

# MALAYSIA'S ISLAMIC FINANCE MARKETPLACE IS OPEN TO THE WORLD

## INTERNATIONALISATION OF ISLAMIC FINANCE GLOBAL BUSINESS AND INVESTMENT OPPORTUNITIES

*HIGH-LEVEL WORKSHOP ON SUKUK*

*Moscow, Russia*

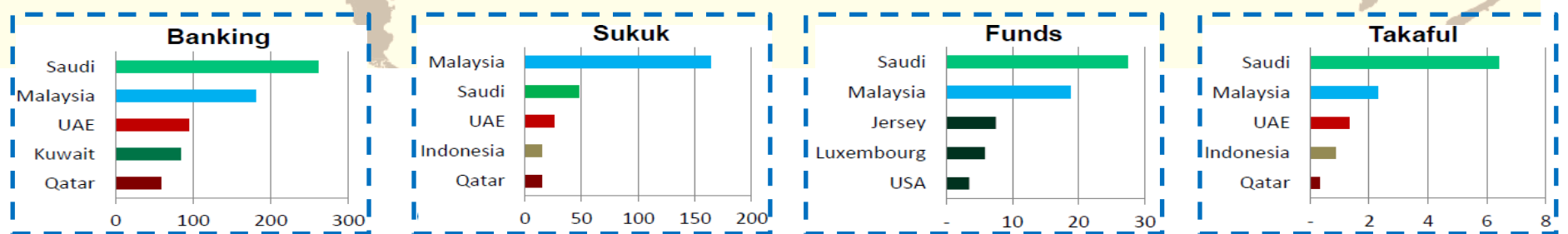
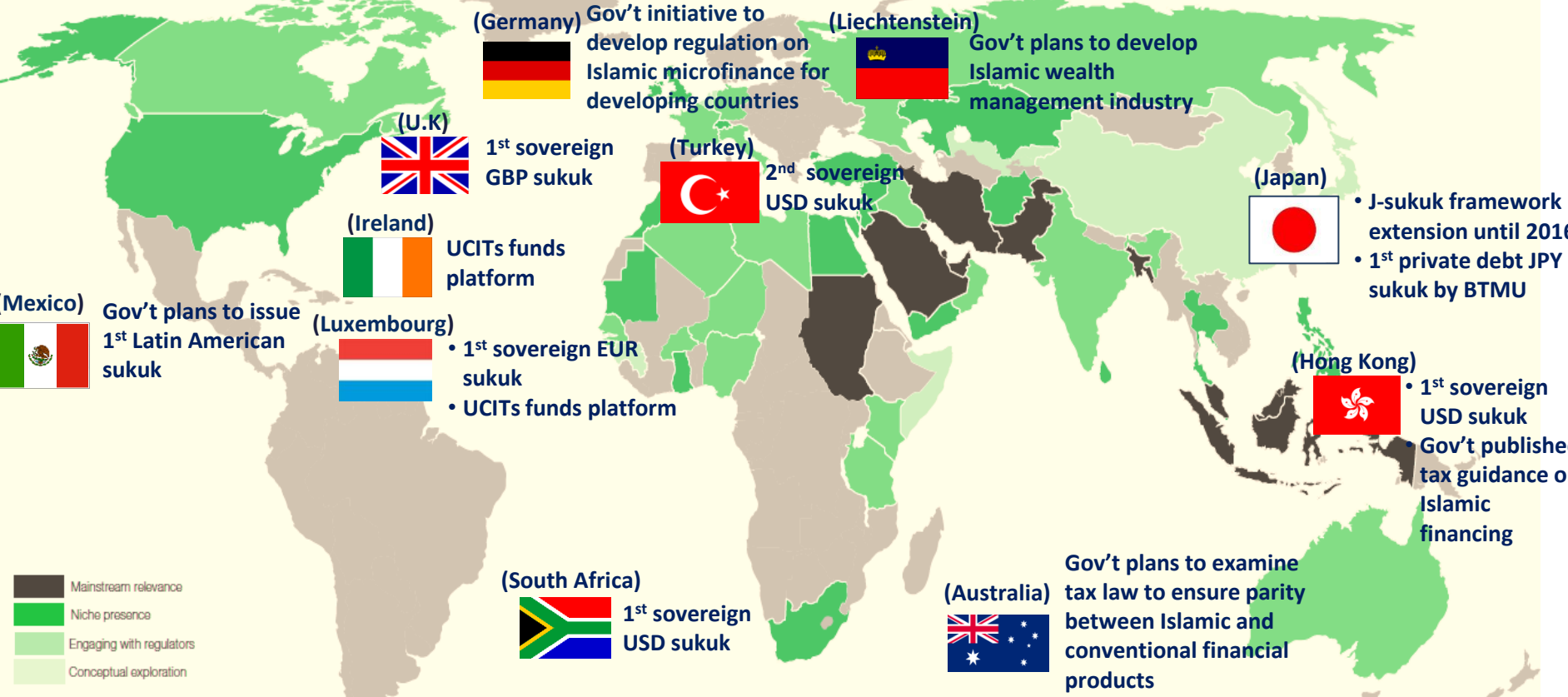
*15-17 December 2014*

# PRESENTATION OUTLINE

- |                 |   |
|-----------------|---|
| <b>Part I</b>   | <b>An Overview of Global Islamic Finance Development</b>                    |
| <b>Part II</b>  | <b>Sharing Malaysia's Experience on Developing Islamic Financial Market</b> |
| <b>Part III</b> | <b>MIFC's Value Propositions</b>  |

# ISLAMIC FINANCE GAINING PROMINENCE FROM WESTERN COUNTRIES

Total assets of the Islamic financial industry is expected to reach USD2 trillion as at end 2014...



Source: KFH Research [Data for Islamic banking and takaful (as @2013), sukuk and funds ( as @ 1H14) in USD billion]

# INTERNATIONAL ORGANISATIONS ADVISING ON ISLAMIC FINANCE



**AAOIFI (1990)**

**Bahrain**

Issues accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions and the industry



ISLAMIC FINANCIAL SERVICES BOARD

**IFSB (2002)**

**Malaysia**

An international standard-setting body of regulatory and supervisory agencies adapting existing international standards consistent with Shariah principles



السوق المالية  
الإسلامية الدولية  
International Islamic  
Financial Market

**IIFM (2004)**

**Bahrain**

Issues standardized documents for Islamic Capital & Money Market



**IILM (2010)**

**Malaysia**

Facilitates effective cross border Shariah-compliant liquidity management through issuances of short-term Islamic securities

# ISLAMIC FINANCE AN INTERMEDIATION FOR DOING BUSINESS, APPLYING UNIVERSAL VALUES

## GUIDING PRINCIPLE OF SHARIAH-COMPLIANT ECONOMIC ACTIVITIES

### No unfair gain

- The charging of interest, or *riba*, is strictly prohibited
- The concept of *riba* also includes the idea of unfair gain or exploitation

### No speculation

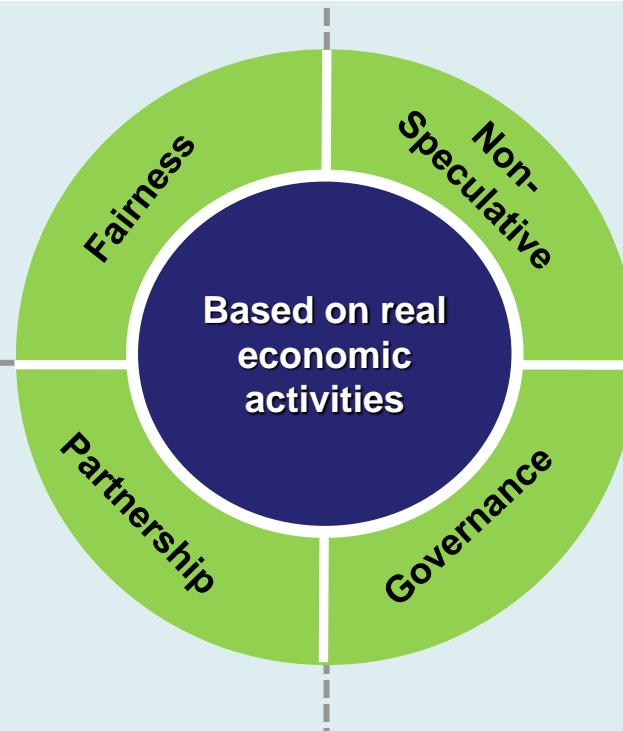
- Transactions relying on chance or speculation, rather than on the effort of the parties to produce a return, considered void under Shariah

### Sharing (profit, loss and risk)

- Islamic finance is concerned with developmental and social goals
- Different contractual relationship

### No investments that are not in the public interest

- Investments must be Shariah-compliant, not involving certain products that are prohibited; these include alcohol, gambling and porcine products



## ISLAMIC JURISPRUDENCE (FIQH)

- Practices & Activities

**POLITICAL  
ACTIVITIES**

**ECONOMIC ACTIVITIES**  
*Banking, Takaful & Financial Activities*

**SOCIAL  
ACTIVITIES**

# PRESENTATION OUTLINE

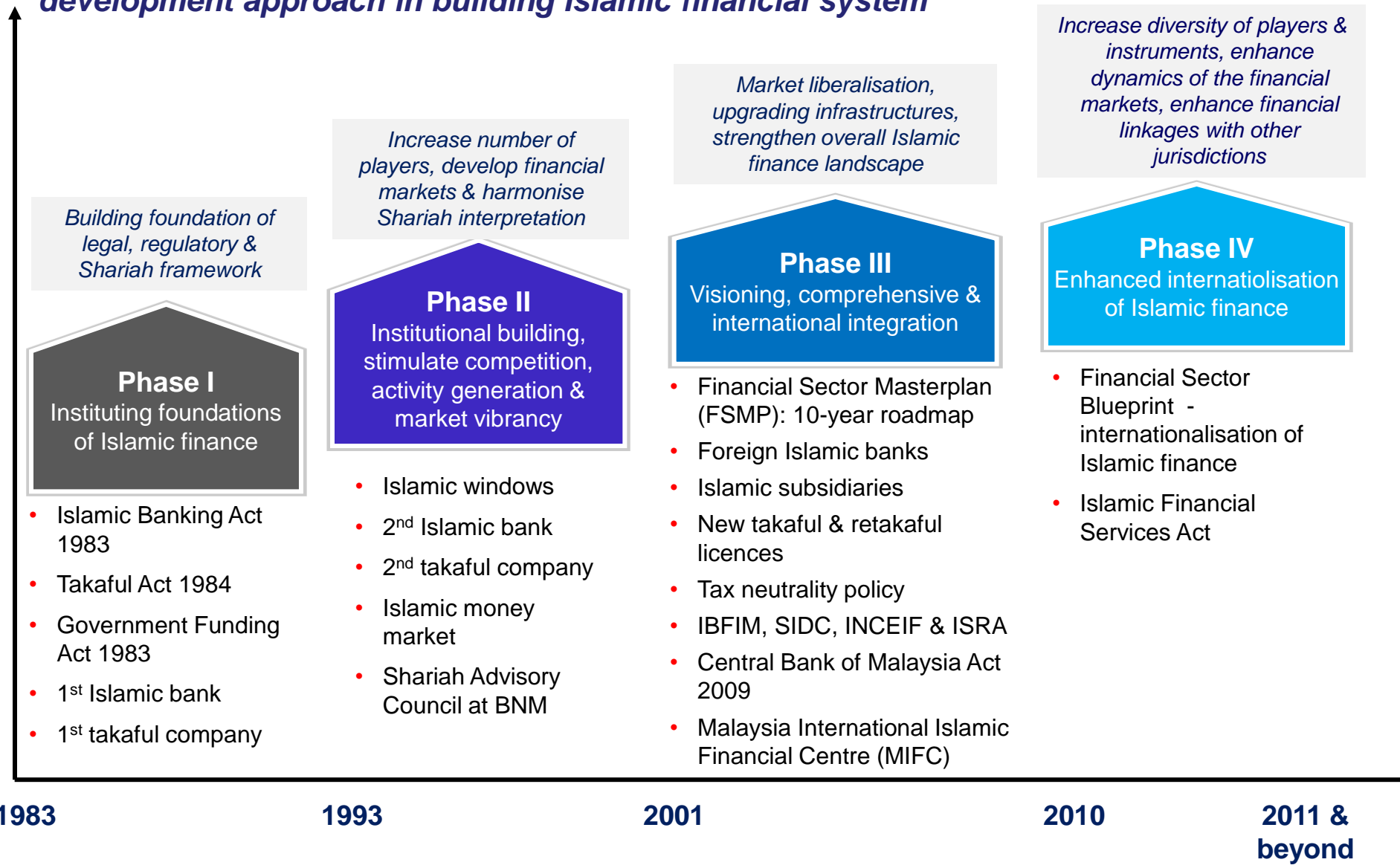
**Part I**                    **An Overview of Global Islamic Finance Development**

**Part II**                    **Sharing Malaysia's Experience on Developing Islamic Financial Market**

**Part III**                    **MIFC's Value Propositions**

# MALAYSIA'S JOURNEY TO DEVELOP ISLAMIC FINANCE

*The journey was manifested with pragmatic & gradual development approach in building Islamic financial system*



# COMPREHENSIVE ECOSYSTEM AND SOPHISTICATED ISLAMIC FINANCE MARKET WITHIN A DUAL FINANCIAL SYSTEM

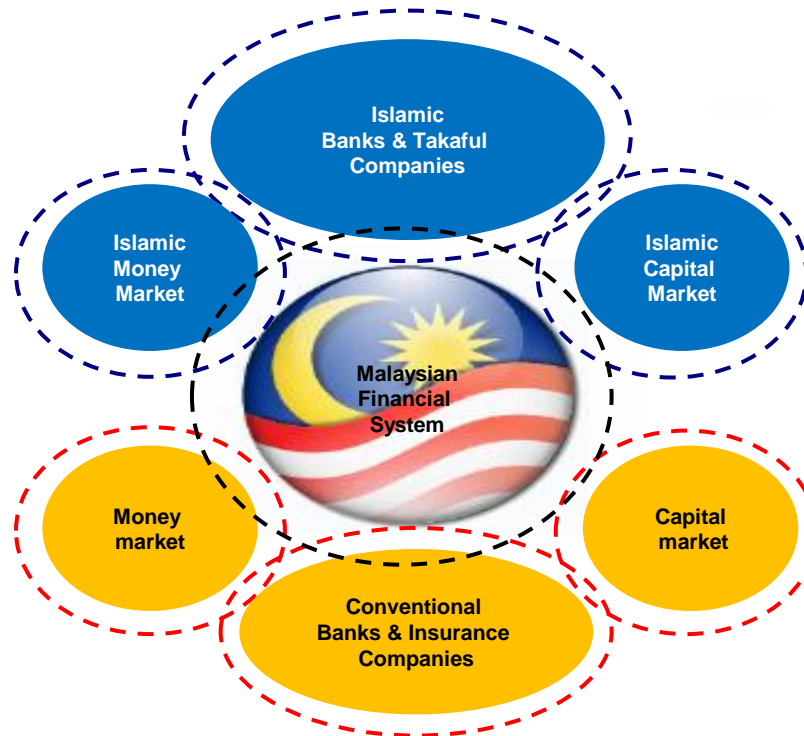


## Governance

- Governance, Legal & Regulatory
  - Islamic Financial Services Act
  - Government Funding Act
  - Capital Market Services Act
- Shariah Advisory Council
  - Central Banking Act
  - Shariah Governance Framework
- Dispute Resolution
  - Judicial system: dedicated high court
  - KL Regional Centre for Arbitration
  - Financial Mediation Bureau

## Diversified Players

- Banking
  - 16 Islamic banks
  - 11 Islamic windows
  - 4 International Islamic banks
  - 6 off-shore full-fledged Islamic banks
- Takaful
  - 12 takaful operators
  - 4 retakaful operators
  - 5 off-shore retakaful companies
- Fund Management
  - 20 Islamic fund management companies



## Infrastructure

- Payment, clearing and settlement, custodian
- Principal Dealers
- Listing on Bursa with authorised exchange status

Supported by human capital infrastructure

## Professional Service

- Legal firm
- Rating agencies
- Trust companies
- Research companies
- Accounting
- Financial Intermediaries
- Financial Advisors
- Consultancy Service



# PRESENTATION OUTLINE

- Part I**      **An Overview of Global Islamic Finance Development**
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- Part III**      **MIFC's Value Propositions**

## MALAYSIA

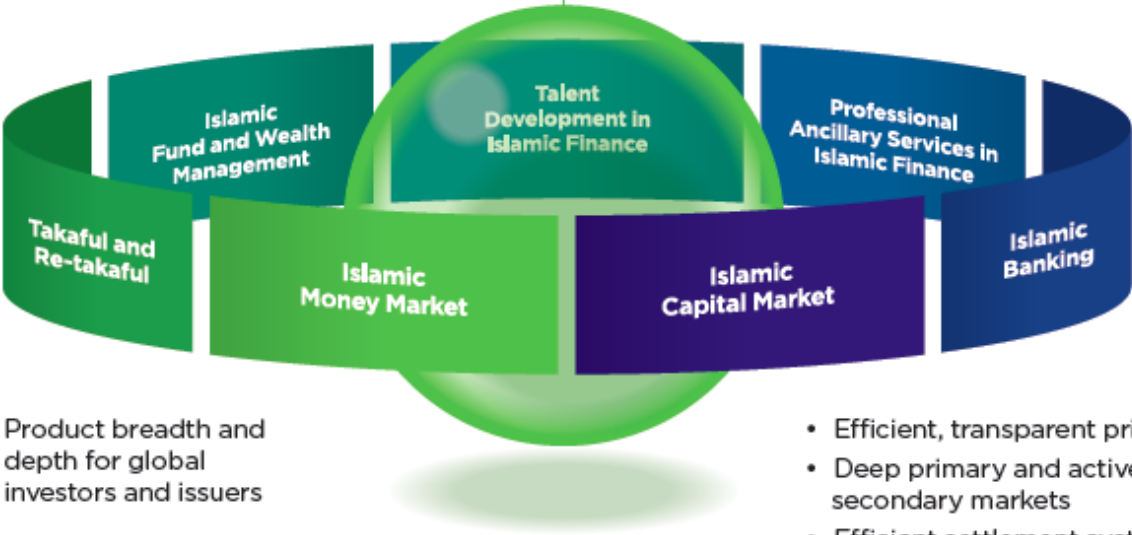
### WORLD'S ISLAMIC FINANCE MARKETPLACE



Robust regulatory, supervisory, Shariah and legal framework

We Invite All to Capitalise on the Expertise, Innovation and Opportunities Emanating from Our Marketplace.

Diverse players and talent base with global capabilities and international connectivity



# STRONG MOMENTUM AFTER LAUNCH OF “MALAYSIA WORLD’S ISLAMIC FINANCE MARKETPLACE

2008

Islamic Finance Meets In Malaysia  
التمويل الإسلامي يلتقي في ماليزيا

2009

shaping  
islamic  
finance together MALAYSIA

2013

MALAYSIA  
WORLD'S ISLAMIC FINANCE  
MARKETPLACE

## *International achievements*

### 1 Sukuk

#### **World largest**

- 59%<sup>1</sup> of global outstanding sukuk
- 4 Malaysian FIs are in the Top 10 global sukuk league table

### 2 Islamic Banking

#### **World 2<sup>nd</sup> largest**

- 8%<sup>3</sup> of global Islamic banking asset

### 3 Takaful

#### **World 2<sup>nd</sup> largest**

- Malaysia and Saudi Arabia contribute 44%<sup>5</sup> of total gross takaful contributions

### 4 Islamic Fund Management

#### **World 2<sup>nd</sup> largest**

- 25%<sup>7</sup> of global Islamic assets under management (AUM)

## *Domestic achievements*

- 51%<sup>2</sup> of total outstanding domestic bond market

- 25%<sup>4</sup> of domestic banking asset

- 14%<sup>6</sup> of domestic insurance and takaful contributions

- 17%<sup>8</sup> of domestic AUM

Sources: 1, 2) BNM, SC 3) Global Islamic Banking Excellence Centre EY 4,6) BNM 5) World Islamic Insurance Directory, EY, KFH Research 7) Bloomberg, KFHR 8) SC

# SUKUK AND DIFFERENCES WITH BOND

## DEFINITION OF SUKUK VS BOND

### Sukuk

A certificate that represents financial rights and obligations arising from underlying assets and trade activities.

### Bond

The exchange of paper in return for money with interest imposed to measure returns and liabilities.

#### Sukuk

<b>Issuer</b>	Engages in business activities permissible under Shariah
<b>Issuance</b>	Approval by relevant regulators and Shariah Adviser (for structure)
<b>Structure type</b>	Asset, equity and debt based
<b>Utilisation of proceeds</b>	Shariah-compliant activities
<b>Asset requirement</b>	Must have underlying asset to facilitate transactions. Assets include buildings, property, plants etc.
<b>Investors</b>	Islamic and conventional investors thus wider investor base and higher demand
<b>SPV (issuing conduit)</b>	Required under selected structures

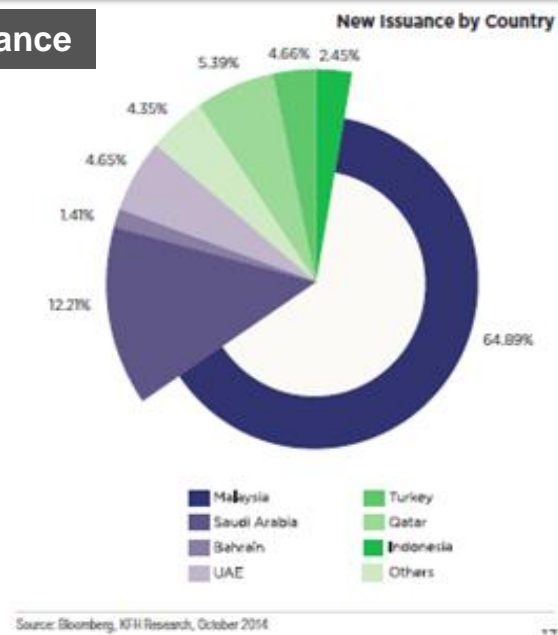
#### Conventional Bonds

No limitation in business activities
Approval by relevant regulators
Debt based only
No restriction
No, except for Asset Backed Securities (ABS) and secured transaction
Conventional investors only
Usually not required except for ABS where bankruptcy remoteness is required

# MALAYSIA'S SUKUK VALUE PROPOSITIONS

## 3Q14 Global Sukuk New Issuance

Malaysia remains a key marketplace for global sukuk issuance in 3Q14 with **64.9%** (2013: 68.8%)  
Total new issuance of USD94.65 billion  
Jurisdictions with debut sukuk issuances in 2014 include the Hong Kong, South Africa, United Kingdom and Luxembourg.



## Sukuk Outstanding by Country in 3Q14

Malaysia holds **56.9%** of global sukuk market share (2013: 58.7%)



## Role of sukuk

- 1 For tapping into new and wider investor base
- 2 For raising fund for investment into real sector or for business expansion:
  - Cost effectiveness and competitiveness vis-a-vis conventional bonds
  - Diversification of investment portfolio - risk, tenure, structures, new asset class
  - Alternative source of financing



**Khazanah Nasional SGD1.5 b sukuk (Aug 2010)**  
*Investment in Parkway Holdings, Singapore (healthcare provider)*



**Shell MDS MYR125m (1990)**  
*Business expansion/working capital for its Malaysian-based oil and gas operation*



**Toyota Capital Services MYR1 b program (2008)**  
*Working capital for its Malaysian-based operation*

# MALAYSIA AS A RINGGIT & MULTICURRENCY SUKUK PLATFORM

## Notable Multicurrency Emas Sukuk Issuances



### Khazanah Nasional

- SGD1.5 bil (2010), 4.3x oversubscription
- RMB500 mil (2011), 2.09x oversubscription
- USD357.8 mil (2012), 3.4x oversubscription
- SGD600 mil (2013), 5.5x oversubscription



### Islamic Development Bank

- USD500 mil (2010), 2.4x oversubscription
- USD800 mil (2012), 1.2x oversubscription
- USD1 bil (2013), 1.5x oversubscription



### Axiata RMB1.0 bil (2012)

- 7x oversubscription



### Sime Darby USD800 mil (2013)

- 10x oversubscription



### Exim Bank USD300 mil (2014)

- 10x oversubscription



### Bank of Tokyo Mitsubishi UFJ JPY2.5 bil & USD25 mil (2014)



### Nomura USD100 mil (2010)

## Selected Sukuk Issuances by Foreign-owned Entities



### Shell MDS Sdn. Bhd

- MYR125 mil (1990)



### AEON Credit Services

- MYR400 mil (2007)



### IFC, World Bank

- MYR500 mil (2004)
- MYR760 mil (2005)



### Tesco Stores

- MYR3.5 bil (2007)



### Toyota Capital Services

- MYR1 bil (2008)

# CONDUCTIVE ENVIRONMENT FOR SUKUK ISSUANCE USING MALAYSIAN PLATFORM

## Accelerate the industry's growth momentum in facilitating intermediation of international financial flows

### LEGAL & SHARIAH FRAMEWORK

- ✓ High Court judge to adjudicate Islamic finance cases (default cases)
- ✓ Arbitration mechanism - Kuala Lumpur Regional Centre for Arbitration (KLRCA)
- ✓ Financial Mediation Bureau

### REGULATORY FRAMEWORK

- ✓ Robust regulation & supervision for financial stability & market discipline
- ✓ Adoption of international best practices: Basel & IFSB

### FINANCIAL MARKET INFRASTRUCTURE

- ✓ Efficient clearing & settlement system
- ✓ Facilitate IF transactions via Bursa Suq Al Sila (Shariah compliant commodity murabahah platform)

### HUMAN CAPITAL DEVELOPMENT

- ✓ Dedicated training institutions & research centres
- ✓ Global University of Islamic Finance, INCEIF

## Indicative costs of sukuk issuance in Malaysia

ILLUSTRATION: INDICATIVE KEY COSTS OF SUKUK ISSUANCE IN MALAYSIA (non-exhaustive)		
SUKUK ISSUANCE AMOUNT MYR500 MILLION	MYR	USD *
Lead arranger fee	230,000 – 250,000	65,714 – 71,428
Malaysian legal counsel fee	130,000 – 150,000	37,142 – 42,857
Shariah Advisory fee	30,000 – 40,000	8,571 – 11,428
Securities Commission fee	51,000	14,571
BNM Depository fee	32,000	9,142
Rating Agency fee (upfront & recurring) – varies for RAM or MARC	400,000 – 800,000	114,285 – 228,571

\* USD equivalent figures at indicative rate of USD1.00 : MYR3.50

- Indicative costs associated with issuance of MYR sukuk in Malaysia, which are subject to the negotiation between the issuer and the arranger / rating agency.

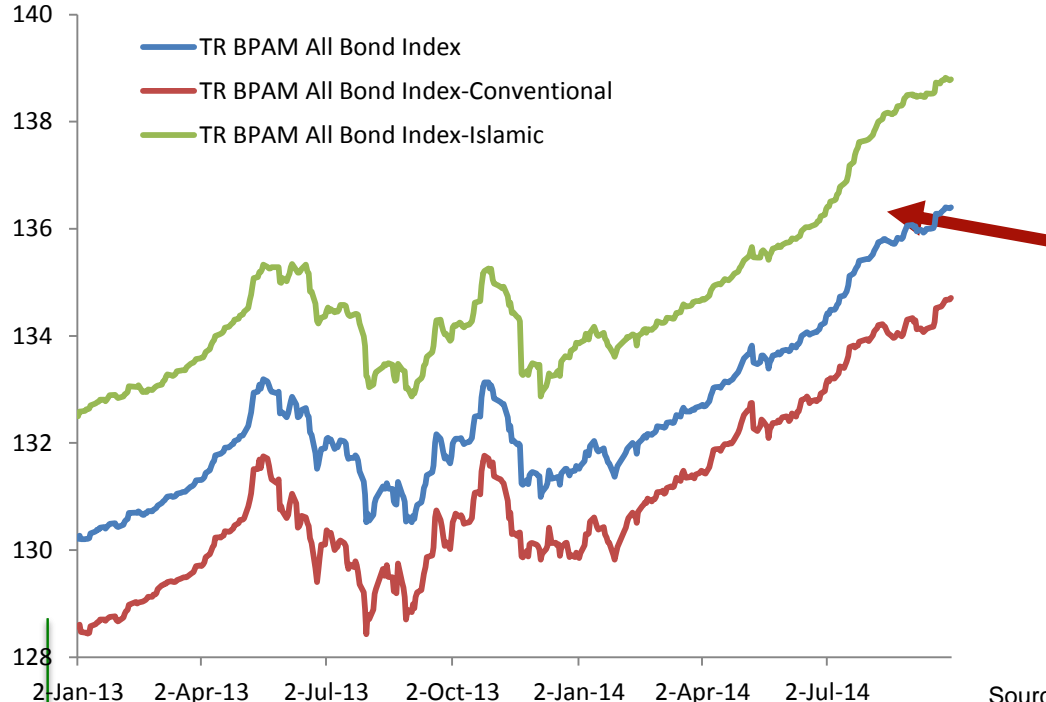


# DEEP LIQUID MARKET CREATES OPPORTUNITY IN SUKUK MARKET

Comparison between similar Sukuk and Conventional Bonds shows savings for issuers:

3-yr bond yield matrix					
	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
MGS	3.43	3.43	3.41	3.55	3.51
AAA	3.89	3.96	4.01	4.13	4.09
AA	4.01	4.09	4.16	4.29	4.25
A	5.34	5.37	5.46	5.55	5.50
IRS	3.47	3.68	3.75	3.84	3.83

3-yr sukuk yield matrix					
	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14
GII	3.37	3.49	3.56	3.59	3.64
AAA	3.85	3.91	3.96	4.08	4.04
AA	3.97	4.04	4.11	4.24	4.20
A	5.30	5.32	5.41	5.50	5.45
IRS	3.47	3.68	3.75	3.84	3.83



Higher annualised returns for sukuk investors...

Both sovereign and corporate sukuk consistently outperform the returns of conventional bonds, due to strong demand and robust structures. Performance is tracked via comprehensive market indices..

Source : BPAM, 31 October 2014



# WHY ISSUE SUKUK IN MALAYSIA?

## Malaysia's sukuk value propositions for potential issuers:

### Sukuk Origination

Cost Effective	Efficient Time-to-Market	Supportive Framework
<ul style="list-style-type: none"><li>• Tax neutrality</li><li>• Stamp duty exemption</li><li>• SPV not subject to tax or tax administrative procedure</li><li>• Tax deduction until 2015 on expenses incurred on issuance of Islamic securities</li><li>• Wide investor base - competitive pricing</li><li>• Active secondary trading</li></ul>	<ul style="list-style-type: none"><li>• Facilitative approval process</li><li>• Deemed approved for AAA (local rating) or BBB (international rating)</li><li>• Expertise in structuring and lead-arranging sukuk deals</li><li>• International credit rating allowed</li><li>• International documentations allowed</li><li>• Efficient payment, clearing and settlement system</li></ul>	<ul style="list-style-type: none"><li>• Platform for ringgit and foreign currency denominated sukuk issuance</li><li>• Centre for innovative structures</li><li>• Liberal foreign exchange rules<ul style="list-style-type: none"><li>- Free to repatriate proceeds abroad</li><li>- Free to hedge positions</li></ul></li><li>• Mutual recognition embraces different Shariah interpretations and preferences</li></ul>

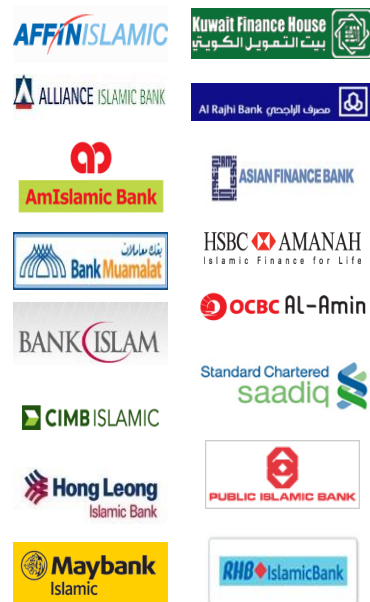
### Sukuk Listing

Visibility	Facilitative Process	Supportive Framework
<ul style="list-style-type: none"><li>• Greater opportunities for profiling on vibrant Malaysian exchange</li></ul>	<ul style="list-style-type: none"><li>• One day approval process</li><li>• Secondary listing of sukuk issued outside Malaysia allowed</li></ul>	<ul style="list-style-type: none"><li>• Not limited to public limited companies only</li><li>• Can be denominated in Ringgit or foreign currency</li></ul>

# DIVERSE PLAYERS OFFER ISLAMIC BANKING & TAKAFUL PRODUCTS & SERVICES

## Full-Fledged Islamic Banks

### Islamic Banks



### International Islamic Banks



### ICBUs

- Affin Islamic Bank
- AmIslamic Bank
- CIMB Islamic Bank
- Hong Leong Islamic
- Maybank Islamic
- RHB Islamic Bank
- Public Islamic Bank
- Kuwait Finance House
- Al Rajhi Bank
- Asian Finance Bank
- HSBC Amanah
- OCBC Al-Amin
- Stan. Chartered Saadiq

## Islamic Windows

### Investment Banks



### Commercial Banks



### ICBUs

- AmInvestment Bank
- Bank of Tokyo Mitsubishi UFJ (M)
- Mizuho Corporate Bank
- Sumitomo Mitsui Banking Corp

## Takaful

### General & Family



## Re-takaful

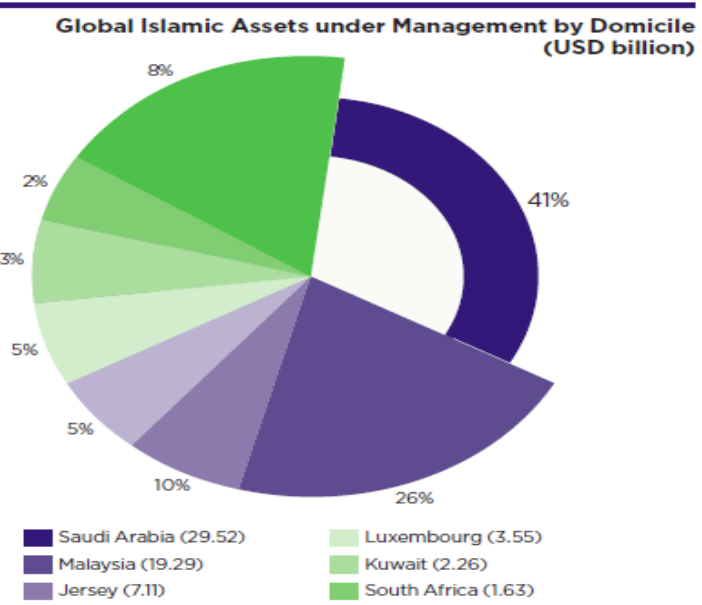
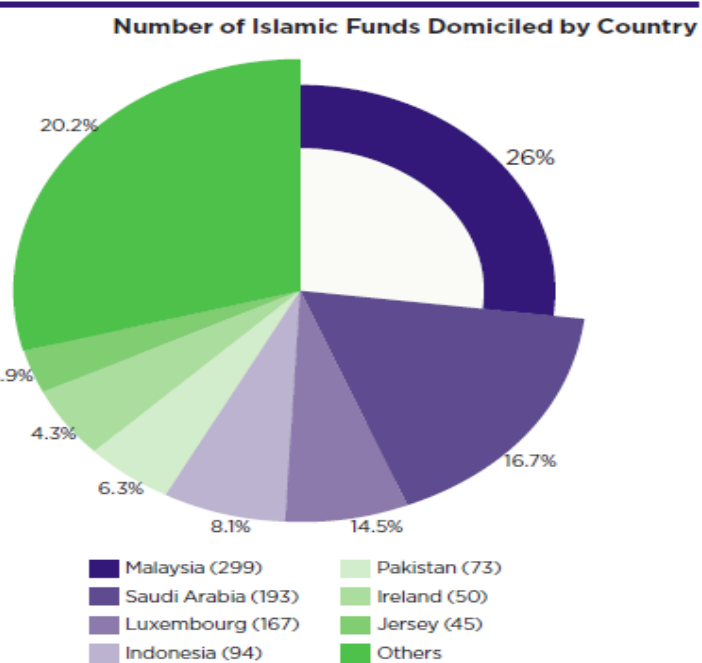
### Family



### ICBUs

- Etiqa Takaful
- Hong Leong MSIG Takaful
- Prudential BSN Takaful
- Sun Life Malaysia Takaful
- Syarikat Takaful Malaysia Bhd
- MNRB Retakaful
- Swiss Re
- Munich Re
- ACR Retakaful Bhd

# MALAYSIA'S VALUE PROPOSITIONS IN FUND MANAGEMENT



## Malaysia's Islamic fund management companies (IFMCs) @ 1 Dec 2014

JV IFMCs	
Asian Islamic Investment Management	CIMB Principal Islamic Asset Management

LOCALLY-OWNED IFMCs	
AmlIslamic Fund Management	Muamalat Invest
BIMB Investment Management	Maybank Islamic Asset Management
i-VCap Management	Pelaburan MARA Investment
Kenanga Islamic Investors	RHB Islamic Asset Management

FOREIGN-OWNED IFMCs	
Aberdeen Islamic Fund Management	Guidance Investments
Amundi Islamic Malaysia	KFH Asset Management
BNP Paribas Islamic Asset Management	Nomura Islamic Asset Management
Eastspring Al-Wara' Investments	Saturna
Franklin Templeton GSC Asset Management	Threadneedle Asset Management

# TALENT DEVELOPMENT AND ANCILLARY SERVICES TO SUPPORT IF INDUSTRY

Comprehensive & coordinated efforts in human capital development essential to cater for the needs of IF industry

Entry level

*Different training platforms for financial services professionals at different stages of career development*

Leadership

IoHL

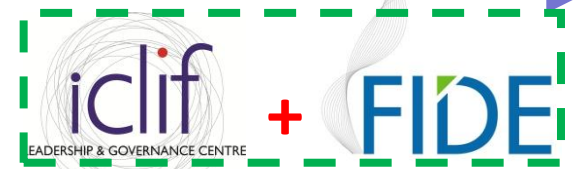
Institutions of Higher Learning offers both undergraduates & post graduates programmes on Islamic finance

INCEIF

International Centre for Education in Islamic Finance to provide professional & academic qualifications in Islamic finance

ibfim

Islamic Banking and finance Institute Malaysia (IBFIM) focuses on Islamic banking, takaful & Islamic capital market program



International Centre for Leadership in Finance for training in management, leadership & governance through the Financial Institutions Directors' Education programme, including in the area of Islamic finance

Comprehensive professional ancillary services to support IF activities

## Associations



MIBA

فاطم



## Legal Firms

KADIR ANDRI & PARTNERS  
CORPORATE & COMMERCIAL

Shearn Delamore & Co

arsa  
ABDEL RAHMAN SAAD & ASSOCIATES

SKRINE

## Accounting Firms



Deloitte

ERNST & YOUNG  
Quality In Everything We Do

KPMG

## Trust Companies



EQUITY TRUST

HANS

## Others Rating Agencies



## Consultancy Firms

ZiShariah



# REQUIREMENTS FOR RUSSIA TO ISSUE SUKUK

1

Jurisdiction and applicable legal regime for the proposed issuance (Common Law vs. Civil Law)

2

- A breakdown of tax and non-tax revenue including federal grants by purpose
- Additional details by segregating Shariah-compliant activities and non-Shariah compliant activities (including tobacco, gaming, alcohol, financial services, interest income and other related activities)

3

- Level of secured debt to non-secured debt
- Unencumbered/unpledged cash flows

4

The amounts of contingent liabilities and relevant details

5

Details of proposed utilisation of the sukuk

## Additional requirements for sovereign:

6

Details on the state's constitutional and regulatory restrictions in relation to fiscal matters, including:

- maximum allowable debt
- budget deficit limits
- minimum fund balances and etc.

7

The 10-year figures for the following:

- state GDP per capita
- GDP growth
- population growth

8

Details on the state's pension liabilities, including amounts projected to be due in the next three to five years

9

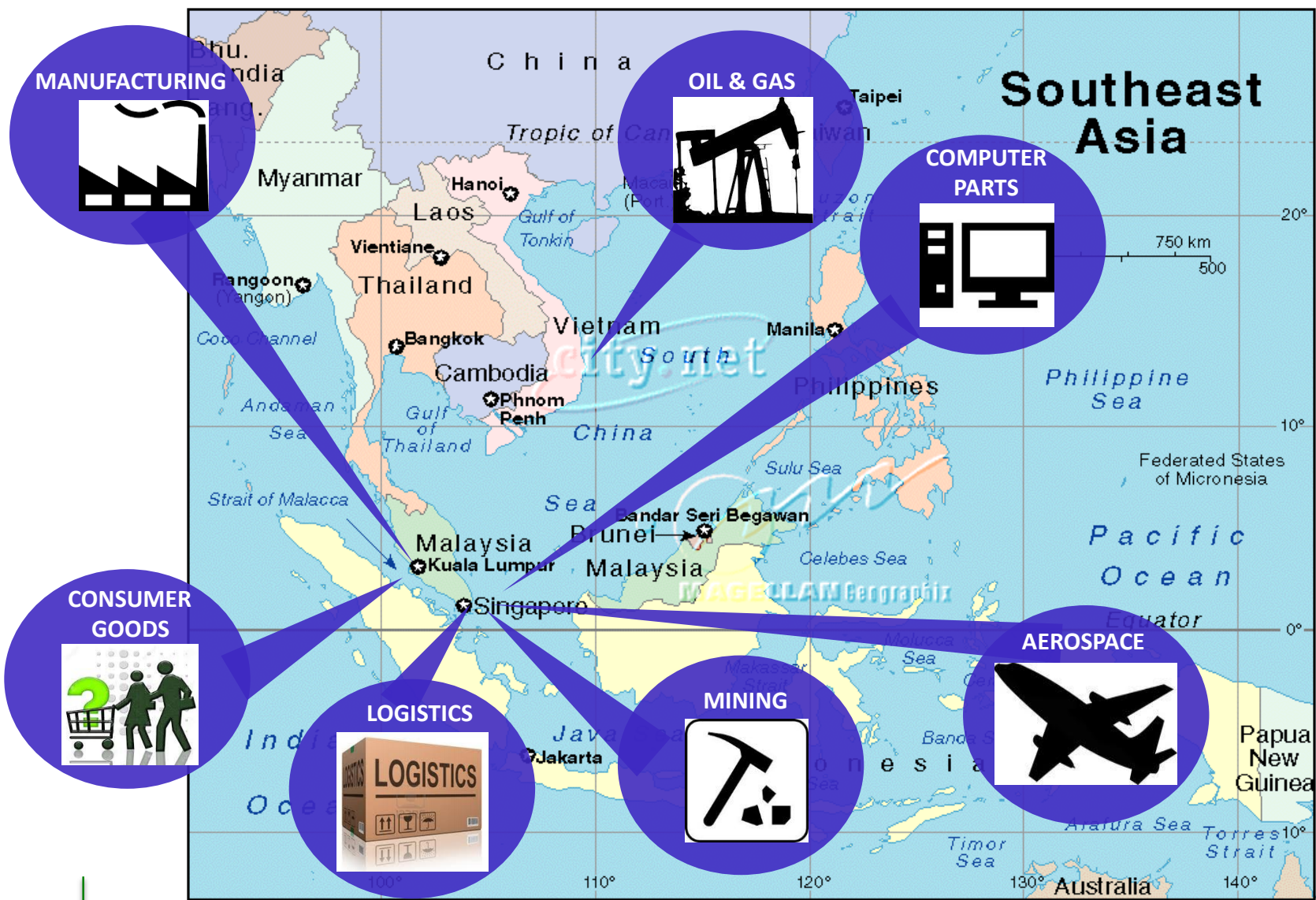
The state's accounts for the past five years

Source: CIMB Islamic



# POTENTIAL SUKUK ISSUERS BY RUSSIAN ENTITIES

Russian corporates with regional presence ie. Malaysia, Singapore etc. in various sectors...



# APPENDIX

# SMOOTH & EFFICIENT APPROVAL PROCESSES: MYR TRANSACTIONS



- The above timeline is subject to no undue delays in obtaining the relevant approvals, the due diligence, rating and documentation processes, and market conditions at the point of marketing.
- Professional parties include, amongst others, the legal counsels, rating agency, facility agent and trustee.  
BNM = Bank Negara Malaysia, SC = Securities Commission
- Listing is optional



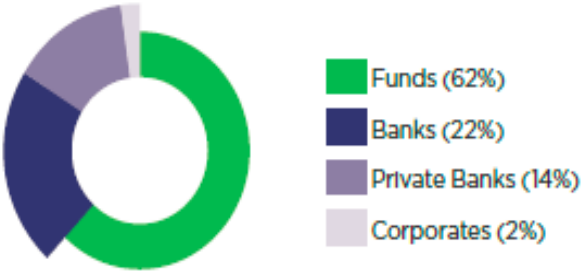
# SMOOTH & EFFICIENT APPROVAL PROCESSES: NON-MYR TRANSACTIONS



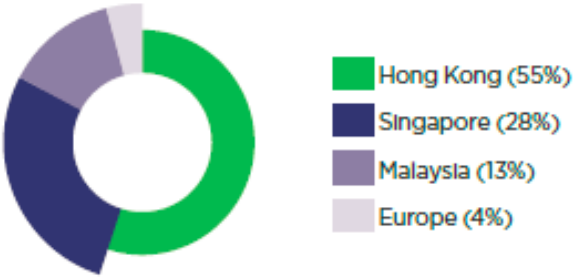
- The above timeline is subject to no undue delays in obtaining the relevant approvals, the due diligence, rating and documentation processes, and market conditions at the point of marketing.
- To tap Malaysian investors/market, submission to the Securities Commission of Malaysia is required
- Listing is optional



Allocation by Investor Type



Allocation by Region



RMB1,000 million sukuk due 2014

Offering Summary

Issuer	Axiata SPV2 Berhad
Obligor	Axiata Group Berhad (“Axiata”)
Facility	Islamic EMTN
Structure	Sukuk Wakalah
Ratings	BBB- / Baa2 (S&P / Moody’s)
Issue Size	CNH1,000 million
Pricing / Settlement date	11 September / 18 September 2012
Tenor	2 years
Maturity date	18 September 2014
Listing	SGX and Bursa Malaysia
Coupon	3.75%
Governing law	Malaysian law

Transaction highlights:



# SUKUK ISSUANCE BY FOREIGN ENTITIES



Development Bank  
of Kazakhstan

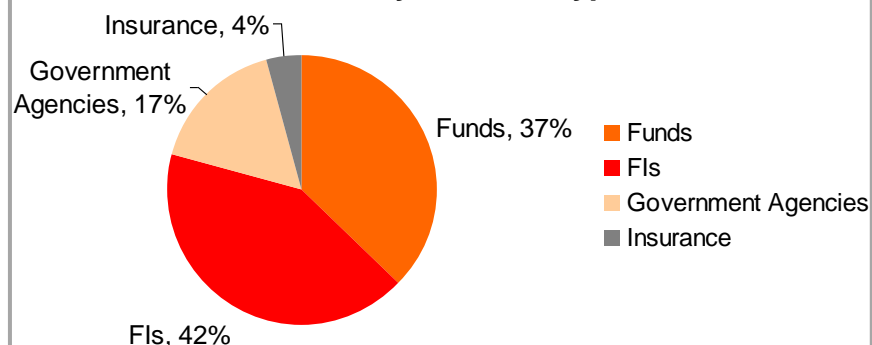
**MYR1,500 million sukuk  
Murabahah (2012 - 2017)**

## Transaction highlights

Issuer	JSC Development Bank of Kazakhstan ("DBK")
Ratings	AA2 (RAM) / BBB+ (S&P)
Format	Islamic Medium Term Notes ("IMTN") Programme
Programme Size	Up to MYR1,500 million
Programme Tenor	20 years
<u>First Issuance under the Programme</u>	
Issue Size	MYR240 million
Pricing / Settlement Date	18 July / 3 August 2012
Tenor	5 years
Maturity Date	3 August 2017
Coupon / Profit	5.5%
Price	100%

- **First issuer in the former Soviet Union**

## Distribution by Investor Type



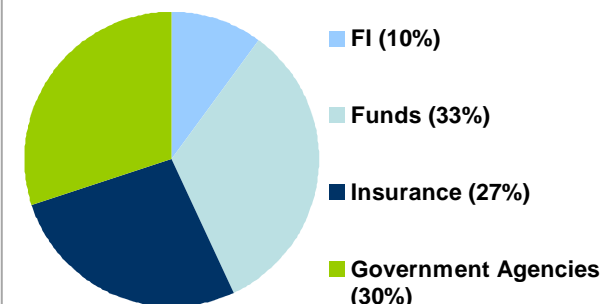
بنك أبوظبي الوطني  
NATIONAL BANK OF ABU DHABI  
The Number One Bank - البنك الرائد - PJSC ش.م.ع.

**MYR500 million sukuk  
Commodity Murabahah  
(2010 – 2020)**

## Transaction highlights

- **Yield: 4.90%**
- **> 2.1x oversubscribed**
- **First foreign financial institution tapping the MYR bond market in Islamic format**
- **First 10-year sukuk by foreign financial institution in Malaysia**

## Breakdown by Investor Type



- **Fully subscribed by Malaysian investors, with a take-up by a Singaporean investor.**
- **Malaysian market /investors have sufficient liquidity to buy strong international household names**

# SUKUK ISSUANCE BY REAL SECTORS



**USD1.5 billion sukuk**

## Offering Summary

Ratings	A1 / A- (S&P / Moody's)
Issue Size	USD1.5 billion
Issue price	99.871
Structure	Sukuk Ijarah
Tenor	5 years
Spread to treasury	1.625%
Yield	4.279%
Listing	Bursa Malaysia, Labuan S.E, Luxembourg S.E

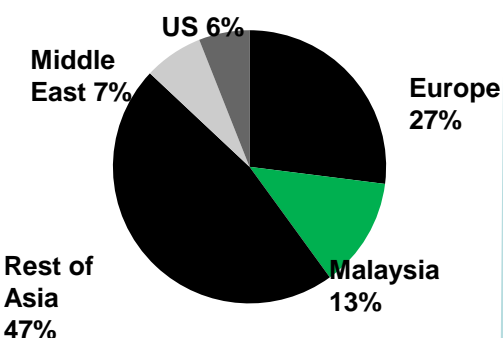


**USD800 million sukuk**

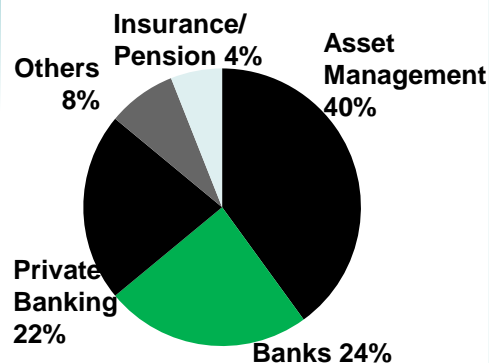
## Offering Summary

Issuer	Sime Darby Global Berhad
Facility	Sukuk
Size	Tranche 1: USD400 million Tranche 2: USD400 million
Tenure	Tranche 1: 5 years (2.053% coupon) Tranche 2: 10 years (3.29% coupon)
Rating	A/A/A3 (S&P, Fitch and Moody's)
JBR/JLM	Maybank IB, Citibank, HSBC and Standard Chartered Bank
Issuance Date	29 January 2013

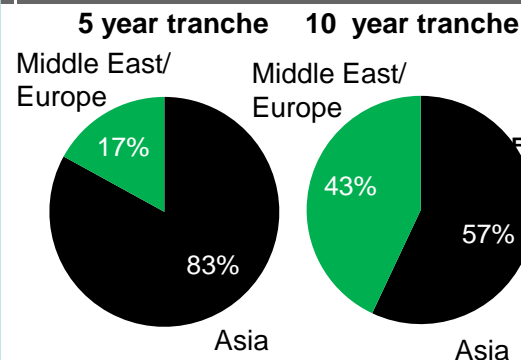
Allocation by Region



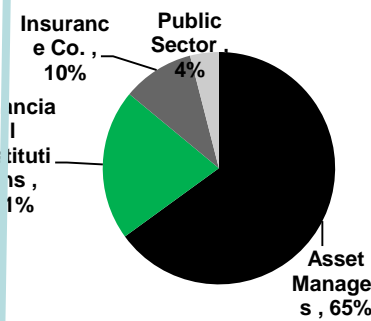
Allocation by Investor Type



Allocation by Investor Region



Allocation by Investor Type



# COMMON SUKUK STRUCTURES - FEATURES

	Musarakah	Wakalah	Ijarah	Murabahah	Istisna'
<b>Contract</b>	Partnership - 2 or more parties, each provide capital. Profit - on agreed ratio. Losses - based on capital contribution ratio	A party appoints an entity (agency/ wakeel) to perform a certain task on the party's behalf	Sale & lease-back of asset for a predetermined tenure and rental. Ownership of asset remains with lessor	Sale of Shariah-compliant commodities on a deferred payment and cost plus profit basis	A purchase order contract of assets i.e. buildings to be constructed and delivered in the future, according to specification as in contract
<b>Underlying Assets</b>	<ul style="list-style-type: none"> <li>• Shariah compliant income generating assets or business venture</li> <li>• Minimum 1/3 tangible asset for global acceptance</li> </ul>		Shariah-compliant physical asset i.e. building, plants etc.	<ul style="list-style-type: none"> <li>• Shariah-compliant commodities i.e. palm oil, petroleum, platinum etc.</li> <li>• Gold and silver (used as medium of exchange) are prohibited.</li> </ul>	Assets under construction i.e. building, power plant to be constructed
<b>Asset Lock-up</b>	Yes, however, may be exchanged with other Shariah-compliant assets throughout the sukuk tenure		Yes throughout the sukuk tenure	Not applicable as transaction on the assets occur once at the point of sukuk issuance	
<b>Global Trading</b>	Allowed with 1/3 of the underlying assets consist of tangible asset		Allowed as 100% tangible asset	Not allowed as sukuk represent debt receivables	



- Malaysia has evolved into a multi-currency sukuk origination centre. 19 Emas sukuk (foreign currency denominated sukuk issued from Malaysia) have been issued in USD, SGD, RMB & Yen currencies
- Top lead arrangers (domestic banks) include CIMB Islamic Bank, Maybank Islamic, RHB Islamic and AmInvestment. Locally incorporated foreign banks (lead arrangers) include HSBC, Standard Chartered
- Foreign issuers have been using Malaysia as their fund raising platform i.e. Nomura, IDB, IFC (World Bank). Other MNCs are Japanese-based Toyota Capital Services & AEON Credit Services, Dutch-based Shell MDS and UK-based Tesco
- RM sukuk are preferred over a RM bond due to cost effectiveness (lower yield as there is a wider investor base for sukuk).
- Ringgit Sukuk value propositions to foreign sukuk issuers include:
  - comprehensive and established regulatory and legal framework;
  - strong buy side demand for investment grade papers from local cornerstone investors and market players; and
  - attractive pricing, cost effective and price discovery environment as well as swift time-to-market.

# NOTES ON MALAYSIA'S ISLAMIC FUND MANAGEMENT VALUE PROPOSITIONS

- Malaysia has attracted 20 Islamic fund management companies (IFMCs), many have designated Malaysia as their hub for gateway to Asia. 12 IFMCs have international names
- Linkages with foreign regulators to facilitate cross border deals
  - Mutual Recognition Agreement with Hong Kong and Dubai for cross-border offering of collective investments schemes
  - ASEAN Bond Market Framework for cross-border offering of collective investment schemes in Malaysia, Singapore & Thailand
- Enhancement of regulatory approval process to improve efficiency and encourage wholesale products via lodge and launch regime to be introduced by SC

**Malaysia's Islamic Fund Management Industry**

(RM billion)	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Apr 2014
<b>AUM of IFMCs</b>	10.3	17.9	27.9	37.9	39.0
<b>Islamic AUM</b>	48	64.2	79.6	97.5	99.6
<b>Total Fund Management Industry</b>	377	423.3	505.1	588.4	615.1
<b>% Islamic AUM to Total Fund Management Industry</b>	12.7%	15.2%	15.8%	16.6%	16.2%

- Incentive to expand Shariah-compliant alternative asset classes - income tax exemption on fund management fees for Islamic REIT managers and trustee managers for Business Trusts
- Competitiveness of equity market via revised Shariah stock screening methodology incorporating business activity and financial ratio benchmarks to attract foreign investors
- Enhance capital market international competitiveness
  - Develop FCY liquidity market: Resident is allowed to invest in onshore FCY assets issued by resident without prior approval by Bank Negara Malaysia
  - Diversify funding activities: Resident is allowed to issue equity securities in FCY without prior approval by Bank Negara Malaysia

# MALAYSIA'S WIDE INVESTOR BASE

## Malaysia's buy-side investors looking for MYR and non-MYR Islamic instruments

	Fund Managers	Pension Funds	Takaful & Insurance Companies	Banks
<b>Key investors</b>	Can be significant buyers in the primary market.	Can be significant buyers depending on the credit of the issuer but generally are more towards govt debt.	Can be significant buyers depending on the investment type.	Significant buyers
<b>Funds Under Management / Total Industry Assets</b>	As of June 2014, total industry FUM: MY628.40b (USD179.54b):	As of Sept 2014: ~ MYR633.3b (USD180.9b) <i>(for several pension funds)</i>	As of Sept 2014, total industry assets size: MYR247.3b (USD70.6b)	As of June 2014, total industry assets size: MYR2,067b (USD590.5b)
<b>Preferences:</b>  Tenor  Deal size	<ul style="list-style-type: none"> <li>Depending on the strategy (i.e. barbell, bullet), most FM keeps duration around 4-6yrs.</li> <li>Benchmark size- MYR500m</li> </ul>	<ul style="list-style-type: none"> <li>Long duration to match liabilities</li> <li>Benchmark size – MYR500m</li> </ul>	<ul style="list-style-type: none"> <li>Long duration to match liabilities</li> <li>Benchmark size – MYR500m</li> </ul>	<ul style="list-style-type: none"> <li>Typical preferred tenors are 5 to 7 years</li> <li>Benchmark size – MYR500m</li> </ul>



# S1R1 (MYR SUKUK)

## Murabahah Structure



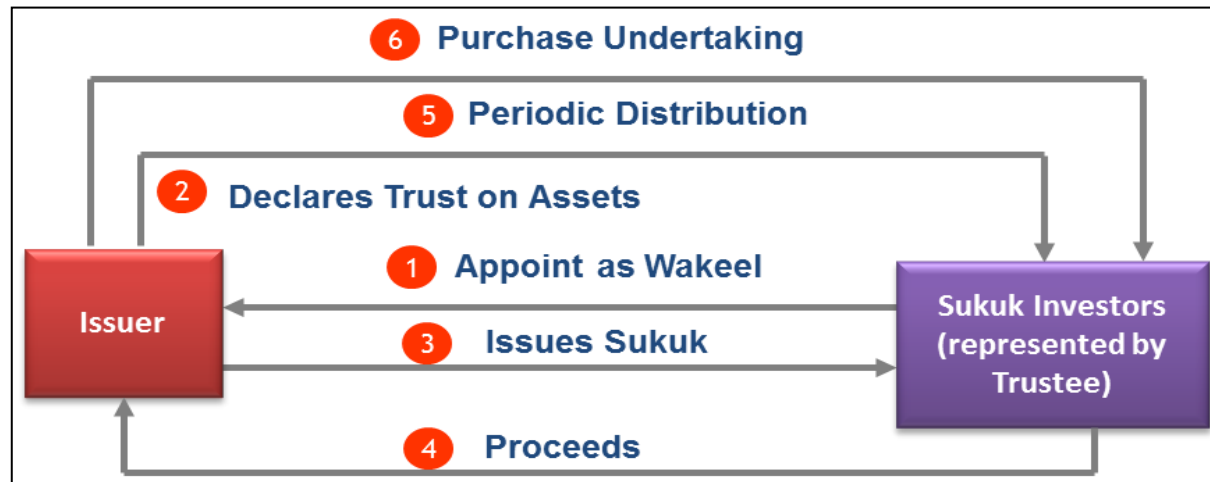
1. Trustee (on behalf of Investors) enters into a Murabahah arrangement with Issuer whereby Trustee promises to sell and Issuer promises to buy certain Shariah-compliant Assets at a mark-up price (Asset Sale Price).
2. Trustee will appoint Issuer as agent to purchase Assets from an asset vendor. Issuer sells Assets to Trustee at cost (Asset Purchase Price).
3. The Trustee will immediately sell back Assets to Issuer at Asset Sale Price to be settled on a deferred lump sum or instalment basis.
4. The Issuer issues Sukuk Murabahah to Investors evidencing its obligation to settle the Asset Sale Price to the Investors.
5. On maturity, Investors redeem sukuk. Issuer settles Asset Sale Price.

*Note: May be structured in the form of single counterparty asset vendor or separate commodity supplier and commodity purchaser.*

	Indicative Term Sheet
Issuer	Non-Resident
International Rating	BBB to A-
Equivalent Local Rating	AA2 to AAA
Program	MTN
Currency	MYR
Size (MYR million)	500 – 800
Size (USD million)	150 – 300
Tenor	5years
Pricing (MYR)*	MGS + 100 – 150 bps
Pricing (USD)*	Libor + 150 – 200 bps
Documentation	Malaysian Law
Underlying Asset	No physical Shariah compliant asset required.
Tradability	Tradable in Malaysian market
MYR liquidity	RM200 – 250 bil/pa

- Price indicative @ 25/9/2014 based on, amongst others, the expected credit rating, business and industry, prevailing market conditions, etc.

## Wakalah Structure



- Sukuk Investors via Trustee, appoint Issuer as agent (Wakeel) to invest in Shariah-compliant business of Issuer or other identified income generating assets (Identified Assets).
- Issuer declares a trust on Identified Assets and the rights and interests (Trust Assets).
- Issuer will issue sukuk to Sukuk Investors to evidence ownership in the Trust Assets.
- Sukuk proceeds will be utilised to invest in Identified Assets.
- Income from Trust Assets will be distributed by the Wakeel to Sukuk Investors.
  - If profits > expected periodic distribution amt => excess paid to Issuer as an incentive fee
  - If profits < expected periodic distribution amt => shortfalls to be paid (advance payment) by Issuer (as Obligor) which will be set-off against Issuer's obligation pursuant to Purchase Undertaking
- Pursuant to Purchase Undertaking by Issuer (as Obligor) in favour of Sukuk Investors, Issuer will purchase the Assets at an exercise price based on a pre-agreed formula upon maturity of the sukuk, or any event as agreed between the parties. Obligor will set-off the exercise price with any payment made earlier.

	Indicative Term Sheet
Issuer	Non-Resident
International Rating	BBB and above
Program	Multicurrency MTN
Currency	USD
Size (USD million)	150 – 300
Tenor	5 years
Pricing *	<ul style="list-style-type: none"> <li>• UST + 80 – 100 (BBB to A-)</li> <li>• UST + 30 – 80 (AAA)</li> </ul>
Documentation	English Law
Underlying Asset	At least 30% tangible assets
Tradability	Tradable in global market
USD liquidity	USD43 billion

- Price indicative @ 25/9/2014 based on, amongst others, the expected credit rating, business and industry, prevailing market conditions, etc.