

IFIS Global Sukuk Market H2-2010 Report

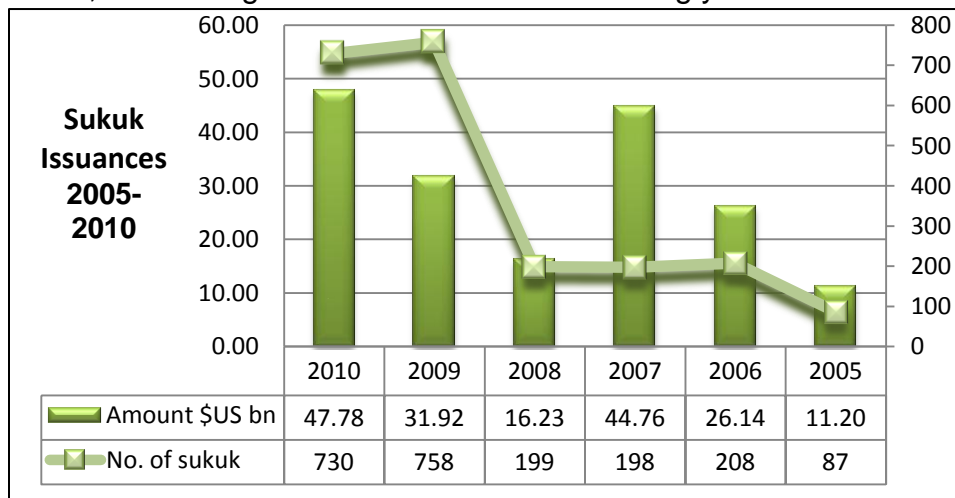
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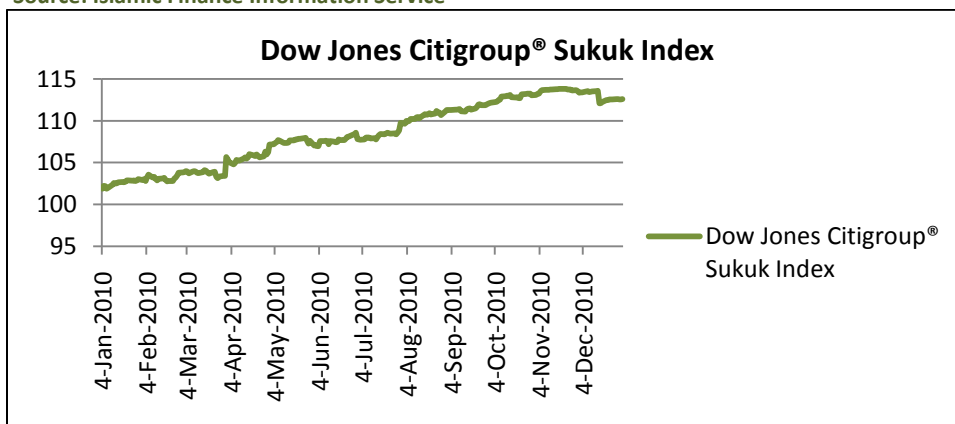
Year 2010 ended with lots of bright prospects achieved, and became the year of optimism as expected. The prospects came along with the global revitalization occurring in the market, consequently, affecting the Islamic markets positively, especially after the clamors that occurred following several defaults in the Sukuk market.

In 2010 Sukuk issuances hit a record of US\$47.78 billion if compared to the last five years; managing to surpass 2007 peak level by around 7% and 50% if compared to 2009. If this was to convey something, it would be the increasing confidence the global markets are regaining. According to *Dow Jones Islamic Markets Indices December Commentary*, the DJIM Citigroup Sukuk Index gained 9.1% in 2010 finishing at 125.32 points.

In this report IFIS will present the major trends that occurred in the global Sukuk market in the second half of 2010, concluding with an outlook for the coming year.



Source: Islamic Finance Information Service



Source: Dow Jones Indexes

Second half 2010: Optimism verified

H2'10 Sukuk issuances reached US\$28.44 billion, showing a 47% and 28% increase if compared to H1'10 and H2'09 respectively. This boost was stimulated by the 44% surge in South East Asia (SEA) issuances from H1'10 to H2'10. Such increase had its effect on the global issuances; as SEA region still accounts for the major share of it, especially Malaysia that is boosting its spending on infrastructure projects.

It is worth pointing out that despite the significant steady increase in the Islamic finance activity and Sukuk issuances in Malaysia, conventional finance is still growing and is still dominating the larger share in the market. As per the November issue of *RAM Sukuk focus*; total conventional Sukuk issuances rose from RM 374,480 million in December 2008 to RM 395,363 million in December 2009 and RM 451,707 million in November 2010. Also, the total value of Islamic bonds issuances increased over the same periods; RM 211,021 million, RM 248,685 million and RM 277,554 million respectively.

Despite the surge in SEA, the Gulf Cooperation Council (GCC) Sukuk issuances, which comes in second place in global Sukuk issuances, faced a drop by 33% in reference to H2'09, it could be concluded that this drop didn't affect the global value of Sukuk issuances. Partially, the reason behind this might be the slightly regained confidence in the region mainly after Dubai World reached an agreement with its creditors in September.

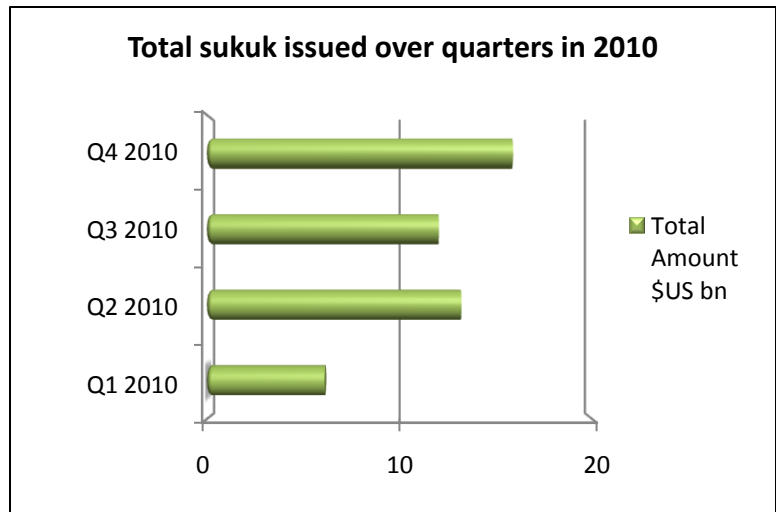
Varying Quarterly performances:

The global Sukuk market faced several variations over the four quarters in 2010. As usual, the *first quarter* came with the lowest value of issuances this year with US\$ 6.13 billion. Both SEA and GCC regions showed a drop from the previous quarter by 85% and 35% respectively. It was also noted that in the GCC, Bahrain was the only issuer in this period with its usual bi-monthly sovereign short term Sukuk issuances.

In *Quarter two*, there was a 115% increase whereby Sukuk issuances reached 13.2 billion. The GCC region surged by 1293%; reaching US\$ 2.42 billion, marked by Saudi Electricity's US\$1.9 billion Sukuk issuance. As for SEA, the Sukuk value reached US\$ 10.73 billion showing a 95% rise, compared to the previous quarter.

Moving to the *third quarter* it showed a drop by 9% in Sukuk issuances from US\$ 13.2 billion to US\$12.03 billion, and then a rebound by 36% to reach US\$16.4 billion in the *fourth quarter*.

The fall in Q3 could be explained by the GCC plunge in Sukuk issuances from US\$2.42 billion to US\$ 0.34 billion; almost an 85.7% drop, which might be due to the lack of high profile Sukuk offerings. Out of the six Sukuk, only one was for Saudi Bin Laden



Source: Islamic Finance Information Service

Group (US\$187 million) and the rest were the usual bi-monthly Bahraini sovereign issues. Moreover, the summer time and Ramadan could also verify this drop, when business slows down and even might stop during the holy month. On the other hand, SEA's issuances were almost static; showing a 6% increase from Q3 2010.

As for the 36% pick up in Q4, it could be elucidated by Dubai World's announcement, in September, that 99% of its creditors have agreed to the terms of restructuring its debt that is worth US\$ 24.9 billion and the high probability of restructuring the rest of its debt by the end of year 2010. This was revealed in the GCC's 311% pickup reaching US\$ 1.42 billion, along with the ADIB's US\$ 750 million and IDB's US\$ 500 million issuances. As for SEA it still showed a small change; 9% increase reaching US\$ 12.40 billion.

Quarter four's issuances could have done better; however, due to the European financial crisis in Greece and Ireland the global market has been affected causing a drop in the Sukuk prices. The Greek debt crisis created confusion in the market and worries started to arise about borrowing costs and its effect on the bond's market activity. As this crisis was coming to an end, after some European government's announced the US\$ 1.0 trillion rescue plan, the shadows of the crisis managed to reach other European countries like Portugal, Spain and Ireland. The Sukuk performance, according to *HSBC/NASDAQ Dubai US Dollar Sukuk Index*, dropped the most in the first weeks in November, affected by the Ireland debt crisis which was seeking to aid its banking system. It is significant to mention that Ireland agreed around mid November to receive an aid package worth 85 billion euro (\$112 billion) from European governments. As for Portugal and Spain, yields on their 10-year government debt increased spectacularly and is causing speculations that they will follow Ireland in seeking a financial bailout.

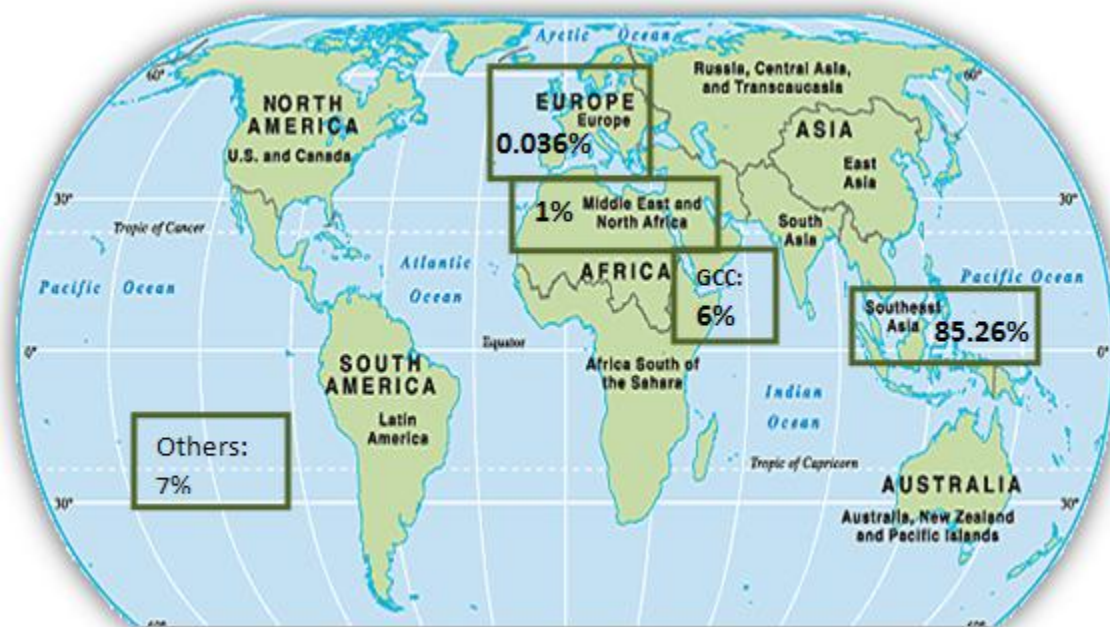
Regional Allocation of Sukuk

In H2'10, SEA's issuances still constitutes most of the global Sukuk market with total value of US\$ 23.8 billion; dominating 84% of H2'10 issuances and even increased by 29% from H2'09. Out of this huge percentage, Malaysia took the lead by 99% of the issuances in H2'10. This is backed by the government's continuous support towards making Malaysia an Islamic economic hub and the premier Islamic capital market. This was also reflected in the 2011 budget speech, in which it was mentioned that the expenses of the issuances of Islamic securities under the principles of murabaha (that consisted almost 64% of Malaysia's H2'10 issuances) and bai' bi thaman ajil based on tawarru' be given tax deduction.

In addition to this, the country's good economic situation; whereby it managed to reach a 9.5% expansion in the GDP in H1'10 compared to -5% in the same period last year, as mentioned in the governor's 2011 budget speech. It's also forecasted that their economy's growth will increase by 5% to 6%.

This facilitative regulatory environment along with the constant innovation of products and the large appetite for the Islamic products especially with the major share of the population being Muslims, are helping Malaysia and SEA to sustain its major share in the Sukuk market.

GCC came in second place this half with total issuances of value reaching US\$1.76. Though its ranking didn't change; however, it showed a decline from H1'10 where the value of total issued Sukuk was US\$ 2.64 in H2'09 and 2.59. The reason behind this, as previously mentioned, was the lack of large valued Sukuk.



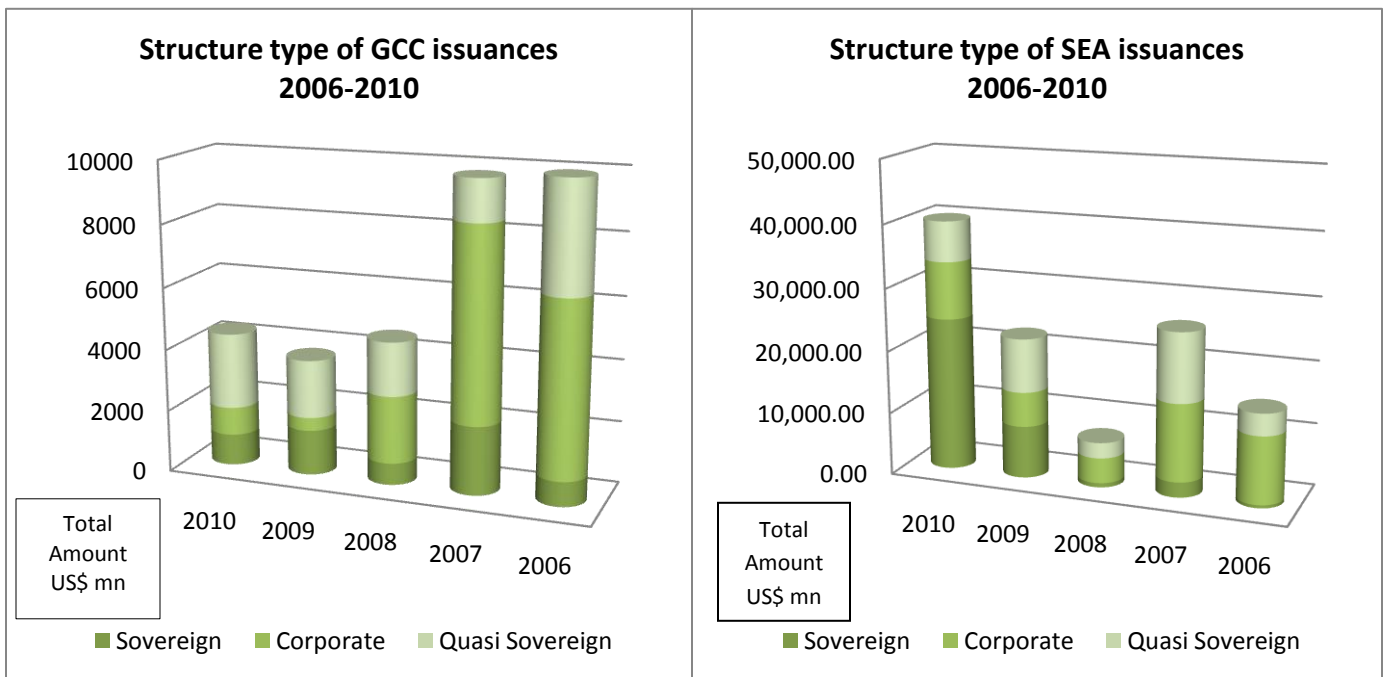
Source: Islamic Finance Information Service

GCC issuances vs. SEA:

The regional allocation discussed above, clarified major discrepancies between the two main regions in the Sukuk market; GCC and SEA. These differences will be highlighted in certain key aspects:

Structure type of issuances: Aside from the fact that SEA issuance’s surpasses that of the GCC, as illustrated in the graphs below, it is clear that Sovereign issuances dominated the SEA region most of the time, while corporate issuances played this role in the GCC region.

In 2010, sovereign issuances controlled around 61% of SEA Sukuk issuances reaching US\$ 24.5 million, supported by the Malaysia’s government’s continuous support and incentives to foster this market. On the other hand, corporate issues reached US\$ 9.1 million and the quasi sovereign ones reached US\$ 6.4 million. However, if compared to the previous peak record that occurred in 2007, it is noticed that quasi sovereign and corporate issues were the ones that dominated SEA market. This could be justified by the subprime mortgage crisis which caused the government to curb its Sukuk issuances. This also took place in 2008, when the crisis tightened its negative effects. In 2009, the global market started to pick up which had a positive influence on the Sukuk market.



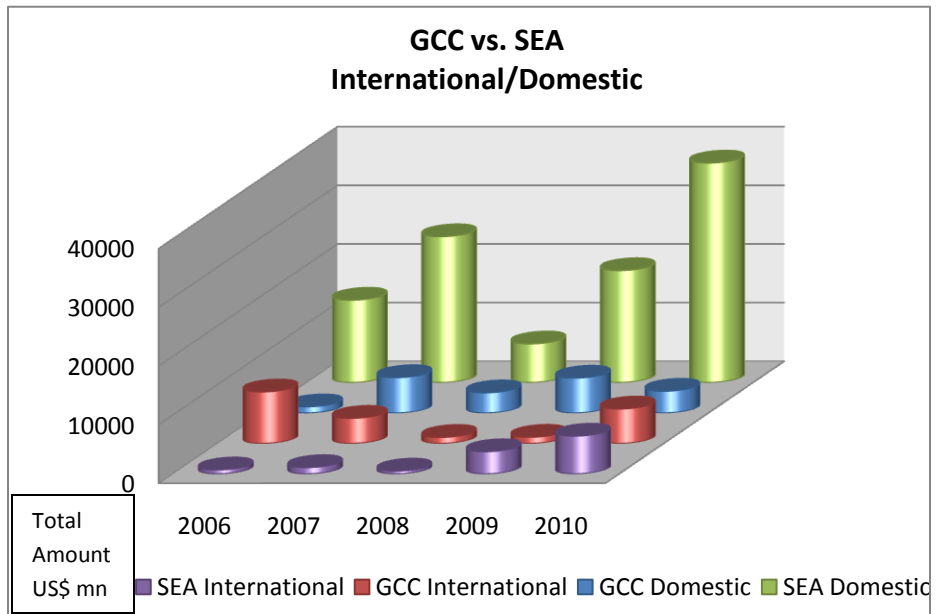
Source: Islamic Finance Information Service

Alternatively, in the GCC it is noticed that corporate issues declined from 2007 till 2009 by 68%, with lots of private issuers cancelling or holding their projects with anticipations of the global crisis. The GCC market didn't surpass nor even reach the 2007 peak levels except in the Quasi Sovereign issuances, whereby it exceeded it by 80%. In 2010, corporate issues dominated the market there with 55% of value US\$ 2.4 billion, followed by 23% of Sovereign issues (US\$ 10.16 billion) and 22% of Quasi Sovereign issues (US\$ 937 million). It is highly recommended that GCC Governments interfere more in issuing Sukuk as a mean of encouraging more companies to tap this market.

Domestic vs. International: In 2010, domestic issuances reached 78% of SEA region with value US\$ 37.4 billion and only 6% of international issues. This reveals a point of self sufficiency reflected in Malaysia's market, which dominated almost 94% of SEA's domestic market with value US\$ 35.2 billion. In addition to the high number of Muslims in SEA in general and in Malaysia in particular which fosters the supply and demand for the Sukuk.

Moving to GCC, we find that Domestic issuances used to control the market in year 2007, 2008 and 2009 with values US\$ 6.1 billion, US\$ 3.5 billion, and US\$ 6.0 billion respectively; reflecting fears from international markets during the global financial crisis. In

2010, International issuances exceeded domestic ones reaching US\$ 5.9 billion compared to US\$ 3.77 billion domestically. The missing sovereign Sukuk issuances in the region, that might be used to set a pricing benchmark for private issuers, along with the regulatory environment in the GCC which is not considered supportive compared to that of SEA region, might drive some of the issuers outside of the region.



Source: Islamic Finance Information Service

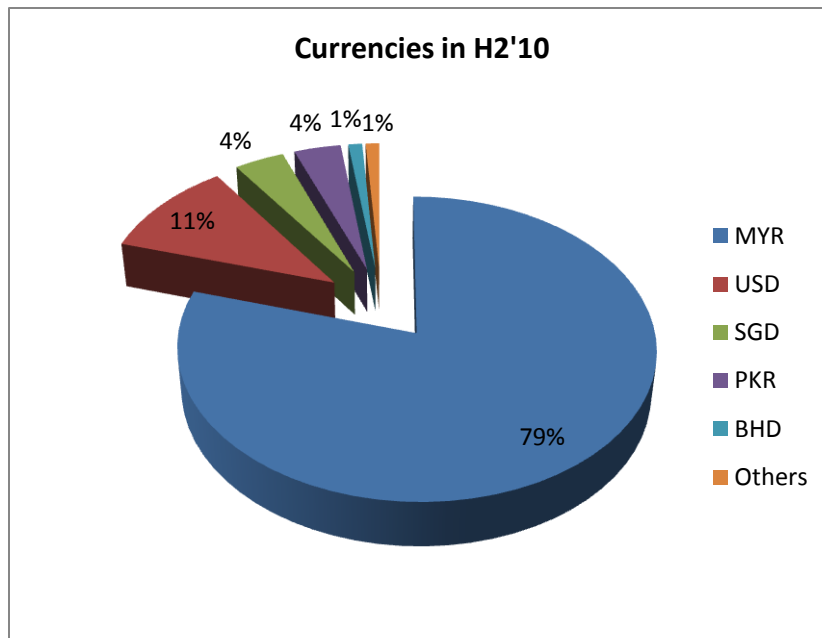
New country entrants

H2'10 marked the entrance of several new countries in the Sukuk market as follows;

- **Europe:** After the long competition between France and Britain about which of them will be the first in Europe to issue Sukuk, United Kingdom settled this debate by its first issuance in July. The \$US10 million Sukuk was divided into two equal tranches one in USD and the other in GBP.
- **MENA:**
 - Turkey: In August, Kuveyt Turk Katilim Bankasi A.S (KFH-Turkey) issued its first \$US100 million murabaha and ijara Sukuk through KT Turkey Sukuk Limited, SPV, in Cayman Islands. The Sukuk was oversubscribed by 45%. It was also listed in London stock exchange and was rated BBB- by Fitch Ratings. The Sukuk is expected to set a benchmark for future Sukuk issuances in Turkey.
 - Egypt: In June, Al-Tawfeek for Securitization Company S.A.E. issued its three tranches of ijara Sukuk with an aggregate value of \$US100 million with the last one in July. It is considered the first and biggest private placement securitization issue that is Shariah Compliant. It is worth mentioning that this issue is treated as bonds not as Sukuk since the executive regulations related to Sukuk hasn't been yet approved by the People's Assembly.
 - Sudan: The Government of Sudan announced in December that it is selling a seven year US\$ 800 million Sukuk to finance its budget gap.
- **Asia:** PTT Plc. issued a MYR600 million Sukuk in Malaysia in November. It is considered the first Thai Company to tap the Islamic capital markets.
- **Other** Islamic Kovser Bank OJSC issued EUR1.1 million Sukuk that was underwritten by Technika Capital Management

Currency:

As it is dominating the Sukuk market, Malaysia’s currency also controls the global issuances. The Malaysian ringgit (MYR) accounted for 89% of the value total issuances, while the US dollar (USD) came in second place with 11%, followed by the Singapore dollar (SGD) with 4%, Pakistani Rupees (PKR) 4%, and other insignificant percentages of other currencies.



Source: Islamic Finance Information Service

The MYR’s position is supported by the appetite of new obligors that preferred to issue their Sukuk in the Malaysian market which helped in retaining the currency’s position such as Abu Dhabi’s NBAD MYR500 mn Sukuk and Thailand’s TTM Sukuk Bernhard’s MYR600 mn Sukuk issuance. Moreover, as per the 2011 Malaysian budget speech; the ringgit is considered the best currency in the region strengthening 11% against the USD since the end of December 2009 to MYR3.083 on 14 October 2009. In addition to this, the dollar’s small share is backed by its current weakness and the issuers’ requests to tap local highly esteemed markets as a risk averse action.

This was reflected in value of domestic Sukuk that reached US\$24.38 billion this half, accounting for 87% of total Sukuk issuances. On the other hand side, International Sukuk’s value was US\$3.56 billion.

Arrangers & Bookrunners:

CIMB Islamic retained its position as the top arranger this half with outstanding Sukuk worth US\$3622.08 million and 54 Sukuk. Switching its place with HSBC Amanah, Maybank Investment Bank came in second in H2'10 followed by HSBC Amanah. Dubai Islamic Bank appeared in the arrangers' league table with total value of 1,028.54 as it managed to arrange the PKR80 million ijara of the government of Pakistan. Finally, Aminvestment Bank Berhad maintained its fifth rank.

| Top Arrangers H2'10 | | | | Top Bookrunners H2'10 | | | |
|---------------------|--------------------------|----------------|--------|-----------------------|----------------------------|----------------|--------|
| Rank | Arranger | Amount (US\$m) | Issues | Rank | Bookrunner | Amount (US\$m) | Issues |
| 1 | CIMB Islamic | 3,622.08 | 54 | 1 | CIMB Islamic | 2,977.84 | 45 |
| 2 | Maybank Investment Bank | 2,260.45 | 74 | 2 | HSBC Amanah | 1,032.39 | 18 |
| 3 | HSBC Amanah | 1,620.37 | 27 | 3 | Maybank Investment Bank | 677.74 | 6 |
| 4 | Dubai Islamic Bank | 1,028.54 | 2 | 4 | Citibank International PLC | 395.57 | 2 |
| 5 | AmInvestment Bank Berhad | 402.97 | 23 | 5 | Standard Chartered Bank | 375 | 2 |

Source: Islamic Finance Information Service (IFIS)

As for the bookrunners, CIMB Islamic managed this half to regain its first position which has been lost against HSBC Amanah in H1'10. Maybank Islamic Bhd, moved to third place in H2'10 compared to sixth rank last half. The following bookrunners were Citibank International PLC in fourth place and Standard Chartered Bank in fifth place.

It is worth to emphasize the fact that arrangers and bookrunners league tables reflect the absence of fully fledged Islamic Banks, as the dominant banks are conventional banks with Islamic windows/activities and/or subsidiaries.

H2'10 major debates

Among the issues that have been aroused lately after the defaults of some major Sukuk was the differentiation between *asset-based* and *asset-backed* Sukuk. In the WIBC 2010, the IIFM board discussed offering an agreement to pave the way towards more asset backed Sukuk.

According to AAOIFI's fatwa in February 2008, the main aspect of differentiation between them is the true sale of assets. In *asset-based Sukuk*, Sukuk holders don't have direct link to the trust assets and usually such Sukuk gain a higher rating as it is linked to obligor's credit rather than the physical assets and the source of payments comes from the originator's cash flow.

Moving to *asset –backed Sukuk*, it is defined by Michael McMillen (2008) “as asset securitizations that involve asset transfers from an originator into a trust or similar SPV, with Sukuk issuance by that trust or SPV and payments on the Sukuk derived from the payments received in respect of those transferred assets”. The source of payment is the revenue coming from the underlying assets.

The *asset-backed* Sukuk have several benefits, stated by the securities commission of Malaysia, if compared to the *asset-based*. Among these are; the higher rate of return to investors, the high quality of assets as they won't be exposed to the bankruptcy of the originator, as SPVs are considered bankruptcy remote and have no exposure to liabilities of the originator. As for the originator, it helps in providing additional cheaper source of funding, locks off profits and the assets are taken off the balance sheet. Though the later benefit is a double sided aspect; as it might cause confusion to investors as the true transfer of ownership would give the SPV full rights of disposal over the assets and therefore no way of recourse to the assets for the originator.

With such big debates about the two types, it is expected that 2011 will witness the issuance of some *asset backed* Sukuk.

H2'10 market highlights

Thomas Cook halts its first Sukuk

The company failed to issue its announced US\$50 million Sukuk stating that the market is still full of risks and that it has to fully recover.

Launch of Sukuk ALIM

In July, Cagamas and Al Rajhi Bank developed a new product known as Sukuk Al-Amanah Li Al-Istithmar (Sukuk ALIM). The Sukuk is considered a new step towards bridging between the Shariah point of views of

the Malaysian and Middle Eastern/GCC Shariah scholars; whereby the former's view are considered as too liberal. The Sukuk complies with the provisions of the Sukuk issued by AAOIFI. It is similar to Sukuk istithmar but the redemption is determined by an auction. The Sukuk excludes the principles of sale and buy back (Inah), trading of debt (Bai' Dayn) and undertaking (Wa'ad).

*Saudi Binladin Group issues
US\$187 Sukuk*

The company has issued the Sukuk in July as a private placement. The proceeds are to be used to fund the Cost Price of the Commodity.

Bayt Al Borsa and e-Tayseer

In July, Bahrain announced its attempts to attract trading of Sukuk away from UK, Malaysia and Dubai. On January 2011, Bahrain Bourse announced that the trading procedures will start by the 7th of February 2011 in its Islamic section.

Bahrain Financial Harbour Holding Company (BFHHC), whose owners, announced that it had fully repaid a US\$134 million Sukuk arranged by Liquidity Management Centre (LMC). The Sukuk was used to finance the construction of the Financial Centre within Bahrain Financial Harbour.

*BFH and Ras Al Khaima
successfully redeems their Sukuk*

RAK Sukuk has also been redeemed its US\$325 million Sukuk on the 23rd of December. In the previous month, Ras Al Khaima offered to buy back the Sukuk at face value or swap them with new securities due in 2016. The reason for this offer was, as stated in their statement, to utilize certain surplus cash resources, to extend the maturity profile of certain outstanding indebtedness of the government and consolidate its sovereign issuance within RAK Capital

*IDB upsize its Sukuk to US\$3.5
billion*

IDB increases the size of its 2005 US\$1.5 Sukuk to reach 3.5 billion with the aim of financing projects of its member countries. The bank issued US\$500 million in October.

Malaysia Airports Capital Berhad completed its inaugural first tranche issuance of 10-year RM1.0 billion Islamic

*Malaysia Airports Capital Bhd
successfully closes its MYR 3.1
billion*

Medium Term Notes as part of a combined aggregate nominal value of up to RM3.1 billion. As per the offering circular of the Sukuk, the proceeds will be used to partly finance the development of the new low-cost carrier terminal which is expected to be completed by the end of the first quarter of 2012. It will also be used to refinance MAHB's existing borrowings which were utilized for Shariah-compliant purposes and for Shariah-compliant general corporate purposes.

ADIB closes its US\$750 Sukuk

Abu Dhabi Islamic Bank issued this Sukuk under a collective Sukuk program that is worth US\$5 billion. The issuance was considered the biggest in the GCC region. It was rated A2 by Moody's and A+ by Fitch

*QIB closes its US\$750 million
Sukuk*

Qatar Islamic Bank closed its first international Sukuk, domiciled in Cayman Islands. To raise money to improve QIB's debt to equity ratio.

*State Bank of Pakistan issues
Government of Pakistan's Ijara
Sukuk*

On October 29th, the government announced the issuance of PKR80 million Sukuk divided into two tranches. The proceeds will be used to purchase a statutory corporation established under the Pakistan Civil Aviation Authority Ordinance

*GFH seeking to extend the
maturity of its US\$200 million bond*

GFH is trying to restructure its debts to enhance its financial position that was negatively affected after the financial crisis. Among its plans was extending the maturity date of its US\$200 million Sukuk from 2012 to 2015.

*Upgrading DP World outlook to
positive*

Moody's rating agency affirmed the Sukuk's Ba1 rating and upgraded the company's outlook from stable to positive in response to its outstanding performance during the year and its announcement of refinancing a 3 billion dollar syndicated revolving credit facility.

*Borcus Shipping Sukuk on
negative outlook*

In December 17th, RAM reaffirmed the A1 rating of Syarikat Borcos Shipping Bhd's MYR 160 million Sukuk with a negative outlook. As mentioned in RAM's statement, this outlook is based on Borcos' cash flow-

protection metrics that may remain depressed by unfavorable DCRs and low vessel utilization, exacerbated by its heightened contract-renewal risk over the next 12 months as 11 of its contracts will expire within a year.

Dar Al Arkan Company announced that it is confident of its ability to pay its debt without having to tap the bond market again. The Company has a US\$1 billion Sukuk with maturity date 2012.

Dar Al Arkan and Zecon reassures its bondholders

On the other hand side, After the doubts aroused by MARC, Zecon Bhd said it'll be able to redeem its MYR15 million Sukuk maturing by 2015 after it receives two progress payments from Jabatan Kerja Raya (JKR) Sarawak on the Matang Highway project.

New countries' attempts to enter Sukuk market

Egyptian Financial Supervisory Authority announced that it is preparing the first drafts of Sukuk to be finalized by 2010 and applied by the first quarter of 2011. Ziad Bahaa El-Din, chairman of EFSA said that their aim is to spur fixed-income activity in Egypt.

Jordan finalized the draft of its first regulations in the Islamic finance sector, whereby it managed by October to finish setting the laws that will govern sovereign Sukuk issuances. This came as a reaction towards the expansion of Islamic finance industry. Jordan cabinet has also approved the issuance of Sukuk for Al-Rajhi earlier same month.

On the other hand side, **Australia**' national taxation board declared that it is working on amending its tax laws to ensure that Islamic finance products are treated fairly and attract more Sukuk.

Philippines and **Sri Lanka** publicized their intentions of enter the Sukuk market and taking the lead of being the hub of Islamic finance. However, no amounts or any further clarifications about their plans have been announced. Also the lack of regulations in their countries might be the reason behind this delay.

The governor of **Nigeria**'s central bank announced the plans of the government of issuing its first Sukuk within 2011 with the aim of making Nigeria the hub of Shariah finance by 2020.

The ministry of Finance of **Senegal** said in November that the country might witness the issuance of its first Sukuk in 2011 which may be used to finance infrastructural projects.

In addition to this, **Russia's** Head of International Tax Service Group is expecting that the country will issue its first Sukuk by 2011 especially that Russia has the suitable tax and financial laws that can accommodate Islamic financial transactions. He based his words on the major events that took place since first conference on Islamic finance in December 2009. Some of these events were; the establishment of the Russian Association of Experts in Islamic Finance; the first Halal Expo Exhibition, publication of an authorized translation of the Accounting and Auditing Organization for Islamic Financial Institutions' Standards of Islamic Finance Transactions, and the first Islamic finance deals on the Russian market, as stated by Moscow Times.

In **France**, the chief executive of the French Deposits Guarantee Fund said that the first French Sukuk is expected in early 2011. As a major step towards this goal, AAOIFI has approved, in November, the French Sukuk model with small modifications. Several legal and tax amendments were done to suit the introduction of Sukuk.

With all such efforts of various countries to tap the Islamic market especially Sukuk, **South Korea** unfortunately failed to issue its Sukuk laws due to political opposition. There has been major discussions since September 2009 and continued till December 2010; whereby the Ministry of Strategy and Finance proposed a bill to revise the special Tax Treatment Control Act "STTCA" so as to make sure that Islamic bonds are enjoying the same tax advantages like that of conventional ones.

Despite the optimism that prevailed during this period, especially after the subcommittee of taxation of the strategy & finance committee had approved the changes in principle. South Korea's parliament refused the Sukuk bill based on religious grounds. High aspirations were based on this law, as many companies involved in oil refineries, airports and construction were very interested in such Sukuk which would have assisted them financially.

In January this year, Daud Vicary Abdullah, global Islamic finance leader at Deloitte Corporate Advisory Services Sdn said that **Brazilian** Sukuk is expected to be issued by this year or by 2012 and that it might be a corporate issuance.

Heavy pipeline

The Coming year entails a substantial pipeline showing the possibility of the entrance of new market players and countries as follows;

| Country | Amount | Description |
|-------------------|-----------------|--|
| Bahrain | US\$200 million | Al Baraka Banking Group announced its intentions to issue Sukuk by the end of this year to finance new branches in France. No further progress has been done, arousing some doubts about this issuance. |
| Egypt | US\$150 million | With the major announcements that have been done lately that Egypt will issue regulations for Sukuk, Al Baraka Bank Egypt stated that it will issue US\$150 million Sukuk to restructure its balance sheet and fund expansion. |
| Indonesia | IDR1 trillion | Bank Muamalat Syariah plans to issue the Sukuk by the second half of 2011. No further details were announced. |
| Kazakhstan | US\$500 million | Kazakhstan is working on issuing the first Sukuk in the CIS region, though, as bankers stressed, it will take some time. The amount was increased from 300 in July to 500 October. The ijara Sukuk will be issued for benchmark purposes. |
| Kuwait | KWD90 million | First Investment Company announced that it will issue KWD45 million in May. In October, it re-announced the same intentions but with a higher amount reaching KWD90 million. The Sukuk will assist the company in restructuring its debts and stimulate its financial position. |
| Malaysia | US\$1.5 billion | Dubai Department of Finance aims to issue US\$1.5bn Sukuk in Malaysia to diversify its funding sources and to take advantage of the cheap liquidity in Malaysia and the attractive profit rates. Though, lots of debates have been aroused about this issuance, and the necessity of acquiring a rating. |
| Palestine | US\$50 million | Monetary authority of Palestine intends to issue this Sukuk to boost the Islamic finance industry in the region and raise funds to construct the central bank's headquarters. It will also be a step towards the Shariah finance market. |

| | | |
|-----------------------|-----------------|---|
| Saudi Arabia | US\$1 billion | SATORP has been renewing its intentions since 2009 about issuing this Sukuk to help fund a joint venture between them to build a 400,000 barrels per day (bpd) crude refinery in Jubail that could cost 12 billion dollars. The Sukuk was supposed to be issued by the fourth quarter of 2010; however no further updates have been declared. |
| | SAR1.5 billion | Saudi International Petrochemical Co. (Sipchem) has increased the announced Sukuk amount that will be raised by the first quarter of 2011 from 1 billion riyals to 1.5 billion riyals. Use of proceeds will be to finance the firm's capital expansion in its new projects. |
| Tatarstan | RUB10 billion | The Government of Tatarstan is preparing for its first Sukuk issuance. The President of Tatarstan Republic Rustam Minnikhanov and Kazan-based Linova investment and finance company have signed a memorandum of Intentions with Malaysian companies Amanah Raya Berhad and Kuwait Finance House for the preparation of Sukuk. |
| Turkey | US\$100 million | After its successful US\$100 million Sukuk issuance in August, KFH Turkey is planning to issue a similar sized Sukuk and it is expected to take place in 2012. |
| UAE | US\$1 billion | Abu Dhabi Ports stated that it might issue Sukuk in 2011 to finance the Khalifa Port & Industrial Zone (KPIZ) |
| | US\$1 billion | On 11 November 2010, Emirates Telecommunications Corporation (ETISALAT) announced that it will issue a US\$1 billion Sukuk program for general corporate purposes. The Sukuk will be listed in London Stock Exchange and the OC has been released |
| | US\$6 billion | Nakheel announced its intentions to issue Sukuk shortly after restructuring its debts by January 2011. The Sukuk proceeds will be used to finance 60% of obligations for the contractors as part of its restructuring plan and it has been stated that it will be listed on NASDAQ Dubai. |
| United Kingdom | EUR70 million | Gatehouse Bank announced in October that it is planning to launch a £70 million Sukuk and is expected to be completed by November. |

| | | |
|---------------------|------------------------|---|
| <p>Yemen</p> | <p>US\$500 million</p> | <p>The Government of Yemen announced that it will delay issuing its first Islamic bonds to the first quarter 2011 due to technical reasons. The Government announced in December 2010 that it will increase the issue of the previously planned US\$300 million Sukuk to reach US\$500 million. The government will use the proceeds to diversify its financing and to help lower its budget deficit.</p> |
|---------------------|------------------------|---|

Outlook

IFIS forecasts a buoyant Sukuk market in 2011 that will be supported by global economic growth, with an expected 4.5% world growth by the IMF, and sovereign issuances to back up the revival of its economies and infrastructural projects. 2011 is expected to welcome the entrance of new companies and new countries in the market, especially with the several announced legislative amendments taking place in various places. All of this will stimulate the confidence in the Islamic finance market.

A surge in the Sukuk issuances in the GCC region is projected. In UAE, the market is witnessing a recovery especially with Dubai world reaching an agreement with its creditors, Nakheel has paid its trade creditors US\$681 million as part of the larger restructuring of parent firm Dubai World and it received money from Dubai Holding to pay its US\$750 million maturing Sukuk on January 16th. Also, on the 1st of January, Dubai Holding announced that it agreed to convert a US\$555mn revolving credit facility into a five-year term loan.

Moving to Saudi Arabia, the infant Sukuk market is expected to expand in the coming year. Saudi Hollandi Bank stated that there about 10 privately placed Sukuk to be issued in 2011. The senior manager of the bank based his prospects on Saudi Arabia's low interest rate environment and the recovery occurring in UAE. Though the low interest rates might be a drawback, he stated that it is offset by the small tenors of the Sukuk. Adding to these advantages, the long-awaited Saudi mortgage law, this is also expected to increase the demand on Sukuk. This of course depends on the rising costs of land which also increases the costs of the projects itself, that is besides the high demand on apartments. .

It is worth mentioning that several issuers are moving away from collateral based on real estate especially after the stumbling property prices, like in Dubai where it decreased by 50%. They are looking for more productive assets like; oil, aluminum plants, etc.

All of this will assist the gulf to spur its Sukuk market. Though, some speculations were aroused about the gulf being the main hub of Sukuk market, IFIS doubts that this could occur in the near future. SEA's market is more sophisticated than the GCC's infant market. This was also clear in

the several foreign companies that issued its Sukuk in Malaysia like National Bank of Abu Dhabi and PTT Plc and Khazanah Nasional.

MENA region will also have a notable share in this year's issuances; with Egypt, Palestine, Jordan and Yemen preparing the drafts of Sukuk regulations and announcements of issuing its first Sukuk.

A cautious growth in European Sukuk market is expected, due to the debt problems lurking over the region.

Disclaimer

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