

PULSE OF THE OIC* ISLAMIC CAPITAL MARKETS 2010



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

JULY 2010

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BACKGROUND

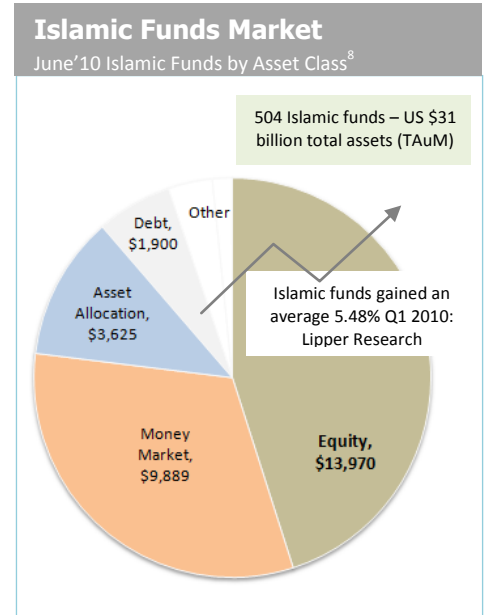
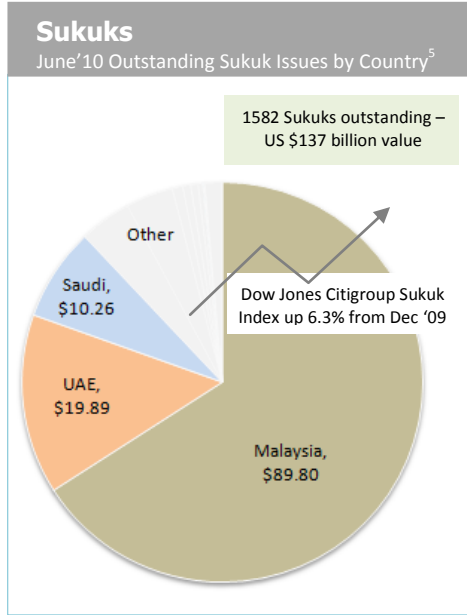
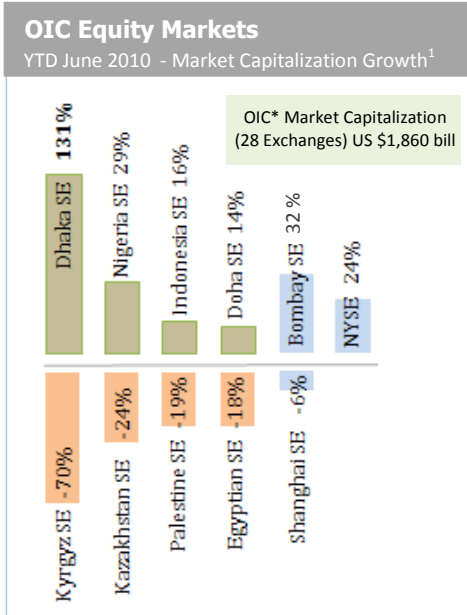
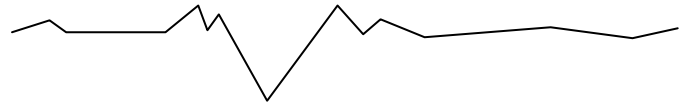
- From London, Luxembourg, to Singapore – Islamic Capital is increasingly part of the global financial platforms. At the same time, within its core markets of 57 OIC (*Organization of Islamic Conference) member countries –Islamic capital markets are still in their infancy.
- Many challenges exist in this industry--envisioned to serve a core Islamic market of 1.6 billion people to mobilize Islamic capital and service capital needs globally. Besides external macro-economic challenges--internal challenges are currently limiting the industry's true potential. These include:
 - A confusion caused by recent defaults and questions about the authenticity of the spirit of Islamic Finance
 - A corporate culture which has primarily relied on raising capital via Bank loans as opposed to turning to the capital markets.
 - Legal, regulatory systems have not been able to resolve and blend variances in Islamic law interpretations.
 - Inability to mobilize consumer finance, which on aggregate, limits access to investment opportunities.
 - Prioritization in business models to address various glaring, outstanding social and developmental infrastructure needs (e.g. job creation, food, water, education, SMEs and healthcare.)
- It is with the above context, that we present this *Research Brief* on the *Pulse of the OIC Islamic Capital Markets*. The objective is to summarize the current state of Islamic capital flow within its core OIC markets. This report should provide investors, finance managers, and investment managers with a broad overview of areas of opportunities for them.
- This *Research Brief* covers three key representative sectors: 1) the Stock Markets of the OIC countries, 2) the flagship industry segment of Sukuks (Islamic Bonds) and, 3) the Islamic Funds market. This brief does not cover the state of Shari'ah governance, M&A or IPO activity or other related segments of commodity markets, foreign exchange markets, Private Equity, commercial and retail banking.

Content

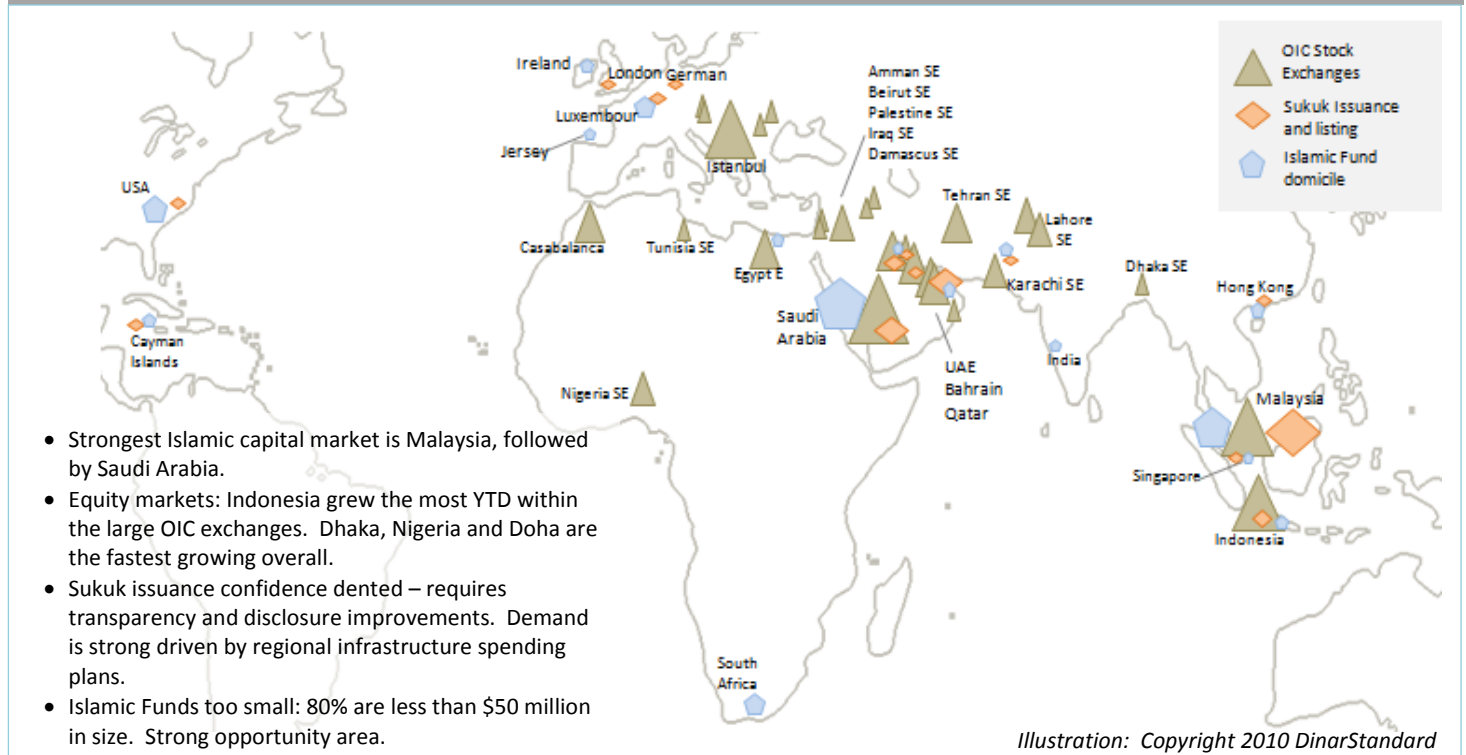
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Objective: Summarize the current state of Islamic capital flow within its core OIC markets. This report should provide investors, finance managers, and investment managers with a broad overview of areas of opportunities for them.

PULSE OF THE OIC ISLAMIC CAPITAL MARKETS:
AGGREGATE VIEW & KEY INSIGHTS / END OF JUNE 2010



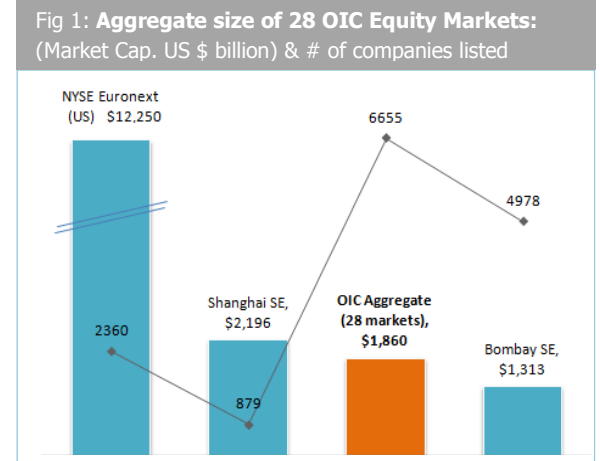
Aggregate Islamic Capital Markets View: YTD June 2010



OVERVIEW OF THE OIC EQUITY MARKETS

Aggregate Size/ Growth:

- Total Market capitalization of OIC member country equity markets (28 active markets) at the end of June 2010 stood at US \$1,860 billion with a total of 6655 companies listed. This is based on combined market capitalization of the 28 active equity markets from the 57 OIC member countries.¹ (Full Table in Appendix)
- Comparatively, Shanghai SE had a June 2010 market cap of US \$2,196 billion with 879 companies listed and Bombay SE market cap was US \$1,313 billion with 4978 companies. Meanwhile, the world's largest stock market, the NYSE Euronext's (US) domestic market capitalization was at US \$12,250 billion with 2360 listed companies.²
- From Year-end 2004 to June 2010, the aggregate market capitalization of the OIC member country exchanges has grown 59.8%³ from US \$1,148 billion to US \$1,834 billion. Growth trend, however, cannot be applied unilaterally across all member exchanges, as there were some wildly outperforming and underperforming exchanges (reviewed later.)
- Comparatively, the world's largest stock market in the center of the recent global financial crisis, the NYSE Euronext's (US) domestic market capitalization went down -3.6% from US \$12,707 billion to US \$12,250 billion during the same time-period. Meanwhile, Shanghai SE had grown 599% from US \$314 billion market cap in Dec 2004 to US \$2,196 billion in June 2010. Bombay SE market cap grew 239% from US \$387 billion to US \$1,313 billion during the same time-period.⁴



Largest markets

- The Top 10 exchanges in OIC markets by market capitalization represent an overwhelming 84.53% (US \$1,573 billion) of the total market capitalization of the 28 OIC equity markets.¹
- The four largest Exchanges by market capitalization are Saudi Tadawul, Bursa Malaysia, Indonesian SE, and Istanbul SE – amongst which, the Indonesian has been the fastest growing in market cap this past year (+15.8% since last June.)
- The largest market by market capitalization is Saudi Tadawul, listing 143 companies and accounting for US \$327,608 million. Tadawul posted a modest 1.81% growth in market capitalization YTD, and its broad market index, TASI, posted a 3.3% growth YTD.
- Certainly, Bursa Malaysia Berhad is a leader amongst the OIC member country exchanges, boasting the most number of listed public companies on its exchange (967), and the second largest market capitalization (US \$305,674 million). It has the most developed, mature, and transparent Exchange backed by strong regulatory support.

Table 1: Top 10 OIC Member Country Exchanges
by Market Capitalization, YTD June 2010

Stock Exchange	# Co.s	Mkt Cap (US\$ mil)	% Chg YTD (June 2010)
Saudi Arabia (Tadawul)	143	\$ 327,608	1.81
Bursa Malaysia Berhad	967	\$ 305,674	7.61
Indonesia Stock Exchange	391	\$ 245,631	15.83
Istanbul Stock Exchange	339	\$ 240,212	5.67
Doha Securities Market	43	\$ 100,148	13.73
Kuwait Stock Exchange	215	\$ 93,102	-1.4
Egyptian Exchange	279	\$ 73,273	-18.25
Casablanca Stock Exchange	76	\$ 65,504	1.03
Abu Dhabi	64	\$ 61,290	4.84
Tehran Stock Exchange	363	\$ 60,292	

OVERVIEW OF THE OIC EQUITY MARKETS (CONTD.)

Fastest growing (1 year & 3 year):

- The top 5 growing markets this past year across all of the OIC member country exchanges in market capitalization, are not geographically concentrated, and span three different continents.
- The fastest growth year-to-date (through June 2010) in an OIC member country exchange by market capitalization has been at the Dhaka Stock Exchange. It posted an amazing 131% market capitalization growth compared to previous year. The general index of Dhaka Stock Exchange advanced by 3143.41 points, or 104% since past year, closing on June 30, 2010 at 6,153 points compared to 3,010 same time past year.¹
- The major contributor has been the debut of Grameenphone to the index in November last year – making it the largest company in the market amongst the 292 listings. The market was also supported by other fundamentals including government and regulatory support as well as other stellar performance during the year by the banking, power and energy and non-banking financial institutions.
- Following the Dhaka Exchange, the Nigerian Stock Exchange posted the second highest growth year-to-date at an impressive 28.97% growth in market capitalization, pushing total market capitalization of listed equities to: US \$39,477 million. Much of this growth can be attributed to a return of investor confidence, after the government of Nigeria bailed out several large banks last year, as well as increased investment in consumer goods manufacturers.
- Other fastest growing exchanges by market capitalization were Indonesia (15.83%), Qatar Exchange, (13.73%), Sarajevo Exchange (13%) and Banja Luka, Bosnia (9.1%).
- While many capital markets throughout the world are still reeling from the effects of the sub-prime crash of 2007 and its subsequent waves, the OIC markets, as a whole, have not been terribly affected. The most resilient markets since the global financial crisis – who have seen growth in market capitalization during the affected period to date (2007-2010) – have been the Tunisian Stock Exchange, Egyptian Exchange, the Indonesian Stock Exchange and Bursa Malaysia.

Slowest growing (1 year & 3 year):

- That said, the global markets are highly interlinked and residual effects have been felt in many OIC member country exchanges. *Table 4* shows Exchanges experiencing the highest loss in market capitalization year-to-date (June 2010). The Dubai debt-crisis caused by the Dubai World debacle, shows on its market capitalization shrinkage. Both its exchanges, Dubai Financial Market and Nasdaq Dubai have posted -11%, and -10.4% decreases in market capitalization year-to-date:

Table 2: Fastest Growing Exchanges by Market Cap (USD \$ million) 1-Yr Market Cap %

Stock Exchange	# Co.s	Mkt Cap (US\$ mil)	Mkt Cap 1-YR % Chg (YTD)
Dhaka Stock Exchange	292	4,970	131
Nigerian Stock Exchange	215	39,477	28.97
Indonesia Stock Exchange	391	245,631	15.83
Doha Securities Market	43	100,148	13.73
Sarajevo	524	5,621	13
Banja Luka	873	2877	9.7

Table 3: Fastest Growing Exchanges by Market Cap

Stock Exchange	# Co.s	Mkt Cap (US\$ mil)	Mkt Cap 3-Yr % chg
Tunisia	54	8,737	73
Egypt	279	73,273	35.4
Indonesia	391	245,631	18.5
Malaysia	967	305,674	15
Beirut	12	11,461	12.25

Table 4: Negative 1-YR MKT Cap % Growth (USD \$ million)

Stock Exchange	# Co.s	Mkt Cap (US\$ mil)	Mkt Cap 1-YR % Chg (YTD)
Kyrgyz Stock Exchange	8	61	-69.9
Kazakhstan Stock Exchange	79	17,258	-23.83
Palestine Securities Exchange	41	2,364	-18.7
Egyptian Exchange	279	73273	-18.25
Dubai Financial Market	66	56229	-11
NASDAQ Dubai	5	13366	-10.4

OVERVIEW OF THE OIC EQUITY MARKETS (CONTD.)

- Similarly, the markets most negatively affected since the global financial crisis (2007-2010), based on market capitalization loss, were Kazakhstan SE (-51%), Karachi SE (-51.4%) and Dubai Financial Market (-50%) as shown in *Table 5*.
- Additional factors may have contributed to these market losses. For example, Pakistan's dire security situation, in an otherwise strong economy, has been more a factor in its market capitalization loss than the global financial crisis.

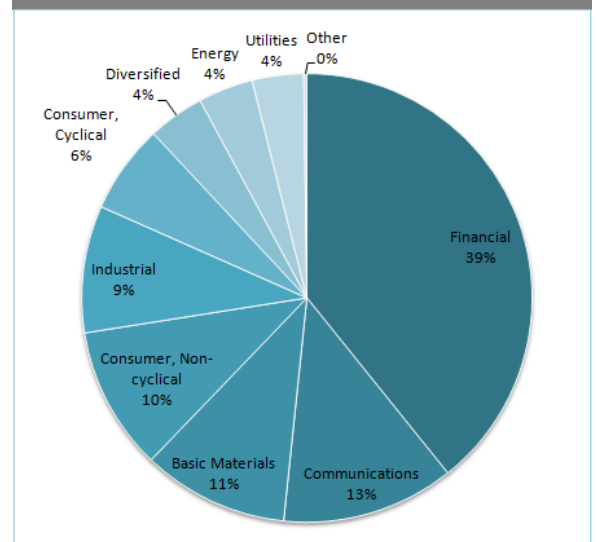
Sector concentrations/ biggest companies in each:

- The top 5 industry sectors across the OIC member country exchanges by market capitalization, account for roughly US \$1.45 trillion, and 81.65% of total market capitalization in OIC Equity markets.¹
- The 3 largest sectors across the OIC member country exchanges by market capitalization are, Financial industry, representing 39.23% of the total market capitalization across OIC member country exchanges; Communications industry, representing 12.43%, and Basic Materials industry, representing 10.52% of the market capitalization across OIC member country exchanges.
- It is also important to note the sectors that have the largest number of listings--indicating the diversity of listings available. The largest numbers of Companies from a particular Sector, across the OIC markets are: Consumer Non-Cyclical (23% or 1330 listings), Financial (23%), Industrial (19%), and Consumer Cyclical (17 %.)

Table 5: Negative 3-YR MKT Cap % Growth (USD \$ million)

Stock Exchange	# Co.s	Mkt Cap (US\$ mill)	Mkt Cap 3-Yr % chg
Kazakhstan Stock Exchange	79	17,258.00	-51.5
Karachi Stock Exchange	605	31,134.00	-51.4
Dubai Financial Market	66	56,229.00	-50
Kuwait Stock Exchange	215	93,102.00	-49.9
Abu Dhabi	64	61,290.00	-45

Table 5: Industry Sector Market Capitalization across OIC markets



OVERVIEW OF THE SUKUK (ISLAMIC BONDS) MARKET

Aggregate size and growth:

- As of June 2010, there were a total of 1582 global Sukuk (Islamic Bonds) issues outstanding with a total value of US \$137 billion.⁵
- The Sukuk market has seen positive developments in the aftermath of the global financial crisis and industry woes, with worldwide issuances increasing to US\$23 billion in 2009 from US \$19 billion in 2008. US \$9.7 billion of the total issuances in 2009 were from Malaysia.⁶ Also, based on the Dow Jones Citigroup Sukuk Index, which measures the performance of Sukuks globally, has climbed 6.3% from its low in December.⁷

OVERVIEW OF THE SUKUK MARKET (CONTD.)

- After reaching its peak in 2007, the industry suffered a dramatic decrease in new issues in 2008--hit hard by the global financial crisis and internal challenges such as questions about Shari'ah compliance of many of its issuances. This had been further exasperated by Kuwait based firm, Investment Dar's Sukuk default late 2009 with other high-profile cases and many now re-negotiating terms.
- In November 2009, General Electric Co. became the first major U.S. company to sell a Sukuk (US \$500 million Sukuk), giving the industry a huge vote of international confidence and re-igniting the industry in a big way. Also, a May 20th agreement to restructure Dubai World's US \$23.5 billion debt, also served as a huge shot in the arm for Sukuks. Assuming a continuing global economic recovery, Sukuk's are on track to make a come-back.
- With huge infrastructure investments on the horizon within the GCC, Sukuk issuance will continue to benefit as the preferred mode of Islamic financing.

Most Sukuks are non-listed:

- 88% of the outstanding Sukuks, are not listed. Only 122 of the 1582 Sukuk issues outstanding are listed.
- Sukuks, like most conventional bonds, are traditionally traded over the counter. However, transparency and efficient price discovery are two reasons Sukuk trading should migrate to exchanges and serve as a confidence builder to post-financial crisis environment
- Indonesia Exchange has the largest number of outstanding Sukuks listed at 36, followed by London (27), Bursa Malaysia (12), and NASDAQ Dubai (11). Whereas, London has the biggest outstanding listings by value (US \$17 billion), followed by Saudi (US \$9.7 bill) and Nasdaq Dubai (US \$6 bill).

Except for Malaysian issued Sukuks, most Sukuks are non-rated:

- Compared to conventional bonds, where it is a norm to obtain ratings, almost all of the outstanding Sukuks were non-rated.
- Sukuks issued in Malaysia are required to be rated by local credit rating agency (either MARC or RAM).
- The absence of mandatory rating requirements for issuing sukuk in the Gulf Cooperation Council (GCC) countries has limited the number of rated Sukuk.

Fig 1: Outstanding Sukuks Listed vs. Non-Listed
June 2010

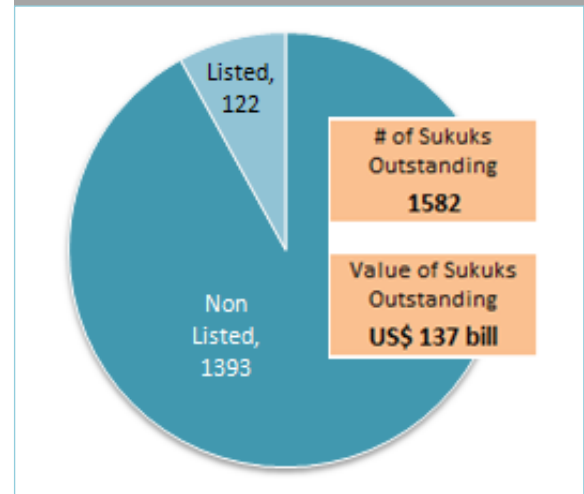


Fig 1: Outstanding Sukuks listing
June 2010

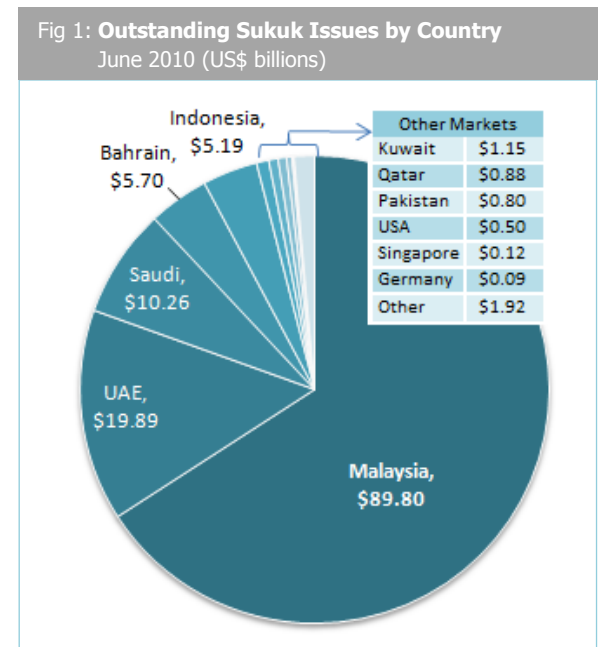
Exchange	Outstanding Sukuks - # of Listing
Indonesia Exch	36
London	27
Bursa Malaysia	12
NASDAQ Dubai	11
Saudi	8
Bahrain	7
SGX-ST (Singapore)	4
Hong Kong	4
Luxembourg	3
Karachi	2
Other	8

OVERVIEW OF THE SUKUK MARKET (CONTD.)

- However, now as some investors are wary of Sukuk defaults, ratings may become a key tool in building investor confidence. Also, an increase in rated Sukuk should bring about increased transparency and disclosure.
- Following the sub-prime crisis, there has also been market talk about reduced investor confidence in the rating agencies. However ratings still remains a key requirement for investors especially in terms of liquidity, pricing, marketability and capital considerations.

Malaysia continues its dominance in the Sukuk market:

- Malaysia is the largest issuer of Sukuk representing 65% per cent of global outstanding Sukuk in June 2010.⁵
- The Malaysian Sukuk market is considered the most liquid market in the world. It has been supported by the frequent issuance by the Malaysian government and its central bank. The total value of outstanding Sukuk in Malaysia is more than US \$89 billion.



OVERVIEW OF THE ISLAMIC FUNDS MARKET

Landscape & positive momentum:

- As of June 2010, there were 504 Islamic mutual funds globally, with total assets under management at US \$31 billion.⁸
- According to a recent Lipper Research report on Islamic Funds, across all asset types, Islamic funds gained an average 5.48% during first quarter 2010, contrasting with the negative 2.95% during the first quarter 2009.
- When compared to the global Funds sector which stood at US \$22.8 trillion in total assets under management end of 2009⁹, the Islamic funds sector is indeed miniscule (0.14%). However, two broad frames of reference portray its continued growth opportunities.
- First, its size relative to the economies of the core Islamic markets of OIC member countries. The total GDP of the 57 OIC countries was US \$7.6 trillion which is 11% of the world-wide GDP. Given OIC markets are now 11% of the global economy, Islamic Funds 0.14% size within the global mutual funds sector would suggest significant room for growth.

OVERVIEW OF THE ISLAMIC FUNDS MARKET (CONTD.)

- Second is the appeal of Islamic funds to the broader global ethical investment market. Just in the U.S., there were US \$2.71 trillion total assets under management based on socially responsible investing strategies.¹⁰ Whereas, the amount of money invested in UK's green and ethical retail funds (i.e. those funds open to the general public) reached £9.5 billion. There are now almost 100 such funds available to UK investors compared to only a couple dozen a decade ago.¹¹ Given such a large scope of a cross-over opportunity, Islamic Funds have yet to substantially make inroads within this segment of global finance.

Regional/ asset class focus

- By June 2010, there were 113 different Islamic funds domiciled in Saudi Arabia, with total assets under management at US \$15.6 billion. This accounted for a little more than half of the total Islamic fund assets under management. Together with Malaysia domiciled funds, valued at US \$7.9 billion, these two markets had 78% of the total Islamic fund assets and represented 288 of the 504 total funds.
- In terms of fund asset class, Islamic Equity funds represent 45% of the total asset value while Money markets represent 32%. The rest are Asset Allocation (12%), Debt (6%), Commodity (4%), Alternatives, (2%), and Real Estate (0.02%).

Challenges:

- Almost 80% of the Islamic funds today are less than US \$50 million in size. This is a key challenge in attracting Muslim investors given limited options due to size and diversity. Limited large pools of investment sources such as Pension funds and Insurance funds in GCC markets, contribute to the struggles here. However, the growth example of the Takaful market (Islamic Insurance) bodes well for the trickledown effect on the funds market.
- Also, the impact of the global economic downturn, coupled with the reduction in risk appetite, continues to be the key challenges faced by the industry. However the fundamentals of the industry are strong, and given the large demand base of the Muslim population and with the right value propositions, the Industry is bound to grow.
- Finally, a key challenge is lack of information flow and efficient platforms to support Islamic funds industry adoption. For example, there aren't any efficient Islamic funds wide transaction platforms today – especially as it relates to the wider retail audience. In addition, very little independent analysis, research reports or commentary exists on the funds. Thomson Reuters global Islamic Finance Gateway is a step in the right direction. It has also recently announced plans to develop a transaction platform for the Islamic capital markets. Similarly, Falaika's Islamic Fund equity fund reports need to be supported by other players enriching the market with broader views and analysis.

Fig 1: Islamic Funds Domicile by Value

June 2010

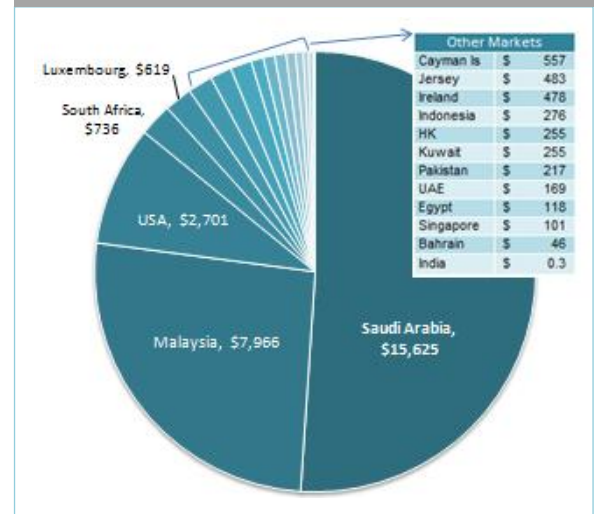
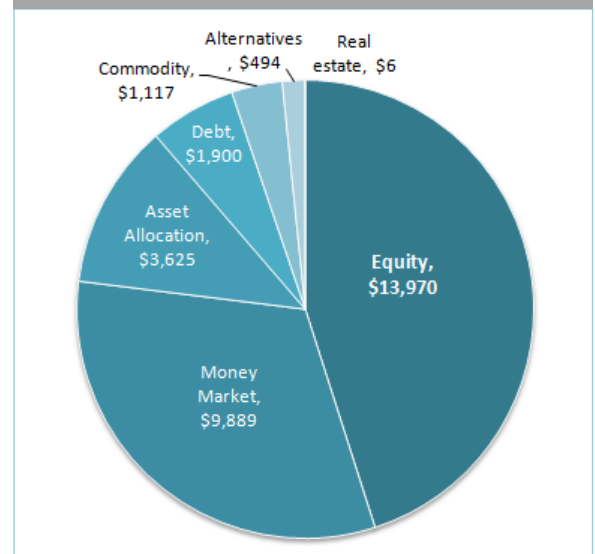


Fig 1: Islamic Funds by Asset Class

June 2010



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APPENDIX: OIC EQUITY MARKETS TABLE *

Table 5: OIC Equity Markets Table (June 2010)

Stock Exchange	# Co.s	Mkt Cap (US\$ mil)	Mkt Cap 1- YR % Chg (YTD)	Broad Mkt Index- BMI (June 2010)	BMI % Chg (YTD)
Saudi Arabia (Tadawul)	143	\$ 327,608	1.81	(TASI) 6324	3.3
Bursa Malaysia Berhad	967	\$ 305,674	7.61	(KLCI) 1310	2.93
Indonesia Stock Exchange	391	\$ 245,631	15.83	(Jak Composite) 2868	13.12
Istanbul Stock Exchange	339	\$ 240,212	5.67	(ISE 100) 56421	6.81
Doha Securities Market	43	\$ 100,148	13.73	(QE Index) 6982	0.33
Kuwait Stock Exchange	215	\$ 93,102	-1.4	6529	-6.8
Egyptian Exchange	279	\$ 73,273	-18.25	(CASE) 6285	1.23
Casablanca Stock Exchange	76	\$ 65,504	1.03	MADEX 9856	16.45
Abu Dhabi	64	\$ 61,290	4.84	2511	-2
Tehran Stock Exchange	363	\$ 60,292		46934	0.4
Dubai Financial Market	66	\$ 56,229	-11	1528	0.94
Nigerian Stock Exchange	215	\$ 39,477	28.97	25527	22.56
Karachi Stock Exchange	605	\$ 31,134	-4.66	(KSE 100)9471	0.9
Lahore Stock Exchange	511	\$ 30,448	-8.1	2887	1.9
Amman Stock Exchange	258	\$ 28,150	-10.12	2342	-7.57
Kazakhstan Stock Exchange	79	\$ 17,258	-23.83	(KASE)1463	-17.26
Muscat Securities Market	132	\$ 16,794	-4.73	(MSM30) 6100	-9.1
Bahrain Stock Exchange	43	\$ 14,929	-6.7	BHSE All 1399	-4.08
NASDAQ Dubai	5	\$ 13,366	-10.4	DUAE Index	13.76
Beirut Stock Exchange	12	\$ 11,461	3.23	1541	-1.6
Tunisia Stock Exchange	54	\$ 8,737	-0.01	4972	15.84
Sarajevo	524	\$ 5,621	13	(SASE) 957	-9.1
Dhaka Stock Exchange	292	\$ 4,970	131	Gen Index 6252	139.24
Banja Luka	873	\$ 2,877	9.7	776	9.3
Palestine Securities Exchange	41	\$ 2,364	-18.7	Pasisi Index 489	-22.6
Iraq Stock Exchange	43	\$ 2,090	2.9	114	109
Damascus Stock Exchange	14	\$ 1,810	-	-	-
Kyrgyz Stock Exchange	8	\$ 62	-69.9	89.1	-8.2

* This does not include the following 10 markets due to either lack of activity, small size or unavailability of data: Toshkent Republican Stock Exchange, Baku Stock Exchange, Uganda Stock Exchange, Mozambique Stock Exchange, Tirana Stock Exchange, Bourse D'Alger, Islamabad Stock Exchange, Chittagong Stock, Bourse Regionale Des Valuers Mobilieres, Khartoum Stock Exchange. The majority of the remaining 19 OIC member countries were not included since they did not have an established capital market, or a combination of aforementioned reasons.

REPORT AUTHORS:

Rafi-uddin Shikoh
Shahzad Sadozai
Mustafa Hashmi
Nasir Ali Merchant

CONTACT:

Any questions in regards to the Report should be directed to Mr. Rafi-uddin Shikoh at:

(e) rafishikoh@dinarstandard.com,

(t) 1- 347-624-7454

-or-

Mr. Nasir Ali Merchant, IIRA Acting CEO at:

(e) nasir.ali@iirating.com,

(t) + 973-17-211-606,

(f) + 973-17-211-605



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Islamic International Rating Agency

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