
- Qatar
- Hong Kong
- Bahrain
- Kuwait
- Pakistan
- Others

Issued in 2014
Total Outstanding

Dynamics of Demand for Islamic Finance to fund Long-Term Investments
Sukuk Market: Drivers of Growth

Drivers are strong and market is globalizing

The drivers of this continued growth include

– global investors’ increasing familiarity with sukuk instruments
– increasing ‘Islamic’ investment liquidity looking for sukuk
– increasing retail & corporate demand for Islamic financial services
– increasing standardisation of unsecured sukuk structures
– increased policy support from governments of Muslim and now non-Muslim countries

2015/2016 Sukuk issuance trends & drivers

– Major reductions in 2015 Malaysian Sukuk paper market on the back of lower short term issuance from Bank Negara and some fiscal consolidation
– Uncertainty regarding US rate rise and difficult conditions in the GCC have hit regional issuance for 2015
– Declining liquidity in the GCC (due to low oil prices) coupled with modest/strong growth is forcing GCC banks to tap longer term funding
– Sovereign deficits compounded by high social spending and investment needs are pushing GCC governments to issue bonds/sukuk
Quick Note - Asset Backed Sukuk

Better suited for long term financing

Shari’ah strongly encourages asset-backed finance. Principles of Tangibility, Asset ownership, risk/profit sharing are inherent in such structures

However the failures of conventional securitisation (e.g. sub-prime) in the global crisis and regional preferences for name-lending has meant little appetite for asset-backed instruments despite the fact that (rated) asset-backed sukuk performed much better than their asset-based (unsecured) counterparts

Islamic securitisation is well suited for longer-term assets and project finance. Assets and liabilities are perfectly match funded with genuine risk transfer. It provides lower funding costs plus a market-based valuation for securitised assets.

However Islamic banks not keen to support longer term projects given their own heavy short-term funding bias and regional institutional investor base is weak.
Moody’s Investors Service

Recognised by global markets as the leading provider of credit ratings, research and risk analysis.

Best Credit Rating Agency in EMEA for High Yield & Emerging Markets: 2015
Best Islamic Rating Agency: 2015
Project Finance Firm of the Year (USA): 2015

Best Islamic Finance Rating Agency: 2015
#1 Asia Credit Rating Agency: 2012, 2013, 2014
#1 US Municipal Research Team in Smith’s All-Star Voting: 2014
Australia’s Rating Agency of the Year: 2014
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