

Banks Set Sights on Islamic Bond Market

By [The Moscow Times](#)

April 28, 2011



Iranian women at a classic car exhibit Thursday in Tehran, eyeing a Rolls Royce that belonged to the former shah. **Vahid Salemi**

JAKARTA, Indonesia — VTB Group and Gazprombank are vying to become the first Russian borrowers to sell Islamic debt in a bid to attract Middle Eastern investment.

VTB, Russia's second-largest bank, aims this year to raise about \$200 million selling sukuk, debt that complies with Islam's ban on interest, Herbert Moos, the lender's deputy chairman, said in an interview Wednesday. Gazprombank, the lending arm of gas export monopoly Gazprom, is in talks with at least 10 Moscow-based companies on arranging a sale and will meet investors in the Persian Gulf in September, said Alexander Kazakov, director of structured and syndicated finance.

"We'll probably see an issue in dollars, ranging from \$100 million to \$200 million" by the end of the year, Kazakov said in an interview this week. "We've been talking to Russian companies from various sectors, including metals, food, oil and gas."

The banks join borrowers in neighboring Kazakhstan as well as Thailand and Senegal in seeking to tap the \$4.9 billion global sukuk market, which is predominantly centered in the Middle East and Malaysia. Yields about 6 percent would lure demand, Sarah Al-Suhaimi, who helps manage more than \$2 billion of assets, at Riyadh, Saudi Arabia-based Jadwa Investment, said in an interview this week. Average sukuk yields are at about 4.2 percent, according to the HSBC/NASDAQ Dubai U.S. Dollar Sukuk Index.

The yield on VTB's dollar bonds due in 2015 dropped one basis point to 4.54 percent Wednesday and has declined 80 basis points so far this year, touching a record-low 4.36 percent on April 6. The lender has \$17.4 billion of total debt.

Gazprombank's 2015 dollar bonds yielded 4.81 percent Wednesday, down 94 basis points in the year. The Moscow-based bank has \$4.3 billion in debt.

Sukuk sales from outside Asia and the Gulf Cooperation Council region, which includes Bahrain and Saudi Arabia, will help develop the industry, Rafael Dalmau, head of sharia-compliant portfolio management at BNP Paribas Investment Partners in Singapore, said by e-mail April 26.

"Having new issuance from countries outside the GCC and Asia is extremely beneficial to the further development of the global sukuk market," Dalmau said. "There is an imbalance in the supply-demand equation, with the market looking for more investment-grade issues and more geographical diversification."

Russia is rated BBB by Standard & Poor's, its second-lowest investment grade, while Malaysia is ranked two notches higher at A-. Moody's Investors Service ranks Russia at Baa1, the third lowest investment-grade rating.

Global sales of sukuk have climbed 20 percent this year from \$4.1 billion in the same period of 2010. Issuance from the six-member GCC dropped to \$964 million from \$2.3 billion a year ago.

In Malaysia, the largest sukuk market, offerings of Islamic bonds climbed to 10.9 billion ringgit (\$3.7 billion) this year from 5.7 billion ringgit in the same period in 2010.

Sharia-compliant bonds returned 4 percent this year, according to the HSBC/NASDAQ Dubai U.S. Dollar Sukuk Index, while debt in developing markets gained 1.7 percent, JPMorgan Chase's EMBI Global Diversified Index shows.

The difference between the average yield for sukuk and the London Interbank Offer Rate, or Libor, narrowed three basis points to 238 on Wednesday, while average yields dropped two basis points to 4.22 percent, according to the HSBC/NASDAQ Dubai U.S. Dollar Sukuk Index.

The extra yield investors demand to hold the Dubai Department of Finance's 2014 bonds rather than Malaysia's sukuk due in 2015 fell three basis points to 241.

The Bloomberg-AIBIM-Bursa Malaysia Sovereign Sharia Index, which tracks the most traded ringgit-denominated bonds, climbed to 102.06 on April 26 and is up 1 percent this year.

Scholars argue that fatwas, or laws that deem whether Islamic products are sharia-compliant,

differ around the world and a Russian sukuk would have to be vetted to ensure compliance for investors in the Middle East, said Jadwa Investment's Al-Suhaimi.

While yields of about 6 percent on the Russian bank sukuk would be attractive, "the structure used would also have to be accepted by our sharia scholars because most of the structures used by Malaysian issuers are not accepted by our scholars," Al-Suhaimi said.

Russia set up a five-member Islamic economics department in January, Rushan Abbyasov, head of administration at the Russia Muftis Council, or board of scholars, said in an interview in Jakarta on April 1. The country doesn't have any laws restricting sukuk issuance, he said during a 10-day visit to study sharia-compliant banking operations and meet religious leaders in Indonesia, the world's biggest Muslim nation.

At least two or three companies have talked with Russia's Islamic scholars to discuss the possibility of structuring sukuk, Abbyasov said. He declined to provide names.

The agency has also translated and published four standards from the Bahrain-based Accounting & Auditing Organization for Islamic Financial Institutions, he said. That organization, which has more than 200 members, sets standards that are used in Bahrain, the Dubai International Financial Center, Jordan, Lebanon, Qatar, Sudan and Syria, according to its web site.

"There's strong interest in Islamic finance in Russia," Abbyasov said. "We've also conducted workshops to increase awareness."

Al Sharms Capital, a Moscow-based investment company, established the first sharia-compliant private equity fund focused on the Commonwealth of Independent States in June last year, according to a statement on its web site. Kazakhstan, a predominantly Muslim former Soviet republic to the south of Russia, may sell \$500 million of Islamic bonds, Deputy Finance Minister Berik Sholpankulov said in March, Interfax reported.

Russian banks are diversifying sources of funding as they expand overseas.

VEB, the state development bank, and VTB are issuing debt in Chinese yuan this year. VTB, which is Russia's biggest bond underwriter, is also looking to borrow more than \$100 million in notes denominated in Brazilian reais by July, chief executive Andrei Kostin said in January. Bank of Moscow, Russia's fifth-biggest lender, raised \$150 million issuing Singapore dollar notes in January.

"People will look at it, but Russia has to first introduce itself to the Islamic finance industry," John Sfakianakis, chief economist at Riyadh-based Banque Saudi Fransi, said in an April 26 interview. "It will be competing with local regional companies, which are well known in the industry. It won't be an easy sell."

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