Islamic Finance Country Index: Methodology and results

As stated in Chapter 1, the global Islamic finance services industry is currently valued at USD1.357 trillion by the end of 2011. The year 2011 also saw tremendous growth in one of the asset classes, which contributed to the further progress in the Islamic banking and financial services in an otherwise depressed environment for financial services. Sukuk saw a 77 percent growth totaling USD85 billion in issuance. The growth in global Islamic banking and services industry was 16.04 percent.

In 2011, Islamic Finance Country Index (IFCI) was launched, which ranked 36 countries of the world in terms of their involvement and leadership role played in the global Islamic financial services industry. A dedicated team at Edbiz Consulting maintains a data set to which a proprietary research methodology is applied to create an index, which becomes the basis of the country rankings.

Detailed methodology of the IFCI was produced in GIFR 2011, a summary of which is given in the following for the benefit of present readers.

The methodology on which IFCI is based on a multivariate analysis of a number of factors that contributes to the incidence and growth of Islamic financial services in different countries of the world. This IFCI does not rank countries only on the basis of one chosen factor or variable (e.g., assets under management of Islamic financial institutions, market capitalisation or paid up capital (indicators of size). Rankings based on univariate analysis are at best incomplete. Such rankings compare one country with another based on any one single variable. Although it is simpler and easier to implement, construct and calculate, the analysis is not comprehensive enough to draw meaningful conclusions. Hence, IFCI employs a multivariate analysis.

The aim of this index is to come up with a ranking that is objective in nature. It is the first and the only index of its kind in the Islamic banking and finance industry, and has proven to be very popular amongst regulators, analysts, researchers and industry players all over the world.

IFCI ranks countries based on the available information on the different variables across each of these countries in a manner that avoids any bias judgment affecting the outcome. The index was constructed with the aim that the data should speak for itself.

Data

We started the IFCI 2012 with 65 countries across 16 different variables and ended up ranking 42 countries on the basis of 8 variables. The data was collected from various primary and secondary sources including, but not limited to, Islamic Financial Information Services (IFIS), Bloomberg, Thomson Reuters, central bank websites, individual IFI's published accounts, newspapers and other country specific resources. Exhibit 1 shows the 8 variables used for the IFCI 2012 together with their weights.

Weights

As per IFCI 2011, we located data for the 8 variables on all 42 countries. The data was then suitably organized to conduct a multivariate analysis. Similar to 2011 the data was once again tested to see if it contained meaningful information to draw conclusions from. Factor analysis was once again preferred to determine the meaning of clusters of shared data set. The Kaiser-Meyer-Olkin (KMO) method was used to check if the factor analysis was appropriate . High values (between 0.5 and 1.0) indicate factor analysis is appropriate. Values below 0.5 imply that factor analysis may not be appropriate or suitable. We found this measure to be 0.8, which was reasonable to continue with the factor analysis. The factor analysis was run to compute Initial Communalities to measure the proportion of variance accounted for in each variable by rest of the variables. This procedure provided us a statistically significant method of assigning objective weights to all the 8 variables.

By using the above methodology we managed to remove the subjectivity factor in the index as here the data spoke for itself and the statistical model came up with the weights. In a univariate analysis, it is not possible.

As the Exhibit 2 below suggests, our analysis generated slight changes in the weights of different variables i.e., the variable Number of Islamic Banks got a weight of 21.9 percent in 2012, compared to 21.8 percent for 2011. Central Shari'a Supervisory Regime changed to 19.6 from 19.7 percent in IFCI 2011. Number of Institutions Involved in Islamic Finance Industry changed to 20.1 from 20.3 percent. The real significant change is in the weight for the "Size of Sukuk" (from 6.6 percent in 2011 to 7.2 in 2012), which is consistent with the observed increasing importance of sukuk in helping the Islamic financial services grow.

The above weights point to the relative importance of each constituent variable of the index in determining the rank of an individual country. Thus, it is natural to assume that countries with a higher number of Islamic banks, a country with a central Shari'a supervisory regime, and number of Institutions involved in Islamic banking and finance would have higher ranks as compared to those who have smaller values for these variables even if they have greater size of Islamic financial assets, sukuk , a larger population, better education and awareness about Islamic banking and finance, and also a more enabling regulatory and legal infrastructure.

VARIABLES	**DESCRIPTION**
Muslim Population	Represents the absolute number of Muslims living in a country
Number of Institutions involved in Islamic Finance Industry	Represents both banking and non-banking institutions involved in Islamic finance in a country
Number of Islamic Banks	Represents fully fledged Islamic banks in a country of both local and foreign origins
Size of Islamic Financial Assets	Represents all assets relating to the industry in a country
Size of Sukuk	Represents total size of sukuk issued for the reported year
Regulatory and Legal Infrastructure	Represents the presence of regulatory and legal environment enabling IFI to op-erate in the country on a level playing (e.g., Islamic banking act, Islamic capital markets act, takaful act etc.)
Central Shari'a Supervisory Regime	Represents the presence of a state-representative body to look after the Shari'a-compliancy process across the IFI in a country
Education and Culture	Represents the presence of an educational and cultural environment conducive to operations of the IFI (this could be formal Islamic finance qualifications, degree courses, diplomas, and dedicated training programmes)

Exhibit 1: Description of the variables chosen

VARIABLES	**% Weights (2011)**	**% Weights (2012)**
Number of Islamic Banks	21.8	21.9
Central Shari'a Supervisory Regime	19.7	19.6
Number of Institutions involved in Islamic Finance Industry	20.3	20.1
Size of Islamic Financial Assets	13.9	13.4
Size of Sukuk	6.6	7.1
Muslim Population	7.2	7.3
Education and Culture	5.7	5.7
Regulatory and Legal Infrastructure	4.9	4.9

Exhibit 2 : Changes in weightage

The Model

The model used for the IFCI index (Exhibit 3) is as below:

$$IFCI(Cj_{j=1}^{j=42}) = \sum_{i=1}^{i=8} Wi.Xi$$

Where

C= Country
j = 1, 2, …., 42
W= Weight for individual variable
X= Variable

With these minor changes in the data set and resultant changes in the weights assigned to the variables used, the above model generated some interesting results. While most of the countries included in the current sample (42 as opposed to 36 for the previous year), held their positions in the ranking list, there were also some interesting movements. Exhibit 4 and Exhibit 5 provide a comparison of the ranking of the countries for the years 2011 and 2012.

Analysis

The top three countries have remained unchanged: Iran ranked as number 1 of the 42 countries followed by Malaysia and Saudi Arabia as number two and three, respectively. Iran leads the table across all the variables. Malaysia, a country that has seen the highest number of sukuk issuance for the year 2011, remains at number 2, with the third largest Islamic financial assets after Iran and Saudi Arabia. Saudi Arabia holds its position at number 3, with the second largest sukuk Issuance for the year 2011. Kuwait moved two points up from number 6 to 4. Kuwait, the fourth largest country in terms of Islamic financial assets, certainly shows resilience to political and economic shocks, and may very well be seen as a stable market for Islamic financial services. United Arab Emirates remained at number 5, with the 4th largest Islamic financial assets in the world.

Like Kuwait, Bahrain has also improved in its IFCI ranking, moving up from the 8th position in 2011 to 6th this year. Bahrain has the second highest number of Islamic banks in the world. Results show that the effects of political turmoil are receding and that the country is back on the track to take its position as one of the centres of excellence for Islamic banking and finance. On close scrutiny of the data, however, one may be inclined to conclude that the improvement in the Bahrain's rank is due to increase in population of 476,701 since last year.

Indonesia, a country which has the highest number of Muslims and the highest number of institutions involved in Islamic finance, moved down from number 4 in IFCI 2011 to 7th position this year. This change in ranking might be due to the lower growth in Islamic financial assets, as compared to the others who actually moved up the ladder this year.

Pakistan, another country that ticks all the boxes, however moved down by one position to number 8. Despite the fall, the country has a huge potential for growth. Pakistan has 7.8% of its banking assets under the management of Islamic banks. Islamic banks hold 8.4% of the deposits in the banking sector, and their share in financing and investments provided by all banks reached 7.4% by the end of 2011. A conservative estimate of demand for Islamic financial services is about 20% of the total. This shows how significant the potential is for growth in Islamic banking and finance in Pakistan.

Another interesting case is Qatar which moved from the 12th position to 9th in IFCI 2012. Major contributors to this improvement in ranking are the increase in Islamic financial assets (currently Qatar is number 7 in terms of Islamic financial assets in the world), which was helped by impressive sukuk issuance in 2011 (Qatar was the 4th largest Islamic sukuk issuer during the year).

Sudan has remained unchanged at number 10. UK has moved up the ranking from 15th in IFCI 2011 to 11th in IFCI 2012, followed by Turkey, Bangladesh, Egypt and Brunei Darussalam at numbers 12, 13, 14, and 15, respectively.

It is interesting to see that some of the countries that are very new to Islamic banking and finance feature in IFCI 2012. The inclusion of countries like Oman, Afghanistan and Syria in the list of top 30, points to the reality that Islamic banking and finance has yet to attain meaningful depth on a global level.

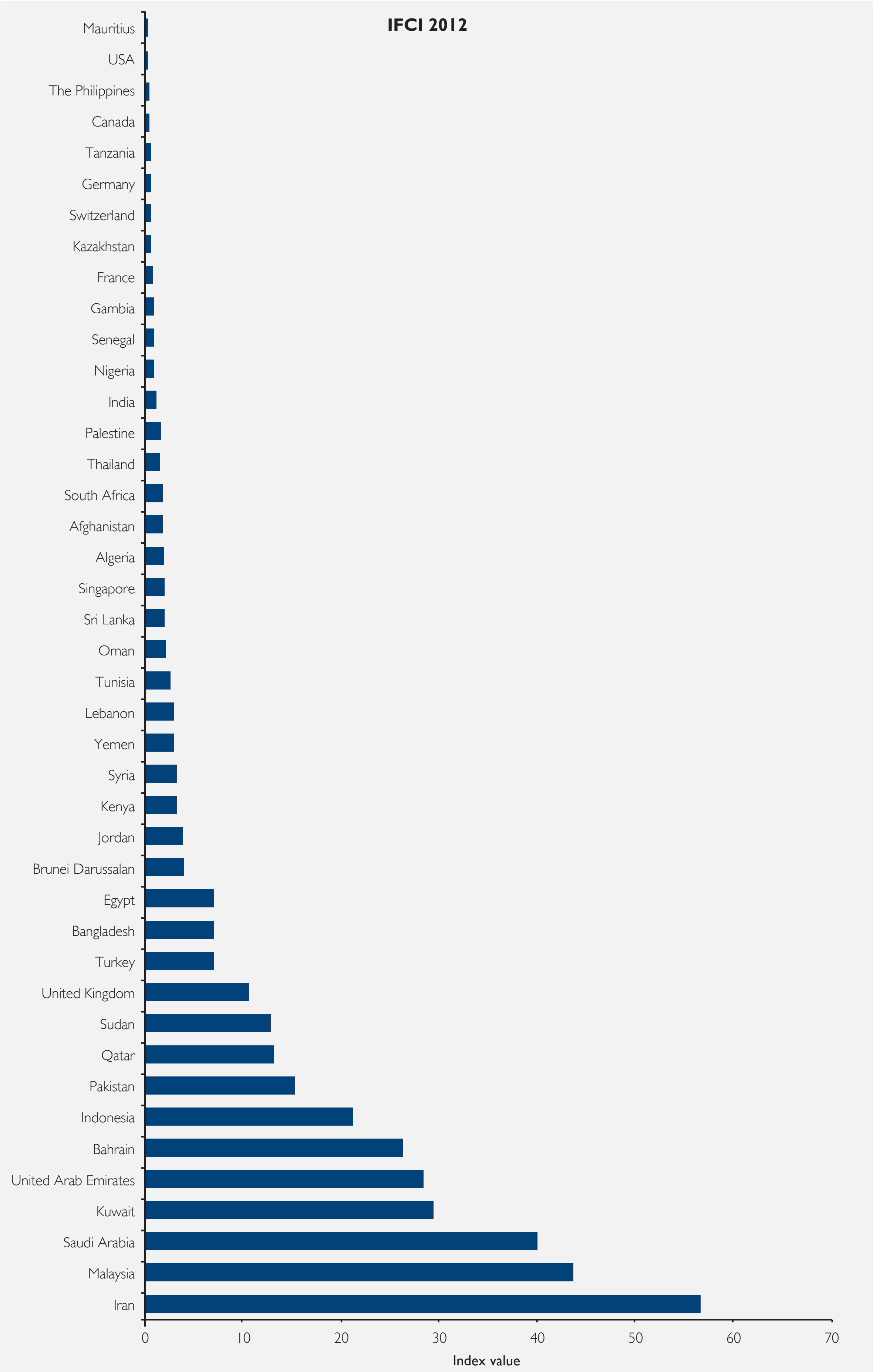


Exhibit 3: Islamic Finance Country Index (IFCI)

Country	IFCI 2011	IFCI 2012	Change
Iran	1	1	-
Malaysia	2	2	-
Saudi Arabia	3	3	-
Kuwait	6	4	+2
United Arab Emirates	5	5	-
Bahrain	8	6	+2
Indonesia	4	7	-3
Pakistan	7	8	-1
Qatar	12	9	+3
Sudan	10	10	-
United Kingdom	15	11	+4
Bangladesh	9	12	-3
Egypt	13	13	-
Turkey	14	14	-
Brunei Darussalam	23	15	+8
Jordan	20	16	+4
Kenya	24	17	+7
Syria	17	18	-1
Yemen	19	19	-
Tunisia	25	20	+5
Oman	N/A	21	N/A
Sri Lanka	26	22	+4
Singapore	33	23	+10
Algeria	16	24	-8
Afghanistan	21	25	-4
South Africa	30	26	+4
Thailand	29	27	+2
Palestine	27	28	-1
Lebanon	22	29	-7
India	11	30	-19
Nigeria	N/A	31	N/A
Senegal	34	32	+2
Gambia	35	33	+2
France	N/A	34	N/A
Kazakhstan	N/A	35	N/A
Switzerland	28	36	-8
Germany	N/A	37	N/A
Tanzania	N/A	38	N/A
Canada	36	39	-3
The Philippines	N/A	40	N/A
United States Of America	18	41	-23
Mauritius	N/A	42	N/A

Exhibit 4: Changes to country rankings for the year 2012

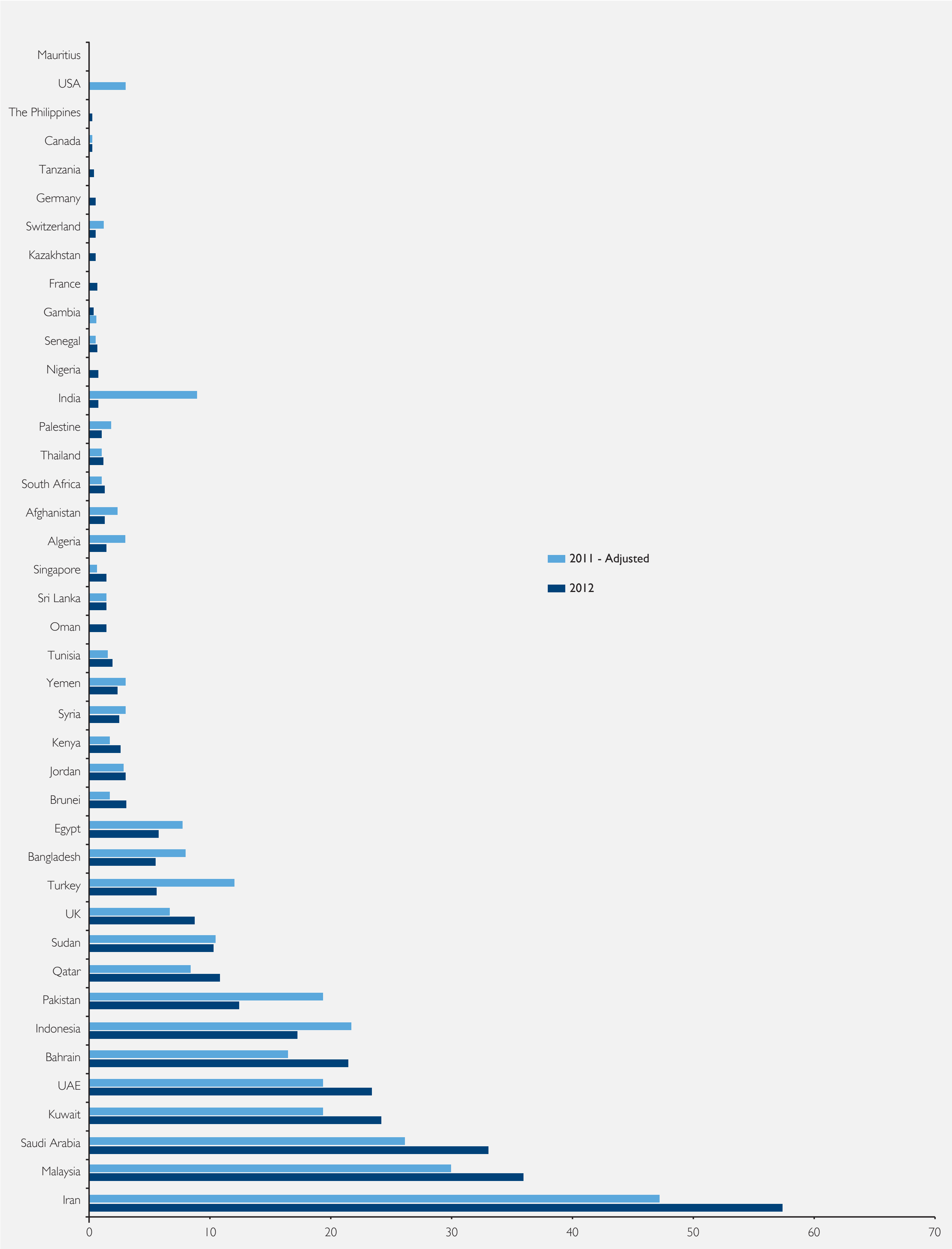


Exhibit 5: IFCI 2012 as compared to adjusted IFCI 2011

AFGHANISTAN

IFCI ranking: 25

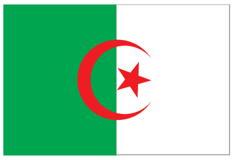
The central bank of Afghanistan was expected to enact an Islamic banking law late in 2011, paving the way for the establishment of fully fledged Islamic banks within the country. It was hoped that with the enactment Afghans, many of whom do not support conventional banks, will begin depositing their money thereby boosting the savings and propelling the economy. There are Islamic windows offered by conventional banks, but service offerings are limited. There is an estimated USD 3billion that Afghans are withholding from the banking sector, a sizable amount which the central bank wants to tap into for the benefit of the local economy.

The central bank's Shari'a board was active in the development of the aforementioned law and are of the opinion that Islamic banks would be welcomed by the majority of the Afghan population. Furthermore, as there have been banking scandals within the country, it is believed that after the implementation of an Islamic banking law there would be more transparency and trust in the banking sector. If the moves are successful, it is hoped that with the increased deposits in the banking sector together with the capital flowing in from potential Shari'a sensitive investors, the county will be less reliant on foreign aid. A new source of funding derived from Islamic financial services will help this war torn country in its reconstruction and rebuilding process.

Although there is a huge untapped market, one potential problem is a lack of education among the local conservative Afghan population. Bankers and scholars from the Shari'a board need to engage with these individuals and explain to them the nuances of Islamic finance, as many Afghans believe it is the same thing as conventional finance.

Other developments which took place include the recent interest from the US Agency for International Development to promote Islamic microfinance within Afghanistan through the establishment of 40 Islamic credit unions throughout the nation. The Department for International Development from the UK provided a grant to underwrite a Shari'a compliant loan to finance agricultural equipment within the country. The surge in Islamic microfinance initiatives is a direct result of a growing demand for Shari'a compliant financing on a micro level and therefore we can expect more such western backed initiatives in the country in future as well as from multilaterals such as the IDB.

As was the case in other emerging Islamic finance markets, a potential bottleneck is a lack of human resources; however this is something which is being addressed as Afghanis from the central bank are beginning to go abroad to learn about Islamic finance in recognised centres of Islamic financial education such as INCEIF in Malaysia.



ALGERIA

IFCI ranking: 24

The Islamic Development Bank (IDB) through its private sector arm, the Islamic Corporation for the Development of the Private Sector, has plans to launch more ijara companies in Algeria. However, the lack of an appropriate regulatory framework to assist in the development of the industry needs to be addressed urgently. Failure to do so will cause the industry to languish. Issues with regulation and double taxation need to be urgently addressed though there are signs that the government have begun looking into these issues.

Towards the end of the year, the government showed initiative in the Islamic finance space. The religious affairs minister ordered clerics within the country to start a full-fledged campaign to persuade wealthy people and businessmen to pay their zakat into a special fund that was set up. Additionally, there are deliberations at present to set up a special bank or entity to manage zakat money collected throughout the year.

AUSTRALIA

It was reported by HSBC Bank Australia CEO Paulo Maia that the HSBC arm in Australia is deliberating as to whether to begin offering Shari'a compliant retail banking services. Implementation of Shari'a finance in new markets is not something new to HSBC as it has successfully launched Shari'a finance in other parts of the world through its subsidiary HSBC Amanah. The involvement and entrance of such a significant player would no doubt serve as a welcome boost to the nascent Islamic finance industry and would catapult its growth.

In October 2011, there was the establishment of the first Islamic equity fund by Crescent Wealth with an initial capital under management of USD5.5 million making it the first such Shari'a compliant fund in Australia. Analysts predict the capital under management in Islamic finance will significantly grow over the next few decades which will bring Shari'a and ethical investors from abroad.

While there have been discussions in the government to ease tax regulation to enable a level playing field for Islamic finance, this has yet to be done and needs to be addressed sooner rather than later.

BAHRAIN

IFCI ranking: 6

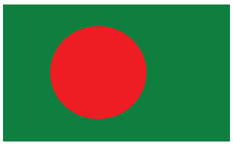
The usually peaceful Island Kingdom of Bahrain experienced a turbulent year on the political front. Political opponents of the regime and those from the Shi'a majority began to protest and this was met with a strong government response, causing widespread chaos in the country. The political situation and instability had an effect on the economy, and events such as the formula one race in Manama were cancelled as a direct result of the protests. The Kingdom, which many consider to be the regional hub for Islamic finance, also saw reports that the industry suffered with reports of global banking institutions considering moving and relocating to what they see as more stable capitals in the region. However there were other reports that the Islamic finance industry was not as badly affected. In fact, the industry began to pick up later in the year. Nevertheless, when the state of emergency was in place in the country, the yield on sukuk fluctuated. Certain banks and takaful companies got their ratings slashed by ratings agencies due to changes in sovereign ratings.

During the year, traditional Islamic finance events took place such as the prestigious AAOIFI Shari'a conference, the annual AAOIFI conference as well as the WIBC conference. According to officials, attendance was similar to previous years showing the country had not suffered too badly from the disturbances. At the WIBC conference, Ernst &Young released the first World Islamic Banking Competitiveness' Report detailing the state of the industry at present. There was talk of a potential merger between some Bahraini banks to create a megabank in the country, however this failed to materialise.

BMI bank during 2011 signed an agreement with Medgulf Allianz Takaful to offer customers of the bank various takaful products via its branches. The agreement signals the growing trend in the takaful industry of bancatakaful agreements and opportunities. Takaful continues to grow in the country and the GCC region and takaful contributions have been steadily increasing, highlighting the growing importance and relevance of this subset of the Islamic financial services industry.

During the year, Sakana Holistic Housing Solutions entered into a commodity murabaha financing facility with Khaleeji Commercial Bank for BHD4million for a period of over four years. The facility is to be used for working capital requirements. Al Baraka Banking Group also signed a murabaha facility of USD20 million to finance foreign trade with the International Islamic Trade Finance (IITF), an affiliate of the IDB, which will be implemented by Al Baraka Islamic Bank. The Operational launch of the Bahrain Financial Exchange and its Islamic segment also took place during 2011. The Subsidiary of Saudi Telecom, VIVA Bahrain signed an agreement with the Samba Financial Group and HSBC Bahrain for a seven year USD280 million Shari'a compliant financing facility.

The European Islamic Investment Bank (EIIB) also decided to shift its focus towards the Middle East and Asia and relocated some of its key staff to its office in Bahrain. The move of EIIB also coincided with setting up of an office in Bahrain by the Bank of London & the Middle East (BLME). Other significant developments which took place during 2011 include the resignation of the AAOIFI Secretary General Nedal Alchaar and the appointment of the new Secretary General Dr. Khaled Al Fakih and in 2012.



IFCI ranking: 12

BANGLADESH

The most significant development for Bangladesh in terms of Islamic finance came at the end of 2011. The final processes were being put in place for the first Islamic money market in the country which is aimed at the facilitation of liquidity management for Islamic financial institutions. The money market led by Bangladesh Bank, the central bank, is the result of an on-going need for effective liquidity management. The move has won the support of many senior executives of Islamic banks in Bangladesh. The money market is expected to be utilised by the 7 Shari'a compliant banks in the country as well as the two Non-Banking Financial Institutions (NBFIs), who previously had no official way to invest their surplus cash and had resorted to informal agreements amongst themselves. Moreover, many conventional banks have Islamic windows and operations, hence they too will also be able to make use of the new facility. The new Islamic money market will enable surplus cash institutions to invest their cash overnight whereas cash deficit institutions will have access to much needed finance on a short term basis. There have also been reports of interest in the country by Malaysian Islamic Banks such as Bank Islam.

IFCI ranking: 15

BRUNEI

Although Brunei is not considered to be a powerhouse in the global Islamic financial services industry, the country is slowly but surely making progress towards increasing the importance of the segment within the country. Backed by strong royal support the country, it is embarking on a process to increase the share of Islamic banking in the country as it aims to compete with the more established centres of Islamic finance in the region such as Malaysia. With rich resource wealth at its disposal, Brunei can play a key role in shaping Islamic finance in the region over the coming decade, as its wealth can no doubt be used beneficially to promote the industry.

According to some reports the Islamic banking segment already makes up 40% of Brunei's banking sector, higher than the share in both Indonesia as well as the more established Malaysia. This is likely to expand over the coming years following a series of regulatory and legislative pushes by the government. The recent establishment of the Monetary Authority of Brunei Darussalam, which no doubt will be important for the development of Islamic finance, includes a special secretariat to deal with Islamic financial institutions as well as Takaful operators. The secretariat will enhance the regulation and supervision of Islamic financial institutions necessary for the industry to progress further.

Other developments include the purchase of a minority stake in Bank Islam Brunei Darussalam (BIBD) by the Dubai based Fajr capital led by Iqbal Khan, the former head of HSBC Amanah. The move signals the growing interest in Brunei from abroad as it is seen as a relatively stable economy with a strong majority Muslim population. Fajr Capital will bring international expertise to BIBD and enable them to improve on their product and service offerings. Furthermore, should the bank wish to expand abroad it can leverage on Fajr Capitals extensive network. Signalling the growing importance of Brunei in the Islamic financial services industry, the Islamic Financial Services Board (IFSB) chose to host their first conference of 2012 on emerging Shari'a issues in regulatory capital and risk management in the country. The event was hosted by the newly established Monetary Authority of Brunei Darussalam and the Centre for Islamic Banking, Finance and Management, Brunei. State Street also opened up an office in Brunei during 2011. It is hoping to capitalise on its experience in Islamic finance which it has gained from the wider markets it serves globally.

One bottleneck for the development of the Islamic finance industry in Brunei is a continued lack of skilled human talent and this is something which needs to be urgently addressed. Some institutions at a university level, as well as the more privatised, have begun offering specialised degrees and courses in Islamic finance. This will go some way to fixing the problem. However it is imperative that essential training is provided to address the shortage or the industry will suffer in the long run.

CANADA

IFCI ranking: 39

What started out as a promising year for the Islamic finance industry in Canada ended controversially as negative publicity followed the much publicised Administration of one of Canada's first and well known Islamic financial institutions, UM Financial.

During the early part of the year Daud Vicary Abdullah the CEO of INCEIF Malaysia, visited the country signalling the importance of Canada to the Islamic finance industry. Home to over a million Muslims, whose demand for Islamic financial services is increasing, Canada seems like an ideal place for Islamic finance in the western hemisphere. Besides the strong local Muslim population there are many attractive opportunities for investors from the Middle East and beyond in the Canadian economy, one of the few western economies to emerge relatively unscathed from the recent financial crisis.

New Islamic finance initiatives were springing up during 2011. Al Huda opened up its services in the Islamic finance space offering real estate and property management services, together with an Islamic financial advisory. Hakim Wealth Management also launched its software which does Shari'a screening on stocks.

Islamic finance in Canada has mostly been based on small community initiatives rather than driven by big commercial institutions. The government has been slow to improve regulation for Islamic finance and there is still at present no major Canadian bank involved in Islamic finance. The lack of a major Canadian player in the market has led to many small businesses involved in Islamic finance to face difficulty in obtaining finance.

UM Financial is one of Canada's pioneering Islamic financial institutions and had built up a portfolio of Shari'a compliant mortgages to cater to the needs of the Muslims in Canada. The company was financed by the Central 1 Credit Union who this year applied for the appointment of a receiver as it wished to discontinue its involvement with UM Financial. There have been many rumours regarding the reason for the receivership yet none with any concrete evidence; according to members of UM financial no customer was in default or any arrears due at the time to Central 1. The bad news is that the receivership has left many customers of UM financial in a difficult situation as legal uncertainty surrounds the treatment of Shari'a compliant mortgages in case of default.

The news of the potential failure of an Islamic financial institution has been pounced upon by critics of Shari'a finance, besmirching the nascent industry in Canada and North America. It is feared that the industry will struggle to recover after this glitch as Muslims in the country become cautious and regulators become tighter. Recent reports suggest that UM Financial Group is in talks with a Gulf based lender to jointly buy up the portfolio of Shari'a compliant mortgages.

EGYPT

IFCI ranking: 13

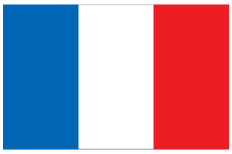
Egypt experienced an eventful year in 2011. The revolution led to the eventual ousting of a dictator who many had thought had become a permanent fixture on the Egyptian landscape. With the fall of a dictator and an end to the banning of Muslim affiliated parties, the political developments in Egypt of the past year will have much sway on the development of Islamic finance within the country over the coming years.

In the middle of last year the financial authorities in Egypt began amending capital market regulations to facilitate the issuing and trading of Shari'a compliant bonds or sukuk which signals growing interest in Islamic finance. There has been talk of issuing a sovereign sukuk. The growing stature of the Muslim Brotherhood in government portends to a greater diffusion of Islamic finance throughout the country.

Besides assisting the local businesses and SMEs, the promotion of Islamic finance will also assist the country in attracting Shari'a compliant capital from abroad which would enable it to fund its economic development programs. Islamic banking in the country reportedly only makes up 3 to 5 per cent of the banking industry. The Muslim Brotherhood is also looking for alternatives to financial derivatives which they feel cause much to harm the local Egyptian economy.

To assist the poor, the government is planning to establish a country zakat fund into which zakat contributions will be collected. The fund will then be disbursed into poverty alleviation programmes including the educational programmes and the creation of institutions for the poor.

However, there are still sceptics and critics who believe that pushing for Shari'a finance is not the answer to Egypt's economic woes. Many are of the opinion that Egypt should adopt an inclusive economic approach which would enable it to economically benefit from nations all over the world. By pushing for Islamic finance they argue the economy may suffer in the long run as it will have to reduce the use of some conventional financial instruments. Many have been disappointed by the government decision to turn down a loan from the IMF, which was at a low rate of interest, well below market rates. Egypt has been using up its own reserves to fund its deficit, hardly a sustainable long term plan. It did manage to secure nearly USD 400 million from the IDB to assist the country in the payment of food and fuel. Additionally other Arab countries such as Qatar, Saudi Arabia and the UAE have also agreed to help.



FRANCE

IFCI ranking: 34

During 2011 there was an Islamic Financial Services Trade Mission to the country by Dubai-Exports in conjunction with Invest France. The trade mission included Islamic finance specialists from leading Islamic financial institutions in Dubai.

In April, Reims Management School announced that it will launch a program in Islamic Banking and Finance in partnership with the International Centre for Education in Islamic Finance (INCEIF) of Kuala Lumpur, Malaysia

Real Economy Partners (REP) announced the launch of the world's first francophone Islamic finance resource, the French Islamic Finance Review. The new service aims to publish Islamic finance news and research in Arabic, English, French and Turkish. There were also reports that REP and Ijara Management Company had formed a partnership to develop an Islamic leasing product for the French market.

In June the country witnessed the country's first Shari'a compliant savings product from a subsidiary of a Moroccan bank. Chaabi Bank, a subsidiary of the Peoples Bank of Morocco, announced the launch of the first Shari'a compliant checking account in the county.

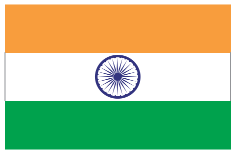
GAMBIA

IFCI ranking: 33

Gambia witnessed exciting developments in Islamic finance during 2011, signalling the growing potential of Islamic finance within the country and the wider African region. In October 2011, countries from the West African Institute for Financial and Economic Management (WAIFEM) attended a training course on Islamic finance and interest free banking in Paradise Suites hotel, Kololi, which was hosted by the WAIFEM. The participants learnt about the basic principles of Islamic finance and how the industry has experienced rapid growth globally. They also learned how the Gambian government, in conjunction with the Islamic Development Bank (IDB) had tried to develop an Islamic finance framework over the past decade, which would enable Islamic banks to outgrow their conventional counterparts. In 2011, the IDB agreed to finance up to 20 projects within different sectors of the Gambian economy such as health, education and agriculture, for up to USD470 million.

Takaful Gambia Limited, the only takaful operator within the country, held its annual profit sharing ceremony at its head office where it was announced that 2.5million dalasi would be shared with the clients who had been using their services. This was the second time in its short history that the company was able to share profits with its clients. Since its inception, as the only takaful player in the country, it has experienced growth of up to 85% a year showing a growing interest amongst the population for Islamic financial services.

INDIA



IFCI ranking: 30

India, home to such a sizable Muslim population, would seem like a natural and conducive environment for the establishment of a booming Islamic finance market. However, due to political and religious sensitivities, the establishment of a meaningful and flourishing Islamic finance industry is something which has yet to be realised although the clamour for the Indian government to open up its doors to Islamic finance has been getting louder over the years.

In the early part of 2011, a conference was held on the prospects for Islamic venture capital funds in India. It was attended by prominent figures in the Islamic finance industry including delegates from the IDB. The event was a two day conference organised by the Institute of Objective Studies Delhi and the Indo-Arab Economic Cooperation Forum.

Another Islamic finance event took place in December as the Indian Centre for Islamic Finance organised a conference which was attended by prominent Islamic finance advocates such as Sheikh Mudassir Siddiqui, the Head of Islamic finance at the international law firm SNR Denton and Shari'a board member of the AAOIFI. Participants listened to how the booming economy of India needs to find alternative sources of finance and capital for infrastructural development over the next five years. Due to the high oil prices in the Middle East, there is excess liquidity in the region hence the issuance of sukuk to finance the infrastructure development projects in the nation would be beneficial.

Attendees also addressed the socio-economic benefits of Islamic finance and the need to increase access to banking for the majority of the rural population in India continues. This problem is compounded when it comes to those of the Muslim faith as many choose to avoid banks for religious purposes. On the other hand, there are non-Muslim groups who have expressed virulent opposition to the entry of Islamic finance. It needs to be emphasised that Islamic finance is for the benefit of all members of society, not just for those of the Muslim faith.

During the year there were reports that the Reserve Bank of India was seeking government approval to allow a Turkish bank to set up and offer Shari'a compliant services in the country via a representative office. However, although this has failed to materialise as of yet, it shows a growing interest in the country from abroad and raises the question as to how long the Indian government can continue to ignore the potential economic benefits that Islamic finance can bring to the country.

INDONESIA

IFCI ranking: 7

Indonesia the most populous Muslim country in the world is actively trying to become an Islamic finance hub in the ASEAN region and compete with its more established rival, Malaysia. However, while Indonesia is eager to usurp Malaysia from its position it has not stopped the country from being eager to learn from its neighbour. In 2011 an MOU was signed between Association of Islamic Banking Institutions Malaysia (AIBIM) and the Indonesian Shari'a Banking Association (Asbisindo). The purpose of the cooperation is to jointly develop Islamic liquidity management products and organise workshops through the establishment of a taskforce. Another MOU was signed during 2011 between Maybank Islamic Bhd and PT Bank Syariah Mandiri to collaborate on cross border transactions in Islamic treasury and trade finance products.

Indonesia is looking to Islamic finance as it is expected to embark on many infrastructure and developmental projects over the coming years. The government feels Islamic finance can play a key role in facilitating these momentous transactions. The central bank of the country spent a lot of time in 2011 courting banks from the Middle East to invest and set up shop in the country as it continues to try and expand the Islamic banking assets in the country. Banks from the Gulf are reportedly interested in the country as they begin to look for new unsaturated markets worldwide. Besides the injection of capital, the entrance of players from the Gulf will bring some much needed expertise to the country. Other developments in 2011 include the proposed tax cuts on Islamic investment accounts which are pending approval from parliament. Indonesia is also looking to absorb liquidity coming out of the Middle East by increasing issuance of quality sukuk. The government issued a 7 year USD1 billion global sukuk issuance in the second half of 2011 which was oversubscribed up to 6 times as there was strong demand from both the Middle East as well as Asia. With such a strong demand analysts are predicting more such sukuk may be issued in 2012. HSBC Holdings Plc, Citigroup Inc. and Standard Chartered Plc arranged and managed the issuance of the above sukuk. The central bank also issued new regulations which allow the trading of sukuk for its reverse repurchase operations and absorb the excess liquidity present in the Indonesian Islamic finance market.

Other developments which show the increasing relevance of Islamic finance to Indonesia include the signing of an agreement between the US embassy in Jakarta and Bank Muamalat to provide finance to low income women with their own businesses in collaboration with the US Agency for International Development (USAID). Allianz SE is also looking at expanding its takaful operations and sees its business in Indonesia rapidly growing. The Jakarta Futures Exchange was reportedly set to launch Shari'a compliant commodities contracts.

IFCI ranking: 1

IRAN

The country's Islamic finance market is rather domesticated with all banks considered by default to be Shari'a compliant thus making it one of the largest Shari'a compliant markets in the world. However, in terms of it being an international player the country has been relatively restricted and squeezed and its reach limited in the global Islamic finance industry.

The government of Iran appears to be interested in promoting Islamic finance, as could be seen by events during the year 2011. At an IMF meeting in Washington towards the end of the year, the Iranian foreign minister argued that the international economy should move towards adopting new financial models to avoid issues such as the debt crisis in Europe. Furthermore, during the year the Minister of Economic Affairs and Finance spoke at a seminar where he discussed how the sukuk market has grown internationally and how Iran has contributed to a significant amount of issuances.

The Iranian government is keen to encourage sukuk issuance domestically for infrastructure projects. The use of sukuk is growing steadily within the country. In the capital markets, the country is attempting to increase the number of instruments it has on offer and the groundwork for this picked up pace during 2011. Previously, the capital market in Iran has been dominated by musharaka sukuk, but the government is planning on introducing murabaha sukuk which, as a fixed rate instrument, will be more attractive for risk adverse investors. The government is also looking to issue ijara sukuk as well as those based on istisna or manufacturing. Towards the end of the year, the Energy Ministry issued USD 240 million bonds for the financing of hydroelectric plants across the nation. There have also been reports that the country will issue USD 5 billion in bonds to finance the development of the oil and gas industries within the country and was reportedly planning to issue USD 15 billion in Islamic bonds during 2011.

During the year Tehran hosted an international conference on Islamic finance which was attended by domestic and foreign Islamic finance experts. Attendees discussed ways in which policies for Islamic finance could be developed. Ayatollah Mohammad Ali Tashkiri mentioned how Iran was a pioneer in Islamic finance but had failed to follow through and now lagged behind other jurisdictions such as Malaysia and Bahrain. Iran is the third largest shareholder in the IDB and the Islamic Corporation for Insurance of Investments and Export Credit (ICIEC), an arm of the IDB will insure exports and trade deals with Iran. It has become difficult to access finance and payment schemes for trade with Iran due to political uncertainty and sanctions. The International Islamic Trade Finance Corporation (ITFC), another arm of the IDB, during 2011 agreed to finance two Iranian companies. The Behshahr Industrial Development Company and Barez Tire and Rubber Manufacturing Company would each receive loans of USD35million.

IFCI ranking: 16

JORDAN

The Kingdom of Jordan experienced some significant developments in the field of Islamic finance during the year. The Al Rajhi Cement Company became the first company in the kingdom to use sukuk to finance their operations within the Kingdom of Jordan. The sukuk was issued early in the year and managed by Capital Investments, the investment banking arm of Capital Bank. The transaction was subscribed to by many local banks such as Capital Bank, Cairo Amman Bank, Islamic International Arab Bank, Union Bank, Jordan Kuwait Bank, Bank of Jordan and Arab Islamic Bank.

There have been new foreign entrants into the Jordanian Islamic finance market space. Al Rajhi Bank of Saudi Arabia, one of the largest Islamic banks in the world, began operations in the Jordan during August 2011. Their entry increases the competition for established Islamic banks such as Jordan Islamic bank and offers more options for local Jordanians. Al Rajhi Bank intends to swiftly increase the number of branches it has in the country.

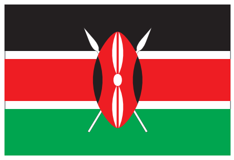
However, an obstacle for the growth of the industry in Jordon is the lack of qualified personnel who are conversant with the principles and practices of Islamic finance. Another potential area of concern is the reluctance of the Jordanian government to issue a sovereign sukuk although there have been signs that the government is currently considering sukuk issuance. A draft law on sukuk was debated in parliament during the year and government may issue sukuk in 2012.

IFCI ranking: 35

KAZAKHSTAN

Kazakhstan hosted quite a few Islamic finance events during 2011 which were well attended highlighting the growing interest in Islamic finance in the former soviet state. The hosting of the World Islamic Economic Forum and OIC also goes to show the improving status of the country in the Muslim world.

Significant developments during 2011 include the signing of the memorandum between Amanah Raya of Malaysia and the Kazakhstan Development Bank to launch a retail bank during the year 2012 after licences are obtained. This would be the country's second Islamic bank. The other Islamic bank in the country is reportedly planning to launch Islamic retail products. Amanah Raya and Fattah Finance also set up a hajj fund, Kaz Haj similar to Tabung Hajji in Malaysia. The country also launched a zakat fund.



IFCI ranking: 17

KENYA

Kenya has been at the forefront of Islamic finance propagation in East Africa and 2012 should be no exception. However, as is the case in many countries situated in Africa there is still a lot of bureaucracy and the pace of change is laboured. This has somewhat hampered and slowed down the growth of Islamic finance in the country.

There were some positive developments as Kenya welcomed its first takaful company to its shores. Takaful Insurance of Africa (TIA) opened its first branch during 2011 and the granting of its licence by the Insurance Regulatory Authority bodes. However even though this positive development occurred, one of the main issues is the lack of comprehensive legislation and regulation for Islamic finance in the country. It has affected the development of Islamic banks and will no doubt also affect the nascent Takaful industry. One of the issues faced by takaful Insurance in Africa is similar to that faced by Islamic banks in the country, namely a lack of instruments to invest their funds in. Other issues include the education of the Kenyan population, many of whom do not understand the principles of takaful and therefore, TIA had to spend much of 2011 marketing its concepts. 2011 also saw the launch of the Kenya Reinsurance Corporation's Islamic business which offers retakaful solutions which complements the activities of TIA and First Community Bank's takaful window, launched in 2010.

In early 2012, Kenya reportedly froze the licensing of new takaful companies until a law to regulate the takaful industry is developed. The move has been met with mixed signals. For the two present takaful offerings, it will give them a chance to win a greater slice of the market as foreign firms won't be able to enter. On the other hand, foreign firms may turn to neighbouring countries such as Uganda or Tanzania, who are competing with Kenya to become the Islamic finance centre in the region. Some critics have suggested a better move would have been to look at existing regulation in other countries where takaful is booming rather than adopting a do it yourself.

According to some reports, one of the key issues has been the inability of Islamic banks in the country to invest in government issuances as they do not comply with Shari'a principles. It has forced the Islamic banks to invest a significant amount of their deposits and excess liquidity through other commercial banks, causing them to lose out on adequate returns. Islamic banks in the country have been calling for changes in legislation which will enable them to issue sukuk and other investment products, helping them manage their liquidity. At present the Islamic banks have to resort to tawarruq arrangements with conventional banks in order to manage their liquidity in the absence of appropriate Shari'a compliant investment tools. The issue is one of tax neutrality as at present it is difficult to originate sukuk in the country. Institutions such as FCB Capital and ApexAfrica Capital are looking at developing investment products which comply with Shari'a such as unit trusts. The Capital Markets Authority of Kenya will regulate these and in fact FCB capital received approval for a unit trust during 2011. Although the government has begun to look into amending the tax laws, the pace at which it is doing so is slow. It is imperative that legislation is amended as soon as possible, as there have been reports that Islamic banks from Sudan are looking to enter into Kenya and see its potential.

Other issues include a lack of personnel who understand the nuances of Islamic finance, although courses such as Islamic finance diploma in this regard have begun to be offered in order to combat the problem. Furthermore more and more Kenyans are going abroad to study Islamic finance in hubs such as Malaysia, therefore the talent shortage may reduce in future.

KUWAIT

IFCI ranking: 4

Early in 2011, the Assistant CEO of Kuwait International Bank (KIB) received a delegation from Bank Negara Malaysia. The purpose of the visit and subsequent meetings was to exchange expertise. The visit highlighted how Kuwaiti Islamic financial institutions are looking to expand abroad and emulate the expansions of other Kuwaiti banks such as Kuwait Finance House (KFH).

Somewhat surprisingly, Kuwait has been a relatively small player in the sukuk market, even though it is home to one of the largest Islamic banks in the world. However, this problem and the relative inactivity may soon change as recent reports towards the end of last year highlighted discussions between Kuwaiti lawmakers on developing a more comprehensive legal framework for the issuance of sukuk.

Internationally, Kuwaiti based firms and entities were slightly more active in the sukuk market during the year 2011. The Gulf Investment Cooperation (GIC) issued a five year, RM750 million sukuk in Malaysia, the second tranche in a much larger investment sukuk structure. Strategia Investment Company received ministry approval to set up an Islamic investment fund with capital ranging from 5million to 50million Kuwaiti dinars. The fund will invest in Shari'a compliant companies listed on the Kuwati and other GCC exchanges.

Boubyan Takaful signed a consultancy agreement with Proviti aimed at procuring risk management services. Other significant developments in the country include the arrangement and the first payment by Investment Dar to its creditors, which signalled progress in the repayment of its debt. In October KFH signed an agreement with London based Grovesnor Fund Management, a property fund manager, to invest in US healthcare properties.

In July, Boubyan Bank acted as the lead arranger for a murabaha agreement worth USD130 million for Boubyan Petrochemicals Company. Details of the facility are that it was a USD70 million Murabaha facility tranche and a 16.5 million Kuwaiti dinar murabaha facility tranche with a tenor of 5 years.

LIBYA

Similar to many countries in North Africa, Libya experienced a turbulent year as revolution gripped the region. What started as protests in Tunisia quickly spread and led to a rebellion against the dictator Muammar Gaddafi who was eventually disposed and killed. Much bloodshed was spilt in Libya during 2011 during the civil war as forces loyal to the ousted dictator fought an opposition assisted by outside forces. Eventually when the smoke had settled and the government toppled, talk began on how to reconcile the war torn nation and rebuild it for future generations. The new political establishment, with an Islamic ideology, began discussing how Shari'a would play a key role in the new Libyan society and how even the economy should draw its inspiration from it. In this regard, much has been written about the potential for Islamic finance in the new Libyan society, something which was ignored by the previous regime.

While there has been some talk of a complete elimination of interest from the economy this may in reality be unlikely as the new government has promised to help protect western interests and existing contracts. What is more likely is the establishment and development of Islamic finance as a parallel system similar to that in place in Malaysia. The Libyan banking sector is underdeveloped with many Libyans only using banks for savings and withdrawals as credit and interest is generally frowned upon. Hence, the development of Islamic finance will give more Libyans access to financial services that are in compliance with their belief system and religious values. With the new regime, there is reportedly interest from Islamic banks in the GCC who are looking to enter the Libyan market and help develop the Islamic finance industry such as Al Baraka Bank and Qatar Islamic Bank. International institutions such as Slandered Chartered are also reportedly interested in entering the country and may open up their Islamic arm in the capital.

However, the country has to develop a legal and regulatory framework for the industry and choose a model of interpretation to follow. There are reports that the government is currently in the process of developing an Islamic finance law and this is reportedly meant to be completed by the end of March and will pave the way for the establishment of Islamic banks in the country. As Libya is one of the main shareholders in the IDB, it is expected that its private arms will play a key role in the redevelopment of the Libyan Economy. There has been talk that the groundwork is being laid for potential sukuk issuances out of the country although this remains to be seen. What we can expect is an interesting 2012 for the Islamic finance industry in Libya as well as the country as a whole.

LEBANON

IFCI ranking: 29

Islamic finance in Lebanon has been slow to kick off despite accommodative legislation being in place since the early part of the last decade. Many analysts are of the opinion that one of the main reasons for its sluggish performance is a lack of stability both politically and economically within the country. Another issue has been a lack of a level playing field for Islamic banks to compete.

With Islamic finance comprising only 1% of the total banking assets within the country, the central bank begun deliberations with local players to discuss ways in which the earlier legislation could be amended and become more conducive for the growth and development of Islamic finance. Furthermore, the central bank is planning on introducing a Shari'a compliant product, enabling Islamic financial institutions to manage their excess liquidity. Notwithstanding the poor growth of Islamic finance, the Baghdad based Al Bilad Islamic Bank was granted a license to offer banking services in 2011, making it the fifth Islamic bank in the country. With over half of its population subscribing to the Muslim faith, there is undoubtedly an inert demand.

However, as the central bank of the country acknowledged, existing regulation has not been conducive for the industry to build which is clearly evident from lack of growth it has experienced since legislation was passed in 2005. Players in the industry have been calling for an end to double taxation as well as an end to high deposit/down payment requirements on Islamic transactions. However, it is interesting to note that the central bank has no plans to issue sukuk or Islamic bonds as it does not want to be seen as favouring Islamic finance. Rather, it wishes to create a level playing field, where Islamic finance can compete fairly with the conventional banking industry in the country.

Many analysts are of the opinion that legislation is not solely to blame for the tepid performance of Islamic finance in Lebanon. Islamic banks need to do more to educate and promote their services in order to attract customers. Many potential customers are unwilling to switch loyalties from conventional banks as they are happy with the current service offerings.

LUXEMBOURG

In 2011, Luxembourg continued to position itself as the domicile of choice for Shari'a compliant funds and issuances. As is usually the case, there were a number of Islamic finance events and seminars in the country promoting it as a destination for tax efficient Shari'a compliant financial solutions. Of notable significance was the 8th Islamic Financial Services Board (IFSB) summit which was held in the country during the year.

Malaysian institutions have been particularly active in Luxembourg with AMANIE led by the prominent Shari'a scholar Daud Bakar as well as INCEIF offering training in Islamic finance. Other significant developments include the decision by a Qatari institution to acquire Dexia BIL which may signal more Islamic finance activity in the coming year. The Luxembourg stock market also spent 2011 actively courting the IDB to list some of its sukuk issuances.

On 26 January 2011, the Luxembourg regulatory authority (CSSF) clarified the rules applicable to sukuk issuance as to the prospectus which facilitates the listing process of sukuk in the Luxembourg Stock Exchange market. Sukuk may be treated as asset backed securities or as guaranteed debt securities.

The minimum information disclosure required for guaranteed securities concerns:

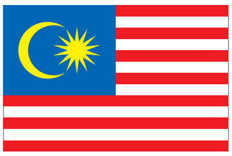
1. Nature of the guarantee. It includes a description of any arrangements, including commitments to ensure obligations to repay debt securities and/or the payment of the yield. Such description shall set out how the arrangement is intended to ensure that the guaranteed payments will be duly serviced

2. Terms and conditions of the guarantee. It must also include all details about conditionality on the application of the guarantee, guarantors power of veto to changes security holders rights

3. Information to be disclosed about the guarantor. It must disclose information about itself as if it were the issuer of that same type of security that is the subject of the guarantee

4. Indication of the places where the public may have access to the material contracts and other documents relating to the insurance has also to be included

All these efforts confirm the willingness of the Luxembourg Government to facilitate the development of Shari'a-compliant products and structures, and to position the Grand Duchy as a significant hub for Islamic finance.



MALAYSIA

IFCI ranking: 2

During 2012, Malaysia continued to dominate the sukuk market, contributing to 60 percent of the global sukuk issuances. Malaysia also witnessed some foreign sukuk issuances within the country and this trend is likely to continue during 2012. Foreign companies view Malaysia as being more stable and with a more robust legislative framework in place then many other countries practicing Islamic finance.

Malaysia issued its third sovereign sukuk. The sukuk worth USD 2 billion was almost 5 times oversubscribed signalling a strong demand for such sovereign issuances. The sukuk was based on a wakala structure and according to official sources was distributed to investors in the Middle East, Malaysia, Asia, Europe and the United States. The sukuk was issued via a SPV called Wakala Global Sukuk. CIMB, Citi, HSBC and Maybank acted as the joint bookrunners and lead managers for the transaction. They were advised by Clifford Chance, an international law firm. Other significant developments in the sukuk market include the government linked Khazanah Nasional Bhd which issued a 3 year benchmark offshore 500million yuan sukuk, the world's first sukuk denominated in the Chinese currency. A mixed group of investors including financial institutions, asset management companies, private banks and statutory bodies from around the globe subscribed to this unique offering. The sukuk was issued under the Malaysia International Islamic Financial Centre (MIFC) legal regime and was to be listed on the Bursa Malaysia as well as the Labuan International Financial Exchange.

On the local level, Senari Synergy, an investment company owned by the Island of Sarawak's government, issued a 20 year RM380million Sukuk. The issuance took place in August and was fully subscribed. The sukuk was underwritten by Danajamin Nasional. The purpose of the sukuk was to repay bridge financing and partially finance capital costs of two of Senari Synergy's industrial complexes: an oil terminal & a palm oil refinery. The corporate sukuk market was also very active during 2011. In the middle of the year 2011 Cagamas Bhd, issued its third domestic sukuk which was a 1year Rm150 million commodity murabaha sukuk. This followed on from its previous issuances in the year which included a multi-tenured sukuk worth RM45 million and a RM400 million sukuk at the beginning of the year. Bloomberg announced during the year in conjunction with the Association of Islamic Banking Institutions (AIBIM), that they have launched a Malaysian Ringgit sukuk index to provide a benchmark for Malaysian Ringgit Sovereign sukuk investments. The index is called the Bloomberg AIBIM Bursa Malaysia Sovereign Shari'a Index and gives a benchmark to investors for the performance of Shari'a compliant RM denominated sovereign issuances.

In the academic sphere, Malaysia continued to make strides with a string of conferences and publications taking place during 2011. Some important and notable developments which took place include the release of a university level text book on Islamic finance published by the International Shari'a Research Academy (ISRA). There was also the landmark agreement between the Islamic Corporation for the Development of the Private Sector (ICD) and INCEIF to deliver the latter's Chartered Islamic Finance Professional Programme to candidates of ICD's new two year Islamic finance development programme, which aims to develop human capital in the field. The signing followed on from the earlier appointment of Daud Vicary Abdullah, the former global head of Deloitte Islamic finance team, as the CEO of INCEIF. Other milestones for INCEIF during 2011 include the signing of a memorandum of understanding with France's Reims Management School to collaborate on their new Islamic finance certificate programmes. ISRA also held the 6th International Shari'a Scholars Forum in collaboration with the Islamic Research and Training Institute (IRTI). The forum was attended by a number of prominent Shari'a scholars from within the Islamic finance industry. The focus of the forum was to find ways to move the industry towards a more maqasid or objective based model of financial intermediation and was discussed in great detail.

One of the main reasons for the fast growth and development of Islamic finance within Malaysia is the strong level of government support. In the 2012 governmental budget, many more incentives were proposed to help strengthen the industry and further the government's ambitions of making Malaysia the global centre of choice for the Islamic finance industry. Some of the new provisions mentioned in the 2012 budget include a 3 year tax deduction for expenses incurred on new sukuk al wakala issuances in the country, extension of the income tax exemption on foreign denominated sukuk and transactions until 2014, establishment of an SME Shari'a compliant financing fund and proposals to enhance Islamic venture capital. These provisions will no doubt help the industry to continue to grow at the rapid 10-15% annually that it has been experiencing in recent years.

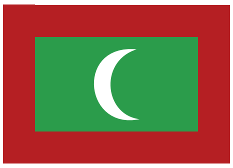
Malaysia's proclaimed vision and facilitative legal framework has attracted companies from countries that are assessing the viability of Islamic finance. Japan's third largest bank Mizuho Corporate Bank announced that the purpose of its recent entrance into the Malaysian market was to penetrate the Islamic finance sector. The Bahrain based Elaf Bank was granted a licence by the ministry of finance in Malaysia under is MIFC initiative to open a branch office in Kuala Lumpur. The banks management, commenting on the move, discussed the importance of the South East Asian region in general to Islamic finance and Malaysia in particular to the banks long term growth strategy. Elaf bank is a wholesale bank, hence cross border linkages are extremely important. Currently, reports suggest that Islamic banking assets make up 22 percent of total banking assets in the country and this has been predicted to rise to around 25 percent in 2012. Besides the banking and capital markets, the takaful sector has continued to rapidly grow in 2011 with many takaful operators experiencing profit windfalls. The Malaysian takaful market is the largest in the world with over one quarter of the world's takaful assets being held within the country.

Other signs that the Islamic finance market in Malaysia is doing well could be ascertained from comments given by senior banking figures such as the deputy CEO of HSBC Malaysia who in a report in 2011 discussed how the firm is witnessing the faster growth of the Islamic banking sector as compared to the conventional segment. The bank will therefore continue to focus on the Shari'a complaint domain through its Islamic unit, HSBC Amanah by opening new branches and developing innovative Shari'a based products.

BNM was once again at the forefront of innovation within the Islamic finance industry with the development of a new monetary management instrument based on Shari'a compliant principles, Bank Negara Monetary Notes- Istithmar (BNMN-Istithmar). The initial auction of RM500 million was eagerly subscribed to and adds to the liquidity management tools on offer in Malaysia. The International Islamic Liquidity Management Corporation (IILM) which was mooted towards the end of 2010 officially began its operations during 2011, with the appointment of a Board of Directors, a Shari'a Supervisory Board and top management. The IILM is backed by 12 central banks and two multilateral institutions. Although the institution was to issue its first Shari'a compliant short term instruments during 2011, this failed to materialise. However, work is in progress with initial issuance reported to be USD 300 million. 2012 will be a busy year for Malaysia and Bank Negara. There are plans to issue three megabank licences. Furthermore, BNM intends to be active in promoting microtakaful and microfinance initiatives.

AMISLAMIC fund management launched the first ASEAN equity fund in June managed by AmIslamic funds management, for investors to experience capital growth over the medium to long term through investments in Shari'a compliant stocks in the ASEAN region. The fund would focus on the five main economies in the ASEAN region namely Malaysia, Indonesia, Singapore, Philippines and Thailand.

There is no doubt that Malaysia is at the forefront of the Islamic finance industry and continues to raise the bar during 2011 with landmark issuances and developments taking place throughout the year.



MALDIVES

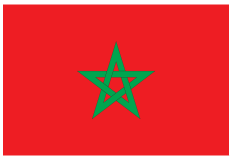
2011 was an eventful year for the Maldives in terms of Islamic finance development as the country witnessed the birth of its first Islamic financial institution. The 100% Muslim populated country prior to 2011 did not have any Islamic bank to service the needs of its local population. Thus Maldives Islamic Bank was a much needed addition to the country's financial services sector. While the government support for the introduction of an Islamic bank into the country has been strong, urgent changes need to be made to legislation so that the Islamic bank (which is majority foreign owned) can own property and therefore provide home-financing and a high transfer of property tax.

Other developments in 2011 include the reported plans of the Capital Markets Development Authority (CMDA) to develop an Islamic capital market in the country especially in terms of sukuk. Takaful Amana from Sri Lanka, through its Maldivian operations planned to go public during 2011 through an IPO. The shares were going to be offered to both local as well as foreign investors. With such a flurry of new developments in Islamic finance in 2011 we can expect the island to have a busy 2012.

IFCI ranking: 42

MAURITIUS

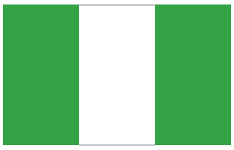
For Mauritius 2011 was also a year of firsts in the Islamic finance industry. The country welcomed the first Islamic bank on its shores in the form of Century Bank which is set to focus on wholesale banking, treasury and wealth management. The bank is being funded by Qatari investors as well as the British American Investment Group. Being an offshore centre Mauritius can attract a lot of Islamic investments from South Africa. Additionally Mauritius is expected to attract funds from the likes of India once the latter opens itself to Islamic banking and finance.



MOROCCO

With much of North Africa in turmoil following the Arab Spring, Morocco was one of the few countries in the region in which the revolutionary tides did not sweep through. However the King did concede some powers in order to achieve to ensure peace and stability. In election, the country's Justice & Development Party (JDP) produced a strong performance. The party which is considered to be a moderate Islamist party has Islamic finance as part of their agenda while avoiding other issues of contention such as alcohol and headscarves or hijaab.

Qatar International Islamic Bank has recently discussed the possibility with senior members of the country of setting up an Islamic bank and a takaful company in the country to be partly owned by Qataris as well as Moroccans. Although there are institutions offering a limited range of Shari'a compliant products, the country still has no fully fledged Islamic financial institution at present. There are also reports that the country may issue sukuk in future. 2012 should be an interesting year for the country as the JDP will no doubt play a pivotal role in bringing Islamic finance to Moroccan shores, as it is currently lagging behind other countries in the region.



IFCI ranking: 31

NIGERIA

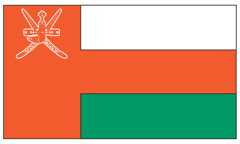
Nigeria is home to the biggest Muslim population in Africa and is a ripe market for Islamic finance in West Africa. Sadly, whilst there has been much interest in Islamic finance, ethnic and religious conflict between the Muslims and Christians in the country, seem to have put a damper on Islamic finance.

The Central Bank of Nigeria had been developing regulations for Islamic finance during 2011, and in the middle of the year, Juiz Bank International became the first institution to establish an Islamic bank after receiving principal approval from the Central Bank. However, the move and approval by the central bank received opposition from some Christian leaders in the country as they were of the opinion that the introduction of Islamic finance into the country would increase tensions between the Muslims and Christians.

Jaiz Bank International signed an agreement with Path Solutions, one of the leading Islamic financial solutions company for their, i-MAL solutions software. Other developments include the preliminary licensing of Stanbic to open a Shari'a compliant window in the country, the first such licence for a commercial bank. The country also signed an agreement with Bank Negara Malaysia (BNM) to cooperate in Islamic financial services.

One of the problems facing Islamic finance in Nigeria is that it is receiving a lot of negative publicity that it is only for Muslims, used to finance terrorism and a way Islamists are trying to impose Shari'a upon Nigeria. The activities of Boko Haram, the Nigerian Islamist group has not helped Islamic finance's cause. One of the key ways to counter this perception is through education as Islamic finance is a just way of doing business which should appeal to all Nigerians regardless of creed, race or religion.

2012 should be an interesting year for Islamic finance in Nigeria, with a proposed sukuk issuance in the pipeline. Standard Chartered through its Islamic arm, Saadiq, is interested in starting operations in the country in 2012 according to recent reports. Absa, from South Africa, is also looking at introducing Shari'a compliant financial services in the country in the not too distant future and there are also reports that many local Nigerian conventional banks are looking to offer Shari'a compliant financial service offerings.



IFCI ranking: 21

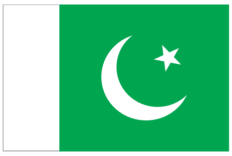
OMAN

It was in May 2011 that Sultan Qaboos, by royal decree, permitted financial institutions to offer Shari'a compliant operations in the Sultanate of Oman. Conventional banks, already in the country, will also be able to run a Shari'a compliant banking. Oman is the last Gulf state to enter the Islamic banking and finance industry.

Amjaad Developments, a real estate company, together with Edbiz Consulting were among the pioneers of bringing Islamic finance intelligence to the Sultanate of Oman by organizing the "Oman Islamic Economic Forum" on the 17th and 18th of December 2011. The conference attracted leaders and practitioners in Islamic banking and finance industry from different parts of the world. The conference was opened by HH Sayyid Shihab bin Tariq and included a keynote presentation from the ex Prime Minister of Malaysia, Tun Abdullah bin Haji Ahmad Badawi, and an address from Yaseen Anwar, Governor State Bank of Pakistan. Other speakers included Shari'a scholars, bankers, lawyers, practitioner and academicians. The Forum also helped Bank Muscat to launch the first Islamic banking window in the country "Meethaq Islamic banking window". There was another conference in January 2012 which also attracted luminaries in the Islamic banking and finance Industry. Other banks such as Al Ahli Bank, Oman Arab Bank, Oman International Bank, Bank Dhofar and Bank Sofar are all in the early stages of launching their Islamic banking and finance window.

There have been two institutions that have been issued an Islamic finance licence from the Central Bank of Oman (CBO) to open as fully fledged institutions. Both institutions are currently in the set up process and will become operational as soon by early 2012. Bank Nizwa has announced Mr Jamil el Jaroudi as its CEO in March 2012 after the approval of the CBO.

The CBO has recently issued a circular as a guideline for licensed institutions operating in the Sultanate on how to get involved in the Islamic banking and finance industry and what the banks are required to do.



IFCI ranking: 8

PAKISTAN

Pakistan is going through a period of tremendous uncertainty both politically and economically. Increased tensions between the country and the United States as well as the civilian government and the army have shaken the country. Islamic finance is not immune to the domestic turmoil and is directly affected by any instability that arises. Having said that, in 2011 there were some encouraging signs and developments which show that the industry is evolving.

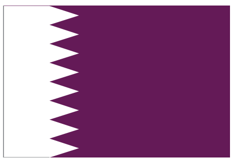
Developments during 2011 include the signing of a memorandum of understanding between the World Congress of Muslim Philanthropists (WCMP) and the Pakistani based microfinance institution Farz Foundation. The purpose of the agreement was to foster collaboration in the development of innovative Shari'a compliant microfinance products, and to export the microfinance methodology used by the Farz Foundation to other underdeveloped Muslim countries in which the WCMP is active. The Farz Foundation also held the first national conference on Islamic microfinance at the end of January in Lahore and discussed ways to develop the Islamic microfinance industry in Pakistan. In June, the International Conference on Islamic Microfinance in Islamabad was held. The event brought together over 500 industry experts to discuss ways to promote and boost Islamic microfinance growth. The potential for growth in this segment has not gone unnoticed by the State Bank of Pakistan (SBP) as it released guidelines for Islamic microfinance businesses.

In December, SBP awarded Silk Bank an Islamic banking licence to offer Shari'a compliant banking services within the country. The banks initial target market would be highly populated areas and cities such as Karachi. Additionally, Dubai Islamic Bank Pakistan Ltd plans to open up to 25 new branches throughout the country during 2012 adding to its existing branch network of 72 branches.

Other significant developments include the country's first short-term sukuk deal which was arranged by Meezan Bank, one of the largest Islamic finance players in the country. The 6 month musharaka sukuk was launched by Kot Addu Power Company Ltd, Pakistan's largest power company. Pakistan International Airlines (PIA) raised USD90 million in December through a syndicated Islamic financing facility, which was arranged by a number of commercial banks in the country.

In order to boost the Islamic banking sector and double its growth over the next five years the Islamic banking department at the SBP has urged Islamic lenders to focus on rural areas and to boost their branches in these regions. Hope is to attract deposits from the more conservative rural customers who tend to avoid interest based banking services and keep their money away from the formal banking system.

Whilst these developments which show that there is massive potential for seismic growth of Islamic finance in the country, the unstable economic and political situation in the country can serve as a potential hindrance.



IFCI ranking: 9

QATAR

Qatar was one of the few countries in the Middle East not to experience protests, and with a rapidly growing economy this comes as no surprise. The small Gulf nation has been experiencing rapid development due to substantial resources it possesses and the standard of living of most Qataris is continually on the rise. Islamic finance is expected to play a key role in the country's future economic development. Many analysts are speculating that Islamic finance will play an important role in the construction process which is going to take place between now and the FIFA 2022 World Cup.

One of the most significant developments in the country during 2011 was the announcement by the central bank that conventional banks had until the end of the year to close their Islamic operations to reduce any chance of a mixing of funds. The announcement took the industry by surprise as there was no prior notice given, and many conventional lenders were concerned about the impact that the shutting of their Islamic financial arms would have on their business. The move was widely expected to boost the profitability and uptake of services of fully-fledged Islamic financial institutions and depositors will switch from the windows of the conventional banks to the fully fledged Islamic banks. As a result of this, the shares of fully fledged Islamic banks increased during the early part of the year. However, so far, Islamic banks have not really benefited from the move as many customers have remained loyal to conventional banks. Depositors worry that if they switch to Islamic banks they will not receive the same level of customer service. In fact, many windows have offered Islamic depositors the facility to convert their Islamic deposit accounts into conventional ones and this has been taken up by the customers of banks such as HSBC Amanah and QNB Islami. Additionally, for many Qataris, they regard the basic deposit accounts offered by Islamic banks and conventional banks as being the same in substance in essence.

The ruling led to the first sale of an Islamic finance portfolio as Barwa Bank bought the retail Islamic portfolio, Al Yusr, of the International Bank of Qatar, the first such transaction in Qatar. The sale also included the taking over of the Al Yusr branches as well as some transfer of employees. Barwa Bank was advised by Eversheds LLP, a leading international law firm. The corporate banking assets of Al Yusr were brought by Qatar Islamic Bank (QIB). Other conventional banks were reportedly interested in selling off their Shari'a portfolios, however this is yet to have happened and many just stopped their Shari'a business. Abu Dhabi Islamic Bank has been given a licence to open a branch in Qatar and more banks from the GCC seem interested in the Qatari market, where there will now be a clear separation between conventional and Islamic financial activities.

During 2011 HSBC and Allianz Takaful signed an agreement on Bancatakaful enabling HSBC to sell to its customers Shari'a compliant takaful schemes through its extensive branch network signalling the growing trend in bancatakaful agreements. Other developments include the authorisation by the QFC regulatory authority of the Takaful International Company BSC to set up a branch within the QFC.

The end of the year saw the holding of the prestigious 8th international conference on Islamic Economic and Finance sponsored by IRTI, the Qatar Foundation's Faculty of Islamic Studies and SESRIC. The event brought together, leading academics in the Muslim world and was well attended. In early 2012, QIB announced an agreement with Al Million Services Trading and Contracting WLL for the project financing of the purchase and subsequent operation of 500 new taxis through various Islamic financing arrangements.

RUSSIA

In the middle of the year, Russian economists and bankers attending a training programme on the principles of Islamic banking in Indonesia, which was conducted by Bank Muamalat Indonesia (BMI). Earlier in the year, the aforementioned bank received a delegation from the Russian Muftis Council. The aim of the visits were to foster increased trade and share Indonesian Islamic finance expertise with Russia which is home to a sizable Muslim population in various regions. Russian institutions are eager to develop their Islamic finance capabilities in order to attract foreign investment; however opaque regulation still stands as a bottleneck in the industries development.

Tatarstan has been the region in Russia which has been particularly active in Islamic finance advocacy in 2011. The Kazan Summit 2011 was held which brought Islamic finance advocates from all over the world to discuss Islamic finance amongst other topics. AK Bars Bank secured a murabaha financing arrangement, which was the first Shari'a compliant financing facility secured by a Russian bank. Tatarstan has been pushing for changes in Russian regulation which would enable Islamic finance to develop. There was talk of a maiden Sukuk issuance within Tatarstan, possibly in collaboration with Kuwait Finance House.

SAUDI ARABIA

IFCI ranking: 3

The IDB through its private sector arm established a unique human capital training programme in which the brightest talent from the industry would be selected and chosen for a 2 year programme involving practical as well as academic exposure to Islamic finance. The participants will be taught by a faculty from the Malaysian based university, INCEIF. There were a few conferences and training workshops which took place in the Kingdom. The capital, Riyadh, was the host for the International Finance Forum Saudi Arabia 2011. Other significant events which took place include the 2011 Jeddah Economic Forum, which was attended by leading industry experts. Officials from Al Rajhi spoke on how the Kingdom of Saudi Arabia has the potential to become the hub for Islamic finance in the Middle East if the appropriate regulations and structures are put into place. Other key speakers included the CEO of the National Commercial Bank (NCB) who mentioned how in the Kingdom, the demand for Shari'a compliant financing is on the rise both from corporations as well as from individuals.

Saudi Arabia has one of the fastest growing takaful markets and it has been reported that the size of this niche market will reach over USD 7 billion by the end of 2012. During 2011, King & Spalding LLP, and its affiliate in Saudi Arabia, advised Al-Ahli Takaful on its capital increase through a rights issue.

There were some notable developments in the sukuk market during 2011 such as the Saudi Aramco sukuk which raised USD1 billion for a new refinery project. The sukuk was 3.5 times oversubscribed and has a maturity of 14 years, and was open only to Saudi investors. However, it seems as though 2012 will be the year of record issuances and firsts in the Saudi sukuk market. In early 2012, the country's General Authority of Civil Aviation issued the first sovereign sukuk backed by the government to fund the construction of a new terminal at Jeddah airport. The sukuk is the largest ever issued in the Kingdom at USD4 billion and was oversubscribed three times, although it was only made available to local Saudi investors. 2012 may prove to be an eventful year for the sukuk market in Saudi as there are other sukuk in the pipeline such as the Almarai sukuk.

In May 2011, Zain, one of Saudis mobile operators, signed a two year Islamic refinancing agreement worth SR2.25 billion with some Saudi banks including Arab National Bank and Banque Saudi Fransi. In March 2011, the Saudi Arabian petrochemical company, Saudi Kayan arranged a murabaha loan agreement with Banque Saudi Fransi worth USD533.3 million with a maturity of 10 years. The murabaha facility would be used to fund the construction of a complex in Jubail industrial city. In November, Acwa Power closed an inaugural murabaha facility worth USD300 million which would be used to expand outside Saudi Arabia in terms of its power and water production. The arrangers for the deal included Maybank, Standard Chartered, Citi, and JP Morgan among others. In June, the National Shipping Company of Saudi Arabia signed an agreement based on murabaha worth USD219.3 million to banks including Saudi British Bank and the NCB to finance the purchase of four ships from a Korean entity. Al Baraka Banking Group set up Itqan Capital through a fully owned subsidiary. Itqan Capital will focus on asset management, investment, investment banking and custodial services through innovative Shari'a compliant investment products.

SINGAPORE

IFCI ranking: 23

Although developments in Singapore have been relatively sluggish, some activities during the year showed that the island nation still has the potential to become an Islamic finance centre in the ASEAN region. It was reported that due to the landmark Sabana Shari'a REIT and a currency sukuk from Khazanah Nasional, more Singaporean companies are interested in Islamic finance opportunities to raise funds.

The deputy chairman of the Monetary Authority of Singapore (MAS) announced that the country would issue new income regulations for Islamic finance in order to ensure that the country continues to remain competitive and stay on course for its target to become a hub for wholesale Islamic banking and asset management.

MAS issued Circular No. FDD 05/2011 dated 8 June 2011, which prescribes the tax treatment of specific Islamic financing transactions, namely murabaha, musharaka, istisna and wakala.

Provided these transactions meet the commercial conditions laid down by MAS, the tax treatment will be as follows:

- Where the effective return or markup derived by the financial institution is economically similar to interest in conventional financing, such return or markup will be regarded as interest for tax purposes.

- Where such return or markup falls under the definition of "interest" under the Interest Article in a tax treaty, the tax treatment in that Article of the tax treaty should prevail, subject to the conditions being met.

- The supply of goods undertaken in a prescribed Islamic financing arrangement (such as the transfer of non-residential properties, leasing or subleasing of non-residential properties) that would not have otherwise arisen under a conventional financing arrangement would be exempt from GST.

- Stamp duties payable in respect of transfers of real properties required in a prescribed Islamic financing arrangement would be remitted. The amount of stamp duty remitted depends on the type of prescribed Islamic financing arrangement that is entered into; either the full amount or amounts in excess of SGD 500 would be remitted.

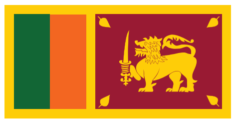
SPAIN

With the European sovereign debt crisis grabbing the headlines this year, there was relatively little activity in terms of Islamic finance within new markets in Europe. However in Spain a few notable events took place, which may signal the start of a brighter future for the industry's development within Spain.

In the latter part of last year an event took place called Business Intelligence Middle East, held by the Dubai International Financial Centre (DIFC). The purpose of the event was to strengthen economic ties between the UAE and Spain. Participants included prominent figures from both Spain as well as the UAE and among the topics of discussion was Islamic finance, with notable UAE based Shari'a scholar, Yusuf Talal Delorenzo in attendance. The UAE and Spain are strong business partners and thus should Spain wish to delve further into Islamic finance, the UAE would be able to export its expertise.

The Islamic Development Bank (IDB) was also active in Spain during the year 2011. An Islamic finance event entitled Islamic finance in the 21st century was held in Madrid & hosted by IE Business School together with the Saudi-Spanish Centre for Islamic economics & finance, which was recently rebranded. The event was attended by the President of the IDB, Dr. Ahmad M.Ali as well as prominent professors from Saudi Arabia. The IE Business School, one of the top in Spain, has actively been promoting Islamic financial education, and offers Islamic finance as a module on its MBA and Masters programs. The event discussed the principles of Islamic finance and how this niche could be developed within Spain. Furthermore it was announced that a degree in finance is to be offered in 2012, which will have a component in Islamic finance. Spain and the Muslim world has historical links, hence Arab interest in the region should come as no surprise.

SRI LANKA



IFCI ranking: 22

In 2011, the country's first fully fledged Shari'a compliant bank, Amana Bank began its operations signalling a milestone in the country's Islamic finance development. The bank opened 14 branches and will look to increase this number over the course of the next few years. Amana Takaful, part of the Amana Group, also announced the launch of Sri Lanka's first Shari'a compliant unit linked insurance plan, which would enable customers to get the benefit of protection as well as have the option to invest in Shari'a compliant investments. The Commercial Bank of Ceylon also reportedly began to offer Shari'a compliant services during the year and appointed a three man Shari'a board to ensure compliance. It will offer accounts based on mudaraba as well as other products based on Shari'a principles.

The country also held the third Sri Lanka Islamic Banking and Finance Conference in Colombo in the middle of the year. Other developments include proposed amendments in the taxation laws in the 2011 fiscal budget. Guidelines will be issued that will enable the Islamic finance industry compete, without encumbrances, with conventional financial institutions.

Other developments include the agreement between the Malaysian based Al Tayseer Advisory Services Sdn Bhd and Wealth Lanka Management Pvt Ltd to establish and structure Islamic banking and capital market instruments as well as other consultancy services. In 2011, there was also the publication of the first Islamic finance country report in Sri Lanka by KPMG, Ford, Rhodes, Thornton & Co in conjunction with the Research Intelligence Unit which detailed the current state of the Islamic finance market in Sri Lanka and how it can grow in future.

Areas where Islamic finance can play a key role in the development of Sri Lankan society is the establishment of Islamic microfinance in which Islamic financial instruments can be used to combat poverty and help up lift Muslims as well as non-Muslims out of the poverty trap.

Shortage of human talent is another area which needs to be addressed and there are qualifications on offer in Islamic finance in Sri Lanka to address this problem. Furthermore, many Sri Lankans are going abroad to study Islamic finance at institutions such as INCEIF and IIUM in Malaysia. Amana Global part of the Amana Group, signed an agreement with the Islamic Banking and Finance Institute of Malaysia (IBFIM) to offer training in Islamic finance.

It seems as though Islamic finance in Sri Lanka is finally beginning to get noticed by the government and unlike the case of India, the government now seems eager to promote it. Therefore, due to the relatively small size of the

Muslim population of Sri Lanka it will be important that Islamic finance appeals to all Sri Lankans and if that is the case we can expect the industry to grow even further.

SOUTH AFRICA

IFCI ranking: 26

South Africa is a country which is eagerly vying for Islamic finance prominence. It is one of the few countries in Southern Africa in which Islamic finance has been present for quite some time now, with the opening of Al Baraka in 1989. With a small but affluent Muslim population as well as a sophisticated economy it would seem as the ideal place for an Islamic finance hub, and in 2011 more steps were made on the path to achieve this.

Some significant developments include the purchase of a local takaful company, Takafol SA by a subsidiary of Absa, one of the largest banks in the country. The move signifies the widely held belief that there is huge potential for takaful in the South African market, as insurance penetration is relatively low. Takaful it is hoped will appeal to non-Muslims as well as Muslims, due to some of its intrinsic values and service offerings.

The government of South Africa has also been proactive in looking to promote South Africa as a regional Islamic finance centre. In 2010, it amended a series of tax laws in order to give a level playing field in the country for Islamic financial institutions. Following reports that the country's National Treasury was looking to issue sukuk in an effort to diversify its investor base, they invited banks to submit proposals at the end of 2011 and the successful bidder will advise the treasury on all aspects of the sukuk issuance process such as structuring, Shari'a advisory etc. If all goes to plan there may be a debut Sovereign sukuk issuance in the middle of 2012. It is hoped that the issuance of such a sukuk will attract funding from abroad from untraditional sources as the government wants to reduce dependency on the West and look towards the Middle East & Asia.

SYRIA

IFCI ranking: 18

Syria experienced a year of bloodshed in 2011 and that looks set to continue in 2012 as the conflict between the government and revolutionaries continues in the country. The political and economic instability has had a knock on effect on the Islamic finance industry as can be imagined and there has been talk of reported capital flight from the country although this is difficult to substantiate. Syria was also suspended from the Arab League although it is one of the founding members and many countries from the GCC have advised their citizens not to travel to the country due to the current security situation. Significant developments in the year which have been dampened by the on-going conflict include the appointment of Nedal Alchaar as the Syrian Minister of Economy & Trade and the government approval for Qatar International Islamic Bank to increase its holdings in its Syrian unit to 41percent. Syria International Islamic Bank (SIIB) during the year launched four Master-card debit and credit programs signalling the growing interest in Islamic financial services in the country. AKAR Development also signed an MOU with SIIB for their Cordoba Hills Project in which SIIB will provide customers with up to 75% of the villa values through an Islamic finance mechanism. 2012 will prove to be an interesting year for Syria as the world witness whom emerges victorious from the power struggle in the country. The sanctions being imposed on the regime at present will not make the growth of Islamic finance in the country easy.

SUDAN

IFCI ranking: 10

North Africa experienced much turmoil within 2011 with the seeds of revolution being planted and the overthrowing of dictators in Libya, Tunisia and Egypt. Sudan was affected by these events both politically as well as economically; however it already had its own set of internal problems and in 2011 the world witnessed the split of Sudan into two separate countries. The asunder led to Sudan loosing much of its oil revenues, which is the main source of government funding.

Sudan is one of the oldest Islamic financial markets in the world, but Islamic finance has failed to make a significant impact globally due to civil war and being left in the political cold. Sudan mostly sells sukuk domestically because it cannot access international financial markets due to a US trade embargo. In early 2012 the government launched a sale of sukuk offering an annual 20% return to raise cash for the government. The 20% on offer is 5% higher than the last such issuance which took place in 2011.

Some positive developments which took place in 2011 include the issuance of licences by the Central Bank to Abu Dhabi Islamic Bank (ADIB) and the National Bank of Egypt. By bringing foreign players, it is hoped that this will boost the Islamic finance industry. Furthermore, there is talk of Sudani Islamic financial institutions looking abroad with the Islamic Bank of Sudan looking to penetrate the Kenyan market. While foreign investors seem unwilling to look at Sudan, investors from the Gulf view it as a lucrative market and are looking to expand. There have also been talks of interest among local Sudani corporates for the issuance of corporate sukuk to raise cash.

TANZANIA

IFCI ranking: 38

Tanzania is another country in which Islamic finance continued to make headway during 2011. Similar to other countries in Africa, such as Kenya & South Africa, Tanzania is interested in positioning itself as an Islamic finance hub in the African continent. The country is home to a sizable Muslim population and has historical links with the Arab world.

Significant developments in 2011 include the establishment of the country's first fully-fledged Islamic bank, Amana Bank. Although there have been conventional banks offering Shari'a compliant services through their windows, the licencing of the first fully fledged Islamic bank bodes well for the industry's development in future. In addition, the People's Bank of Zanzibar (PBZ) also launched a branch offering Shari'a compliant services. Absa through its subsidiary, the National Bank of Commerce (NBC), introduced corporate Islamic and business accounts to finance businesses. With the licensing of so many banks looking to offer Shari'a compliant services, there is no doubt that Islamic finance is picking up pace in the country.

THAILAND

IFCI ranking: 27

2012 might prove to be an eventful year for the Islamic finance industry in Thailand as developments in 2011 provided the stepping stones for a sukuk issuance in the country. The Securities and Exchange Commission (SEC) passed regulations early in 2011 which allow the use of any type of sukuk structure as long as it is Shari'a compliant. These are part of efforts to attract capital from the Middle East. However, there are still some tax hurdles which need to be overcome before sukuk can be issued and these are pending approval, Once passed, it make sukuk competitive to conventional bonds. There is an eagerness for sukuk issuance from Thailand as they need capital to finance infrastructure development such as roads, railways and a new airport. The Islamic Bank of Thailand has also been looking to expand and has increased the number of branches in the country.

TUNISIA

IFCI ranking: 20

The suicide of a Tunisian fruit seller marked the beginning of an uprising against the entrenched regime and the start of the "Arab Spring" whose winds of change quickly swept through the region and toppled a number of dictators.

What did this fall of regimes mean for Islamic finance? Prior to these events, Islamic finance had made inroads with the opening of Tunisia's first Islamic bank in 2010. However the bank was heavily linked to the ousted regime and as a result after the revolution, fell under administration as the new government tried to find the reported wealth of the toppled regime.

However, the fall of the regime may bode well for the future of Islamic finance in the country as previously banned political parties with an Islamic agenda have now become free to operate and have done well in elections in the country. In fact, Tunisia is now looking to push and position itself as an Islamic finance hub in the region and use Islamic finance in its rebuilding efforts. The Forum for Islamic Finance was held in the country and arranged by the General Council for Islamic Banks and Financial Institutions (CIBAFI), which is based in Bahrain. The event was attended by the Finance Minister who explained how Tunisia is now looking to attract Islamic finance funds from abroad as well as use Islamic finance to finance the country's economic development for the next decade. Therefore, the government is looking at developing a comprehensive legal and regulatory framework for the industry to operate in the country.

The Islamic party Ennahda which claimed victory in the general elections 2011 has actively been looking to promote Islamic finance. While maintaining a pledge to keep the economy open and liberal, the leadership of the party has made no secret of its aim to make Islamic finance play a greater role in the Tunisian economy. At the end of the year, the party held a meeting with the Tunisian Stock Exchange, in which its leader discussed how Islamic finance as well as conventional finance can play a key role in Tunisia's economic development. The party has also suggested the creation of an Islamic Sovereign Wealth Fund to be named the "Future Generations Fund" which will solely invest in a Shari'a compliant manner.

Islamic finance is also being looked at for job creation to fight the massive unemployment currently being faced in the country. It is hoped that with the creation of Islamic banks more jobs will be created not only in the sector but in the economy as a whole as different sectors improve from the increased economic growth and development. Other developments during the year include the formation of the Tunisian Association of Islamic Finance, whose aim is to further research in the Islamic finance space. The organisation organised a conference on Islamic finance during the year in which the idea of a National Zakat fund and management system was mooted to help fight and combat poverty in the country.

While the recent political developments in the country seem promising for Islamic finance there are still many bottlenecks that need to be overcome before the Tunisian economy will actually benefit. Tax and other regulatory laws need to be amended as was mentioned earlier. Furthermore, it is important that the right human resources are developed in order to drive Islamic finance forward, although there are institutions which have begun to offer course offerings in Islamic finance. Other issues include the fact that Islamic finance seems at present to focus more on financing rather than investment so an emphasis needs to be put on Islamic microfinance as well as SME financing so that the average Tunisian can also benefit from the industry. There is also a need to educate the Tunisian masses as to what is Islamic finance, as there is still much mystery surrounding the industry.

TURKEY

IFCI ranking: 14

Kuveyt Turk was very active during 2011. They were involved in a landmark sukuk issuance in December which was the first for Turkey under new regulations, and the bank's second issuance in its history. The sukuk was arranged by Abu Dhabi Islamic Bank, CommerzBank, HSBC, Liquidity Management House and Standard Chartered. The USD 350 million sukuk had a 5 year tenure and was sold globally among investors signalling a keen interest. Kuveyt Turk is expected to issue more such sukuk in 2012. Other GCC banks which have been particularly active in Turkey include Noor Islamic Bank which is arranging and lead managing sizable amounts of Islamic finance deals in the country. Kuveyt Turk began to offer an innovative gold account during the year. In December Gozde Girisim Sermayesi Yatirim Ortakligi, a private equity investment company, said in a statement issued to the Istanbul Stock Exchange that it obtained a one-year USD 30 million murabaha loan from ABC Islamic Bank.

There will be more sukuk issuances in 2012 as the government changed tax laws towards the end of 2011 making the same tax rates applicable to sukuk as those to conventional bonds. This was in addition to some tax exemptions on sukuk. The governments' supportive stance has led to reports that Bank Asya & Al Baraka Turk were planning sukuk issuances of up to USD500million, following on from Kuveyt Turks issuance in 2011. Bank Asya had reportedly hired CitiGroup & UBS to advise on its issuance, whereas Al Baraka Turk had chosen Deutche, QInvest LLC, Emirates NBD and Noor Islamic Bank to arrange its issuance.

The Islamic Development Bank has also been very active in Turkey and 2011 was no exception. The multilateral institution provided a line of financing worth USD75million to Turkiye Finans Participation Bank. The facility was agreed upon at the meeting of the Standing Committee for Economic and Commercial Cooperation of the Organisation of Islamic Cooperation (COMCEC). The financing will be used to finance SMEs through murabaha, ijara and istisna based financing, and continues on from the long involvement of the IDB in promoting the Turkish Economy. Sharjah Islamic Bank is also reportedly interested in setting up a unit in Turkey due to the improving ties between the country and the GCC. There are also reports that Islamic banks from Qatar, Saudi and the GCC are all looking to enter the Turkish Islamic finance market.

There were also many Islamic finance events and conferences which took place during the year in Turkey such as the 5th Annual Turkey Trade and Export Conference, the Islamic Finance News Road Show Turkey 2011 and The Islamic Investment and Finance Forum Istanbul. Furthermore Bank Negara Malaysia (BNM) arranged an Islamic finance seminar in Istanbul under the auspices of the MIFC. The key note speaker was Tun Dr. Mahathir Mohamad. In early 2012 the UKIFS member organisation, Islamic Banking and Finance Centre UK (IBFC-UK) signed a memorandum of understanding (MOU) with Fatih Sultan Mehmet Vakif University to offer short courses in Islamic finance as the industry continues to boom within the country. The signing took place at the British Consulate General in Istanbul.

UAE

IFCI ranking: 5

2011 was another eventful year for the Islamic finance market in the UAE. Earlier in the year, the First Gulf Bank issued a 5 year USD 650 million sukuk to expand its Islamic operations. The issuance was oversubscribed 6 times signalling the high investor interest and confidence. In Dubai, Nakheel issued new sukuk, trading at a discount due to alleged lack of investor confidence in the new issues.

2012 will also probably be an active year for the sukuk market in the UAE as Al Hilal bank already has plans to issue USD500m worth of debut sukuk in the early part of the year. There has also been talk that Abu Dhabi Islamic Bank (ADIB) plans to issue a dollar denominated Islamic bond or sukuk and Mashreq al Islami was reportedly in talks with corporates and the government with regards to the establishment of sukuk programmes denominated in local currency. The interest in the establishment of a local currency sukuk market stems from the fact that the local market is awash with liquidity. The central bank of the UAE was reportedly planning on setting up a repurchase facility for Islamic certificates of deposits so that they could act as a liquidity tool for banks within the region. The proposed repurchase facility is to be based on murabaha and will assist in the management of liquidity for Islamic financial institutions. HSBC recently released a press release stating that Dubai should be able to cover all its upcoming debt obligations during the year 2012.

ADIB launched a 100% capital protected note which allowed investors to profit from increasing prices of commodities such as gold, oil, lead, nickel among others as part of a three year investment plan. The investors' capital was 100% guaranteed. Emirates National Factory for Plastic Industries signed a new 5 year 250 million Dirham syndicated Islamic finance facility which was arranged by ADIB. The facility was to be used for the construction of a new production plant in Abu Dhabi amongst other things.

There were reports at the end of the year that a "green" sukuk may originate from the emirates. A "green" sukuk would be in essence a sukuk with two sets of parameters – Shari'a compliance as well as being environmentally friendly. Dubai is interested in issuing such sukuk to finance solar parks, bio-gas plants amongst other environmentally friendly projects.

Furthermore, there were reports last year that the Dubai based airline, Emirates, was looking towards Islamic finance to fund its continued expansion. The reason for this change of direction is that international banks are now increasingly reluctant to finance plane deals after the onset of the European debt crisis. Hence, according to senior officials at Emirates, the issuance of sukuk or other Shari'a compliant financing are viable financing options for the carrier.

Other developments include the appointment of HSBC and Standard Chartered by Majid Al Futtaim, one of the leading shopping mall developers in the UAE, to develop and structure its proposed sukuk programme. Initially the company had planned to issue conventional bonds but reneged due to unfavourable prices in the market. It has now turned its attention to raising money from the Shari'a compliant segment of the financial services sector. The Abu Dhabi National Islamic Finance (ADNIF), the Islamic finance and banking arm of NBAD, announced sponsorship of the 2011 ADNIF Grand Prix Blitz Chess Tournament which was organised by the Abu Dhabi Chess and Culture Club. This sponsorship was one of many by Islamic financial institutions in the UAE, signalling the growing impact and involvement they are having on the society at large.

Barclays bank announced in September 2011 that it had received approval to operate an Islamic window in the Dubai International Financial Centre (DIFC) where it hopes to serve its clients in the region far more effectively. Dar

Al Sharia, a subsidiary of Dubai Islamic Bank, has also been very active during 2011, scooping up various awards for top Shari'a advisory firm. Led by renowned scholar Sheikh Hussain, Dar Al Sharia has been rapidly expanding and increasing its international outreach. During the year it signed several Memorandums of Association with domestic Islamic finance organisations including the German based Islamic Institute of Islamic Banking & Finance. Dar Al Shari'a also partnered with Durham University, one of the top Universities in the United Kingdom and the Hawkamah Institute to offer training courses in Islamic finance.

In terms of regulation and governance, there are plans to set up a supreme Shari'a board for the Islamic finance industry in the region, similar to the one currently in place in other jurisdictions such as Malaysia and Indonesia. Educational institutions in the UAE have also begun to notice the growing interest in Shari'a finance in the country and have started to offer specialised qualifications. The Canadian University of Dubai launched a specialised MBA in Islamic finance during the year, one of the first such qualifications in the region. Emirates Islamic bank signed an agreement with the Higher Colleges of Technology (HCT) to establish a chair in Islamic banking and enable HCT students to learn the skills required for a successful career in the UAE banking sector. Ethica Institute, which offers online courses in Islamic finance, signed a cooperation agreement with the government of Dubai. The agreement will work around a series of trade delegations in which Ethica Institute will be invited by the government of Dubai through Dubai Exports, to showcase its qualifications to officials from foreign delegations. Furthermore, Ethica Institute was also recognised at the Global Islamic Finance Awards in Muscat as the best Islamic financial education provider at the inaugural Oman Islamic Economic Forum, which took place in December.

As is usually the case, 2011 was no exception in terms of hosted conferences and events. At a forum organised by Dubai Exports, and in partnership with Zawya, participants listened to speeches by leading Islamic finance exponents who proclaimed that UAE is now on track to becoming a leader in Islamic finance. In the forum, Zawya and Dubai Exports launched the first ever UAE Islamic financial services directory. The event was well attended by practitioners and the key note address was delivered by Sheikh Hussain Hassan of Dar Al Shari'a.

ADIB released the Abu Dhabi 2011 Report which was produced in conjunction with the Oxford Business Group. The report' revealed how the UAE Islamic financial services sector contributed to 30% of the Islamic financial baking industry in 2011. ADIB has plans to set up a branch in the United Kingdom, which will offer Shari'a compliant mortgages if there is a significant demand.

UGANDA

Uganda had an interesting year in terms of Islamic finance as the country embarked on a liberalisation of regulations in order to promote Islamic finance in the country. During 2011 representatives visited Indonesia to learn about the country's Islamic banking experience as it made plans to change its laws to accommodate Islamic banking. The central bank has admitted that there is much interest from banks in the GCC looking to start Islamic operations by setting up in the country or buying existing Ugandan banks. Besides interest from banks in the GCC, there has also been interest from banks from other African nations such as South Africa, and Kenya, to expand their Islamic financial services into the country. Local conventional banks have also expressed interest in offering Islamic financial services. With changes in law to be approved, in 2012 the first Islamic Bank licence should be issued and this should act as a catalyst for the industry to rapidly pick up pace in the country. The proposed changes in legislation will enable Islamic banks to own assets as well as set a level playing field in terms of tax neutrality, an essential requirement if the industry is to prosper in the country. At the end of 2011 there were reports that investors from the GCC had invested into the National Bank of Commerce with the aim to increase shareholdings and thereby introduce Islamic banking into the country once parliament has approved proposed legislative changes. This move will no doubt lead to more GCC linked investment in the country, something the government is looking to encourage as it shifts away from dependency on the West and foreign aid.

UNITED KINGDOM

IFCI ranking: 11

The UK had a relatively eventful year when it came to the Islamic finance industry even as talk of a much awaited UK sovereign sukuk fizzled out. The government decided against issuing any sovereign sukuk as it did not provide value for money in the current economic climate.

There were a some notable Islamic finance events which took place during the year such as the EuroMoney Islamic finance event, Islamic Finance News Road show Europe, World Islamic Finance Conference, the Annual Sukuk Summit and the Takaful Summit to name a few. These events brought international speakers and practitioners from all over the globe to discuss the latest industry trends in the world of Islamic finance.

On the education front, the UK continued to cement its position as an Islamic financial education centre in Europe and the West. Durham University continued to make strides with its Islamic finance programmes and during 2011 the University of East London launched the Islamic Banking and Finance Centre which will offer postgraduate degrees in Islamic Banking & finance. The Centre signals a growing demand among students wanting to learn about the principles and practices of Islamic finance.

Ireland has become active in promoting itself as a possible hub for Islamic finance in Europe in an attempt to rebuild its struggling economy. Ireland began amending tax and financial laws to make them Shari'a compliant and the country signed double-taxation agreements with Saudi Arabia, Bahrain, Kuwait and the UAE. Ireland was also the destination of choice for the proposed Goldman Sach's sukuk issuance which has been plagued by Shari'a controversy.

Other significant developments during the year include the first royal award for civic excellence in Islamic finance as Richard Thomas, the CEO of Gatehouse Bank, received an Order of the British Empire (OBE) in the Queen's honours list during the year. Showing the significant development the Islamic finance industry has made in the UK. Gatehouse Bank during 2011 completed the acquisition of a manufacturing and logistics facility in Scotland, which is leased to Rolls Royce plc. The bank also acquired the Intercontinental hotels group headquarters in Buckinghamshire.

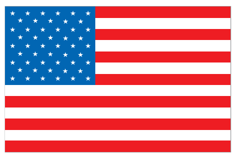
As can be seen from the transactions conducted by Gatehouse, the property sector was significant for Islamic finance developments in the UK in 2011 especially luxury property and student accommodation. London Central Portfolio (LCP) launched a Shari'a compliant residential London property fund for local as well as international investors. Gatehouse bank was also active in the student accommodations property market making its fourth acquisition by buying a newly built student property in Glasgow worth a 30 million pounds.

The Bank of London and the Middle East (BLME) launched a 200 million pound Light Industrial Building Fund. According to analysts at the bank some investors are keen to diversify their investments away from residential property and student accommodation. The fund specialises in investment in the warehouse and light industrial sectors. BLME was also given a licence to establish an office in the Kingdom of Bahrain.

The UK also witnessed the establishment of a Shari'a compliant investment firm, Solum Asset Management which is looking to launch an investment sukuk in early 2012. The proposed sukuk will be an asset-backed sukuk rather than the more controversial and popular asset-based sukuk. The will give investors the ownership of the asset. The proposed sukuk will be a multi-tranche student accommodation sukuk. Other news include the interest of the South African based Oasis Group, in opening up an office in London during 2012 as it looks to expand into the UK market.

Other significant developments which took place in 2011 include the appointment of HSBC by the National Employment Savings Trust (NEST) to run Islamic portfolios for workers whose employers do not run their own pension plans. The members opting for Islamic pension options will have their funds paid into HSBC Life Amanah Pension Fund, and will be run by HSBC Amanah Unit.

USA



IFCI ranking: 41

The year started well for Islamic finance in the USA as the industry received some news that may benefit it in future. A higher court decided to dismiss a claim by a former marine that AIG's Shari'a compliant businesses promoted a religious ideology and therefore by receiving money from the government's bailout fund, violated the constitution. The court decision, according to industry experts may go a long way in tackling the negative publicity that the Islamic finance industry receives in the USA, where speculation is rife that the industry is a front for terrorism financing and the spread of Shari'a law..

Other developments during the year include the setting up of the American Islamic Finance Project (AIF), a joint effort between the Islamic Society of North America (ISNA), Ethica Institute from Dubai and Guidance Financial. The aim of the project was to train 100 American Imams in Islamic finance and assist them in advising their community. More American Muslims are looking to conduct their business dealings in a Shari'a compliant manner. The event was free of charge for the Imams courtesy of Guidance Financial. Other developments included the annual Harvard Islamic Finance conference which brought together academics from all over the world to present and discuss papers on Islamic finance. The US-Qatar Business Council and the bilateral US-Arab Chamber of Commerce held the second Annual Islamic finance forum at the George Washington University Law School where participants discussed how Islamic finance can work in the USA and contribute to local development and how to combat the increasing instances of US legislators trying to block Islamic finance making any inroads into the country's financial system. The US based Shari'a screening company, Ideal Ratings released software for Iphones and Ipads, which informs investors whether a stock is Shari'a compliant or not, one of the few such software in the world. Furthermore, Ideal Ratings in April partnered with Yasaar, a Shari'a advisory company, allowing Yasaar access to Ideal Ratings Shari'a compliant universe.

In 2012, it will be interesting to see the course that Islamic finance takes within the country and whether or not it happens to make any meaningful inroads. The US economy is struggling and is in much need of a new injection of life, only time will tell as to whether or not the political rhetoric against Islamic finance dies down and the country becomes open to Islamic finance and possibly a hub in the North American region. However a lot needs to be done before this can actually take place as anti-Shari'a sentiment in the US is high and individuals seen to be supporting Islamic finance, are not viewed favourably by the Far Right.

YEMEN

IFCI ranking: 19

Yemen experienced a year of turmoil together with much of the Middle East as revolutionary waves swept through the region. Inspired by the Arab Spring protests in Tunisia & Egypt, Yemenis took to the streets to demand the resignation of the Yemeni president, Ali Abdullah Saleh. This led to daily battles between pro-government and anti-government forces, breaking out onto the streets and resulting in extensive bloodshed.

As is always the case, the political and economic situation has a direct knock-on effect on the Islamic finance industry and its development within the country. During the battles and demonstrations which took place in 2011, Islamic banks were caught up in the disturbances. Two of the biggest Islamic finance players in the country, Tadhamon International Islamic Bank and Islamic Bank of Yemen, experienced rocket attacks on their offices forcing them to close. General banking activity in the sector halted for 9 months due to the unrest. As the turmoil began to subside following the involvement of the GCC in the mediation process, local Islamic banks gradually restarted their operations although some had to open new offices due to the extensive damage on previous domiciles.

In the midst of the unrest, the government issued its first sukuk, a milestone event for the industry in the country. The purpose of the sukuk was to enable the government to benefit from the surplus liquidity of Islamic banks in the country to fund its budget deficit. The sukuk was issued by the sukuk unit of the central bank, who plan to issue sukuk every three months. As the political malaise appears to have improved, if only slightly, the country plans to issue more sukuk during 2012.