CHAPTER 1
THE ISLAMIC BANKING AND FINANCE INDUSTRY

INTRODUCTION

The past two decades have witnessed a substantial increase in the number of Islamic banks and financial institutions (IBFIs) in different parts of the world. Even if sizes of IBFIs are relatively small compared to international standards, it has to be noted that the prospects for growth and expansion in both Muslim and non-Muslim countries are strong. IBFIs include commercial, investment and offshore banks, takaful companies and trust funds. As far as principles, Islamic banking and finance (IBF) in practice, if not in theory, has the same purpose as conventional banking and finance, i.e., profit maximization, except that it operates in accordance with the rules of Shari'a, known as fiqh al muamalat (Islamic rules on transactions). More specific principles governing IBF are the prohibition of riba (interest), trading of goods and services (rather than money lending) and possible sharing of profit and loss, wherever applicable.

It was to meet the demand for Shari'a-compliant financial services and capture the emerging market therefrom that a number of Islamic banks were set up in different parts of the world. Furthermore, conventional banks also started opening Islamic windows and Islamic units for those clients who did not want to indulge in interest based transactions. This conviction created an increased demand for Islamic products in the field of financing and gave birth to a market where only Islamic products are acceptable. Thus, banks working under Islamic principles and conventional banks offering Islamic financial services provide services to Muslim clients, in addition to offering a variety of products for general clientele. Despite the fact that most of IBFIs operate in the countries comprising Organisation of Islamic Cooperation (OIC), many universal banks in developed countries have begun to valve the massive demand for Islamic financial products.

The basic principles governing IBFIs have protected them from the recent global financial crisis. Indeed, it is broadly known that Islamic banks, the main part of the Islamic financial system, perform better, during the global financial crisis, than conventional banks. One key difference is that the former don't allow investing in and financing the kind of instruments that have adversely affected their conventional competitors and triggered the global financial crisis. These instruments mainly include derivatives and toxic assets. When we compare Islamic banks to conventional ones, we are not comparing one financial institution to another as many analysts like to put it. We are rather comparing two different faunae: it is the Western spirit compared with the Eastern way of thinking. Others would rather emphatically like to describe it comparison between ethical and unethical. Greed, exploitation and abuses are the dominant factors in most financial transactions that take place under the conventional banking system. So long as commissions are received and interests are paid and the collaterals are in place, banks will lend. Reckless financial players, on the other hand, knowing the borrowed money is not theirs will borrow to the maximum. Depositors who care most about the high interest they receive, will keep on depositing regardless of the behaviour of the bankers; thus, a good recipe for a crisis. They all contribute to it and they all suffer from it. While under Islamic finance, we notice that greed, exploitation, abuses are at minimum. Reasons are attributed to the religious nature of the depositors, bankers, and investors. If the transactions are based on profit and loss sharing, direct involvement of all the parties in the transaction and their common stakes will prevent recklessness. Under such a scenario, no one has any direct or indirect interest in exploiting one another, and if they do, they all fail. In addition, IBFIs do not finance pure risky financial investments, or intangible assets, and they equate the interest of the society to that of the investor.

The academics and policy makers alike point to the advantages of Islamic financial products. The first and foremost benefit of the Islamic banking model is in terms of minimisation of the mismatch between short-term, on-sight demand deposits and long-term loan contracts, as Islamic investment accounts can potentially be more amenable to risk management. In addition, Islamic financial products are very attractive for customers segments that require financial services consistent with their religious beliefs.

Although it has undergone considerable developments during the past few decades, empirical evidence on the profitability, efficiency and stability of the Islamic banking sector is still in its infancy. An increasing amount of literature has compared the profitability of Islamic banks to that of conventional banks, using comparative ratio analysis. A myriad of studies have examined the comparative performance using financial ratios . Several other studies have compared efficiency of Islamic banks (both full fledged banks and Islamic windows) and conventional banks in the context of market structure (competitive or otherwise). A number of key indicators (traditional concentration measures, the PR-statistic, and the Learner index) have been used in this context.
Some studies have examined bank-specific factors of profitability (e.g., size, revenue growth, risk, and control of expenses), while cross-country investigations have considered external factors (e.g. inflation, concentration, and GDP growth), in addition to a few internal factors of profitability.

> “Despite having been in the market for last 40 years, IBF has yet to establish itself as a viable profitable alternative to conventional banking and finance.

Admittedly, the results from many of these previous studies comparing the performances of Islamic and conventional banks are unsatisfactory. There are several reasons for that.

First, a large proportion of the studies is based on small samples (particularly of Islamic banks).

Second, where sample sizes are large, the data have often been collected across a variety of countries with very different economy size.

Third, the significance of the differences in performance between the two types of banking is often not tested. Studies have generally employed few financial ratios – mainly return on assets (ROA) and return on equity (ROE) – to examine the performance of the banks.

Fourth, these studies do not provide clear answers whether and how the profitability, cost efficiency and stability differ between conventional and Islamic banks.

This ambiguity is exacerbated by lack of clarity whether the products of Islamic banks follow Shari’a in form or in content.

This edition of GIFR includes a recent study on profitability, efficiency and stability of Islamic banking in a brief chapter (see Chapter 13).

BOX 1: POTENTIAL AND ACTUAL SIZE OF THE GLOBAL ISLAMIC FINANCIAL SERVICES INDUSTRY

	2009	2010	2011	2012	2013	2014
Potential size of the global Islamic financial services industry (US$ trillion)	4.0	4.4	4.84	5.324	5.865	6.451
Actual size of the global Islamic financial services industry (US$ trillion)	1.036	1.139	1.357	1.631	1.813	1.984
Size gap (US$ trillion)	2.964	3.261	3.483	3.693	4.043	4.47
Growth in actual size of the global Islamic financial services industry (%)	26	9.9	19.1	20.2	12.3	9.3
Average growth rate between 2009-2014 (%)						16.1
Catch-up period - based on 10% growth in potential size and 20% growth in actual size (years)						13.5
Catch-up period - based on 10% growth in potential size and 16.1% growth in actual size (years)						22

"At present suppliers of financial services do not meet the full demand for Islamic financial services.

Potential Size of the global Islamic financial services industry can be defined as the assets under management (AUM) of the institutions offering Islamic financial services to all those who would like to have access to such services, and to all those who would like to use Islamic financial services but have excluded themselves voluntarily from the financial services market because such services are not available. The demand for Islamic financial services amongst the Muslims – individuals and the business owned by Muslims – is estimated to be over 90% and 70%, respectively[1]. This definition implies that:

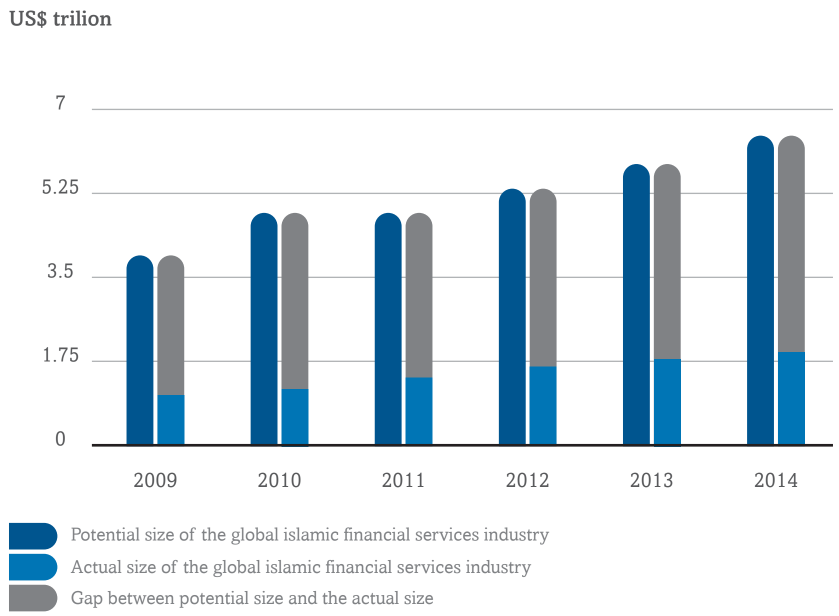
- The suppliers of financial services do not meet the full demand for Islamic financial services – purely unmet demand;
- On the demand side, not all those who demand Islamic financial services actually have access to such services and financial products – involuntary financial exclusion; and
- Also, there are certain people who otherwise have access to Islamic financial services but are not entirely satisfied with them either on religious grounds or because of business features of such products – voluntary financial exclusion.

Potential size of the Islamic financial services has grown from US$4 trillion in 2009 to US$6.451 in 2014, with an annual growth rate of 10%. Actual size of the global Islamic financial services industry reached US$1.984 at the end of 2014, from slightly over US$1 trillion in 2009, with an average annual growth rate of just over 16% (see Diagram B1.1).

Size gap, i.e., difference between the potential and actual size, has widened, implying that the industry has failed to cope with the growing demand for Islamic financial services (see Diagram B1.2). The question then arises as to why the gap has increased despite growing awareness of IBF in the countries where it has strong foothold and in a number of other

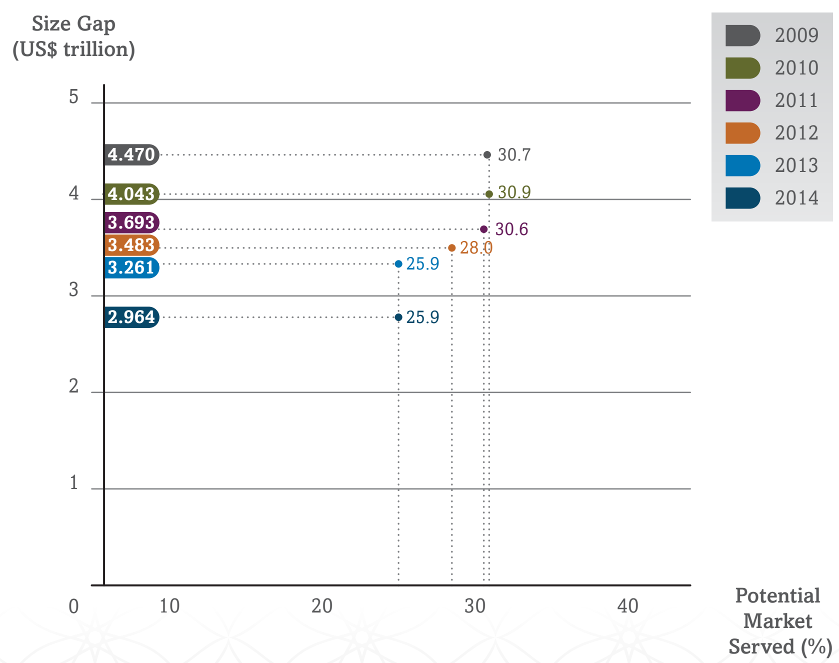
1. According to a KAP Study released by the State Bank of Pakistan in October 2014, the demand for Islamic banking in Pakistan amongst households was estimated to be 95 % while for the businesses it was found to be 73%. (State Bank of Pakistan (2014) Knowledge, Attitude and Practice of Islamic Banking in Pakistan).

Diagram B1.1: Gap between potential and actual sizes of the Islamic Financial Services Industry



The picture depicts an interesting story. While both potential and actual sizes of the industry are understandably increasing every year, the supply side is not keeping pace with the increase in the demand for Islamic financial services. While this can be seen as an increase in the opportunity that IBF brings to the global financial services industry, there is a need to analyse the reasons why suppliers of financial services are not able to meet this rising demand.

Diagram B1.2: Comparison between size gap and the percentage of potential marked served by IBFIs between 2009 and 2014



> The financial services industry has failed to cope up with the growing demand for Islamic financial services.

countries where it has emerged as a relatively new phenomenon. There are a number of reasons:

Institutional response has been slow: Institutions including banks and financial institutions, regulators, and other stakeholders like service providers have faced a challenging task to adjust their businesses and to develop a comprehensive framework for the development of IBF. This has in particular been true in recent times in a number of countries where interest in IBF has just started to emerge.

Most of the unmet demand relates to the financially excluded: As tapping the financially excluded has been a challenging even for conventional banks and financial institutions, IBFIs have found it even more difficult to reach out to this segment of the market.

Purely statistical reasons: The size gap in absolute number is in billions and any percentage changes in it are expected to be big in size; on the other hand the percentage market (both actual and potential) served is a relatively small number and any changes in them are expected to be smaller than the size gap.

A speculative explanation of the size gap may very well be non-synchronisation of expectations of the potential customers of Islamic financial services and the products offered by Islamic banks and financial institutions (IBFIs).

IBF IN 2014

A hallmark of IBF in 2014 has been the issuance of sovereign sukuk by United Kingdom, Luxembourg, South Africa and Hong Kong. For all practical purposes, the year has proven to be a period that may be considered as a start of maturity and consolidation for the industry. While no mega transactions came to fruition during the reported period, the industry continued to grow steadily. One must, however, notice that the earlier growth pattern is giving way to a slower and steadier pace (see Box 1). It is imperative to study this phenomenon to get implications for further growth in the global industry. This issue has been dealt with in some detail in Chapter 6.

According to a survey commissioned by Finance Accreditation Agency (FAA) in February 2014, talent shortage is a major hindrance in further development of the industry. While talent shortage may have contributed to the slowing growth, the problem is nevertheless more accentuated with respect to the top management of the institutions offering Islamic financial services. Even after forty years of existence, IBF has failed to develop leadership that has global recognition, respect and relevance. This is primarily because IBF has so far developed itself as a niche embedded in the global financial services industry. Its truly independent identity has yet to emerge, owing primarily to a lack of a distinct economic value proposition that is otherwise needed but badly missing.

There are four possible levels of leadership that must be developed to enhance the global role of IBF:

1. Country leadership in the form of an unambiguous commitment and support;
2. Institutional leadership by large institutions offering Islamic financial services;
3. Product level leadership by way of developing “flagship” Islamic financial products with a global appeal and outreach; and
4. Individual leadership spearheaded by the “rock-star” IBF practitioners.

This report analyses the issues pertaining to leadership in IBF in detail (see Section 3).

This chapter provides an overview of the global Islamic financial services industry, with a focus on the size and growth.

SIZE OF THE GLOBAL ISLAMIC FINANCIAL SERVICES INDUSTRY

Edbiz Consulting estimates that the size of the global Islamic financial services industry reached the mark of US$1.984 trillion at the end of 2014.

Saudi Arabia and Malaysia remain central to the growth story of IBF on a global level. With Islamic financial assets of US$339 and US$249 billion respectively, they are the two leading players in the global Islamic financial services industry. There is further coverage of these countries including another 32 in chapter 3. Suffice to say, however, that any financial institutions contemplating to enter IBF must consider either to base their business therein or to create credible linkages with the IBFIs in these jurisdictions.

Figure 1 summarises the growth of IBF between 2007 and 2014. It is interesting, if not alarming, to note that the global Islamic financial services industry has witnessed slow down for the second consecutive year – from the high annual growth rate of 20.2% in 2012 to 12.3% in 2013 and a further lower growth rate of 9.3% in 2014. This slow down in growth is further referred in Chapter 6 on need for a collective global strategy for growth and competition in the context of IBF.

Banks continue to dominate in terms of assets under management (AUM) of IBFIs, with 75% of the global Islamic financial assets held by Islamic banks and conventional banks in their Islamic window operations. The second largest sector in terms of AUM is sukuk, which comprises 15% of the global Islamic financial services industry. Islamic investment funds have yet to see any significant growth and so is the case for takaful and the emerging business of Islamic microfinance.

Figure 1: Size and Growth of Islamic Banking and Finance between 2007 and 2014

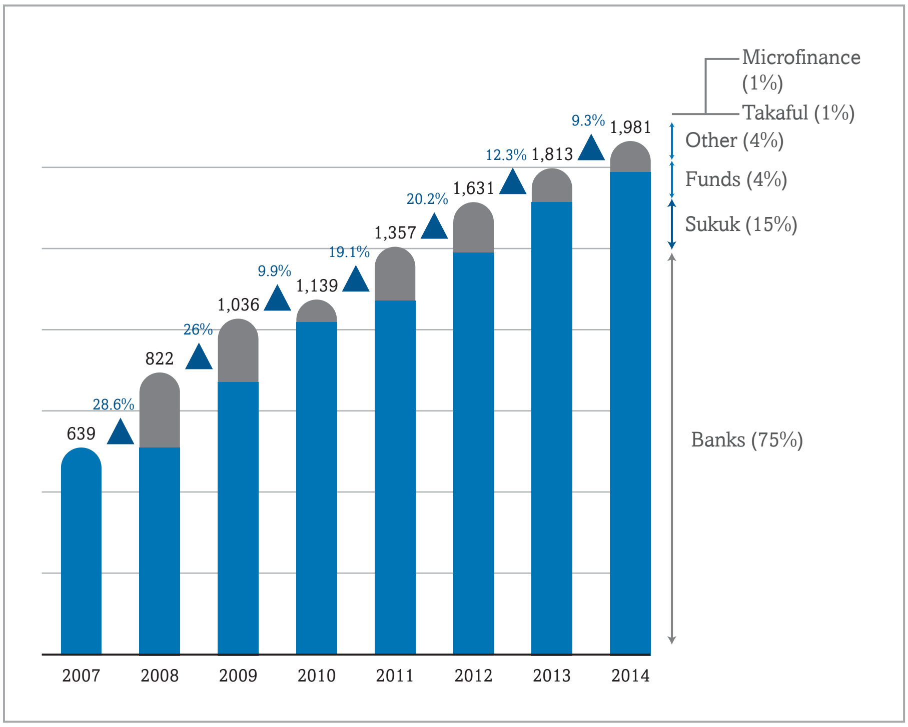


Table 1: Size of the Global Islamic Financial Services Industry

COUNTRIES	2007	2008	2009	2010	2011	2012	2013	2014	FO
Iran	235	293	369	406	413	416	480	530	5
Saudi Arabia	92	128	161	177	205	215	270	339	2
Malaysia	67	87	109	120	131	155	200	249	1
UAE	49	84	106	116	118	120	123	144	1
Kuwait	63	68	85	94	95	103	105	107	
Bahrain	17	21	18	18	20	21	25	27	
Qatar	21	28	35	38	47	68	70	111	
Turkey	16	18	22	25	35	41	43	69	
UK	18	19	24	27	33	37	40	43	
Indonesia	3	3	4	5	9	22	25	49	
Bangladesh	6	8	9	10	13	17	19	21	
Egypt	6	6	8	9	12	19	19	20	
Saudan	5	7	9	10	11	14	15	16	
Pakistan	6	5	6	7	12	13	13	16	
Jordan	3	5	6	6	11	13	13	14	
Iraq	----	4	5	5	9	12	12	13	
Brunei Darussalam	3	3	4	4	8	10	10	12	
Syria	1	4	5	5	5	4	4	4	
Other Countries	27	32	49	56	170	333	327	200	
Total	638	823	1,034	1,138	1,357	1,633	1,813	1,984	1,

ORGANISATION OF GIFR 2015

Like its predecessors, GIFR 2015 is divided into three main sections. Section 1 gives an overview of the global Islamic financial services industry. Section 2 is on industry standards and analyses and provides insights into different aspects of IBF. Section 3 is on the leadership in IBF – a major focus of this year's edition of GIFR.

RMAL	INFORMAL	AVERAGE GROWTH (2008)	2019	2020
523	7	12.70	842	939
293	46	20.95	878	1,062
160	89	20.89	643	777
130	14	18.58	338	400
91	16	8.12	158	171
17	10	7.49	39	42
90	21	28.11	383	491
60	9	24.41	206	256
20	23	13.47	81	92
39	10	56.06	454	708
11	10	20.00	52	61
11	9	20.39	51	61
10	6	18.68	38	45
11	5	17.55	36	42
10	4	27.98	48	62
3	10	24.44	39	48
7	5	25.48	37	47
2	2	43.57	24	35
50	150	49.25	1,894	2,861
,538	446	17.82	4,504	5,307

Note on IRAN

As Table 1 shows, bulk of Islamic financial assets is located in Iran, which could mislead the size of the industry. Despite claiming to have the largest concentration of Islamic financial assets, Iran has not played any significant role in the global Islamic financial services industry, which is partially explained by the economic sanctions the country has for long been facing. Another reason for lack of Iran's leadership role has something to do with the approach it has taken in defining IBF and operationalizing it domestically. In addition, there are obvious political reasons, as Iran has failed to engage itself with other significant players in the Islamic financial services industry, most notably Saudi Arabia and Malaysia. With the on-going political conflict in the Middle East, Iran's isolation in IBF is expected to continue.

It is interesting to note that all the three countries – Pakistan, Iran and Sudan – that were once focus of Islamic banking (especially in the 1980s and early 1990s) have lost their leadership stature in favour of Malaysia and the countries in the GCC region. All the three countries have suffered in somewhat similar ways of political instability in their respective jurisdictions, but Iran and Sudan have suffered more.

Given that Iran's Islamic financial assets are the largest in terms of volume – US$530 billion at the end of 2014 – and are in fact nearly one-fourth of the global Islamic financial assets, it is absolutely imperative to engage Iran in a more active way in IBF.

Once the economic sanctions are lifted, Islamic banking in Iran will be the direct beneficiary, as Iran will have to open up its economy to foreign investors and the banks will be expected to play their role in advising on financial transactions and structuring them. One area of growth will be sukuk. One must hope that the government of Iran will be interested in adopting a sukuk programme to meet its public sector borrowing requirements.

CHAPTER 2

ISLAMIC FINANCE COUNTRY INDEX 2015

Since 2011, we have been constructing, maintaining and reporting Islamic Finance Country Index (IFCI) that is a composite index used for ranking different countries with respect to the state of IBF and their leadership role in the industry. The IFCI was initiated with the aim to capture the growth of the industry, and to provide an immediate assessment of the state of IBF industry in each country. With the five-year data since its inception, IFCI can now be used to compare the countries not only in a given year but also over time. As more countries open up to IBF, the index will provide a benchmark for nations to track their performance against others. Over time, the individual countries on the index should also be able to track and assess their own performance.

The IFCI shows the growth of IBF in an objective manner, making it a useful tool for industry analysis and comparative assessments.

Although some other indices have lately been introduced in the market but IFCI has established itself as the oldest, most authentic and robust Islamic finance country index in the world. The indices that have more coverage than IFCI in fact do not have better information content. This is because after the UK the size and significance of other countries included is rather small in terms of their involvement in IBF (as is clearly evident in Table 1 and Figure 1).

ESTABLISHED LEADERS

In the last five years, there has been no change in the ranking of the top three countries included in IFCI, namely Iran, Malaysia and Saudi Arabia. However, looking at their individual scores, there is some anecdotal evidence that Malaysia is closing the gap with Iran. Figure 2 predicts that by 2020, Malaysia will take over Iran as the number 1 ranked country on IFCI. While Iran is expected to rank number 2, Saudi Arabia will also be closing its gap on it to challenge for the number 2 slot.

There are a number of factors that have helped Malaysia to emerge as the global leader in IBF, but the most significant of these is the commitment of the government to use IBF as a policy tool to use it as an integral part of its economic agenda.

Table 1: IFCI Rankings 2014 & 2015

COUNTRIES	SCORE 2015	RANK 2015	RANK 2014	CHANGES
IRAN	85.6	1	1	0
MALAYSIA	80.3	2	2	0
SAUDI ARABIA	73.6	3	3	0
UNITED ARAB EMIRATES	38.0	4	6	+2
KUWAIT	36.7	5	5	0
BAHRAIN	26.3	6	4	-2
INDONESIA	24.7	7	7	0
QATAR	20.9	8	10	+2
SUDAN	15.7	9	8	-1
PAKISTAN	14.7	10	9	-1
BANGLADESH	12.2	11	11	0
TURKEY	9.7	12	12	0
EGYPT	8.1	13	14	+1
UNITED KINGDOM	6.7	14	13	-1
JORDAN	4.4	15	16	+1
UNITED STATES OF AMERICA	3.6	16	15	-1
BRUNEI DARUSSALAM	3.2	17	17	0
SRI LANKA	3.0	18	25	+7
OMAN	2.8	19	24	+5
YEMEN	2.7	20	18	-2
LEBANON	2.6	21	19	-2
KENYA	2.5	22	23	+1
SINGAPORE	2.3	23	21	-2
SWITZERLAND	2.3	24	-	-
SOUTH AFRICA	2.3	25	26	+1
SYRIA	2.2	26	22	-4

COUNTRIES	SCORE 2015	RANK 2015	RANK 2014	CHANGES
CANADA	2.1	27	42	+15
TUNISIA	1.9	28	28	0
THAILAND	1.9	29	27	-2
INDIA	1.9	30	34	+4
ALGERIA	1.7	31	29	-2
AFGHANISTAN	1.4	32	31	-1
AUSTRALIA	1.4	33	38	+5
NIGERIA	1.4	34	30	-4
AZERBAIJAN	1.3	35	33	-2
KAZAKHSTAN	1.2	36	32	-4
PALESTINE	1.2	37	20	-17
FRANCE	0.9	38	35	-3
THE PHILIPPINES	0.7	39	37	-2
GERMANY	0.6	40	36	-4
GAMBIA	0.6	41	41	0
CHINA	0.6	42	39	-3
SENEGAL	0.5	43	40	-3
GHANA	0.4	44	-	-
MAURITIUS	0.3	45	-	-

Iran, on the other hand, has faced economic sanctions from the Western powers and other countries, and hence has failed to emerge as an influential player in the global Islamic financial services, despite the fact that it boasts to have the largest amount of Islamic financial assets in the world.

Saudi Arabia commitment to IBF has increased significantly over the last four years, as the government has apparently reduced its indifference to IBF. Unlike in the past, the authorities in Saudi Arabia now not only acknowledge the existence of IBF in the country but have also started highlighting its growth.

EMERGING LEADERS

Figure 1 lists five countries, namely UAE, Kuwait, Bahrain, Indonesia and Qatar, as the emerging leaders in the global Islamic financial services industry. Apart from Indonesia, all these countries are in the GCC region, making the region the global hotspot for the Islamic financial services industry. It must be noted that two of the established leaders in IBF, i.e., Iran and Saudi Arabia, also fall in the Middle East. Therefore, it is safe to assert that any changes in the GCC region will have positive or adverse effect on the development of IBF on a

Figure 1: IFCI Divided into Different Country Groups

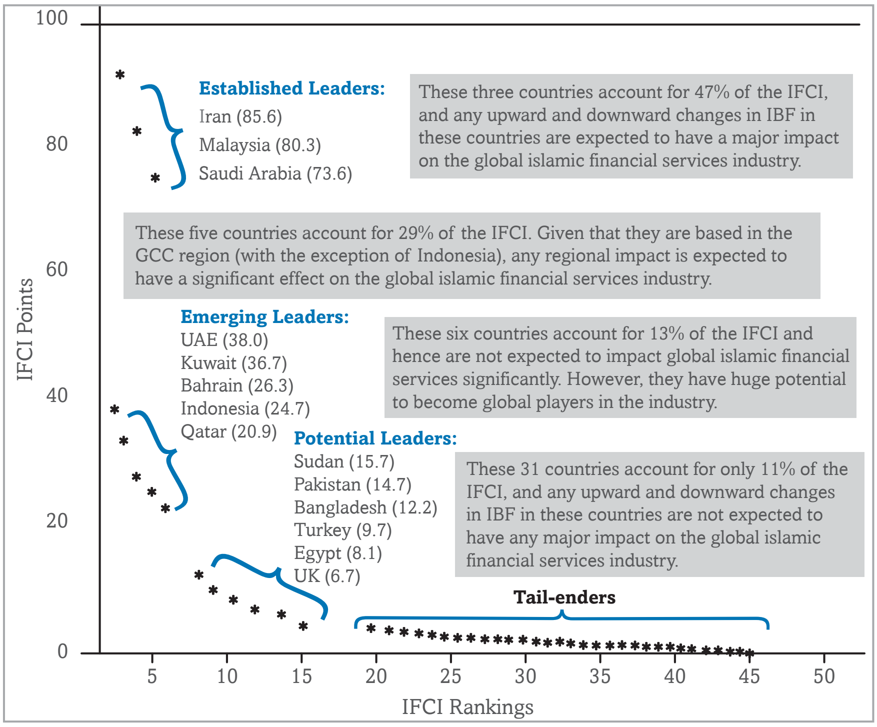
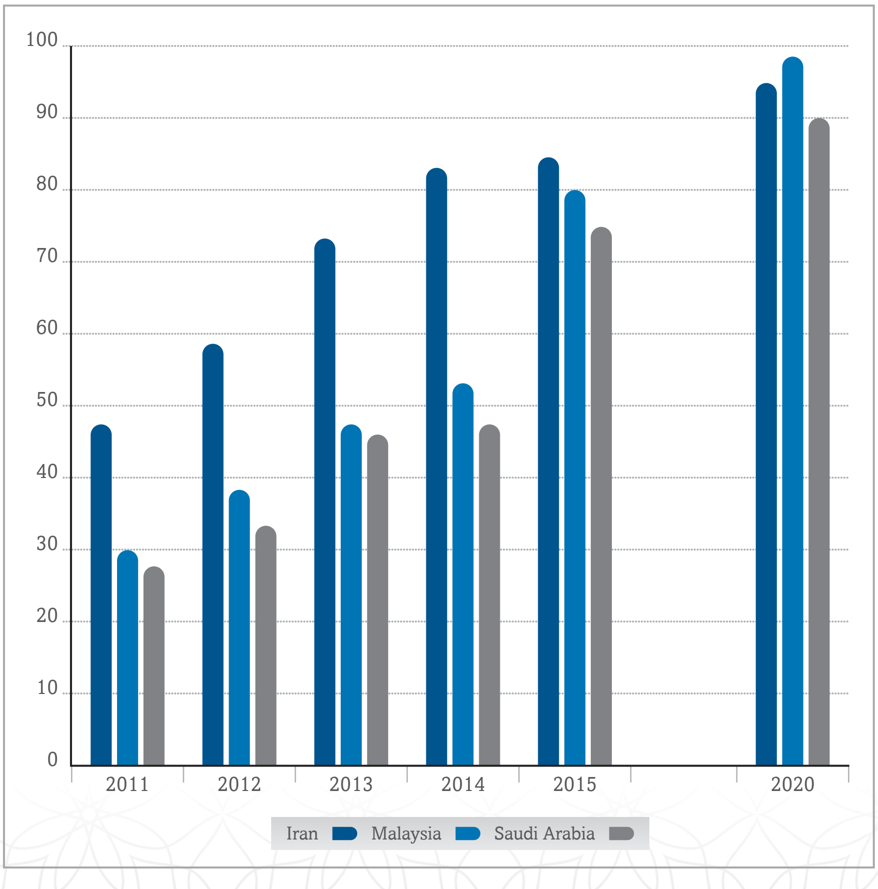


Figure 2: Changes in the Top Leadership in the Global Islamic Financial Services Industry



global level. Hence, any global strategy for competition and growth[1] must consider the risks associated with the concentration of IBF in the GCC.

Bahrain is an odd inclusion in the list, as the country has for long played an instrumental role in the development of IBF on a global level. While Bahrain has been active in industry-building initiatives (e.g., AAOIFI, IIFM and IIRA etc.), the size of its domestic Islamic financial market is rather limited in a global context, which makes it a less important player as compared with other players in the established leaders category. This should, however, not be deemed as belittling its leadership role. Bahrain remains a very important player in the global Islamic financial services industry, as is evidenced by the entry on Bahrain in Chapter 4.

POTENTIAL LEADERS

Figure 1 also lists six countries, namely Sudan, Pakistan, Bangladesh, Turkey, Egypt and the UK, which can be potential leaders in the global Islamic financial services industry. Interestingly, all these countries (except the UK) have high number of Muslims, a factor that is important for future growth of IBF.

The UK is an odd entry in this list, as it is a country with no more than 3 million Muslims – only 5% of the total population, which is predominantly Christian. The UK has been central to IBF for many decades, with six

1. See Chapter 6 for a detailed discussion on the collective strategy for growth and competition for IBF.

BOX 2: A NOTE ON DATA AND METHODOLOGY

IFCI is based on a multivariate analysis. For construction of the index, data was collected on a number of variables, including macroeconomic indicators of the countries included. The data was then tested to see if it contained any meaningful information to draw conclusions from. After consideration of different multivariate methods, it was decided to use the factor analysis to identify the variables that may influence IBF in the countries included in the sample.

In order for factor analysis to be applicable, it is important that the data fits a specification test for such an analysis. The Kaiser-Meyer-Oklin (KMO) measure of sampling adequacy is used to compare the magnitudes of the observed correlation coefficients in relation to the magnitudes and partial correlation coefficients. Large values (between 0.5 and 1) indicate that factor analysis may be useful with the data. If the value is less than that, then the results of the factor analysis may not be very useful. For the data we used, we found the measure to be 0.85, which made it reasonable for us to use factor analysis.

Batlett's test of sphericity is another specification test that tests the hypothesis that the correlation matrix is an identity matrix indicating that the given variables are unrelated and therefore unsuitable for structure design. Smaller values (less than 0.05) of the significance level indicate that the factor analysis may meaningfully be used with the data. For the present purposes, this value was found to be significant (0.00 level), which means that data was fit for factor analysis.

Factor analysis was therefore run to compute initial communalities to measure the proportion of variance accounted for in each variable by the rest of the variables. In this manner, we were able to assign weights to all eight factors in an objective manner.

By following the above method, we have been able to remove the subjectivity in the index. The weights along with the identified factors make up the IFCI. The weights point to the relative importance of each constituent factor of the index in determining the rank of an individual country.

There are over 70 countries involved in IBF in one way or another. However, due to limitations imposed by authenticity, availability and heterogeneity of the data, IFCI was launched in 2011 with only 36 countries. Over the next three years, the availability of data allowed us to include another six countries to make a sample size of 42. This year, another three countries were included, in an attempt to expand the coverage of the index.

Table B.2.1: IFCI Variables and Their Weights

	Variables/Factors	Description	Weights
1.	Number of Islamic Banks	Full-fledged Islamic banks both of local and foreign origin	21.8%
2.	Number of IBFIs	All banking and non-banking institutions involved in IBF, including Islamic windows of conventional banks	20.3%
3.	Shari'a Supervisory Regime	Presence of a state (or non-state) representative central body to look after the Shari'a-compliance process across the IBFIs in a country	19.7%
4.	Islamic Financial Assets	Islamic financial assets under management of Islamic and conventional institutions	13.9%
5.	Muslim Population	Absolute number of Muslims	7.2%
6.	Sukuk	Total sukuk outstanding in the country	6.6%
7.	Education & Culture	Presence of an educational and cultural environment conducive to operations of IBFIs, including formal Islamic finance professional qualifications, degree courses, diplomas and other dedicated training programmes	5.7%
8.	Islamic Regulation & Law	Presence of regulatory and legal environment enabling IBFIs to operate in the country on a level-playing field (e.g., and Islamic banking act, Islamic capital markets act, takaful act etc.)	4.9%

Note: The weights shown are rounded figures, adding up to 100.1 but in actual calculations they aggregate to 100.

The data used comes from different primary and secondary sources, but in its collective final form becomes the proprietary data set of Edbiz Consulting, which collects, collates and maintains it.

We collect data on eight factors/variables for the countries included in IFCI. The variables and their respective weights are described in Table B.2.1.

The general model used for the construction of IFCI is as follows:

$$\text{IFCI}\ (C_1) = \sum_{i=1}^{i=8} W_i.X_i$$

$$= W_1.X_1 + W_2.X_2 + W_3.X_3 + W_4.X_4 + W_5.X_5 + W_6.X_6 + W_7.X_7 + W_8.X_8$$

Where

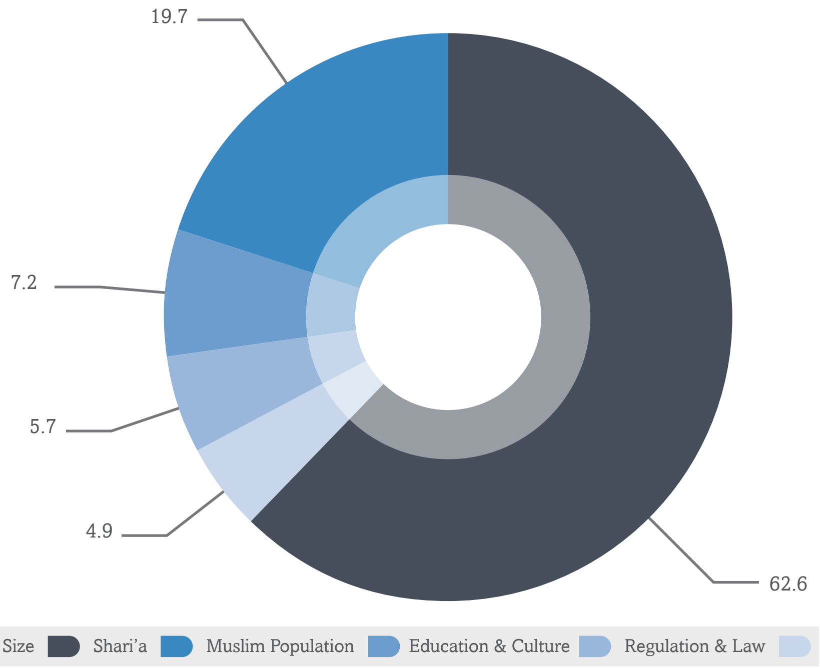
Cj = Country j including in the index
Wi = Weight attached to a given variable / factor i
Xi = A given variable/factor i included in the index

The countries are ranked according to the above formula every year, using the updated annual data.

As Table B.2.1 and Diagram B.2.1 suggest, size of Islamic financial services industry as captured by four factors (namely, number of Islamic banks, number of IBFIs, volume of Islamic financial assets, and the sukuk outstanding) is the most important factor in the index, explaining 62.6% variation. Therefore, it is superior to the univariate analyses that focus on just size of the industry in a given country. Furthermore, size in itself is not enough to capture the relative importance of IBF in a country. It is equally important to consider depth and breadth of the industry. Hence, both the size of Islamic financial assets and the number of IBFIs are included. Furthermore, the inclusion of sukuk, which accounts for 15% of the global Islamic financial services industry, as a separate factor is also useful.

Although the other factors collectively explain 37.4% variation in the index, their inclusion is important as they give a comprehensive view on the state of affairs of IBF in a country.

Diagram B.2.1: IFCI Variables and Their Relative Importance



It must be clarified that IFCI is a positive measure of the state of affairs of IBF and its potential in a country, without taking a normative view on what should be the important factors determining size and growth of the industry, and their relative importance (i.e., weights).

full-fledged Islamic banks and a number of other institutions involved in the industry in one way or another. The UK government issued a £200 million sovereign sukuk in 2014, which served as a milestone in the global Islamic financial services industry. Being the only country in Europe, which has developed a vibrant IBF sector, the UK certainly possesses a huge potential to become a global hub for the Islamic financial services industry.

THE ISSUE OF SIZE VERSUS POTENTIAL

IFCI is a measure of the size as well as potential of IBF in a country. The inclusion of Muslim population in the construction of the index captures the potential of IBF in a country. One of the reasons that Iran holds top position on IFCI is the size of the Muslim population in the country (in addition to having the largest volume of Islamic financial assets). Similarly, countries like Pakistan and Indonesia (included in the list of emerging and potential leaders in IBF, respectively) have huge potential in terms of IBF due to the sizes of Muslim population in these countries, among other factors.

GIFR takes the view that the future of IBF is brightest in the countries with large Muslim populations and that the Western hemisphere offers the least opportunities for growth in IBF. Therefore, those institutions that are looking for businesses in the Western countries are at best taking an elitist view on IBF. Grassroot level expansion and growth is possible only in the Muslim-majority countries in the OIC block.

TWENTY-TWENTY-SIX-FIFTY

GIFR 2014 reported that by 2020 there would be at least six countries in the world, in addition to Iran and Sudan (the two countries with full-fledged Islamic financial system), where IBF would attain a market share of no less than 50% of the total financial sector. These countries include:

1. Brunei Darussalam;
2. Saudi Arabia;
3. Kuwait;
4. Qatar;
5. Malaysia;
6. UAE

It is almost certain that Brunei Darussalam will be the first country to attain the target before any other country in the list. With the introduction of Shari'a law in the country, it is natural progression that the government decides in favour of introducing a full-fledged Islamic financial system instead of pursuing the current model of dual banking system that allows Islamic as well as conventional banks and financial institutions in the country. Once that happens, Brunei will become the third such country after Iran and Sudan.

Brunei Darussalam's Minister for Development and Deputy Chairman of the Brunei Monetary Authority, Suyoi Osman, acknowledged that the market share for Islamic finance in Brunei would grow to at least 50 percent of the local financial sector by 2020.

Saudi Arabia is well on the target to achieve the 50% market share of IBF, with its retail banking sector already over 55% Shari'a-compliant. With the fast growth in Islamic investment banking and asset management, and with the likely full conversion of National Commercial Bank (the largest bank in the country), Saudi Arabia presents optimism in the context of 2020:6:50.

Kuwait is another country with huge potential in IBF and there are all the signs that by 2020, its financial sector will be predominantly Islamic.

With the pace of development in Qatar in the wake of 2022 FIFA World Cup, there will be sufficient number of projects in the country to allow IBF to play a role in the economic development of the country, and one should hope that well before the 2022, IBF will become at least as significant as conventional finance in the country.

Malaysia is perhaps the weakest link in the list of 2020:6:50. While it is undoubtedly a global player in the Islamic financial services industry, the government and financial regulators will have to come up with some radical policies to achieve an equal market share of IBF.

UAE is another uncertain case in this respect, and the authorities must keep a close eye on the developments in banking and finance to achieve the target of 50% market share of IBF.

> GIFR takes the view that the future of IBF is brightest in the countries with large Muslim populations and that the Western hemisphere offers the least opportunities for growth in IBF. Therefore, those institutions that are chasing business in the non-Muslim countries are at best taking an elitist view on IBF. Grassroots level expansion and growth is possible only in the Muslim-majority countries in the OIC block.

CHAPTER 3

COUNTRY SKETCHES

1. AFGHANISTAN

IFCI Ranking:									
2015	32	2014	31	2013	29	2012	25	2011	21

Macroeconomic Data 2014:		
GDP (US$ in billion): **45.3**	Unemployment Rate: **35%**	Inflation Rate: **6.8%**
Revenue: (US$ in billion): **2.333**	Expenditure (US$ in billion): **4.122**	External Debt (US$ in billion): **1.28**
Major Source of Revenue: **Agriculture, Small Scale industry, Petroleum Products**		Population Below Poverty: **36%**

With 99% Muslim population and beside strong government and central bank's support, Islamic banking and finance is still to witness a serious growth in the country. Last year, the central bank - Da Afghanistan Bank signed an agreement with Afghanistan Investment Climate Facility Organisation (HARAKAT) whereby the latter will assist in implementing Shari'a-compliant banking system in the country. HARAKAT is an independent, non-profit and Afghan managed organisation that aims to improve the business environment of the country. It provides grants to private sector, government and civil society to implement activities and reduce barriers that are causing hindrances to the growth of business and other commercial activities. The president of the central bank also stated that US$175,000 of grants would be provided to enable the bank to prepare code of conduct for the development of Islamic banking system based on supply and demand in the market. The central bank would prepare the code of conduct within one year for the guidance of banks aiming to provide Shari'a-compliant financing. It will also help in capacity building for financial institutions in the country.

Afghanistan Chamber of Commerce and Industries (ACCI) signed an Memorandum of Understanding (MoU) with Afghanistan Islamic and Consultative Financial Company and some other organisations from outside the country for development of IBF and facilitating of capital raising for Islamic financial institutions, with an aim to further develop Islamic financial system in the country. The parties involved will hold training workshops, conferences, seminars and discussions that will create awareness in the public and private sectors and assist in the promotion of Islamic finance industry in the country. Rural Finance and Corporative Development (RUFCOD) programme is developing Islamic investment and finance cooperatives (IIFCs) to increase financial access primarily in southern and eastern parts of Afghanistan. The beneficiaries of IIFCs are small and medium scale business owners, farmers, women and low and middle-income households.

GIFR Verdict:

> "The country, being a declared Islamic state, holds bright future in terms of business opportunities in IBF. Now that the country is gradually moving towards some kind of normality after decades of political conflict, militancy and security threats, it seems as if the country is in a position to embark upon a systematic effort to develop a comprehensive Islamic financial system.

2. AZERBAIJAN

IFCI Ranking:									
2015	35	2014	33	2013	34	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **102.7**	Unemployment Rate: **6%**	Inflation Rate: **2.4%**
Revenue: (US$ in billion): **27.61**	Expenditure (US$ in billion): **27.24**	External Debt (US$ in billion): **9.55**
Major Source of Revenue: **Large and growing oil and gas exports, construction, banking, and real estate**		Population Below Poverty: **6%**

The International Bank of Azerbaijan (IBA), which is 50 percent owned by the Ministry of Finance and accounts for around 40 percent of all banking assets in the country, is determined to continue to play a vital role in IBF. IBA's Shari'a-compliant assets grew more than three times to reach US$530 million at the end of 2014, against US$150 million at the end of 2013. In addition, IBA is now preparing to launch a separate Shari'a-compliant banking unit as the country is preparing to issue an Islamic banking law. The newly created unit will allow IBA to increase and expand its Islamic banking business.

IBA also raised US$252 million through an Islamic syndicated loan in 2014 from UAE-based Al Hilal Bank, Dubai Islamic Bank and Noor Bank.

Apart from other Islamic finance products for individual and corporate customers, a few institutions are working towards structuring and issuing sukuk. The major development in this regard is the proposed issuance of a US$200-US$300 million debut sukuk in 2015 to target the UAE and Gulf investors.

Other institutions taking part in the development and promotion of IBF include a Russian-owned Nikoil Bank that has started offering its clients the option of investing in interest-free products. Another local bank, Amrahbank, 45.84% owned by International Investment Bank from Bahrain, announced plans to offer Shari'a-compliant financial products in Azerbaijan and bordering countries.

In order to develop and formulate Islamic banking laws in the country, the stakeholders last year applied to the Cabinet of Ministers to set up a working group that would prepare the Islamic banking laws for the country. It is believed that these amendments will fasten up the process of creating an Islamic development centre in Azerbaijan.

GIFR Verdict:

> “ Azerbaijan has to do a lot more to be considered as a serious player in the Islamic financial services industry. In the last few years, there has been a lot of interest in IBF in the country but it has yet to come up with a concerted effort to develop and promote IBF. With an IFCI rank of 35 for this year, Azerbaijan will have to take some concrete steps to move up the list, and become a visible player in the global Islamic financial services industry.

3. AUSTRALIA

IFCI Ranking:									
2015	33	2014	38	2013	39	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **998.3**	Unemployment Rate: **5.7%**	Inflation Rate: **2.4%**
Revenue: (US$ in billion): **494.3**	Expenditure (US$ in billion): **514.4**	External Debt (US$ in billion): **1.5**
Major Source of Revenue: **Export of Natural Resources, Energy, Food, Banking Sector, Service Sector**		Population Below Poverty: **N/A**

A number of Muslim community organisations have for some time been trying to promote IBF in the country. However, lack of regulations and government support are hindrances to the development of IBF in Australia.

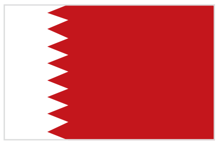
In February 2014, First Guardian launched an Islamic pension fund in collaboration with local organizations to tap the country's $1.5 trillion private pension market. The fund was developed in collaboration with the Muslim Community Cooperative of Australia (MCCA) and the Islamic Council of Victoria. First Guardian's aim to raise $27-$35 million in the first year and another $100 million in three to four years is rather ambitious.

The fund will use globally recognized Shari'a screening methodology of MSCI to form the basis of its investment universe. It is the second product of such nature after the launch of Crescent Wealth. The fund also follows United Nations Principles for Responsible Investing (UNPRI), in an attempt to attract investments from socially responsible investors.

There are quite a few other small institutions and initiatives to promote IBF but to date their effectiveness is rather limited. La Trobe University offers an academic programme in IBF, which has attracted students from some Muslim majority countries. Other training institutions like Australian Centre for Islamic Finance are at best virtual organisations, which are trying to disseminate information on IBF.

GIFR Verdict:

> Like most other Muslim minority countries, Australia will remain peripheral to IBF unless the government shows its serious commitment to providing a level-playing field to the institutions offering Islamic financial services. It must learn from the UK's experience to attract Islamic capital from the Middle East, notably GCC. It can also develop bilateral relations with the countries in the ASEAN region, notably Malaysia and Indonesia, to benefit from their experiences and expertise in IBF.



4. BAHRAIN

IFCI Ranking:									
2015	6	2014	4	2013	6	2012	6	2011	8

Macroeconomic Data 2014:		
GDP (US$ in billion): **34.96**	Unemployment Rate: **15 %**	Inflation Rate: **3.1%**
Revenue: (US$ in billion): **8.143**	Expenditure (US$ in billion): **9.232**	External Debt (US$ in billion): **28.8**
Major Source of Revenue: **Petroleum Production and Refining, Production of Aluminum, Finance and Construction**		Population Below Poverty: **N/A**

Bahrain is regarded as a hub for IBF and will continue to play an important role in the development of the industry globally. The IBF industry in the country reached around US$64 billion by the end of 2014.

The Central Bank of Bahrain (CBB) is focused on finalising regulations governing Shari'a advisory companies, which will allow small Islamic investment institutions and collective investment schemes to outsource their Shari'a review to these companies in order to enhance their operations and lower their costs. This is an important development, which will bring the Shari'a advisory function under professional domain. Bahrain has maintained importance of capable human resources and adopting proper corporate governance to enhance sustainable growth in IBF.

The year 2014 was eventful for Bahrain. In February, a leading Islamic bank in the country, Al Salam Bank completed its merger agreement with BMI Bank. In the first quarter of 2014, the Bahrain's Waqf Fund, established in 2006, under the patronage of the CBB, proposed to have external bodies for Shari'a audits in order to strengthen compliance and enhance the governance structure.

In the same quarter Al Salam Bank launched a Shari'a-compliant fund that would invest in listed Asian real estate investment trusts (REITs). The bank provided the seed capital for the fund whereas the management was under B&I Capital AG, a Swiss-based organization with offices in Singapore. In April 2014, CBB released a consultation paper to study possible changes to rules for Shari'a-compliant financing arrangements, which the Kingdom's Islamic banks can offer to investors. The proposed rules would allow Islamic banks to set up special financing contracts on wakala basis. In the same month, UK and Bahrain jointly organised a conference, hosted by the Foreign and Commonwealth Office in London on the occasion of 200th anniversary of UK-Bahrain relations. CBB governor together with leading decisions makers and experts attended the event and signed a number of key agreements of collaborations. An MoU was signed between UK Foreign Office and CBB, which set out plans to boost cooperation through education and the establishment of a working group focusing on the development of Islamic finance and to drive trade and investment between the two countries.

In 2014, Bahrain also became the first country outside Saudi Arabia to clarify its treatment of capital-boosting instruments under Basel III rules by endorsing that loss absorption features must be included in the instrument, a decision that may be followed by other Gulf countries. Loss absorption is a requirement for capital-boosting instruments to be converted into equity if the issuer faces insolvency. Bahrain would require Tier 1 instruments to absorb losses either by converting them into common shares, or through a gradual write-down mechanism which forces losses on holders of the instruments in stages. Another important development in the first quarter of 2014 was the announcement by Gulf Finance House (GFH) to build a US$3 billion financial park and real estate development north of Tunisia's capital. These two developments have direct relevance to IBF.

Other developments during the year included Al Baraka bank Bahrain considering a sukuk issuance with an estimated value of US $200m through its South African and Pakistani units to boost its regulatory capital. In December 2014, AAOIFI issued two more standards; one to improve the qualitative characteristics of accounting information and the other is new accounting standard for profit sharing investment accounts (more details on this are available in Chapter 11).

GIFR Verdict:

“ Bahrain is a leading country in IBF, with Manama serving as a global centre of excellence for IBF (see Chapter 16). Although the country has been on the forefront of global developments in IBF, the other countries in the GCC region have started giving it tough competition. However, whatever is the intensity of the competition Bahrain is expected to remain central to the global developments in IBF.

5. BANGLADESH

Bangladesh is among the countries that have achieved a high growth in Islamic financial deposits that now represent 20% of the total deposits in the country. Currently, the country hosts eight full-fledged Islamic banks and 17 conventional banks with Islamic banking offerings.

IFCI Ranking:

2015	11	2014	11	2013	10	2012	12	2011	9

Macroeconomic Data 2014:

GDP (US$ in billion): **324.6**	Unemployment Rate: **5%**	Inflation Rate: **7.6%**
Revenue: (US$ in billion): **17.19**	Expenditure (US$ in billion): **24.02**	External Debt (US$ in billion): **30.6**
Major Source of Revenue: **Agriculture Sector, Garments Exports, Overseas Remittance, Service Sector**		Population Below Poverty: **31.5**

The central bank has a regular sukuk programme of six-month tenors to help Islamic banks manage their liquidity, yet the size of total sukuk outstanding remains small. The central bank is also setting up a fund that will assist Islamic and conventional banks with Islamic windows to increase their financing to small and medium-sized businesses. The central bank estimates that there is 105.8 billion taka (US$1.4 billion) of surplus cash within Islamic banks, which could be used in the fund to assist the development of IBF in the country. In June 2014, central bank recommended amendments to existing sukuk programme to broaden its use and allow for a sovereign issuance. The required amendments are being finalized and considered by the finance ministry that will allow sukuk to be used as a money market as well as a fiscal instrument in the country.

GIFR Verdict:

“ Bangladesh, being a Muslim majority country, has already developed a vibrant IBF industry, which now needs to be internationalised. While IBF has established itself as a viable alternative to conventional banking and finance in the country, the government has yet to adopt it whole-heartedly. Because of this, Bangladesh remains one of the under-rated players in the global Islamic financial services industry.

6. BRUNEI DARUSSALAM

IFCI Ranking:

2015	17	2014	17	2013	17	2012	15	2011	23

Macroeconomic Data 2014:

GDP (US$ in billion): **22.25**	Unemployment Rate: **2.6%**	Inflation Rate: **1.0%**
Revenue: (US$ in billion): **6.992**	Expenditure (US$ in billion): **5.366**	External Debt (US$ in billion): **0**
Major Source of Revenue: **Crude Oil and Natural Gas, Manufacturing Industry**		Population Below Poverty: **N/A**

Brunei Darussalam, with Asia's highest per-capita income after Singapore and high dependence on oil revenue, competes with regional giants Malaysia and Indonesia for a prominent position in IBF. The introduction of Shari'a law in the country is an indication of the strong support of the government in promoting IBF. Islamic banking deposits in Brunei account for 45 percent of the total deposits. It is expected that it will reach 60% in the next five years (see Twenty-Twenty-Six-Fifty Section in Chapter 2).

In August 2014, The Autoriti Monetari Brunei Darussalam (AMBD), the central bank, announced the successful pricing of its 107th issuance of short-term sukuk al-ijara securities maturing in April 2015. With this issuance, the Brunei government has issued over B$7.63 billion (US$5.73 billion) worth of short-term sukuk al-ijara securities since April 2006.

In September 2014, the Islamic Corporation for the Development of the Private Sector (ICD) and Perbadanan Tabung Amanah Islam Brunei (Perbadanan TAIB) signed an MoU to explore the launch of a Shari'a- compliant leasing/ijara business in Brunei Darussalam.

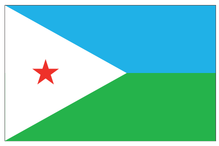
Bank Islam Brunei Darussalam (BIBD) in October 2014 announced its involvement in an Islamic syndicated loan for a petrochemical project, which is the largest Shari'a-compliant transaction in Brunei till date. The new syndicated loan transaction will open the market to wider deals both in local and foreign currencies.

A major announcement from Malaysia's largest Islamic bank came in November 2014 to offer Islamic banking products in Brunei in the "long run" after evaluating the country's true potential and growth opportunities.

Despite a promising future outlook with respect to IBF, assets held by the Islamic insurance (takaful) sector in Brunei witnessed a decline. Shari'a-compliant insurance account for 33 percent of total insurance assets, up from 29 percent a year earlier.

GIFR Verdict:

> " Brunei Darussalam will perhaps be the first country to attain a 50 percent market share for IBF. Although a small country in terms of population and relatively secluded in terms of its geographical location and international linkages, Brunei can prove to be a good source of Islamic capital for many Islamic financial institutions.



7. DJIBOUTI

IFCI Ranking:

2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:

GDP (US$ in billion): **2.505**	Unemployment Rate: **59%**	Inflation Rate: **2.5%**
Revenue: (US$ in million): **512.7**	Expenditure (US$ in million): **532.9**	External Debt (US$ in million): **821.6**
Major Source of Revenue: **Crude Oil and Natural Gas, Manufacturing Industry**		Population Below Poverty: **18.8%**

Djibouti, a country of less than a million people, is strategically located as neighbouring African countries use it for import and export purposes. The country aims to become the hub for Islamic finance for Africa by attracting foreign investments. Djibouti is a Muslim majority country with an active financial sector, as demonstrated by the growth and progression of the country's Islamic banks. It host four Islamic banks and has also organised three international conferences. Shari'a-compliant products are increasingly in demand and the market size of Islamic finance in Djibouti has gradually risen. With strong support of the central bank, the IBF share in the country has reached 20 percent of the total banking industry. In 2014, more than 200 leaders from the international IBF industry attended the Islamic Banking Summit Africa, which was also supported by the central bank. The delegates engaged in detailed discussions focusing on opportunities for Islamic finance in Africa.

The Islamic banking segment in Africa is set for major growth driven by Africa's large and under-served Muslim population and increasing awareness of Shari'a-compliant products.

GIFR Verdict:

" Although a small country in Africa, Djibouti has shown commitment and resolve to promote IBF and become a regional Islamic financial centre. With the central bank's drive to develop locally trained human resources, IBF is set to emerge as a sustainable phenomenon in the country.

8. ETHIOPIA

IFCI Ranking:									
2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **118.2**	Unemployment Rate: **17.5%**	Inflation Rate: **8.4%**
Revenue: (US$ in billion): **6.702**	Expenditure (US$ in billion): **8.042**	External Debt (US$ in billion): **11.9**
Major Source of Revenue: **Ports, Agriculture (Coffee), Manufacturing, Textiles, Banking Insurance, Telecommunications, and Micro-Credit Industries**		Population Below Poverty: **39%**

Islamic banking was introduced in Ethiopia in the year 2013 in an effort to meet the demand of Muslim clients for interest-free banking services. Oromia International Bank (OIB), a private financial institution, became the first bank to introduce Islamic banking in Ethiopia. The bank mobilized US$15 million with the first two months of operations.

Another major development in Ethiopia was the first Shari'a-compliant transaction of Ethiopian Airlines worth US$100 million with Bahrain based Ibdar Bank, where the bank leased aircrafts to Ethiopian Airlines for 12 years. This is the second Shari'a-compliant deal structured with Ethiopian Airlines.

GIFR Verdict:

> After an initial enthusiasm towards IBF, the Muslim-minority Ethiopia has gone lukewarm in its endeavour to look into IBF as a source of foreign capital. There is a need to engage Ethiopian authorities in IBF, and in this respect neighbouring countries in the Middle East can play a role. Previously, Bahrain has been involved in financing some of the Islamic deals, and in this respect the likes of Saudi Arabia can play a role.

9. EGYPT

IFCI Ranking:

2015	13	2014	14	2013	14	2012	13	2011	13

Macroeconomic Data 2014:

GDP (US$ in billion): **551.4**	Unemployment Rate: **13.4%**	Inflation Rate: **9.0%**
Revenue: (US$ in billion): **45.57**	Expenditure (US$ in billion): **80.42**	External Debt (US$ in billion): **48.7**
Major Source of Revenue: **Tourism, Manufacturing and Construction**		Population Below Poverty: **22%**

Egypt has the distinction of being birthplace of modern IBF. It also hosts the oldest degree granting Islamic university in the world, i.e., Al Azhar University. Since the 1960s when Mit Ghamr Saving Bank was established in Egypt, IBF has not been in the limelight in the country except in the last few years. There are now 14 banks licensed to provide Shari'a-compliant products - three full-fledged Islamic banks, Faisal Islamic Bank of Egypt, Al Baraka Bank Egypt, and Abu Dhabi Islamic Bank (ADIB) and 11 conventional banks with Islamic windows. The overall Islamic banking assets in Egypt were expected to reach around EGP128 billion (US$17 billion) in 2014, with an annual average growth of 10%, while the Islamic banking deposits account for 7 percent of the total deposits. The previous government approved a draft bill authorizing issuances of sovereign sukuk, however it was not able to implement and enforce it before its untimely departure.

Albaraka Banking Group's arm in Egypt, Albaraka Bank Egypt, has witnessed a strong growth in business. Encouraged by it, the bank announced at the start of 2014 to increase its capital to EGP1 billion (US$130 million) by 2015 and to expand its branch network and portfolio. During the same period another major development in the first quarter of 2014 was IDB's allocation of US $220 million to finance a thermal power plant in Assiut (El-Walidia) in Egypt. This was part of the bank's commitment to finance infrastructure project of nearly US$705 million in human development projects and education sector in member countries and non-member countries. In August 2014, National Bank of Egypt (NBE), Banque Misr, Commercial Bank of Egypt (CIB), Arab African International Bank (AAIB), QNB and Faisal Islamic Bank of Egypt also agreed to provide EGP1 billion (US$130m) to finance the project.

In May 2014, Faisal Islamic Bank of Egypt announced its participation in the central bank's initiative to finance low-income housing projects wherein the central bank had earlier allocated US$1.31 billion. It was to agree that the central bank would place the agreed amount in a deposit with Faisal Islamic Bank of Egypt for dispersion to the citizens in low-income brackets.

There were some important developments in takaful industry in 2014. During the year, Egyptian takaful investments reached EGP280 million (US$30 million) by the end of 2nd quarter. Wethaq Takaful Insurance injected EGP40 million (US$5 million) to increase its capital to EGP100 million (US$13.11 million) in the 3rd quarter to launch a mutual fund in the region managed by Alpha Capital. The investment objective of the fund is to provide a savings and investment pool giving daily liquidity through accumulating daily returns on the fund's investments. Other takaful providing companies aim to follow similar steps and to expand the product range.

Also during the year, Egypt Post, a company responsible for postal service in Egypt, announced the launch of Shari'a-compliant products, including a new savings plan, to attract more customers and boost revenue. A five-member Shari'a board was set-up comprising Egypt's highest religious authority to ensure new products were in compliance with Shari'a. Further, IDB announced loans worth of US$752 million to finance development projects in Egypt. The loans would be utilized as US$222 million for the Western Cairo Power Generation Plant Expansion Project, US$200 million for the Western Dimyat Power Generation Plant Expansion Project and US$220 million for the Assiut Steam Power Generation Plant Expansion Project. It also included US$110 million loan for the rehabilitation and development of irrigation and drainage pumping stations in several agricultural areas of the country.

In August 2014, SunGard's suite of enterprise risk management solutions was chosen to build a new operational framework to improve risk exposure of Faisal Islamic Bank. The bank plans to centralize all of its risk activities, which will help the bank to identify, measure, monitor and manage risk more effectively.

In October 2014, SALAMA Islamic Arab Insurance Company – a leading provider of takaful solutions in the UAE – announced to set up Salama Takaful in Egypt with EGP100 million (US$13 million) capital. It is expected that Salama Takaful in Egypt will start operations towards the end of 2015.

GIFR Verdict:

“ Being a populous Muslim country with huge Shari'a sensitivity, Egypt holds a lot of promise with respect to IBF. Almost all the Shari'a scholars of international repute have links with Egypt (through Al Azhar University), and this is an area that the government must focus on to strengthen its leadership role in the global Islamic financial services industry. Furthermore, takaful and Islamic microfinance are two areas wherein Egypt can excel. The present government can also use IBF as a tool for political reforms in the country to improve its credentials.

10. GERMANY

Germany is the first country in the Western hemisphere that issued a sovereign state sukuk in the year 2004. In May 2014, Munich-based FWU Group launched a life takaful savings plan. It also successfully issued the second tranche of US$100 million sukuk al-wakala programme mainly to fund it's subsidiary, Atlanticlux Lebensversicherung S.A. (ATL), Luxembourg. This sukuk was assigned an investment grade credit rating of

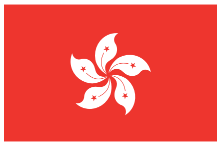
IFCI Ranking:									
2015	40	2014	36	2013	37	2012	37	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **3.227**	Unemployment Rate: **5.3%**	Inflation Rate: **1.6%**
Revenue: (US$ in billion): **1.626**	Expenditure (US$ in billion): **1.624**	External Debt (US$ in billion): **5.71**
Major Source of Revenue: **Machinery, Vehicles, Chemicals, Finance and Household Equipment**		Population Below Poverty: **15.5%**

BBB- by Fitch and is being issued in amortizing tranches, each with a term of five years, and an average life of approximately 2.5 years. FWU has received industry award for this sukuk programme and was awarded Best Takaful Solutions Provider by Global Islamic Finance awards 2014 for the second consecutive time.

GIFR Verdict:

"With the launch of KT Bank AG, a subsidiary of Turkey's Kuveyt Turk Bank, Islamic banking has just formally been introduced in Germany. Many analysts believe that this will pave way for further developments in the field of IBF in Germany. However, sustaining the operations of the bank will remain a challenge for KT Bank AG.



11. HONG KONG

IFCI Ranking:									
2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **381.3**	Unemployment Rate: **3.1%**	Inflation Rate: **4.4%**
Revenue: (US$ in billion): **59.33**	Expenditure (US$ in billion): **54.23**	External Debt (US$ in trillion): **1.15**
Major Source of Revenue: **International Trade, Banking & Finance, Tourism, Service Industry**		Population Below Poverty: **19.6%**

It was an important year for the Islamic finance developments in Hong Kong, as it was among the four Muslim-minority countries to issue a debut sovereign sukuk. The issuance was worth more than US$1billion and was listed on Nasdaq Dubai.

In May 2014, Public Mutual Berhad announced the launch of its first Islamic unit trust fund in Hong Kong called the Public Ittikal Fund. This was followed by another major development in the sector from RHB Asset Management (RHBAM), Malaysia's second largest retail and institutional fund manager, when it launched

“

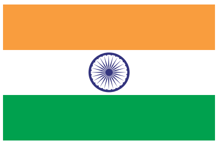
As an international financial Centre and given our unique role as a gateway to China, Hong Kong is well positioned to provide an effective platform to channel the surplus funds from the Islamic world to this part of the world where there is a huge financing need to sustain the high growth of the Asian economies. Our platform will enable Islamic investors to access investment opportunities in Asia, particularly China, while at the same time allowing fundraisers to tap into the liquidity pool in the Islamic world.” (Hong Kong Monetary Authority)

Hong Kong's first Shari'a-compliant, actively managed Islamic balanced fund, i.e., RHB-OSK Islamic Regional Balanced Fund.

In July 2014, Securities and Futures Commission of Hong Kong (SFC) signed an agreement with Securities Commission Malaysia (SC) catering the growing interest in IBF. The signing ceremony took place in a joint event attended by more than100 policy makers, regulators and fund managers from Hong Kong and Malaysia to discuss a wide range of topics relating to Islamic finance.

GIFR Verdict:

“ After the successful launch of its debutant sovereign sukuk, Hong Kong has credibly signalled its commitment to the global Islamic financial services industry. As an established global financial centre, Hong Kong has a lot to offer to IBF in terms of product development, innovation and financing opportunities. It is already cooperating with Malaysia in matters related with IBF, but it will pay it off even more if it succeeds in creating linkages with the countries in the GCC.



12. INDIA

Despite having world's third largest Muslim population, India has not developed its Islamic finance offerings. The country remains hostile to the Islamic financial developments and without government or central bank support, it is challenging to develop the industry. In 2013, India's central bank, Reserve Bank of India (RBI), decided to give non-banking license to Cheraman Financial Services Limited (CFSL) to offer Shari'a-compliant

IFCI Ranking:									
2015	30	2014	34	2013	33	2012	30	2011	11

Macroeconomic Data 2014:		
GDP (US$ in tillion): **4.99**	Unemployment Rate: **8.8%**	Inflation Rate: **7.75%**
Revenue: (US$ in billion): **181.3**	Expenditure (US$ in billion): **281.6**	External Debt (US$ in billion): **412.2**
Major Source of Revenue: **Agriculture, Information Technology, Business Outsourcing, Services, Manufacturing**		Population Below Poverty: **29.8%**

services. The company was set up with the support of prominent expatriates from the Gulf region. CFSL has already started funding start-up companies and infrastructure projects and floated an Rs2.5 billion (US$41.7 million) private equity fund named Cheraman Fund. .

In July 2014, RBI set-up a three member committee to assess the sector and to develop regulations for Islamic banking in India.

Other Shari'a-compliant initiatives in the country include an equity index listed on the Bombay Stock Exchange in partnership with Taqwaa Advisory. In November 2014, the State Bank of India also announced the launch of another Islamic equity fund to attract investments from the country's 170 million Muslims. The bank estimates to attract an initial Rs1 billion (US $16.4 million) after the launch.

GIFR Verdict:

> India is a peculiar story with respect to IBF. Even having had one of the largest Muslim concentrations in the world, the country remains hostile towards anything Islamic. The government must realise that IBF can play a tremendously important role in its economic growth. This will of course imply empowerment of Muslims economically and financially – something desirable from an economic viewpoint but a bitter pill for the Indian right wing political parties to swallow.

13. INDONESIA

Indonesia has the world's largest Muslim population and hence has a huge growth potential for IBF. Despite the prospects, Indonesia lags behind its neighbouring countries and as of 2014 the total Islamic banking share in the country is about 5 percent in terms of total Islamic banking assets. The stakeholders in Indonesia have recently started giving more attention to the domestic Islamic finance industry and are now finalizing a five-year roadmap. Bank Indonesia and the Financial Services Authority (OJK) envision increasing the share of Islamic banks and financial institutions to 15 percent by 2023. This would require some key strategic decisions and consistent policies like merging several existing Islamic financial institutions, the conversion of existing conventional banks into Islamic, or creating a new Islamic bank and formulating the policies in such a way that it should bring new entities into the IBF industry. Moreover, the authorities are also planning to

DDCAP Group

IFCI Ranking:									
2015	7	2014	7	2013	5	2012	7	2011	4

Macroeconomic Data 2014:		
GDP (US$ in trillion): **1.285**	Unemployment Rate: **6.6%**	Inflation Rate: **7.7%**
Revenue: (US$ in billion): **137.5**	Expenditure (US$ in billion): **166**	External Debt (US$ in billion): **223.8**
Major Source of Revenue: **International Trade, Banking & Finance, Tourism, Service Industry**		Population Below Poverty: **11.7%**

introduce a new framework to integrate Indonesia's Islamic banks into the global financial system by revising capital requirements in order to bring risk management at Indonesian Islamic banks in line with international standards.

Based on the data from the OJK (in last quarter of 2014), there are currently 12 Shari'a-compliant commercial banks, 163 Islamic rural banks as well as 22 Islamic windows by conventional banks in the country, which are making significant progress during 2014 over the previous year.

A major development in September 2014 in the Indonesian sukuk market was the sukuk issuance of the 10-year US$1.5 billion by the Indonesian government. The sukuk was over-subscribed by more than six times displaying confidence in Islamic investment assets as well as Indonesia's economic prospects. In November 2014, OJK signed an agreement with the country's national Shari'a board to strengthen oversight of the Islamic finance industry, supporting a centralized approach being adopted elsewhere in the world. The aims of the MoU includes, strengthening of regulation and supervision of the Islamic financial services industry, enhancing Islamic financial literacy and protecting consumers in the sector. The MoU's scope encompasses preparing regulations, supervising the implementation of fatwas and reciprocal consultation. More analysis of Indonesian market is available in Chapter 4.

GIFR Verdict:

“ In due time (by 2023 in the words of the financial regulator), Indonesia is expected to be a force to reckon with in IBF. Although its IFCI ranking is stagnant, one should expect that an external or internal push to IBF will take it to the next level. The external push may come from a major Islamic banking player (e.g., DIB) that should bring an accelerated growth in the industry.

“ There are some unconfirmed reports that a foreign group is in the process of bringing an innovative retail product to Indonesia, which is expected to be a game changer for the industry. If and when that happens, Indonesian IBF industry will be in a completely different ball game.

14. JORDAN

IFCI Ranking:									
2015	15	2014	16	2013	16	2012	16	2011	20

Macroeconomic Data 2014:		
GDP (US$ in billion): **40.02**	Unemployment Rate: **14%**	Inflation Rate: **5.9%**
Revenue: (US$ in billion): **6.868**	Expenditure (US$ in billion): **10.71**	External Debt (US$ in billion): **22.04**
Major Source of Revenue: **Construction, Tourism, Foreign Assistance**		Population Below Poverty: **14.2%**

Jordan Islamic Bank, the largest and oldest Islamic bank in the country with 12 percent deposits, is playing a leading role in the promotion of Islamic banking services in the country. Islamic International Rating Agency (IIRA) reaffirmed its Shari'a Quality Rating of AA to Jordan Islamic Bank at the start of the year 2014. Four Islamic banks, Jordan Islamic Bank, Islamic International Arab Bank, Jordan Dubai Islamic Bank and Al-Rajhi Bank, are operating under the regulations of Central Bank of Jordan.

The government has shown keen interest to use Islamic finance to support the growth of the national economy and to overcome poverty and unemployment. In July 2014, the Prime Minister Abdullah Ensour acted as patron at launching ceremony of legislation and regulation of sukuk. He acknowledged the role of the Jordan Securities Commission, Amman Stock Exchange (ASE) and the Securities Depository Centre while inaugurating the trading activity on ASE for sukuk. He also re-affirmed his government's intent to use sukuk to finance its projects, especially those in partnership with the private sector.

GIFR Verdict:

> “ Jordan is one of the oldest players in the Islamic financial services industry, and a major intellectual contributor to the it in the Middle East. It can play a bigger role in the global Islamic financial services industry if it comes out of a self-imposed restriction of not going out of the region. It certainly has a potential to become a global leader if the stakeholders adopt English language in addition to Arabic for Islamic banking operations and transactions.

15. KAZAKHSTAN

Kazakhstan is a country new to IBF. Since its independence in 1991 it has engaged itself as an active member of the OIC. It has also played a pioneering role in the development of IBF in Commonwealth of Independent States and Central Asia.

IFCI Ranking:									
2015	36	2014	32	2013	31	2012	35	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **243.6**	Unemployment Rate: **5.3%**	Inflation Rate: **5.8%**
Revenue: (US$ in billion): **43.88**	Expenditure (US$ in billion): **49**	External Debt (US$ in billion): **131.3**
Major Source of Revenue: **Agriculture, Oil Exports, Fossil Fuel Reserves, Minerals and metals**		Population Below Poverty: **5.3%**

After a short lull between 2009 and 2013, there is a renewed interest in the promotion of IBF in the country. In April 2014, Bahrain and Kazakhstan entered into a cooperation agreement to strengthen their support in promoting IBF in Kazakhstan. As the statement from Kazakh side came directly from the President's Office, it shows the efforts and commitment at state level to enhance the role of IBF in the economy. In June 2014, a senior official said that Kazakhstan would start drafting a new Islamic banking law that would allow Islamic finance to develop better policies and plans under the secular regulatory regime of the predominantly Muslim country. The proposed legislation may be presented to the government by mid 2015.

Abu Dhabi government-owned Al Hilal Islamic Bank, the only Islamic bank in the country, is considering to increase its geographical presence as part of its 2015 business plan. As Islamic finance legislations are being developed in Azerbaijan, Kyrgyzstan and Tajikistan, creating a more welcoming framework for the industry in countries with secular regulatory regimes, Al Hilal Bank Kazakhstan sees an opportunity for regional expansion.

Zaman Bank, another local bank, has started the process of conversion into an Islamic bank. In addition, in 2014 with the participation of the ICD (Islamic Corporation for the Development of the Private Sector) an ijara leasing company was established in Kazakhstan. According to the latest data available, the company has financed 16 projects for US$4.5 million.

A major boost for Kazakhstan was the Global Islamic Finance Leadership Award 2014 presented to His Excellency Nursultan Nazarbayev, President of Republic of Kazakhstan at the fourth Global Islamic Finance Awards (GIFA) held in Dubai in recognition of his efforts to promote IBF in the country and region. Sheikh Mohammed Bin Rashid Al Maktoum, Ruler of Dubai, and His Highness Sheikh Hamdan Bin Mohammed Bin Rashid Al Maktoum, Crown Prince of Dubai, witnessed the ceremony along with senior cabinet ministers of the two governments. Later on in December, the National Bank of Kazakhstan (NBK), the central bank and financial services regulator of the Republic of Kazakhstan, joined Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as a member. This would offer NBK an opportunity to gain from the international experience in development of Islamic finance industry, to benefit from recommendations of international experts and financial institutions, and to participate in workshops and conferences organized by AAOIFI. More analysis on Kazakhstan is available from Chapter 4.

GIFR Verdict:

“Kazakhstan is a rising star in IBF, with renewed interest and commitment and more engagement with the international players in the Islamic financial services industry. Although the country has seen limited domestic activity in terms of IBF (i.e., only one full-fledged Islamic bank and a leasing company), the slow development of the industry is due to complex legal framework that the country has inherited from the former Soviet Union.

16. KENYA

IFCI Ranking:									
2015	22	2014	23	2013	22	2012	17	2011	24

Macroeconomic Data 2014:		
GDP (US$ in billion): **79.9**	Unemployment Rate: **40%**	Inflation Rate: **5.8%**
Revenue: (US$ in billion): **7.866**	Expenditure (US$ in billion): **9.742**	External Debt (US$ in billion): **11.96**
Major Source of Revenue: **Toursim, Agriculture, Tea & Coffee Exports**		Population Below Poverty: **43.4%**

Gulf African Bank – the first Shari'a-compliant bank in the country – started its Islamic banking operations in 2008, followed by First Community Bank. The demand for Islamic banking is increasing since then and Kenya is among the leading African countries where Shari'a-compliant financial services are growing at an impressive rate. The uptake of Islamic banking products has led several conventional banks to introduce Shari'a-compliant products as part of their products range. Barclays Bank of Kenya, Chase Bank, and Kenya Commercial Bank have Shari'a-compliant products through which they are tapping the potential market. Islamic banking share was 1.5 percent in Kenya in 2014, whereas the Muslims make up about 15 percent of the population in the country, highlighting the potential growth prospects.

During the first quarter of 2014, Standard Chartered Bank launched its Islamic banking operations in Kenya, with a comprehensive range of Shari'a-compliant products – current and savings accounts, mortgages and auto finance, and trade and term finance.

Dubai Islamic Bank (DIB) has for some time contemplated entry into the Kenyan market as part of its strategy to tap African markets. Relative stability in Kenya and the dynamic Muslim population have been two factors in favour of the country.

During the year 2014, Gulf African Bank also became a member of Africa Micro, Small, and Medium Enterprise Finance Programme – an economic development programme launched by International Finance Corporation (IFC). The Programme works with banks in 18 African countries to increase lending to small and medium enterprises (SMEs). Entry of Gulf African Bank in the programme is a significant move, as this will allow other Islamic banks to look into the ways and mechanisms for increasing their exposure to SMEs – something governments in a number of the OIC countries have been stressing as part of their wider economic development policies and initiatives.

In June 2014, Kenya's finance minister shared the intent of his government to issue a sukuk, which would follow its successful debut US$2 billion Eurobond.

In July 2014, KCB announced to offer Islamic banking products through its entire branch network, accelerating the expansion of Shari'a-compliant banking in East Africa's largest economy. KCB has a large branch network covering the entire country and has received formal approval from the government to offer Islamic banking services.

GIFR Verdict:

2014 has offered a busy calendar to those interested and involved in IBF in Kenya. Almost every month of the year, there has been an announcement of significance to IBF. Whatever be the outcome of different announced ventures, one can fairly conclude that Kenya is seen as an opportunistic market by many Gulf-based Islamic financial institutions. The financial authorities should not loose the momentum and attempt to convert this initial interest into real business for the country.

19. KUWAIT

IFCI Ranking:									
2015	5	2014	5	2013	7	2012	4	2011	6

Macroeconomic Data 2014:		
GDP (US$ in billion): **165.8**	Unemployment Rate: **3.4%**	Inflation Rate: **2.8%**
Revenue: (US$ in billion): **114.1**	Expenditure (US$ in billion): **61.81**	External Debt (US$ in billion): **34.41**
Major Source of Revenue: **Crude Oil Reserves, Fertilizer and Chemical Exports**		Population Below Poverty: **N/A**

Kuwait, a country home to one of the oldest Islamic bank, i.e., Kuwait Finance House (KFH), had a busy year with a number of sukuk issuances and industry engagements that included a workshop organized by Kuwait Centre for Islamic Economy (KCIE) in March 2014, which was attended by leading legal experts and economists. The workshop aimed at enhancing economic thoughts by linking Shari'a, economy and law in an integrated way. In May 2014, Ministry of Awqaf hosted the third Gulf Conference on Halal industry, which attracted scholars, thinkers and specialists in the industry from around the world.

Industry developments included restructuring a part of debt of Al Mazaya Holding, a Kuwaiti real estate developer, into a six-year KD12 million Islamic facility extended by a bank consortium. The restructuring allowed Al Mazaya to reduce its short-term loans by 39 percent, while long term financing increased by 7 percent. As a result, 73 percent of all the company debt is now Islamic. Later in 2014, Jazeera Airways Group announced US$18.3 million aircraft refinancing facility through Arab Banking Corporation, a Bahrain based leading player in the GCC financial industry. Another major transaction was Warba Bank's US$155 million syndicated financing facility for a UAE-based leading oil services company. Warba Bank along with Noor Bank and Qatar Islamic Bank participated in this transaction.

Perhaps the most significant development in the year 2014 was the announcement of Commercial Bank of Kuwait (CBK) to convert itself into a fully-fledged Islamic bank. CBK has already received necessary approvals from Central Bank of Kuwait. This will add strength to an already vibrant Islamic finance sector in the country, which includes KFH, Boubyan Bank, Al Ahli United Bank, Kuwait International Bank, and Warba Bank.

In June 2014, Al-Khair Capital, a leading Saudi-based investment banking player, launched Al-Khair Capital Plus Sukuk Fund in Kuwait. The fund is intended to generate regular income as well as achieving capital appreciation by investing in globally diversified fixed income securities.

In the last quarter of 2014, KFH Investment participated in arranging US$750 million debut sukuk for the Emirate of Sharjah. The sukuk witnessed 10-times oversubscription where order book was about US$7.85 billion, indicating strong prospects for Sharjah as well as growing interest from sovereigns in Islamic finance as a source of funding. KFH was also involved in the debut US$500 million sovereign sukuk issuance for the Republic of South Africa. It witnessed similar success by 4-times oversubscription. In the same quarter, KFH launched a new Al-Deema investment deposit, which allows customers to invest money through one, three, six, nine, and twelve months options, and distributes profits monthly or quarterly.

GIFR Verdict:

“ Kuwait has been a major player in the global Islamic financial services industry, and with the announcement by CBK to convert itself into a full-fledged Islamic bank the country will move towards achieving the target of Twenty-Twenty-Six-Fifty (see Chapter 2).

17. LIBYA

IFCI Ranking:									
2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **73.6**	Unemployment Rate: **30%**	Inflation Rate: **3.2%**
Revenue: (US$ in billion): **41.54**	Expenditure (US$ in billion): **41.87**	External Debt (US$ in billion): **6.319**
Major Source of Revenue: **Energy Sector, Oil and Gas**		Population Below Poverty: **N/A**

Libya is planning to restructure its banking and economic system to comply with Islamic law and to promote Shari’a-compliant banking system in the country. However, due to political turmoil in the country there has neither been any timeline provided nor much details have emerged on strategy formulation and implementation. However, there has been a growing awareness in the public regarding IBF.

In December 2013, the General National Congress (GNC) passed a law establishing exclusively Islamic banking products and prohibition of conventional banking practices and a ban on interest payments. Once the law comes into effect in 2015, banks will no longer be allowed to pay or receive interest from individuals and companies (including state entities). At the moment, the banks do not have the capacity to work as exclusively Islamic financial institutions, and majority of stakeholders think that they will not be able to do so even by 2015. Reports suggest that it would not be possible to convert whole system to Islamic finance without proper homework and time frame. The central bank should intervene in steering the rollout of Islamic financial services to create an amalgamation of options with proper planning and timeline for restructuring and regulations.

In March 2014, the Central Bank of Libya gave its formal approval for the formation of an Islamic real estate fund. A private group was allowed to launch the fund estimated at 165 million Libyan dinars (US$134 million) to target the country's property market, making it the first private real estate fund in the country. Founded by Assaray Bank, which was to take ten percent of the shares, the Shari'a-compliant fund would invest in real estate development both within the country and internationally.

GIFR Verdict:

" Libya is a country that should be targeted under the proposal for devising a comprehensive strategy for growth and competition of IBF in the countries with political turmoil and internal conflicts (see Chapter 6). With the new post-Gaddafi government's announcement to transform the whole financial and economic system to make it Shari'a-compliant, there was an initial enthusiasm towards IBF. However, this is fading away, as the authorities have fast realised the difference between rhetoric and reality. It is recommended that Libyan government should carefully study the experience of the countries that went through similar experiences, notably Pakistan, and devise a dual banking system to allow Islamic and conventional banking operate side by side, before taking any drastic actions.

18. LUXEMBOURG

IFCI Ranking:									
2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **42.67**	Unemployment Rate: **4.9%**	Inflation Rate: **1.8%**
Revenue: (US$ in billion): **23.91**	Expenditure (US$ in billion): **24.94**	External Debt (US$ in billion): **2.935**
Major Source of Revenue: **Industrial Sector (Chemcials, Rubber, Automobile Components) Banking & Finance**		Population Below Poverty: **N/A**

Luxembourg is the second country in the Western hemisphere to issue a sovereign sukuk after UK in the year 2014. In March 2014, the Council of State, a body that advises the national legislature, scrutinized Luxembourg sukuk plans to attract more Shari'a-compliant business from around the world. The Council raised issues including the economic rationale for issuing sukuk, and need for greater clarity on tax treatment.

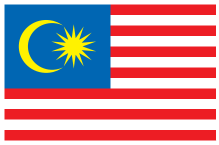
Issuance of its debutant sovereign sukuk was not an easy ride for Luxembourg, as there were a number of regulatory and legislative hurdles to do the unprecedented. However, the country revived its plans to issue sukuk in June 2014 after a three-month break and the authorities presented a revised bill to the Council of State. The revised plan allowed the government to securitize three government assets to back a sukuk worth 200 million euros (US$275 million). There was a competition between Luxembourg and UK to issue the sovereign sukuk, as both countries looked to enhance their Islamic finance credentials to attract more business from international market. HSBC and BNP Paribas were appointed as co-lead arrangers for the sukuk, which was listed on Luxembourg Stock Exchange.

Unlike some other non-Muslim countries where Islamic banking has established a strong presence, Luxembourg does not have a domestic Islamic banking industry. Last year, an announcement was made to launch the first Islamic bank in Luxembourg, named Eurisbank, which has yet to become a reality. There are reports that the bank is in advanced stages of launching operations in the country, following the final regulatory approval.

Luxembourg is a popular market for Islamic mutual funds. Most recently, London-based Arabesque registered its new funds under a Luxembourg SICAV structure. Before that, Saudi Arabia-based SEDCO Capital set up its Luxembourg Specialized Investment Fund (SIF) platform.

GIFR Verdict:

> “Unlike some other financial jurisdictions, Luxembourg has persisted in following its vision to emerge as a Western asset management jurisdiction friendly towards IBF. With the expected launch of an Islamic bank in the country, Luxembourg’s IBF credentials are set to improve.



20. MALAYSIA

IFCI Ranking:									
2015	2	2014	2	2013	2	2012	2	2011	2

Macroeconomic Data 2014:		
GDP (US$ in billion): **525**	Unemployment Rate: **3.1%**	Inflation Rate: **2.2%**
Revenue: (US$ in billion): **65.72**	Expenditure (US$ in billion): **79.4**	External Debt (US$ in billion): **100.1**
Major Source of Revenue: **High Technology Industries, Biotechnology, Banking and Services, Exports (Electronics Oil and Gas Palm Oil and Rubber)**		Population Below Poverty: **3.8%**

Malaysia is undoubtedly a leader in the global Islamic financial services industry. The leadership role of Malaysia is clearly established by number 2 ranking of Malaysia on Islamic Finance Country Index (IFCI) since 2011 (see Chapter 2 for further details). At present, there are six fully-fledged Islamic banks and eleven Islamic subsidiaries owned by conventional banks operating in the country. Central Bank of Malaysia, Bank Negara Malaysia, aims to capture 40% market share of the Islamic banking industry in terms of assets by 2020. The regulators in the country expect Islamic capital market assets to double to US$1 trillion by 2020 from the current US$500 billion.

Since the issuance of the world's first Basel III compliant sukuk in 2012, Islamic banks in countries like UAE, Saudi Arabia and Qatar have issued innovative sukuk instruments while Malaysian banks have only recently tapped into the Basel III sukuk market. In 2014, AmIslamic became the first Malaysian bank to issue a Basel III compliant sukuk meeting Tier 2 requirements. It was the world's first bank to utilize the Shari'a-compliant contract of murabaha for structuring this sukuk. Later, it was followed by Maybank Islamic that issued MYR1.5 billion (US$410 million) Basel III Tier 2 sukuk in April. In February 2014, the Islamic wing of Public Bank, i.e., Public Islamic Bank, submitted a request to the central bank for a MYR5 billion (US$1.5 billion) Basel-III compliant sukuk programme in order to fund its capital requirements. In June 2014, the bank raised MYR500 million (US$156.4 million) from the first tranche of its MYR5 billion sukuk programme.

It was followed by Hong Leong Islamic Bank that set up a sukuk programme to raise as much as MYR1 billion (US$310 million), a Basel-III compliant programme.

In February 2014, Saturna Sdn Bhd, launched a Shari'a-compliant wholesale equity fund targeting institutional investors that would invest in equities across the ASEAN region. The fund will be distributed through Malaysia's voluntary Private Retirement Scheme in addition to targeting HNWIs. In June 2014, Maxis Bhd, a telecom operator in Malaysia, announced to undertake MYR2.5 billion (US$766.5 million) in loans to refinance its debt and fund its capital needs through Islamic financing. Maxis entered into an agreement with RHB Islamic Bank for MYR1 billion (US$310m) to refinance its borrowings, and another MYR1.5 billion (US$410 million) towards capital expenditure and general working capital requirements.

In May 2014, Etiqa Takaful, Malaysia's largest takaful company, confirmed its plans to issue MYR300 million (US$92.2 million) sukuk to boost its capital requirements, carrying a 10-year tenure and a non-call provision in the first five years. The company would use an investment partnership arrangement (musharaka structure) for its sukuk. Funds from the issue would be used for general business operations, working capital and other related expenditures of the company. Etiqa is the largest of 12 takaful operators in the country and its plans of issuing this sukuk could add pressure on competitors whose financial strength might not allow them to tap the sukuk marketplace.

In June 2014, Malaysia's oldest and largest Islamic bank, Bank Islam, raised MYR1 billion (US$311.24 million) by selling sukuk to fund organic growth as well as a potential acquisition in Indonesia. Another major announcement was from the Bank of Tokyo-Mitsubishi UFJ (BTMU) to raise as much as US$500 million through a multi-currency Islamic bond programme in Malaysia. This is a major development as the sukuk will be Malaysia's first yen-denominated sukuk and one of the first Islamic bonds to be promoted by an issuer outside the Muslim world in recent years.

In the same month, a government backed mortgage lender, Cagamas, Malaysia's second-largest issuer of debt instruments, declared to issue MYR20 billion (US$6.22 billion) in commercial paper and sukuk to refinance its existing debt of MYR20 billion. In July 2014, International Islamic Liquidity Management Corp (IILM), which is sponsored by a consortium of central banks from Asia, the Middle East and Africa, re-issued US$860 million of its three-month sukuk. The issuance was fully subscribed by nine banks acting as primary dealers, including some of the leading local and international banks.

In December 2013, the Securities Commission (SC) Malaysia revised its Shari'a screening methodology. Prior to December 2013 the SC's screening methodology only screened stocks based on the business activity. However, it has now included financial screening to bring it closer to the global practices. In addition, the move will also further develop the Islamic capital market in Malaysia, as

> One of the major developments in Malaysia was in the fourth quarter of 2014 when the leadership and important role played by Malaysia was endorsed by GIFA.

companies will now have to seek financing in a Shari'a-compliant manner compared to earlier when there was no threshold to control and monitor the capital structure of the companies.

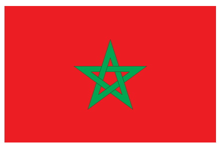
Dato' Sri Najib Razak, Prime Minister of Malaysia, received the Global Islamic Finance Leadership Award 2014 for Malaysia at a prestigious ceremony held in Dubai at the occasion of World Islamic Economic Forum (WIEF). On the occasion, Dr Zambry Bin Abdul Kadir, Chief Minister of Perak Darul Ridzuan also received a GIFA Special Award. Other awards recipients from Malaysia included:

- **Bank Rakyat** – as Best Islamic Bank;
- **Amanah Ikhtiar Malaysia** – as Best Islamic Microfinance institution for the second consecutive time;
- **AmInvest** – as Best Islamic Fund Manager;
- **MARC** – as Best Islamic Rating Agency;
- **Hong Leong Islamic Bank** – for Best Sukuk Deal of the Year for Al Bayan Sukuk;
- **Bank Islam Malaysia** – for Best Islamic Finance Case that was produced by Asian Institute of Finance;
- **ARI, UiTM** – as Best Islamic Finance Education Provider; and
- **IBFIM** – as Best Islamic Finance Training Provider.

A total of ten awards were received by Malaysia, highlighting its leadership role in steering the developments in IBF globally.

GIFR Verdict:

> "Malaysia is undoubtedly the global leader in IBF, with a comprehensive regulatory framework favouring IBF and a sympathetic consideration of the government bodies to promote IBF not only domestically but also on an international level. Malaysia is the only country in the world where right from the Prime Minister to the smallest government entity, IBF enjoys full support. Given this attitude towards IBF, Malaysia will remain at the forefront of IBF globally.



21. MOROCCO

IFCI Ranking:

2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:

GDP (US$ in billion): **180**	Unemployment Rate: **9.5%**	Inflation Rate: **2.5%**
Revenue: (US$ in billion): **26.07**	Expenditure (US$ in billion): **34.51**	External Debt (US$ in billion): **36.51**
Major Source of Revenue: **Agriculture, Tourism, Phosphates, Textiles, Apparel**		Population Below Poverty: **15%**

After witnessing strong growth in IBF globally Morocco's lower house of parliament in January 2014 approved a new banking law, which for the first time contained articles relating to Islamic banking, paving the way for IBF in the country. The mainstream banks in the country since then are planning to set up Islamic banking operations in the Kingdom. Although banks in the country started offering Islamic financial products in 2007, calling them "alternative finance", the response has not been encouraging. This is because both consumers and the banks have been unfamiliar with the Islamic products and services. Furthermore, lack of a legal framework for IBF kept uncertainty and costs high resulting in limited public interest.

In March 2014, the Islamic Corporation for the Development of the Private Sector (ICD) and Al-Ajial Funds (Al-Ajial) signed an MoU for investments in potential projects within Morocco's private sector. Al-Ajial Funds, a subsidiary of Al-Ajial Holding, intends to actively contribute to the economic development of Morocco by identifying profitable business opportunities in different economic sectors. Later on, Bahrain-based Al Baraka Banking Group – a major player in Islamic banking industry operating across 15 countries in the Middle East, Asia and Africa – announced setting up an Islamic bank in Morocco with an initial capital of US$50 million. The bank will be established in 2015 with a plan to open 10 branches in the first year of operations.

In February 2015, it was announced that a national Shari'a board of Shari'a scholars (Shari'a Committee for Participatory Finance) would be created to oversee the country's Islamic finance industry. The board will be composed of 10 Shari'a scholars in addition to five financial experts. Like Turkey, the Islamic banks in the country will be known as participation banks under the legislation and the board will oversee and approve the conformity to Shari'a law of the Islamic products proposed by the participation banks and takaful companies. The board will also oversee central bank's decisions regarding the participation finance sector.

GIFR Verdict:

> Our view on Morocco is consistent with our overall verdict for North Africa and other countries with French legal influence. The French civil law regimes are not favourable for development of IBF, and Morocco will find it difficult to accommodate it, although the government has introduced some initial legislation to allow IBF operations.

22. NIGERIA

IFCI Ranking:									
2015	34	2014	30	2013	32	2012	31	2011	N/A

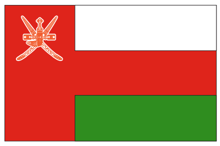
Macroeconomic Data 2014:		
GDP (US$ in billion): **478.5**	Unemployment Rate: **23.9%**	Inflation Rate: **8.7%**
Revenue: (US$ in billion): **23.85**	Expenditure (US$ in billion): **31.51**	External Debt (US$ in billion): **15.73**
Major Source of Revenue: **Oil and Natural Gas, Agriculture, Telecommunications and Services**		Population Below Poverty: **70%**

Nigeria is among the countries adversely affected by the reduction in oil prices. It is home to the largest Muslim population in the Sub-Saharan Africa. The authorities are trying to promote Nigeria as an African hub for Islamic finance. In the past the Islamic financial institutions practiced self-regulation. However, setting up of a central supervisory board was announced in early 2015; something that Bahrain and Morocco have also recently opted for. Developing strong Islamic financial market in the country can help Nigeria in reducing its dependency on oil revenue and diversify into other areas of growth. The progress has been slow as the country faces internal and external hurdles, like lack of awareness of Islamic banking, shortage of local experts or professionals to undertake Islamic banking, misconception about Islamic financing, uncertainty and instability both at the central bank and different parts of the country.

Jaiz Bank, the only fully-fledged Islamic bank in Nigeria now have 15 branches, however the latest financial reports states loss for year 2014.

GIFR Verdict:

“ Despite having the largest Muslim population in Sub-Saharan Africa, Nigeria is expected to remain a peripheral player in the global Islamic financial services industry. There is no denial of the fact that the country possesses huge potential in terms of economic development but political instability and lack of coordination among different government institutions and private bodies will not help the required progress in IBF. Having said that, one must keep a close eye on the developments in the country, as an opportunity may arise at any time from this country that have all the ingredients to become a regional power.



23. OMAN

IFCI Ranking:									
2015	19	2014	24	2013	25	2012	21	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in billion): **94.86**	Unemployment Rate: **15%**	Inflation Rate: **1.6%**
Revenue: (US$ in billion): **34.42**	Expenditure (US$ in billion): **35.48**	External Debt (US$ in billion): **10.84**
Major Source of Revenue: **Oil and Gas, Tourism, Manufacturing**		Population Below Poverty: **N/A**

The Sultanate of Oman, the last country in the GCC to introduce IBF is also known to have introduced strong corporate and Shari’a governance framework for institutions offering Islamic banking and financial services in the country. Meethaq Islamic Banking, a subsidiary of Bank Muscat, the largest Islamic window in the country, recently signed an MoU with Islamic Development Bank (IDB) and the Islamic Research and Training Institution (IRTI) aimed at jointly supporting business opportunities in the Islamic banking sector in the Sultanate of Oman. In July 2014, Meethaq Islamic Banking, in collaboration with Ministry of Awqaf and Religious Affairs, initiated a national campaign for zakat collection from participating members and its distribution to the beneficiaries. Meethaq Islamic Banking also organized a series of seminars in the year 2014 throughout the country with the aim of increasing awareness on a number of humanitarian and cultural issues. It was part of the strategy to attract customers through innovative Shari'a-based products and services, and participate in raising awareness related to self-development, especially in their respective fields of work.

In July 2014, Al Yusr – Islamic banking arm of Oman Arab Bank (OAB) – and Alizz Islamic Bank, marked their first anniversary and celebrated their first year of operations. In the same month, Alizz Islamic Bank signed an MoU with Pride Home and Max Electronics for personal asset finance (goods murabaha) services.

In August 2014, Bank Nizwa registered an increase in demand for auto-finance recording double sales across the Sultanate. Auto-finance products were launched in early 2013 and since then have shown a steady growth. Sohar bank launched its home finance product in 2014, which witnessed an impressive success, followed by the dedicated Sohar Islamic construction finance product that is structured on the Islamic mode of istisna' and forward ijara. The product offers flexibility through which one can build a new house or can purchase the under construction residential property and get it completed according to Islamic principles.

In September 2014, Al Madina Takaful – the first Takaful provider in Oman – underwent an IPO. It received approval from Securities and Commodities Authority to buy 9.53 percent shares of National Takaful Company (Watania), a listed takaful company in UAE.. Later on, Al Madina Takaful launched, Motor Prestige, an exclusive motor insurance for premium and luxury cars.

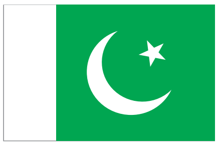
A major development on the sukuk front came in September 2014 when the government announced its plans to issue first sovereign sukuk of OMR200 million (US$520 million) for infrastructure projects. The announcement by Central Bank of Oman (CBO) will allow Islamic banking institutions to invest some of their excess liquidity in a secured Shari'a-compliant instrument. Other sukuk related activities included Al Madina Investment's assisting Tilal Development Company (TDC) in issuing a sukuk of OMR50 million (USD130 million) based on an ijara structure.

In September 2014, Meethaq Islamic Banking, in association with Visa International, launched a Shari'a-compliant prepaid card for pilgrims performing hajj or umra in Saudi Arabia. It would allow Meethaq's customers to withdraw cash or pay for expenses during travels for pilgrims. Meethaq and Zubair Small Enterprises Centre signed an MoU to extend support to entrepreneurs and owners of small businesses in the country. The main objective is to complement the government's efforts in empowering entrepreneurs to chart successful business ventures by providing necessary training, guidelines, and tools. Sohar Islamic bank has also extended support to SME sector by providing financing in a Shari'a-compliant manner. The central bank is encouraging banks and financial institutions to help entrepreneurs and provide them with essential financial support through their branches and offices across the Sultanate.

The achievements and hard work of individuals from the Sultanate were recognized at the GIFA 2014 held in Dubai in October 2014 when Dr Jamil Al Jaroudi, CEO Bank Nizwa, and Mr Sulaiman Al Harthy, General Manager, Bank Muscat, received Islamic Finance Personality of the Year 2014, and Upcoming Personality in Islamic Finance Award, respectively.

GIFR Verdict:

“ The Sultanate of Oman, though a late comer in IBF, has made substantial progress in this respect, and one should expect it to become an important player in IBF after initial period of learning. Once the dust settles, Oman will emerge as a strong regional player in IBF.



24. PAKISTAN

IFCI Ranking:									
2015	10	2014	9	2013	8	2012	8	2011	7

Macroeconomic Data 2014:		
GDP (US$ in billion): **574.1**	Unemployment Rate: **6.6%**	Inflation Rate: **7.7%**
Revenue: (US$ in billion): **29.71**	Expenditure (US$ in billion): **47.97**	External Debt (US$ in billion): **52.43**
Major Source of Revenue: **Agriculture, Overseas Remittances, Manufacturing, Finance, Service Industry**		Population Below Poverty: **22.3%**

The government of Pakistan together with the central bank, State Bank of Pakistan (SBP), is keen to promote IBF in the country. It is evident from the central bank's decision to have a dedicated deputy governor focusing on Islamic banking. At present, there are 5 full-fledged Islamic banks and 17 other commercial banks that offer Islamic banking services through window operations in the country.

In the year 2014, SBP launched an extensive research report "Knowledge, Attitude and Practices of Islamic Banking in Pakistan" – a study focusing on quantification of demand for IBF in the country. The KAP study was conducted by London-based Edbiz Consulting and funded by UK's Department for International Development (DFID). It was the largest study of its kind ever conducted anywhere in the world to quantify demand for Islamic banking in the country for retail as well as corporate clients in addition to identifying demand-supply gaps. The retail sample was 9,000 and included both banked and non-banked clients while the corporates were 1,000 and included small, medium and large businesses. According to the survey, there is an overwhelming demand for Islamic banking in the country, which is evenly distributed amongst rural and urban areas, varied income strata and educational levels. According to the analysis, the pent-up demand for Islamic banking is higher amongst retail (95%) than businesses (73%). The study indicated that individuals in rural areas or in low-income brackets have relatively limited access to financial services. This highlights a huge opportunity for Islamic microfinance in rural areas. The study further indicated that rural markets, SME, agriculture and microfinance sectors have huge financing needs and are potential clients of IBF. The regulators as well as banks and financial institutions are now using the study as a guiding tool in devising their policy frameworks.

In April 2014, SBP launched a five-year strategic plan to help Islamic banking institutions (IBIs) benefit from the opportunities and efficiently address the challenges. The SBP's strategic plan 2014 to 2018 for Islamic banking calls upon IBIs to increase their lending to agriculture and SMEs in a way that each sector gets at least 5 percent of their total deposits, or 10 percent of total financing, whichever is higher, by the end of 2015.

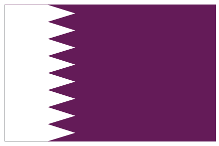
The major challenge identified was non-availability of qualified and trained human resources. SBP has also revised the minimum paid-up capital requirement for Islamic banking subsidiaries to Rs6 billion (US$58 million), giving them a five-year period to raise it while the minimum paid-up capital requirement required for all other banks is Rs10 billion (US$100 million).

Meezan Bank, the largest Islamic bank in the country, completed the acquisition of HSBC Pakistan's operations in 2014. Summit Bank also announced to convert its operation in accordance with Shari'a in the next three to five years. The bank's management earlier decided to offer Islamic banking parallel to its conventional banking but later planned to convert it to a full-fledged Islamic bank.

The growth of takaful industry has been slow. The regulator, Securities and Exchange Commission of Pakistan, in May 2014 allowed the insurance companies, both general and life, to launch takaful operations, parallel to conventional insurance products. There are at present five takaful operators in the country: Takaful Pakistan; Pak-Qatar Family Takaful; Pak Qatar General Takaful; Pak Kuwait General Takaful; and Dawood Family Takaful. With new rules, the regulator expects at least half of Pakistan's 50 conventional insurers will eventually start offering takaful products.

GIFR Verdict:

> “There is a definite surge in Islamic banking activities in Pakistan, following the 2013 general elections and the change of government. Given the huge size of population and increase in economic activity in the wake of improved security situation in the country, IBF is expected to benefit in Pakistan. Apart from full-fledged Islamic banks, conventional banks with Islamic window operations, especially the likes of Bank Alfalah, the country's 2nd largest Islamic banking operator, will play more significant roles in the IBF industry.



25. QATAR

IFCI Ranking:									
2015	8	2014	10	2013	11	2012	9	2011	12

Macroeconomic Data 2014:		
GDP (US$ in billion): **198.7**	Unemployment Rate: 0.3%	Inflation Rate: **3.1%**
Revenue: (US$ in billion): **77.54**	Expenditure (US$ in billion): **57.25**	External Debt (US$ in billion): **149.4**
Major Source of Revenue: **Oil and Natural Gas, Finance, Construction**		Population Below Poverty: **N/A**

The central bank's data shows that Islamic banks possess a market share of almost 43% percent of total banking assets in Qatar. At present there are four full-fledged Islamic banks operating in the country. These include: Qatar Islamic Bank , Masraf Al Rayan, Qatar International Islamic Bank (QIIB), and Barwa Bank. These Islamic banks performed better than the conventional banks in terms of growth and profitability during 2014. The international ratings agency Fitch upgraded rating of Al Khalij Commercial Bank, Qatar International Islamic Bank (QIIB) and Ahli Bank's long-term Issuer Default Ratings (IDR) to 'A' from 'A-' and also confirmed Qatar Islamic Bank's (QIB) Long-term IDR at 'A'.

In May 2014, QInvest and London Stock Exchange (LSE) organized a comprehensive Islamic finance seminar in London. The event attracted a broad mix of high-level industry bodies and Islamic finance practitioners from different parts of the world. The event aimed at exploring the opportunities for raising capital through Shari'a-compliant financing.

Later in June 2014, Barwa Bank was involved in the UK's inaugural sovereign sukuk, where the bank was appointed as one of the five joint lead managers, which also included HSBC, Standard Chartered, National Bank of Abu Dhabi and CIMB. In the same month, QIIB launched the first and only Ferrari credit card in Qatar, exclusively available to its premier banking (Wajaha) customers. QIIB also signed the first ever exclusive partnership with Alfardan Automobiles, the official BMW Group importer in Qatar to provide Islamic finance solutions to their customers. In September 2014, Qatari investors expressed their willingness and desire to set up an Islamic bank in Tajikistan, which would make it the first Islamic bank in the country. This was discussed when Ezdan Holding's chairman Sheikh Dr Khalid bin Thani bin Abdullah al-Thani called upon Tajikistan President Emomalii Rahmon in the country's capital Dushanbe.

Qatar's Islamic banks have shown a phenomenal growth during last few years. They have been actively involved in educational and social initiatives in the country. In October 2014, Barwa Bank confirmed its support to the Kawader programme, a leading educational and training initiative launched by Qatar Finance and Business Academy (QFBA) to contribute to the development of human resources and keep pace with the rapid developments in the financial sector.

Masraf Al Rayan also completed acquisition of the only Shari'a-compliant retail bank in the UK, Islamic Bank of Britain (now renamed as Al Rayan Bank).

GIFR Verdict:

> Qatar has fast emerged as an IBF powerhouse, competing with other well-established players in the GCC region. The Qatar Islamic financial institutions are behind a number of developments in the field of IBF in Muslim and non-Muslim countries, making Qatar as a major player in the global Islamic financial services industry.

26. RUSSIA

IFCI Ranking:									
2015	N/A	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:		
GDP (US$ in trillion): **2.553**	Unemployment Rate: **5.8%**	Inflation Rate: **6.8%**
Revenue: (US$ in billion): **439**	Expenditure (US$ in billion): **450.3**	External Debt (US$ in billion): **714.2**
Major Source of Revenue: **Oil and Natural Gas, Exporter of Steel and Primary Aluminum, Chemical, Manufacturing**		Population Below Poverty: **11%**

Islamic banking in Russia is still in an embryonic stage despite a significant Muslim HNWIs living in the country.

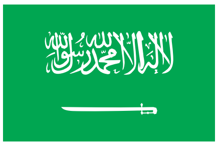
Russian banks have requested the central bank for bringing legislative changes to promote Islamic finance in the country. It will be another avenue for attracting and seeking financing from cash rich countries, as the country faces economic sanctions.

Vnesheconombank, Russia's state development bank, is seeking advice from lenders and other financial institutions in the Middle East on the possibility of issuing its first sukuk. The heads of Russian banks and companies, including Vnesheconombank and Uralvagonzavod, discussed Islamic finance as part of a two-day meeting in Bahrain with their counterparts in December 2014.

A major event is being organized on an annual basis for last few years in Kazan, the "International Summit on Economic Cooperation between the Russian Federation and the Countries of the OIC." Islamic Business and Finance Development Fund (IBFD Fund) is the main organizer of the event with the support from the government of the Republic of Tatarstan. The prime objective of IBFD is to create and encourage bilateral economic and business relationships between Russia and the OIC member countries. In October 2014, IBFD Fund signed an agreement of co-operation with the London based Islamic finance advisory firm Edbiz Consulting for promotion and development of Islamic finance in Europe and Russia.

GIFR Verdict:

> Russia has a significant number of Muslim HNWIs who are very influential politically. The global Islamic financial services industry must connect with them to promote IBF in the country. The Russian Federation and the countries in the CIS block have historical links with Turkey, and with the growing leadership role of Turkey in IBF, one should expect that IBF would make inroads into Russia through a close cooperation with Turkey.



27. SAUDI ARABIA

IFCI Ranking:

2015		2014		2013		2012		2011	
2015	3	2014	3	2013	3	2012	3	2011	3

Macroeconomic Data 2014:

GDP (US$ in billion): **927.8**	Unemployment Rate: **10.5%**	Inflation Rate: **3.7%**
Revenue: (US$ in billion): **302.6**	Expenditure (US$ in billion): **258.4**	External Debt (US$ in billion): **149.4**
Major Source of Revenue: **Petrochemical Sector, Natural Gas, Construction and Telecommunications**		Population Below Poverty: **N/A**

Saudi Arabia has been a very important player for the development of IBF globally. It has been ranked number three behind Iran and Malaysia according to IFCI as the most developed Islamic banking and finance country for five consecutive years. Islamic Development Bank (IDB), based in Saudi Arabia has extended loans worth US$100 billion to the member states since its inception to finance development projects and played a vital role in accelerating economic growth in Muslim countries. Its subsidiaries, namely, International Corporation for Development of the Private Sector (ICD), Islamic Corporation for the Insurance of Investment & Export Credit

(ICIEC), Islamic Research & Training Institute (IRTI), International Islamic Trade Finance Corporation (ITFC), Islamic Solidarity Fund for Development and World Waqf Foundation, have been instrumental in promoting IBF in the member countries of the OIC. Thus, IDB has been at the forefront of promoting Islamic financial services industry through partnership with governments, private sector and multilateral financial institutions in different parts of the world.

In the first quarter of 2014, the National Commercial Bank (NCB) successfully issued its SAR5 billion (US$1.3 billion) 5-year subordinated Tier II capital sukuk. This is the largest issuance by a financial institution in the Kingdom of Saudi Arabia and the largest subordinated debt instrument issued by a financial institution in the MENA region. In March 2014, two largest Islamic financial markets, Saudi Arabia and Malaysia[1], formalised their ties to help the industry grow in both countries by sharing expertise and developing human resources jointly.

In April 2014, ICD and the Orient Bank signed a line of financing agreement for a US$6 million facility in Tajikistan. ICD also recently established ASR Leasing Company in Tajikistan, a firm specialized to provide Shari'a-compliant leasing products to the SME sector. This further substantiates ICD's commitment to develop the private sector entities in the member countries. Another development between ICD and KSA's Ministry of Finance was to launch a national home finance company to assist and finance middle-income homebuyers across the Kingdom and thus improve home ownership base amongst the low-income population in the country. ICD is an active investor in housing related initiatives in the Kingdom and other OIC countries and a major sponsor of Ewaan Global Residential Company, which is developing several residential projects in Riyadh and Jeddah.

Saudi Arabian government has US$375 billion worth of infrastructure projects in the pipeline and to finance these projects, the Kingdom is increasingly turning to Shari'a-compliant financing, such as sukuk, in part due to the lower levels of risk and more predictable rates of return.

The Saudi Ministry of Finance created a Kafala Programme that through Saudi Industrial Development Fund (SIDF) and Saudi banks aims to promote financing to the SME sector in the Kingdom. In this Programme, banks offer up to SAR2 million (US$0.53 million) of financing to customers, whereas the Kafala Programme guarantees 80% of the financing amount.

In order to expand King Abdullah Port, the first privately developed and operated port in the Kingdom, Ports Development Company (PDC) and Banque Saudi Fransi (BSF) signed agreements governing SAR528 million (US$140m) murabaha bridge financing in May 2014. The port's medium-term plan is to develop container capacity of 7 million TEU's (twenty foot equivalent units) in addition to bulk and general cargo services. Later on BSF, announced its successful issuance of a SAR2 billion (US$530 million) sukuk through a private placement inside the KSA. This sukuk will support the Bank's capital base in accordance with Basel III. Furthermore in June, Saudi Arabian retailer Fawaz Abdulaziz Alhokair & Co. completed SAR500 million (US$133 million), five-year sukuk issue, its first issue of an Islamic bond.

In June 2014, Saudi Kuwait Finance House's (SKFH) IPO of Baitak Fund received huge interest. Baitak Fund started in May 2014 after the approval of Saudi Capital Market Authority, and aimed for investors wishing to achieve actual returns that are competitive to the returns of other enlisted shares investing products. In July, FALCOM Financial Services, one of the leading companies licensed by Saudi Capital Market Authority, and SEDCO Capital signed a strategic partnership agreement in Riyadh whereby SEDCO Capital will manage the investment portfolio of FALCOM . SEDCO Capital is a wholly owned subsidiary of Saudi Economic and Development Company and a leading asset manager offering investment solutions in accordance with the principles of Shari'a.

AlKhair Capital, the leading Saudi-based investment institution, launched AlKhair Capital Plus Sukuk Fund in June 2014. It is an open-ended fund for investments in fixed income markets aimed at generating regular income as well as achieving capital appreciation. Another open-ended sukuk fund was launched by Al Rajhi Capital, one of the leading asset managers in the country, to capture the opportunities available within the

1. As reported in Chapter 1, Saudi Arabia and Malaysia jointly hold $588billion in IBF assets by the end of 2014, making them two most important players in the global Islamic financial services industry.

Shari'a-compliant universe of sovereign, quasi-sovereign and corporate sukuk, issued locally, regionally, as well as globally. It is an attractive proposition for individual and institutional investors aiming for superior long-term risk-adjusted returns relative to the current money market rates.

In September 2014, Saudi Arabia's Emaar Economic City secured SAR2 billion (US$530 million) murabaha financing from Saudi British Bank (SABB), an affiliate of HSBC Holdings, which will primarily be used to build residential and infrastructure projects in King Abdullah Economic City and will mature in September 2021.

GIFR Verdict:

"Saudi Arabia is perhaps the most important player in the global Islamic financial services industry. Although it lags behind Iran on IFCI, it is the most influential player in the global Islamic financial services industry along with Malaysia that is expected to become number one by 2020, surpassing Iran. Also, it is one of the 2020:6:50 countries, and is expected to have at least 50% share of IBF domestically by 2020. Through IDB, it will continue to exert its influence in the OIC member countries where IBF is fast assuming mainstream relevance.

28. SOUTH AFRICA

IFCI Ranking:

2015	25	2014	N/A	2013	N/A	2012	N/A	2011	N/A

Macroeconomic Data 2014:

GDP (US$ in billion): **595.7**	Unemployment Rate: **24.9%**	Inflation Rate: **5.8%**
Revenue: (US$ in billion): **88.53**	Expenditure (US$ in billion): **105.5**	External Debt (US$ in billion): **139**
Major Source of Revenue: **Metals and Minerals, Machinery and Equipment, Finance, Communications and Energy Sector**		Population Below Poverty: **31.3%**

The government of South Africa is keen to promote IBF in the country, as regulators have taken various measures in this regard. The country has one full-fledged Islamic bank – Al Baraka Bank – operating for more than 20 years. There are some conventional banks offering Islamic financial products through their windows, such as First National Bank (FNB), Absa Bank and HBZ Bank. However, Islamic banking assets represent only 2% of the total banking assets.

In February 2014, South African government announced to launch its first sukuk, as the government tried to tap a broad range of lenders to limit its risk exposure. The sukuk was issued in September 2014 through ZAR Sovereign Capital Fund Proprietary Limited (acting as trustee of the RSA Sukuk No.1 Trust) with an aggregated face value of US$500 million, having a 5.75 year tenor and a fixed rate profit payment of 3.90 percent. The issuance was well received by the industry and the sale was more than four times oversubscribed, with an order book of US$2.2bn showing appetite for sukuk in the country. The sukuk, which matures in June 2020, uses an ijara structure with cash flows based on infrastructure assets.

GIFR Verdict:

" Muslim population in South Africa is very devout. It is one of the few Muslim-minority countries where Muslims are more affluent than other communities, presenting an opportunity for Islamic wealth managers to tap the Muslim HNWIs in the country.

29. SINGAPORE

IFCI Ranking:									
2015	23	2014	21	2013	26	2012	23	2011	33

Macroeconomic Data 2014:		
GDP (US$ in billion): **339**	Unemployment Rate: **1.9%**	Inflation Rate: **2.4%**
Revenue: (US$ in billion): **45.67**	Expenditure (US$ in billion): **41.83**	External Debt (US$ in billion): **1.174**
Major Source of Revenue: **Consumer Electronics, Information Technology Products, Pharmaceuticals, Financial Services Sector**		Population Below Poverty: **N/A**

Islamic finance is growing in Singapore but more work and efforts are required to fully benefit from its growth in a country where Muslims make up 14 percent of its 5.6 million people. Around fifteen banks are involved in Islamic banking and hold about a third of the Islamic assets in Singapore. The rest of Islamic assets are in outstanding sukuk and takaful or Islamic insurance in the country. Singapore to-date had nearly 30 sukuk issuances, with seven in 2013.

However, there were no significant developments in Islamic finance industry in 2014 as only one institution issued a sukuk and was able to raise US$150 million. The Sabana Shari'a-compliant Industrial Real Estate Investment Trust issued two tranches in March and September and remained the only sukuk issuer in the year 2014. Lack of Islamic pension funds and sukuk investors were among the reasons behind low Shari'a-compliant activities in the country.

GIFR Verdict:

" Singapore will remain in the shadows of Malaysia that has proven to be the most aggressive global player in the Islamic financial services industry. After a period of initial enthusiasm, the Singapore market seems to be settling on a low level of IBF activities. Unless a major push comes internally or externally, one should not expect any further breakthrough in IBF in Singapore.

30. THAILAND

IFCI Ranking:									
2015	29	2014	27	2013	30	2012	27	2011	29

Macroeconomic Data 2014:		
GDP (US$ in billion): **673**	Unemployment Rate: **0.7%**	Inflation Rate: **2.2%**
Revenue: (US$ in billion): **80.91**	Expenditure (US$ in billion): **92.9**	External Debt (US$ in billion): **142.6**
Major Source of Revenue: **Electronics, Agricultural Commodities, Tourism, Automobiles & Parts and Processed Foods**		Population Below Poverty: **13.2%**

Islamic Bank of Thailand – the sole Islamic bank in the country – had for some time been in red but it returned to profit of 2.7 billion baht (US$83 million) in 2013 from a loss of 13.25 billion baht (US$410 million) the previous year. The bank's profitability is expected to sustain, as it fundamentally was owing to growing deposits and expanding small business financing. The bank has also scrapped some of its operations, resulting in decline in its bad debts and non-performing loans. The management now intends to increase capital levels to comply with regulatory requirements.

There are other small credit unions in the country with promising growth. As-Siddeek Islamic Co-operative Limited's membership has grown to over 10,000 customers and total assets now exceed 1 billion baht (US$31.1 million). The current membership includes about 80% Muslims and 20% non-Muslims. These institutes are financing several successful projects, such as construction of schools and other small social development projects, financing on Shari'a-compliant basis to their customers, and creating awareness of Shari'a-compliant financial system in the country.

GIFR Verdict:

“ Thailand – a Muslim-minority country neighbouring Malaysia – can benefit from the experience in IBF of other countries in the ASEAN region.

31. TURKEY

IBF is rapidly expanding in the Turkish market as the government is supporting all major initiatives in the industry and encouraging the institutions to offer Islamic financial services. Earlier, the public lenders stayed out of Islamic financial market due to a number of reasons but increasing support of the current regime is encouraging the financial institutions to enter this growing market. The Participation Banks Association of

IFCI Ranking:									
2015	12	2014	12	2013	13	2012	14	2011	14

Macroeconomic Data 2014:		
GDP (US$ in trillion): **1.167**	Unemployment Rate: **9.3%**	Inflation Rate: **7.6%**
Revenue: (US$ in billion): **190.4**	Expenditure (US$ in billion): **207.9**	External Debt (US$ in billion): **359.5**
Major Source of Revenue: **Agriculture, Banking, Transport, Manufacturing and Communication**		Population Below Poverty: **16.9%**

Turkey forecasts Shari'a-compliant assets will account for 15 percent of the banking industry by 2023, from the current share of 5 percent in 2014.

Currently, there are four private Islamic banks operating in Turkey: Albaraka Turk, Bank Asya, Kuveyt Turk and Turkiye Finans, out of which Albaraka and Kuveyt Turk have Middle Eastern shareholdings. In October 2014, Ziraat Bank, the largest state-run bank got permission to set up a "participation bank" with US$300 million capital. Ziraat has been given nine months to establish the new bank.

Another major development in the Islamic financial sector was the state owned bank "Vakifbank" planning to convert its operations in line with Shari'a. In the year 2014, Turkey's largest lender applied for permission to start Islamic banking services as the government pushes to increase the share of Shari'a-compliant finance in the country. In this regard, the authorities have already submitted a bill to the parliament to clear legal hurdles.

In April 2014, King & Spalding advised Turkiye Finans on the issuance of US$500 million senior unsecured certificates due in 2019, listed on the Irish Stock Exchange. The certificates were issued through TF Varlik Kiralama a local asset leasing company. The other organizations involved in the transaction were Citigroup Global Markets Limited, Emirates NBD, HSBC and QInvest as joint lead managers.

The existing Islamic banks are responding by diversifying their funding sources and exploring new business lines as per the market share, trends and requirements. In October 2014, Kuveyt Turk raised 150 million lira (US$59 million) through sukuk, in the largest domestic private placement. This was a major shift by the bank to finance its operations from relying mainly on syndicated murabaha Islamic loans to sukuk. The bank has also joined hands with Albaraka Turk to set up a private pension firm, Katilim Emeklilik, to tap the growing retirement sector.

Another development was Aktif Bank, the country's largest privately owned investment bank, receiving regulatory approval to issue 200 million lira (US$91 million) sukuk in September 2014. The bank will sell sukuk to qualified investors through its asset leasing company, Aktif Bank Sukuk Varik Kiralama. Few other developments in sukuk included Aktif Bank's support to raise a one-year 100 million lira (US$40 million) sukuk for Agaoglu Group using a mudaraba structure. Regulators also allowed Turkish conglomerate Dogus Group to raise US$370 million through sukuk and it would be the first dollar-denominated corporate transaction of its kind in the country. Al Baraka Turk Participation Bank successfully completed issuance of sukuk worth US$350 million, using a wakala-cum-mudaraba sukuk structure. It received an overwhelming response of orders, the total subscriptions reaching US$750 million. The issue was made through the bank's leasing subsidiary, Bereket Varlik Kiralama and was listed on the Irish Stock Exchange.

Some regulatory interventions are required to help the growth of takaful market in the country. At present, the regulatory framework limits the scope for full takaful operations, as it is yet to see the entry of full-fledged takaful operators or even new takaful products by participating banks. Takaful is only offered by two firms Neova Sigorta and Asya Emeklilik. However, the increasing success of Islamic banks and the government's efforts to promote the industry are expected to open up the market for takaful operators.

GIFR Verdict:

Turkey has emerged as an active player in the global Islamic financial services industry. The history of participation banks in the country is quite old, and with the newly emerged government support for IBF, Turkey is set to play an even bigger role. Its close proximity with the Gulf states and its strategic geographic location make it an ideal place for doing cross-border Islamic financial business.

32. TUNISIA

IFCI Ranking:									
2015	28	2014	28	2013	28	2012	20	2011	25

Macroeconomic Data 2014:		
GDP (US$ in billion): **108.4**	Unemployment Rate: **17.2%**	Inflation Rate: **6.1%**
Revenue: (US$ in billion): **12.16**	Expenditure (US$ in billion): **15.8**	External Debt (US$ in billion): **26.95**
Major Source of Revenue: **Textiles and Apparel, Food Products, Petroleum Products, Chemicals and Tourism**		Population Below Poverty: **3.8%**

Tunisia has recently introduced Islamic finance in the country and there have already been few notable developments. The sukuk issuance of US$500 million planned for 2014 was postponed till 2015. Tunisia passed a law allowing sukuk in 2013 and they were optimistic to attract large amounts of Islamic-oriented funds from the Gulf and other parts of the world. Government of Tunisia needs 5 billion Tunisian dinar (US$2.56 billion) in foreign financing and in this regard Tunisia will issue US$1.75 billion of dollar-denominated bonds and sukuk in 2015 as it seeks funds to revive economic growth. Overall financing need is around 8 billion Tunisian dinars (US$4.10 billion) out of which 5 billion (US$2.56 billion) is anticipated from foreign sources.

Another development in October 2014 was the announcement of El Wifack Leasing, based in southern Tunisia, that it had received regulatory approval to turn into a bank with a capital of 150 million Tunisian dinar (US$77 million).

GIFR Verdict:

Like other North African countries with French influence on their legal systems, Tunisia will find it challenging to introduce a complete range of Islamic financial products. The progress is expected to be slow in the beginning but once it has developed a critical mass in Islamic financial assets, sustainability of IBF will be easy for the country, given its enthusiastically Shari'a sensitive population.

33. UNITED ARAB EMIRATES

IFCI Ranking:									
2015	4	2014	6	2013	4	2012	5	2011	5

Macroeconomic Data 2014:		
GDP (US$ in trillion): **269.8**	Unemployment Rate: **2.4%**	Inflation Rate: **1.3%**
Revenue: (US$ in billion): **138**	Expenditure (US$ in billion): **118.3**	External Debt (US$ in billion): **167.9**
Major Source of Revenue: **Oil & Gas, Tourism, Trade, Finance**		Population Below Poverty: **19.5%**

UAE has emerged as a serious player in Islamic economics, banking and finance, making significant efforts to be the global hub for Islamic economy. The UAE's Shari'a-compliant financial assets crossed US$144 billion in 2014 compared to US$123 billion in 2013. Dubai is preparing itself to host the Expo 2020, and is working extensively on developing its core sectors, including food and beverages, finance, travel, pharmaceuticals, cosmetics, clothing, media and recreation. The halal tourism sector is expected to grow from US$137 billion to US$284 billion, and halal food sector is forecast to grow from US$1.008 billion to US$2.5 billion over the next five years. The Emirate is investing US$9 billion to develop the infrastructure for the Expo and it is expected to attract more than 25 million visitors from around the world. The whole process will be creating an estimated 277,000 jobs.

In January 2014, a major player in the UAE market, Noor Islamic Bank, changed its name to Noor Bank. Other Islamic banks, the likes of Emirates Islamic, Abu Dhabi Islamic Bank (ADIB), have also rebranded themselves in an attempt to modernise and streamline Islamic banking in the country.

Among the major developments in the sukuk industry last year included GEMS Education listing of a US$200 million sukuk on NASDAQ Dubai at Dubai Financial Market (DFM). The sukuk focused on providing high quality education in the UAE and internationally demonstrating the growing social and economic benefits of Islamic finance in Dubai.

In the same month, ADIB granted an AED450 million (US$123 million) Islamic finance facility to Al Dhafra Cooperative Society to fund working capital and capital expenditure. This will help Al Dhafra Cooperative Society to implement and complete a number of major projects to boost economic and social development in line with the government's Western Region 2030 Strategy.

The sukuk industry has been contributing mainly to finance government projects and corporate expansion over the past decade and the UAE is at the forefront of the countries in terms of the size of the issuance, trading and global turnout in the market. Another move in construction sector in UAE, Saadiyat Development and Investment Company (SDIC) signed a strategic agreement with Aseel Islamic Finance to provide its customers with Shari'a-compliant financing for villas located in Hidd Al Saadiyat, a luxurious residential development project on Saadiyat Island in Abu Dhabi. This transaction will help SDIC to provide its customers the most convenient options of obtaining tailor-made finance solutions in accordance with Shari'a.

In March 2014, Dubai Exports announced to issue an online halal index to list all UAE-based firms involved in production, marketing and distribution of products that are Shari'a-compliant. The index will be set up by Dubai Exports, an agency of the Department of Economic Development and will include relevant information about all the halal companies, banks, financial institutions, Islamic products and Islamic services in Dubai to facilitate the growth of Dubai's halal exports, which is well established globally.

In the same month, Dubai Investments Park Development Co listed a US$300 million sukuk on Nasdaq Dubai. In March 2014, a major development in establishing an import-export Islamic bank came at the forefront when Dubai's Department of Economic Development (DDED) explored the possibility with Noor Investment Group to set up world's first Islamic export-import (Exim) bank to boost Emirate's foreign trade. The proposed bank will provide a multiple range of products and services aimed at supporting trade flows into and out of the Emirate. It will also assist businesses in the UAE to grow their trade flows by providing risk mitigation, financing and market access. It will be the first fully Shari'a-compliant institution of its kind, once established.

Another successful US$650 million five year Regulation 'S' senior unsecured Sukuk issued by DAMAC Real Estate Development Limited, a leading developer of high-end and luxury residential property in the Middle East, was listed on NASDAQ Dubai and Irish Stock Exchange. The order book for the issue was US$2.7 billion witnessing an oversubscription of more than 4 times from institutional investors across Europe, the Middle East and Asia. The proceeds will be used for general corporate purposes and for the acquisition of land plots to strengthen and extend the company's development pipeline.

ADIB arranged and successfully closed an AED1.2 billion (US$333 million) syndicated Islamic facility for IMG Theme Park in April 2014 and acted as the mandated lead arranger, investment agent, security agent and account bank for the transaction. The multi-themed entertainment park will be a world-class tourist attraction for the 10 million tourists visiting UAE. In the same month, ADIB signed an agreement to take over the retail banking operations of Barclays Bank in the UAE.

There were couple of new regulations and amendments by the Securities and Commodities Authority (SCA) in April 2014. The board of directors approved and emended two other regulations to update them to match with latest developments in the financial markets and to the best international practices on the advanced international market. Al Hilal Bank announced the launch of its new Global Balanced Fund designed for those investors interested in participating in the growth and income potential of Shari'a-compliant equities and sukuk from around the world. It is an open-ended Shari'a-compliant investment instrument with unique weekly subscription and redemption features, aiming to provide a steady stream of annual income to investors. Later on, IFSB also revised capital requirements for Basel III, which would help to strengthen the Islamic finance industry in terms of capitalization and liquidity management in the Islamic financial institutions. Basel III's primary goal is to increase the level, quality, and global consistency of regulatory capital and standardize the required deductions and adjustments.

In June 2014, Dubai Islamic Bank (DIB), the leading Islamic Bank in UAE, announced the complete acquisition of 24.9 percent shares in Bank Panin Syariah of Indonesia to later initiate formal regulatory approval process to obtain "Significant Shareholder Status" from the Financial Services Authority of the country. DIB intends to acquire 40 percent stake in Bank Panin Syariah in second phase of its acquisition. In July 2014, United Arab Bank announced the completion of a 3-year syndicated murabaha facility worth US$100 million with four banks based in the UAE, Bahrain, and Kuwait. The murabaha deal is the first Islamic syndication completed by the bank. Al Hilal Bank served as the lead arranger and book runner for the deal, while the Arab Banking Corporation and Sharjah Islamic Bank and National Bank of Kuwait were the other lead arrangers.

In August 2014, a Shari'a-compliant financing arrangement of US$425 million (Dh1.56 billion) by 3 UAE banks, namely ADIB, Commercial Bank of Dubai (CBD) and DIB, was finalized with Emirates Airlines for the acquisition of two Airbus A380s. Two month later, DIB signed another aircraft financing deal to facilitate the delivery of six new Airbus A320 aircrafts in 2015 with Air Arabia. The US$230 million ijara facility will finance the delivery of a new aircraft every two months starting January 2015, with the final unit being handed over by the end of the 2015.

In September 2014, Empower, the world's largest district cooling services provider, secured a US$127.8 million financing from DIB, marking the first Islamic financing facility availed by the company aimed to fund Empower's development plans in Dubai's Business Bay area. Later on in the same month, another Islamic finance facility was arranged for a UAE-based Jafza entity. Dubai's Noor Bank, Qatar Islamic Bank (QIB) and Kuwait's Warba Bank were the lead arrangers whereas Noor Bank acted as book runner for the facility along with its role as the account bank, documentation bank, Shari'a coordinator, as well as investment and security agent in the transaction. In another development in same quarter, DIB announced its signed agreement with Union Properties, a property development company, to provide it with an AED360 million (US$98 million) re-financing facility. The Islamic re-financing facility from DIB will assist the company to effectively manage its balance sheet and to enhance focus on its core business and expansion plans as the developer looks to capitalize on the opportunities currently available in the real estate market. In order to encourage customers to focus on long term savings, Emirates Islamic announced the launch of a five year wakala investment option, with an expected profit rate of 2.5 percent per annum in September 2014, for investments starting from AED100,000 (US $27,000) up to AED25 million (US$9.53 million).

Another addition in growing Islamic finance sector came in October 2014, when National Bank of Fujairah (NBF), a leading bank in UAE, announced its Islamic banking operation. To start with, NBF Islamic will offer a suite of retail banking products catering to key customer financial requirements. Later on, plans are also underway to expand NBF Islamic's service offerings to better support companies and businesses in the UAE by the bank's management.

Later in the year, ADIB signed an agreement with Zakher Marine International Inc. to arrange a US$420 million (Dh1.55 billion) financing for its new shipbuilding programme, including 15 vessels and 3 self-elevating accommodation barges. ADIB was the sole book runner and lead arranger. There was an overwhelming response from the financial institutions as the deal was two times oversubscribed. Adding to the bank's success, there was another major development in December of finalizing an AED1 billion (US$270 million) finance facility to Bani Yas Investment and Development Company, the investment arm of Bani Yas Sports Club.

In October 2014, Dubai hosted the 10th World Islamic Economic Forum attended by a record 3,215 delegates from over 108 countries. The WIEF Foundation in collaboration with Dubai Chamber and Dubai Islamic Economy Development Centre organized the event. The three-day forum attracted a large number of local, regional and international participations.

GIFR Verdict:

" There is no doubt that UAE as a whole and Dubai as part of it are instrumental in a number of global developments in IBF. Under the patronage of the ruling families of the Emirates, IBF has experienced significant progress, which will go from strength to strength. Any serious player in IBF must not ignore Dubai.

34. UNITED KINGDOM

United Kingdom (UK) has been in a lead role in IBF outside the Muslim world. The scope of UK's Islamic finance market is widening with several initiatives of government and private sector. In June 2014, UK became the first Western country to sell GBP200 million sovereign federal sukuk, enhancing its industry credentials. This was followed by Luxembourg, as mentioned earlier. For further details on the UK government sukuk, see Chapter 10.

The UK is home to 22 institutions offering Shari'a-compliant financial products, which include six full-fledged Islamic banks such as the Bank of London and the Middle East (BLME), European Islamic Investment Bank (EIIB), Gatehouse Bank, Qatar Islamic Bank (QIB UK), Abu Dhabi Islamic Bank and Al Rayan Bank.

IFCI Ranking:									
2015	14	2014	13	2013	12	2012	11	2011	15

Macroeconomic Data 2014:		
GDP (US$ in trillion): **2.49**	Unemployment Rate: **7.2%**	Inflation Rate: **2.0%**
Revenue: (US$ in trillion): **1.023**	Expenditure (US$ in trillion): **1.112**	External Debt (US$ in trillion): **9.577**
Major Source of Revenue: **Trade, Banking Insurance & Business Services, Manufacturing Information Technology**		Population Below Poverty: **16.2%**

In April 2014, the UK and Bahrain agreed on a joint framework to enhance collaboration on Islamic finance at the UK-Bahrain Islamic Finance Summit held in London. An MoU was signed between the authorities of both sides which set out plans to boost cooperation through an education and skills programme and the establishment of a working group devoted to the development of Islamic finance, and trade and investment between the two countries.

In May 2014, the Bank of England increased the categories of Shari'a-compliant debt instruments that Islamic banks can use in their liquidity buffers. Islamic banking is only a small fraction of the British banking sector. However, the new regime is likely to create a friendlier environment for Islamic finance, allowing banks to operate more flexibly and efficiently. The new rules allow Islamic banks to hold a variety of instruments, ranging from sukuk issued by the Qatar government to those issued by Saudi Arabian businesses.

Since October 2014, as per government statement, the central bank is evaluating the option to develop a liquidity management tool for Islamic banks, while Britain's export credit agency expects to guarantee a sukuk in 2015.

In the same month the only Islamic retail bank in the country Islamic Bank of Britain announced its formal takeover by Masraf Al Rayan and its plans to change the name to Al Rayan Bank, which was subsequently approved by the board as well as the regulators. In December 2014, the bank changed its name to Al Rayan Bank, to reflect its status as part of the Masraf Al Rayan (MAR) Group of Companies.

A significant setback came last year when London-based EIIB – first Islamic investment bank in the country – started discussions with regulators to turn down its banking license. EIIB was seriously considering more stable income options from its asset management and advisory services and closing its deposit side of banking. In July 2014, EIIB also failed to secure regulatory approvals to appoint its chief financial officer. The largest Islamic bank in the UK, BLME is developing its private banking services with Bank Muamalat of Malaysia.

Outside banking sector, there were few developments across asset management companies such as London Central Portfolio (LCP), which launched two Shari'a-compliant property funds in year 2014 to capitalize the rapidly growing market. Another major development, was London's Battersea Power Station project announcement of securing a GBP467 million Islamic syndicated loan. It was part of a GBP1.35 billion financing package for the second and third phases of the project. Maybank Islamic financed the major portion GBP200 million, while the rest was split between Malaysia's CIMB Bank and Standard Chartered Bank.

The UK is one of the most desirable places to study in the world with around 100,000 international students studying at different UK universities. Islamic finance is being taught at a number of universities and other educational institutions. Some of the prominent are, Chartered Institute for Securities & Investment (CISI), Chartered Institute of Management Accountants (CIMA), Institute of Islamic Banking and Insurance (IIBI), Durham University, and Markfield Institute of Higher Education (MIHE).

During the year, a major development in education sector was the UK government announcing to develop Shari'a-compliant loans for Muslim students. To start with, a takaful-based Islamic finance model was selected to offer Shari'a-compliant finance to Muslim students. The takaful fund will be established with an initial amount of money that can be donated to the fund, on the basis of qard hasan (interest-free loan) and on a concept of mutual participation and guarantee.

GIFR Verdict:

“London will continue to play an important role in the global development of IBF. As a major centre of excellence in IBF, London has remained central to IBF and with the friendly approaches adopted by successive governments towards IBF, the leadership role of London (and UK) will further strengthen.