



A Guide to Moody's Islamic Finance Ratings

Islamic Finance is an increasingly important part of global capital markets in view of the strong and growing demand in the Middle East and Asia for investment and financing that conform with the ethical and moral principles of the Islamic faith.

Moody's is currently focused on three core areas of Islamic Finance:

Sukuk Market: Banks, sovereigns as well as corporates can raise market funds by issuing "sukuk", which are securities that are structured to comply with Shari'ah investment principles. A key principle of sukuk is that, similar to some securitisations, they should be backed by assets and hence offer the investor a share of the cash flows and risks commensurate with such security. However, in line with market demand, the majority of the complex financing structures that are currently utilised in the sukuk market effectively reduce to the risk and return equivalent of a conventional bond and are hence rateable by Moody's using our existing fundamental methodologies. Where the sukuk investors have recourse to a secured pool of assets and cashflows, our structured finance rating methodologies would apply.

Islamic Banks: As a result of extensive demand from the retail banking population across the Muslim world, growth rates among Islamic financial institutions (also known as IFIs) are often significantly higher, albeit from a much lower asset base, than those of their conventional counterparts. While such institutions have many idiosyncratic characteristics, the bulk of the rated entities are still essentially credit-focused institutions whose risk characteristics are captured by our existing bank rating methodologies.

Takaful: Given that conventional insurance products do not meet Shari'ah requirements, the emergence of Takaful — a Shari'ah-compliant system of insurance based on the principle of mutual support — is taking place in the context of the Muslim world's low insurance penetration rates, increasing affluence, favourable demographic changes as well as growing populations. The rising number of specialised Takaful operators as well as the increasing participation of prominent global players in the Takaful sphere is further testament to the growth and potential of this industry. The structural similarities of Takaful to mutual insurance means that — with some specific adjustments — operators in this sector can be broadly analysed using existing insurance rating methodologies.

To read Moody's latest Islamic Finance research, please visit [moody.com/islamicfinance](https://www.moody.com/islamicfinance)

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