



**STANDARD & POOR'S
RATINGS SERVICES**

McGRAW HILL FINANCIAL

2nd Kazan Sukuk Conference

Global Sukuk Market Outlook 2015

Dr. Mohamed Damak
Global Head of Islamic Finance
April 9, 2015



Agenda

1- Standard & Poor's Expertise in Islamic Finance

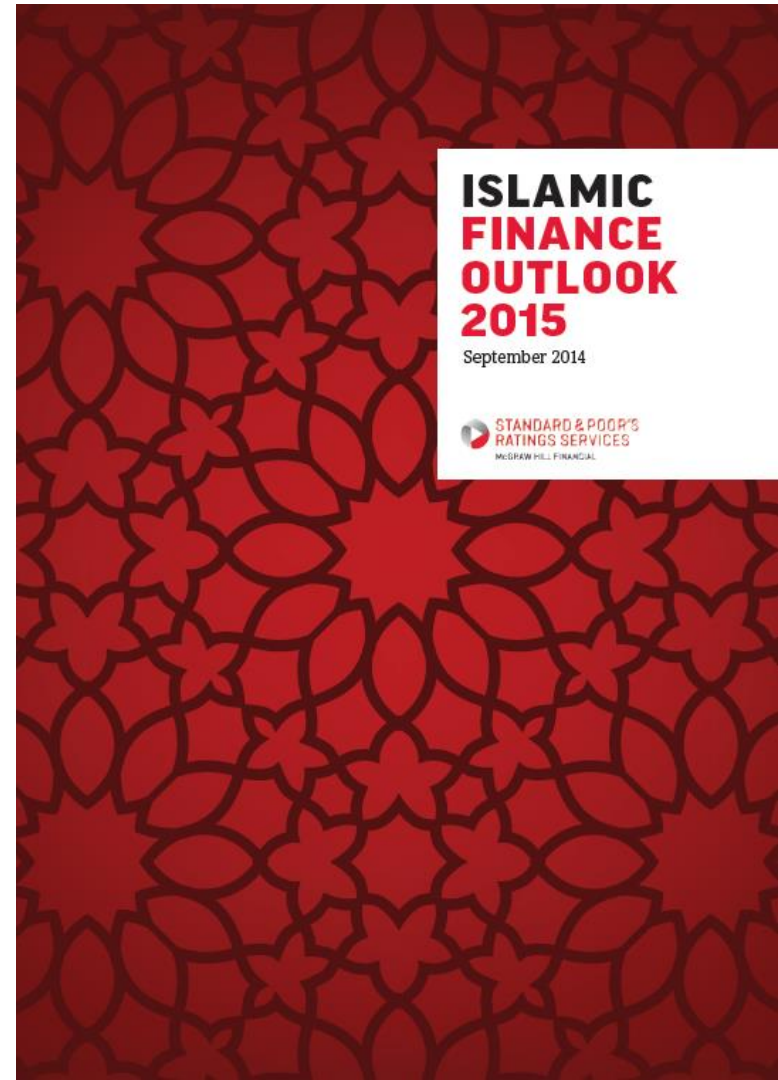
2- Global Sukuk Market Outlook for 2015

3- Standard & Poor's Criteria for Sukuk Rating

**Standard & Poor's Expertise in
Islamic Finance**

What we do in Islamic finance . . .

- **Started Islamic finance coverage since mid 1990**
- **First rating on a Re-Takaful company assigned in 1997 (BEST Re), Islamic Bank in 2000 (Al Rajhi Bank), Sukuk in 2002 (Malaysia)**
- **23 rated Islamic financial institutions and Takaful companies**
- **Around \$66 billion of rated Sukuk**
- **Around 10 thought leadership research articles published every year beside rating reports on Islamic financial institutions and presales on Sukuk**
- **Islamic Finance Book published every year.**
- **A dedicated team of 12 professionals.**



Our expertise is recognized

17 external independent awards since 2007.
3 new awards in 2014.



Our Ratings in Islamic finance

Sukuk currently rated by Standard & Poor's					
Obligor	Country	Sukuk/Trust certificates	Sector	Date of Rating	Maturing
Islamic Development Bank	Saudi A.	Tadamun Services Berhad	Gov.	2008	2018
Emirate of Ras Al Khaimah	UAE	RAK Capital	Gov.	2008	2016/2018
Dar Al Arkan Real Est. Dvt. Co.	Saudi A.	Dar Al Arkan International Sukuk Co. II	Corp.	2010	2015
Government of Malaysia	Malaysia	1Malaysia Sukuk Global Bhd.	Gov.	2010	2015
Republic of Indonesia	Indonesia	Perusahaan Penerbit SBSN Indonesia I	Gov.	2011	2014
State of Qatar	QAT	SoQ Sukuk A (Qatar State)	Gov.	2011	2023
Government of Malaysia	Malaysia	Wakala Global Sukuk (series 1 and 2)	Gov.	2011	2018
Sharjah Islamic Bank	UAE	SIB Sukuk Co. II Ltd (Sharjah Islamic Bank)	FI	2011	2016
Republic of Indonesia	Indonesia	Perusahaan Penerbit SBSN Indonesia II	Gov.	2011	2018
Central Bank of Bahrain	Bahrain	CBB International Sukuk Company (No3)	Gov.	2011	2018
Abu Dhabi Commercial Bank	UAE	ADCB Islamic Finance (Cayman) Ltd Trust certificates	FI	2011	2016
Majed Al Futtaim	UAE	MAF Sukuk Ltd.	Corp.	2012	2017
Saudi Electric Co.	Saudi A.	Saudi Electricity Global Sukuk Co. (series 2)	Corp.	2012	2017
Saudi Electric Co.	Saudi A.	Saudi Electricity Global Sukuk Co. (series 1)	Corp.	2012	2022
Banque Saudi Fransi	Saudi A.	BSF Sukuk	FI	2012	2017
Islamic Development Bank	Saudi A.	IDB Trust Services Ltd.	Gov.	2012	Various
Development Bank of Kazakhstan	KAZ	Development Bank of Kazakhstan Program sukuk*	Gov.	2012	2017
Axiata Group Bhd.	Malaysia	Axiata SPV2 Bhd	Corp.	2012	2014
Republic of Indonesia	Indonesia	Perusahaan Penerbit SBSN Indonesia III	Gov.	2012	2019/2022
Sime Darby Bhd.	Malaysia	Sime Darby Global Bhd.	Corp.	2013	2018/2023
Dubai Electricity Water Authority	UAE	DEWA Sukuk 2013 Ltd.	Corp.	2013	2018
Sharjah Islamic Bank	UAE	SIB Sukuk Co. III Ltd.	FI	2013	2018
Saudi Electric Co.	Saudi A.	Saudi Electricity Global SUKUK Co. 2	Corp.	2013	2023/2043
IILM**	Malaysia	International Islamic Liquidity Management 2 SA's	SF	2013	N/A
Albaraka Turk Katilim Bankasi AS	Turkey	ABT Sukuk Ltd.	FI	2013	2023
Dar Al Arkan Real Est. Dvt. Co.	Saudi A.	Dar Al Arkan Sukuk Co. Ltd	Corp.	2013	2016/2018
Aldar Properties PJSC	UAE	Sukuk Funding (No. 3) Ltd.	Corp.	2013	2018
Ooredoo (Tamweel)	QAT	Ooredoo Tamweel Ltd.	Corp.	2014	2018
Dubai Investment Park Dvt Co LLC	UAE	DIP Sukuk Ltd	Corp.	2014	2019
Saudi Electric Co.	Saudi A.	Saudi Electricity Global Sukuk III (tranches 1 & 2)	Corp.	2014	2024/2044
Damac Real Estate Development	UAE	Alpha Star Holding Ltd. *(Damac Sukuk)	Corp.	2014	2019
Emaar Properties PJSC	UAE	Emaar Sukuk Ltd.	Corp.	2014	2016/2019
Dar Al Arkan Real Est. Dvt. Co.	Saudi A.	Dar Al-Arkan Sukuk Co. Ltd.	Corp.	2014	2019
Emaar Malls Group LLC	UAE	Emaar Malls Group Sukuk	Corp.	2014	2021
Hong Kong (Special Administrative Region)	HK [China]	Hong Kong Sukuk 2014 Ltd.	Gov.	2014	2019
Sharjah (Emirate of)	UAE	Sharjah Sukuk Limited	Gov.	2014	2024
The Goldman Sachs Group Inc.	U.S.A.	JANY Sukuk Company Limited	FI	2014	2019
Republic of South Africa	South A.	Republic of South Africa Sukuk 1	Gov.	2014	2020
Luxembourg	Luxembourg	Luxembourg Treasury Securities SA	Gov.	2014	2019
Republic of Indonesia	Indonesia	Perusahaan Penerbit SBSN Indonesia III	Gov.	2014	2024
Albaraka Turk Katilim Bankasi AS	Turkey	Bereket Valik Kiralama A.S.	FI	2014	2019
Mumtalakat	Bahrain	Bahrain Mumtalakat Holding Co. Sukuk Programme	Gov.	2014	2021
Pakistan	Pakistan	The Second Pakistan International Sukuk Company Limited	Gov.	2014	2019
Petroliaam National Berhad	Malaysia	Petronas Global Sukuk	Corp.	2015	2025

Our Ratings in Islamic finance

Issuer Credit Ratings -- Takafuls & Islamic Banks		
Issuer	Country	Type
Al Baraka Banking Group B.S.C.	Bahrain	Bank
Al Baraka Turk Katilim Bankasi AS	Turkey	Bank
Al Khaleej Takaful Group (unsolicited rating)	Qatar	Insurance
Al Rajhi Bank	Saudi Arabia	Bank
Al Sagr Cooperative Insurance	Saudi Arabia	Insurance
Hannover ReTakaful B.S.C.	Bahrain	Insurance
Islamic Development Bank	Saudi Arabia	Multinational
Jordan Islamic Bank	Jordan	Bank
Kuwait Finance House	Kuwait	Bank
Malath Cooperative Insurance & Reinsurance Co.	Saudi Arabia	Insurance
Mediterranean & Gulf Cooperative Insurance and R	Saudi Arabia	Insurance
Noor Takaful Family PJSC	UAE	Insurance
Noor Takaful General	UAE	Insurance
Qatar Islamic Bank (S.A.Q.)	Qatar	Bank
Salama/Islamic Arab Insurance Co. (P.S.C.)	UAE	Insurance
Saudi Re for Cooperative Reinsurance	Saudi Arabia	Insurance
Sharjah Islamic Bank	UAE	Bank
Takaful Re. Ltd	UAE	Insurance
Tawuniya/The Company for Cooperative Insurance	Saudi Arabia	Insurance
Wataniya Insurance Co.	Saudi Arabia	Insurance
Weqaya Takaful Insurance & Reinsurance Co.	Saudi Arabia	Insurance
Wethaq Takaful Insurance Co. K.S.C. (Closed)	Kuwait	Insurance

Global Sukuk Market Outlook for 2015

Our expectations

- The sukuk market is heading for another solid year with total issuance expected to reach \$100-\$115 billion.
- YTD issuance (end of March: \$16 billion versus \$28 bn YTD 2014 and \$20.2 bn YTD 2014 excluding BNM)

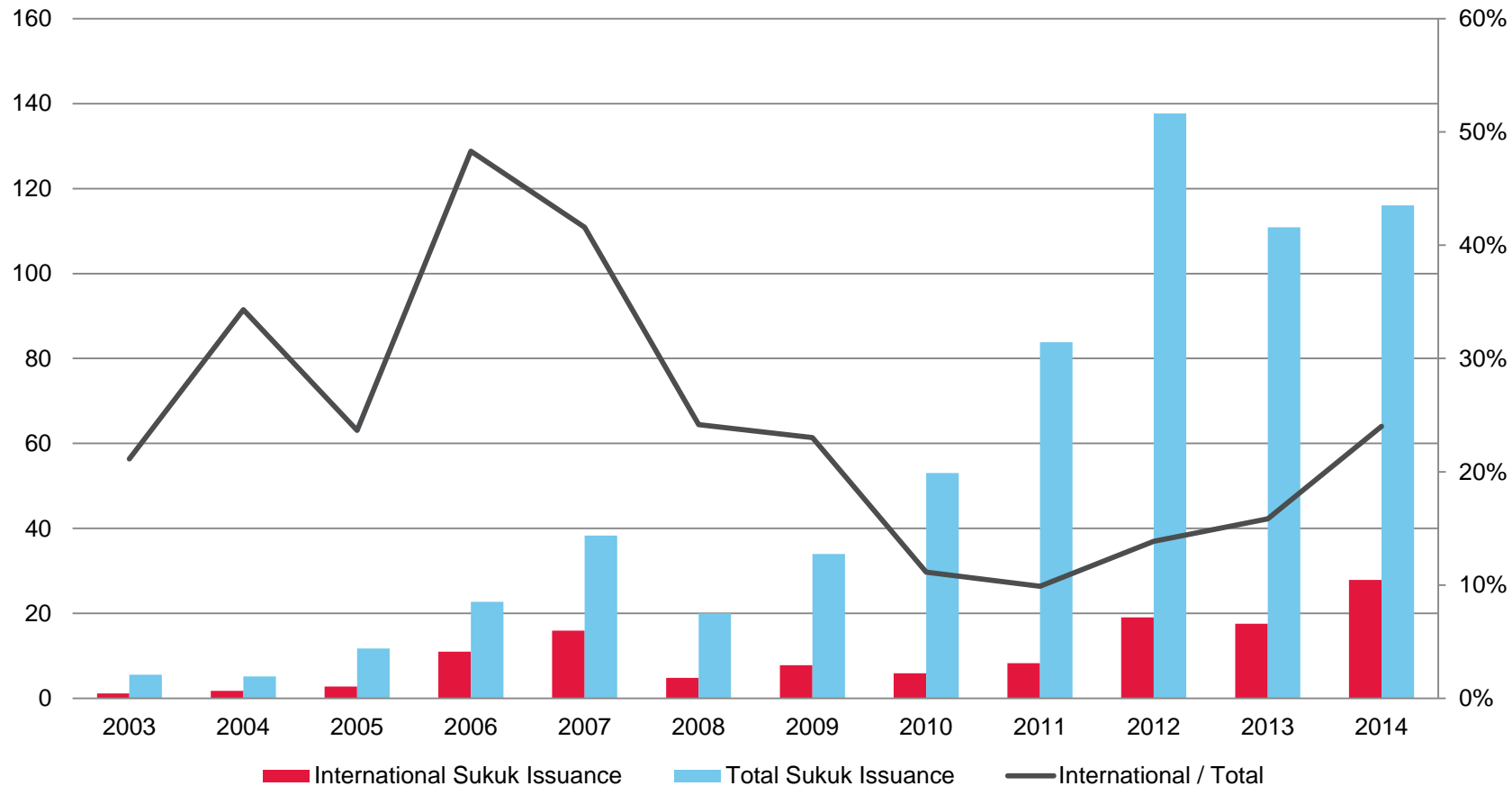
Upside

- 1- Economic conditions in core sukuk markets are expected to remain good
- 2- A lot of “new potential issuers” are looking for potential issuances in 2015
- 3- Basel III implementation and the lack of HQLA may drive-up issuances from government, central banks, MLIs, etc.

Downside

- 1- Oil price and its impacts on government sponsored projects and liquidity in core markets.
- 2- Fed interest rate increase (Q2-2015) and its impacts on global liquidity.
- 3- Lower liquidity in banking systems resulting in lower sukuk issuance by central banks.

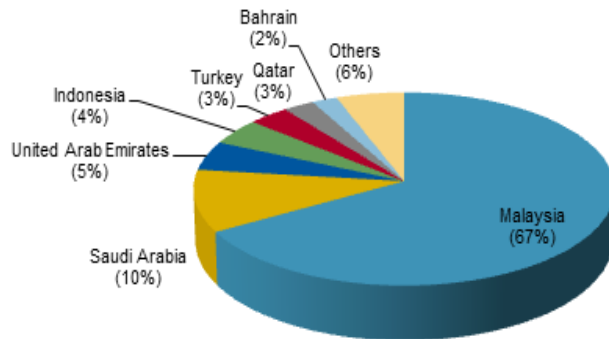
Sukuk issuance remains a local affair



International sukuk (in foreign currency or listed in developed markets) contributed to less than 24% of total issuance vs. 16% in 2013 thanks to new issuers and IILM...

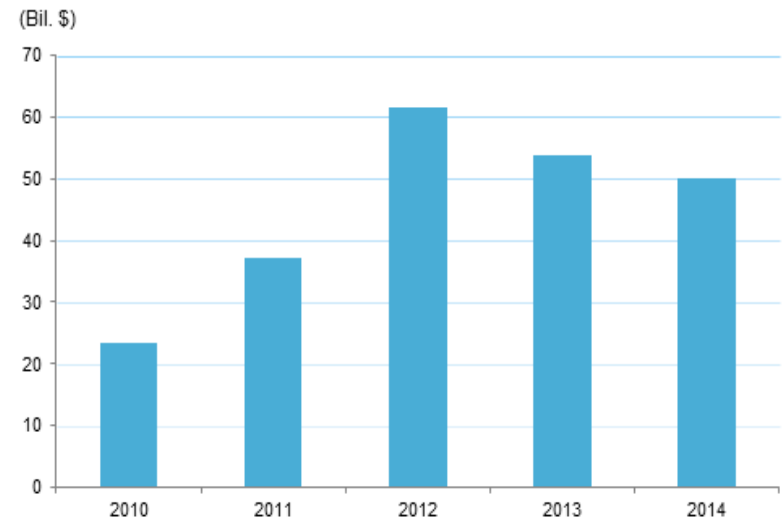
Malaysia and central banks continue to dominate

Geographical Distribution Of Issuance In 2014



Source: Zawya.
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Central Bank Sukuk Issuance

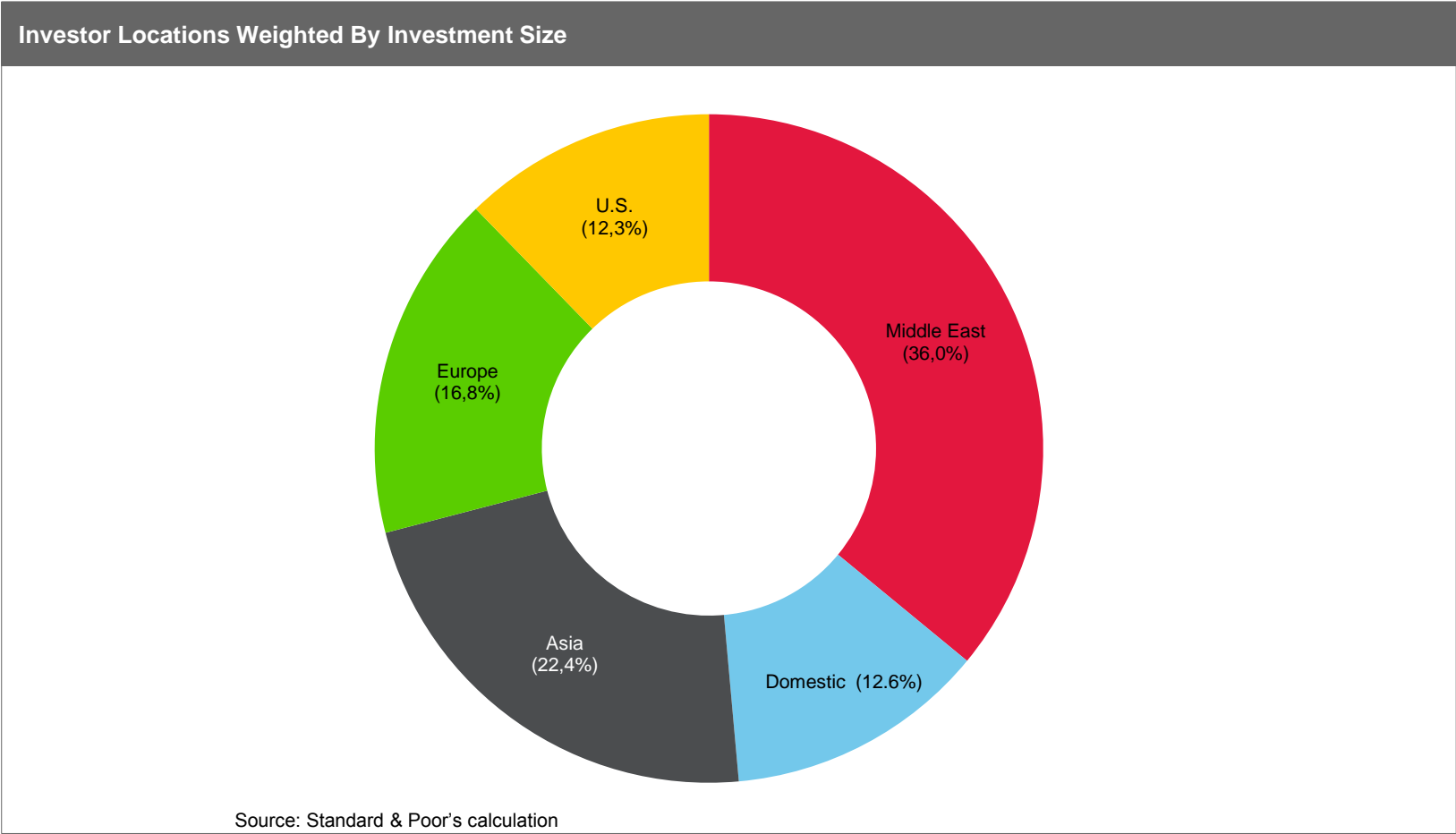


Source: Zawya.

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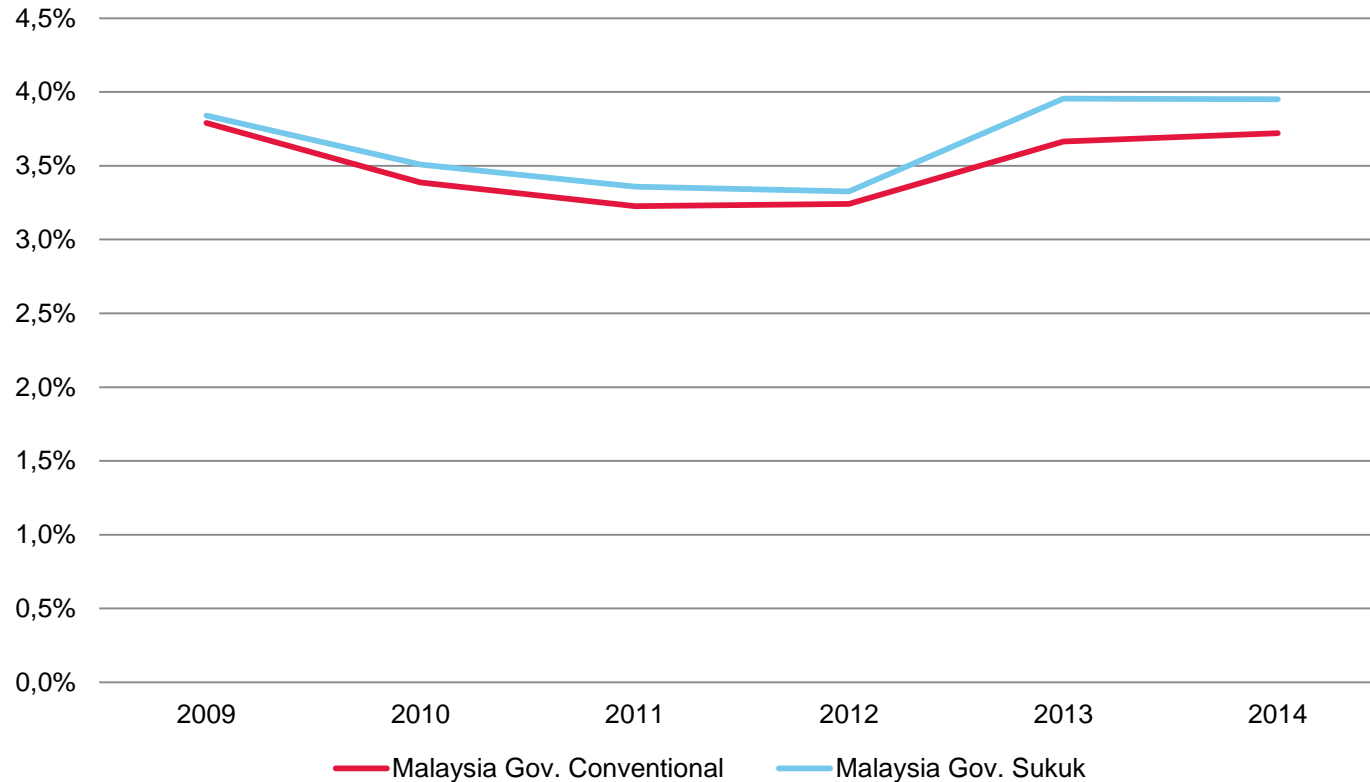
... But new issuers are coming (2014 – UK, Luxembourg, South Africa, Hong Kong, Senegal, etc.). Rumored or announced sukuk: Tunisia, Nigeria, Korea, Egypt, Mexico, Kazakhstan, Kenya, Philippines, and Thailand

Sukuk allows to diversify the investor base



For Sukuk issued by entities domiciled outside of the GCC and Malaysia

But, on average, they are slightly more expensive than bonds

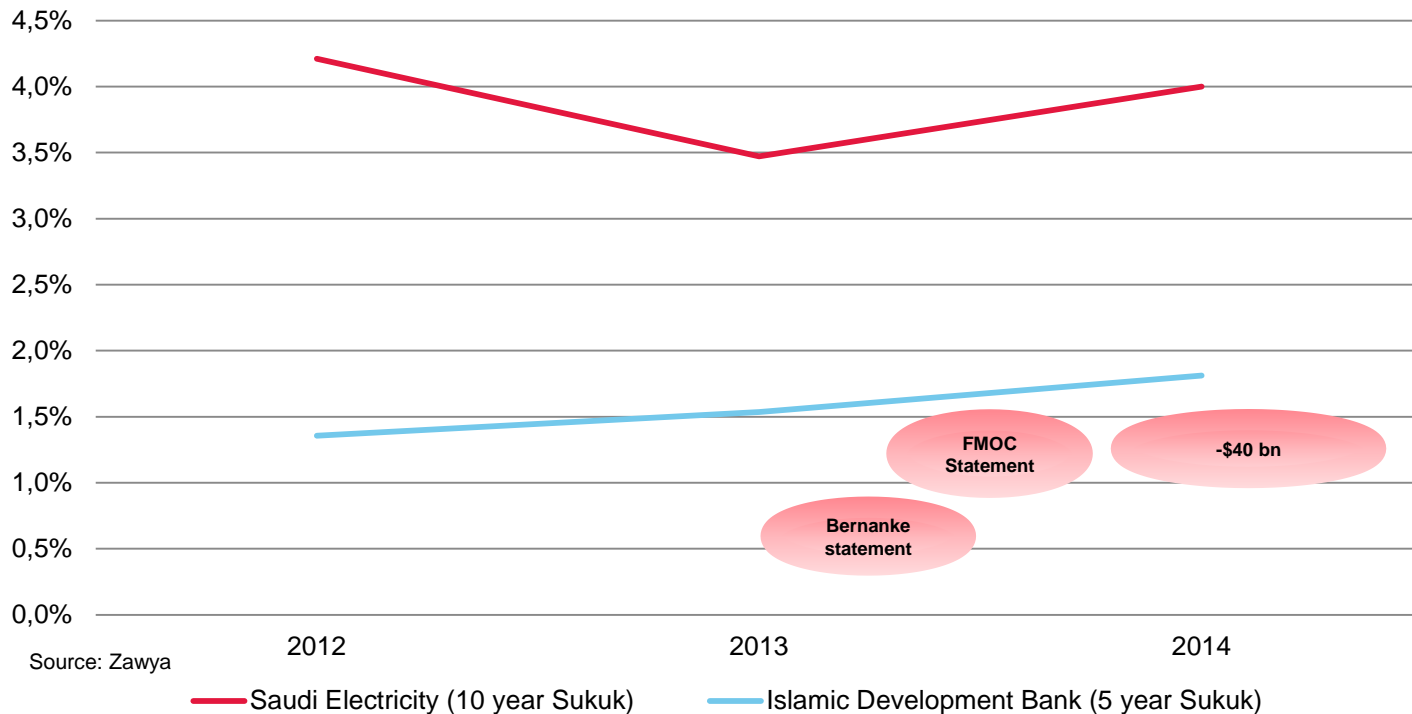


Source: CB of Malaysia,

For few names, sukuk proved to be cheaper because of high market demand...(UK sukuk is an example)

Yield correlation remains strong anyway

Impact of Fed tapering on Sukuk pricing



With Fed increasing interest rates, liquidity may drop and become more expensive, Sukuk pricing may increase

Aligning Sukuk and Conv bonds pricing

Three main pre-requisites:

- **Standardization of structures:**

 - Alleviate any issue related to Sharia compliance**

 - Increase the predictability of the default process resolution**

 - Reduce cost of issuance (although it is quite comparable with conventional bonds unless the structure is highly complex)**

- **List sukuk on liquid markets (developed markets, Nasdaq Dubai, Malaysia, etc.)**

- **Increase issuance in foreign currency**

Standard & Poor's Criteria for Sukuk Rating

Sukuk Versus Bonds

	Sukuk	Bonds
Nature	Trust certificates	Pure debt
Asset backing	A minimum percentage of tangible assets	Not required
Principal and return	Derived from the underlying assets and/or from the contractual commitments of the sponsor (note: our rating approach is based on the contractual commitments)	Obligations of the issuer (depending on the ranking)
Purpose	Raise long term funding in compliance with Sharia/ reduce exposure on BS (for banks)	Funding purposes
Risks	Depending on the structure: exposure to the assets, exposure to the credit quality of the sponsor, combination of exposure to the credit quality of the sponsor and residual asset risks	Exposure to the credit quality of the issuer.

Concepts Behind The Updated Sukuk Rating Criteria

We equalize with sponsor senior unsecured credit rating if:



Updated Sukuk Rating Criteria

Methodology For Rating Sukuk, Jan. 19, 2015 – Paragraph 9

We rate a long-term sukuk... and assign it an issue credit rating at the same level as the sponsor's senior unsecured rating, if the next five conditions (A-E) are met:

- A.) The contractual payment obligations of the sponsor to the issuer are sufficient for full and timely periodic distributions and final payments of principal (on the scheduled dissolution date or in case of early dissolution);
- B.) The sponsor's contractual payment obligations rank pari passu with the sponsor's other senior unsecured financial obligations (if they do not, but the other four conditions are met, see paragraphs 10 and 25).
- C.) The sponsor's contractual payment obligations are irrevocable;
- D.) The sponsor commits to fully and unconditionally pay all foreseeable costs of the issuer including taxes and costs related to the trustee, service agent, and investment manager through the life of the transaction, in a timely way, so as not to weaken the issuer's ability to meet all payments due in a timely way;
- E.) We assess as remote the risks that conditions, such as those mentioned in paragraphs 16 to 20, jeopardize full and timely payments (as defined by our criteria, see paragraph 12). If we believe these risks are non-remote, we may assign an issue credit rating on the sukuk that is different from the equivalent sponsor issue credit rating according to paragraphs 22 or 24.

Condition E - Conditionality and treatment of TLE (paragraphs 17-24)

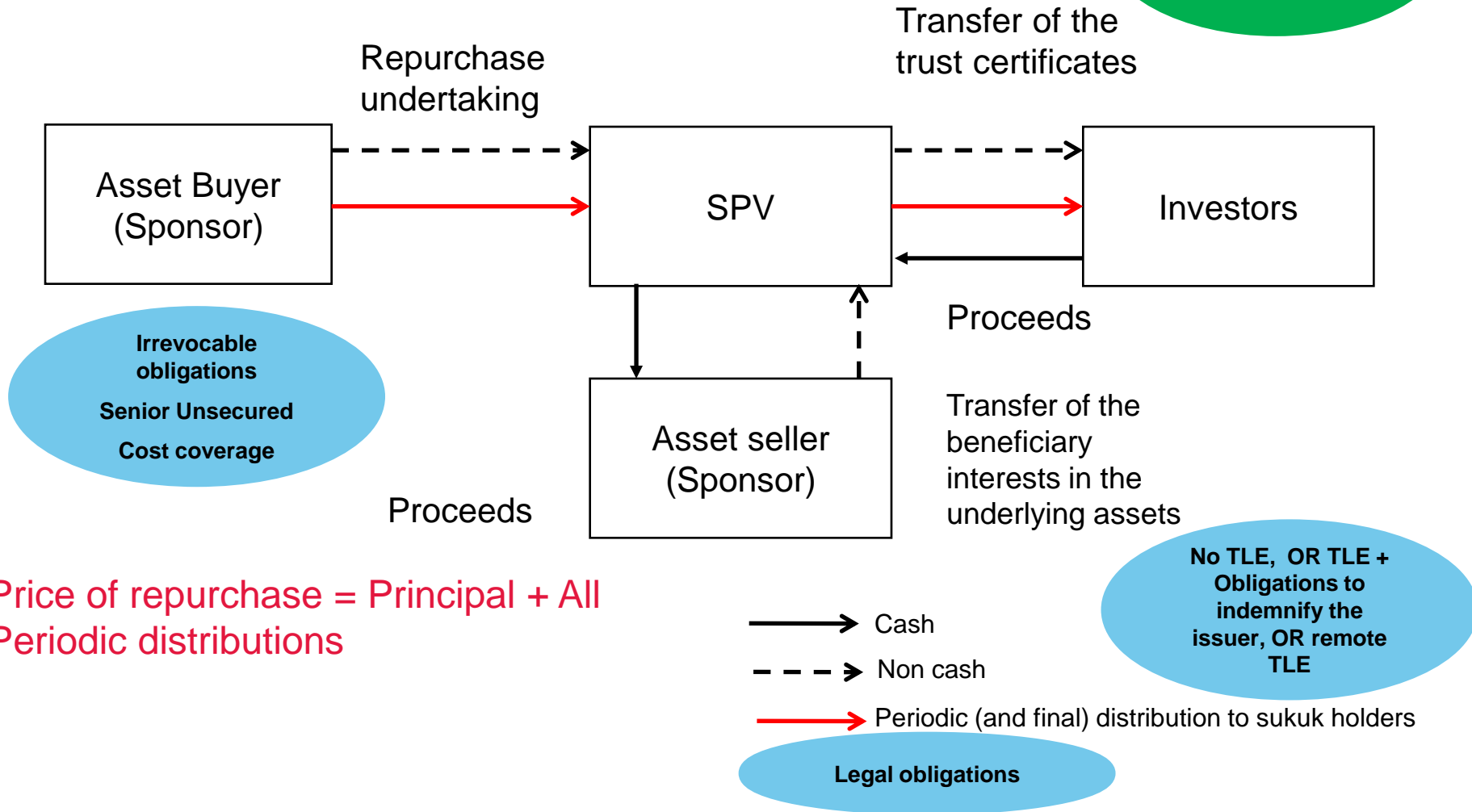
22. If, when rating a sukuk for the first time, we determine that a TLE is non-remote, or if our assessment of the TLE likelihood changes after having first rated a sukuk, and the sponsor's contractual obligations do not provide for the repayment of the principal and periodic distribution to sukuk holders in case of a TLE, there are three possible outcomes (subject to paragraph 25):

- A. The sponsor's ICR incorporates the TLE and consequently the sukuk issue credit rating is at the same level as sponsor's senior unsecured rating;
- B. The sponsor's ICR doesn't incorporate the TLE, and the sukuk issue credit rating is:
 - 1. Capped at 'BBB' if we consider that the TLE is non-remote but do not expect it to happen in the next three years. An example is an increase in geopolitical risk that results in moderate instability in the country where the assets are located, and we still consider TLE as remote over the next three years.
 - 2. Capped at 'BB' or 'B', depending on the likelihood and timing of the TLE, if we believe the risk of the TLE occurring is higher than in 22.B.1. An example is a further increase in geopolitical risk than in 22.B.1. and, instability in the country where the assets are located, that leads us to believe that the TLE, while remote over the next year, could occur in the following two years, in which case we rate the sukuk no higher than 'BB'. 'B' would be the highest rating consistent with an event that we believe is remote over the next year, but we believe may be non-remote in the following year.
- C. A combination of outcomes A and B, whereby, perceiving a higher risk that the events corresponding to a TLE occur, we lower the sponsor's ICR and lower even further the sukuk issue credit rating as per 22.B. The sponsor's senior unsecured rating and the sukuk issue credit rating can differ.

Examples of applying the criteria to Sukuk

Ex 1. Murabaha Sukuk

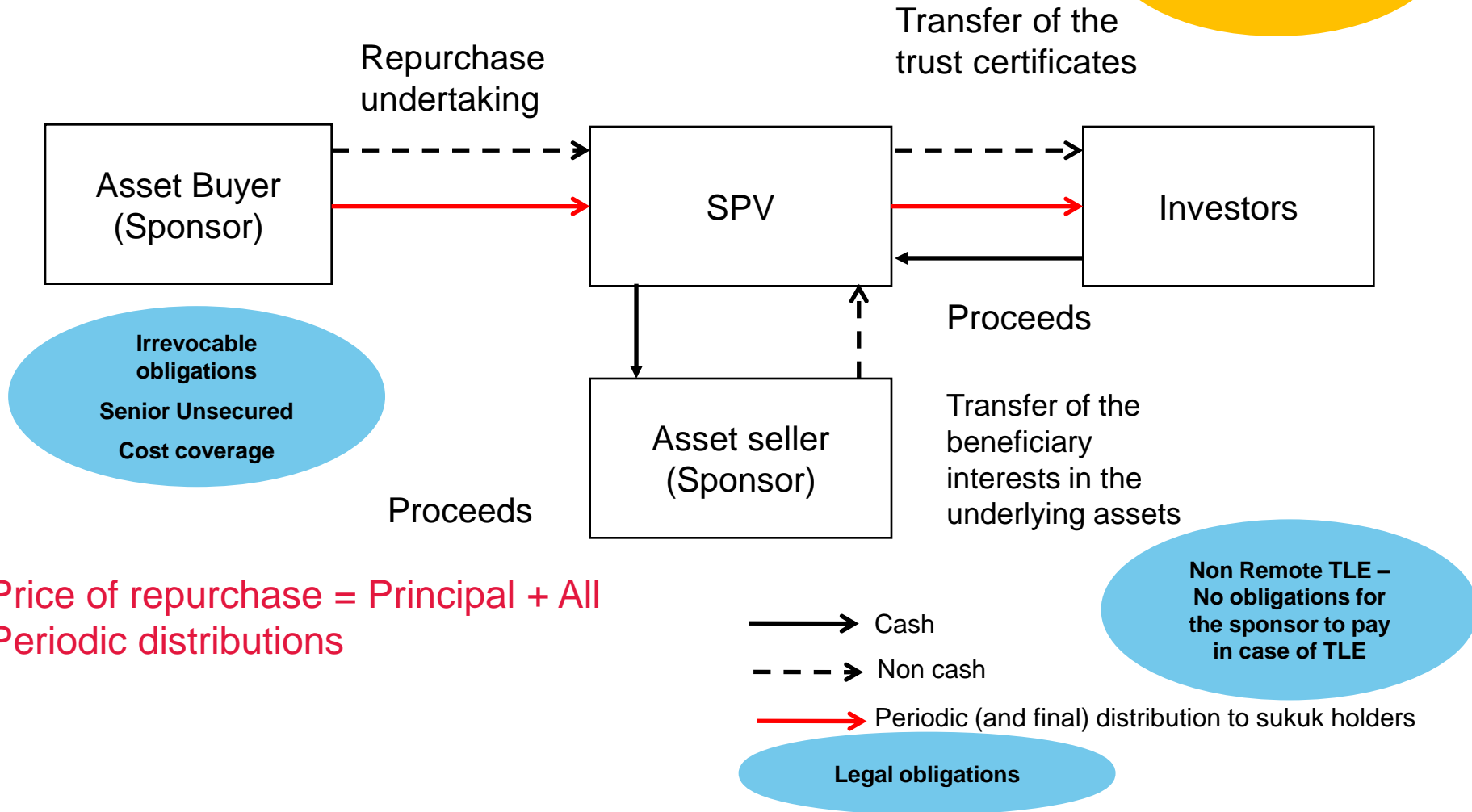
RATABLE



Examples of applying the criteria to Sukuk

Ex 1. Murabaha Sukuk

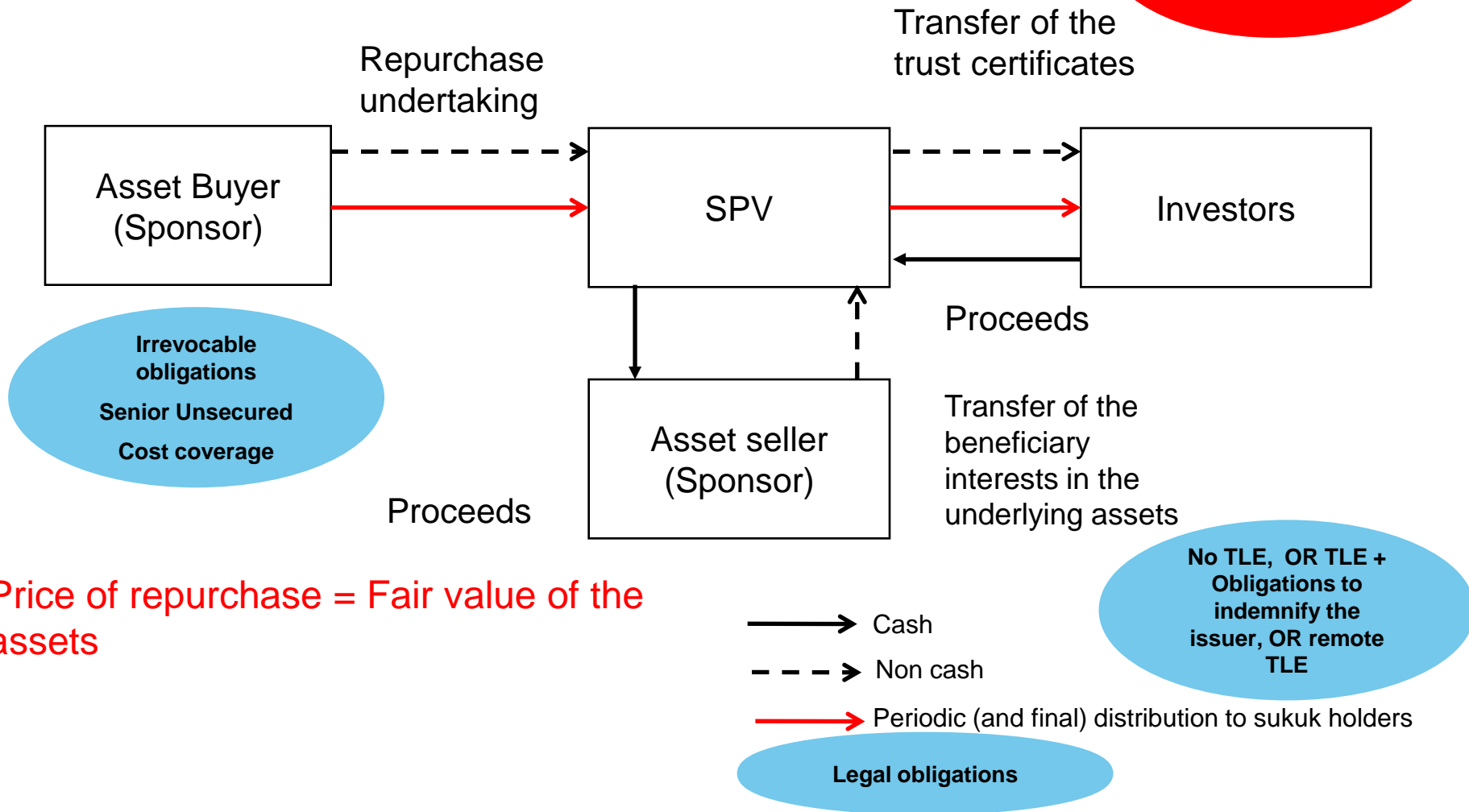
**CAPPED
RATING**



Examples of applying the criteria to Sukuk

Ex 1. Murabaha Sukuk

**NON
RATABLE**





Thank You

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