

Middle East Business Forum

Sokouk Al-Intifa'a

Sokouk



Sokouk Exchange Centre Bank

"TADAWUL"

Jamil A.K. Jaroudi, Ph.D.

Chief Executive Officer



AGENDA

- Islamic Finance
- Islamic Capital Markets
- Evolution Of Islamic Finance & Capital Markets
- Introduction To Sokouk
- Sokouk Types
- What Is Needed To Apply Sokouk?
- Sokouk Al-Intifa'a
- Sokouk Al-Intifa'a Comparison With Other Investments
- Economic Impact Of Sokouk Al-Intifa'a
- End User & Financial Institutions Advantages
- Sokouk Al-Intifa'a Applications – ZamZam Case

Islamic Finance

Islamic Finance Is A Specialized Industry Caters For All Sorts Of Businesses In Many Forms And Instruments.

- ↪ Although Islamic Banking Is 30 – 35 Years Old, Yet Still Should Be Considered As An Infant Industry In Comparison To “Conventional” Banking.
- ↪ Islamic Banking Is Becoming Vital In Certain Societies And A Novelty In Others. However, Its Growth Is Very Noticeable And One Of The Highest As An Economic Sector.
- ↪ So Far, There Are Many Problems The Industry Is Facing And Many Critiques Are Being Pointed Towards It, Among Which Are:
 - ↪ → Slow Or Not Creative Development Is Taking Place In Financial Instruments; Thus, Innovation Is Badly Needed.
 - ↪ → Islamic Financial Markets Are Characterized With Structural Weaknesses Such As:

- Very Few In Number And Small Sized Participants And Issues
- Absence Of Islamic Secondary Market
- No Islamic Interbank Market Thus It Is A LIBOR Based Market With All The Criticism Around That.
- Furthermore, There Is No Lender Of Last Resort, And That Forces Islamic Banks To Be Over Prudent In Their Business Approach

Therefore, This Brings Us To The Most Classical Problem Of Islamic Banks And That Is “Excess Liquidity”.

Islamic Capital Markets

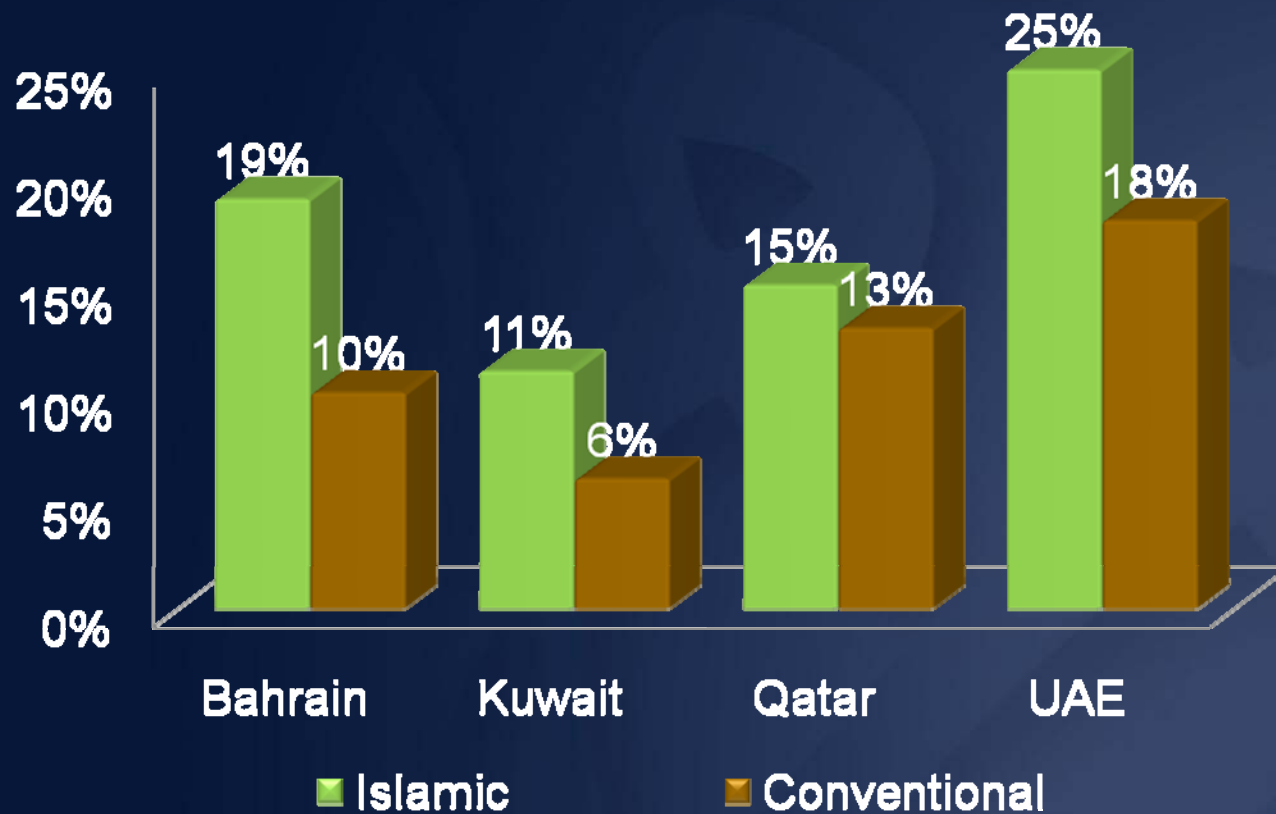
(1). Do They Exist And What Are They?

- Although Very Thin And In-Active, Islamic Capital Markets; Both The Debt Capital Market (**IDCM**) And Equity Capital Market (**IECM**) , DO Exist Nowadays.

(2). What Is Their Present Size And Potential?

- Islamic Banking Assets Were Growing In The Double Digit Rate Between Years 2000- 2006, And Outperformed Growth Of Conventional Assets In Most G.C.C.

Islamic Banking Assets Vs. Conventional Banking Assets

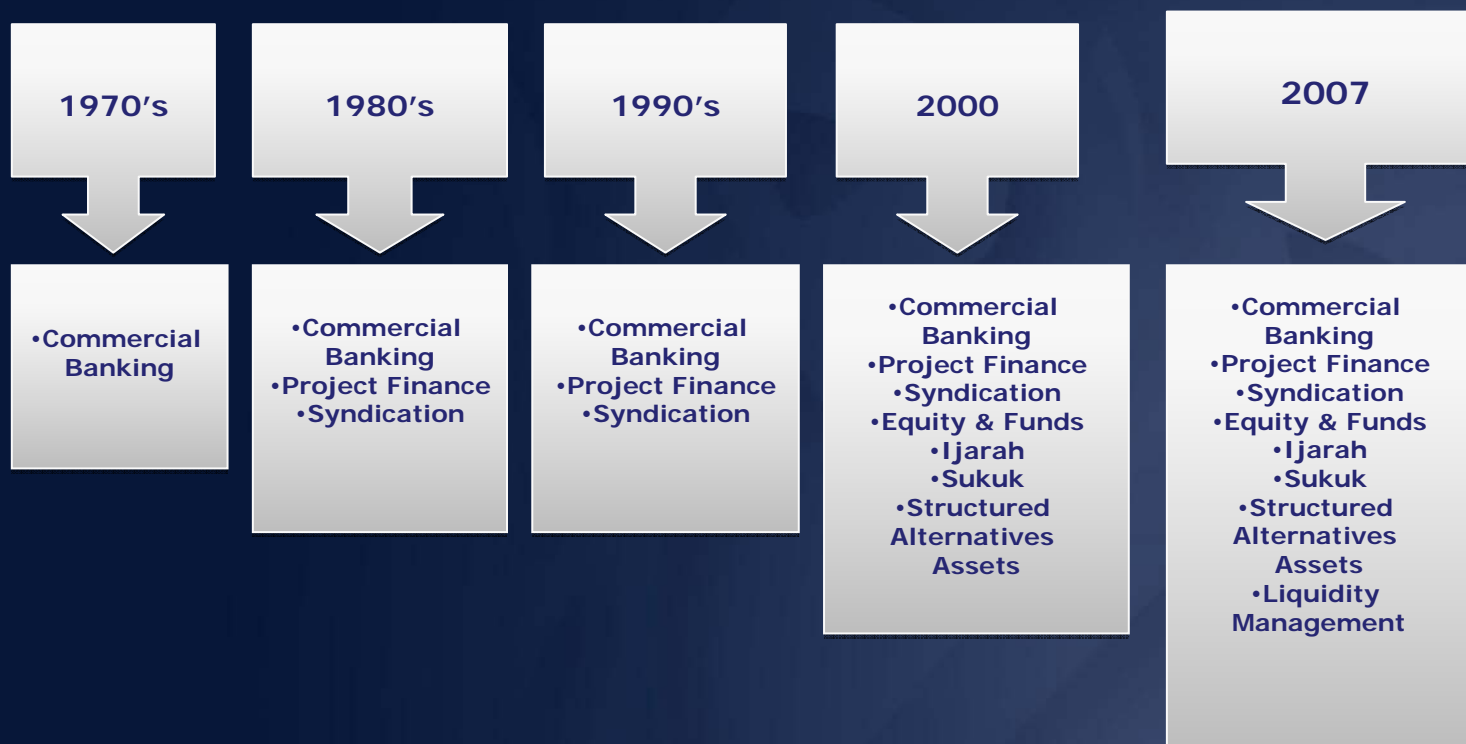


Driven By The Fact That:

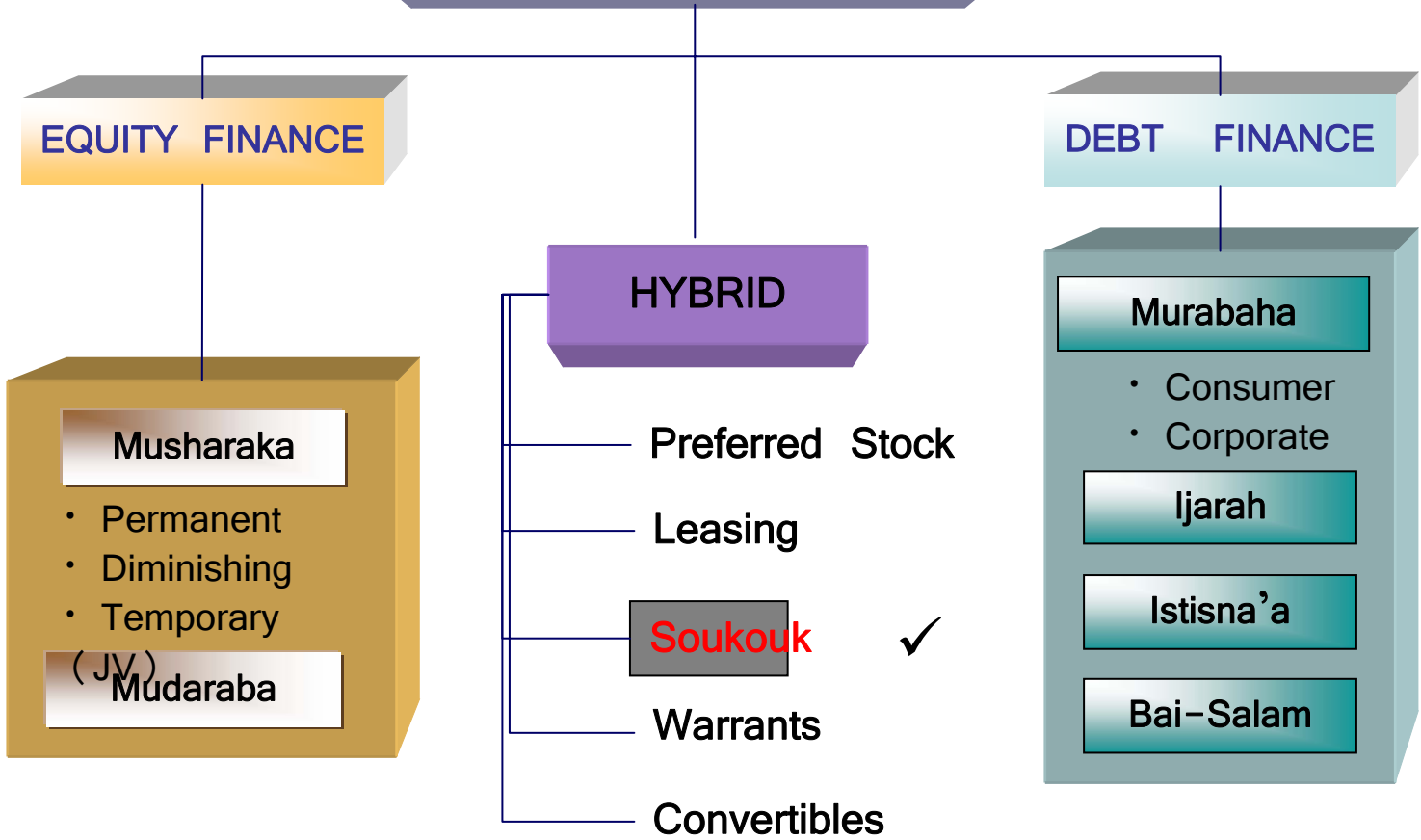
- The G.C.C. Economies Were Experiencing A Period Of High Growth, Mainly Attributed To An Increase In Oil Revenues Resulting In Subsequent Increase In Money Supply.
- The Strong Investor Demand For Sharia'a Compliant Financial Services Was Forcing Islamic Banks And Regulators To Supply This Market With Financial Instruments.
- The Performance At Par Or Better Than Conventional Indices; The Islamic Indices Such As The Dow Jones Islamic Market Index & The FTSE Global Islamic Index Are Putting Forward To The Investors Numerous Activity And Financial Screens To Select Suitable Compliant Companies Or Components.

It Is Estimated That Islamic Banking Assets Will Exceed USD\$200 Billion By The Year 2010.

Evolution Of Islamic Finance & Capital Markets



ISLAMIC FINANCE



↪ **The Common Mistake Is To Say That Sokouk Are Islamic Bonds, Let Alone That Even Those Sokouk Which Are Debt Based Contracts, Still Are Different From A Conventional Bond.**

↪ **The Bond Represents:**

(i)- A Pure Debt On The Issuer.

(ii)- The Lender / Borrower Relationship Is Purely Earning Money On Money.

↪ **While The Sakk Represents:**

(i)- Ownership Stake In Existing Or Well Defined Asset.

(ii)- The Relationship Between The Issuer And Investor Is Based On A Defined Business Understanding.

Understanding Of Sokouk

✦ Asset Monetization Is An Important Financial Process Welcomed And Required To Promote And Sustain Economic Growth And Development.

✦ In The Conventional Financial Sector, It Is Called Securitization And In The Islamic Financial Industry, It Is Called "Taskeek" . Although Technically They Are Not A Replica Of Each Other.

✦ The Word "SAKK" In Arabic Means A Document Confirming Rights And Obligations. It IS Used In The Association Of Property Ownership; "Sakk Al Moulkiah" Or "Sanad Almoulkiah" As Well As For The Obligation For A Debt Repayment "Sanad Aldayn".

✦ Sokouk Are Financial Securities Of Equal Denominations Representing A Claim On Identified Tangible Assets Or services.

✦ The Claim Is Sustained By An Eligible Sharia'a Contract.

✦ In Response To Their Evolution, The AAOIFI Had Issued Standards For **14 Different Sokouk Types** Of Which There Are Those **equity Based** And Others Which Are **Debt Based Contracts**.

Sokouk Types

AAOIFI (Standard)

- ↳ Sokouk Of Existing Owned Assets
- ↳ Sokouk Of Existing Leased Assets
- ↳ Sokouk Of Future Assets On Lease Contracts
- ↳ Istisn'a Sokouk
- ↳ Murabaha Sokouk
- ↳ Musharaka Sokouk
- ↳ Mudaraba Sokouk
- ↳ Salam Sokouk
- ↳ Sokouk Of Existing Services
- ↳ Sokouk Of Future Services
- ↳ Wakala Sokouk
- ↳ Muzara'a Sokouk
- ↳ Musaqqa Sokouk
- ↳ Mugharasa Sokouk

What Is Needed To Apply The Sokouk More Widely & Their Benefits

➤ Innovation And Financial Engineering Need To Continue In This Field To Widen The Spectrum Of Available Instruments.

➤ Regulators Worldwide And Regional Need To Understand More The Characteristics And Nature Of Islamic Banks Thus Allowing Them To Participate In Equity And To Draw The Laws Encouraging That And Draw Regulations Specifically Designed For The Industry Where Needed.

➤ Educating Corporations And Individuals About Opportunities These Instruments Can Bring Them.

➤ More Market Players Should Come Into The Intermediary Position To Help In:

- Issuing More Primary Instruments.
- Be A Market Maker To Encourage Secondary Market Transactions.
- Be Innovative In Restructuring And Grouping Of Existing Assets To Develop The Tertiary Market.

🏠 **If The Market Feels Comfortable That There Are Enough Issues That Will Allow Them To “Buy & Trade” Rather Than To “Buy & Hold”, Then We Would Have Created:**

- An Efficient Allocation Of Resources.
- An Efficient Liquidity Management.
- A Better Diversified Portfolio Of Investments.
- Thus A Better Managed Risk.

These Themselves Are Again Enough Reasons To Promote The Following:

- Economic Growth.
- Supply The Market With More Products To Suit All Investors.
- Improve Investors Confidence.
- Enhancing Further Attractiveness Of The Markets And The Cycle Will Continue.

Sokouk Al-Intifa'a

1

Certificates Of Ownership Of Usufructs Of Existing Assets

1.1

First Type

↳ Certificates Of Equal Value Issued By The Owner Of An Existing Asset Either On His Own Or Through A Financial Intermediary, With The Aim Of Leasing The Asset And Receiving The Rental From The Revenue Of Subscription So That The Usufruct Of The Assets Passes Into The Ownership Of The Holders Of The Certificates.

1.2

Second Type

↳ Certificates Of Equal Value Issued By The Owner Of The Usufruct Of An Existing Asset (Lessee), Either On His Own Or Through A Financial Intermediary, With The Aim Of Subleasing The Usufruct And Receiving The Rental From The Revenue of The Subscription So That The Holders Of The Certificates Become Owners Of The Usufruct Of The Asset.

2

Certificates Of Ownership Of Usufructs Of Described Future Assets

↳ These Are Certificates Of Equal Value Issued For The Purpose Of Leasing Out Tangible Future Assets And For Collecting The Rental From The Subscriptions Revenue So That The Usufruct Of The Described Future Asset Passes Into The Ownership Of The Holders Of The Certificates.

3

Certificates Of Ownership Of Services Of A Specified Party

↳ These Are Certificates Of Equal Value Issued For The Purpose Of Providing Services Through A Specified Provider (Such As Educational Benefits In A Nominated University) And Obtaining The Service Charges In The Form Of Subscription Income So That The Holders Of The Certificates Become Owners Of These Services.

4

Certificates Of Ownership Of Described Future Services

↳ These Are Certificates Of Equal Value Issued For The Purpose Of Providing Future Services Through Described Provider (Such As Educational Benefits From A University Without Naming The Educational Institution) And Obtaining The Fee In The Form Of Subscription Income So That The Holders Of The Certificates Become Owners Of The Services.

Sokouk AI-Intifa'a Comparison With Other Investments

Characteristics	Equity Markets	Sokouk AI-Intifa'a	Real Estate	Direct Investment
Min. Investment Size \$5,000	Yes	Yes	No	No
Liquidity Level / Exit	Very High	High	Mid	Low
Risk Profile / Market Sensitivity	High Sensitivity	Mid Sensitivity	Low Sensitivity	Mid Sensitivity
Growth / Volatility	High Volatility	Medium Volatility	Low Volatility	Low Volatility
Level Of Return	High	Mid	Mid	High
Market Transparency	High Transparency	High Transparency	Mid Transparency	Low Transparency
Investment Duration	Short To Long	Short To Long	Medium To Long	Long

Economic Impact Of Sokouk Al-Intifa'a

1. Promotes Savings
2. Reduces Costs
3. Diversifies Risks
4. Focuses On Uses Of Resources, And Not Their Ownership

End User Advantages

1. Guaranteed Accommodations
2. Effective Utilization
3. Flexibility In Use
4. Re-Sale Option
5. Genuine Saving
6. Fixed Cost
7. Sub-Lease Option

Financial Institutions Advantages

1. Marketability
2. Merchantable Quality
3. Wide Distribution In Use



Sokouk Al-Intifa'a Applications



Alraj Al Bait
MAKKAH

Sokouk Al-Intifa'a
(Ijarah Mawsofa Bithimma)
Abraj Al Bait - Makkah
Makkah - K.S.A



منشآت



صك انتفاع
(إجارة موصوفة بالذمة)
أبراج البيت - مكة
مكة المكرمة - المملكة العربية السعودية

تشهد شركة منشآت للمشاريع العقارية ش.م.ك. (مفندة) التصديت
Munshaat Real Estate Projects Co. (Kuwat) Hereinafter certifies

That / _____ Is entitled to benefit from Unit No. _____ Category _____ At Dar Al-Qiblah for a period of _____ Night (s) As from _____ till _____ of every Hijri year and for _____ periods as from the year _____ upon his request and desire.		_____ / أن / تقرر له حق الانتفاع بالوحدة رقم _____ من الفئة _____ في أبراج البيت لفترة _____ ليالي / ليلة إعتباراً من _____ وحتى _____ من كل عام هجري ولعدد _____ فترة اعتباراً من العام _____ وفقاً لما أبداه من رغبة.
 Signature التوقيع	Date التاريخ	Deed No رقم الصك

Sokouk Al-Intifa'a – ZamZam Case

What Is It?

- ↳ A Blend Of Financial Engineering Combined With Real Estate Assets
- ↳ A Derivative Instrument Of Normal Sokouk
- ↳ Issuer Disintegrate Its Right Of Use Of Identifiable Asset Over An Identifiable Period Of Time Into Specific units (Sokouk Al-Intifa'a) And Transfer These Rights To Buyers (Sokouk Holders).
- ↳ Holders Of The Sokouk Will In Turn Have The Right To Benefit From These Sokouk By Utilization, Investment , Or Selling Them To Others.
- ↳ A Blend Of Two Forces The Structured Finance And, Real Estate.
- ↳ Security Is Not The Issuer Of The Sokouk, But In The Specific Real Estate Asset Or Cash Flows Of Such An Asset.
- ↳ Is A Product Of Multiple Usage.
- ↳ Can Be Used As A Raw Component To Develop Financial Instruments Around It.
- ↳ Can Be Invested With No Cap On Returns & Sold With Upside Potential.

ZamZam Tower Makkah

Location : Kingdom Of Saudi Arabia – Makkah , Is One Of The Towers In The AL-Bait Towers Complex Located Within The Yards Of The Haram Of Makkah Opposite To The Gate Of King Abdul Aziz.

Investment value : US\$ 390 M

Project Execution Period : 3 Years Started Mid of 1424 A.H. (Mid Of 2003)



Project operation: Operation Started In Ramadan 1427 A.H., Corresponding To September 2006 For 24 Hijri Years Under The Management Of Accor International For Hotel Operation And Management

The Tower Units : The Tower Consists Of 33 Floors Which Includes 1,314 Residential Units Divided Into The Following Categories: Studio , Small Suite, Large Suite 1, Large Suite 2 , Amiri Suite And Royal Suite With Most Of Them Over-Looking The Haram.

Benefiting From The Tower's Units: The Towers Units Are Utilized According To The System of "Sokouk Al-Intifa'a".

Quantity Of Sokouk : 60,444
Sokouk



Dar Al-Qeblah Madina

Location : Kingdom Of Saudi Arabia – Madina , The Project Is 150 Away From The Prophet Mosque.

Investment value : US\$ 180 M.

Project Execution period : 2 Years Started On Mid of 1427 A.H. (Mid of 2006).

Project's Area : The Project's Land Covers 8,173 SQ.M And The Building Area Is 126, 500 SQ.M.

Project operation: It Is Expected To Start The Operation Of The Project In 1430 A.H. Corresponding To The Start Of 2009 A.D .International Company Of Hotel Operation And Management Shall Be Entrusted For The operation.



Dar Al-Qebalah Units : The Project Consists Of 560 Residential Units And 215 Hotel Rooms Designed According To Architectural Prospects, Which Suits The Status And Atmosphere of Al-Madina . The Suits Are Well Furnished According To The Specifications Of 5 Star International Hotels; Also The Project Contains A Developed Commercial Center Of Two Floors Which Accommodates Offices And Commercial Shops.

Mechanism Of Selling The Project's Units : The Selling Process Is Based On Selling Of The Units As Floors Or Units With Intifa'a Periods Throughout The Year Or According To Sokouk Al-Intifa'a System Which Sells A Certain Unit During A Certain Period Of The Hijri Year Over 22 Hijri Years.

Quantity Of Sokouk: 40,320 Sokouk



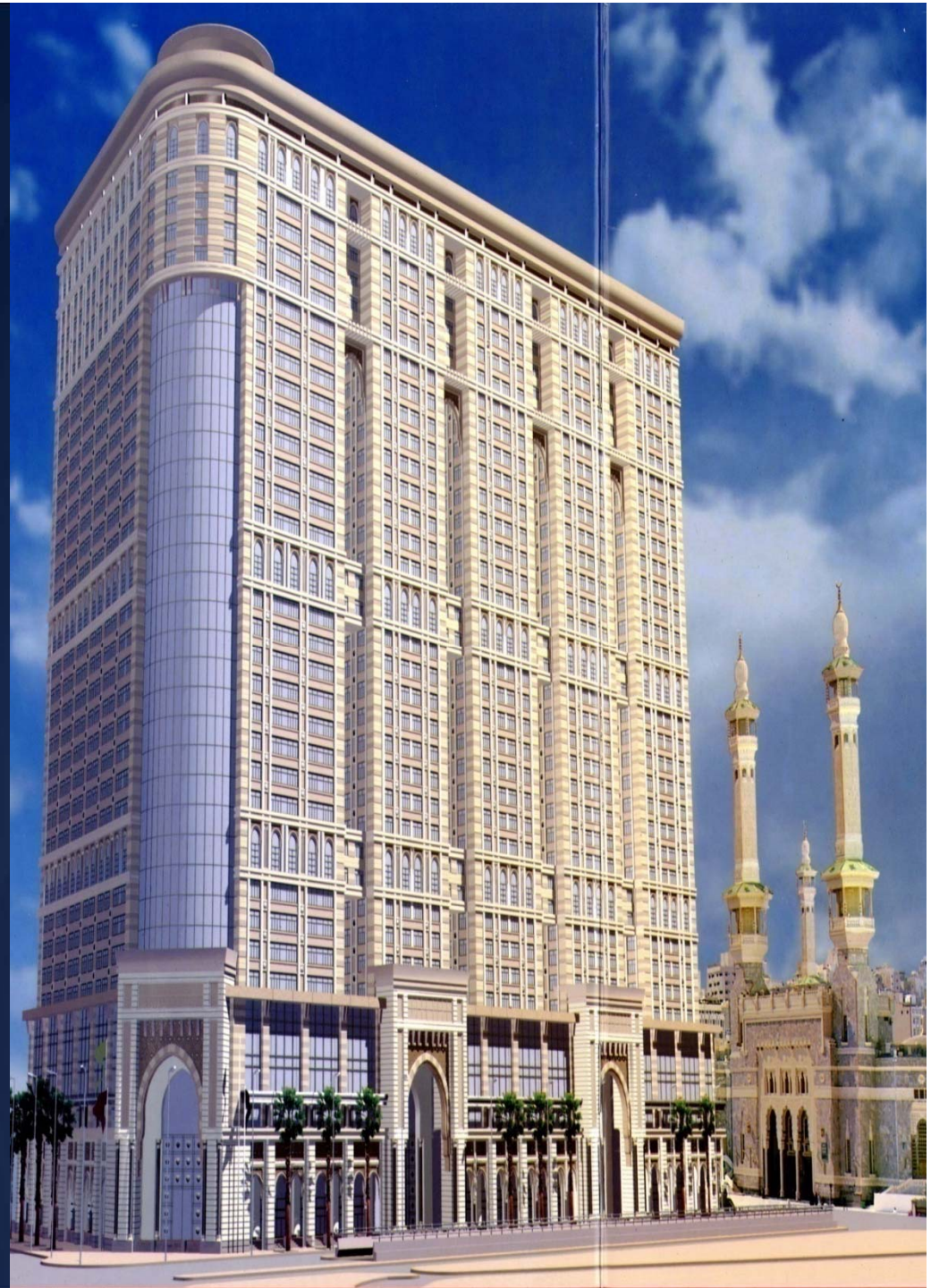
Al-Safwa Towers Makkah

Location : Kingdom Of Saudi Arabia
– Makkah , Directly Over-Looking
The Yards Of Haram , The Project Is
50 M Away From The Gate Of King
Abdul- Aziz.

Investment Value : US\$ 375 M.
(Approximately)

Project Execution period : 2
Years Starting On Thul-Qedah 1427
A.H. (December 2006)

Project's Area : The Project's
Land Covers 1,396.04 SQ.M for
Bakka Tower And 1904.9 For Al-
Mihrab Tower.



Project operation: An International Company Of Hotel Operation And Management Shall Be Entrusted For The Operation Over 20 Hijri Years.

The project's Units : The Projects Consists Of Bakka And Al-Mihrab Towers. Bakka Tower Consists Of 320 Residential Units Whereas Al-Mihrab Tower Consists Of 512 Residential Units.



THANK YOU