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ISLAMIC FINANCE DEVELOPMENT REPORT 2015

GLOBAL TRANSFORMATION

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Contents

Executive Summary

For the third consecutive year, the Islamic Finance Development Indicator report details the progress of the Islamic finance industry across 108 nations, 16 of which are new entrants this year. All 108 are assessed against 5 indicators: Quantitative Development (QD), Knowledge, Governance, Corporate Social Responsibility (CSR), and Awareness.

For the third year running, Malaysia leads the IFDI while GCC countries continue to dominate the top 10 rankings.

Malaysia has improved on its leadership. It tops 3 indicators — QD, Knowledge, and Awareness (2013 — 2nd) is in 2nd place for Governance (2013 — 2nd) and trails in 7th for CSR (2013 — 8th).

Among the GCC countries, UAE switched positions with Oman on the overall indicator — the former climbed up one place to 3rd and the latter dropped from 3rd to 4th.

The UAE is in the top 10 on all 5 indicators while Oman slipped on the QD and Knowledge indicators, resulting in its moving down one rung on the overall rankings. Saudi Arabia, which is the world's 2nd biggest jurisdiction in terms of Islamic finance assets, jumped to 6th from 9th overall largely due to its CSR improvements.

Pakistan, Jordan, Hong Kong, India, Botswana and Ivory Coast are some of the countries that have demonstrated positive movements in the IFDI 2015 ranking.

>
Muslim pilgrims pray atop Mount Thor in the holy city of Mecca ahead of the annual haj pilgrimage REUTERS/Ibraheem Abu Mustafa

Islamic finance assets grew by 9.4 percent to reach $1.814 trillion in 2014

Islamic finance is considered the most developed sector of the Islamic economy. In 2014, global Islamic finance assets climbed to $1.814 trillion, representing a 9.4 percent rise from $1.66 trillion in 2013. The industry grew at a CAGR of 2.37 percent for 2012-2014.

This increase was driven by strong growth in all sectors — Islamic banking, takaful, outstanding sukuk and net value of Islamic funds. The value of assets in the Islamic finance sector is expected to increase by 80 percent over the next five years, reaching $3.24 trillion by 2020.

The total number of Islamic financial institutions operating globally has reached 1,143, divided between 436 Islamic banks/windows, 308 takaful institutions and 399 other Islamic financial institutions (which include financing and investment companies). Most of these Islamic financial institutions are located in the GCC and Southeast Asia, while the others are distributed between other MENA countries, South Asia and other regions. The bulk of Islamic finance assets are held by Saudi Arabia, Iran, Malaysia and UAE.

378 institutions offered Islamic finance education in 2014

The number of Islamic finance degrees and courses as well as research papers increased in 2014, with 2013 leaders Malaysia, Bahrain, and Jordan retaining their leadership positions on the Knowledge Indicator for 2014.

378 institutions offered Islamic finance education in 2014. Malaysia and UK lead 36 countries that offer Islamic finance degrees through 141 institutions.

The number of institutions offering Islamic finance degrees and courses in Malaysia increased to 209 from 140, Bahrain had 78 from 62 and Jordan 61 from 53.

On the Research sub-indicator, there were 1,490 research papers in the past 3 years (2012-2014), out of which 1,145 were peer-reviewed. There is a substantial gap between Malaysia's research output and that of the other countries.

GCC dominates top 10 on the Governance indicator, highlighting more transparent and secure financial markets

Bahrain and Malaysia maintained their respective 1st and 2nd positions on the overall Governance indicator, which considers two factors: Corporate Governance, and Shariah Governance. There remains a huge gap between the two leaders and the rest of the countries.

Bahrain, Malaysia, Pakistan, Nigeria, and Indonesia are the jurisdictions with the most complete set of Islamic finance regulations. These are the jurisdictions providing best practice models for Islamic finance governance, and which are considered by new markets such as France, Germany, Ghana, and Russia.

In 2014, there were 952 Shariah scholars practising in the global Islamic finance industry. 75 percent of the 952 scholars practise primarily in the top 10 countries of the IFDI.

On Corporate Governance, Oman, Maldives and Kuwait are the strongest, with South Africa and Malaysia not far behind by the number of CG items disclosed and the composition of Board, and Risk Management and Audit committees.

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ISLAMIC FINANCE GATEWAY

Saudi Arabia outright leader on CSR indicator with highest amount of zakat disbursed

There is a serious lack of disclosure of CSR activities and funds disbursed. Only 25 out of 108 countries that make up the IFDI universe contributed to the CSR indicator. Of the 25 countries that had any CSR Disclosure, not all institutions disclosed the amount of zakat, charity or qard al hasan funds.

Palestine was the only jurisdiction whose financial institutions all disclosed CSR activities and funds disbursed. Saudi Arabia disbursed the most CSR funds (driven by mandatory zakat payments), resulting in its leadership on the CSR Funds sub-indicator. This pulled up its weak performance on the other sub-indicator that captures CSR activities (where it ranks 13th). There is a very big gap between Saudi Arabia and 2nd placed Jordan. All other GCC states are in the top ten save Qatar, which languishes in 14th.

Southeast Asian and South Asian nations trail the GCC countries (ex Qatar). For Southeast Asia, Malaysia and Singapore lead but Brunei and Thailand both failed to disclose any CSR Funds or CSR activities. All Other MENA countries ex Jordan (2nd) rank in the bottom half of the CSR indicator — Sudan (13th), Palestine (15th), Egypt (16th), Iran (21st) and Syria (22nd). Notable absentees from the Other MENA region are Iraq, Yemen and all North African countries ex Egypt, reflecting a serious need to develop proper reporting mechanisms for CSR in the region.

Top-line Islamic finance issues still central themes at seminars and conferences while sukuk topped Islamic finance news

Islamic finance continued to make headlines in 2014 through news, conferences and seminars. The number of seminars had a CAGR of 11 percent from 2012 to 2014, reaching 142. Conferences grew at a faster pace of 17 percent during 2012-2014 to reach 122 in 2014 from only 76 in 2012. News settled at 19,000 exclusive news and 131,000 regional news; these increased from 14,000 exclusive news and 83,000 regional news in 2013, which is unsurprising as many countries are becoming increasingly interested in Islamic finance.

Malaysia rose to lead the Awareness indicator while Oman dropped to 4th from 1st in 2013. Likewise, Bahrain and UAE moved up a notch each to 2nd and 3rd, respectively while Pakistan over performed particularly in seminars compared to last year. By regions, the GCC made the most headlines, but Southeast Asia and Europe hosted more Islamic finance-related events.

41 percent of all Islamic finance seminars and conferences address general top-line Islamic finance issues; many of these events are held in younger or newer Islamic finance markets where the industry is lesser-known to the mainstream. Islamic capital markets is not a popular topic for seminars and conferences but it drives a lot of Islamic finance news (35 percent of total news), with Islamic banking trailing (28 percent).

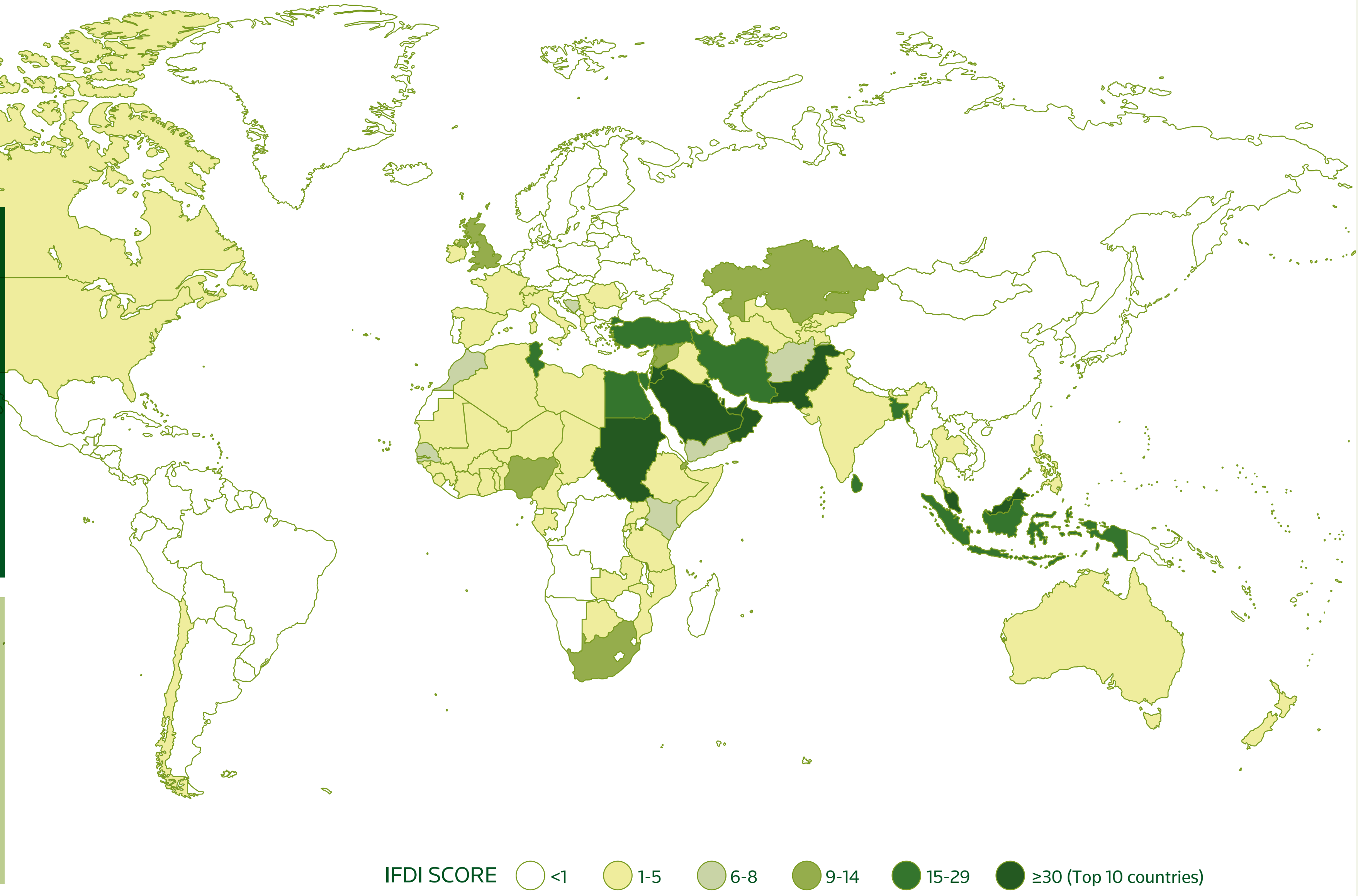
Indicators	Leaders (Top 3)	Most Improved	Others
Global	Malaysia Bahrain UAE	• **Pakistan** moved up the IFDI indicator thanks to progress it made on Awareness and QD • **Indonesia** moved up to 10th from 12th in the previous year as a result of progress in Governance and Awareness • Other notable movers are moved **Ivory Coast**, **Hong Kong** and **Botswana**	• Overall, Awareness is the strongest indicator while QD remains the weakest; this gap could be a reflection of 'hype' generated about Islamic finance, which has not translated into sufficient action to move the needle in any significant way
Quantitative Development	Malaysia Qatar Saudi Arabia	• **Jordan** finally breaks into the QD indicator top rankings after steady progress — it was 11th in 2013 and 13th in 2012 • **Hong Kong** and **India** rose in their QD rankings chiefly because of progress and growth of their sukuk and funds sectors, respectively	• Islamic banking drives Islamic finance (74% of total Islamic finance assets) and its assets grew double compared to conventional banking within the IFDI universe of 108 countries • Islamic banking is mainly driven by the good average performance of commercial banks • More Islamic banks joined the billion dollar club in 2014 • Sukuk and Islamic funds are the fastest-growing sectors
Knowledge	Malaysia Bahrain Jordan	• **Tunisia** produced larger volume of research papers • Notably, **Sub-Saharan Africa** and the **Americas** are expanding their IF knowledge	• Islamic banking is the leading topic for research • Most Islamic finance degrees are Master's programmes and there are only a few courses dedicated to specific asset classes
Governance	Bahrain Malaysia Kuwait	• **Oman** broke into the top 10 for the Shariah Governance sub-indicator ranking • **Maldives** climbed into the top 10 for the Corporate Governance sub-indicator • Outside the top 10 for each of the 2 sub-indicators, **Morocco** and **Tajikistan** introduced Islamic banking regulations in 2014	• Uneven disclosure practice depends on public/private, fully fledged/window or financial/annual reports
CSR	Saudi Arabia Jordan Bahrain	• **Saudi Arabia** outright leader on 2014 CSR indicator • **Southeast Asia** and **South Asian** countries follow GCC and Jordan • **Jordan** highest ranked of Other MENA countries	• Overall, slow growth momentum for Islamic finance CSR • Very small pool of countries contributed to the CSR Indicator • Top 10 institutions disbursed 75% of all CSR funds and average CSR disclosure remains low for many nations
Awareness	Malaysia Bahrain UAE	• **Pakistan**'s national Islamic finance campaign boosted its ranking on the Awareness indicator, especially for news and seminars • **European** and **African nations** are notable entrants for Conferences	• General Islamic finance issues remain the central theme for events • Sukuk and capital markets drive news

Global Islamic Finance Development Indicator

Top view of Kuala Lumper skyline at twilight.

The ICD Thomson Reuters Islamic Finance Development Indicator('Indicator') is designed to represent the overall health and development of the Islamic finance industry worldwide using one composite and weighted numerical measure.

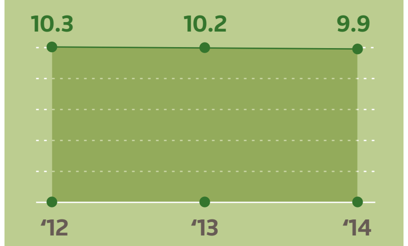
GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR
LANDSCAPE IN 2014



IFDI TOP 10 COUNTRIES

1	MALAYSIA	126
2	BAHRAIN	85
3	UAE	66
4	OMAN	59
5	PAKISTAN	58
6	SAUDI ARABIA	51
7	QATAR	43
8	KUWAIT	41
9	JORDAN	37
10	INDONESIA	30

IFDI GLOBAL AVERAGE



IFDI SCORE FOR EACH INDICATOR TOP 10 COUNTRIES

Country	Global IFDI	Quantitative Development	Knowledge	Governance	Awareness	CSR
1. MALAYSIA	126	89	209	90	197	46
2. BAHRAIN	85	28	78	93	162	64
3. UNITED ARAB EMIRATES	66	36	51	54	143	49
4. OMAN	59	9	22	62	141	62
5. PAKISTAN	58	37	47	66	116	24
6. SAUDI ARABIA	51	47	30	33	41	104
7. QATAR	43	57	17	52	57	33
8. KUWAIT	41	38	17	67	36	48
9. JORDAN	37	23	61	20	16	66
10. INDONESIA	30	27	16	63	11	33

QUANTITATIVE DEVELOPMENT

Top Countries

1. MALAYSIA
2. QATAR
3. SAUDI ARABIA

Global Value: 6

US$ 1.814 Tn
Total Islamic Finance Assets

1,143
Total Institutions Globally

KNOWLEDGE

Top Countries

1. MALAYSIA
2. BAHRAIN
3. JORDAN

Global Value: 8

378
Total Educational Institutions

1,490
Total Research Papers Published (2012-2014)

GOVERNANCE

Top Countries

1. BAHRAIN
2. MALAYSIA
3. KUWAIT

Global Value: 12

952
Total Shariah Scholars Globally

34
Countries with at least 1 Islamic Finance Related Regulation

39/70 items
Average Financial Disclosure Index

CSR

Top Countries

1. SAUDI ARABIA
2. JORDAN
3. BAHRAIN

Global Value: 8

US$ 526 Mn
Total CSR Funds Disbursed

4.6/11 items
Average CSR Disclosure

AWARENESS

Top Countries

1. MALAYSIA
2. BAHRAIN
3. UNITED ARAB EMIRATES

Global Value: 15

122
Total Conferences

142
Total Seminars

19,119
Total Exclusive News

Quantitative Development Sub-Indicators

ISLAMIC BANKING
Assets: **US$ 1.35 Tn**
Nº of Banks: **436**

TAKAFUL
Assets: **US$ 33 Bn**
Nº of Operators: **308**

OIFI
Assets: **US$ 84 Bn**
Nº of OIFIs: **399**

SUKUK
Assets: **US$ 295 Bn**
Nº of Sukuk Outstanding: **2,098**

ISLAMIC FUNDS
Assets: **US$ 56 Bn**
Nº of Funds Outstanding: **1,092**

Islamic Finance Development in 2014

Global average dipping marginally from 2012

Global Islamic finance development has been dipping marginally from 2012. In 2014 the average value nudged down to 9.9 from 10.2 in 2013 and 10.3 in 2012. This low global average value is not reflective of the hype around the industry as a rapid growth sector but it is important to note that new countries to the IFDI score low indicator values and hence drag down the global average despite many nations registering big improvements.

This year's IFDI tracks the performance of 108 nations, which include 16 new entrants. All 108 are assessed against 5 indicators: **1. Quantitative Development (QD), 2. Knowledge, 3. Governance, 4. Corporate Social Responsibility (CSR) and 5. Awareness.** These indicators are broken down into a total of 15 sub-indicators which take into account 55 different metrics related and 3 rationalizing coefficients to adjust indicator values to each country's size. In other words, more than 6,300 country-level metrics and data are inputted to calculate IFDI average global indicator values. The methodology section of this report explains the IFDI methodology in full.

For 2014, Quantitative Development (QD) is the weakest of the 5 indicators with an indicator value of 6. Moving up, average global values for the Knowledge and CSR indicators are close to 8 each, followed by Governance and Awareness with 11 and 15, respectively.

Indicator Value Analysis

Islamic finance strongholds continue to dominate

GCC countries continue to dominate the top of the IFDI rankings for a third year in a row, while Malaysia continues to lead globally once again. The Southeast Asian Islamic finance powerhouse may actually continue to lead globally for the next few years considering the gap between it and second-placed Bahrain. Malaysia tops 3 indicators — QD, Awareness and Knowledge, is in second position for Governance and trails in 7th position for CSR (although this is one place up from its 8th position in IFDI 2013).

Among the GCC countries, UAE switched positions with Oman — the former climbed up one place to 3rd and the latter dropped from 3rd to 4th. The UAE is in the top 10 on all 5 indicators while Oman slipped on the QD and Knowledge indicators. Saudi Arabia, which is the world's 2nd biggest jurisdiction in terms of Islamic finance assets, jumped to 6th from 9th overall largely due to its CSR improvements.

Other countries moving up the ranks

Outside of strongholds Malaysia and the GCC, Pakistan is developing rapidly especially on the Awareness and QD indicators and we expect the country to continue to improve next year.

For the rest of the top 10, Jordan's strengths are in CSR, QD and Knowledge and Indonesia excels in Governance and Awareness.

The fastest growing nations in terms of indicator values were: Ivory Coast, which benefited mostly from increased awareness, followed by Hong Kong for QD, and Botswana that improved on the Awareness and Knowledge indicators.

2014 Milestones

	01. JANUARY	02. FEBRUARY	03. MARCH	04. APRIL	05. MAY	06. JUNE
ISLAMIC BANKING	**Indonesia:** Bank Panin Syariah gets listed	**Pakistan:** Sindh Bank receives Islamic license **Bahrain:** Bank Al Salam and BMI merge	**Malaysia:** Sumitomo Mitsui Banking Corporation starts IB operations **Philippines:** Central bank starts exploring Islamic windows **Kenya:** Standard Chartered Saadiq opens	**Pakistan:** SBP issues stricter rules on Islamic windows **Bangladesh:** NRB Commercial Bank announces plan to become fully Islamic **India:** Indian Forum for Interest Free Banking launched interest-free goat farming in Kerala	**Uganda:** Introduction of Islamic banking approved by Cabinet **Mauritius:** Habib Bank's Islamic window approved **Afghanistan:** Central bank undertakes project to drive awareness on Islamic banking **UAE:** Dubai Islamic Bank bought 24.9% of Bank Panin Syariah in Indonesia	**Ethiopia:** Oromia Cooperative International Bank launches Hajj saving account **Morocco:** Parliamentary approval for Islamic finance law
TAKAFUL	**Oman:** Al Madina Takaful becomes country's first takaful operator	**Indonesia:** New law requiring takaful windows to be spun off as standalone institutions **Pakistan:** New rules allowing microinsurance to be used interchangeably with microtakaful			**Pakistan:** Takaful windows allowed	**Zambia:** Phoenix Assurance launches Islamic window
SUKUK	**Luxembourg:** Plans to issue sovereign sukuk		**Malaysia:** AmIslamic issues 's first Basel III-compliant sukuk **Hong Kong:** Sukuk law passed	**UAE:** Regulator cuts minimum sukuk size	**Kyrgyz Republic:** Sukuk and takaful regulation being developed	**Senegal:** first sukuk launched **UK:** First western country to issue sukuk
ISLAMIC FUNDS	**Bangladesh:** Dhakha SE launches Shariah-compliant index		**Bahrain:** World's first Asian Shariah-compliant REIT fund launched by ASBB	**Japan:** First Shariah-compliant fund formed by Tokyo-based Inspire Corp and Permodalan Nasional Bhd		
OTHERS		**UK:** Government's 'Help to Buy' mortgage scheme includes Islamic financing **Maldives:** Plans to include Islamic finance with new housing scheme **OIFI- Malaysia:** Al Hadharah Boustead REIT delists		**OIFI-UAE:** Emirates REIT IPO **Shariah Governance- Pakistan:** Guidance of Shariah compliance introduced **OIFI-Canada:** AGInvest Properties announces Islamic agriculture real estate investment opportunities **OIFI-Kuwait:** Al Madina for Finance files for protection		**Indonesia:** 5-year roadmap preparation by OJK, the financial services authority

	07. JULY	08. AUGUST	09. SEPTEMBER	10. OCTOBER	11. NOVEMBER	12. DECEMBER
ISLAMIC BANKING	**Sri Lanka:** Habib Bank opens Islamic unit	**Tajikistan:** Islamic banking law comes into force **Turkey:** Bank Asya shares removed from bourse **Bangladesh:** Central bank prohibits conversion of conventional to Islamic banks **Azerbaijan:** International Bank of Azerbaijan plans Islamic unit	**Senegal:** News of BNP Paribas asking for Islamic windows allowance from central bank	**Bangladesh:** Bangladesh Bank issues guidelines for green project financing **Pakistan:** Paid-up capital requirement raised for Islamic windows **UAE:** National Bank of Fujairah starts offering Islamic banking products **Saudi:** Pledge by NCB to convert to become fully Islamic	**Morocco:** Islamic finance law approved	**Philippines:** Proposal by Mindanao civil society organizations in Bangsamoro to set up dual financial system
TAKAFUL	**Oman:** Takaful Oman Insurance starts operation **Brunei:** New guidelines for takaful and insurance industry **Tunisia:** Draft law for regulatory framework for takaful	**Pakistan:** United Insurance commences Islamic window operations			**Indonesia:** New law requiring insurance operators to spin-off their Islamic windows	**Somalia:** Takaful Insurance Africa launched **Pakistan:** SPI insurance gets takaful operation approval
SUKUK	**Tunisia:** plans to raise funds using sukuk **UAE:** Emirates of Sharjah plans debut sukuk **Luxembourg:** Sukuk bill approved		**Turkey:** Debut corporate sukuk by Dogus group **UAE:** Government of Sharjah issues debut sukuk **Japan:** BTMU becomes first Japanese bank to issue sukuk **Hong Kong and South Africa:** sovereign sukuk launched by each **USA:** Goldman Sachs receives strong demand for its sukuk issue	**Luxembourg:** Listing of the Grand Duchy's sukuk		**Hong Kong:** Listing of its sukuk on NASDAQ Dubai
ISLAMIC FUNDS			**ASEAN:** collective investment scheme framework launched **Indonesia:** Announcement of draft regulation for Islamic pension funds	**Malaysia:** Securities Commission Malaysia Issues Shariah Parameters on Islamic ETFs based on Gold and Silver		**Malaysia:** PMB Investment becomes fully Islamic after regulatory approval
OTHERS	**OIFI-Kenya:** Isiolo County gets first Islamic Savings and Credit Co-operative (SACCO) **OIFI-UAE:** Restructuring deal proposal by Amlak finance	**Knowledge-Malaysia:** International Council of Islamic Finance Educators introduced		**Shariah Governance-Oman:** Central Shariah Board set up		

Top 15 Largest Islamic Finance Economies

Rank	Country	Islamic Finance Assets (US$ Mn)	Islamic Banking Assets (US$ Mn)	Islamic Financial Institutions	Number of Islamic Banks/ Windows	Takaful / Retakaful Assets (US$ Mn)	Number of Takaful / Retakaful Operators	Other Financial Institutions Assets (US$ Mn)	Number of Other Financial Institutions
	Global	**1,814,086**	**1,345,891**	**1,143**	**436**	**33,390**	**308**	**83,916**	**399**
1	Malaysia	415,418	173,956	77	38	8,205	21	48,204	18
2	Saudi Arabia	412,955	325,394	105	16	12,380	40	4,928	49
3	Iran	345,447	328,777	82	39	8,180	27	6,833	16
4	UAE	161,443	127,281	85	24	1,792	17	5,158	44
5	Kuwait	97,576	87,749	100	9	132	15	7,645	76
6	Qatar	86,524	71,620	38	8	323	19	756	11
7	Bahrain	72,825	68,367	59	32	450	10	415	17
8	Turkey	53,883	44,597	5	4				1
9	Indonesia	40,396	21,711	145	33	933	63	428	49
10	Bangladesh	23,150	22,471	42	26	608	15	71	1
11	Pakistan	18,279	12,563	57	23	127	6	541	28
12	Egypt	13,487	12,869	26	9		8	377	9
13	Sudan	10,651	10,651	44	28		14		2
14	Jordan	8,219	7,872	12	3	48	3	170	6
15	Switzerland	6,885		3	1			6,879	2

Value of Outstanding Sukuk (US$ Mn)	Net Asset Value of Islamic Funds (US$ Mn)	Number of Educational Institutions	Number of Published Research Papers on Islamic Finance (2012-2014)	Centralized Sharia Committee	Disclosure Index Score	Disclosed CSR Funds Distributed (US$ Mn)	Number of Islamic Finance Related Events	Number of Exclusive and Regional News Articles
295,094	**55,794**	**378**	**1490**	**Not Applicable**	**37**	**526**	**264**	**25,534**
167,256	17,797	46	521	1	47	27	51	3,938
46,890	23,363	20	75		35	267	8	1,559
120	1,538	1	15		27	1	5	50
26,885	328	36	48	1	34	61	21	4,216
814	1,236	4	13		29	38	1	604
13,566	259	7	9		39	2	2	1,089
3,585	9	16	33	1	44	28	11	1,609
9,283	3		10		47	0	15	461
16,425	898	13	66	1	36	23	8	460
		7	15	1	44	11	–	301
4,058	990	21	107	1	44	3	48	2,447
	242	7	14		33	1	2	381
		4	2	1	29	18	5	198
120	9	13	18		40	30	1	109
	6	3	4				2	14

KHALID FERDOUS HOWLADAR

Global Head for Islamic Finance and Senior Credit Officer for GCC Financial Institutions, Moody's Investors Service

KHALID HOWLADAR leads Moody's Dubai Banking team as the Senior Credit Officer for the GCC. He provides extensive commentary in the fields of GCC and Islamic banking, regional credit, sukuk, and securitization markets. Khalid joined Moody's in London in 2001 and was initially an analyst responsible for rating cash, synthetic, high yield, structured and project finance CDOs. Subsequently he took lead roles in the MENA Business Development team before taking leadership of the Dubai-based banking team. Khalid holds an MSc in Finance from London Business School, an MSc in Information Technology and a BEng in Software Engineering both from the Imperial College of Science and Technology and Medicine.

Post 2007/2008 global financial crisis, the opportunity for Islamic finance was to flex its comparative strengths and firm up its credentials as a resilient and viable system. What is the opportunity for Islamic finance in this era of low oil prices?

Low oil prices affect the primary growth markets where Islamic finance is growing. As such it does not affect Islamic finance specifically but more the entire financial system. With increased government borrowings required, we can expect more sukuk issuance, but with lower private sector growth, the banks (including Islamic) will not grow as fast.

How would you describe the current performance of Islamic finance across the globe? How would you compare the growth and performance of Islamic banks, takaful companies, sukuk and Islamic funds against their conventional counterparts?

They are often false distinctions made in the credit performance of Sukuk bonds versus conventional bonds. The credit risk depends on the issuer quality or the asset quality. The sukuk format as it stands currently doesn't change this fact. As for banks, again other factors tend to be more relevant than the Islamic — Management quality and risk appetite. Although some trends are more specific to Islamic instruments, such as the higher growth rates and strong retail franchises (positive), high real estate and investment focus (negative), as well as liquidity management complexities

How important is the government's input to support Islamic finance within a country? Is there a correlation between an institution's rating and the level of corporate / Shariah governance from its authority? What effect would changes in policy rates and currency devaluation have on an institution's performance?

The rating is driven more by the core credit factors that affect the bank and the likelihood of support from the government. To date — from a credit standpoint — we do not see any differentiation in the government's willingness to support the local banks if they are in distress, we can see that clearly from the recent crisis.

Direct government support for the Islamic industry (as in say Malaysia or Qatar) usually benefits the growth prospects of the Islamic banking sector rather than a specific bank.

Would the conversion of windows to full fledge institutions or subsidiaries have a significant effect on their rating?

Not in itself, but being part of larger group often provides credit and operational support in many ways (infrastructure, personnel, branding etc). A smaller standalone bank would need to be assessed on its own merits.

Would this slow asset growth and would it increase systemic risk in markets with large Islamic banking sectors?

Well the windows often leverage their large existing customer base making it easy to switch to Islamic. Brand new, smaller banks have to start from scratch so likely overall growth would be slower.

Would it be easier to rate Islamic banks if there was a single standard for treatment of deposits on capital adequacy (and computation of 'alpha')?

We look at all banks individually but the alpha discount on risk-weighted assets is something that we reverse in our own internal capital calculations. Despite the legal ability to pass losses to investment account holders most banks do not do so given customer expectations. As such the alpha leads to an understatement of the RWAs for such banks.

You have stated that Islamic banks "will become more of a full-service, asset manager-type of organization versus just banking services". Which Islamic banking markets are rapidly converting to the investment model in order to support your statement?

Only Malaysia at this point, but it's still a long way off. The new regulations there are ensuring a clean disclosure on deposit versus investment type products and the government is highly supportive of fostering a more equitable and investment type activity for Islamic banks

What is the expected growth and performance of Islamic banks over the next few years? Which countries/ regions will be the main growth drivers? Which will be the fastest growing market in terms of assets?

I don't have specific metrics but I think Turkey is a key growth market that has not realised its potential. Indonesia too has a large population but a shortage of the human capital necessary to drive growth in the sector. Oman is growing fast but from a very low base. Overall, we still expect Islamic finance to grow faster in Muslim maturity countries but with the low oil process we expect overall growth rates to be lower than past years.

> "OVERALL, WE STILL EXPECT ISLAMIC FINANCE TO GROW FASTER IN MUSLIM MATURITY COUNTRIES BUT WITH THE LOW OIL PROCESS WE EXPECT OVERALL GROWTH RATES TO BE LOWER THAN PAST YEARS.

Quantitative Development Indicator

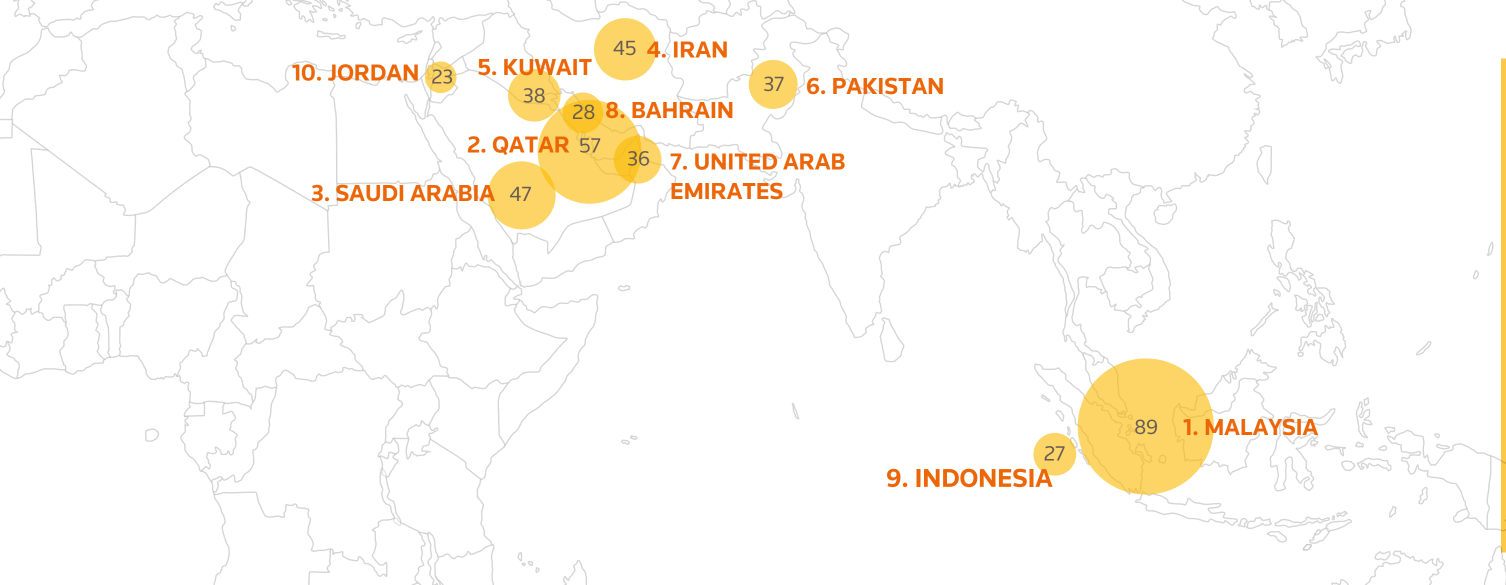
Columns in Ancient Ruins in the ancient city of Jerash, Jordan.

The Quantitative Development Indicator is a weighted index of Islamic Financial Institutions (IFIs), per country, that generate Islamic financial products and services.

Strategic Partner

TAWREEQ HOLDINGS

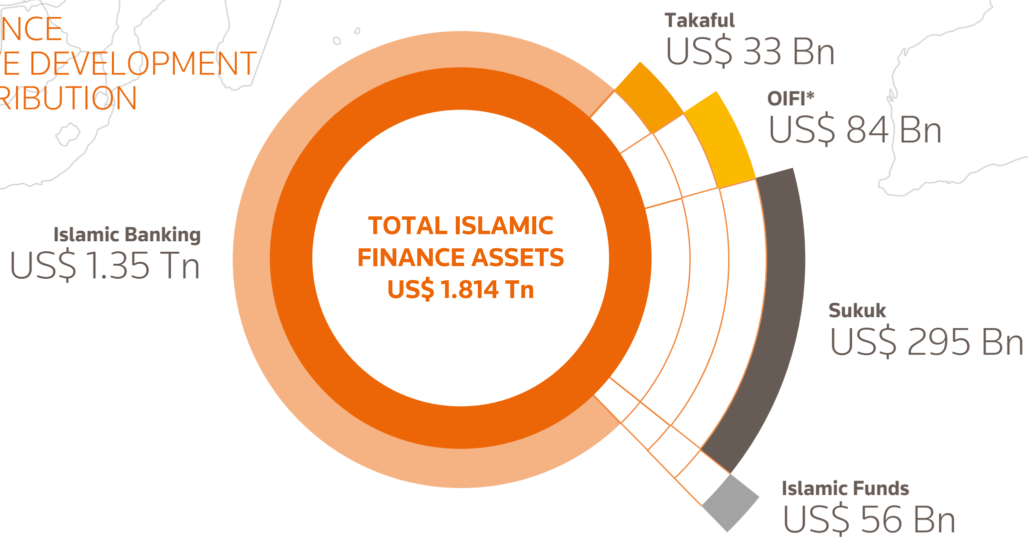
QUANTITATIVE DEVELOPMENT INDICATOR
LANDSCAPE IN 2014



QD INDICATOR TOP 10 COUNTRIES

1	MALAYSIA	89
2	QATAR	57
3	SAUDI ARABIA	47
4	IRAN	45
5	KUWAIT	38
6	PAKISTAN	37
7	UNITED ARAB EMIRATES	36
8	BAHRAIN	28
9	INDONESIA	27
10	JORDAN	23

ISLAMIC FINANCE QUANTITATIVE DEVELOPMENT ASSETS DISTRIBUTION



QD INDICATOR GLOBAL AVERAGE

*Other Islamic Fincancial Institutions

SUB-INDICATORS GLOBAL AVERAGE

ISLAMIC BANKING

Top Countries (Total Assets)

IRAN · US$ 329 Bn

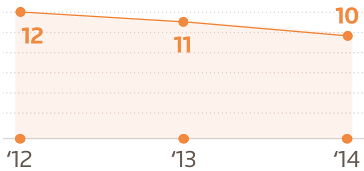
SAUDI ARABIA · US$ 325 Bn

MALAYSIA · US$ 173 Bn

SUB-INDICATOR TOP 5 COUNTRIES

1	**Iran**	86
2	Qatar	86
3	Bahrain	80
4	Sudan	78
5	United Arab Emirates	76

GLOBAL AVERAGE



TOP ISLAMIC BANKS / WINDOWS IN TERMS OF ASSETS

- Al Rajhi Bank (Saudi Arabia)
- Kuwait Finance House (Kuwait)
- National Commercial Bank (Saudi Arabia)
- Bank Mellat (Iran)
- Maybank Islamic Berhad (Malaysia)

TAKAFUL

Top Countries (Total Assets)

SAUDI ARABIA · US$ 12 Bn

MALAYSIA/IRAN · US$ 8 Bn

UNITED ARAB EMIRATES · US$ 2 Bn

SUB-INDICATOR TOP 5 COUNTRIES

1	**Qatar**	105
2	Palestine	62
3	Maldives	57
4	Sri Lanka	46
5	Saudi Arabia	45

GLOBAL AVERAGE

TOP TAKAFUL OPERATORS / WINDOWS IN TERMS OF ASSETS

- Etiqa Takaful Berhad (Malaysia)
- Bimeh Iran (Iran)
- The Company for Cooperative Insurance (Saudi Arabia)
- Syarikat Takaful Malaysia Berhad (Malaysia)
- The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (Saudi Arabia)

OIFI

Top Countries (Total Assets)

MALAYSIA · US$ 38 Bn

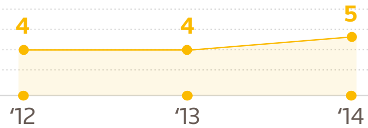
KUWAIT · US$ 8 Bn

SWITZERLAND · US$ 7 Bn

SUB-INDICATOR TOP 5 COUNTRIES

1	**Kuwait**	94
2	Malaysia	52
3	Qatar	52
4	United Arab Emirates	44
5	Pakistan	43

GLOBAL AVERAGE



TOP OIFI / WINDOWS IN TERMS OF ASSETS

- RHB Capital Berhad (Malaysia)
- Cagamas Berhad (Malaysia)
- Kosar Credit Institutions (Iran)
- KSB Capital Group (Saudi Arabia)
- Amlak Finance (UAE)

SUKUK

Top Countries (Total Value Outstanding)

MALAYSIA · US$ 167 Bn

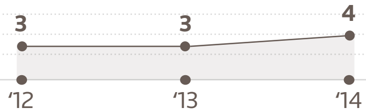
SAUDI ARABIA · US$ 47 Bn

UNITED ARAB EMIRATES · US$ 27 Bn

SUB-INDICATOR TOP 5 COUNTRIES

1	**Malaysia**	201
2	Gambia	47
3	Hong Kong	40
4	United Arab Emirates	26
5	Saudi Arabia	24

GLOBAL AVERAGE



TOP SUKUK IN TERMS OF SIZE

- GACA Guaranteed Senior Sukuk (Saudi Arabia)
- Qatar Global Sukuk II (Qatar)
- Sadara (Aramco) Sukuk (Saudi Arabia)
- Qatar Government Sukuk (Qatar)
- Saudi Electricity Company Sukuk II (Saudi Arabia)

ISLAMIC FUNDS

Top Countries (Total AuM Outstanding)

SAUDI ARABIA · US$ 23 Bn

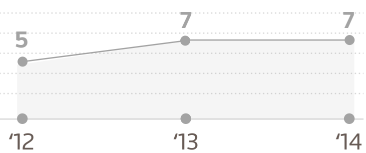
MALAYSIA · US$ 18 Bn

UNITED STATES · US$ 4 Bn

SUB-INDICATOR TOP 5 COUNTRIES

1	**Malaysia**	105
2	India	81
3	Saudi Arabia	81
4	Luxembourg	75
5	Iran	68

GLOBAL AVERAGE



TOP ISLAMIC MUTUAL FUNDS IN TERMS OF AUM

- AlAhli Saudi Riyal Trade (Saudi Arabia)
- Al Rajhi Capital SAR Commodity (Saudi Arabia)
- International Trade Finance Fd (Sunbullah SAR) (Saudi Arabia)
- AlAhli Diversified Saudi Riyal Trade (Saudi Arabia)
- Amana Growth Fund (United States)

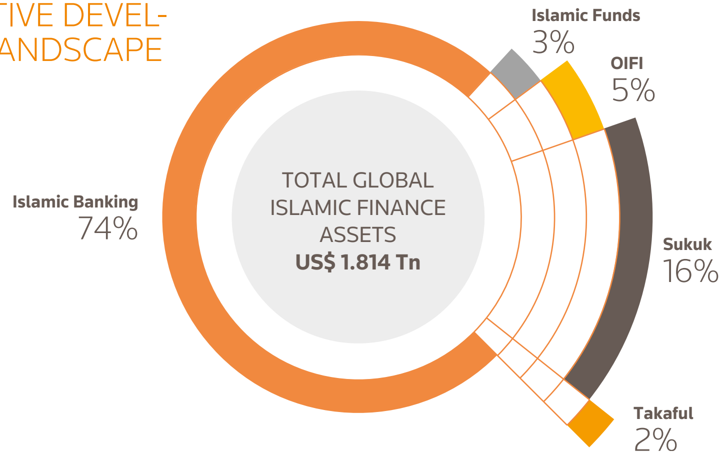
Islamic Finance Quantitative Development in 2014

The aggregate value of Islamic finance assets reached US$1.814 trillion in 2014 and the industry grew at a CAGR of 2.37% for 2012-2014. This is based on 74 countries in 5 different sub-indicators. Growth was driven chiefly by Islamic banking, which accounted for an average of 74% of total Islamic finance assets for 2012-2014 and grew at a CAGR of 1.84% in the same period.

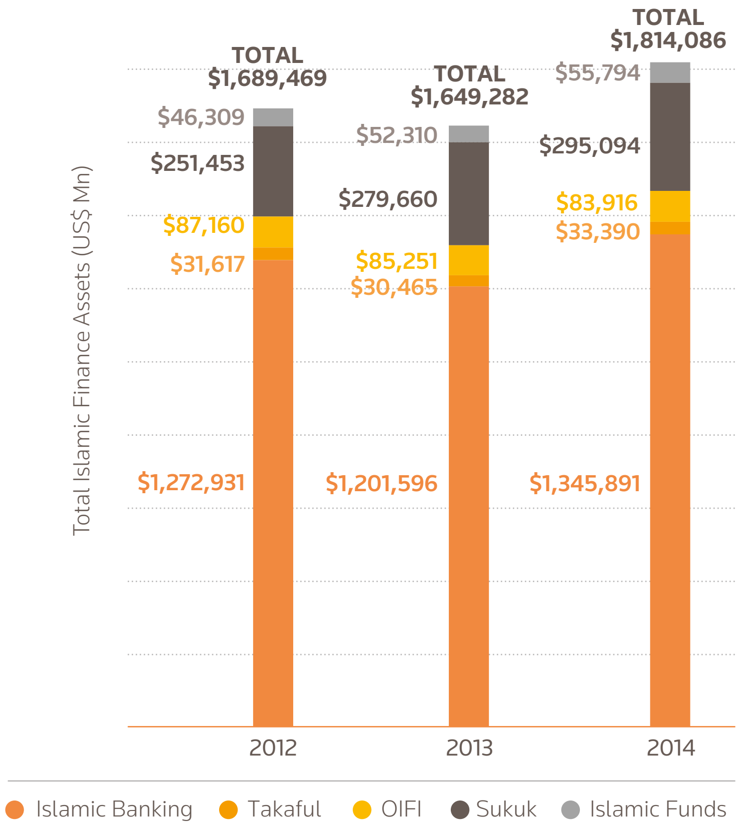
Islamic capital market asset classes sukuk and Islamic funds had higher growth rates than Islamic banking — a CAGR of 5.48% and 6.4%, respectively. Assets dropped in 2013, mainly due to weakening local currencies for certain economies. Other factors affecting the Quantitative Development indicator will be discussed in depth for each sub-indicator.

QUANTITATIVE DEVELOPMENT LANDSCAPE BY TYPE

(FYE 2014)



ISLAMIC FINANCE QUANTITATIVE DEVELOPMENT



Indicator Value Analysis

Movements on the QD indicator rankings

Malaysia and Kuwait are the only 2 countries to retain their 2013 rankings. 74 countries (out of the IFDI universe of 108) contributed to the global Quantitative Development indicator. The global average value for the QD Indicator is 6, which is unchanged from the last 3 years.

Jordan strengthens, breaks into the QD top rankings

Jordan lies in 10th on the QD indicator thanks to its consistent performance across 3 sub-indicators: Islamic banking, Takaful and Other Islamic financial institutions. Jordan also gains from Sudan dropping out of the top rankings. Sudan was dragged down by its weak performance on the Sukuk sub-indicator despite consistently good performance in other sub-indicators.

Notable countries improving on QD indicator

A few jurisdictions notched up big milestones in 2014. Hong Kong rose to 21st overall on the QD indicator due to development in sukuk (it was ranked in the 60s in 2013) and India rose to 15th due to a larger funds value outstanding and better Islamic fund performance compared to other countries.

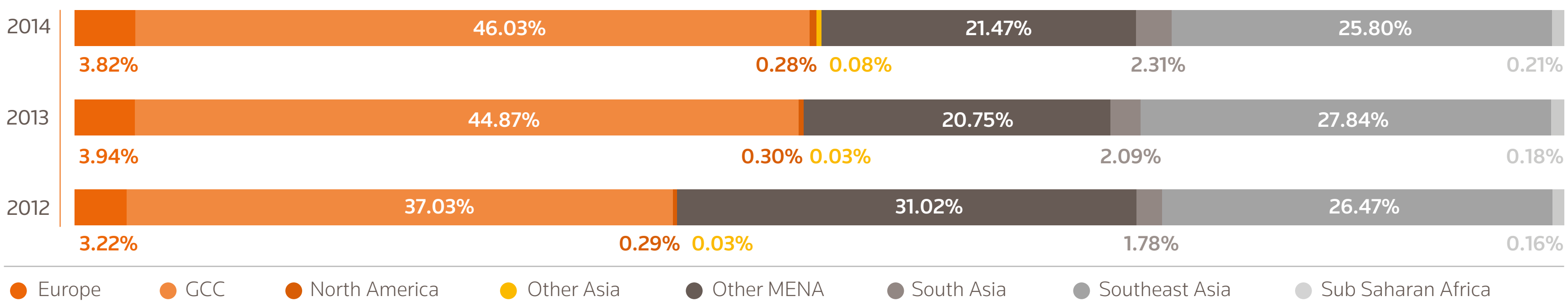
It should be noted that a rise in indicator values for a country does not guarantee its rise in the overall ranking as this is dependent on the relative performance of all other countries. South Africa, for example, improved on most of its sub-indicators (especially sukuk due to its debut issuance) but other countries outperformed it on the QD indicator due to their better performances, relative to the size of each country.

Analysis

SEA portion of assets declining, GCC retains biggest portion of assets

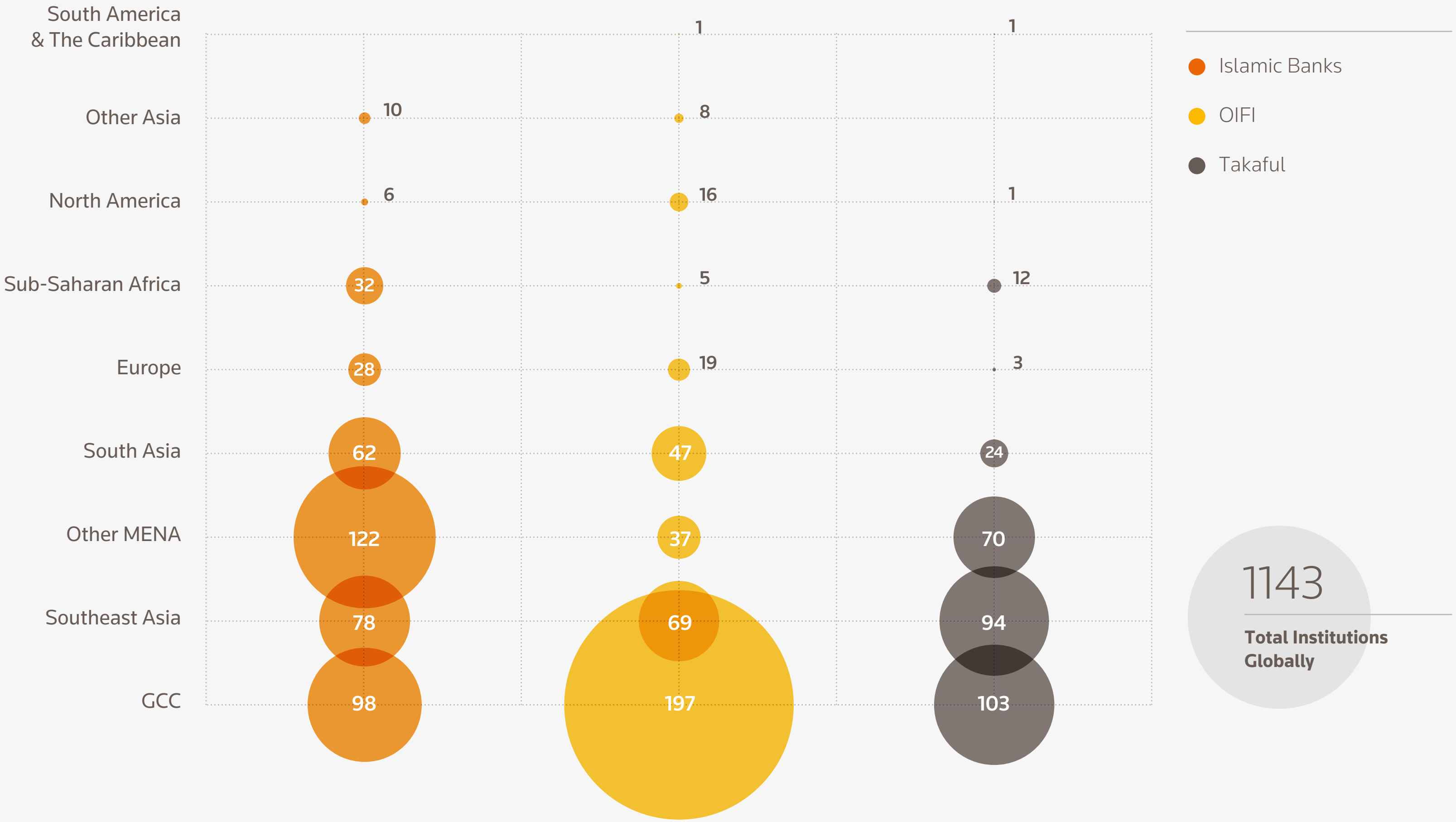
The bulk of global Islamic finance assets are still held in 3 stronghold regions—GCC, Southeast Asia, and Other MENA, and 3 countries account for 65% of total global Islamic finance asset—Malaysia (US$415 billion), Saudi Arabia (US$413 billion) and Iran (US$345 billion). Southeast Asia contributed almost a third of total assets globally in 2012 and 2013, while Other MENA contributed a third in 2013. However, Southeast Asia's share of assets dropped to a quarter in 2014, and Other MENA's share dropped to approximately a fifth for in 2013 and 2014. Other MENA's decline was due to the value of Iranian assets being hit by its exchange rate due to sanctions. Other MENA may be able to regain some of its global share in 2015 following the July 14 nuclear agreement between Iran and 6 world powers that will lead to the lifting of sanctions. The GCC's share of global Islamic finance assets is on the rise—it was close to 50% in 2014 from 37% in the previous year.

ISLAMIC FINANCE ASSETS BY REGION



NUMBER OF ISLAMIC FINANCE INSTITUTIONS GLOBALLY BY REGION

(FYE 2014)



^
Kingdom tower on in Riyadh, Saudi Arabia. Fedor Selivanov / Shutterstock.com

Close finish for Malaysia and Saudi Arabia

Only US$3 billion separate Malaysia (US$415 billion) and Saudi Arabia (US$413 billion). Each has different structures that drive their Islamic finance assets; Malaysia has almost half of Saudi Arabia's Islamic banking assets and Saudi Arabia has a third of Malaysia's sukuk outstanding.

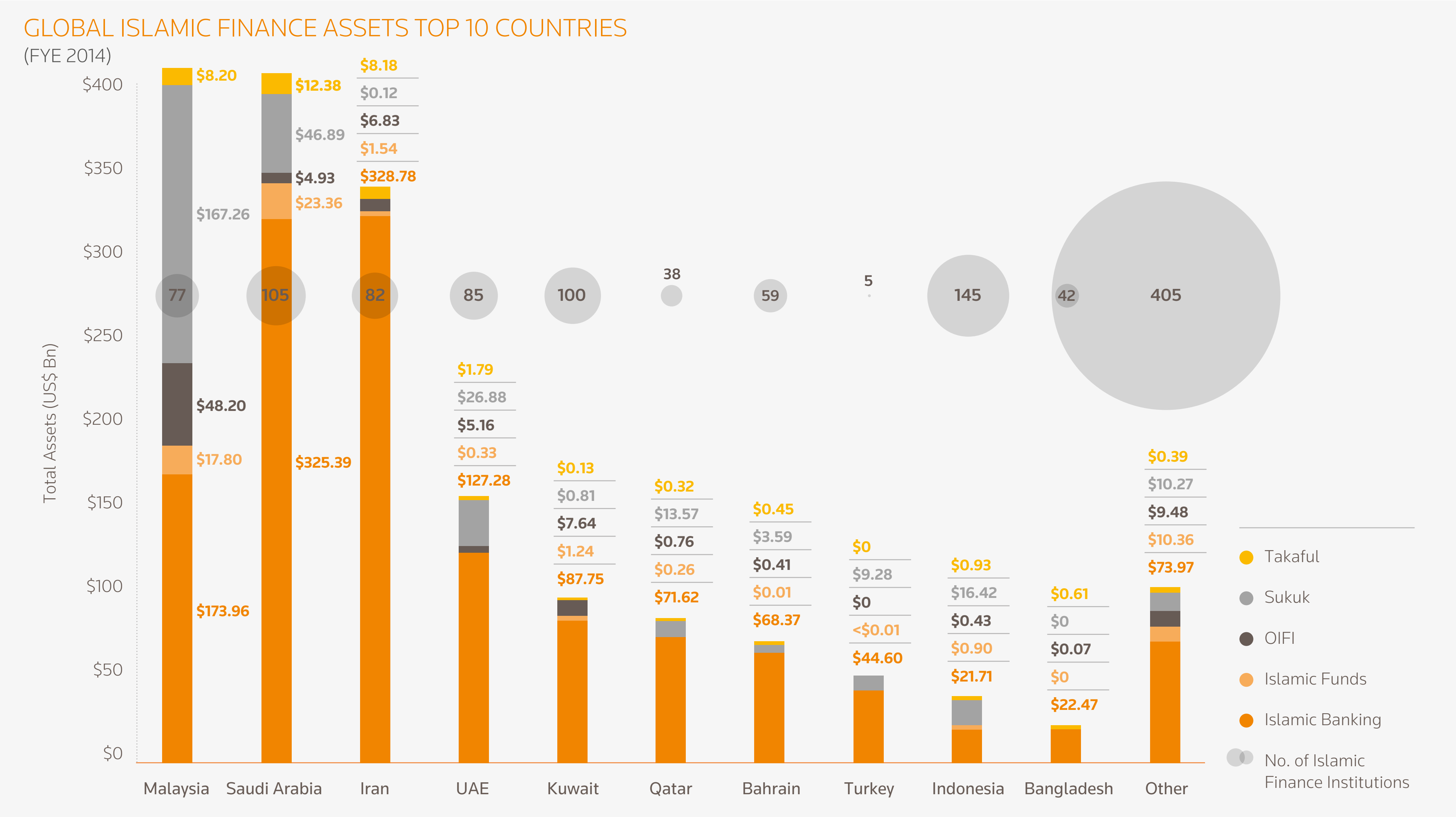
More institutions does not equal larger asset pool

Indonesia has the most Islamic financial institutions in the IFDI universe: 145 Islamic windows of insurance operators and financial institutions, venture capital companies and banks. Sukuk account for a substantial chunk of Indonesia's total Islamic finance assets — 41%. Indonesia is ranked 9th globally by assets, trailing Turkey on 8th with its far fewer Islamic financial institutions: 5 participation banks and a leasing company.

65%

Top 3 Countries Assets
as % of Global Assets

1. MALAYSIA
2. SAUDI ARABIA
3. IRAN


GLOBAL ISLAMIC FINANCE ASSETS TOP 10 COUNTRIES
(FYE 2014)
Total Assets (US$ Bn)
$400
$350
$300
$250
$200
$150
$100
$50
$0
$8.20
$167.26
$48.20
$17.80
$173.96
$12.38
$46.89
$4.93
$23.36
$325.39
$8.18
$0.12
$6.83
$1.54
$328.78
$1.79
$26.88
$5.16
$0.33
$127.28
$0.13
$0.81
$7.64
$1.24
$87.75
$0.32
$13.57
$0.76
$0.26
$71.62
$0.45
$3.59
$0.41
$0.01
$68.37
$0
$9.28
$0
<$0.01
$44.60
$0.93
$16.42
$0.43
$0.90
$21.71
$0.61
$0
$0.07
$0
$22.47
$0.39
$10.27
$9.48
$10.36
$73.97
77
105
82
85
100
38
59
5
145
42
405
Malaysia
Saudi Arabia
Iran
UAE
Kuwait
Qatar
Bahrain
Turkey
Indonesia
Bangladesh
Other
Takaful
Sukuk
OIFI
Islamic Funds
Islamic Banking
No. of Islamic Finance Institutions

Standalone Shariah-compliant institutions hold the biggest pool of assets, but this share is shrinking

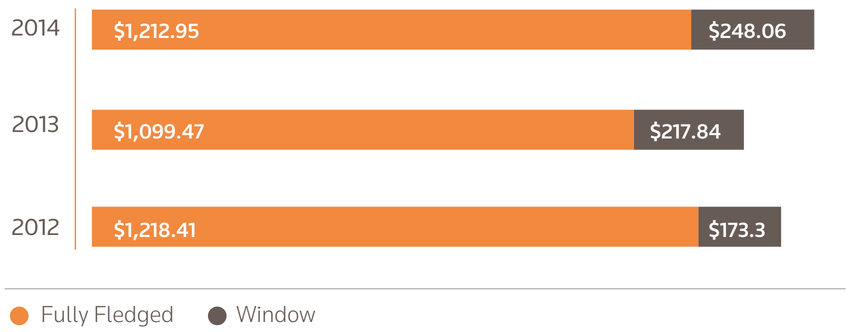
Standalone Shariah-compliant institutions held 83% of total Islamic finance assets in 2014, reaching US$1.213 trillion. This is marginally down from 88% in 2012 (US$1.218 trillion). Islamic windows are growing faster than standalone Shariah-compliant financial institutions; for 2012 to 2014, Islamic windows had a CAGR of 13% and fully Shariah-compliant banks suffered a slight decline of 0.13%.

The growth of windows is attributed to the opening of new Islamic windows in countries such as Oman, Indonesia and Pakistan while the slight drop in the growth of assets of standalone Shariah-compliant financial institutions could be attributed to Iran's USD assets shrinking despite actual growth in currency value.

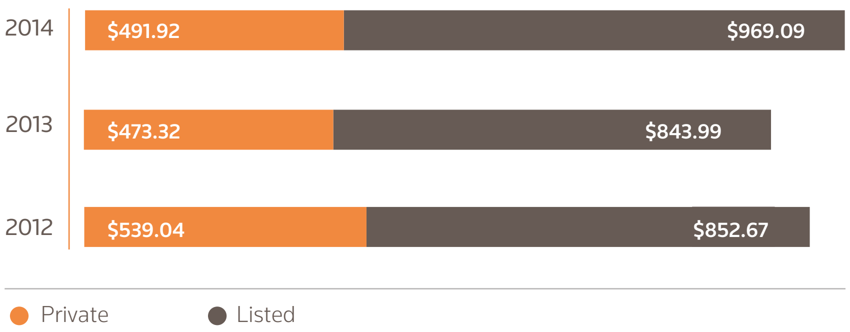
Listed institutions outperformed private companies, hold most assets

66% of assets are held in publicly listed institutions that enjoyed a CAGR of 4%, compared to a drop of 3% for private institutions. Many of these private financial institutions are based in Indonesia. Some of them experienced an actual decline in the value of reported assets while others were affected by USD exchange rate movements, such as the Indonesian Rupiah weakening against the dollar.

ISLAMIC FINANCE INSTITUTIONS ASSETS BREAKDOWN BY FULLY FLEDGED / WINDOW (US$ Bn)



ISLAMIC FINANCE INSTITUTIONS ASSETS BREAKDOWN BY LISTED / PRIVATE INSTITUTIONS (US$ Bn)



Top 10 countries have different levels of Islamic finance penetration

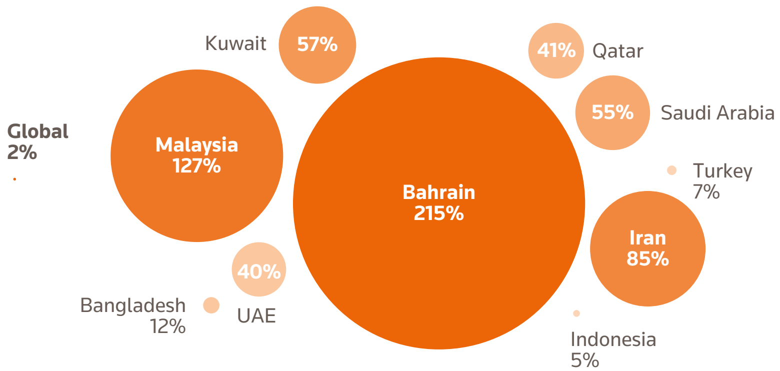
Of the top 10 countries, Bahrain had the highest Islamic finance penetration as a percentage of GDP — 1.7 times higher than Malaysia, 4 times higher than Saudi Arabia and 2.5 times higher than Iran (which is an economy that is fully Shariah-based). Meanwhile, Indonesia and Turkey had the lowest Islamic finance penetration — 25 and 18 times lower than Malaysia, respectively.

East Asian, sub-Saharan and European nations grew the fastest in 2014

In 2014, sukuk played a huge part in growing the Islamic asset base for some nations. This is especially true for Hong Kong, Japan and The Gambia. In Nigeria, sukuk growth and Islamic banking assets boosted rankings. For Bosnia, Iraq, Maldives, and Sri Lanka, Islamic financial institutions assets growth supported their overall Islamic finance assets growth.

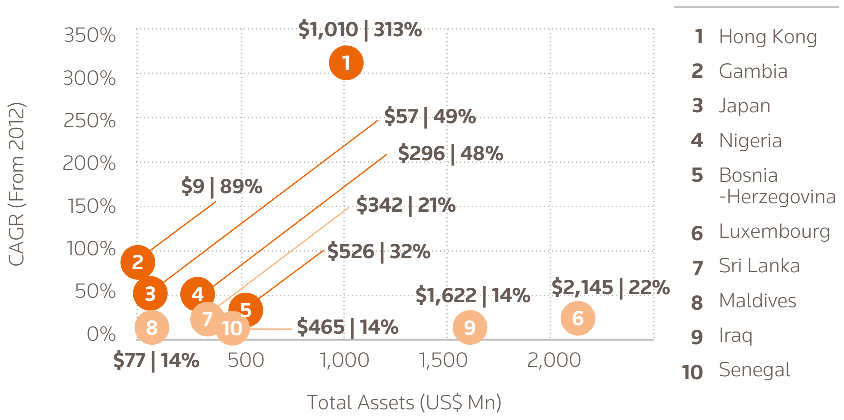
3 of the fastest growing nations — Hong Kong, Luxembourg and Iraq — have asset sizes of over US$1 billion while the rest had asset sizes smaller than US$1 billion.

ISLAMIC FINANCE PENETRATION — TOP 10 COUNTRIES
(ISLAMIC FINANCE ASSETS AS % OF GDP FOR FYE 2014)



*Global GDP is based on the same country universe for IFDI

ISLAMIC FINANCE ASSETS GROWTH — TOP COUNTRIES
(2012-2014)



Total Assets (US$ Mn) | CAGR (from 2012)

	NEW/LAUNCHED/ISSUED SO FAR IN 2015	RUMORED/PLANNED
Adopted Islamic finance related law or Shariah framework	Kenya, Morocco, Nigeria, Uganda, Zambia, Kazakhstan, Pakistan	Egypt, Morocco, Nigeria, Tanzania, Tunisia, South Africa, Azerbaijan, Bangladesh, India, Indonesia, Japan, Kuwait, Kyrgyz Republic, Oman, Pakistan, Philippines, Russia
Sovereign Sukuk issuances	Gambia, Bahrain, Brunei, Hong Kong, Indonesia, Malaysia, Turkey	Egypt, Ivory Coast, Libya, Kenya, Morocco, Tunisia, Azerbaijan, China, Indonesia, Jordan, Kazakhstan, Kuwait, Kyrgyz Republic, Oman, Philippines, UAE, Yemen, Mexico, Luxembourg, Malta
Corporate Sukuk issuances	Indonesia, Malaysia, Pakistan, Qatar, Saudi, Turkey, UAE, USA	Egypt, Niger, South Africa, Tunisia, Bahrain, China, Indonesia, Japan, Kuwait, Malaysia, Oman, Pakistan, Qatar, Saudi Arabia, South Korea, Turkey, UAE, France, Australia
New Islamic banks (or windows or branches)	Cameroon, Kenya, Tanzania, Japan, Maldives, Turkey, UAE, Australia, France, Germany	Benin, Burkina Faso, Chad, Ghana, Mali, Morocco, Uganda, China, Indonesia, Pakistan, Singapore, Turkey
New takaful operators (or windows)	Pakistan	Algeria, Djibouti, Tanzania, Uganda, Indonesia, Malaysia, Pakistan, Philippines, Turkey, UAE, UK
New OIFI (or windows)	Malawi, Pakistan, Sri Lanka	Egypt, India, New Zealand
Banks Conversion to Fully Islamic	Malaysia	Seychelles, Indonesia, Kuwait, Malaysia, Pakistan, Saudi Arabia, Tajikistan
Fund Launches	Indonesia, Japan, Malaysia, Pakistan, Qatar, Saudi Arabia, Thailand, UAE, Luxembourg	India, Brazil

The countries for institutions and rumored Islamic funds are based on news reported in 2014 and 2015 while Sukuk data was based on Zawya's database and countries of 2015 funds are based on Lipper

*Projections for each sector or assets class can be explored in the Quantitative Development Indicator chapter

NEW/LAUNCHED /ISSUED SO FAR IN 2015 VS. » RUMORED/ PLANNED	Islamic Banks or Windows	Banks Full Islamic Conversion	Takaful Operators or Windows	OIFI or Windows	Sukuk (Announced/Rumored)	Islamic Funds
	10 »18	1 »11	2 »14	3 »3	387 »85/15	»70 Launches by at least 2 different domiciles

*The number of institutions and rumored Islamic funds are based on tally from news reported in 2014 and 2015 while Sukuk data was based on Zawya's database and number of 2015 funds is based on Lipper

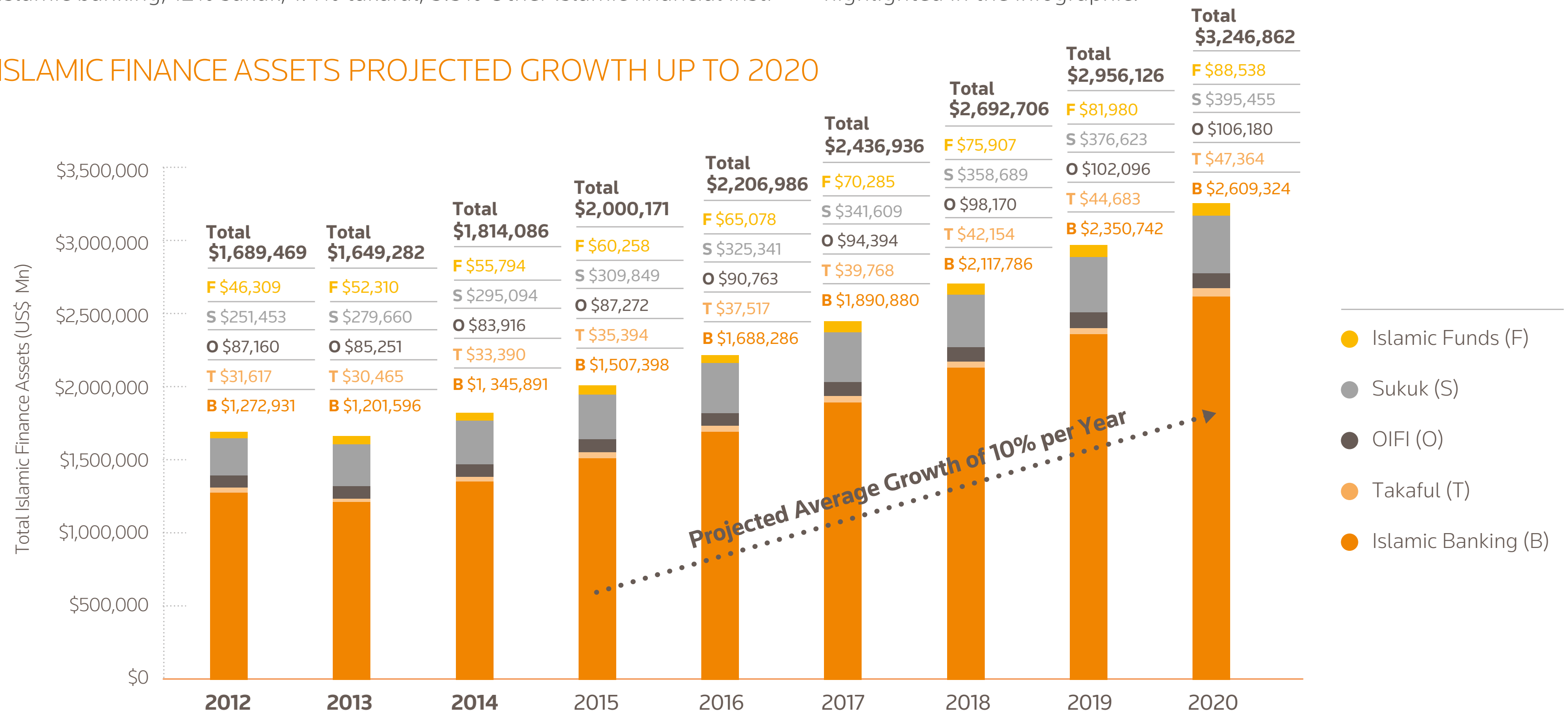
Islamic finance assets expected to reach US$3.2 trillion in 2020

Islamic banks / windows are expected to be the biggest growth drivers for Islamic finance with a projected growth between 11 and 12% per year reaching US$2.6 trillion in 2020. This, along with growth of Islamic funds (8% per year), takaful (6%), sukuk (5%) and Other Islamic financial institutions (4%), will result in a growth of 1.8 times to reach US$3.2 trillion by 2020.

The projected Islamic finance assets composition will be as follows: 80% Islamic banking, 12% sukuk, 1.4% takaful, 3.3% Other Islamic financial institutions and 2.7% Islamic funds. The expected increase of the share of assets for Islamic banking from 74% to 80% is underlined by the strength of the Islamic banking system in many nations, especially for the QD indicator's top 10 countries.

This growth is also supported by developments in 2015 (up to time of writing) along with rumoured or planned developments in different countries as highlighted in the infographic.

ISLAMIC FINANCE ASSETS PROJECTED GROWTH UP TO 2020



Quantitative Development

Sub-Indicator: Islamic Banking

A picture illustration shows Euro banknotes in front of a stocks graph in Sarajevo. REUTERS/Dado Ruvic

Indicator Value Analysis

ISLAMIC BANKING SUB-INDICATOR TOP 10 COUNTRIES

Country	Indicator Value
Iran	86
Qatar	86
Bahrain	80
Sudan	78
UAE	76
Pakistan	66
Saudi Arabia	58
Malaysia	52
Jordan	45
Kuwait	45

Tie for top spot between Iran and Qatar

There is a big gap between Iran's and Qatar's Islamic banking asset sizes — US$329 billion for the former and US$72 billion for Qatar (4.6 times smaller) (But the two nations are joint leaders on the Islamic banking sub-indicator due to consistent stock price and performance (ROA and ROE) for Qatar while Iran performed well on most Islamic banking metrics.

Saudi Arabia (US$325 billion) and Malaysia (US$174 billion) are ranked 2nd and 3rd, respectively, on size of Islamic banking assets, but they come in at 7th and 8th on the sub-indicator. 3 other countries — Sudan, UAE and Pakistan — performed well in ROA, ROE and price performance while Bahrain's strengths lie in its high number of banking institutions, listed companies and total assets.

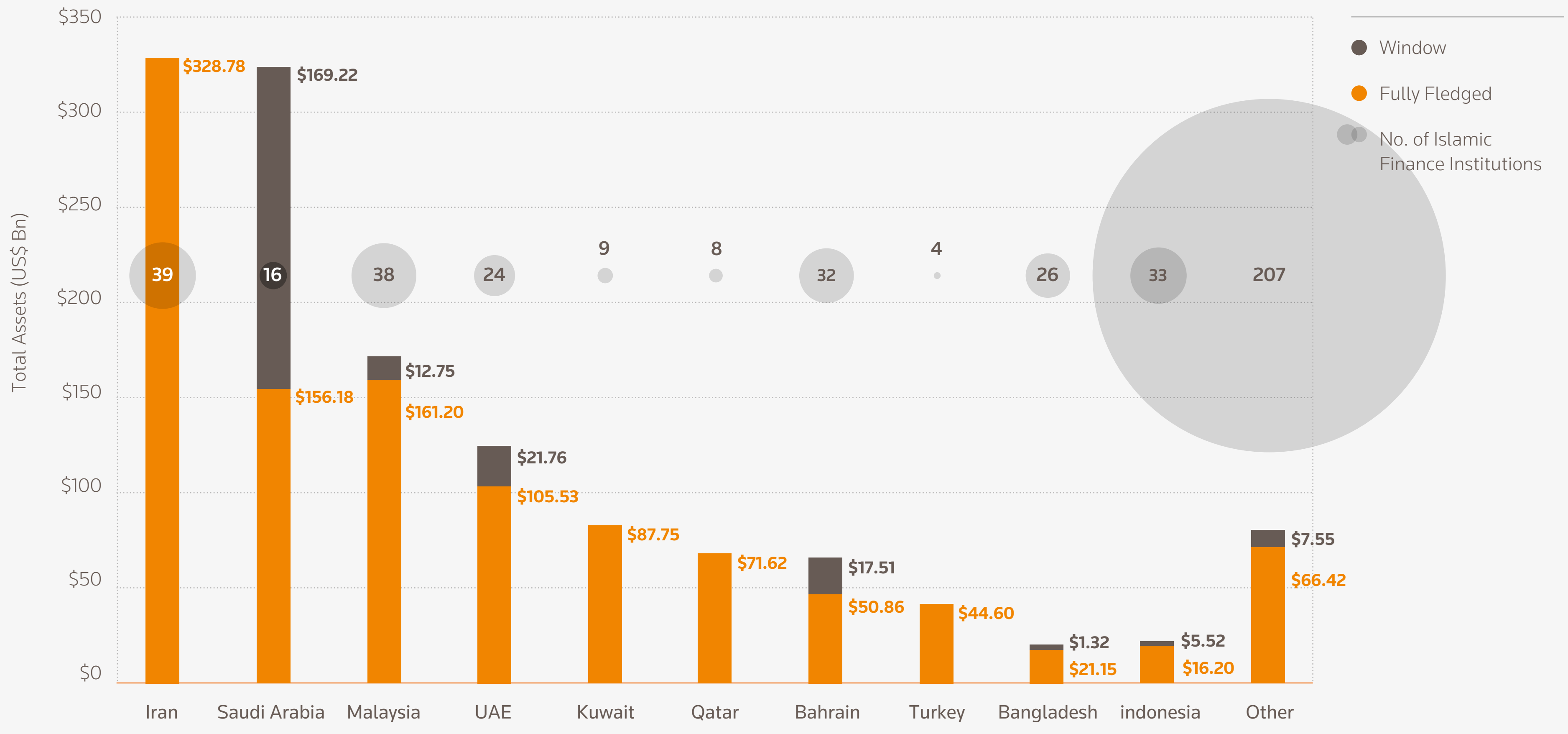
Overall, 5 of the 6 GCC nations (ex Oman) continue to dominate the top 10 on the Islamic banking sub-indicator. Their share of global Islamic banking assets rose to 51% in 2014 from 49% in 2012.

62%

Top 3 Countries Assets as % of Global Islamic Banking Assets

1. IRAN
2. SAUDI ARABIA
3. MALAYSIA

GLOBAL ISLAMIC BANKING ASSETS TOP 10 COUNTRIES
(FYE 2014)



Analysis

Varied landscape

Other MENA (see Methodology section for composition of Other MENA grouping) leads on number of banking institutions (Iran and Sudan only have fully Islamic banks), yet the region lags behind in terms of assets compared to the GCC — 28% of total global Islamic banking assets compared to GCC's 51%.

Total assets in most GCC countries are over US$50 billion (although newcomer Oman's assets stood at US$3.5 billion after just 2 years of Islamic banking being introduced in the Sultanate). The Other MENA region is led by Iran in terms of assets; the assets of other countries in the region fall between US $196 million for Lebanon and US$13 billion for Egypt.

Malaysia was gripped by negotiations for a possible merger between RHB, CIMB and MBSB that would have created an Islamic megabank. However, an agreement between the parties could not be reached and negotiations were called off in early 2015. There was a successful merger in Bahrain, though — BMI and Al Salam Bank agreed terms in Q1 2014, which resulted in the Kingdom's largest ever bank merger.

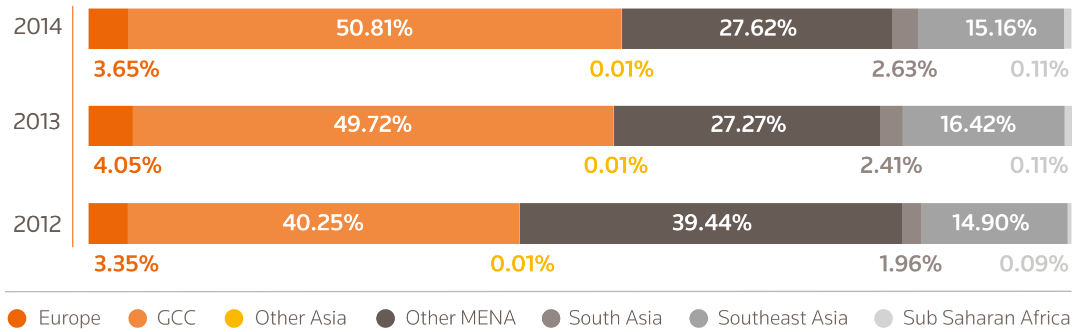
US$ 1.35 Tn

Total Islamic Banks / Banking Windows Assets Globally in 2014

436

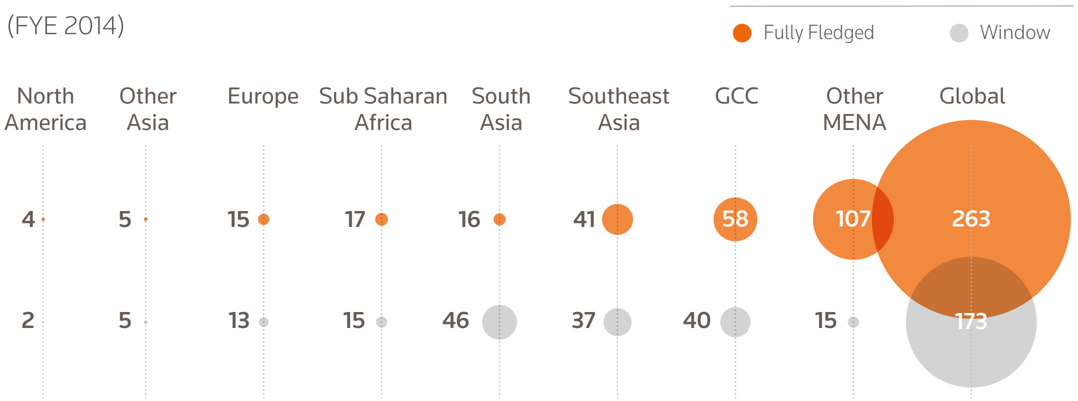
Number of Islamic Banks / Banking Windows Globally

ISLAMIC FINANCE ASSETS BY REGION



NUMBER OF ISLAMIC BANKS / BANKING WINDOWS GLOBALLY BY REGION

(FYE 2014)



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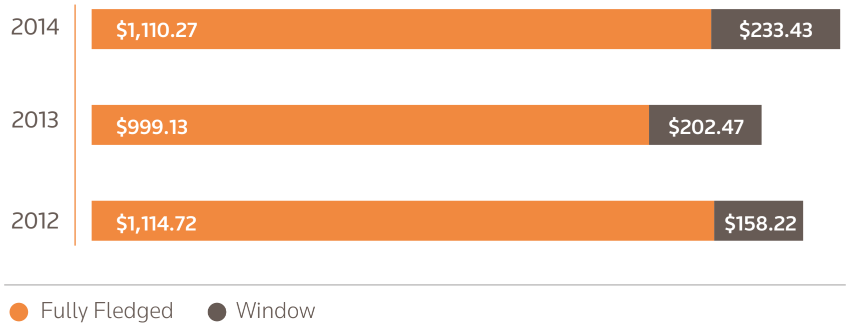
Night view of monstrous Faisal Mosque in Islamabad, Pakistan.

Windows more concentrated in South Asia and Southeast Asia

By country, Indonesia has the most banking windows in the world, and by region, South Asia has more Islamic banking windows (driven by Bangladesh and Pakistan) than any other region in the world.

However, the number of Islamic windows globally is expected to drop in the next few years as Pakistani banks are expected to spin-off their windows to become fully Shariah-compliant while in Saudi Arabia National Commercial Bank, which is ranked 3rd globally in terms of Islamic banking assets, is expected to convert to become fully Islamic within 5 years. Conversion of windows to full Shariah-compliant institutions is not supported by all authorities across all jurisdictions. In Bangladesh, for example, 4 banks applied to the central bank to become fully Shariah-compliant but no approvals were given. The Bangladesh central bank has said that it will keep conventional and Islamic banks operating separately, although the decision is not permanent, and Islamic windows are banned.

ISLAMIC BANKING ASSETS BREAKDOWN BY FULLY FLEDGED / WINDOW (US$ Bn)



Windows contribute only 17% to total Islamic banking assets despite high number of windows and better growth

Islamic windows enjoyed a double-digit CAGR of 14% since 2012, outperforming full-fledged Islamic banks (whose CAGR dipped 0.11 % since 2012). This could be attributed to a drop in assets at full Islamic banks in 2013 although they did pick up in 2014.

However, Islamic banking windows contributed only 17% to total assets in 2014 despite the number of windows reaching 40% of the total Islamic banking universe. The global share of assets of Islamic banking windows is expected to decrease as many banks are planning to convert to full Islamic banks such as in Pakistan, Indonesia, and Malaysia.

Saudi Arabia holds the biggest pool of Islamic banking windows assets (72% of total Islamic banking windows assets) but that share will decline as well because NCB, which currently accounts for the largest share of Saudi Arabia's Islamic windows assets (31%) and globally as well, is planning to convert to become fully Islamic.

GCC has the highest ratio of Islamic banking assets to total banking assets

Islamic banking assets account for only 1.27% of total conventional and Islamic banking assets of the 108 countries (US$105 trillion) covered by the IFDI. However, only 42 out of 108 countries reported any Islamic banking assets. Hence Islamic banking assets, measured as a portion of total banking assets for these 42 countries with any Islamic banking assets, account for 5% of their total banking assets (US$27 trillion) in 2014. Islamic banking assets grew at double the rate compared of total banking assets in these countries, where Islamic banking had a YTY growth of 12% in 2014. Conventional banking had a YTY growth of 6% since 2013.

GCC countries have the biggest portions of Islamic banking assets relative to total banking assets. Saudi Arabia leads (57%), followed by Kuwait (46%) and Bahrain (36%). In the Other MENA region, outside of fully Shariah-compliant Iran and Sudan, Yemen's Islamic assets were at 32%. In Southeast Asia Brunei leads (32%) followed by Malaysia (27%). The country with the largest Muslim population in the world, Indonesia, has a 5% Islamic banking share of total banking assets. Outside of these regions Islamic banking assets as a portion of total banking assets is minimal.

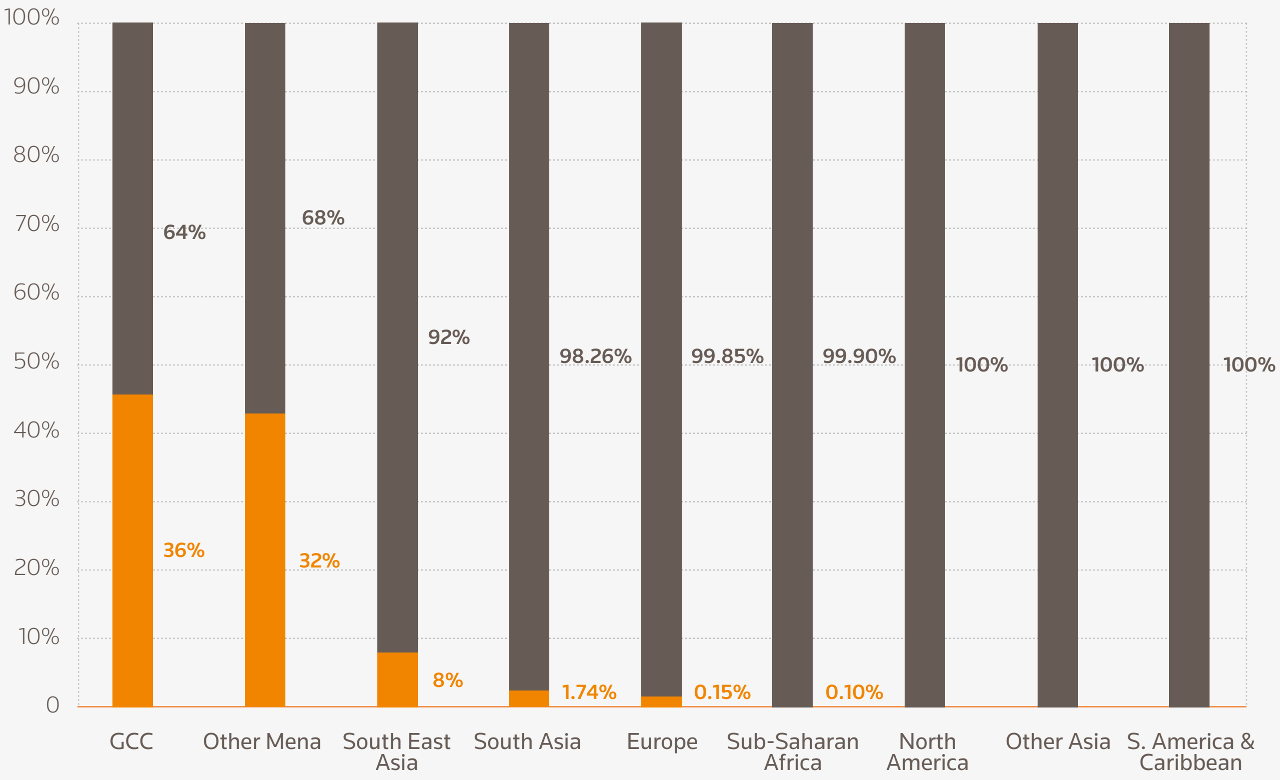
ISLAMIC BANKING AS PORTION OF TOTAL GLOBAL BANKING ASSETS

1.27%

Islamic Banking Assets
as % of Total Global* Banking Assets

*Global Banking Assets is based on the same country universe for IFDI

ISLAMIC BANKING AS PORTION OF TOTAL BANKING ASSETS BY REGION*



*Regional Banking Assets is based on the same country universe for IFDI

Commercial banking drives Islamic banking sub-indicator

97% of total Islamic banking assets are held in commercial banks. The rest are held in investment banks (1%), specialised banks (2%) and wholesale banks (0.5%).

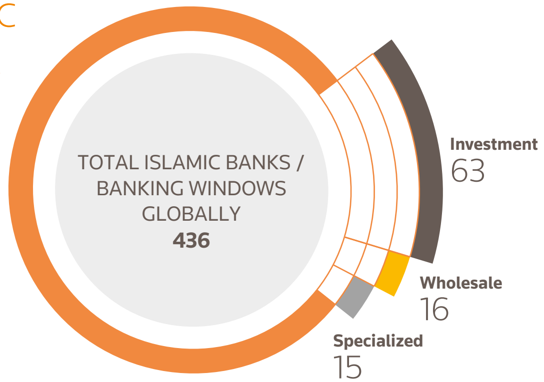
However, assets growth is fastest for investment banks.
Islamic commercial banks grew at a CAGR of 1.73% from 2012 to 2014; this is lower than for other sub-sectors: investment banks CAGR was 7.8% followed by wholesale banks (3.81%) and specialised Islamic banks (4.20%).

14 of 63 Islamic investment banks are based in Bahrain (22%), with total Islamic investment banking assets of US$3.7 billion. Qatar is 2nd with investment banking assets worth US$2.2 billion. Qatar's Islamic investment banks enjoyed the highest growth since 2012 (CAGR of 13%).

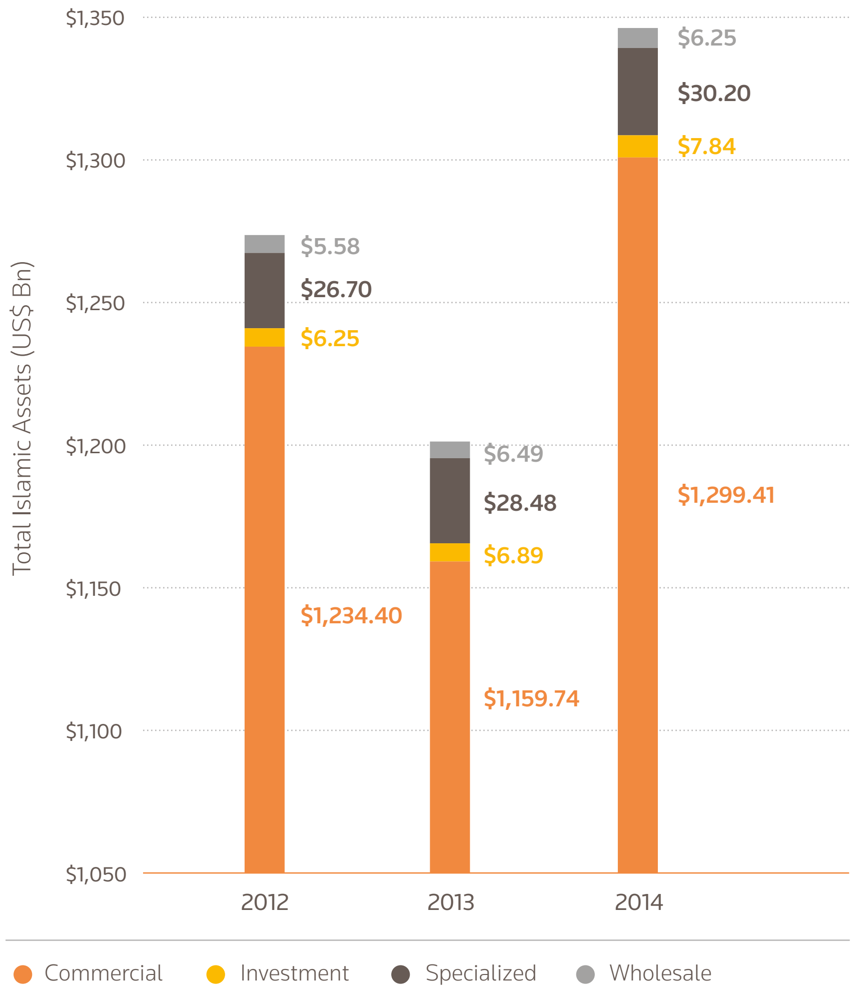
The highest numbers of specialised and wholesale banks are based in Malaysia and Bahrain, respectively.

NUMBER OF ISLAMIC BANKS / BANKING WINDOW GLOBALLY BY CATEGORY

(FYE 2014)



ISLAMICA BANKING ASSETS BREAKDOWN BY CATEGORY

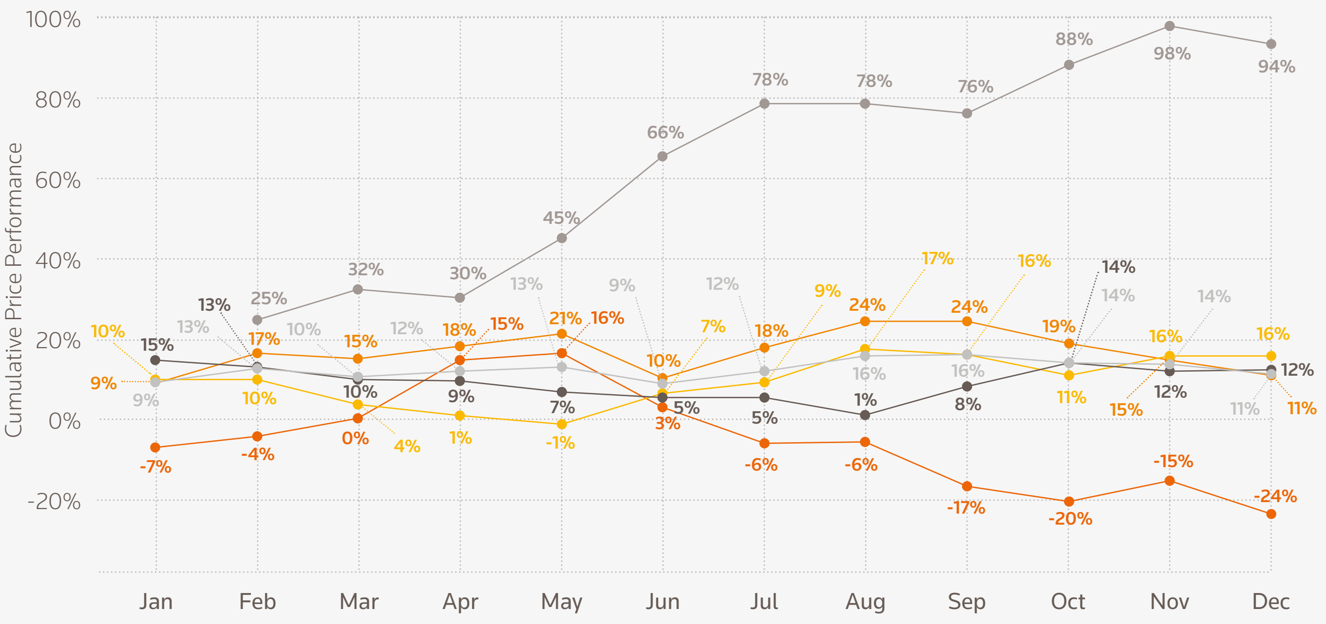


Mixed market stock price performance throughout 2014

Southeast Asia's stock prices (of Islamic financial institutions) performed better than for IFIs in other regions by the end of 2014. This could be attributed to Indonesia's first Islamic bank listing (Bank Panin Syariah) in January 2014 whose price movements were positive throughout the year. This is in contrast to Bank Muamalat Indonesia's delayed IPO attempt in 2013 due to weak market conditions.

On the other hand, Europe closed on a negative note as 3 of its Islamic banks suffered negative price movements, 1 of which was Bank Asya in Turkey. Bank Asya's share price was volatile throughout 2014 as trading of the stock was suspended several times due to a political fallout. It resumed trading on the "watchlist" by September 2014. The other 2 with negative movements were Bank of London and the Middle East and European Islamic International Bank. Al Baraka Bank of Turkey was the only one with positive performance.

South Asia and GCC had stable movements throughout the year. Saudi Arabia's National Commercial Bank enjoyed a successful US$6 billion IPO and plans to become fully Islamic in 5 years.



ISLAMIC BANKS AVERAGE CUMULATIVE STOCK PRICE PERFORMANCE (END OF DEC 2013 - DEC 2014)

Islamic banking assets heavily concentrated in 5 biggest banks in each country

The 5 biggest Islamic banks in each country hold at least 50% of total Islamic banking assets in their respective markets. Iran and Malaysia are more competitive, with their top 5 banks holding 56% and 61% of total Islamic banking assets, respectively. (It is important to note that the countries considered for concentration of assets by their top 5 Islamic banks each have more than 15 Islamic banks/ banking windows.)

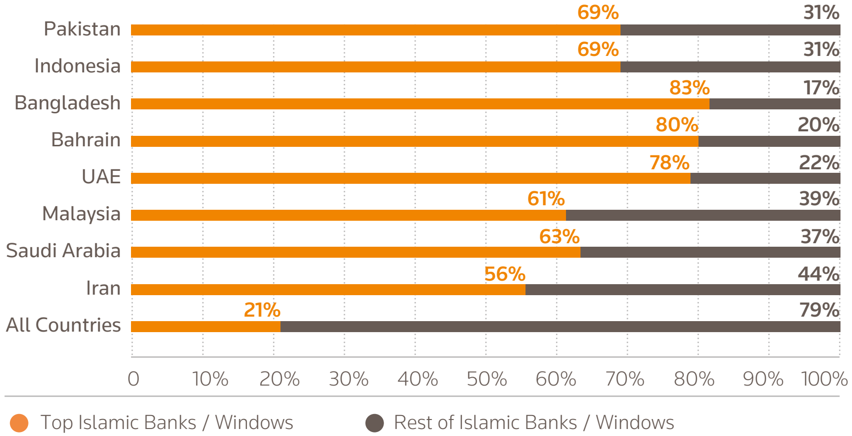
Bangladesh had 26 institutions in operation and is the least competitive compared to other countries — its top 5 banks hold 83% of total assets. Bahrain is the second least competitive; 5 Islamic commercial banks hold 80% of total Islamic assets of all commercial, wholesale, investment and specialised banks.

Bahrain had highest Islamic banking assets to GDP ratio of the top 10 countries

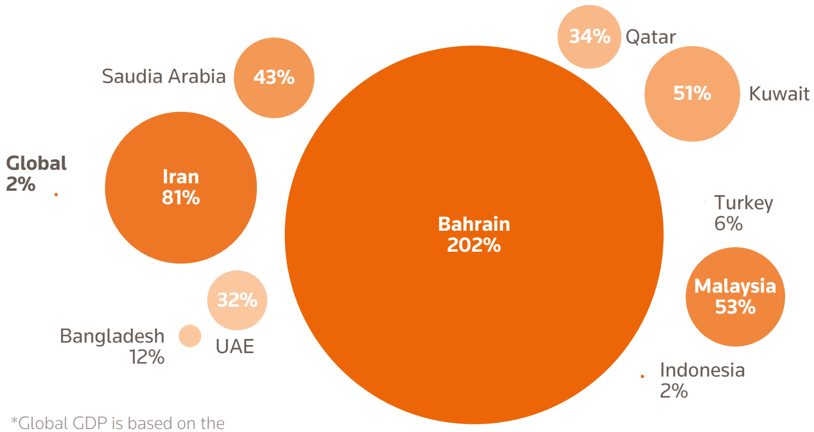
Bahrain's Islamic banking assets to GDP ratio in 2014 was 2.5 times higher than Iran's, 3.8 times higher than Malaysia's and 4.7 times higher than Saudi Arabia's. Indonesia, which has the biggest Muslim population globally, has the lowest ratio of the top 10 countries.

CONCENTRATION OF ASSETS BY TOP 5 ISLAMIC BANKS / WINDOWS

(FYE 2014)



TOP 10 COUNTRIES ISLAMIC BANKING ASSETS AS % OF GDP FOR FYE 2014



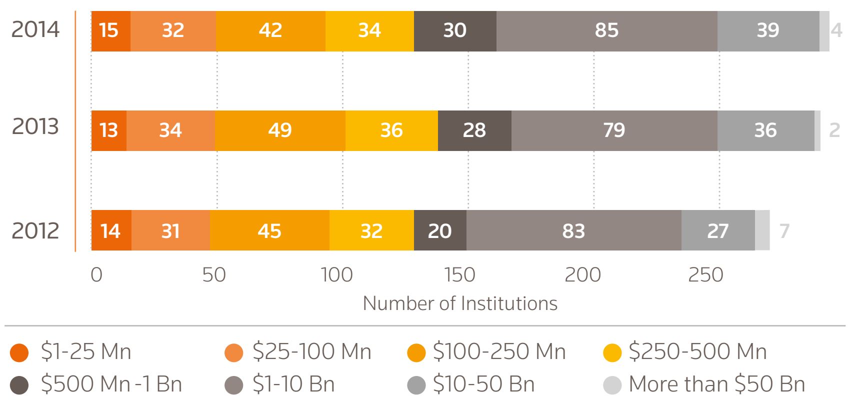
*Global GDP is based on the same country universe for IFDI

More banks joined the billion dollar club

The top 5 Islamic banks (or 1.7% of total number of Islamic banks) share 21% of total Islamic banking assets globally. 4 of these 5 hold in excess of US$50 billion while the fifth (Maybank Islamic Berhad) held US$41 billion in assets.

Most Islamic banks and windows hold between US$1 to US$10 billion and the number of such institutions within this range increased in 2014. Most of the newly-joined banks in this range are from Malaysia. The number of banks that hold more than US$10 billion increased as well and out of this group of banks, 1 is from Iran, 2 from Qatar, 2 from Malaysia and 1 from Saudi Arabia. Overall, the institutions within this range, whether newly-joined or not, are based in Saudi Arabia (11 institutions), Iran (10 institutions), Malaysia (7 institutions), UAE (5 institutions), Qatar (4 institutions), Kuwait, Turkey and Bahrain (2 institutions each).

BREAKDOWN OF ISLAMIC BANKS / WINDOWS BY SIZE OF ASSETS

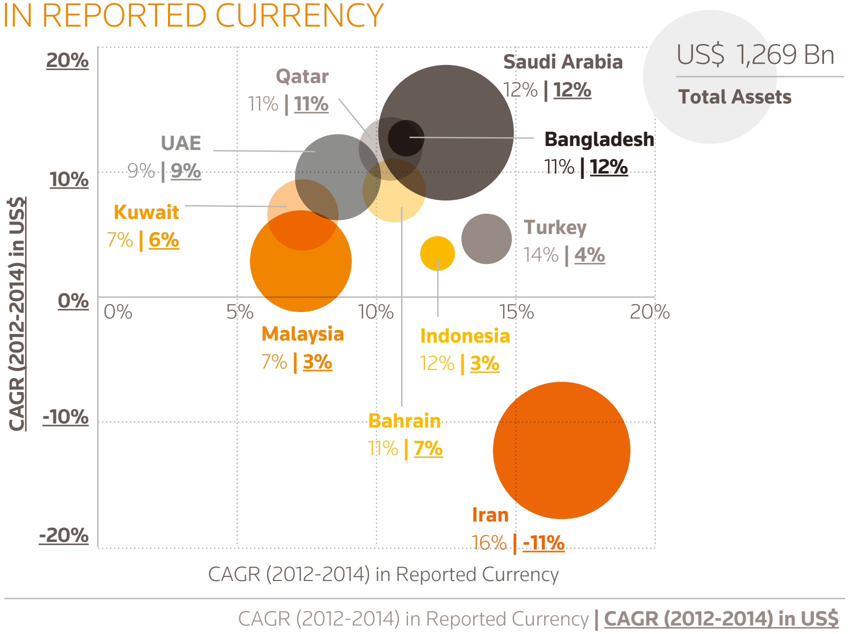


CAGR for most of the top 10 countries is between 3 and 12% since 2012

All the top 10 countries enjoyed positive growth (total Islamic banking assets in local currency) with Iran chalking up the highest CAGR of 16% since 2012.

However, if these total assets in local currency are adjusted based on foreign exchange fluctuation by the end of each year, Iran had the most volatile assets growth in USD and hence the lowest and negative growth in USD. Saudi Arabia, Bahrain, Qatar, Oman and UAE currencies are pegged to the USD so the correlation between USD and currency CAGR is close to 1.

TOTAL ISLAMIC BANKING ASSETS CAGR IN US$ VS. CAGR IN REPORTED CURRENCY



65% of Islamic banking assets are financing assets

Islamic financing, including receivables for different modes of financing, made up 65% of total Islamic banking assets (aggregated globally). In sum, Islamic financing reached US$876 billion in 2014.This is a growth of US$98 billion, or 13% year-on-year, from 2013.

Oman was the fastest growing economy in terms of financing while Iran and Saudi Arabia were the main drivers of this growth — respectively, they shared 23% and 29% of total Islamic financing globally.

Meanwhile, total liquid assets are 16% of total Islamic banking assets, made up of mainly cash and equivalents along with placements for all banks to reach US$210 billion. The remaining 11% of assets are in investments and the smallest portion — 8% — are 'other' assets such as fixed tangible and intangible assets.

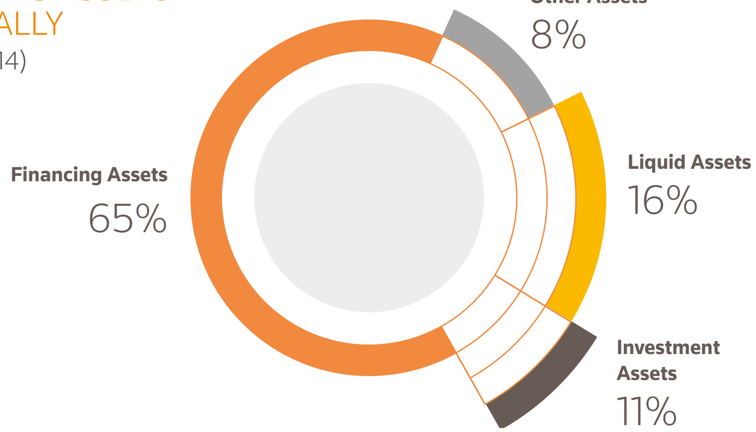
Similarly, deposits are 65% of Islamic banking assets

Total Islamic banking deposits, accounts amounts due to other parties, and investment funds reached US$881 billion in 2014; 97% of these deposits are from commercial banks.

This amount in aggregate grew 12% YTY since 2013. Oman was the fastest growing in terms of deposits and related funds — the Omani Islamic finance market grew 171% since 2013.

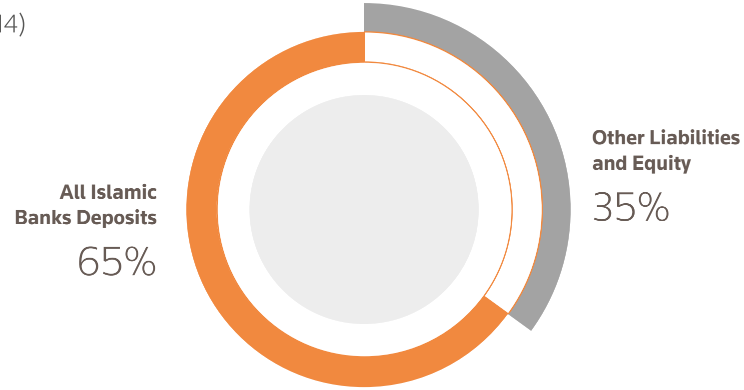
BREAKDOWN OF ISLAMIC BANKING ASSETS GLOBALLY

(FYE 2014)



BREAKDOWN OF ISLAMIC BANKING LIABILITIES AND EQUITY GLOBALLY

(FYE 2014)

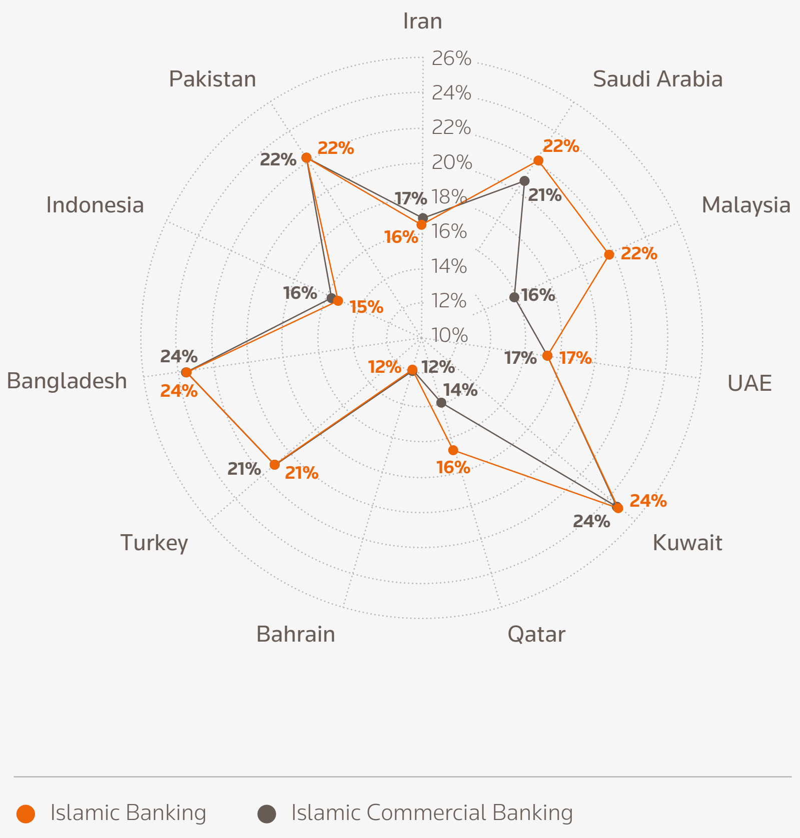


Different asset compositions across markets

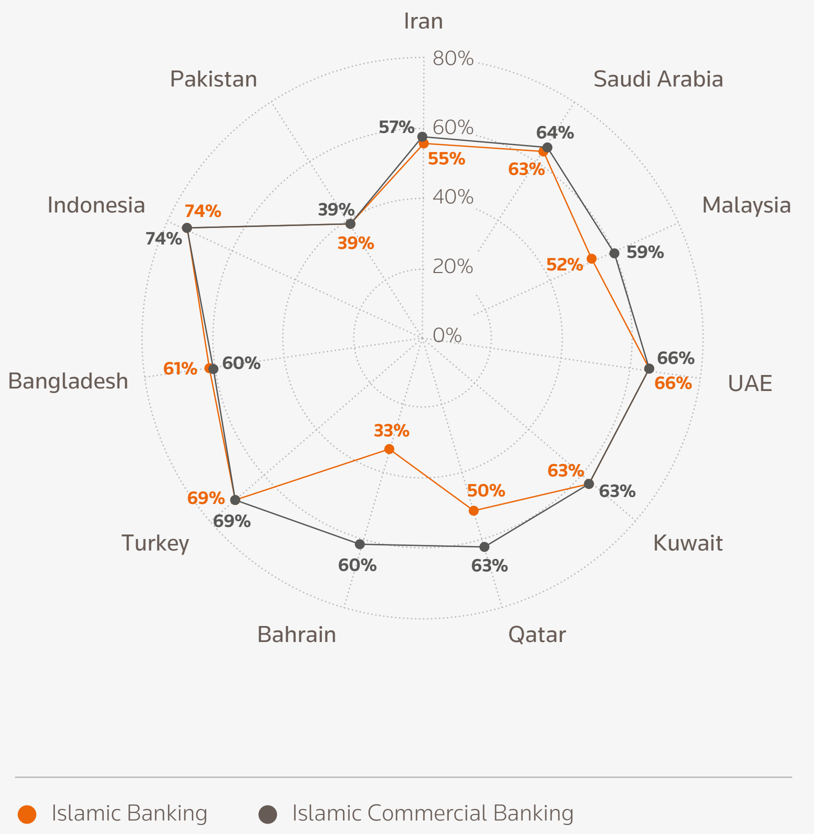
Indonesia has the highest average financing to assets ratio. The country's liquidity position is weaker compared to other countries. (Note: most of Indonesia's Islamic banks are commercial, hence the financing ratio for the country's commercial Islamic banks is almost similar to the Islamic banking ratio overall.) On the other hand, Pakistan has the lowest financing ratio. In Pakistan, investments are, on average, a third of Islamic banks' assets even as all Islamic banks are commercial banks.

For Bahrain, the variance between the financing ratio for Islamic commercial banks and Islamic banking overall is big — 21 of 32 of Bahrain's Islamic banks are investment or wholesale Islamic banks. Bahrain has the lowest ratio of cash and other liquid assets to total assets — less than 10%.

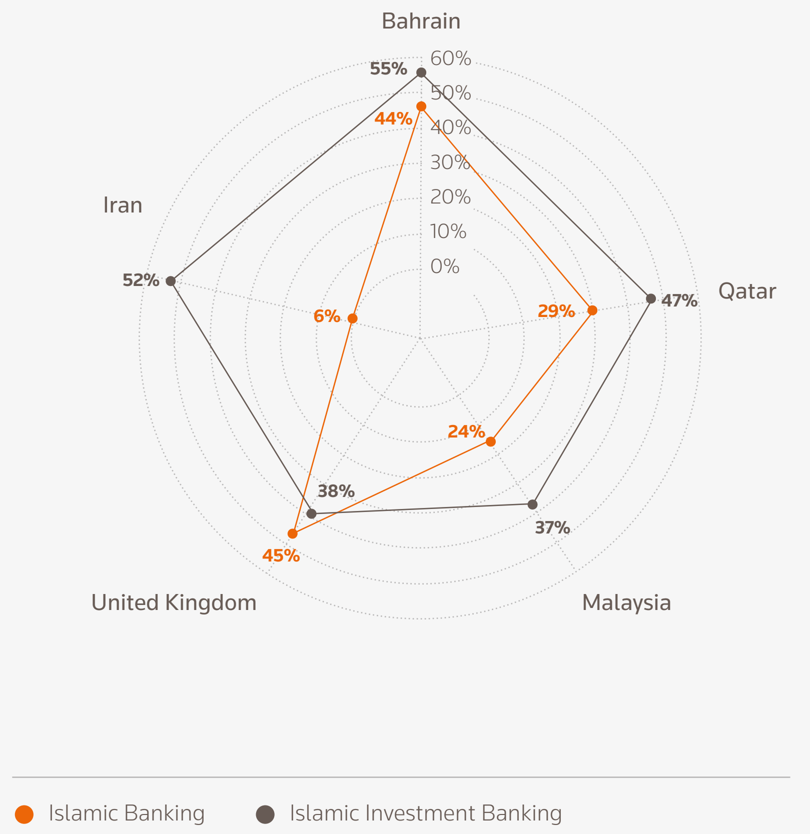
ISLAMIC BANKING
AVERAGE LIQUIDITY RATIO
(FYE 2014)



ISLAMIC BANKING AVERAGE FINANCING AS % OF ASSETS
(FYE 2014)



ISLAMIC BANKING AVERAGE INVESTMENTS AS % OF ASSETS
(FYE 2014)



Not everyone had a good 2014

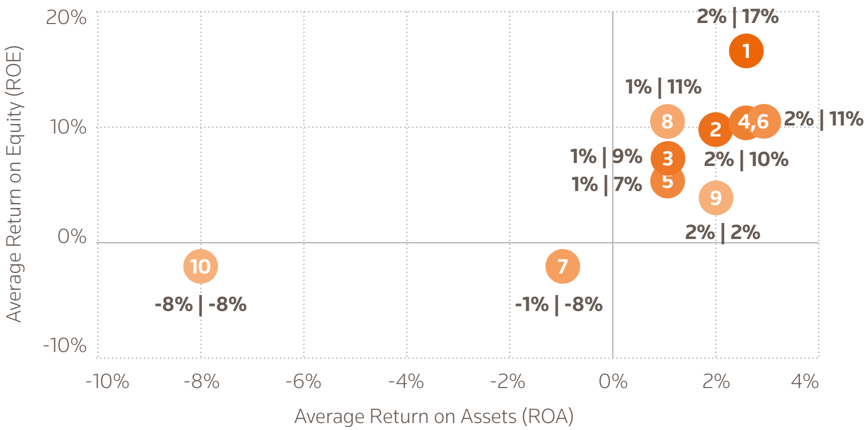
79% of Islamic banks in the IFDI universe had a profitable year. Islamic banks from Turkey and Thailand stand out as poor performers. Turkey's Bank Asya suffered a very tough year as a result of its shrinking deposit base and financing portfolio due to a political fallout. Bank Asya's net profit plunged and the participation bank suffered a loss compared to 2013, which pulled down the total net profit of the Turkish participation banking system. Thailand's sole Islamic bank, the Islamic Bank of Thailand, continued to struggle with bad debts, adversely impacting its ROA and ROE.

Wholesale banks performed poorly compared to other categories

Wholesale banks (most based in Bahrain) drove down the average performance ratios for wholesale Islamic banks. The losses made by some Bahraini wholesale Islamic banks were due to operational losses in the form of investment losses or disposal of assets. Nevertheless, the impact of wholesale banks to the entire Islamic banking system is small due to their small asset size compared to commercial, investment or specialised banks that made profits.

PROFITABILITY FOR ISLAMIC BANKS

(FYE 2014)



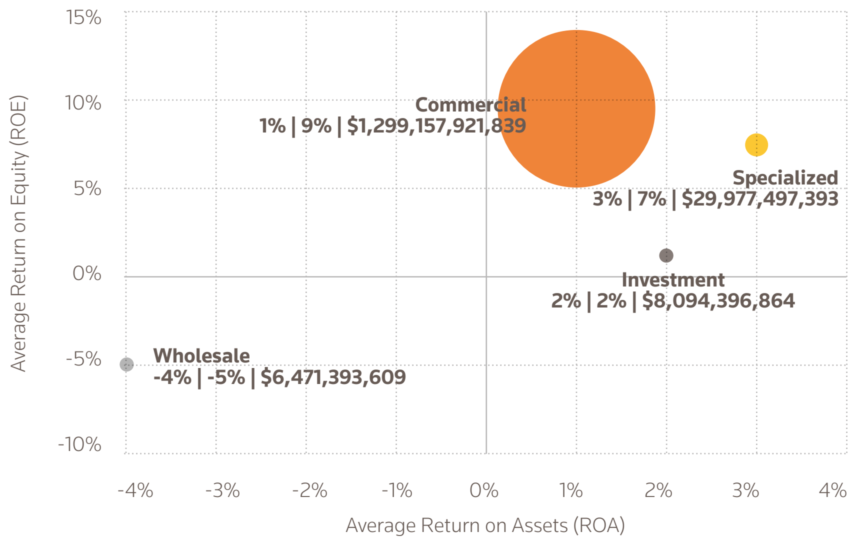
1 Iran
2 Saudi Arabia
3 Malaysia
4 UAE
5 Kuwait
6 Qatar
7 Turkey
8 Bangladesh
9 Indonesia
10 Thailand

ROA | ROE

*ROA includes Islamic banks and windows while ROE includes full Islamic banks only

ISLAMIC LANDSCAPE BY CATEGORY

(FYE 2014)



Total assets   **ROA | ROE | Total assets**

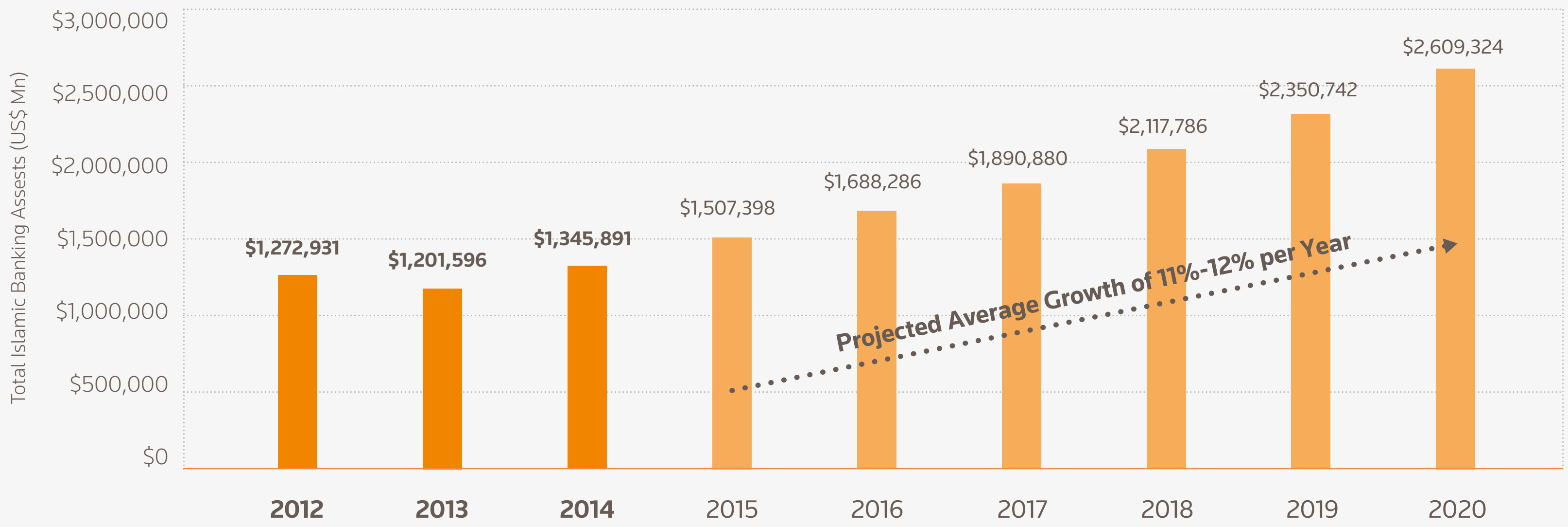
Islamic banking assets are projected to double by 2020

The assets of Islamic banks and banking windows registered a healthy CAGR of 19% since 2012 and their assets are expected to grow an average of 11% to 12% per year till 2020, to make up 80% of total Islamic finance assets.

This projection is supported by the growth and positive performance of the largest countries in terms of Islamic banking assets — Iran had an average weighted growth of 6% over the past 3 years (25% average total banking assets growth between 2012 and 2014), followed by the stable average weighted growth for Saudi Arabia, Malaysia, Turkey and the rest of the GCC excluding Oman. Oman is one of the fastest growing Islamic banking economies but its Islamic finance industry is still in its infancy compared to the other markets which are considerably more developed. Oman's Islamic finance assets grew by 67% in 2014, a year after the first IFIs opened.

Some of these nations have low Islamic banking penetration, indicating potential growth in demand and with positive GDP growth outlook for all of these economies especially Malaysia, Qatar and Iran, Islamic banking can play a huge part in overall economic growth.

ISLAMIC BANKING ASSESTS PROJECTED GROWH TILL 2020



Islamic Banking Ecosystem (FYE 2014)

GOVERNANCE

ISLAMIC FINANCIAL REPORTING
BY ISLAMIC BANKS/WINDOWS

Reporting	Not Reporting
64%	36%

ISLAMIC FINANCIAL REPORTING
BY BANKS BY SHARIAH BASIS

Fully Fledged	Window
68%	32%

FULLY FLEDGED ISLAMIC BANKS
FINANCIAL REPORTING

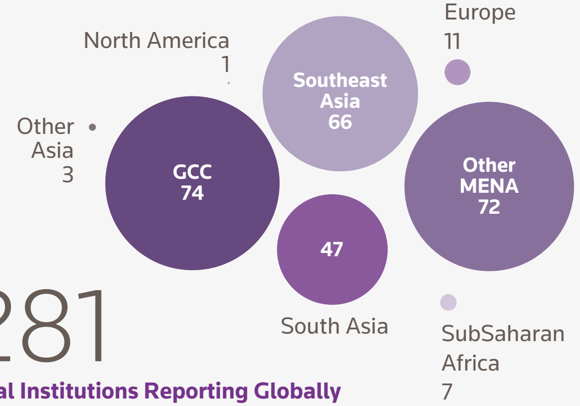
Private	Public
58%	42%

ISLAMIC BANKING WINDOWS/ DIVISION
FINANCIAL REPORTING

Private	Public
33%	67%

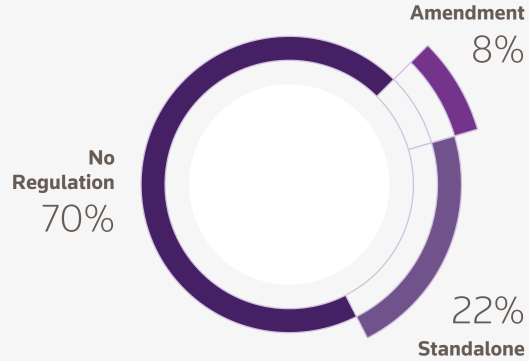
43 **Average Financial Reporting Disclosure Index (Out of 70 Items)**

ISLAMIC BANKING FINANCIAL REPORTING BY REGION



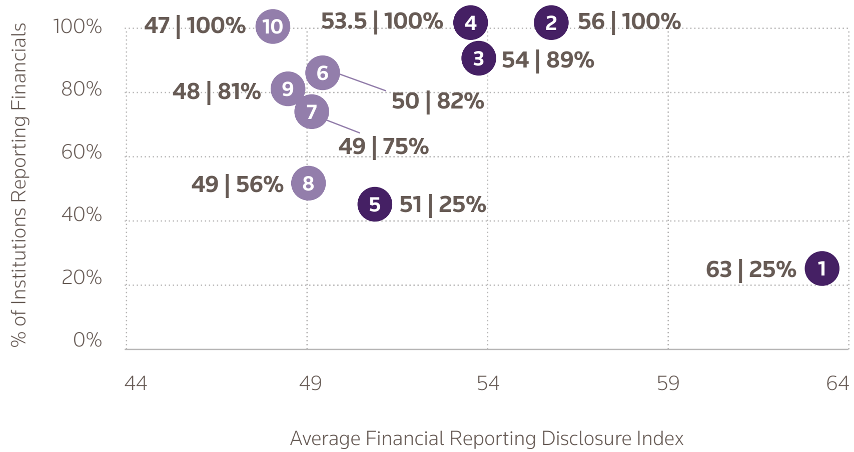
281
Total Institutions Reporting Globally

TYPES OF ISLAMIC BANKING REGULATORY ENFORCEMENT ACROSS COUNTRIES



AVERAGE FRDI VS. % OF BANKING INSTITUTIONS REPORTING FINANCIALS — BY COUNTRY

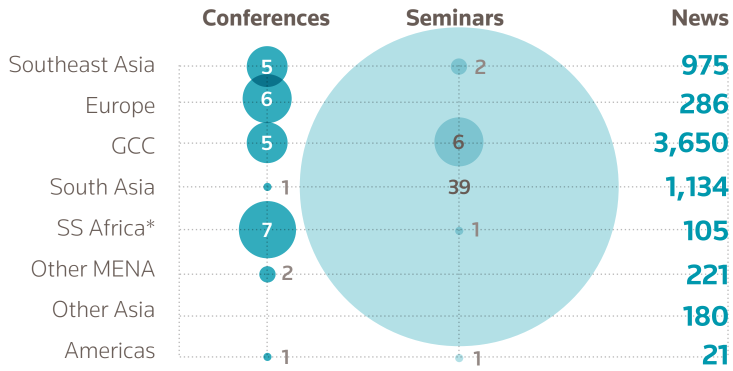
1 Sri Lanka	6 Malaysia
2 Palestine	7 Qatar
3 Oman	8 Kuwait
4 Jordan	9 Saudi Arabia
5 South Africa	10 Turkey



% of Institutions Reporting Financials | Average Financial Reporting Disclosure Index

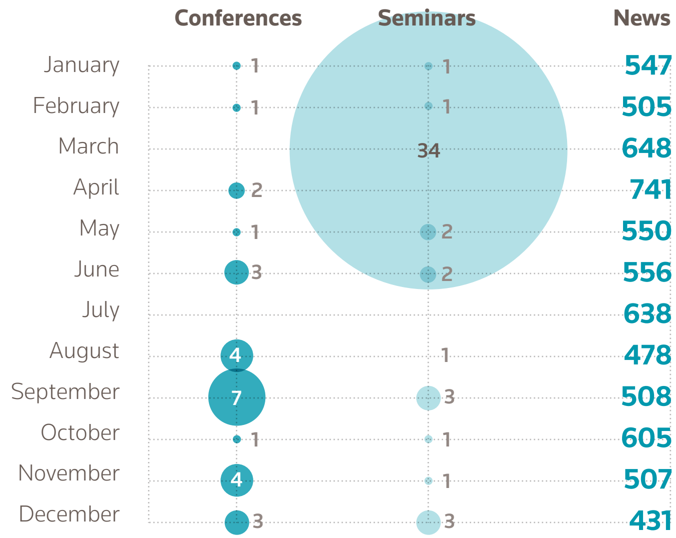
AWARENESS

ISLAMIC BANKING AWARENESS INDICATOR
BY REGION



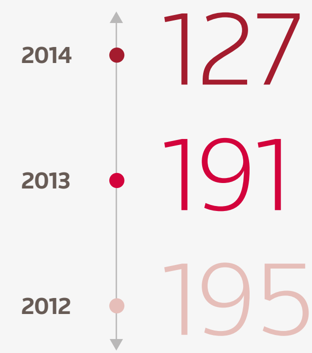
*Sub Saharan Africa

ISLAMIC BANKING AWARENESS INDICATOR
BY MONTH



KNOWLEDGE

PUBLISHED RESEARCH PAPERS ON ISLAMIC BANKING BETWEEN 2012-2014

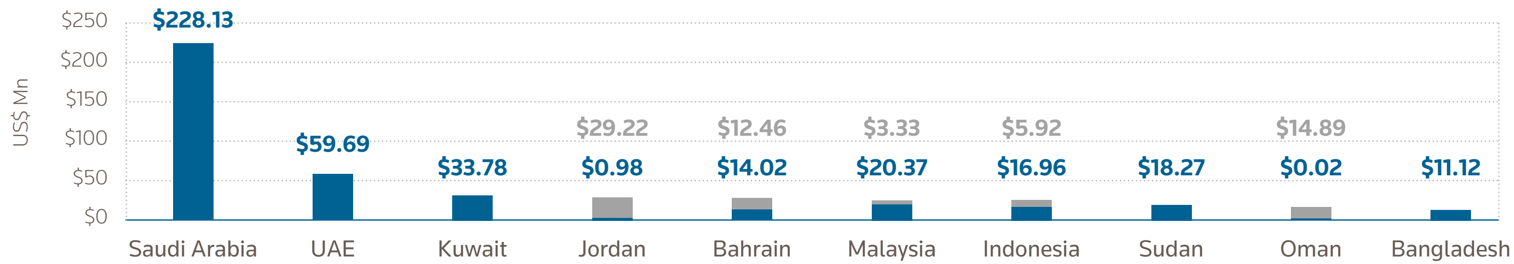


CORPORATE SOCIAL RESPONSIBILITY

CSR SCORE BY ISLAMIC BANKS (OUT OF 11 ITEMS)

Number of Islamic Banks

TOP COUNTRIES IN TERMS OF TOTAL CSR FUNDS DISBURSED BY ISLAMIC BANKS



Zakat & Charity Funds Disbursed
Qard Al Hasan Funds Disbursed

Quantitative Development Sub-Indicator: Takaful

An aerial photograph of Doha buildings in Doha, Qatar. JPRichard / Shutterstock.com

Indicator Value Analysis

TAKAFUL SUB-INDICATOR TOP 10 COUNTRIES

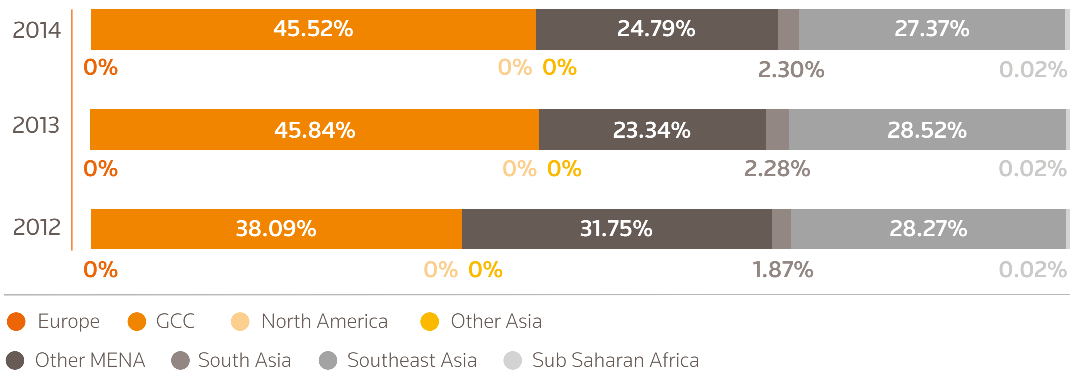
Country	Indicator Value
Qatar	105
Palestinian territories	62
Maldives	57
Sri Lanka	46
Saudi Arabia	45
Iran	42
Malaysia	36
Indonesia	36
Syria	25
Jordan	24

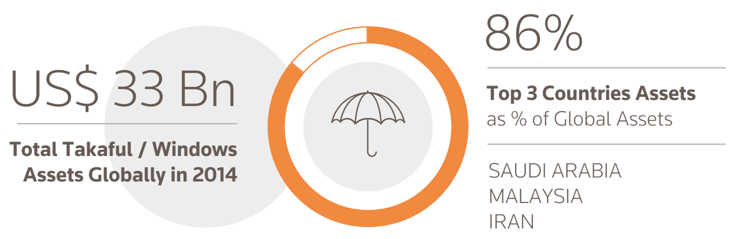
86% of takaful assets are concentrated in 3 markets: Saudi Arabia, Malaysia and Iran

Global takaful assets reached US$33 billion by the end of 2014 and 86% are in 3 countries — Saudi Arabia, Malaysia, and Iran. Saudi Arabia holds the most takaful assets — US$12.3 billion managed by 40 full-fledged takaful operators.

However, bigger does not mean better performance. All metrics considered, Qatar retained its position as the highest ranked country on the Takaful sub-indicator. Apart from asset size, Qatar had the second highest average profitability within the IFDI universe — ROA (11%), and ROE (17%). (Maldives enjoyed better performance at 11% average ROA and 20% average ROE.) The same factors — performance on ROA and ROE — pushed Palestine into the top 10 rankings. Only Qatar and Saudi Arabia figure in the top 10 but the GCC as a region holds the lion's share of takaful assets — their pool grew by 7.43% from 2012 to 2014, reaching 45.52% of global takaful assets.

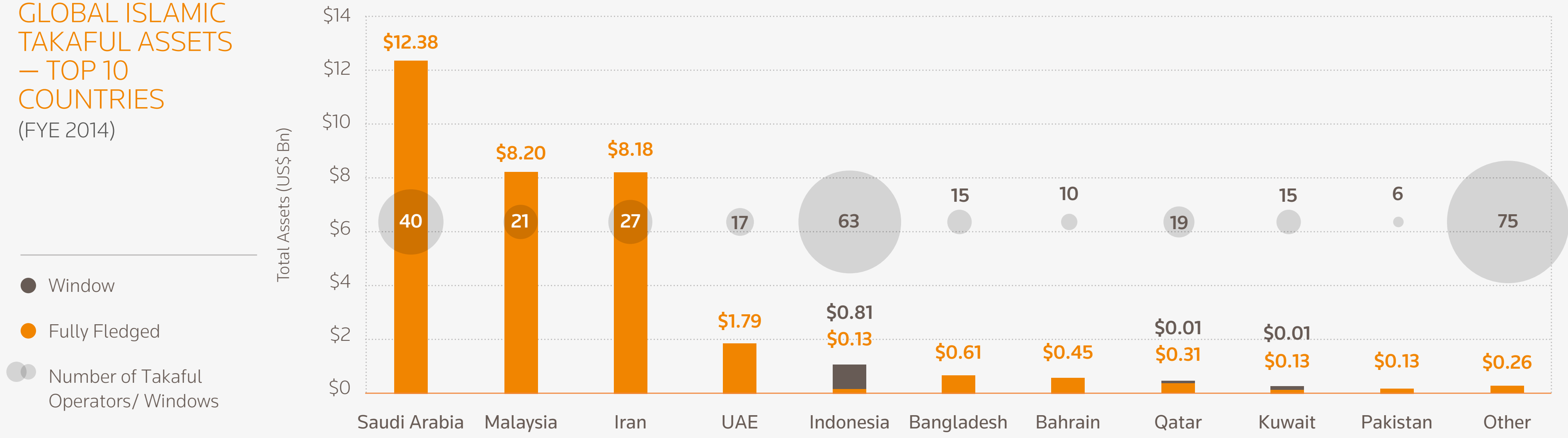
TAKAFUL ASSETS BY REGION





GLOBAL ISLAMIC TAKAFUL ASSETS — TOP 10 COUNTRIES

(FYE 2014)



Analysis

308 takaful operators worldwide

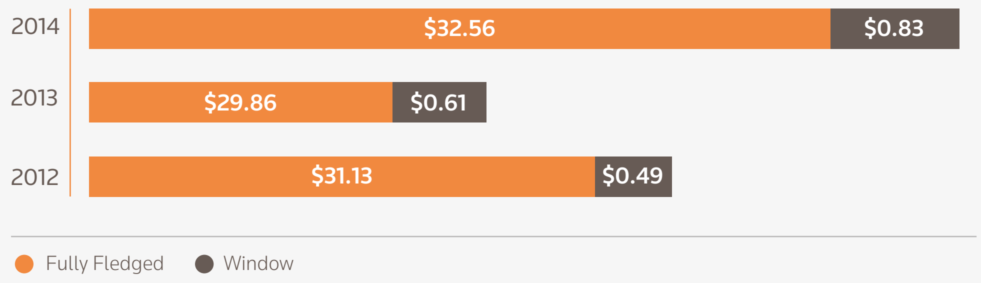
Most of the world's takaful operators are concentrated in the 3 Islamic finance stronghold regions — GCC, Southeast Asia and Other MENA. GCC leads the takaful industry not only by market size, but also by number of institutions — almost 33% of the world's takaful operators operate in the GCC.

Changing face of takaful sector in Southeast Asia

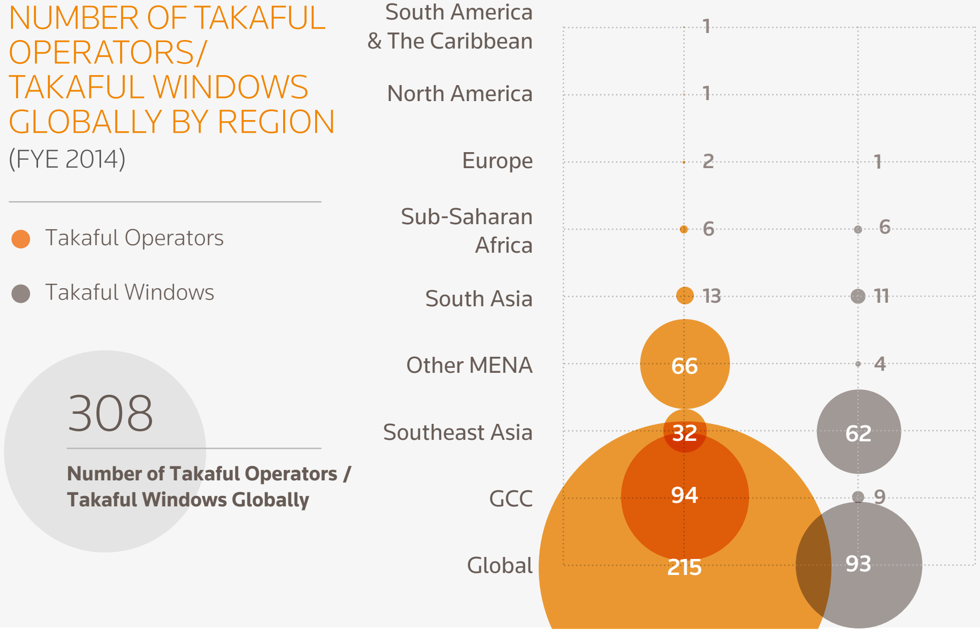
Takaful windows constitute one-third of all takaful operators globally but they hold only 2.5% of total takaful assets. Southeast Asia's dependence on windows operations is shifting as regulations in the region's biggest markets — Malaysia and Indonesia — kick in.

Indonesia has the highest proportion of takaful windows to total takaful institutions — 89%. Indonesian operators are likely to seek consolidation (thus decreasing the number of operators) as they struggle to achieve scale. Additionally, by law, takaful windows must be spun-off to become full-fledged operators by 2024. The country expects faster growth of the takaful industry as a result. Brunei is another growth market country whose takaful assets grew 21% in 2014.

TAKAFUL ASSETS BREAKDOWN BY FULLY FLEDGED/ WINDOW
(TOTAL ASSETS — US$ Bn)



NUMBER OF TAKAFUL OPERATORS/ TAKAFUL WINDOWS GLOBALLY BY REGION
(FYE 2014)



28% v 21% — general takaful assets growing faster than family takaful assets.

General takaful operations chalked up highest growth globally compared to the other categories of takaful operations — composite, life and retakaful. However composite takaful operations contribute the most to the whole sector, reaching US$24.42 billion in 2014 from US$23.12 billion in 2013, after facing a downward trend from 2012 to 2013 (7% dip).

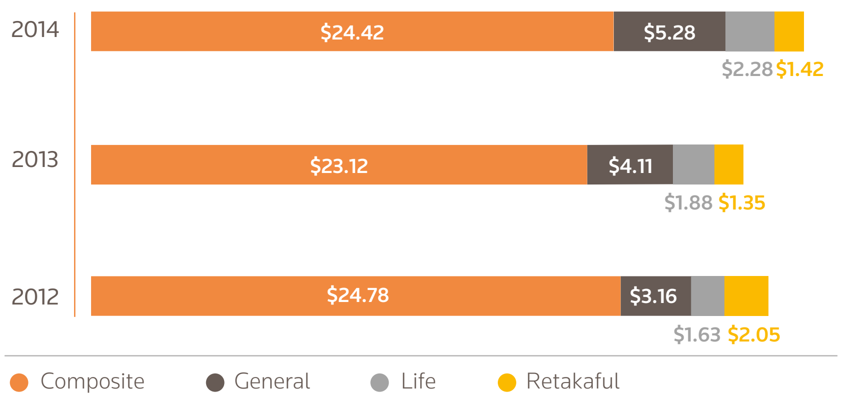
At the global level, 38% of takaful operators are composite takaful providers, followed by general (35%) and family operators (19%). Most of the takaful market players from the top-ranked countries on the Takaful sub-indicator are composite insurers. 54%, 91% and 98% of takaful assets in Saudi Arabia, Malaysia and Iran are from composite operators.

Retakaful driven by only 25 operators globally, constituting 8% of the number of takaful operators, led by Malaysia and Indonesia

Retakaful operators have a limited capacity and the sector is moving at a slower pace than other takaful segments. Having said that, the retakaful market is moving towards a growth momentum and in parallel with the composite takaful sub-sector.

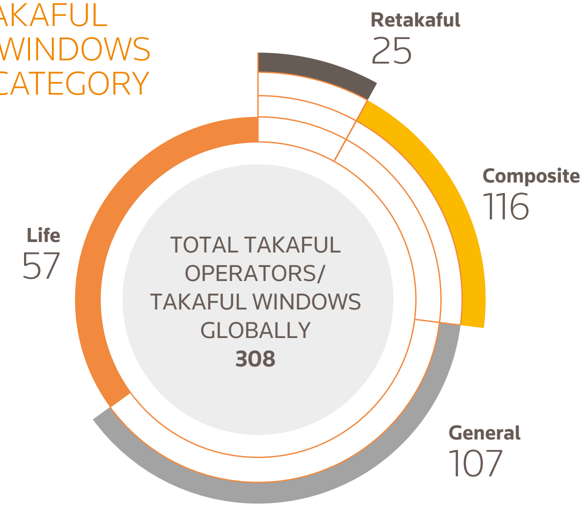
TAKAFUL ASSETS BREAKDOWN BY CATEGORY

(TOTAL ASSETS — US$ Bn)



NUMBER OF TAKAFUL OPERATORS / WINDOWS GLOBALLY BY CATEGORY

(FYE 2014)



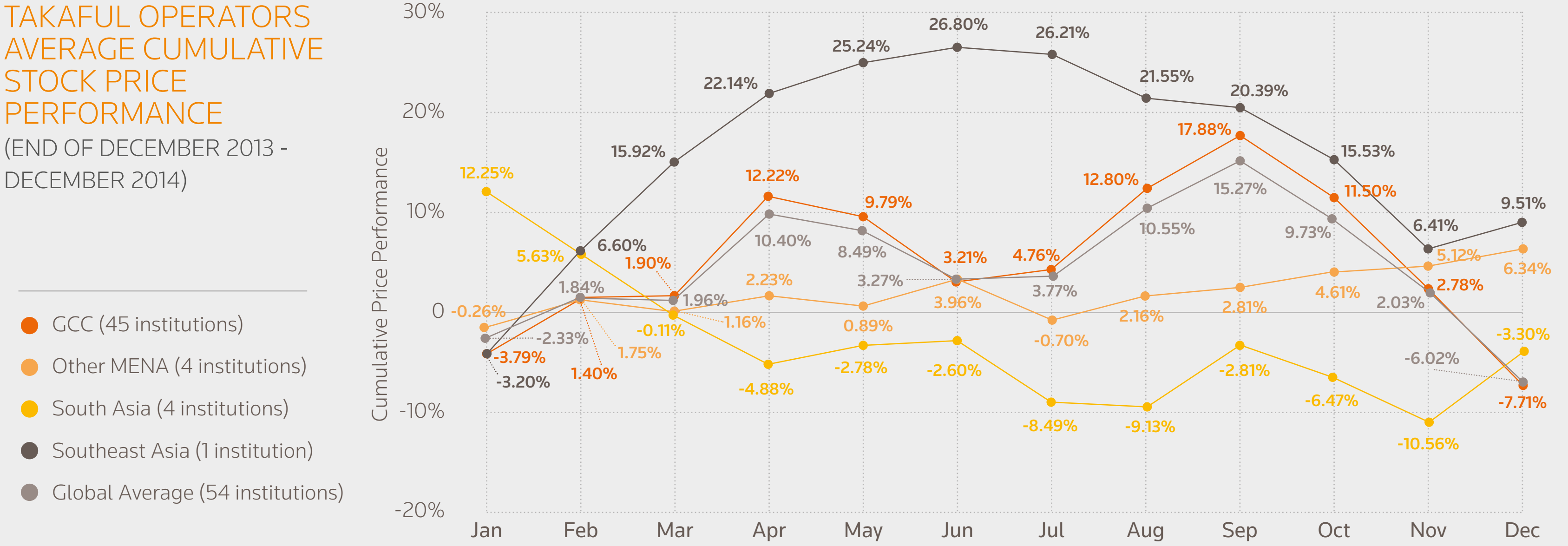
GCC and South Asian institutions' stock prices — volatile average cumulative performance

The stock price performance of 54 listed takaful operators globally (representing 18% of total takaful operators globally; 254 are private) maintained almost the same level of negative performance throughout 2014 to reach -3.3% in December from 3.8% at the beginning of 2014. 83% of all listed takaful companies are from the GCC; their stock prices reached a peak during the third quarter to register growth of 11.5% in September. On average, Saudi Arabia's takaful operators, the largest contributors in terms of takaful assets, suffered a negative share price performance although one of the country's biggest international health insurers, Bupa Arabia for Cooperative Insurance, saw its stock price grow 3 times from the end of 2013 to the end of 2014. BUPA Arabia's stock price was the best performer of all takaful operators globally, while 82% of operators in Saudi Arabia performed negatively.

In other regions, 3 out of a total of 4 listed operators in South Asia (all from Bangladesh) returned negative performances throughout 2014. The 1 listed operator from Sri Lanka maintained an average stock price movement of approximately 9% throughout the year. In Southeast Asia, Syarikat Takaful Malaysia Bhd was the only listed company in the IFDI universe that showed higher than average performance while Other MENA's takaful institutions stood flat even with a handful of positive changes for their industries.

TAKAFUL OPERATORS AVERAGE CUMULATIVE STOCK PRICE PERFORMANCE

(END OF DECEMBER 2013 - DECEMBER 2014)



Almost 40% of global assets held by 5 companies

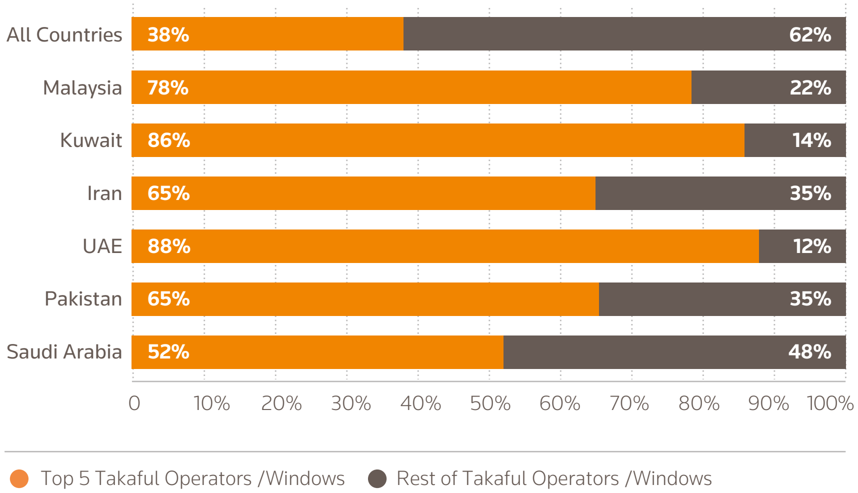
Globally, 5 takaful companies held 38% of global takaful assets. Iran, Malaysia and Saudi Arabia are the biggest contributors in terms of takaful assets. Saudi Arabia is a more competitive market compared to Malaysia and Iran — the Kingdom's top 5 operators held 52% of the country's takaful assets compared to 78% for Malaysia and 65% for Iran. Competition is weakest in UAE and Kuwait where their top 5 takaful operators hold 88% and 86% of assets, respectively.

Takaful assets constitute only 0.05% of global GDP which is 40 times lower than Islamic banking

All countries' takaful assets to GDP ratio is much lower than their Islamic banking to GDP ratio. Malaysia, Iran and Saudi Arabia have the highest levels of takaful penetration, with Malaysia's takaful to GDP proportion at 3%, which is 1.2 times higher than runner-up Iran (2.02%).

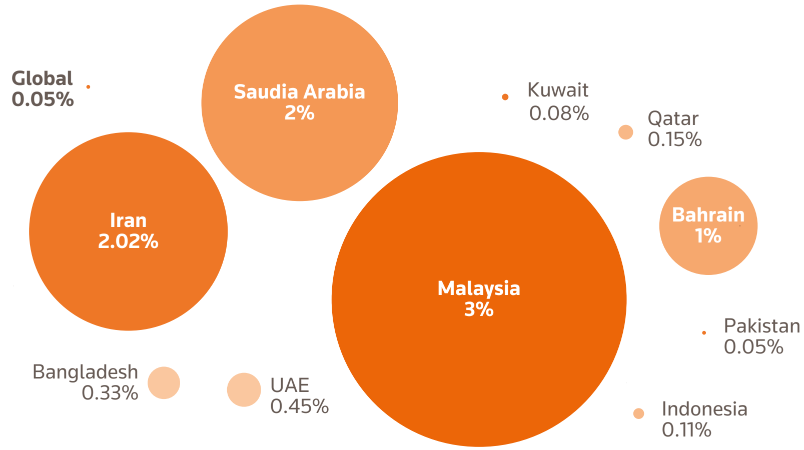
CONCENTRATION OF ASSETS BY TOP 5 TAKAFUL OPERATORS /WINDOWS

(FYE 2014)



TAKAFUL PENETRATION

(TAKAFUL ASSETS AS % OF GDP FOR FYE 2014)



*Global GDP is based on the same country universe for IFDI

Pol-e Khaju bridge, Isfahan, Iran.

Growth markers — market share and profitability

Saudi Arabia and Bahrain trail other GCC countries on takaful profitability as measured by ROA and ROE. Amongst the top 10 countries, only these 2 registered negative growth with Bahrain being the worse off — the average ROA of Bahrain's takaful operators in 2014 reached -2% and -15% ROE. Due to currency fluctuations which in turn affected investments, Iran dropped by 10% for ROE but its ROA reached almost 4%. All other top 10 countries stayed on a positive trajectory Qatar topped the indicator with highest profitibility of 11% and 17% for ROA and ROE, respectively.

Family takaful more profitable than general takaful

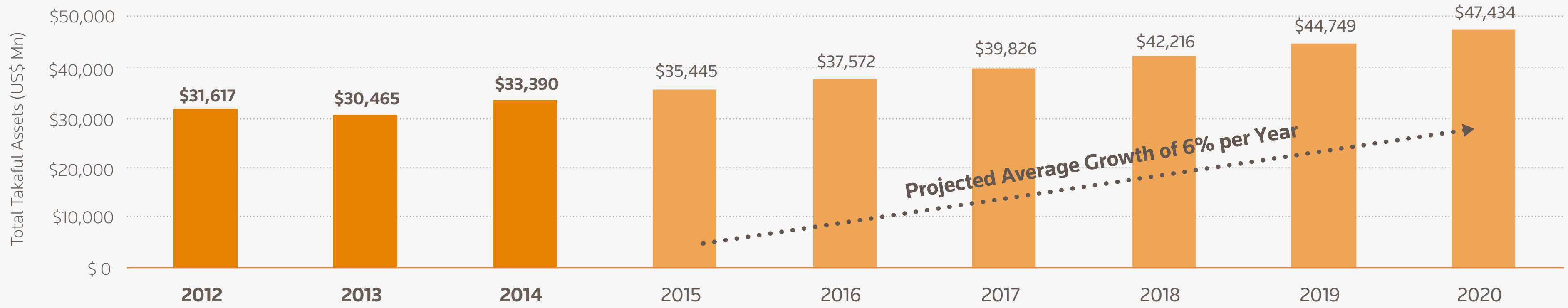
Family takaful operators outperformed general and composite takaful operators despite their smaller market share and lower assets contribution to the global takaful market. Collectively, composite insurers made a loss of 11% in equities; the sub-sector was affected by the very poor performance of one of the biggest composite takaful operators in Kuwait, where takaful firms faced cut-throat competition in a crowded market which led to persistent losses. The lack of a supervisory board could be one of the key issues affecting Kuwait's takaful sector.

Takaful has untapped potential

By the end of 2014, takaful assets reached US$33.4 billion and this is expected to reach US$35.6 billion by the end of 2015. The growth of the global takaful market– measured by takaful assets – is expected to reach US$47.4 billion by 2020, based on a continued single digit growth momentum of around 6% per year from 2015 to 2020.

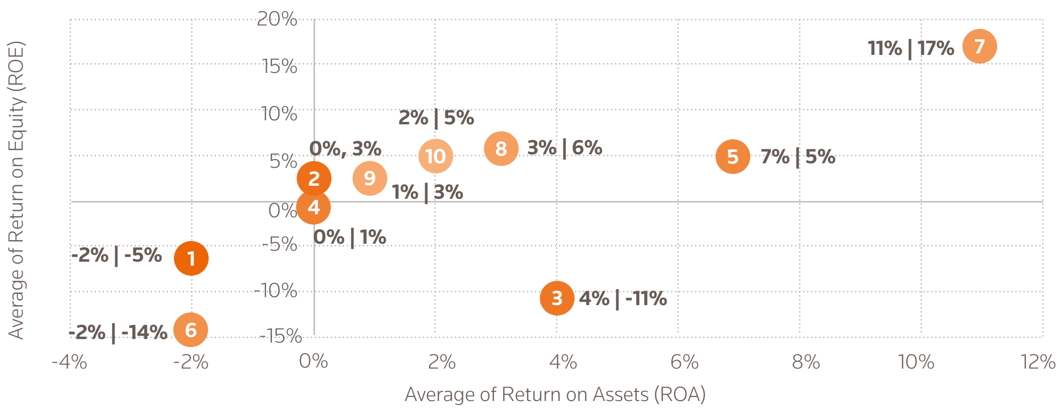
Growth will come from a basket of drivers. Takaful regulation is one pillar to attract new investment into a market and hence push up growth. Compulsory insurance/takaful coverage will also drive takaful growth, for example the introduction of national health insurance in Indonesia will lead to higher take-up rates and growth of premiums and contributions. The growth and expansion of middle-income classes in Islamic economies is also expected to create demand for investment-linked products as consumer risk appetite increases and growing competition will deliver favourable rates for the market.

TAKAFUL ASSETS PROJECTED GROWTH TILL 2020



PROFITABILITY FOR TAKAFUL OPERATORS

(FYE 2014)

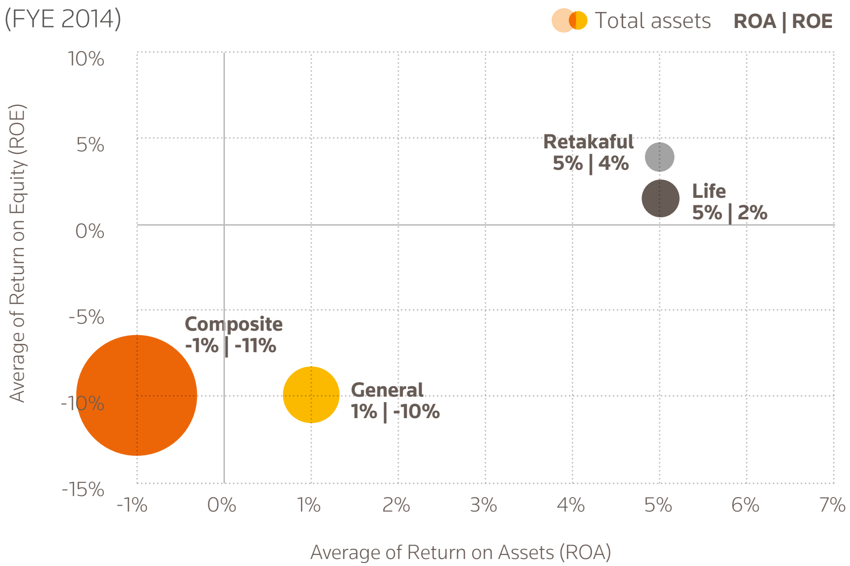


1 Saudi Arabia	**4** UAE	**7** Qatar	**10** Oman
2 Malaysia	**5** Indonesia	**8** Jordan	
3 Iran	**6** Bahrain	**9** Pakistan	**ROA | ROE**

*ROA includes takaful operators and windows while ROE includes full takaful operators only

TAKAFUL LANDSCAPE BY CATEGORY

(FYE 2014)



Takaful Ecosystem (FYE 2014)

GOVERNANCE

ISLAMIC FINANCIAL REPORTING
BY TAKAFUL OPERATORS/WINDOWS

Reporting	Not Reporting
47%	53%

ISLAMIC FINANCIAL REPORTING
BY TAKAFUL OPERATORS BY SHARIAH BASIS

Fully Fledged	Window
77%	23%

FULL FLEDGED TAKAFUL OPERATORS
FINANCIAL REPORTING

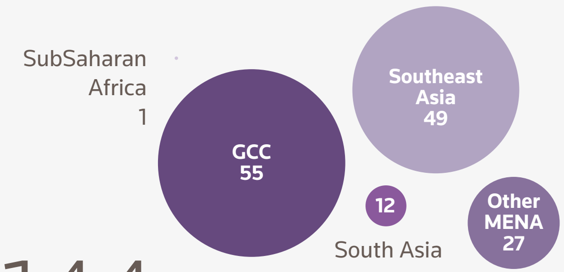
Private	Public
30%	70%

TAKAFUL WINDOWS/ DIVISION
FINANCIAL REPORTING

Private	Public
79%	21%

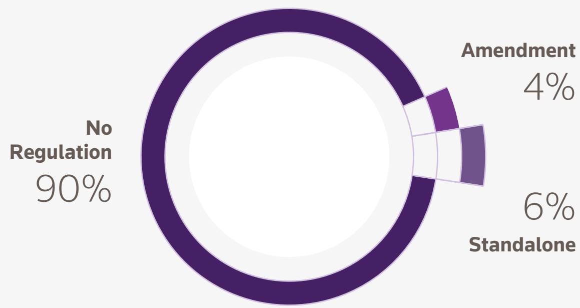
33 **Average Financial Reporting Disclosure Index (Out of 70 Items)**

TAKAFUL ISLAMIC FINANCIAL REPORTING BY REGION



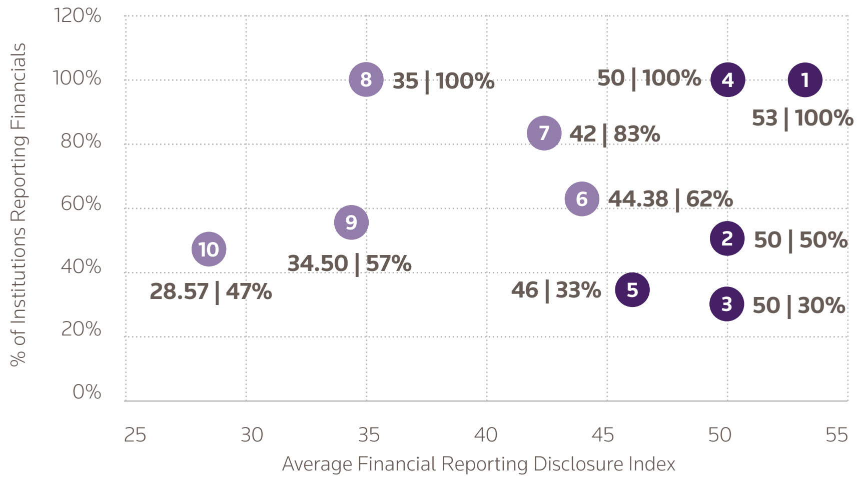
144
Total Institutions Reporting Globally

TYPE OF TAKAFUL REGULATION ENFORCEMENT ACROSS COUNTRIES



AVERAGE FRDI VS. % OF TAKAFUL OPERATORS DISCLOSING FINANCIALS

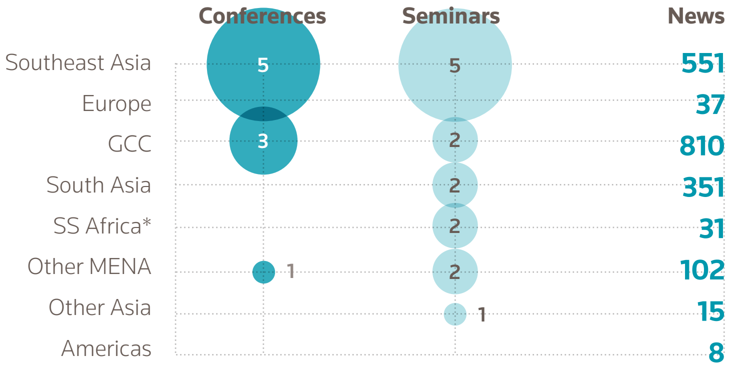
- 1 Sri Lanka
- 2 Oman
- 3 Bahrain
- 4 Maldives
- 5 Jordan
- 6 Malaysia
- 7 Pakistan
- 8 Palestine
- 9 Indonesia
- 10 UAE



Average Financial Reporting Disclosure Index | % of Institutions Reporting Financials

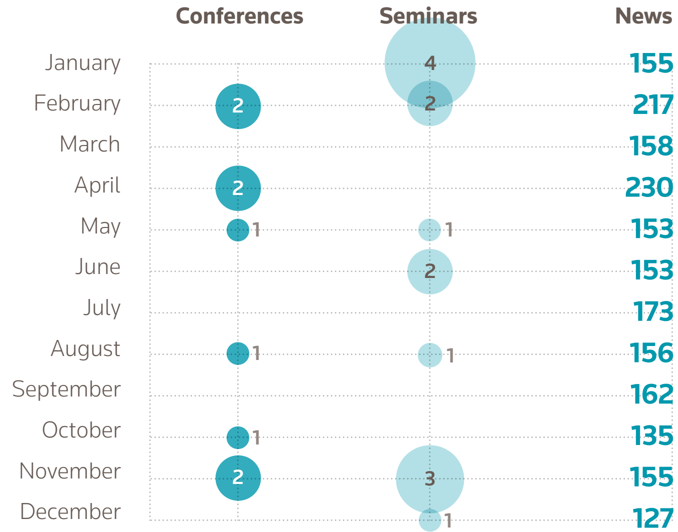
AWARENESS

TAKAFUL AWARENESS INDICATOR
BY REGION



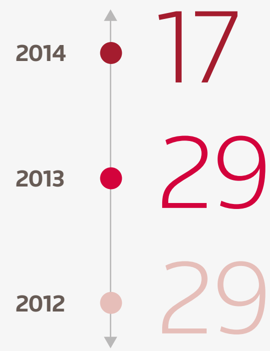
*Subsaharan Africa

TAKAFUL AWARENESS INDICATOR
BY MONTH



KNOWLEDGE

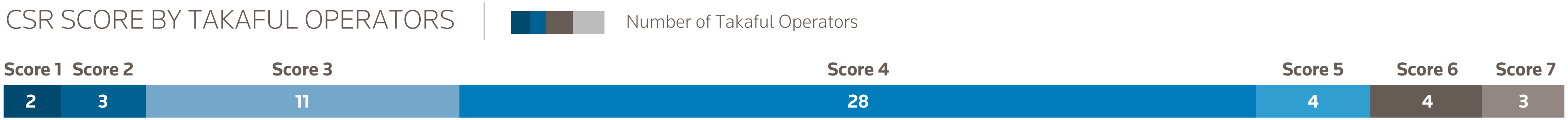
PUBLISHED RESEARCH PAPERS ON TAKAFUL BETWEEN 2012-2014



CORPORATE SOCIAL RESPONSIBILITY

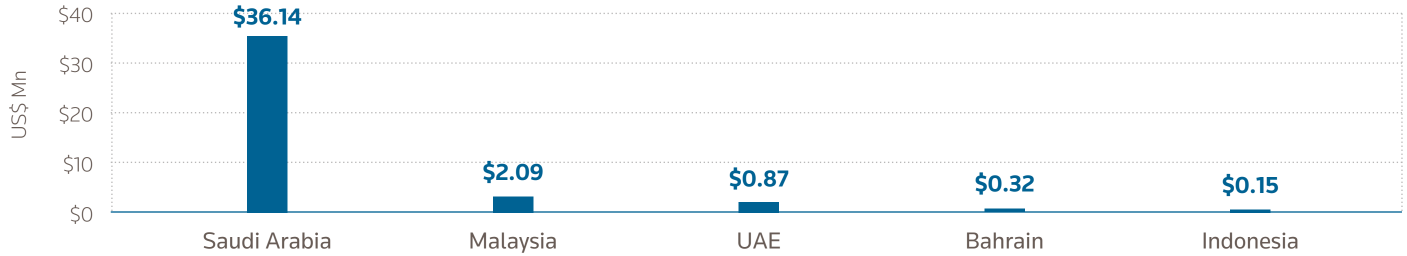
CSR SCORE BY TAKAFUL OPERATORS

Number of Takaful Operators



TOP COUNTRIES IN TERMS OF TOTAL CSR FUNDS DISBURSED BY TAKAFUL OPERATORS

● Zakat & Charity Funds Disbursed



Quantitative Development Sub-Indicator: Other Islamic Financial Institutions

The Singapore Flyer observation wheel is pictured in front of skyscrapers of the financial district in Singapore. REUTERS/ Tim Chong

Indicator Value Analysis

OTHER ISLAMIC FINANCIAL INSTITUTIONS SUB-INDICATOR TOP 10 COUNTRIES

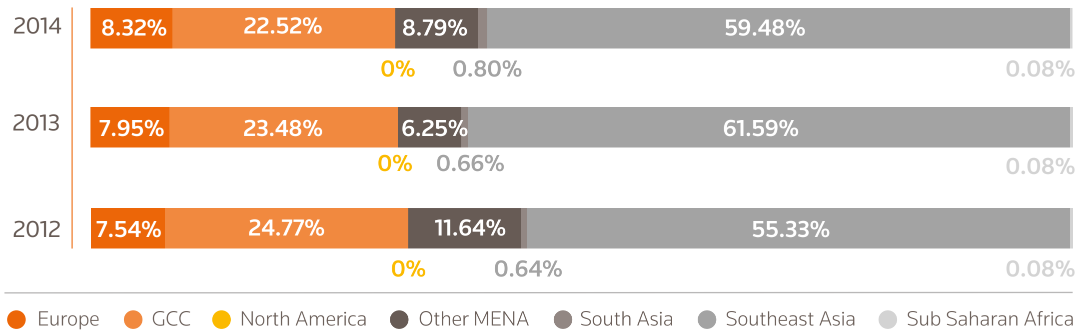
Country	Indicator Value
Kuwait	94
Malaysia	52
Qatar	52
United Arab Emirates	44
Pakistan	43
Jordan	29
Iran	27
Saudi Arabia	27
Indonesia	22
Bahrain	22

Shariah-compliant financing and investment firms continue to support Kuwait

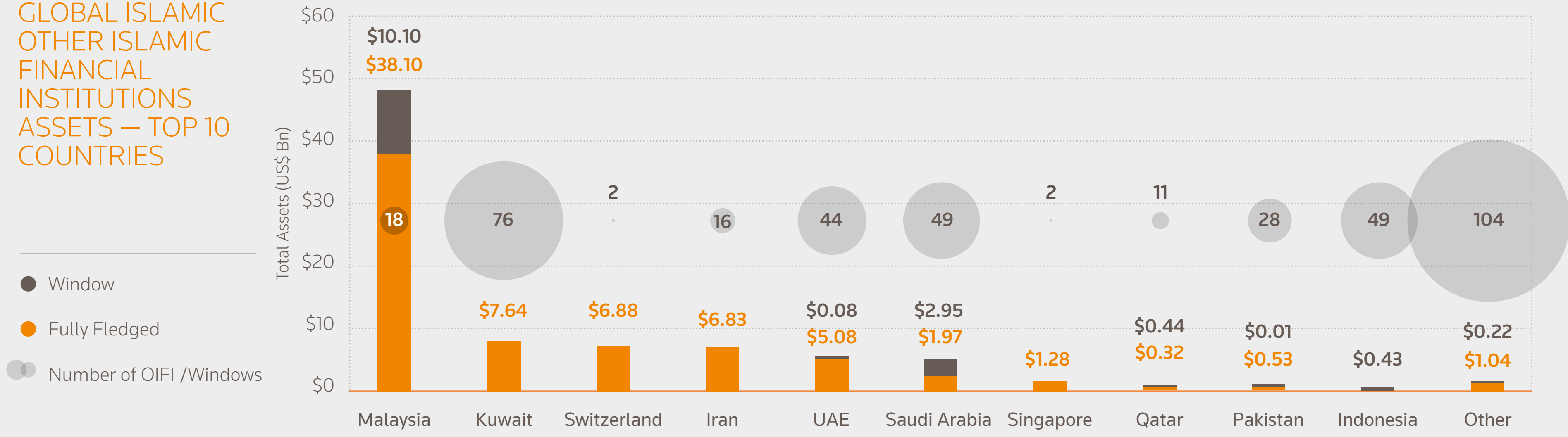
40 countries contributed to the Other Islamic Financial Institutions (OIFI) sub-indicator. The average global value is a low 5. The top 10 countries, led by Kuwait, are still miles ahead of the average global value. Malaysia's OIFI assets are 6 times larger than Kuwait's (US$48 billion compared to US$7 billion) but Kuwait leads the sub-indicator thanks to its institutions' improved average performance.

3 Southeast Asian countries — Malaysia, Indonesia, and Singapore — held 59% of total global OIFI assets. GCC OIFIs trail with a shrinking share of global OIFI assets in 2014 (23% in 2014 vs 24% in 2013).

OIFI ASSETS BY REGION



GLOBAL ISLAMIC OTHER ISLAMIC FINANCIAL INSTITUTIONS ASSETS – TOP 10 COUNTRIES



Analysis

49% of all Other Islamic Financial Institutions are located in the GCC

Kuwait has the highest number of Other Islamic Financial Institutions (76) globally followed by Saudi Arabia (49) and United Arab Emirates (44).

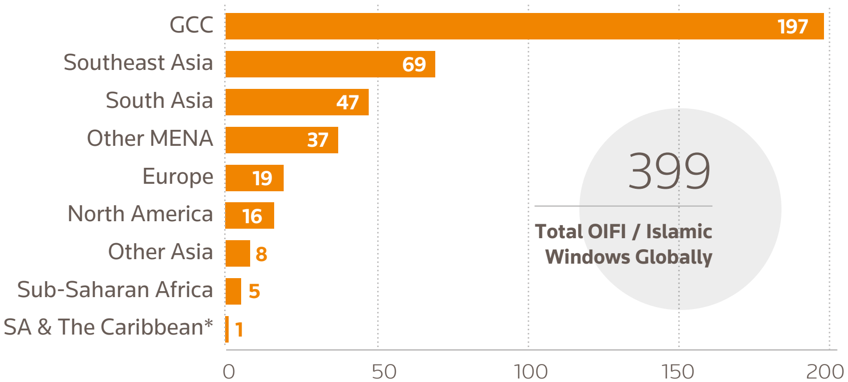
Most GCC institutions are investment firms that manage Shariah-compliant funds (funds will be discussed further in our Islamic funds sub-indicator) or a mixture of conventional and Shariah-compliant funds. We expect more investment firms to be set up in the GCC in the short- to mid-term.

Malaysia drives Southeast Asia's OIFI assets, but Indonesia has more institutions

Indonesia is ranked second with Saudi Arabia in terms of number of institutions; 44 of Indonesia's 49 OIFIs are financing companies that are either fully Islamic or windows that provide Shariah-compliant financing. These, along with venture capitals (included in investment firms and funds), leasing and insurance-related firms, are regulated by Indonesia's Financial Services Authority (OJK).

NUMBER OF OTHER ISLAMIC FINANCE INSTITUTIONS/ ISLAMIC WINDOWS GLOBALLY BY REGION

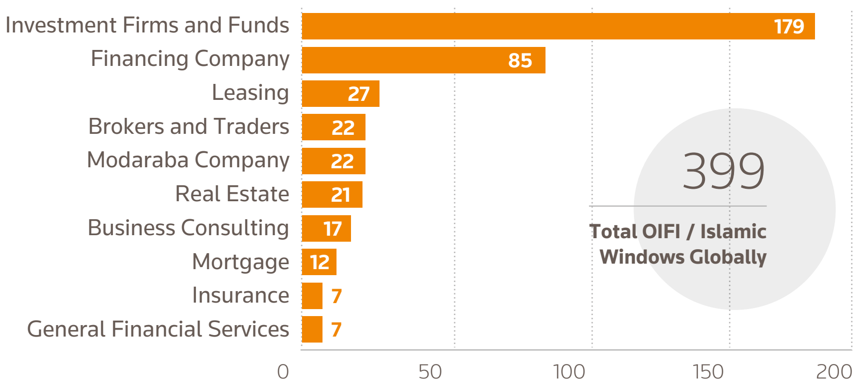
(FYE 2014)



*South America & The Caribbean

NUMBER OF OTHER ISLAMIC FINANCE INSTITUTIONS/ ISLAMIC WINDOWS GLOBALLY BY CATEGORY

(FYE 2014)



A slowdown in OIFIs assets in 2014

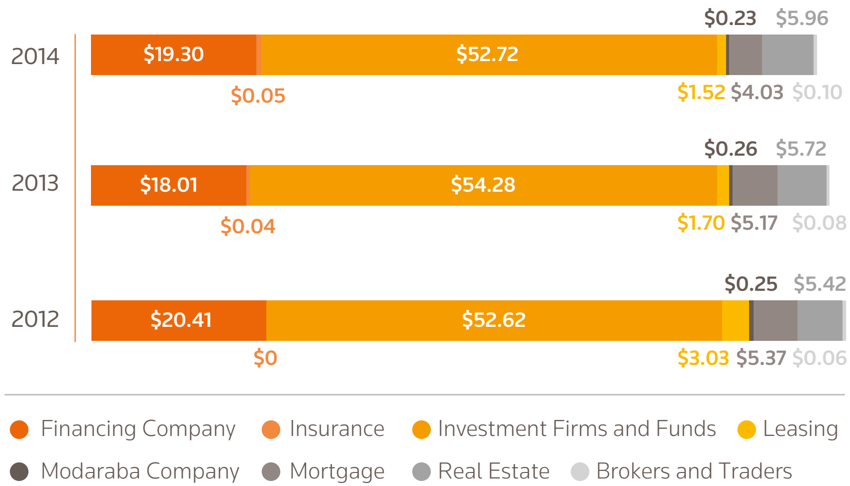
OIFI assets dipped with a negative CAGR of 1.26% in 2014. This drop in assets was caused by modaraba companies (Pakistan), and leasing and financing companies. Brokers and Traders that are based in Jordan, UAE and Qatar had the highest growth with a CAGR of 22% during 2012- 2014.

(In Pakistan in November 2014, the country's Supreme Court upheld a decision by the capital market regulator to transfer the management of two Islamic investment funds — First Pak Modaraba and First Prudential Modaraba — to KASB Modaraba, A decision was first taken in 2010 but challenged in the courts until the issue was resolved in 2014.)

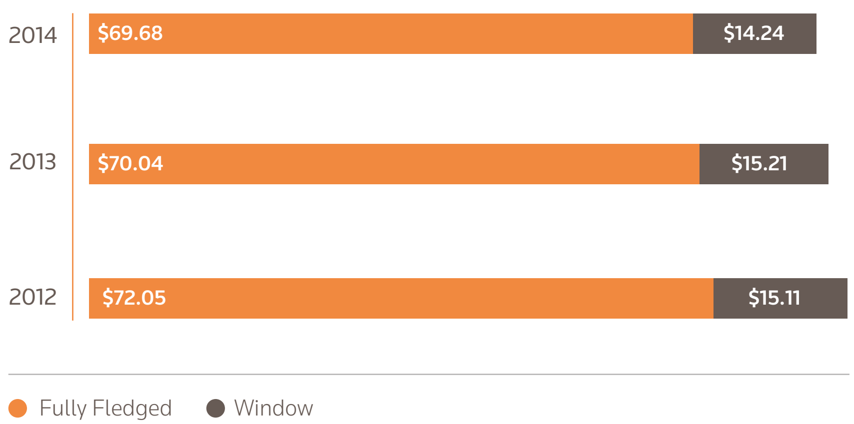
Smaller share of Islamic OIFI windows assets, in line with other Islamic finance sectors

Islamic financing, leasing, mortgage and investment firms (primarily based in Southeast Asia and South Asia) contributed only 17% to total global assets. Their share of global assets has been on the decline compared to fully Shariah-compliant firms and we expect their share to fall further.

OIFI ASSETS BREAKDOWN BY CATEGORY
(TOTAL ASSETS US$ Bn)



OIFI ASSETS BREAKDOWN BY FULLY FLEDGED/ WINDOW
(TOTAL ASSETS US$ Bn)



Noteworthy OIFIs IPOs

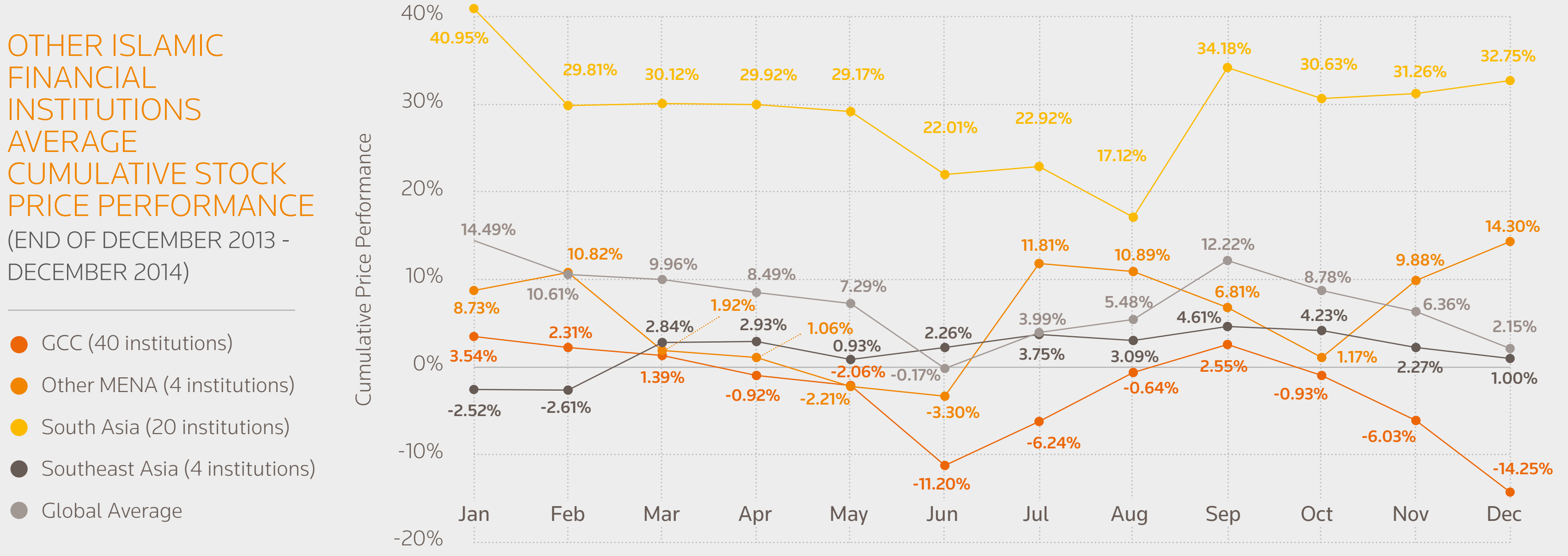
South Asian companies, mainly Pakistani modaraba and leasing firms, were the best performing companies in terms of share price cumulative performance in 2014. (Not all Pakistani modaraba firms performed well, though. First National Bank Modaraba incurred losses in 2014.)

Global average performance of OIFIs was pulled down by the weak performance of listed GCC OIFIs. There was, however, a bright spark in the GCC's OIFI landscape in 2014 when UAE's Emirates REIT Management raised funds through an IPO in April 2014. This was Dubai's first IPO in 5 years and GCC's first listed REIT on an exchange. Additionally, efforts were made to restructure Amlak Finance's debts; Amlak's shares were suspended from trading in 2008 due to the real estate crash in Dubai. Its shares were eventually relisted in 2015 and this change will be reflected in IFDI 2015.

In sub-Sahran Africa, Kenya's first Shariah-compliant investment firm Kurwitu Ventures was listed on the Nairobi Stock Exchange (NSE) in November 2014 as part of Growth Enterprise Market Segment (GEMS) that is designed as a platform for SMEs to raise capital. In Southeast Asia, IPO headlines were in the form of delisting, unfortunately; Malaysia's Al Hadharah Boustead REIT delisted in February 2014 as its units were thinly traded and after struggling to maintain dividend yields.

OTHER ISLAMIC FINANCIAL INSTITUTIONS AVERAGE CUMULATIVE STOCK PRICE PERFORMANCE

(END OF DECEMBER 2013 - DECEMBER 2014)



4 of the top 5 OIFIs that contributed over 50% to global OIFI assets are from Malaysia

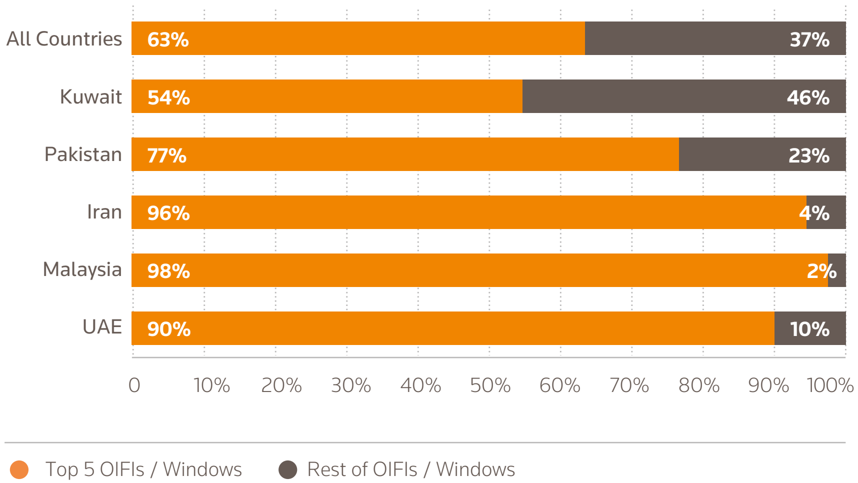
OIFIs across the IFDI universe are of different types: Pakistan has mostly modaraba companies, Kuwait has more firms that invest in funds or real estate. Malaysian OIFIs are in 5 different categories and 4 of its companies are ranked in the top 5 globally. These 4 Malaysian firms plus another based in Switzerland hold 68% of total global OIFI assets. In addition, these top 4 firms along with a fifth top OIFI in Malaysia held 98% of Malaysia's total OIFI assets while the remaining 2% was split between 2 other firms.

Kuwait's OIFIs assets could be much higher as many Kuwaiti OIFIs are private firms that don't release their financials

Kuwait has the highest number of OIFIs globally (76). It is important to note that total assets collected are based on financials disclosed by financial institutions and in Kuwait's case, the number of OIFIs that reported financials were only 27.

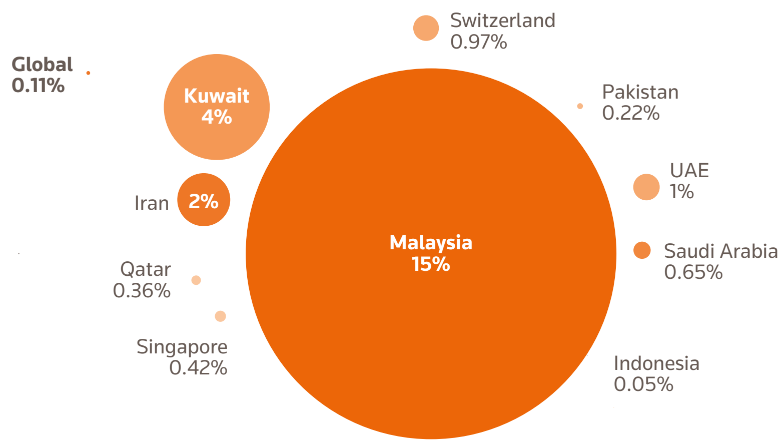
CONCENTRATION OF ASSETS BY TOP 5 OTHER ISLAMIC FINANCIAL INSTITUTIONS / WINDOWS

(FYE 2014)



OIFI PENETRATION

(OIFI ASSETS AS % OF GDP FOR FYE 2014)



*Global GDP is based on the same country universe for IFDI

Kuwait's road to recovery in 2014

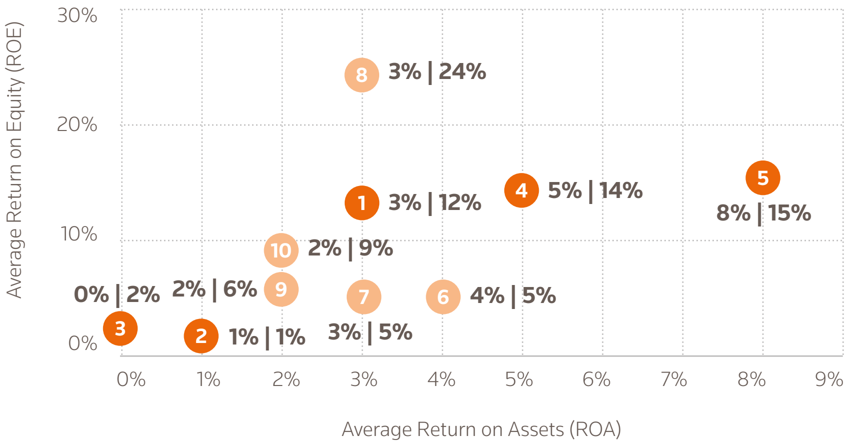
Kuwait's Al Madina for Finance and Investment pulled down the country's average performance; the company filed for protection in February 2014 after it posted a drop of 28% in assets and suffered continuing losses throughout the year. 5 other Kuwaiti investment companies also registered negative returns. However most Kuwaiti OIFIs chalked up improved performances, which is a turnaround from the previous year's negative average due to real estate fair value depreciation.

Overall, Shariah financing-based firms performed better than Shariah investment-based firms

Many investment firms are based in Kuwait; as a result the average performance by investment firms and funds is heavily affected by Kuwait's weak performance. Jordan and Saudi Arabia performed better. Pakistani modarabas average better for both ROA and ROE as compared to other types of Islamic investment firms. Leasing corporations proved to be the most resilient; some leasing companies offer similar products as Islamic banks, and these performed well relative to their peers.

PROFITABILITY FOR OTHER ISLAMIC FINANCIAL INSTITUTIONS (OIFI)

(FYE 2014)



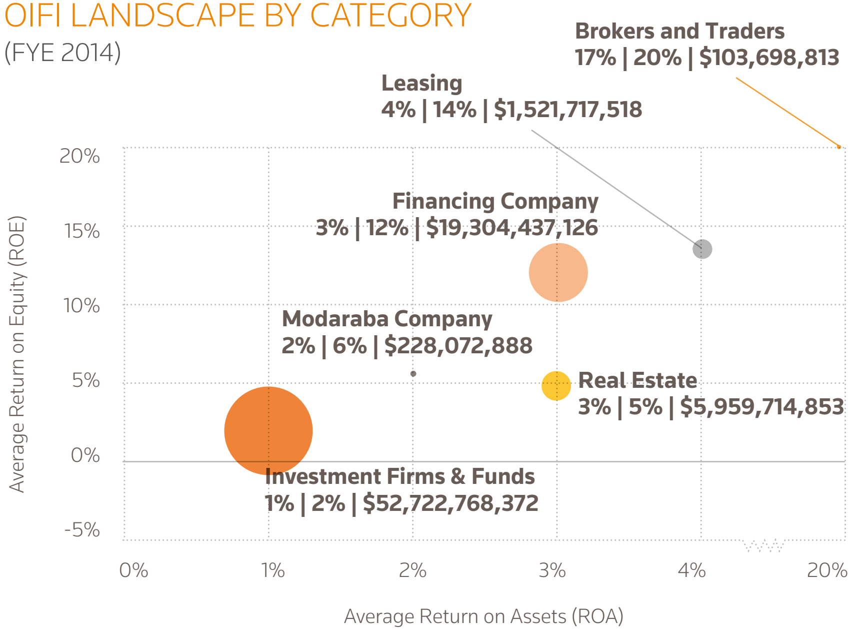
1	Malaysia	6	Saudi Arabia
2	Kuwait	7	Singapore
3	Switzerland	8	Qatar
4	Iran	9	Pakistan
5	UAE	10	Egypt

ROA | ROE

*ROA includes Islamic banks and windows while ROE includes full Islamic banks only

OIFI LANDSCAPE BY CATEGORY

(FYE 2014)



Total assets **ROA | ROE | Total assets**

> Islamic Holy Mosque at Medina, Saudi Arabia. artpixelgraphy Studio / Shutterstock.com

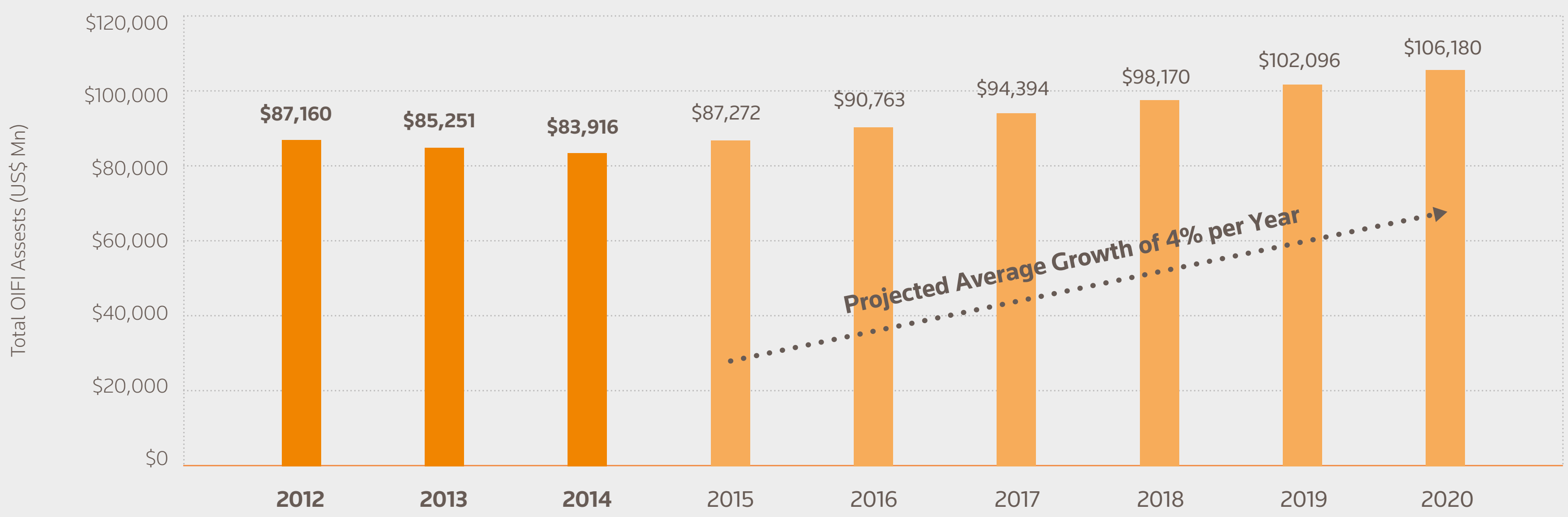
Low growth expected for OIFIs, driven by Shariah financing companies

Different factors drive growth for the different business lines of OIFIs; some are investment-based, and hence are affected by the country's investment climate, while others are financing-based that depend on retail, SME and corporate financing needs.

We expect OIFI assets to reach US$106 billion in 2020 driven mainly by Malaysia, Iran, and Saudi Arabia. Saudi Arabia is the biggest market for Islamic funds and investment products, Malaysia has a mix of financing and investment companies, and Iran, whose OIFI assets grew at a CAGR of 16% (without taking into account foreign exchange), is a potential growth market for financing-based companies.

We also expect Shariah financing-based companies (that also include ijarah firms) to more strongly push growth than investment companies.

OTHER ISLAMIC FINANCIAL INSTITUTIONS ASSETS PROJECTED GROWTH TILL 2020



Other Islamic Financial Institutions (OIFI) Ecosystem (FYE 2014)

GOVERNANCE

ISLAMIC FINANCIAL REPORTING
BY OTHER ISLAMIC FINANCIAL INSTITUTIONS

Reporting	Not Reporting
29%	71%

ISLAMIC FINANCIAL REPORTING
BY OIFI BY SHARIAH BASIS

Fully Fledged	Window
84%	16%

FULL FLEDGED OTHER INSTITUTIONS
FINANCIAL REPORTING

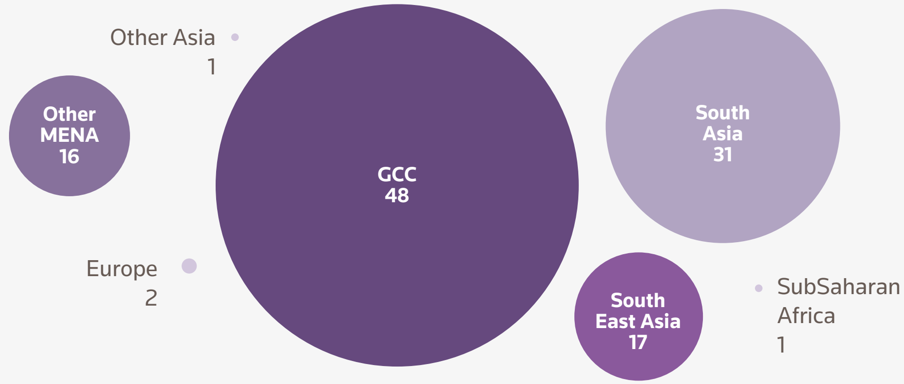
Private	Public
37%	63%

OTHER ISLAMIC FIANCIAL INSTITUTIONS WINDOWS/ DIVISION
FINANCIAL REPORTING

Private	Public
37%	63%

34 | **Average Financial Reporting Disclosure Index (Out of 70 Items)**

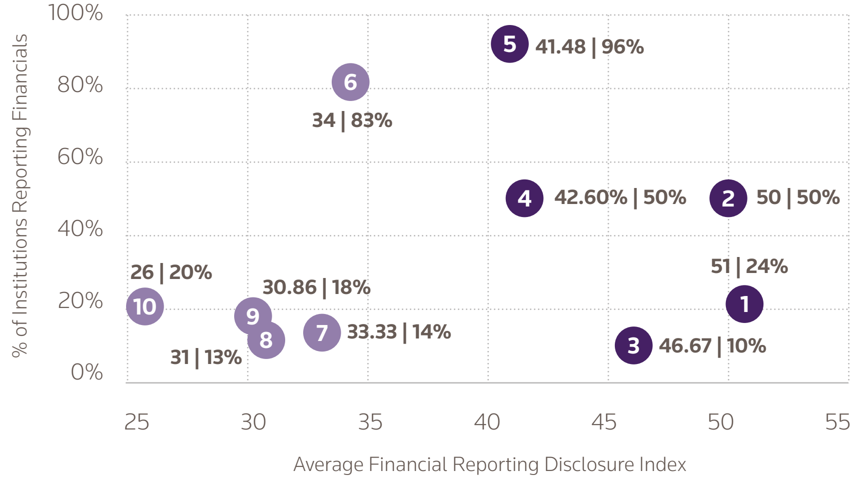
OTHER INSTITUTIONS ISLAMIC FINANCIAL REPORTING BY REGION



116
Total Institutions Reporting Globally

AVERAGE FRDI VS. % OF OIFI DISCLOSING FINANCIALS

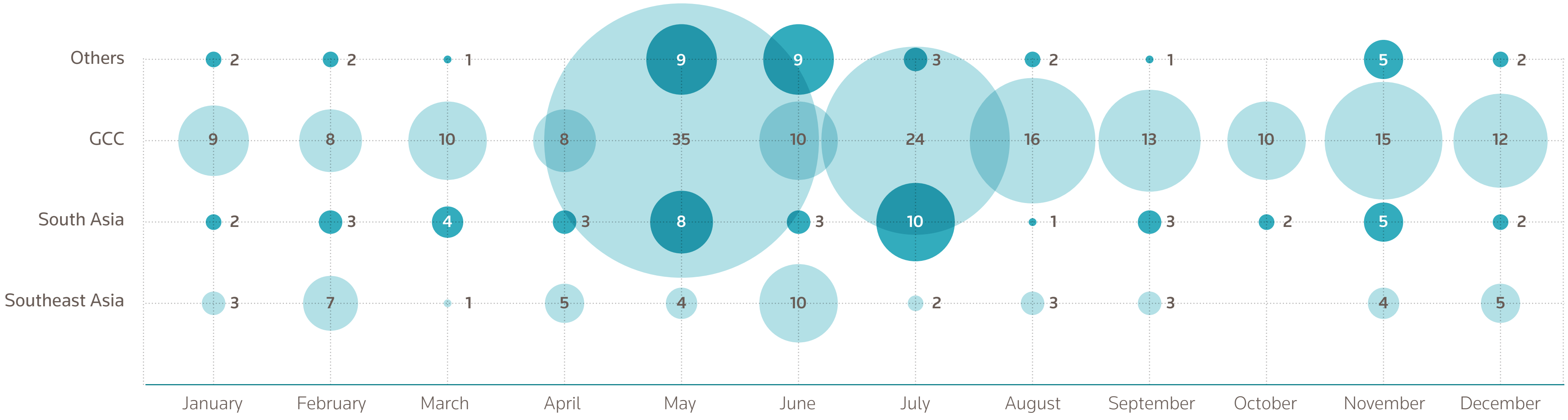
- 1 Bahrain
- 2 Singapore
- 3 Saudi Arabia
- 4 Malaysia
- 5 Pakistan
- 6 Jordan
- 7 Indonesia
- 8 Sri Lanka
- 9 UAE
- 10 Australia



Average Financial Reporting Disclosure Index | % of Institutions Reporting Financials

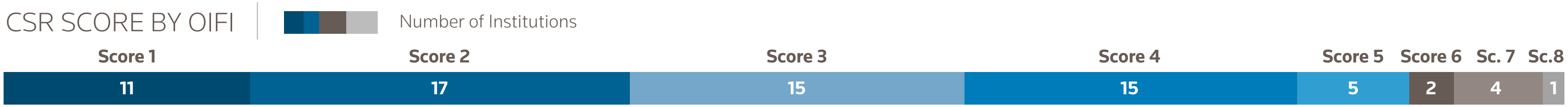
AWARENESS

OIFI NEWS BY MONTH AND REGION

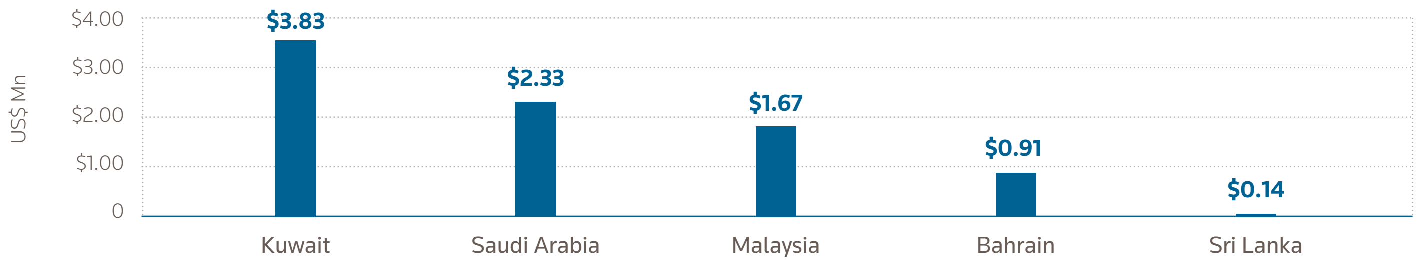


CORPORATE SOCIAL RESPONSIBILITY

CSR SCORE BY OIFI



TOP COUNTRIES IN TERMS OF TOTAL CSR FUNDS DISBURSED BY OTHER ISLAMIC FINANCIAL INSTITUTIONS



Zakat & Charity Funds Disbursed

Quantitative Development Sub-Indicator: Sukuk

Malaysia's flag is seen at the landmark Petronas Twin Towers in Kuala Lumpur. REUTERS/Beawiharta

Indicator Value Analysis

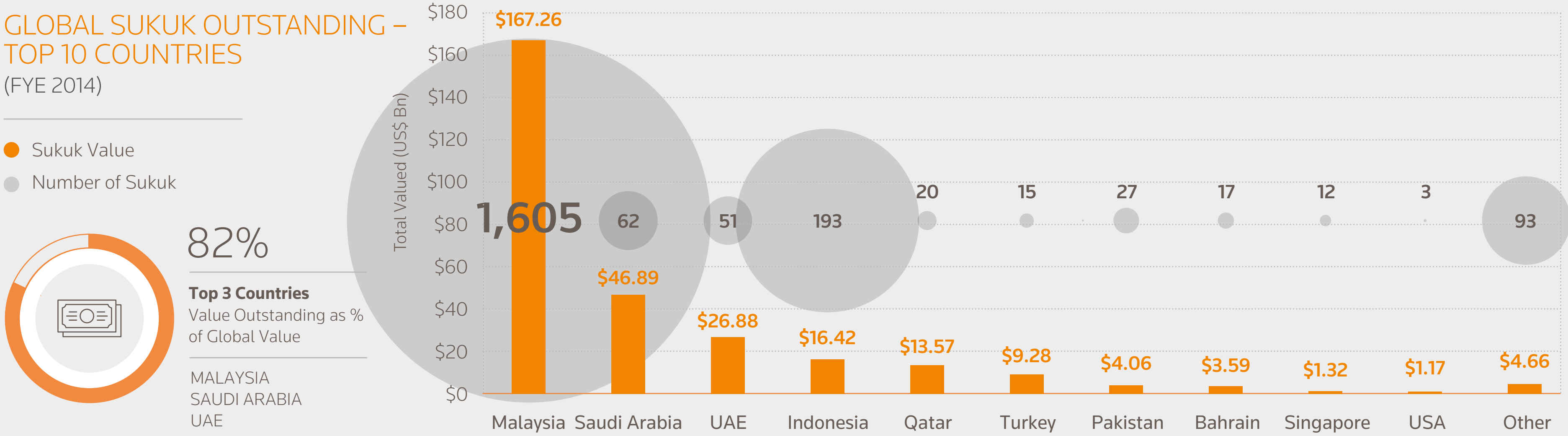
SUKUK SUB-INDICATOR TOP 10 COUNTRIES

Country	Indicator Value
Malaysia	201
Gambia	47
Hong Kong	40
United Arab Emirates	26
Saudi Arabia	24
Qatar	21
Bahrain	14
Indonesia	13
Singapore	9
Turkey	8

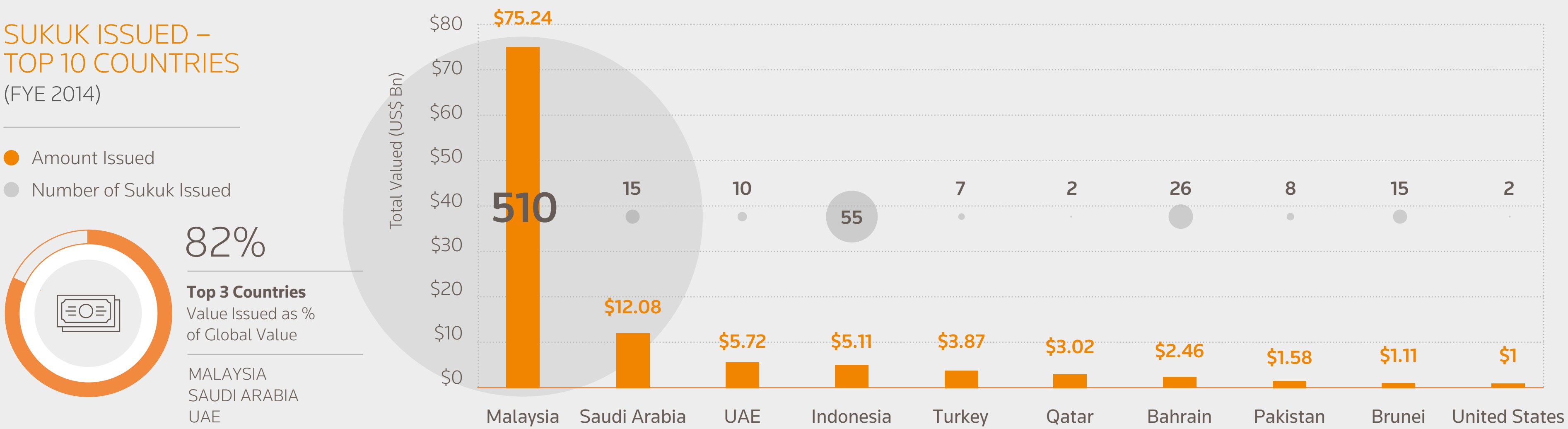
Malaysia leads sukuk sub-indicator with highest number of sukuk issuance and strong performance

Outstanding global sukuk stood at $295 billion at the end of 2014. Malaysia leads the Sukuk sub-indicator on account of its high number and value of sukuk issued. The Gambia, Hong Kong and UAE trail Malaysia on account of their high issuance in 2014 and the good performance of their papers' spread, (compared to each country's relative sizes).

GLOBAL SUKUK OUTSTANDING – TOP 10 COUNTRIES
(FYE 2014)



SUKUK ISSUED – TOP 10 COUNTRIES
(FYE 2014)



Analysis

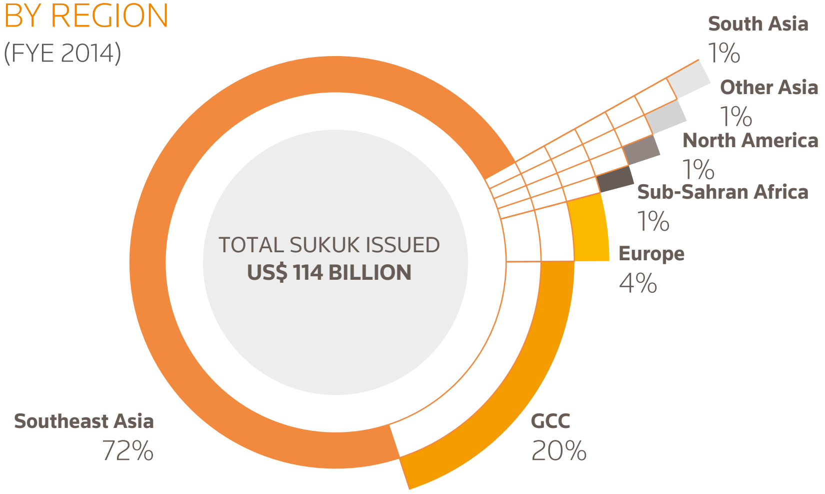
$295 billion total global sukuk outstanding in 2014

Sukuk is still considered a niche asset class despite its strong market growth compared to other Shariah asset classes. The global market is led by Malaysia ($167 billion), Saudi Arabia ($46.89 billion) and UAE ($26.88 billion). New countries are also tapping the sukuk market, e.g. UK, Luxembourg, Hong Kong, and South Africa, while other markets such as Turkey, Indonesia, Pakistan and Singapore are increasing their issuance.

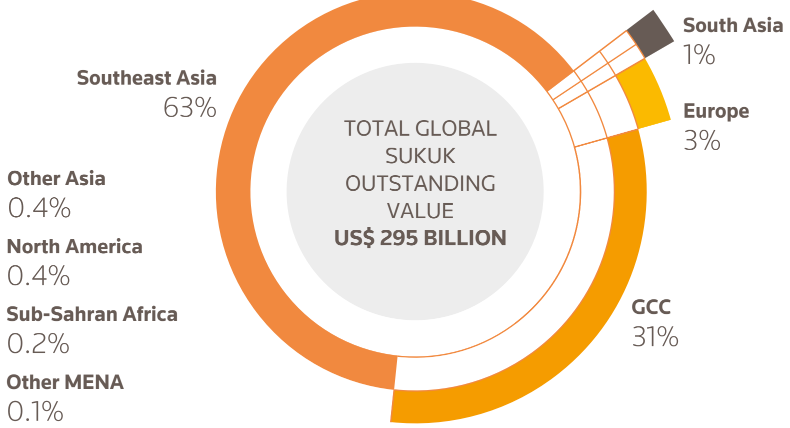
$114 billion total global sukuk issued in 2014, Southeast Asia dominated.

Since peak issuance in 2013, the global sukuk market dropped to its 'normal' growth rate in 2014. However, given the drop in oil prices, unpredictable interest rate movements and Malaysia's decision to reduce its fixed income issuance to manage its debt, the sukuk market has shrunk in 2015. Despite the huge drop in Malaysia's sukuk issuance volume, Southeast Asia still dominated the market. Other regions follow, however, they would need to establish proper local markets to issue sukuk in order to pick up.

SUKUK VALUE ISSUED BY REGION
(FYE 2014)



AMOUNT OF SUKUK OUTSTANDING BY REGION
(FYE 2014)



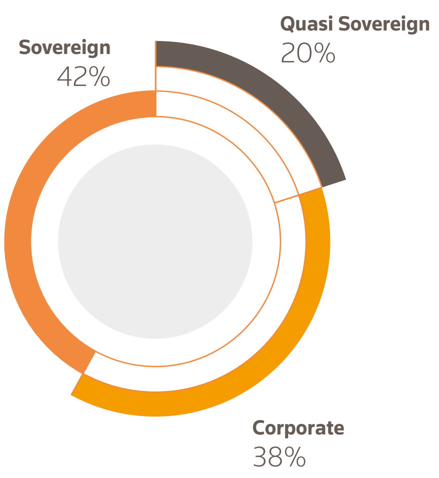
Domestic markets are the backbones of sukuk issuance

76% of sukuk issued in 2014 came from local markets led by Malaysia, Saudi Arabia, Bahrain, Brunei and UAE. International sukuk is gaining more global momentum but issuers still find local currency sukuk less expensive to hedge, and are cheaper and faster to issue in order to fulfill their funding needs. Many issuers have recently become attracted to issue cross-border sukuk in other domestic markets in search of cheaper funding (such as in Malaysia). This is welcomed by local governments as it activates their local markets and increases their efficiency.

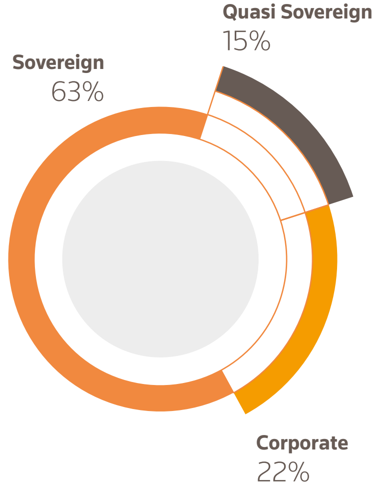
Sovereigns compete for higher sukuk demand

Since inception, sukuk markets have been driven by governments; this has been important as sovereign issuances set benchmarks for the rest of the market. 63% of sukuk issued in 2014 were by governments; this number goes up to 78% if we include Quasi Sovereign issuance as well. 2014 welcomed many new sukuk issuers: the United Kingdom issued a sovereign sukuk of GBP 200 million that was 12 times oversubscribed, and other sovereigns followed, namely Hong Kong, Luxembourg and South Africa. We expect new sovereigns to start issuing sukuk in late 2015 and 2016, including Egypt, Tunisia, Philippines and Morocco.

AMOUNT OF SUKUK OUTSTANDING BY ISSUER TYPE
(FYE 2014)



AMOUNT OF SUKUK ISSUED BY ISSUER TYPE
(FYE 2014)



AMOUNT OF SUKUK OUTSTANDING BY MARKET
(FYE 2014)

AMOUNT OF SUKUK ISSUED BY MARKET
(FYE 2014)

Financial Services lead all corporate issuance with 19% market share in 2014

There aren't many sectors represented in the global sukuk market but more sectors are considering sukuk as a source of funding, such as telcos, transportation (including airlines) and food & beverages. In 2014, Governments (62%) still lead all sukuk issuance, followed by financial services (19%) and power & utilities (6%).

Regulator support is essential to accelerate sukuk issuance. Governments should encourage corporates to tap the sukuk market in order to activate their local markets and attract more foreign investors. Regulations and proper trading platforms need to be set up in order to facilitate issuance.

Industrial Manufacturing and IT are missing in 2014

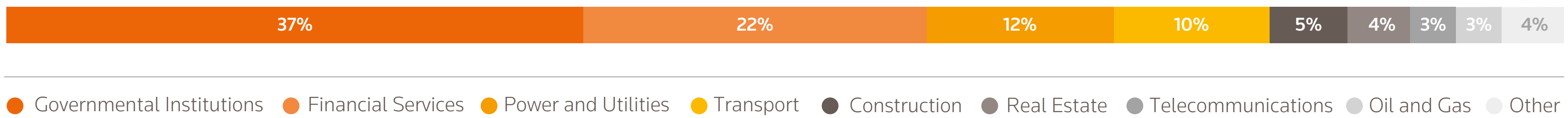
The education and services sectors are new entrants to the global sukuk market. However, 2014 issuance missed out on the industrial manufacturing and IT sectors. Most sukuk issuances are one-off (such as UK sovereign sukuk) and in fact, there are only a few regular issuers. This raises a concern — that the sustainable growth of the global sukuk market cannot rely on a handful of regular issuers. However, with the expansion of the Islamic Economy, we expect more corporates to tap the sukuk market.

AMOUNT OF SUKUK ISSUED BY SECTOR

(FYE 2014)

AMOUNT OF SUKUK OUTSTANDING BY SECTOR

(FYE 2014)



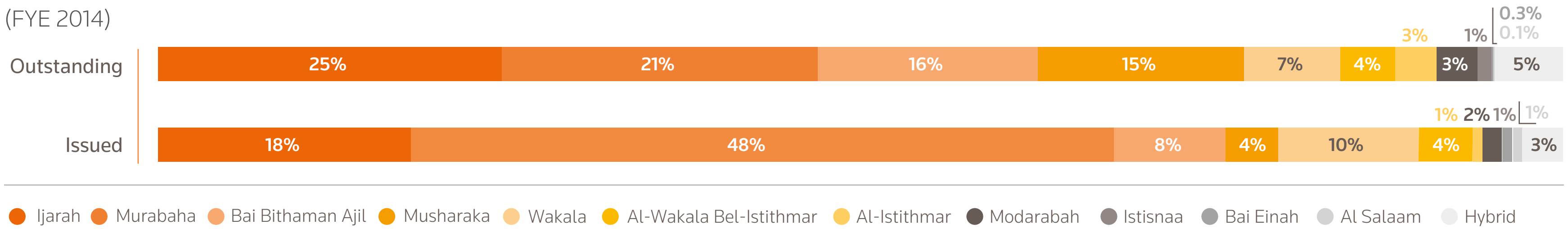
Murabahah most used structure with 48% market share in 2014

Murabahah was the underlying structure for almost half of all sukuk issuance in 2014. However, only 2 were issued outside Malaysia, by TF Varlik in Turkey and Golden Assets International Finance in Indonesia. For countries that follow AAOIFI standards, trading murabahah sukuk is prohibited, but in Malaysia it is permissible to exchange murabahah papers. Ijarah and wakalah are the favourite choice of sukuk for the GCC and MENA regions, given their attractiveness and tradability. However, we see an increase in unique sukuk structures with more ethical, exchangeable, social impact sukuk issued during the past couple of years.

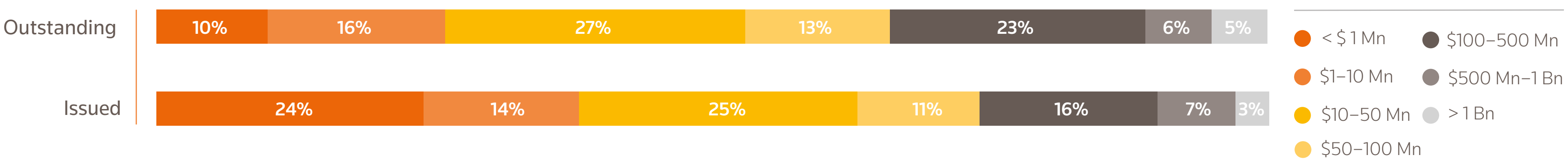
Almost 25% of sukuk issued are between $10 and 50 million

The sukuk market is relatively niche and still limited to certain regions/countries. The volume of issuance is considered small compared to the conventional bond market and considering the size of corporates, particularly in the Middle East. 25% of sukuk issuance were in the $10-50 million range followed by 24% that were smaller than $1 million and $100-500 million. For outstanding sukuk, most are divided between $10-50 million (mostly short-term sovereign issuance) and $100-500 million range (international issuance).

VALUE OF SUKUK BY STRUCTURE
(FYE 2014)



VALUE OF SUKUK BY SIZE
(FYE 2014)



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Inside the islamic Blue mosque in Istanbul, Turkey.

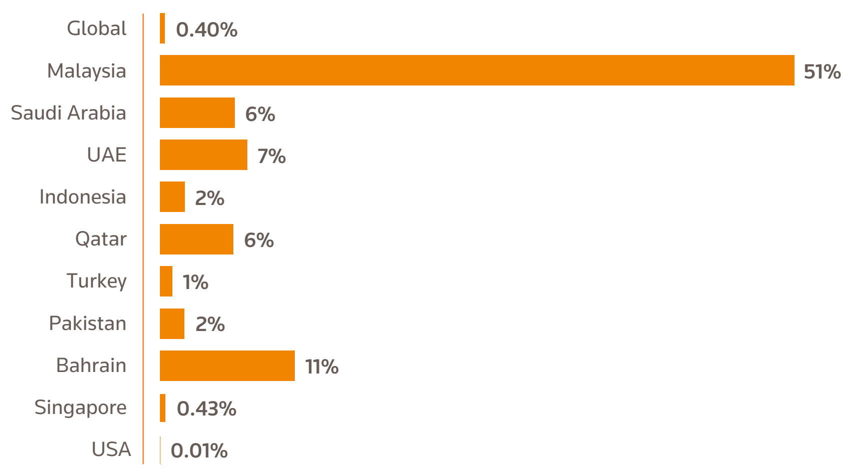
Sukuk 51% of Malaysia GDP, Gambia, Brunei and Turkey enjoy the fastest sukuk outstanding growth

Sukuk has increasingly become an important source of funding for a few countries. The sukuk to GDP ratio has been on the rise for developed sukuk markets, led by Malaysia (51%) in followed by Bahrain (11%), UAE (7%), Saudi Arabia (6%) and Qatar (6%).

The Gambia had the highest sukuk CAGR growth since 2012 (almost 90%), however, given its small size, the amount of its total issuance is minimal. The Gambia is followed by Brunei (55%), another small nation. Turkey and Saudi Arabia, however, are enjoying stable growth with high number of issuance. There is a string of other countries enjoying strong sukuk growth. These include Iran, Pakistan, UAE, UK, Indonesia and Singapore.

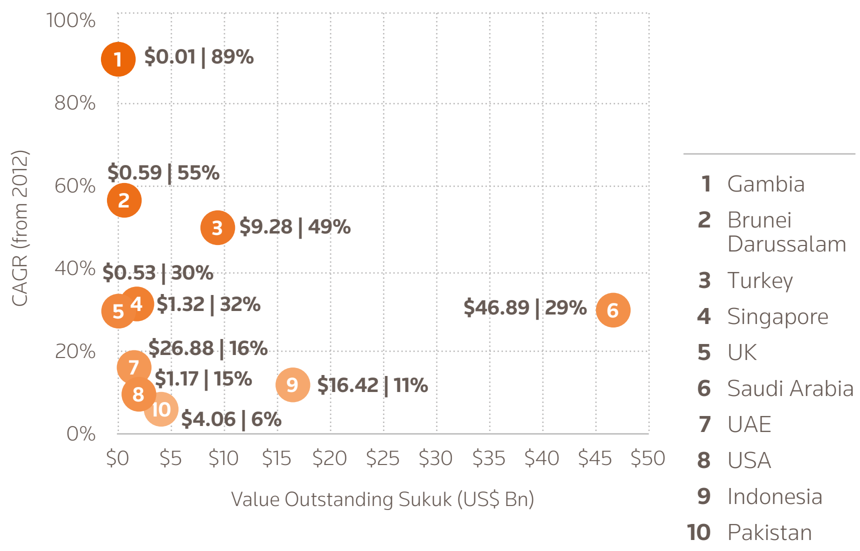
SUKUK PENETRATION

(SUKUK OUTSTANDING AS % OF GDP)



*Global GDP is based on the same country universe for IFDI

TOP COUNTRIES IN TERMS OF SUKUK OUTSTANDING GROWTH (2012-2014)



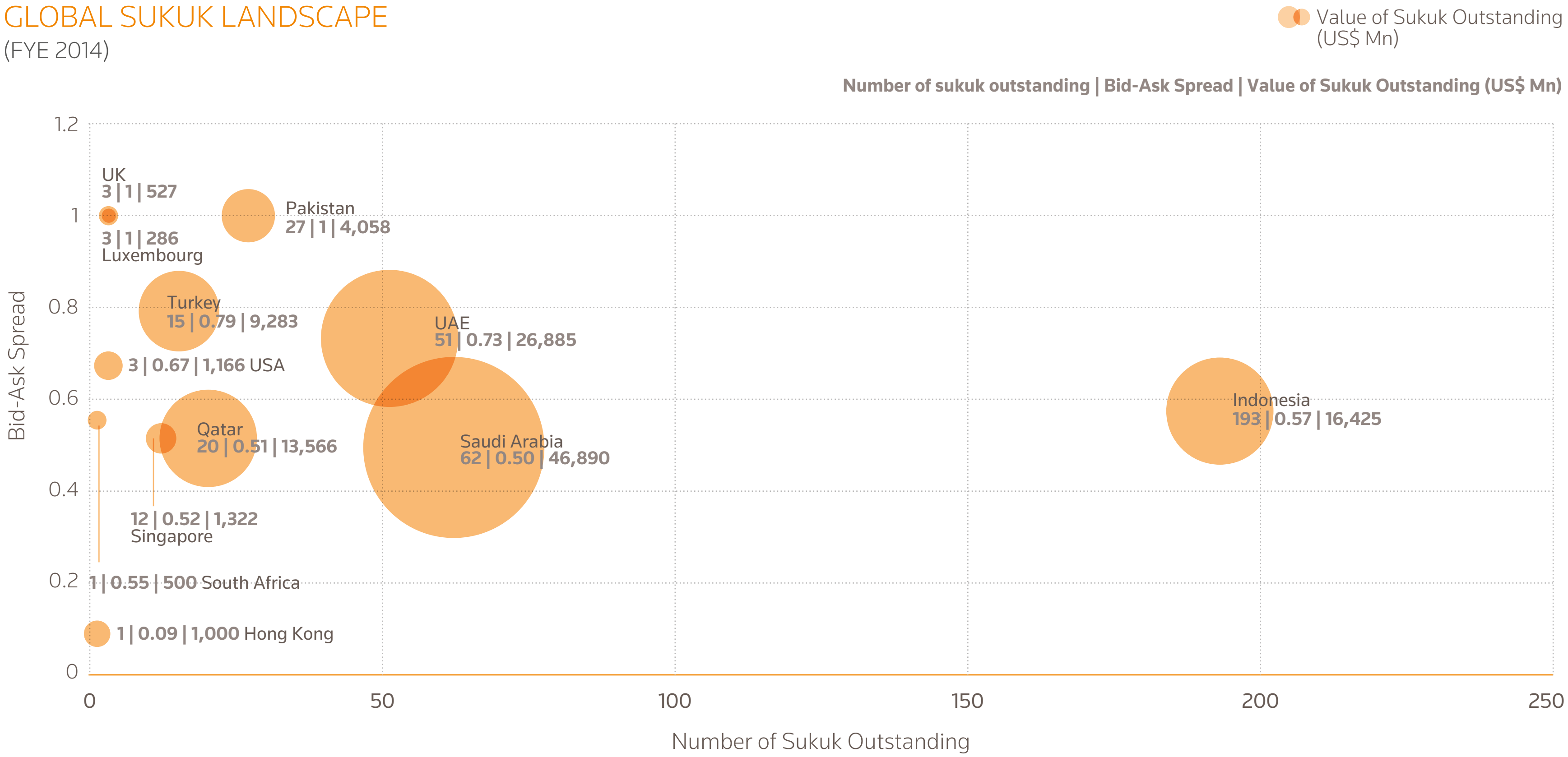
Value Outstanding Sukuk | CAGR (from 2012)

Saudi Arabia and UAE lead the market in terms of size, Luxembourg and Pakistan for performance

Luxembourg, Pakistan and Turkey are the best performers for bid-ask price spread compared to other top countries (excluding Malaysia), according to Thomson Reuters Eikon data. However, Saudi Arabia, UAE and Indonesia are the largest markets (excluding Malaysia). Despite their small sukuk volume, new countries tapping the sukuk market are also performing well and their yields have tightened.

GLOBAL SUKUK LANDSCAPE

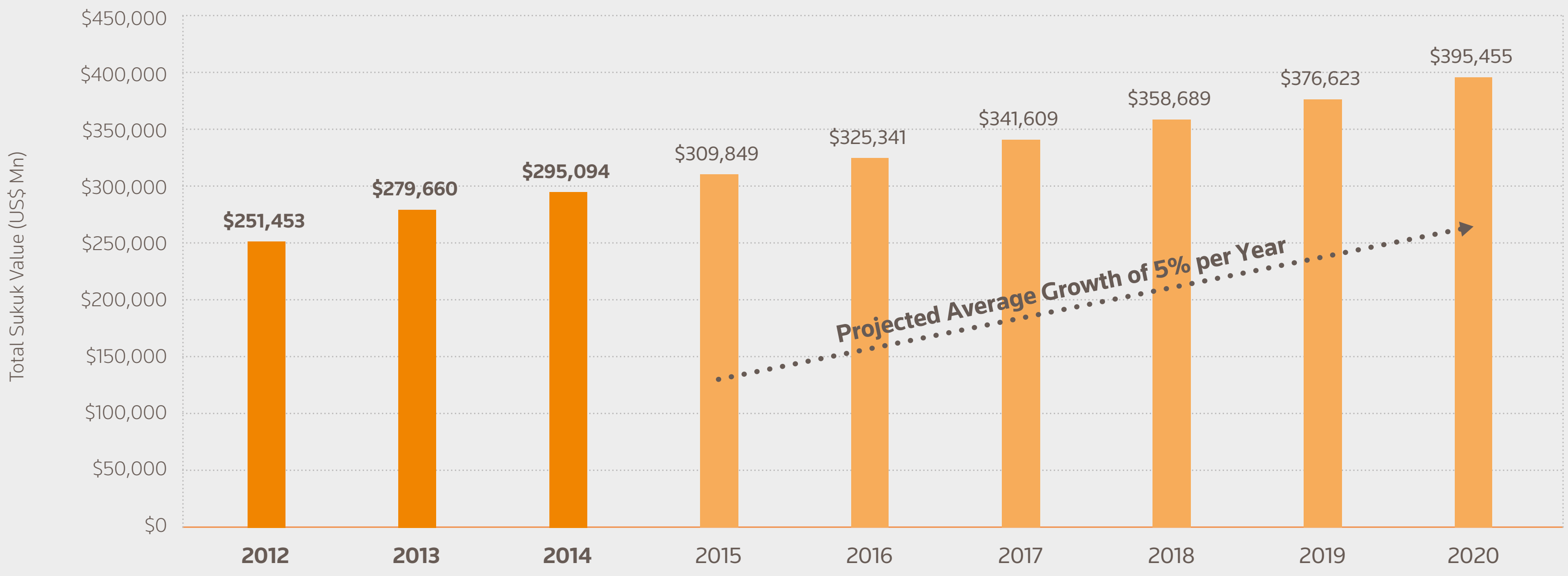
(FYE 2014)



Global Outstanding Sukuk is expected to reach $395.455 billion by 2020

Considering the average growth rate of sukuk issuance and sukuk outstanding since 2012, we expect the average growth for sukuk to be 5% per year. Despite the drop in sukuk issuance in the past couple of years with anxieties over interest rate movements, the oil price drop and Malaysia reviewing its debt books, there is still a high potential for the sukuk market to grow given the expansion of Islamic finance and the Islamic Economy. Many governments, such as those from Egypt, Tunisia, Philippines and Morocco, are considering tapping the sukuk market to benefit from the wider investor base (which includes both conventional and Islamic investors). In addition, there are many corporates that are also considering sukuk to benefit from the high demand, and to diversify their sources of funding.

SUKUK VALUE PROJECTED GROWTH TILL 2020



Sukuk Ecosystem (FYE 2014)

AWARENESS

SUKUK AWARENESS INDICATOR
BY REGION

	Conferences	Seminars	News
Southeast Asia	2	5	1,923
Europe	5	1	675
GCC	2	3	2,619
South Asia		1	651
Subsaharan Africa			203
Other MENA	1	2	158
Other Asia			283
Americas		1	100

SUKUK AWARENESS
BY MONTH

	Conferences	Seminars	News
January		1	491
February	1	1	564
March	1	1	468
April	2	1	662
May	2	3	538
June	2	2	872
July			381
August			385
September			897
October		2	560
November	2	2	688
December			475

GOVERNANCE

TYPE OF SUKUK ENFORCEMENT ACROSS COUNTRIES

KNOWLEDGE

PUBLISHED RESEARCH PAPERS ON SUKUK BETWEEN 2012-2014

2014	2013	2012
30	42	39

Quantitative Development Sub-Indicator: Islamic Funds

The boulevard heading toward the Malaysian Prime Minister's Office. REUTERS/ Bazuki Muhammad

Indicator Value Analysis

ISLAMIC FUNDS SUB-INDICATOR TOP 10 COUNTRIES

Country	Indicator Value
Malaysia	105
India	81
Saudi Arabia	81
Luxembourg	75
Iran	68
Pakistan	61
Egypt	40
Indonesia	39
Kuwait	34
Qatar	20

A year of unlocking potential

The IFDI Islamic funds sub-indicator considers the location of the asset manager and not the domicile of the Islamic funds. This sub-indicator measures the number of Islamic funds launched in 2014 and cumulative performance.

Malaysia, Saudi Arabia and Luxembourg are the clear leaders with regards the number and size of their Islamic funds launched in 2014 and funds outstanding. Collectively they held 82% of all assets under management (AUM) for Islamic funds launched in 2014. India may not be ranked in the top 10 but it stood out in terms of cumulative performance across all its funds.

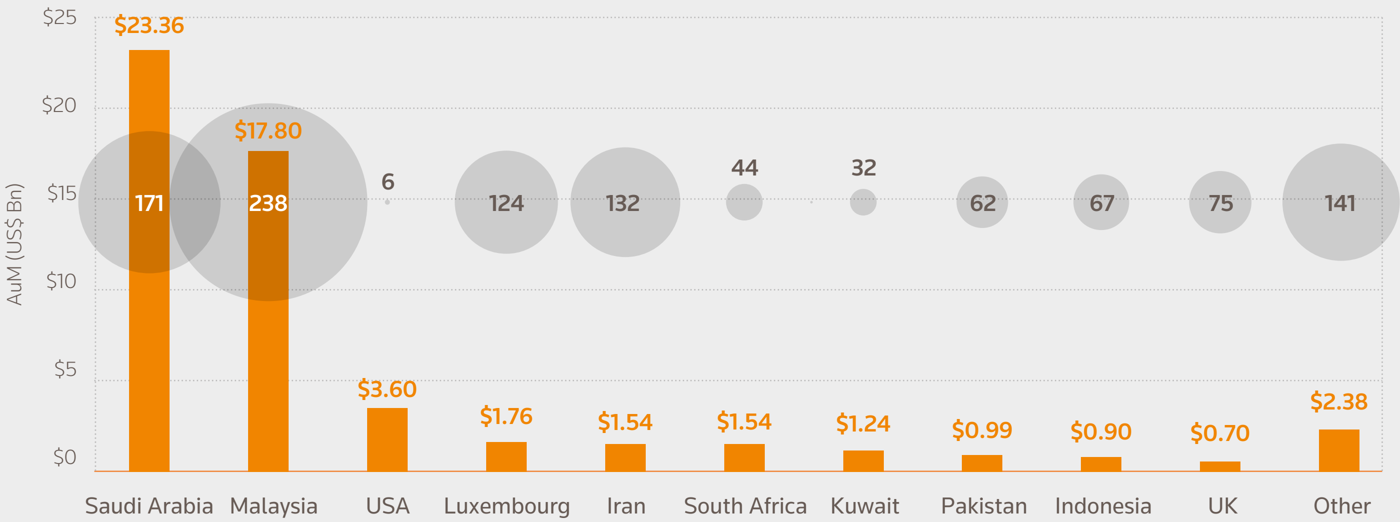
GLOBAL ISLAMIC FUNDS ASSETS UNDER MANAGEMENT OUTSTANDING — TOP 10 COUNTRIES (FYE 2014)

- Islamic Funds Value
- Number of Islamic Funds

80%

Top 3 Countries
Value of AuMs Outstanding as % of Global Value

SAUDI ARABIA
MALAYSIA
USA



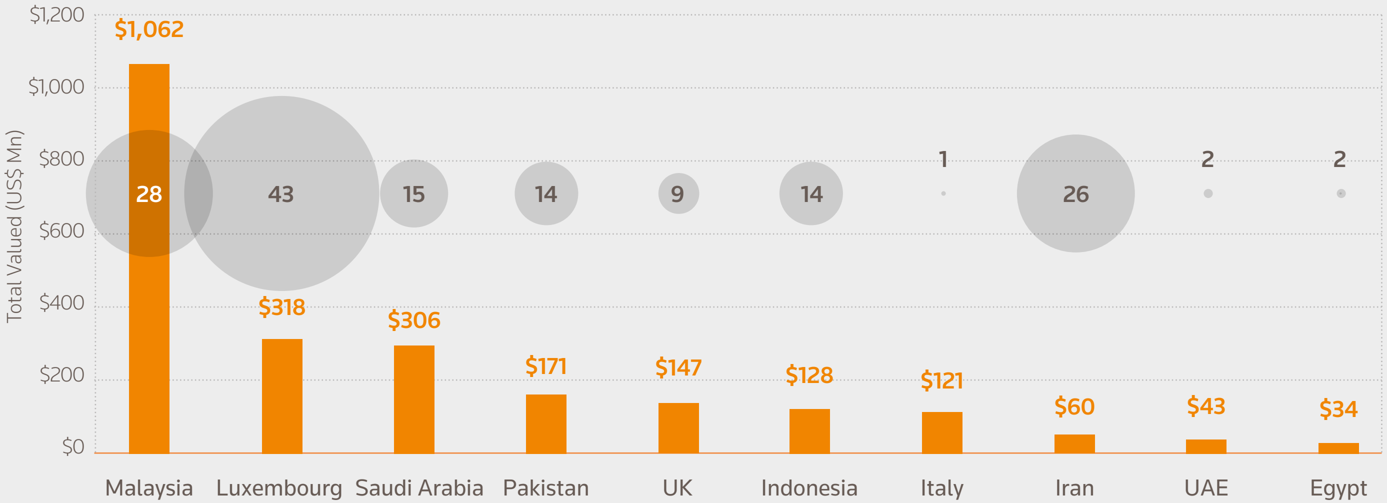
GLOBAL ISLAMIC FUNDS ASSETS UNDER MANAGEMENT LAUNCHED — TOP 10 COUNTRIES (FYE 2014)

- Islamic Funds AuM Launched
- Number of Islamic Funds Launched

82%

Top 3 Countries
Value of AuMs Launched as % of Global Value

MALAYSIA
LUXEMBOURG
SAUDI ARABIA



Analysis

80% of Islamic funds are from GCC and Southeast Asia

A total of 1,092 Islamic funds are outstanding and 30 countries contributed to this total. Islamic funds AUM are most concentrated in the GCC (primarily Saudi Arabia) and Southeast Asia (Malaysia is the main contributor).

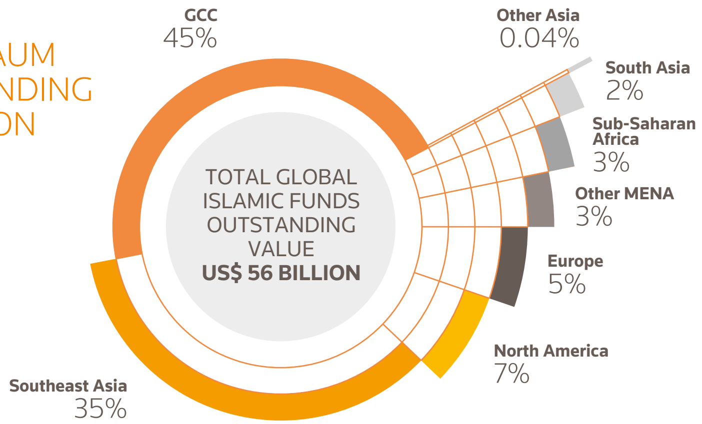
This is followed by North America (USA and Canada) then Europe; Luxembourg is 4th both in terms of number of funds outstanding and AUM, UK, Ireland, Italy and Switzerland are smaller Islamic funds markets. The Other MENA region was led by Iran while South Africa leads in Sub-Saharan Africa. Pakistan and India represent South Asia's Islamic funds universe while Japan leads Other Asia.

GCC played a smaller role in terms of funds launched in 2014

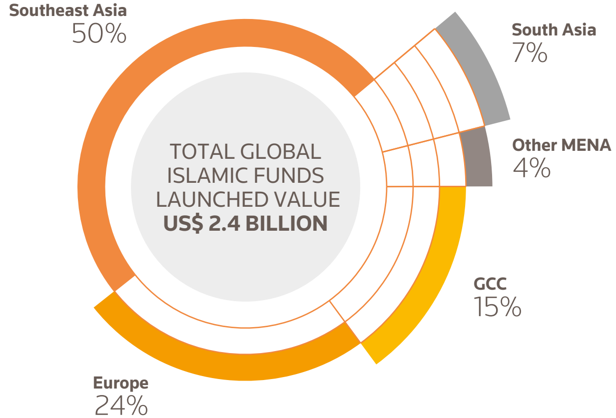
US$2.4 billion was added in 2014 by 161 Islamic funds, constituting 4.3% of Islamic funds outstanding in 2014. Half of this amount came from Southeast Asia.

Luxembourg drove Europe's Islamic funds launched AUM in 2014, along with United Kingdom, Italy and Turkey. Collectively, these European nations launched a higher value of Islamic funds than the GCC, which bodes well for the spread of Islamic finance outside of the Muslim world (ex Turkey).

ISLAMIC FUNDS AUM OUTSTANDING BY REGION
(FYE 2014)



ISLAMIC FUNDS AUM LAUNCHED BY REGION
(FYE 2014)



Equity biggest asset class for Islamic funds outstanding

Equity accounts for an AUM of US$24 billion, or 43% of all Islamic funds AUM outstanding in 2014. 3 countries — Malaysia, Saudi Arabia and the United States — held 77%, or US$19 billion, of equity Islamic funds outstanding. These same 3 held 98%, or US$21.7 billion out of US$22.1 billion, of Islamic money market funds.

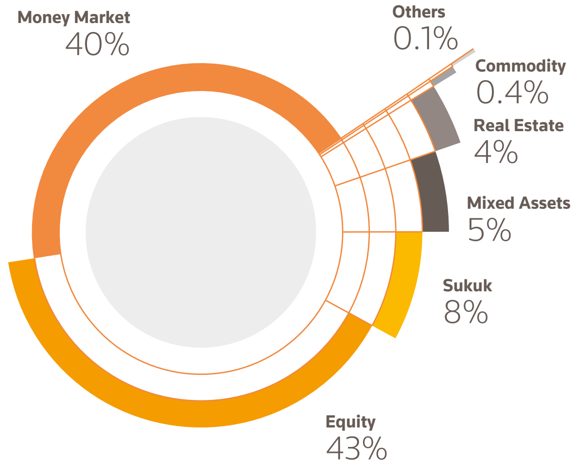
2014 Islamic funds launched — Money market tops

Money market Islamic funds were the most dominant type of Islamic funds launched in 2014, accounting for 39% of Islamic funds AUM. 96% of these funds came from Southeast Asia.

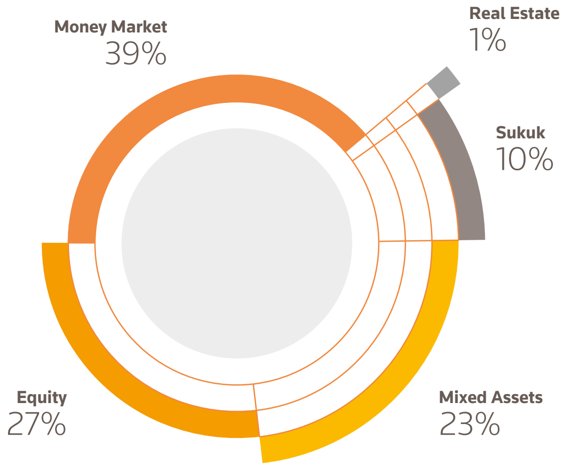
Equity is second. There will be a shift away from equities in oil-exporting markets in this era of low oil prices which have already lowered oil revenues and lowered or removed subsidies. Some countries, such as Saudi Arabia, are spreading out its risks by opening up its capital market to FDI and will be allowing full foreign ownership in retail and wholesale businesses.

Sukuk funds continue to grow globally. Non-Muslim majority countries play a role in sukuk funds geographical focus as well, and not only by location of the asset manager.

ISLAMIC FUNDS AUM OUTSTANDING BY TYPE
(FYE 2014)



ISLAMIC FUNDS AUM LAUNCHED BY TYPE
(FYE 2014)



South Asian Islamic funds ahead of others in terms of average cumulative performance

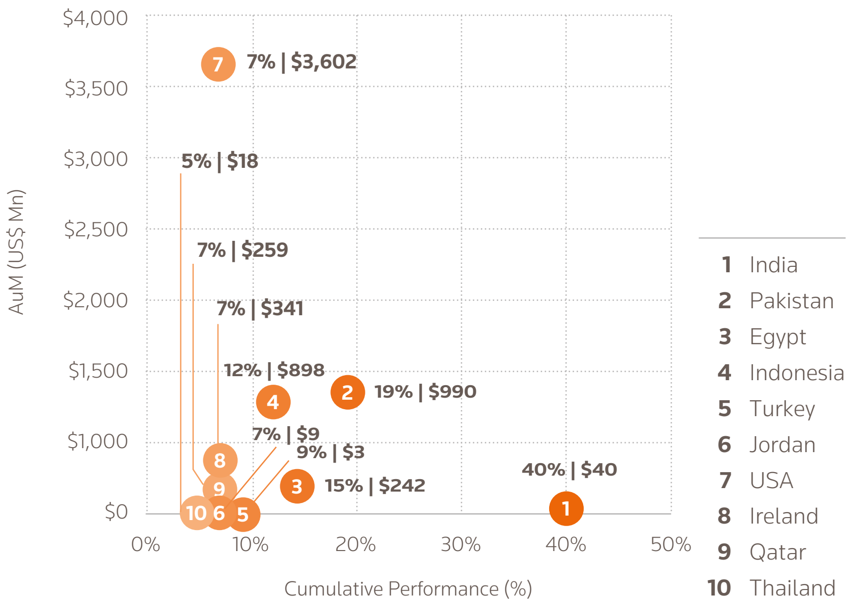
Averaging the cumulative performance of Islamic funds by country, Islamic funds that are based in India, such as Tata and Taurus Ethical funds, outperformed other funds (they averaged 40%). Pakistan is larger than India in terms of AUM. On average, its funds grew 19% with the largest, a retirement mutual fund, achieving 59% cumulative performance.

Real estate most resilient asset class due to high performance

Real estate funds are domiciled mostly in Saudi Arabia and Kuwait. In 2014 they performed relatively well on average. Equity and money market funds (these constitute the biggest portion of Islamic funds outstanding) had negative average cumulative performances, mostly coming from Iran (equity funds) and Malaysia for both equity and money market funds. Commodity was the poorest performing asset class due to lower oil revenues.

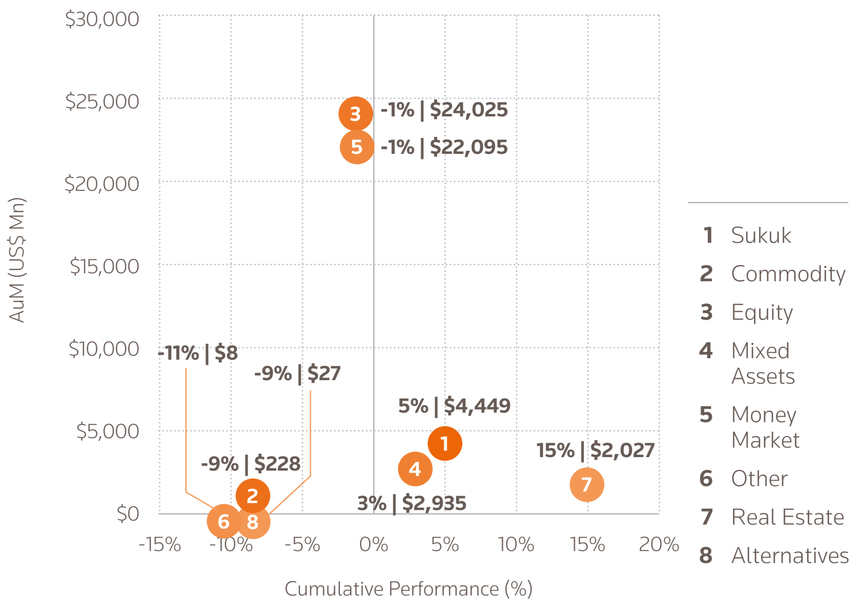
TOP 10 COUNTRIES IN TERMS OF AVERAGE ISLAMIC FUNDS CUMULATIVE PERFORMANCE

(FYE 2014)



ISLAMIC FUNDS LANDSCAPE BY TYPE

(FYE 2014)



Islamic funds is heavily underpenetrated with an apparent variance between the top 10 globally

7 of the top 10 countries' Islamic funds AUM outstanding as a percentage of GDP were lower than 1%. The 3 that are higher than 1% were Malaysia (5%), and Saudi Arabia and Luxembourg (3% each). The gap between these 3 and the other countries could widen if growth of Islamic funds remains mainly in Malaysia and Saudi Arabia. The lowest Islamic funds AUM outstanding as a percentage of GDP is in the U.S. and UK.

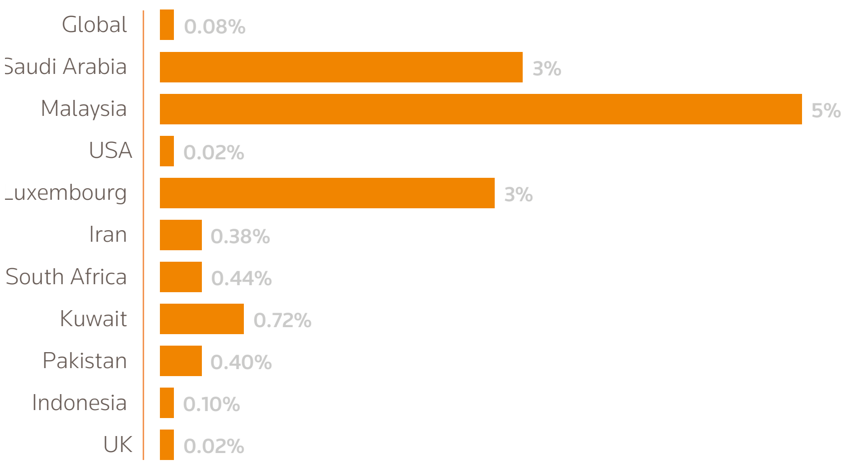
Smaller markets show more potential than usual top players

The top 3 countries hold 80% of total Islamic funds AUM so there is still a long way to go for other countries to reach the scale of Saudi Arabia and Malaysia. However, we find impressive growth in Qatar that enjoyed a CAGR of 34% since 2012, and which is the fastest-growing market of the IFDI universe due to a couple of new Islamic funds launched in 2013 and 2014 and CAGR of individual funds between 15% and 32%.

South Asian nations also show much promise. India, especially, is a potential goldmine for Islamic funds.

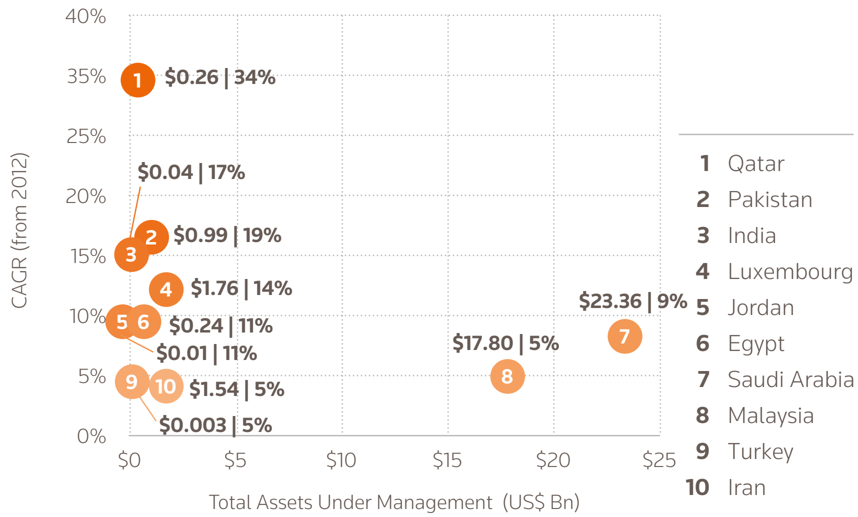
SLAMIC FUNDS PENETRATION

ISLAMIC FUNDS AUM AS % OF GDP FOR FYE 2014)



*Global GDP is based on the same country universe for IFDI

TOP COUNTRIES IN TERMS OF ISLAMIC FUNDS OUTSTANDING GROWTH (2012-2014)



AuM (US$ Bn) | CAGR (from 2012)

Islamic funds launched in 2014 mostly smaller than US$1 million

Luxembourg and Iranian equity funds contributed most of the smaller-sized Islamic funds launched in 2014 with some focused globally or on certain sectors such as Emerging Markets. As for larger funds over US$100 million, a couple were launched in Luxembourg and Malaysia that invest in mixed assets, money markets and equity funds.

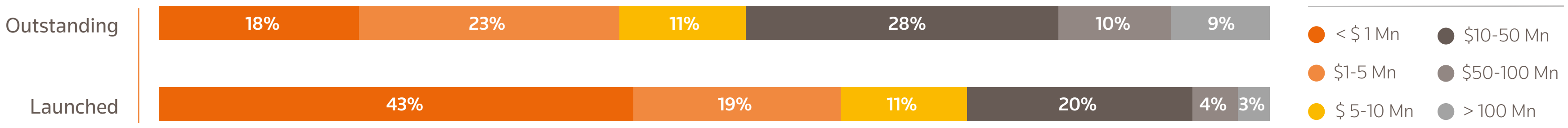
52% of Islamic funds outstanding in 2014 were smaller than US$10 million; these were mostly equity funds based in Southeast Asia, Pakistan, Saudi Arabia and Luxembourg. With regards to larger funds, 11 Islamic mutual funds outstanding in 2014 were over US$1 billion and the mixture of these money market and equity funds add up to US$21.1 billion, or 38% of total global Islamic funds outstanding.

Saudi Riyal, Malaysian Ringgit and US dollars dominate

86% of Islamic funds outstanding are denominated in Saudi Riyal, Malaysian Ringgit and US dollars. These 3 currencies hold 74% of total Islamic funds launched in 2014. Notable currencies for 2014 were Pakistani Rupees, Indonesian Rupiah, Euro and Pounds Sterling. These funds added to up 27 different currencies for Islamic funds outstanding.

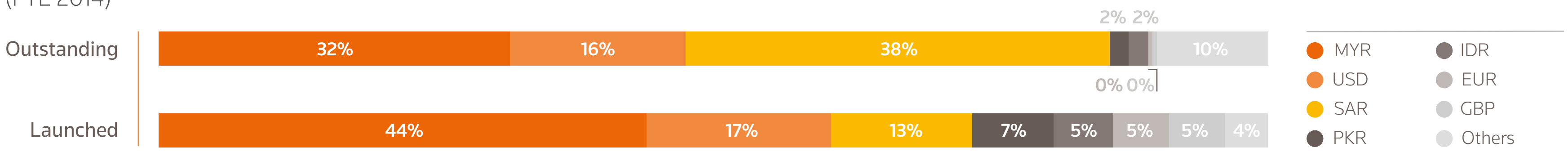
GLOBAL ISLAMIC FUNDS BY SIZE

(FYE 2014)



GLOBAL ISLAMIC FUNDS AUM BY CURRENCY

(FYE 2014)



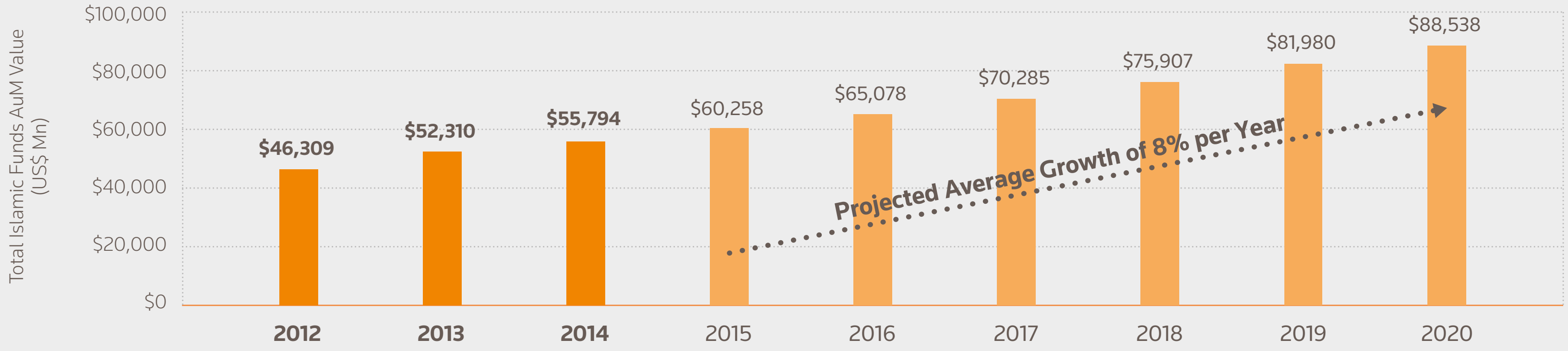
The supply of Islamic funds is projected to grow 8% per year to US$89 billion by 2020

According to Thomson Reuters Global Islamic Asset Management Outlook 2015 published earlier this year (analysis and a survey of key players such as asset managers and investors), Islamic funds are expected to increase 59% from 2014 to 2020 with an average growth of 8% per year. This projection is based on a conservative position of the actual AUM growth over the last few years. Markets are facing numerous challenges that need to be levelled out in the mid- to long-term while considering other factors such as Islamic funds latent demand, Islamic banking deposits and ratio of mutual funds to total investable funds. For more information please visit https://www.zawya.com/ifg-publications/

The report also identifies areas of opportunity in order to achieve economies of scale through institutional funds which could be in the form of socially responsible investment, pension funds, funds passporting and Islamic wealth management.

The core growth markets remain Malaysia and Saudi Arabia; they hold 74% of total Islamic funds outstanding, they continue to consistently launch new funds, and were among the top 10 markets in terms of AUM growth for 2014. There are growth pockets outside these markets, too; new markets such as Hong Kong and China are opening up to Shariah-compliant funds, while smaller Islamic finance countries such as India and Luxembourg show great promise in the Islamic funds sector. 'Older' Islamic finance markets Qatar and Pakistan will continue their growth trajectory in the Islamic funds sector.

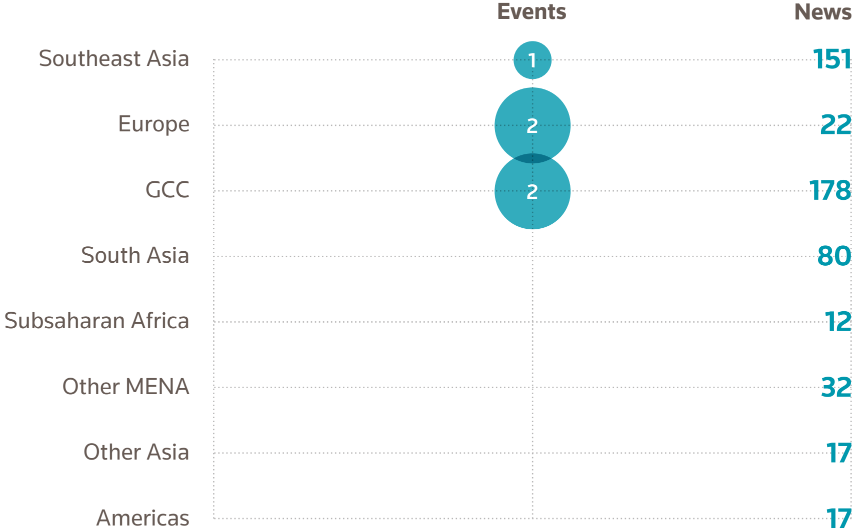
ISLAMIC FUNDS AUM PROJECTED GROWTH TILL 2020



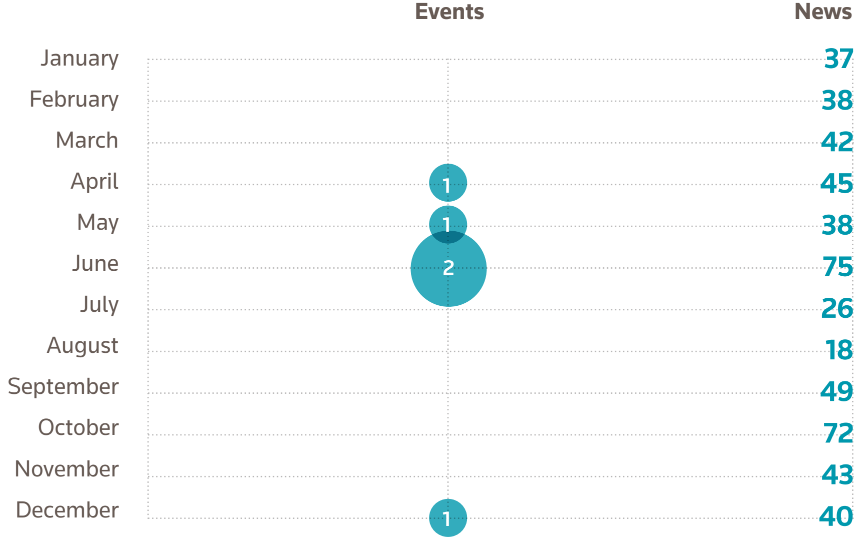
Islamic Funds Ecosystem (FYE 2014)

AWARENESS

ISLAMIC FUNDS AWARENESS INDICATOR
BY REGION

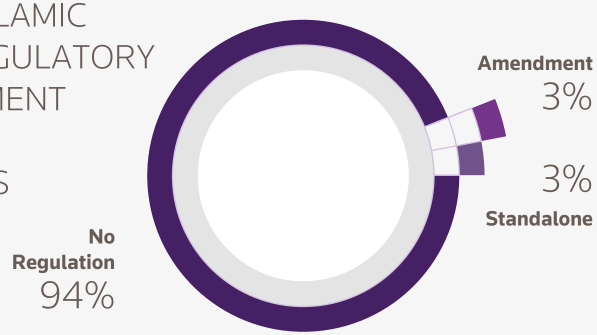


ISLAMIC FUNDS AWARENESS
BY MONTH



GOVERNANCE

TYPE OF ISLAMIC FUNDS REGULATORY ENFORCEMENT ACROSS COUNTRIES



KNOWLEDGE

PUBLISHED RESEARCH PAPERS ON ISLAMIC FUNDS 2012-2014

ISLAMIC FINANCE TOMORROW: PROMISING HORIZONS FOR INNOVATION AND SUSTAINABILITY

Haitham Al Refaie, Chief Executive Officer, Tawreeq Holdings

HAITHAM AL REFAIE's career spans two decades in financial services, corporate governance, and commercial and SME banking, much of it in the UAE and the countries of the Gulf Cooperation Council. Prior to co-founding Tawreeq Holdings, Mr. Al Refaie led the Business Banking Group at the National Bank of Abu Dhabi (NBAD), a role he had held since 2010. While at NBAD he was responsible for crafting the Business Banking Group's vision and strategy and oversaw the implementation of best practices and corporate governance standards. Mr. Al Refaie previously held other positions with Invest Bank, Abu Dhabi Commercial Bank (ADCB), Citibank and HSBC. He played key roles in various disciplines and promoted many initiatives in developing trade finance, corporate and commercial banking.

Islamic finance has been gaining considerable attention and global acceptance in recent years. Growth has been positive and industry assets continue to grow. The capacity for Islamic financial institutions to weather the storms has been acknowledged. However, the new challenge facing the industry is the capacity required to transform into the finance of tomorrow and take on a bigger role and market share.

Looking beyond the numbers and positive outlook, the ability to foster expansion should focus on facilitating sustainable, inclusive, real economic growth and prosperity.

Focusing the attention on Shariah-compliant finance is not just about an alternative financial system and a gateway into new funding sources; it is an avenue that must be used to support financial inclusion and empower growth and sustainability.

To aspire for Islamic finance industry growth beyond 1 percent of global financial assets, the fundamental building blocks must revolve around an ecosystem that holds the capacity for long-term sustainability, especially within a Middle Eastern region that is tested by economic challenges, drop in oil prices, and the new norm of volatility mandating a dire need for economic diversification. Islamic finance must now focus on infrastructure, facilitating trade, and financial inclusion.

The industry faces many headwinds, from macroeconomic, to legal and technological aspects, to name just a few. The main aspect we ought to shed light on is how the industry is responding to the real needs of economies, businesses, and future generations in a region entrenched with a youthful population and driven by a large Small and Medium Sized (SMEs) business sector.

'DEARTH' OF ISLAMIC FINANCIAL PRODUCTS FOR SMEs

There is a dearth of Shariah-compliant financial products and services that serve the liquidity and financial needs of businesses, limiting their capacity to flourish and ability to participate in long-term sustainable employment and growth. To that end, Islamic finance needs to better re-orient itself through a more inclusive funding approach and broader support for real growth.

Although global demand for Islamic financial products is strong, there is still a gap to be filled in developing products that cater to liquidity needs of businesses to facilitate trade and especially improve access to finance for the expanding SME sector.

Additionally, there is a growing credit gap with the banking sector failing to meet the requirements of businesses, which is especially highlighted during this period of macroeconomic challenges.

SMEs in particular play a vital economic role across all OIC member states, giving Shariah-compliant finance immense potential to promote the sector by fostering financial inclusion, which is at the core of Islamic finance.

Accordingly, we can see the recent trends in SME financing change with growing traction for alternative financing sources.

Shariah-compliant crowdfunding and peer-to-peer finance platforms are helping to fill the financing gap left by inadequate banking resources. These promote inclusion based on the key Shariah principle of risk-sharing, which is essential for SMEs that cannot find solutions in the banking sector.

Even with the alternative access to finance provided, we can still see SMEs balance sheets under pressure, keeping the risk of insolvency quite high. Broadly speaking, product development remains an area where Islamic financial institutions have lagged behind their conventional banking and finance counterparts.

SUPPLY CHAIN FINANCING

Shariah-compliant supply chain finance offers a solution, focusing on working capital and off-balance sheet financing to fill the credit gap in the region. It provides much needed liquidity solutions based on risk sharing under Shariah principles and accordingly serves all stakeholders better.

This is one key area that Tawreeq Holdings is focusing on by developing alternative solutions that bridge the gap between the banking sector and

> "TO ASPIRE FOR ISLAMIC FINANCE INDUSTRY GROWTH BEYOND 1 PERCENT OF GLOBAL FINANCIAL ASSETS, THE FUNDAMENTAL BUILDING BLOCKS MUST REVOLVE AROUND AN ECOSYSTEM THAT HOLDS THE CAPACITY FOR LONG-TERM SUSTAINABILITY.

> ONE OF THE KEY CHALLENGES IS THE ENFORCEABILITY OF ASSIGNMENT LAWS AND EFFECTIVE BANKRUPTCY LEGISLATION ACROSS THE MENA REGION.
>
> ANOTHER ISSUE IS THE AVAILABILITY OF CREDIBLE AND RELIABLE CREDIT RATING AGENCIES AND BUREAUS TO HELP WITH RISK AND CREDIT ASSESSMENT.

businesses, especially SMEs, and focus on supporting the real economy.

WORLD'S FIRST SHARIAH-COMPLIANT SUPPLY CHAIN FINANCE PLATFORM

In developing the world's first Shariah-compliant Supply Chain Finance (SCF) Platform, Tawreeq has embedded its vision for ethical finance through Shariah-compliant SCF to deliver working capital solutions and access to finance for SMEs and corporates across the MENA region while collaborating with the banking sector.

SCF is an alternative comprehensive liquidity solution offered through structured products such as factoring and reverse factoring – known as receivables and payables finance - concentrating on liquidity needs for businesses across the supply chain, most importantly by realizing better trading terms for both parties.

As an alternative finance solution, SCF has been expanding globally, where the solutions also support growth through facilitating trade. It helps mitigate inherited risks, whether through the extension of payment terms to buyers, or through early access to receivables for international suppliers, playing a very dynamic role across the Middle East and Africa by taking into consideration their high country risk ratings, which affects trade.

Further benefits are incorporated to promote a cohesive ecosystem by connecting investors to innovative financial instruments backed by real economic transactions. This model delivers benefits to all stakeholders by providing new short-term financial instruments to investors looking for competitive returns. It also stays true to Islamic finance's underlying objective of distributive justice, and engages in economic activities that advance the goals of society as a whole by facilitating the transference of wealth to wider segments of society.

Liquidity and capital management are critical problems for SMEs and established corporates alike, and innovation in the Islamic finance industry will be the solution. To play an integral force in the global economy, we can focus on promoting macroeconomic growth and financial stability through Islamic finance.

Supply Chain Finance, in general is rather a niche market and concentrated among banks. Islamic financial institutions have not contributed to or developed the market to any significant extent. Although Islamic trade finance has been a product offered for years, alternative sources of finance by non-financial institutions remain very limited in the region.

CHALLENGES

The market for Shariah-compliant Supply Chain Finance solutions is promising over the coming years, but as any growing industry, it faces many challenges.

A central issue is ensuring clear governance and compliance to Shariah principles. As we essentially establish a new industry, we need the participation of scholars and practitioners to supporting the growth of Shariah-compliant SCF.

One of the key challenges is the enforceability of assignment laws and effective bankruptcy legislation across the MENA region.

Another issue is the availability of credible and reliable credit rating agencies and bureaus to help with risk and credit assessment.

Looking closely in particular at factoring, according to Factors Chain International (FCI) Global Factoring Statistics for 2014, global factoring volume reached an all-time high of 2,348 billion euros and two of the strongest recorded markets growth were in MENA, namely Morocco and UAE.

According to the recent trend, in previous years, traditional factoring in MENA lags behind developed markets, and Shariah-compliant factoring is still nascent. Unsurprisingly, there are no clear statistics available. Nonetheless, the positive trend is likely to expand further with technology adoption and expansion of Shariah-compliant factoring, especially in the GCC.

Economic diversification and the encouragement from governments in the region to support SMEs will fuel growth in factoring in coming years.

The potential for growth is global, and not confined to specific regions, however the concentration of Islamic finance capital and assets in the GCC and consumer base across the MENA region makes it the heart of a viable market for growth.

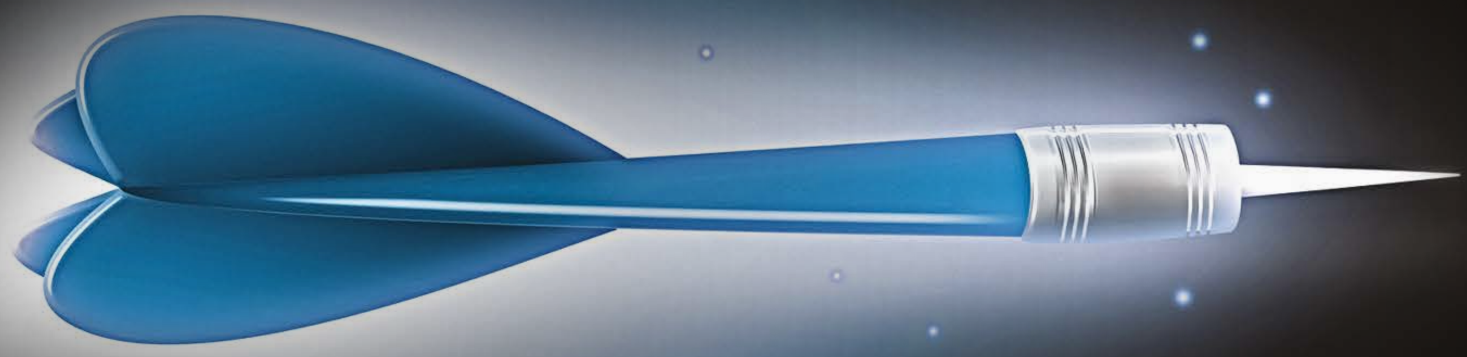
This rising interest in the Islamic economy will only support the case for factoring further, especially in manufacturing and trade, particularly the latter.

Intra-GCC trade has been showing robust growth since the introduction of the first phase of the regional customs union. Focus on the broader economic strategy to diversify away from hydrocarbons has supported the expansion of trade. The outlook makes the case for reverse factoring with major corporates in need to better use their liquidity and working capital efficiently to meet expanding demand and competitive consumer market landscape.

This ecosystem is nurturing growth for supply chain finance, especially in Shariah-compliant factoring tailored to the region's needs.

In conclusion, the current outlook for the region, the focus on financial inclusion, and support for trade should be the driver for Islamic finance; the confluence of market needs and innovative Shariah-complaint solutions will support the expansion of alternative financing solutions with assets likely to continue to expand and set a growing share of Islamic finance.

Target comprehensive **cash flow** solutions
tailored to **grow** your **business**



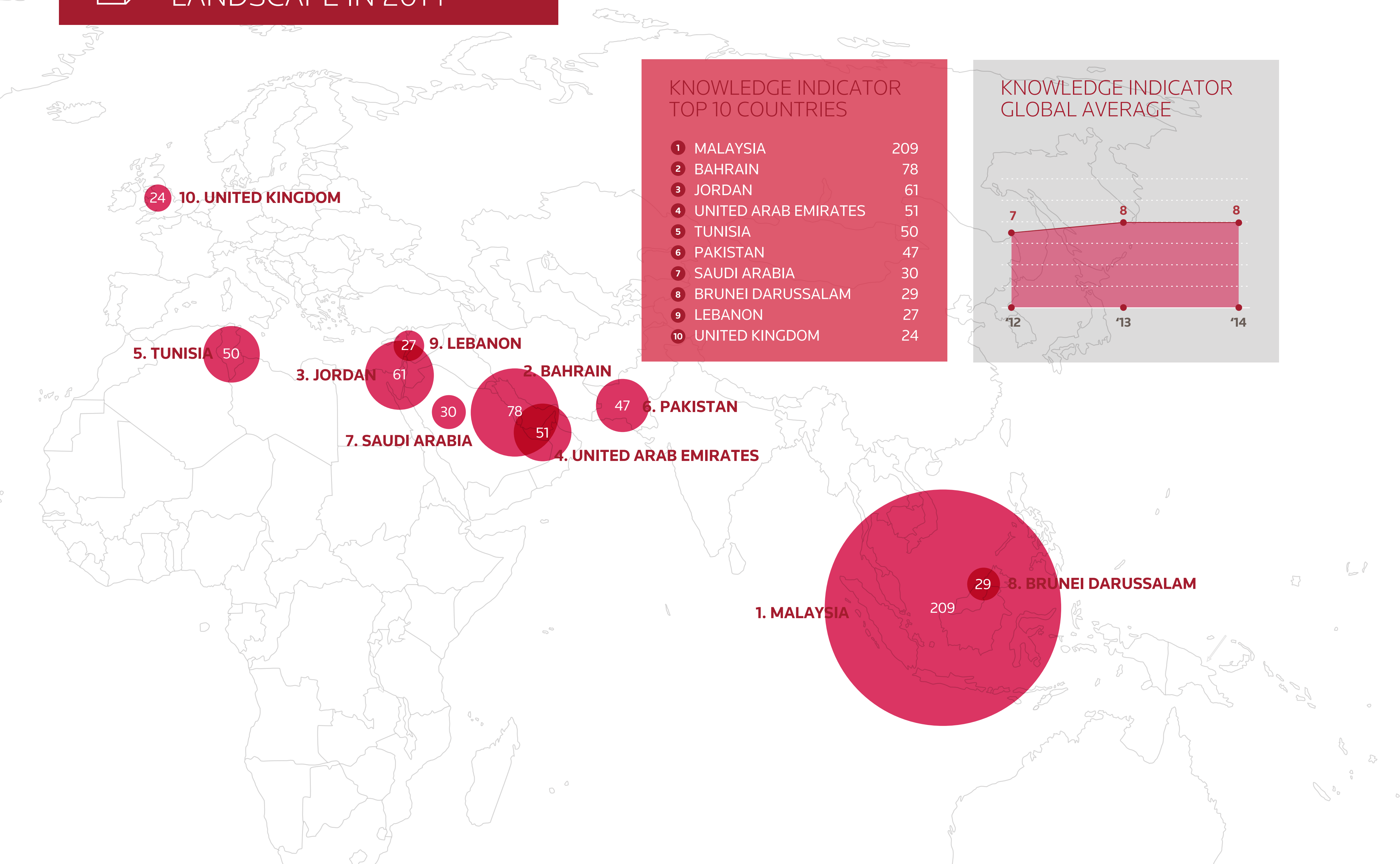
Invest in the real economy with
Sharia-Compliant **SCF** solutions

Knowledge Indicator

An Iranian religious student reads a book in the library of the Motaheri seminary in Tehran. REUTERS.

The Knowledge Indicator is a weighted index of two sub-Indicators — education and research — which are the main building blocks for any knowledge-based industry. Education and research are the input factors needed to reach depth and efficiency in the Islamic finance industry.

KNOWLEDGE INDICATOR LANDSCAPE IN 2014



KNOWLEDGE INDICATOR TOP 10 COUNTRIES

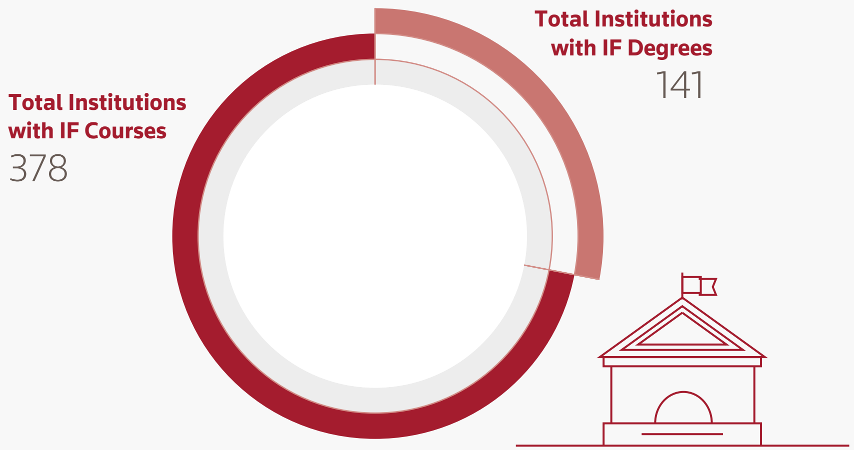
1	MALAYSIA	209
2	BAHRAIN	78
3	JORDAN	61
4	UNITED ARAB EMIRATES	51
5	TUNISIA	50
6	PAKISTAN	47
7	SAUDI ARABIA	30
8	BRUNEI DARUSSALAM	29
9	LEBANON	27
10	UNITED KINGDOM	24

KNOWLEDGE INDICATOR GLOBAL AVERAGE

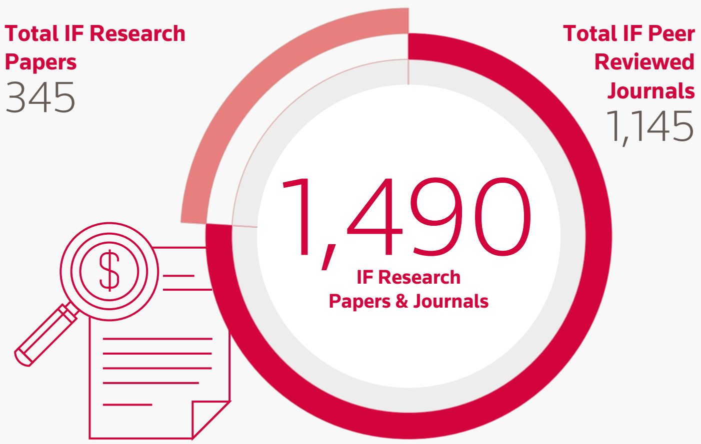
7 8 8

'12 '13 '14

ISLAMIC FINANCE EDUCATION



ISLAMIC FINANCE RESERARCH



SUB-INDICATORS GLOBAL AVERAGE

EDUCATION

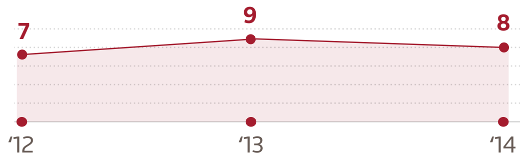
Top Countries

Educational Institutions With IF Courses		Educational Institutions With IF Degrees
53	UNITED KINGDOM	25
46	MALAYSIA	30
36	UNITED ARAB EMIRATES	11

SUB-INDICATOR TOP 5 COUNTRIES

1	**Malaysia**	118
2	Bahrain	87
3	Jordan	75
4	United Arab Emirates	67
5	Lebanon	41

GLOBAL AVERAGE



KEY MARKET PLAYERS FOR EDUCATION

- International Islamic University (IIUM / Malaysia)
- General Council for Islamic Banks and Financial Institutions (CIBAFI / Bahrain)
- University of Malaya (Malaysia)
- Universiti Sains Islam Malaysia (Malaysia)
- Asia e-University (Malaysia)
- Insaniyah University College (Malaysia)

RESEARCH

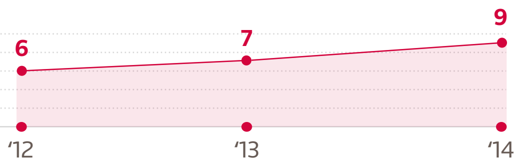
Top Countries

No. of Peer Reviewed Journal Articles		No. of Research Papers Produced
401	MALAYSIA	121
109	UNITED KINGDOM	31
80	PAKISTAN	28

SUB-INDICATOR TOP 5 COUNTRIES

1	**Malaysia**	300
2	Tunisia	96
3	Bahrain	68
4	Pakistan	56
5	Jordan	47

GLOBAL AVERAGE



KEY MARKET PLAYERS FOR RESEARCH

- IIUM (Malayisa)
- INCEIF (Malaysia)
- Universiti Teknologi MARA (Malaysia)
- International Shari'ah Research Academy for Islamic Finance (ISRA / Malaysia)
- Durham University (United Kingdom)

Islamic Finance Knowledge in 2014

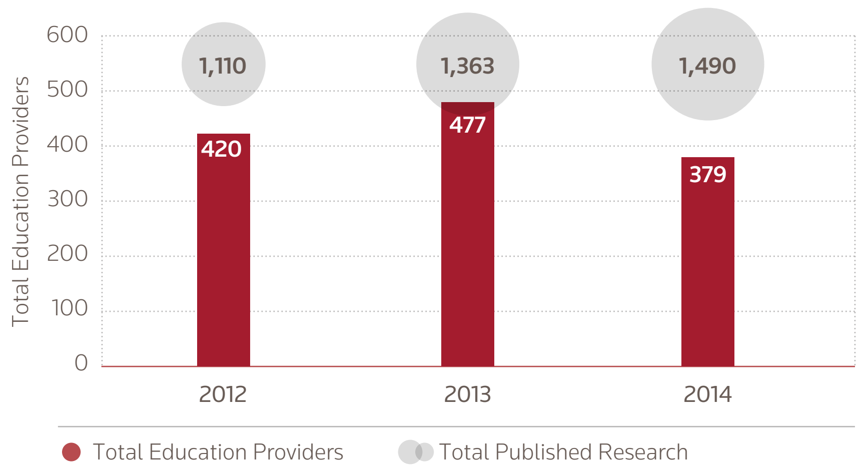
378 institutions provided Islamic finance education in 2014 including 141 offering Islamic finance degrees. On the Research sub-indicator, there were 1,490 research papers in the past 3 years (2012-2014), out of which 1,145 were peer-reviewed.

Indicator Values Analysis

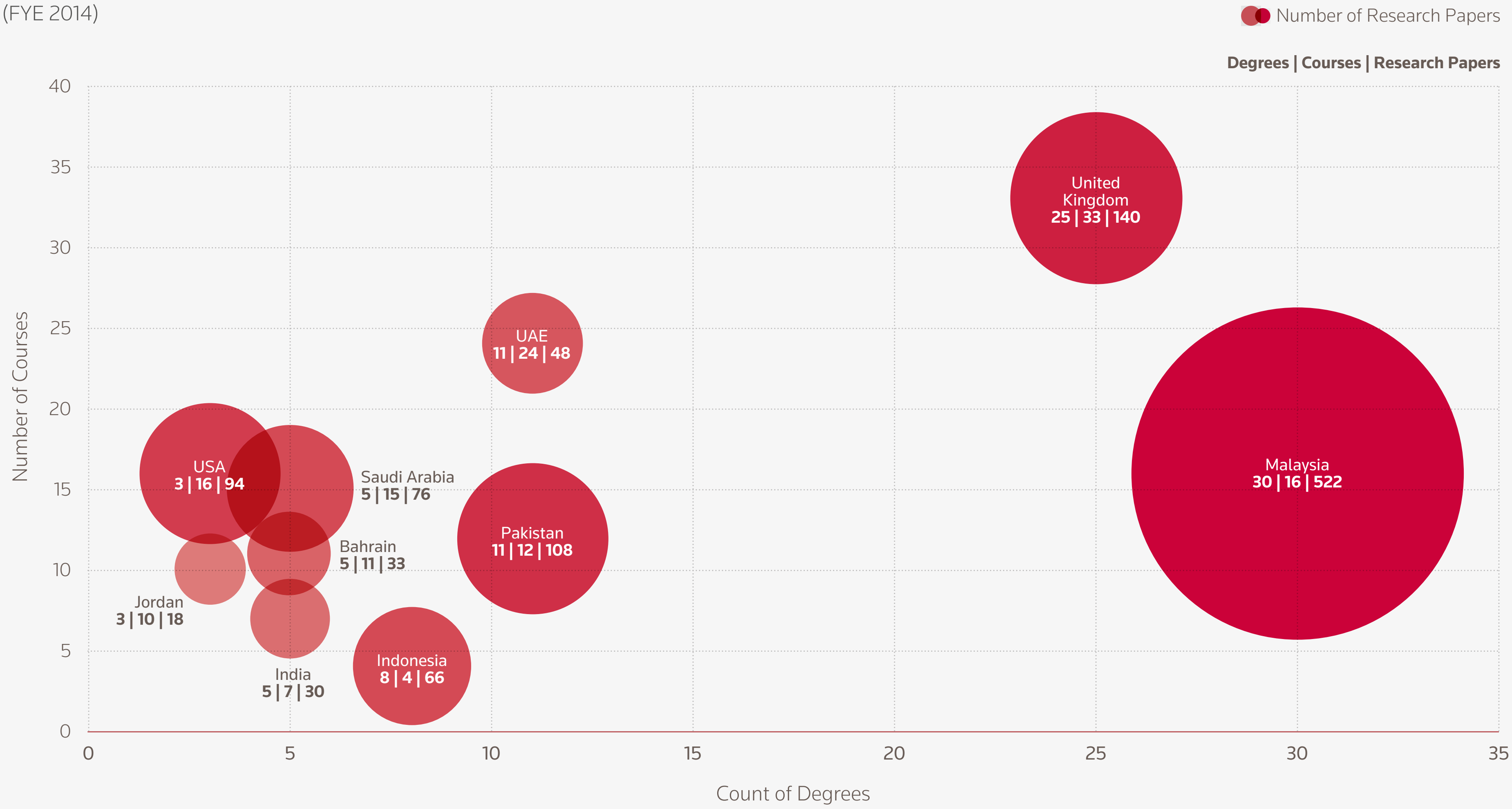
Malaysia, Bahrain, Jordan maintain their leadership in Islamic finance Knowledge

The number of Islamic finance degrees and courses as well as research papers increased in Malaysia, Bahrain, and Jordan in 2014. The number of Islamic finance degrees and courses in Malaysia increased to 209 from 140, Bahrain to 78 from 62 and Jordan to 61 from 53. Tunisia improved its ranking on the Knowledge indicator due to the increase in its number of research papers, while Saudi Arabia joined the top 10 as Sudan slipped.

ISLAMIC FINANCE KNOWLEDGE (2012-2014)



ISLAMIC FINANCE KNOWLEDGE INDICATOR — TOP 10 COUNTRIES
(FYE 2014)



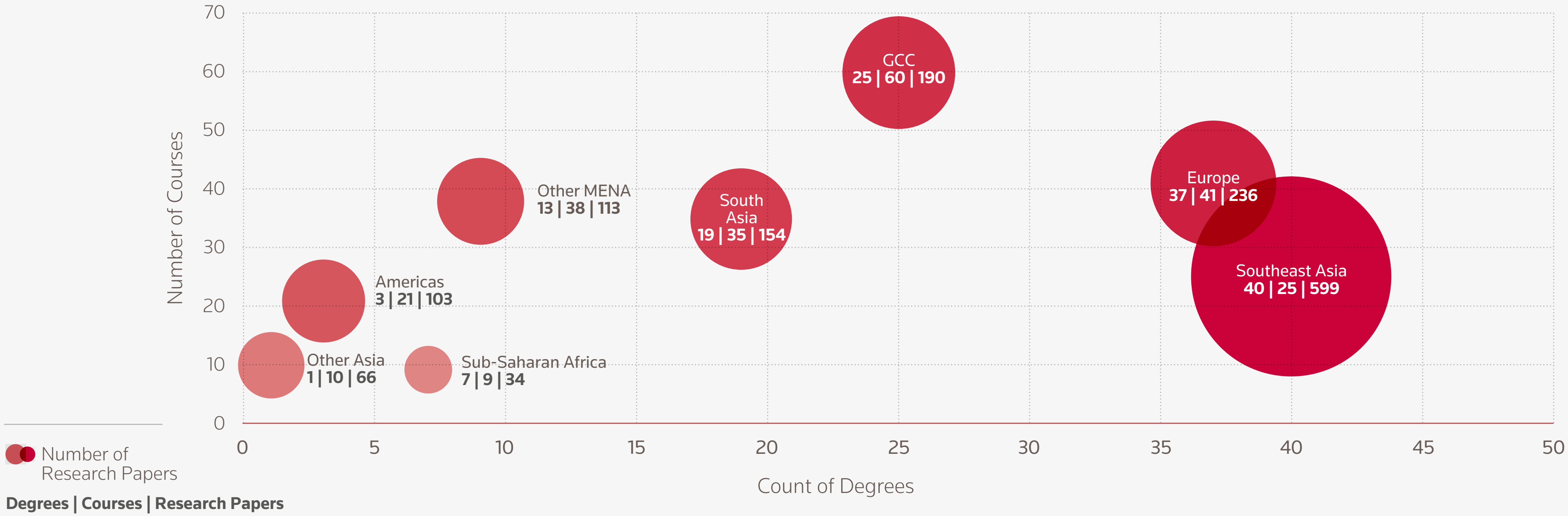
Analysis

Southeast Asia leads other regions in number of Islamic finance education providers and Islamic finance research

GCC and Europe still lag behind Malaysia in number of published research papers. We see new regions expanding their Islamic finance knowledge, including Sub-Saharan Africa and the Americas where there is potential for Islamic finance to grow.

ISLAMIC FINANCE KNOWLEDGE INDICATOR BY REGION

(FYE 2014)



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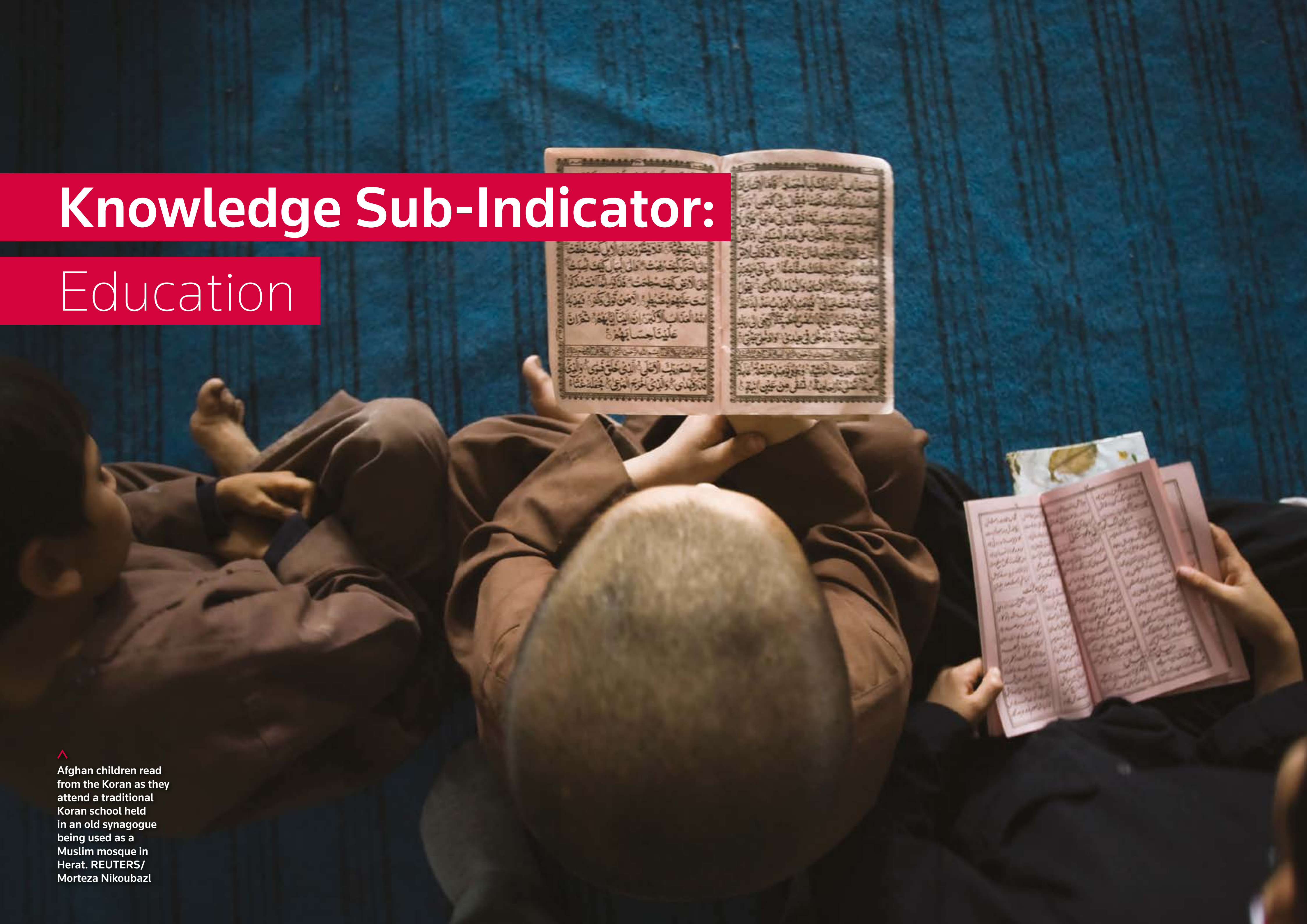
Malaysian children participate in the "Read2008 : One Nation Reading Together" at a school in Putrajaya outside Kuala Lumpur. REUTERS/ Bazuki Muhammad

Knowledge Sub-Indicator:

Education



^
Afghan children read from the Koran as they attend a traditional Koran school held in an old synagogue being used as a Muslim mosque in Herat. REUTERS/ Morteza Nikoubazl

Indicator Values Analysis

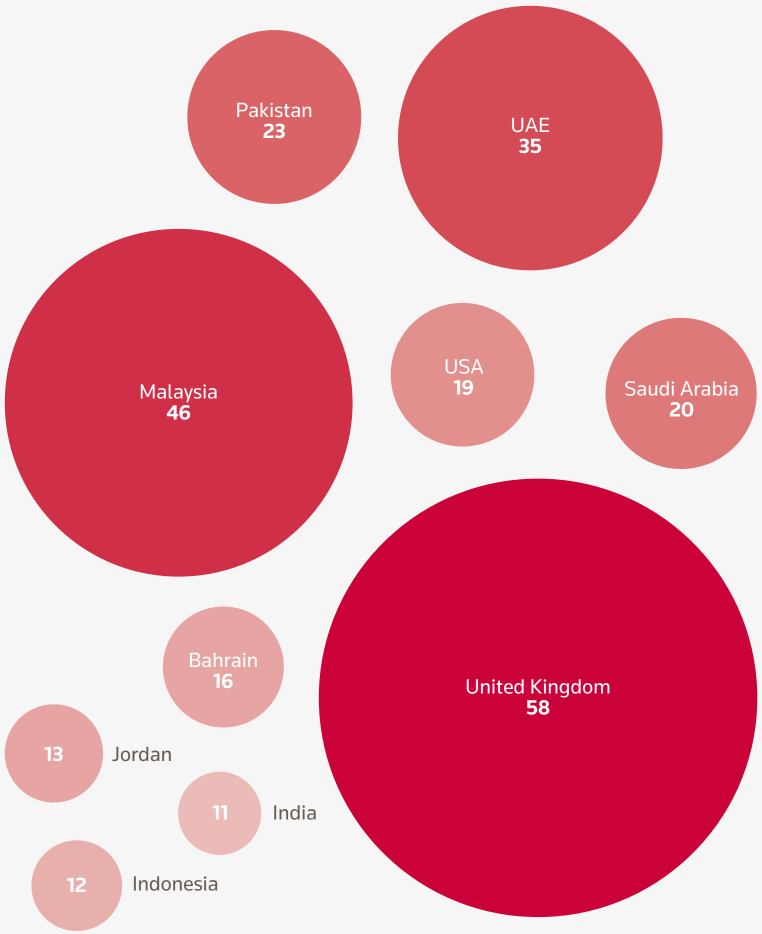
EDUCATION SUB-INDICATOR TOP COUNTRIES

Country	Indicator Value
Malaysia	118
Bahrain	87
Jordan	75
United Arab Emirates	67
Lebanon	41
Pakistan	38
Sri Lanka	33
Brunei Darussalam	31
United Kingdom	26
Saudi Arabia	25

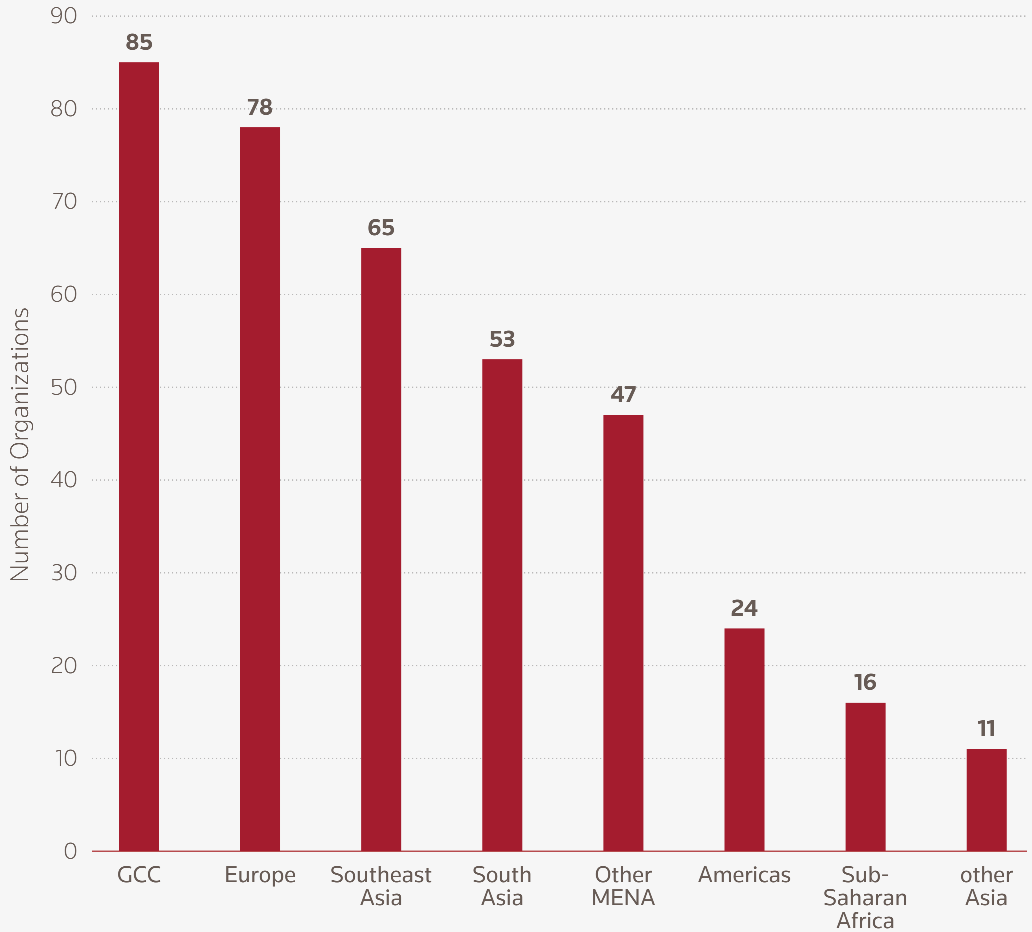
Europe, SEA and GCC have highest number of Islamic finance education providers, led by UK, Malaysia and Bahrain

Only 53 countries offer Islamic finance education (courses or degrees) out of the IFDI universe of 108 countries. UK and Malaysia retained their leading positions with the highest number of institutions providing Islamic finance education. However, considering relative size, Malaysia climbed the sub-indicator from 3rd to 1st, beating Bahrain and Jordan while UK stayed put on 9th on the Education sub-indicator given its much bigger size. Sudan and the Palestinian Territories dropped out of the top 10 while Sri Lanka and Saudi Arabia climbed up to 7th and 10th from 11th and 13th, respectively.

ORGANIZATIONS PROVIDING ISLAMIC FINANCE EDUCATION — TOP 10 COUNTRIES



NUMBER OF ORGANIZATIONS PROVIDING ISLAMIC FINANCE EDUCATION BY REGION



Analysis

141 Educational Institutions offer Islamic finance degrees in 36 countries, Malaysia and UK lead

Malaysia offers the highest number of Islamic finance degrees overall, followed by UK, Pakistan and UAE. However, the UK, Pakistan and UAE mostly focus on Diploma and Master's degrees with a lot fewer Bachelor's degrees.

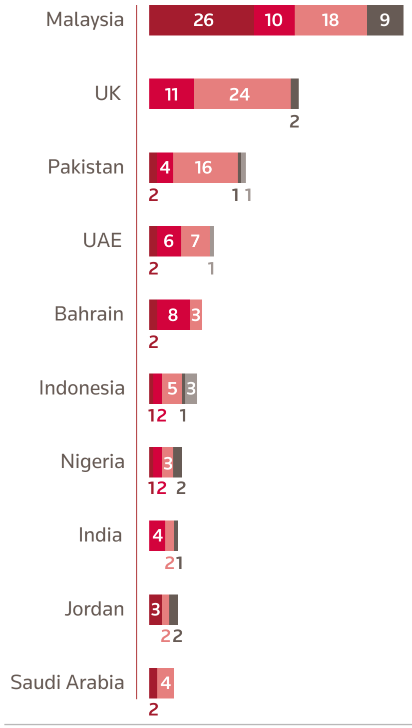
237 Islamic finance degrees offered globally

45% of Islamic finance degrees are for Master's programmes followed by 19% for Bachelor's degrees and 26% offer Diplomas. As most professionals graduate from general finance programmes, they seek specialisation once they enter the Islamic finance industry; therefore, most of the degrees offered are at the Master's level. Islamic finance is a niche market that still needs higher level education (post-graduate) to support the further development of the industry.

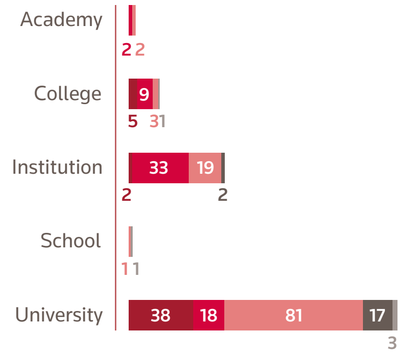
Most of these degrees cover general Islamic finance topics rather than specialised areas such as takaful, sukuk or derivatives.

157 Islamic finance degrees are offered by universities (mostly master programmes) and 56 degrees offered by educational institutions mostly diplomas, while 18 degrees are offered by colleges (that are not part of universities).

TOP 10 COUNTRIES PROVIDING ISLAMIC FINANCE DEGREES — BROKEN DOWN BY LEVEL OF DEGREE



ISLAMIC FINANCE EDUCATION PROVIDERS BY LEVEL OF DEGREE



237 ISLAMIC FINANCE DEGREES BREAKDOWN BY EDUCATION LEVEL

Bachelor Diploma Master PhD Others

378 Educational Institutions offer Islamic finance courses

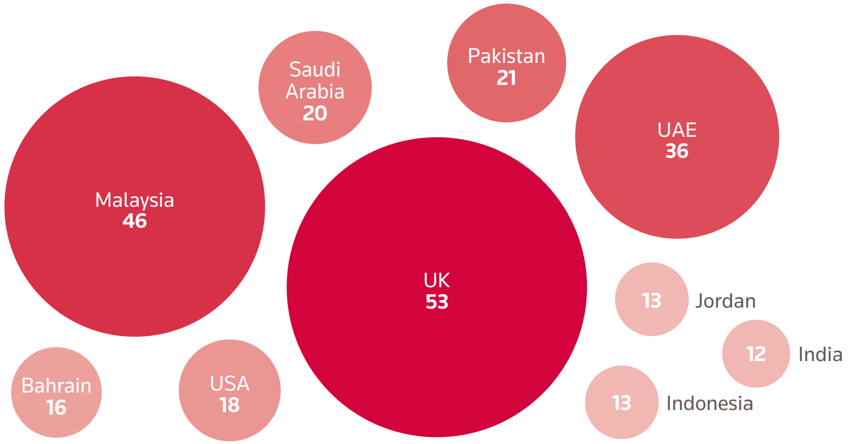
UK leads with 53 Institutions offering Islamic finance courses, including professional qualifications and degrees, followed by Malaysia (46) and UAE (36). Most Islamic finance courses are offered as part of existing general finance, accounting and banking programmes.

One of the key issues that Islamic finance education faces is the lack of specialisation. There are very few courses on specific asset classes such as funds and Shariah-compliant derivatives or courses on Shariah structures used to solidify students' technical foundations. The drop in the total number of educational institutions offering Islamic finance was primarily due to fewer degrees being offered by universities coupled with one-off courses in 2013 from training institutions. Additionally, there were institutions without updated information about their curriculum which were eventually dropped from IFDI tabulations.

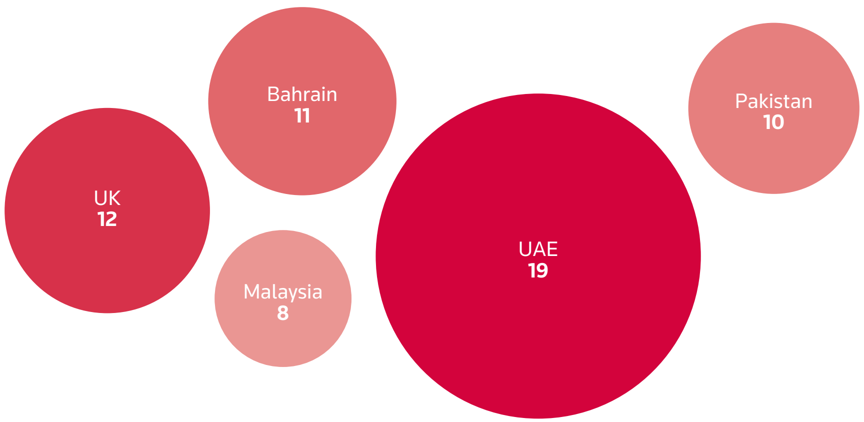
60 Professional Qualifications offered globally, most located in GCC

Islamic finance is similar to other specialisations in that professional qualifications are needed to support day-to-day operations. The GCC has more of these than other regions, with UAE and Bahrain focusing on professional education followed by Pakistan, Malaysia and UK. For the IFDI, Professional Qualifications are counted as part of Islamic finance courses.

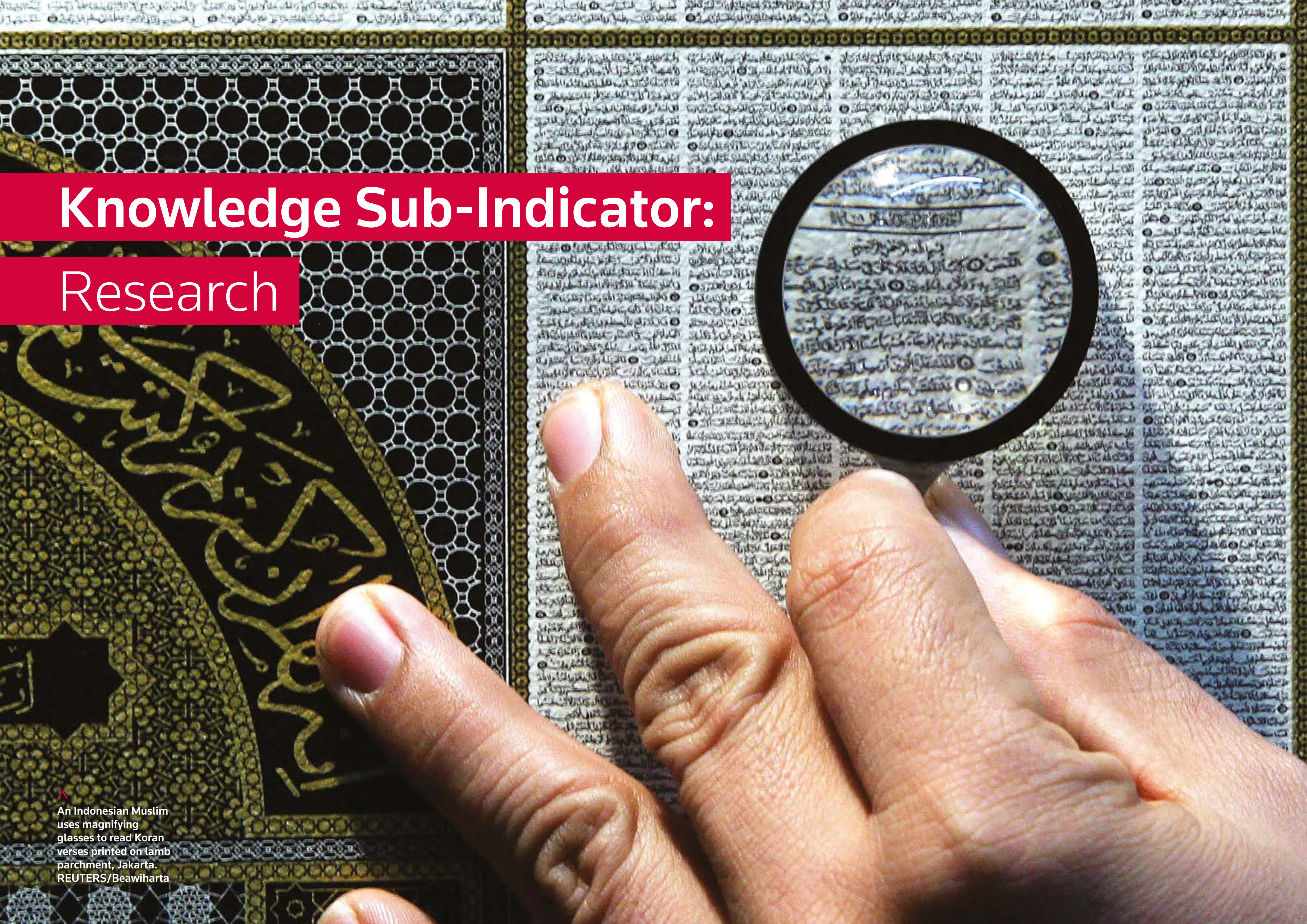
TOP 10 COUNTRIES WITH ORGANIZATIONS PROVIDING ISLAMIC FINANCE COURSES



TOP 5 COUNTRIES PROVIDING ISLAMIC FINANCE PROFESSIONAL QUALIFICATIONS



Knowledge Sub-Indicator: Research



An Indonesian Muslim uses magnifying glasses to read Koran verses printed on lamb parchment, Jakarta. REUTERS/Beawiharta

Indicator Values Analysis

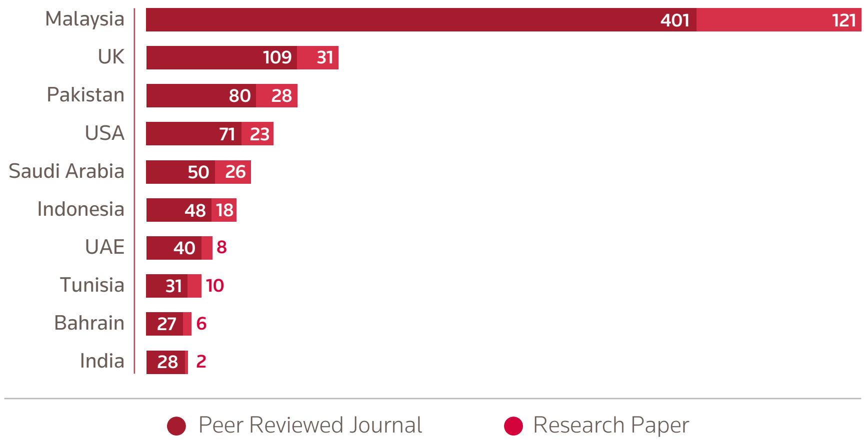
RESEARCH SUB-INDICATOR TOP COUNTRIES

Country	Indicator Value
Malaysia	300
Tunisia	96
Bahrain	68
Pakistan	56
Jordan	47
Saudi Arabia	35
United Arab Emirates	35
Brunei Darussalam	27
Oman	23
United Kingdom	21

Malaysia leads, substantial gap between it and other countries

In research, Malaysia retained its leading position with the highest number of peer-reviewed articles and research papers covering Islamic finance. According to the IFDI scoring methodology, a country is considered a developed country with stable growth in this area if it scores 300 points or more. Tunisia has climbed the research ladder from 8th to 2nd position, pushing down other top countries Bahrain, Pakistan and Jordan. UK dropped one rung to 10th with fewer research papers published. Oman is a new entry on the Research sub-indicator.

ISLAMIC FINANCE RESEARCH PUBLISHING TOP 10 COUNTRIES

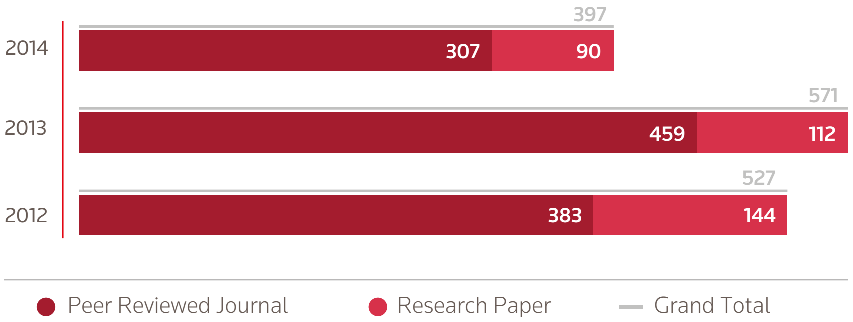


Analysis

1,490 total Islamic finance research paper in the past three years, up from 1,363 for 2011-2013

Islamic finance peer-reviewed research papers dropped to 307 in 2014 from 459 in 2013 while other research papers dropped from 112 to 90. This drop is a result of fewer published papers from Europe and the Americas. In OIC markets, Islamic finance research, as measured by the number of published papers, has not progressed; there are only a few research centres or organisations in countries outside of Malaysia and the industry still lacks specialised academics. Overall, research has picked up since 2012 compared to previous levels in 2011 and 2010 due to the increased global interest in Islamic finance specifically after the financial crisis.

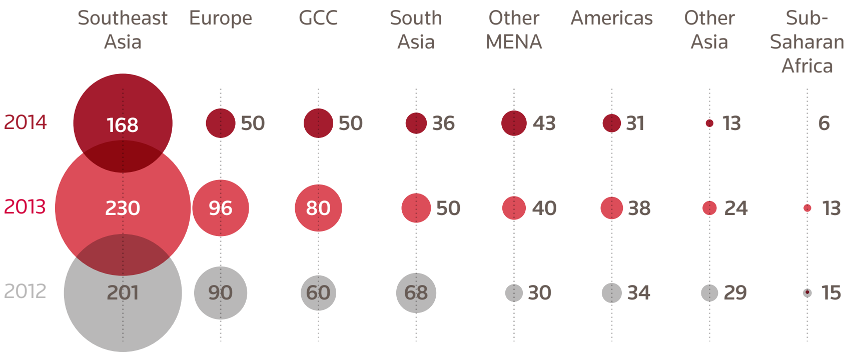
ISLAMIC FINANCE PEER REVIEWED PAPERS & RESEARCH PAPERS PUBLISHED IN 2012-2014



Southeast Asia, Europe and GCC are leading regions

Southeast Asia leads other regions in the number of research papers published; Malaysia has the lion's share, which is unsurprising given strong government support for the industry and dedicated Islamic finance universities and centres. Europe trails Malaysia, supported by its developed education systems. Other regions such as GCC, South Asia and other MENA follow in Malaysia's footsteps to develop Islamic finance knowledge. However, independent research needs to be boosted by universities and given stronger support from governments.

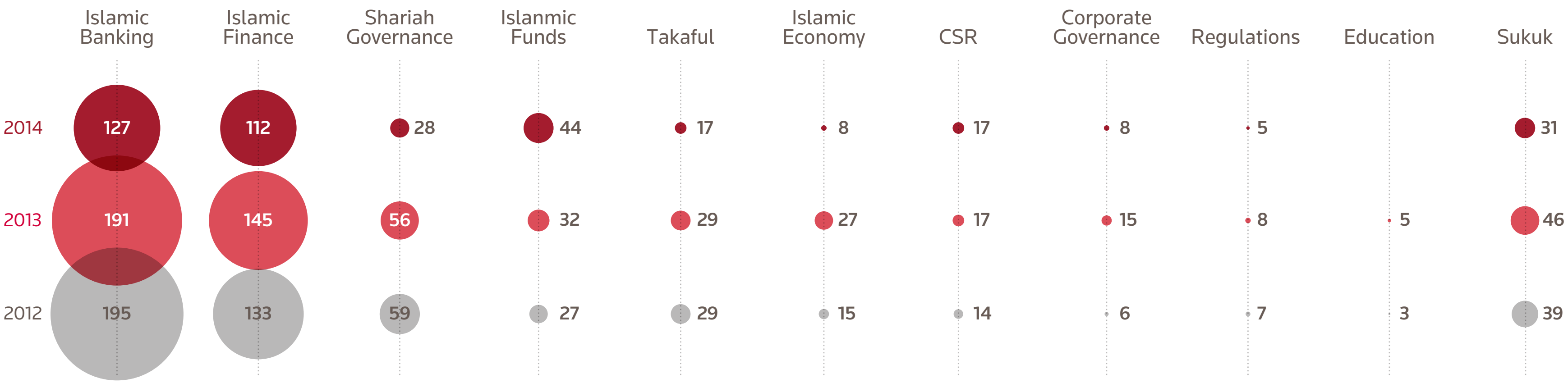
NUMBER OF PUBLISHED ISLAMIC FINANCE RESEARCH BY REGION IN 2012-2014



Islamic Banking leads other asset classes for research

In the past 3 years, 34% of the topics covered by Islamic finance research are Islamic banking (513) followed by 26% on general Islamic finance (390), 10% on Shariah governance (143) and 8% on sukuk (111). Most universities and research centres start evaluating new countries' potential to introduce Islamic finance by researching Islamic banking and sukuk. Shariah governance is a foundation of the industry, and hence a strong focus on it is expected. Other key emerging topics are Islamic Economy, CSR, corporate governance and Islamic finance education.

ASSET CLASSES OF PUBLISHED ISLAMIC FINANCE RESEARCH BETWEEN 2012-2014



ISLAMIC FINANCE RESEARCH BY ASSET CLASS

DAUD VICARY ABDULLAH

President and Chief Executive Officer, INCEIF, The Global University of Islamic Finance

DAUD VICARY ABDULLAH has been in the finance and consulting industry for almost 41 years, with significant experience in Asia, Europe, Latin America and the Middle East. Since 2002, he has focused exclusively on Islamic finance. He has contributed to a number of books on the subject and was co-authorof the book "Islamic Finance: Why it makes sense." Abdullah is a frequent speaker and commentator on matters relating to Islamic finance. Prior to INCEIF, he was the Global Islamic Finance Leader with Deloitte. He was also previously Acting CEO of Asian Finance Bank, an Islamic bank based in Malaysia, and Managing Director of Hong Leong Islamic Bank.

When does the need for a dedicated Islamic finance educational institution arise as opposed to continuing with academic or dedicated programmes or courses?

Although there is no one size fits all to meet this need, it depends on a situation in each country and policy to develop the Islamic finance market. For Malaysia, it was driven by the growth strategy and the need to provide skilled human capital.

What role has INCIEF played in exporting its Islamic finance curriculum outside Malaysia? What types of collaborations have already been forged between INCIEF and local institutions in other countries?

INCEIF has been very instrumental in collaborating and partnering with other institutions globally. For example, In 2008, INCEIF collaborated with the ICMA Centre, part of the Henley Business School, The University of Reading to deliver its MSc in Investment Banking.

Our Masters in Islamic Finance Practice programme is delivered in Maldives as a result of our collaboration with Capital Market Development Authority (CMDA) and College of Islamic Studies since 2014. The more recent partnership with National Bank of Kazakhstan had brought forth their staff to complete a 5 day short course in Islamic finance at INCEIF Campus in Kuala Lumpur. To date, INCEIF has collaborated with over 19 strategic partners not limited to academic institutions but commercial organisations such as the IFSB, IDB (Saudi Arabia), Capital Market Board of Turkey and Capital Market Licensing and Training Agency.

What was the role played by Malaysia's government to facilitate the creation of INCIEF? What advice would you give to other governments to start dedicated Islamic finance universities or educational institutions?

The Central Bank of Malaysia had a pivotal role in the establishment of INCEIF specifically because INCEIF was set up as a project of National Interest when it was founded 10 years ago and that continuous support remains steadfast as we grow today. The fast pace of innovation in global financial services in general and for the Islamic financial services sector in particular, will demand a rapid and continuous infusion and upgrading of skills. With this in mind, INCEIF was established with a mandate to continuously promote human capital development and expertise to create a larger pool of experts and high calibre professionals

Which of INCIEF's academic programmes are gaining wider demand?

INCEIF offers 2 streams of academic programmes, catered towards different needs with 1 goal which is to fulfil our mandate of developing human capital talents in Islamic finance:

i. Our School of Professional studies offers a programme called Masters in Islamic Finance practice (MIFP) which can be delivered either as an online study mode or by attending classes as a full time at INCEIF campus in Kuala Lumpur. This programme is highly sought after by professionals working in the industry, wanting to gear up their competency with the practical knowledge in Islamic finance in order to face the day-to-day challenge of working in the Islamic finance landscape. Our MIFP are gaining recognition in countries such as China, Indonesia, Oman, Pakistan, Turkey, Japan, Korea and the recent addition, Maldives.

ii. Our School of Graduate studies offers 2 types of programmes driven towards developing future Islamic finance thought leaders that are academically driven. The 2 programmes are Masters in Science in Islamic finance and PHD in Islamic finance. Since its introduction in 2008, the application and enrolment numbers for both programmes are on an uptrend momentum. Students who have graduated from our PhD programmes for example, are already carrying INCEIF flags working in organisations such as CIBAFI, IFSB and a handful of them are now teaching Islamic finance in other Universities in Malaysia.

What types of (professional/academic) backgrounds do most INCEIF students come from?

The international appeal of INCEIF programmes has brought students from over 80 different countries. The student profile includes a multitude of social-economic backgrounds of different ages and many different faiths. For example, we have had students with engineering backgrounds pursuing our MSC in Islamic Finance, and a Magistrate who completed our Chartered Islamic Finance programme. These increasing diversity of INCEIF graduates reaffirms INCEIF's role in developing world class talent for the global Islamic financial services industry. The diversity of INCEIF students is not confined to different academic and professional background, they are also not limited by geographical boundaries and from different faiths

INCEIF produces most of the globally accredited research for Islamic finance.

"THE FAST PACE OF INNOVATION IN GLOBAL FINANCIAL SERVICES IN GENERAL AND FOR THE ISLAMIC FINANCIAL SERVICES SECTOR IN PARTICULAR, WILL DEMAND A RAPID AND CONTINUOUS INFUSION AND UPGRADING OF SKILLS.

What trends do you expect for Islamic finance research over the next few years, by asset class, topics covered, or types of research papers (survey based/ case studies / etc.)? Finally, what is your outlook for Islamic finance education and the Islamic finance industry overall?

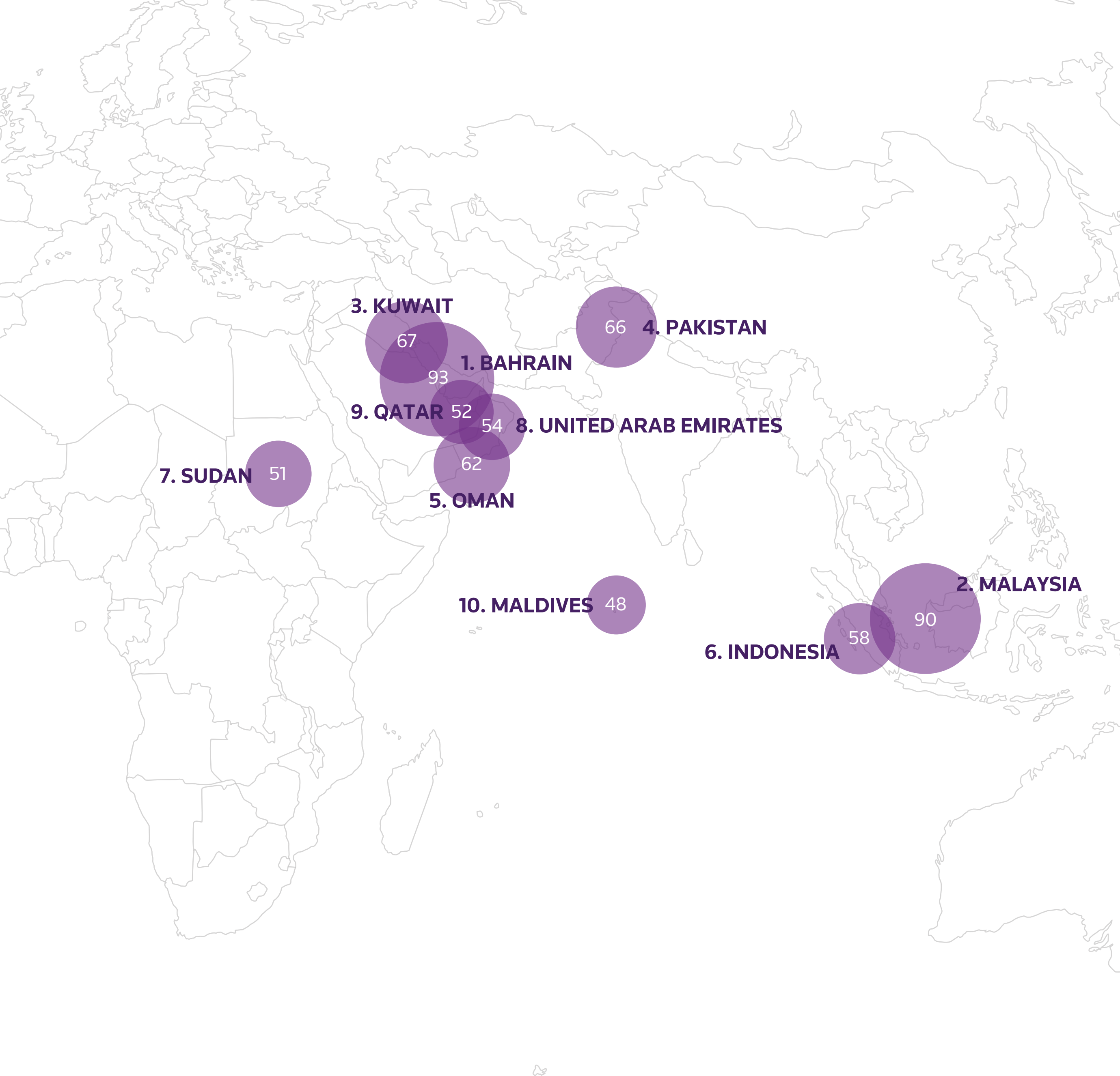
- Islamic finance research trends will focus on the areas of responsible / ethical finance, impact investing, social impact sukuks.
- Islamic finance education need to be closer to industry to have problem solution oriented curriculum to cater to the growing demand for well-rounded talents in the Islamic finance industry

Governance Indicator

Members of the European Parliament attend a debate at the European Parliament in Strasbourg. REUTERS/ Vincent Kessler

The Governance Indicator is a weighted index of standards of good practice in a country's Islamic finance industry with regard to three sub-indicators: Regulations, Corporate Governance, and Sharia Governance.

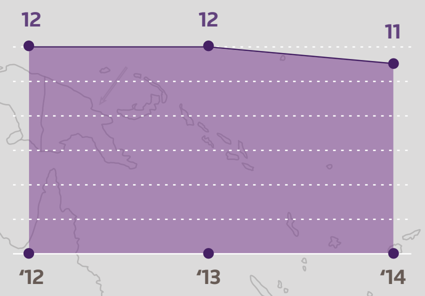
GOVERNANCE INDICATOR
LANDSCAPE IN 2014

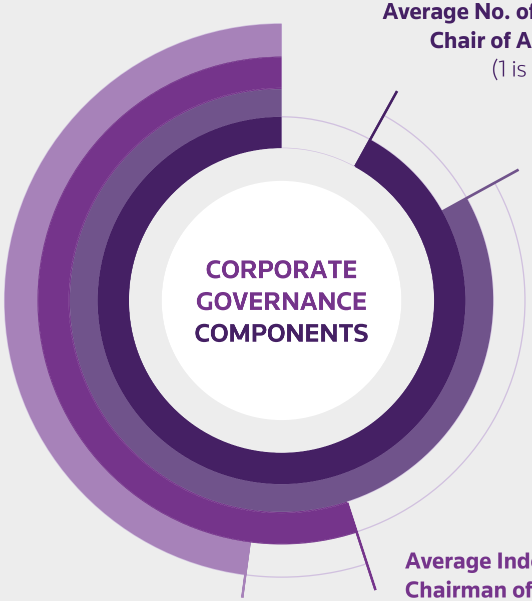


GOVERNANCE INDICATOR TOP 10 COUNTRIES

1	BAHRAIN	93
2	MALAYSIA	90
3	KUWAIT	67
4	PAKISTAN	66
5	OMAN	62
6	INDONESIA	58
7	SUDAN	54
8	UNITED ARAB EMIRATES	54
9	QATAR	52
10	MALDIVES	48

GOVERNANCE INDICATOR GLOBAL AVERAGE



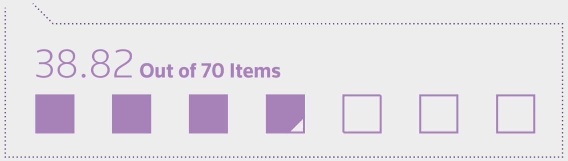


Average No. of Non-Executive Chair of Audit Committee (1 is all independent)
0.92

Average No. of Non-Executive Chair of Risk Management Committee (1 is all independent)
0.83

Average Independent Chairman of Board (1 is all independent)
0.48

Average Disclosure Index (Items Covered Out of 70 Items)
38.82



SHARIAH GOVERNANCE COMPONENTS

952
Number of Shariah Scholars Globally

652
Number of Institutions with at Least 1 Sharia Scholar

SUB-INDICATORS GLOBAL AVERAGE

REGULATION

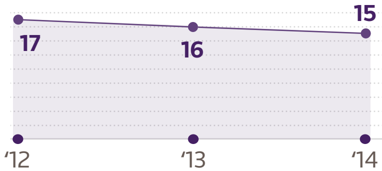
Top Countries (6 Regulations Covered)

BAHRAIN · MALAYSIA
PAKISTAN · NIGERIA
INDONESIA

SUB-INDICATOR TOP 5 COUNTRIES

1	**Bahrain**	100
2	Malaysia	100
3	Pakistan	100
4	Nigeria	100
5	Indonesia	100

GLOBAL AVERAGE



TOP SHARIAH SCHOLARS IN TERMS OF BOARD MEMBERSHIP

- Dr Abdul Sattar Abdul Karim Mohammed Abu Ghuddah
- Dr Nedham Mohamed Saleh Yaquby
- Dr Mohamed Ali Bin Ibrahim Elgari Bin Eid
- Dr Abdul Aziz Khalifa Al Qassar
- Dr Hussain Hamed Hassan

SHARIAH GOVERNANCE

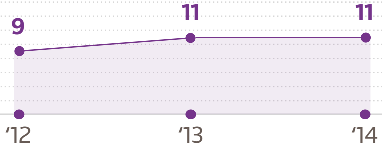
Top Countries (No. of Shariah Scholars with at Least 1 Board Membership)

MALAYSIA · 203
BANGLADESH · 173
INDONESIA · 131

SUB-INDICATOR TOP 5 COUNTRIES

1	**Bahrain**	142
2	Malaysia	116
3	Kuwait	106
4	Bangladesh	92
5	Sudan	89

GLOBAL AVERAGE



CENTRALISED SHARIAH BOARD LEADERS

- Malaysia
- Bangladesh
- Pakistan
- Sudan
- Oman

CORPORATE GOVERNANCE

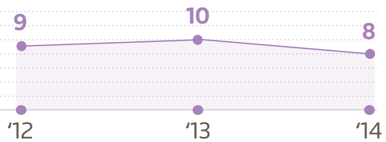
Average Disclosure Index (Items Covered Out of 70 Items)

OMAN · 53
SOUTH AFRICA · 51
SINGAPORE · 50

SUB-INDICATOR TOP 5 COUNTRIES

1	**Oman**	66
2	Maldives	65
3	Kuwait	62
4	South Africa	56
5	Malaysia	54

GLOBAL AVERAGE



TOP INSTITUTIONS IN DISCLOSING FINANCIALS

- Hong Leong Islamic Bank berhad (Malaysia)
- Al Baraka Bank (Bahrain)
- Venture Capital (Bahrain)
- Bahrain Islamic Bank (Bahrain)
- Ithmaar Bank (Bahrain)
- Alizz Islamic Bank (Oman)

Islamic Finance Governance in 2014

The Governance indicator considers 3 sub-indicators: Regulation, Shariah Governance, and Corporate Governance. On the first, 5 countries — Bahrain, Malaysia, Pakistan, Nigeria, and Indonesia — are the jurisdictions with the most complete set of Islamic finance regulations. On the second sub-indicator, Shariah Governance measures the number of Shariah scholars and institutions with at least 1 Shariah scholar; on this count, we find the same 5 Shariah scholars from 2013 still holding onto the most number of board memberships. On the third sub-indicator, Corporate Governance measures the number of CG items disclosed and the composition of the Board, and Risk Management and Audit committees. On this sub-indicator Oman, Maldives and Kuwait are strongest, with South Africa and Malaysia not far behind.

Indicator Value Analysis

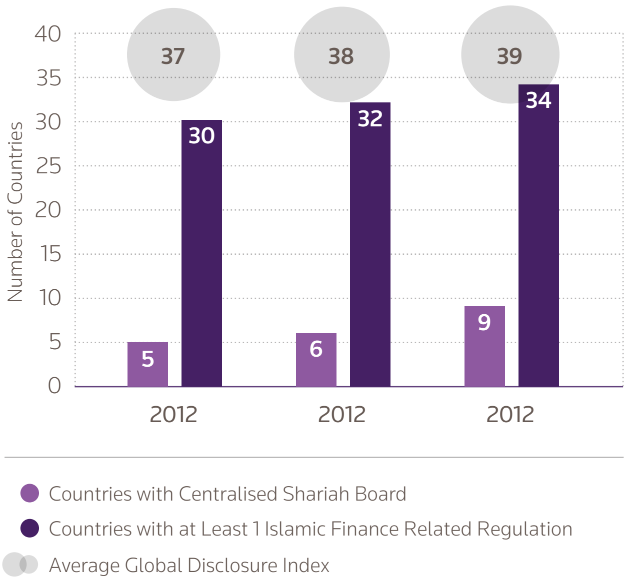
GCC dominates top 10 on the Governance indicator, highlighting more transparent and secure financial markets

Bahrain and Malaysia retained their respective 1st and 2nd places on the overall Governance indicator. There is a big gap between the top 2 leaders and the rest of the countries because of weak governance in these other countries on the sub-indicators. For example, 3rd-placed Kuwait did not have a complete set of Islamic finance regulations (it only has Islamic banking and Shariah governance regulations), earning it only 2 out of 6 points on that sub-indicator, while Pakistan enjoys strong regulations but is weak on the Shariah and Corporate Governance sub-indicators. In general, there is a far stronger focus across the board on Shariah Governance than Corporate Governance.

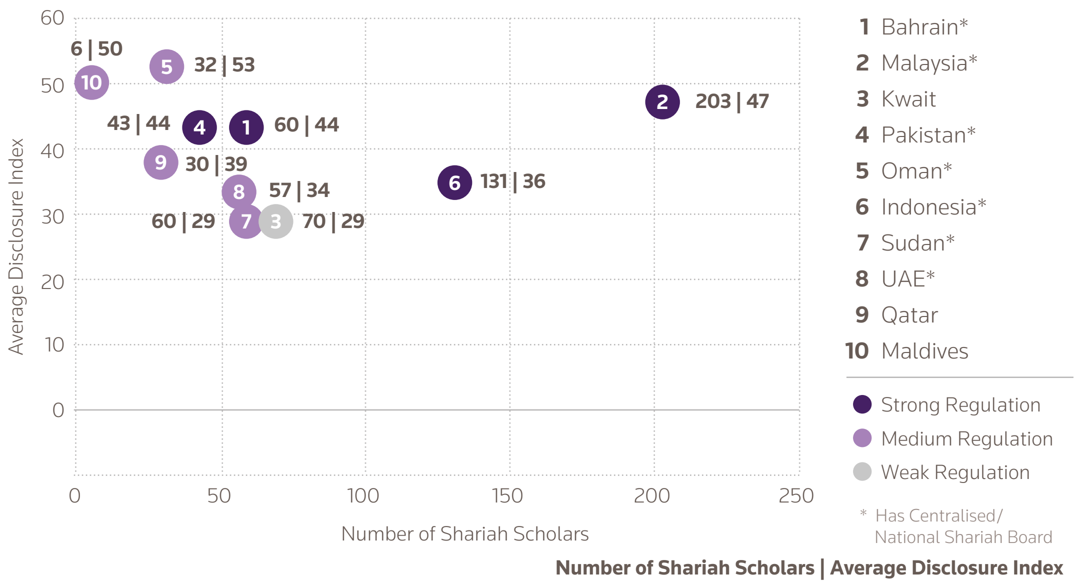
Analysis

The average global financial reporting disclosure index rose 5% with the entrance of new market players in the IFDI universe and the strengthening of the regulatory environment in 4 other countries. Among the top 10 countries with centralised/national Shariah boards, Malaysia is considered the "best practice" country with strong regulations alongside a national-level centralised Shariah board, high number of Shariah scholars and high levels of disclosure. Indonesia is a mid-level governance performer, while Sudan, United Arab Emirates, and Pakistan have high levels of disclosure but with far fewer Shariah scholars than Malaysia and Indonesia. Oman and Maldives lead on the disclosure index but trail the rest of the top 10 on number of Shariah scholars.

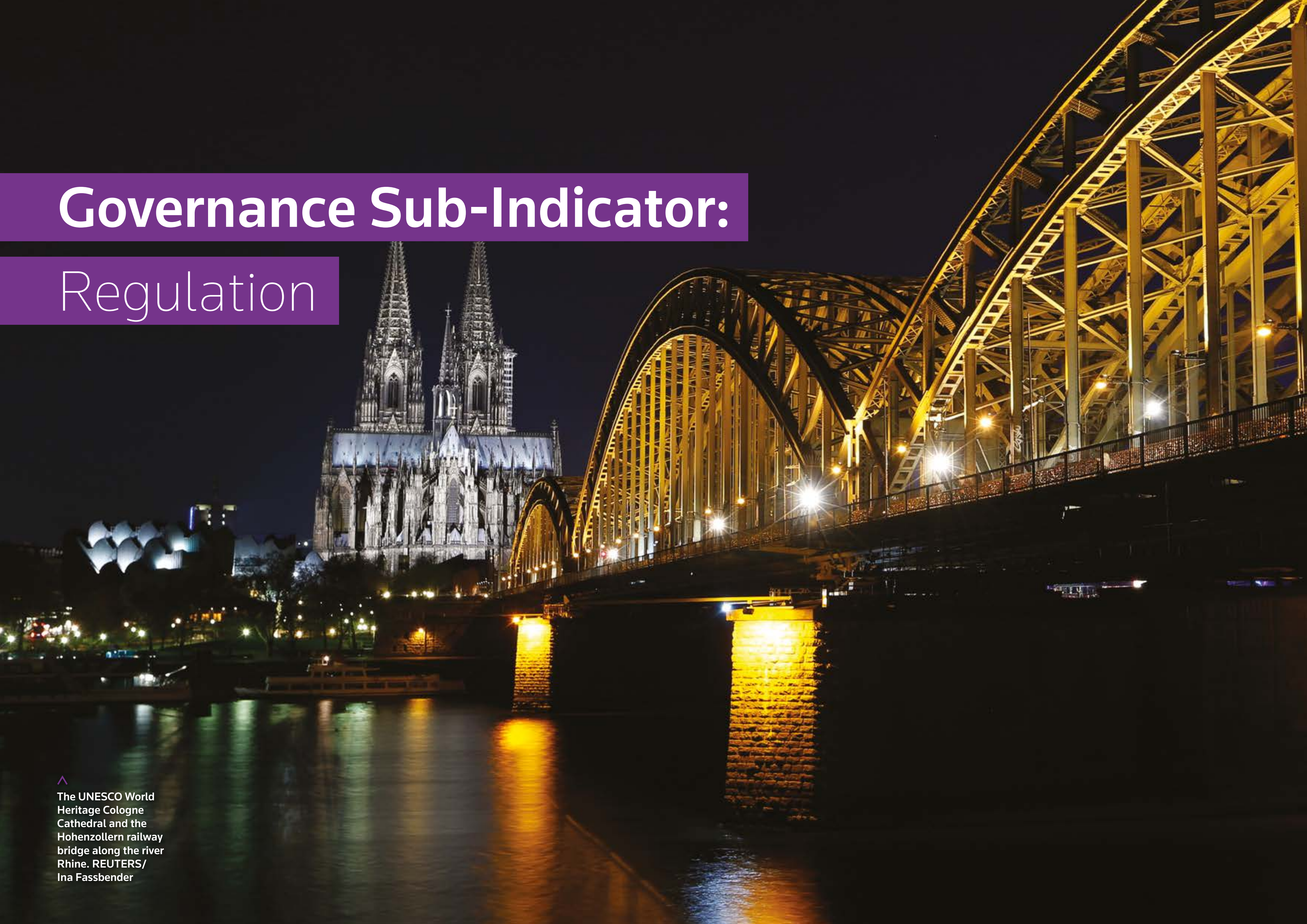
ISLAMIC FINANCE GOVERNANCE
(2012-2014)



ISLAMIC FINANCE GOVERNANCE LANDSCAPE — TOP 10 COUNTRIES
(FYE 2014)



Governance Sub-Indicator:
Regulation



The UNESCO World Heritage Cologne Cathedral and the Hohenzollern railway bridge along the river Rhine. REUTERS/ Ina Fassbender

Indicator Value Analysis

REGULATION SUB-INDICATOR TOP COUNTRIES

Country	Indicator Value
Malaysia	100
Pakistan	100
Bahrain	100
Nigeria	100
Indonesia	100
Iran	83
Maldives	67
United Arab Emirates	67
Qatar	67
Sudan	67
Brunei Darussalam	67
Kazakhstan	67

34 out of 108 countries shape the regulatory framework of the global Islamic finance industry

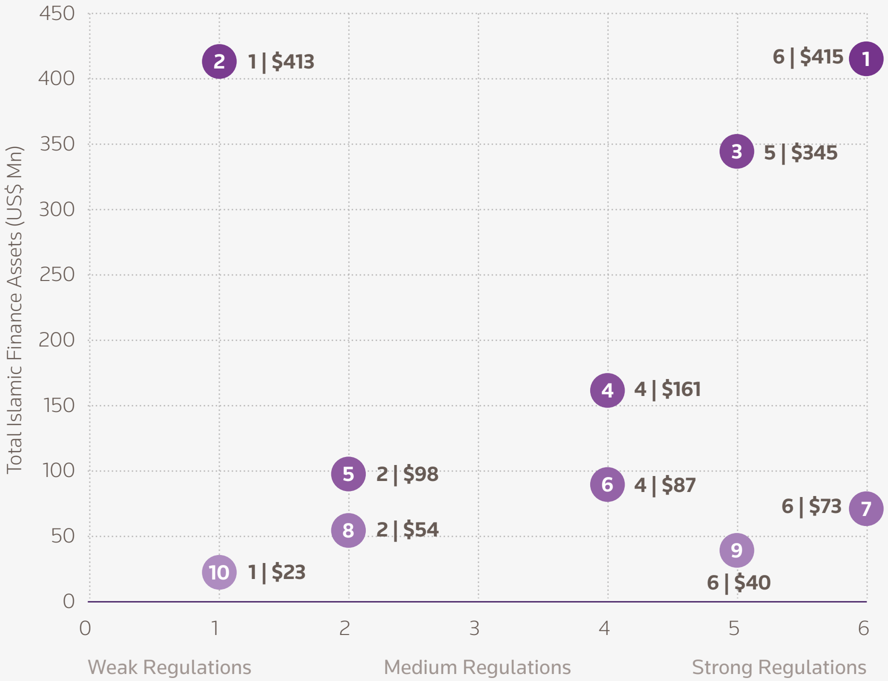
Malaysia, Pakistan, Bahrain, Nigeria, and Indonesia are the only countries with a complete set of Islamic finance regulations.[1] The top countries are grouped in 3 different tiers. In the first and top tier are the 5 countries mentioned above. In the second tier, Iran covers all regulations except Shariah Governance. The third and last tier of the top-ranked countries covers those jurisdictions which lack two regulations.

1 The strength of regulations is measured by the number of sectors covered under the Islamic finance laws and guidelines within each country in the IFDI universe, without assessing the strength of their use, implementation or supervision.

3RD TIER OF TOP-RANKED COUNTRIES IN TERMS OF REGULATIONS COVERAGE

Country	Indicator Value	Islamic banking	Accounting/ auditing standards	Shariah governance	Takaful	Sukuk	Funds
Maldives	67	1	1	1	0	1	0
UAE	67	1	0	1	1	1	0
Qatar	67	1	1	1	1	0	0
Sudan	67	1	1	1	1	0	0
Brunei Darussalam	67	1	1	1	1	0	0
Kazakhstan	67	1	1	0	0	1	1

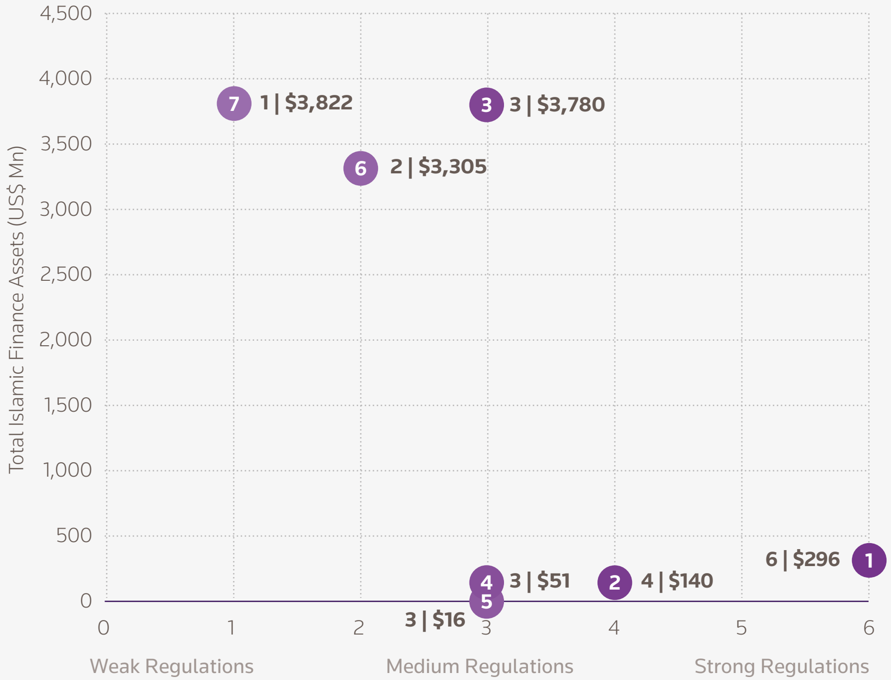
ISLAMIC FINANCE REGULATORY ENVIRONMENT
(FYE 2014 — TOP 10 COUNTRIES IN ISLAMIC FINANCE ASSETS)



1 Malaysia
2 Saudi Arabia
3 Iran
4 UAE
5 Kuwait
6 Qatar
7 Bahrain
8 Turkey
9 Indonesia
10 Bangladesh

Regulatory Environment| Total Islamic Finance Assets (US$ Mn)

ISLAMIC FINANCE REGULATORY ENVIRONMENT
(FYE 2014 — SELECTED COUNTRIES)



1 Nigeria
2 Kazakhstan
3 Oman
4 Kyrgyzstan
5 Philippines
6 Singapore
7 Thailand

Regulatory Environment| Total Islamic Finance Assets (US$ Mn)

Analysis

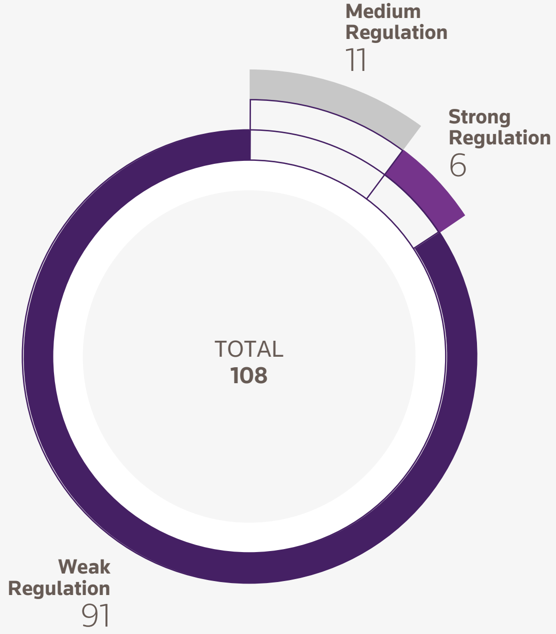
New markets are implementing regulations, while others are starting Islamic finance operations under weak regulatory governance

At the global level, only 5 countries have the full set of Islamic finance regulations, all of which are Muslim nations. However, most of the countries within the Islamic finance space do not have regulations covering all sub-sectors of Islamic finance — banking, takaful, sukuk and capital market, funds, accounting and auditing.

What is clear is that smaller, younger, or newer jurisdictions introducing Islamic finance understand the value and need to start off on a strong footing that is backed by regulations. Morocco and Tajikistan, for example, are new markets that introduced Islamic banking regulations in 2014. Saudi Arabia continues to be a point of interest for this indicator as the Kingdom is an Islamic finance powerhouse that holds the second largest Islamic banking pot globally but which still lags in terms of dedicated regulations.

Regionally, GCC and Southeast Asia are the strongest markets addressing risks in the industry with dedicated Islamic finance regulations.

GLOBAL ISLAMIC FINANCE REGULATION PROPOSTION — NUMBER OF COUNTRIES
(FYE 2014)



\>
Berlin, Germany viewed from above the Spree River.

Who are the next joiners?

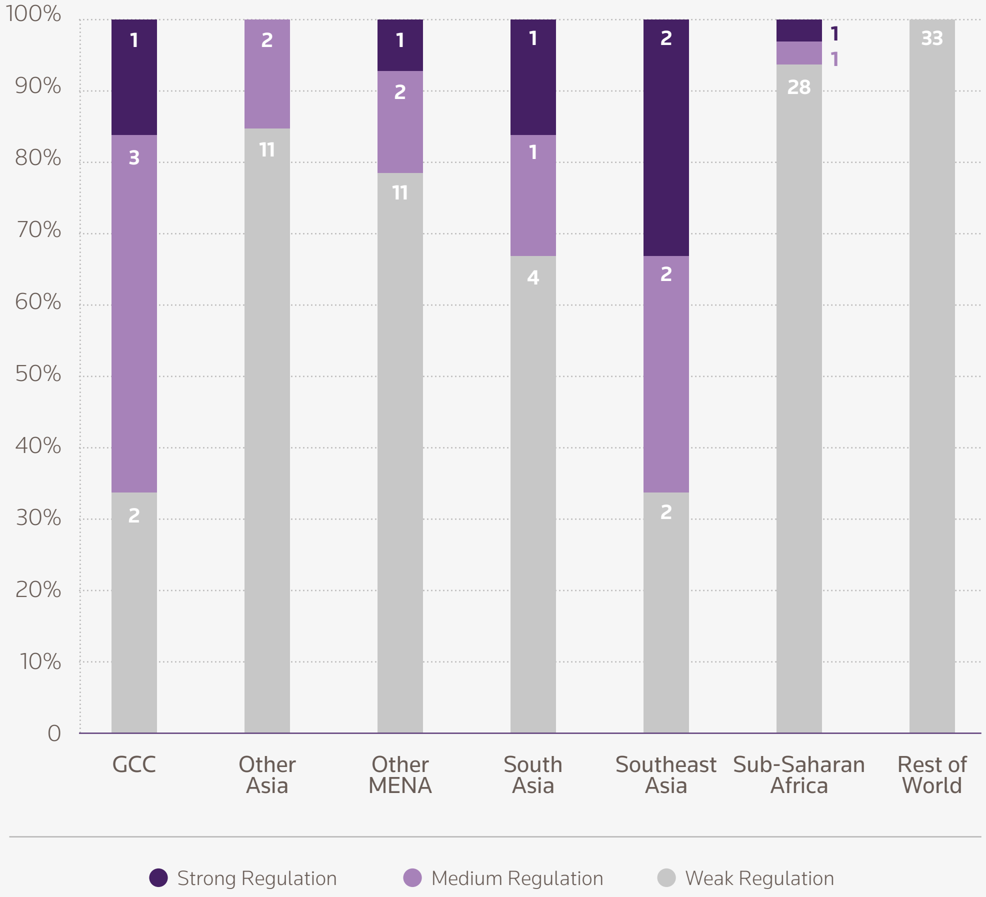
- In 2015 **Germany** welcomed its first Islamic bank when Turkish financial group Kuveyt Turk opened KT Bank AG in Frankfurt.

- **France** has been paying attention to Islamic finance since 2010, following initiatives which covered significant tax and regulatory changes that came into effect in line with the listing of sukuk on a French regulated market, the Bourse de Paris (Paris Stock Exchange). These guidelines eased the issuance of sukuk by rectifying the tax treatment on murabahah and sukuk transactions by abolishing double stamp duty and the payment of capital gains tax on property.

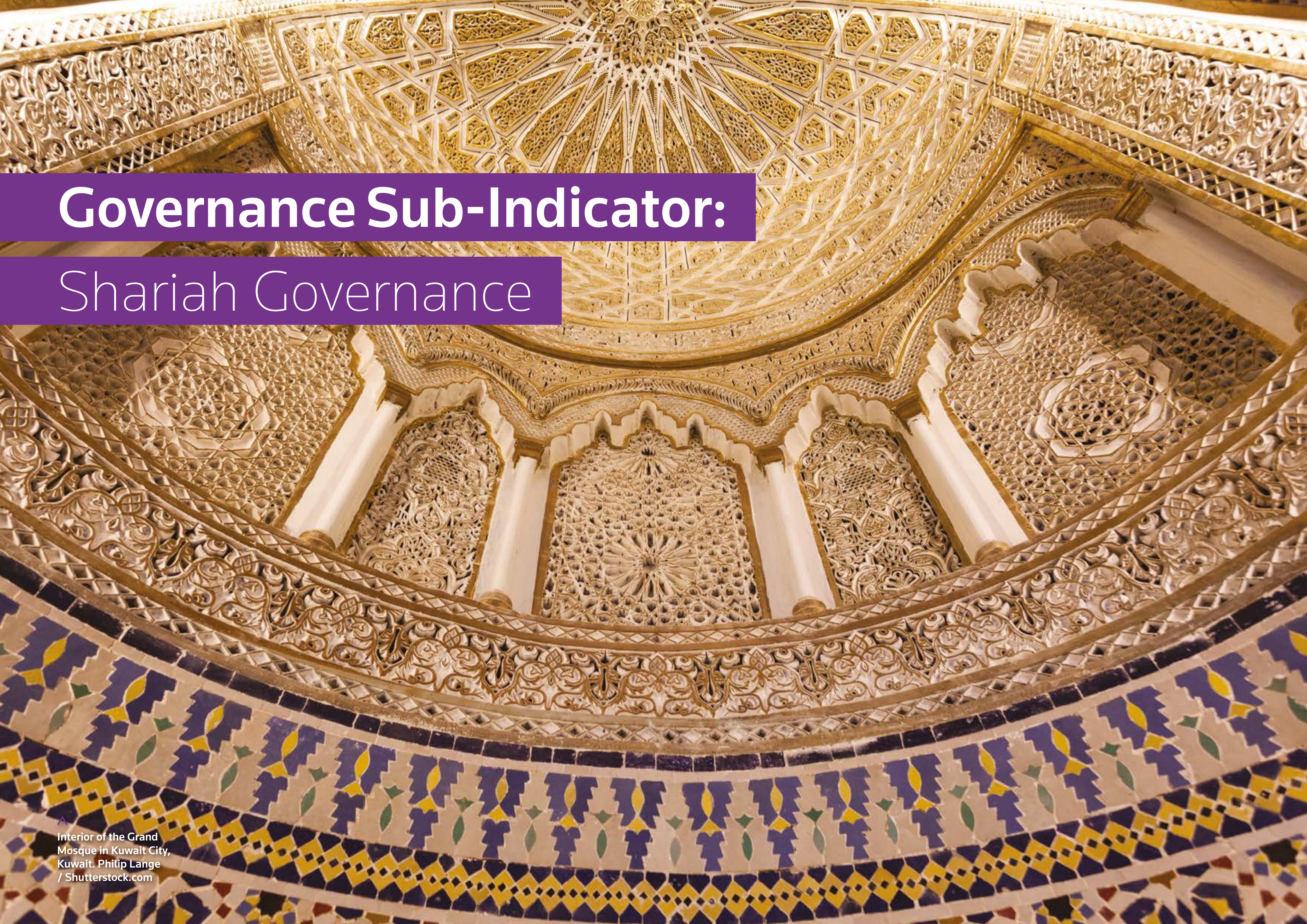
- **Market players in Ghana** are calling attention to the need for regulations for Islamic banking. In early 2014 at a seminar organised by the Bank of Ghana in collaboration with the Global Institute of Islamic Banking, Insurance and Consultancy (GIIBIC), the Head of Banking supervision of the Bank of Ghana, Franklyn Belnye, stated that the Banking Act 2004 (Act 673) was under revision to incorporate Islamic banking and finance supervision.

- **In Russia** the Association of Russian Banks (ARB) in August 2014 called for the establishment of a central bank department to supervise Islamic financial institutions and draft a law.

GLOBAL ISLAMIC FINANCE REGULATION PROPOSTION BY REGION
(FYE 2014)



Governance Sub-Indicator:
Shariah Governance



Interior of the Grand Mosque in Kuwait City, Kuwait. Philip Lange / Shutterstock.com

Indicator Value Analysis

SHARIAH GOVERNANCE SUB-INDICATOR TOP 10 COUNTRIES

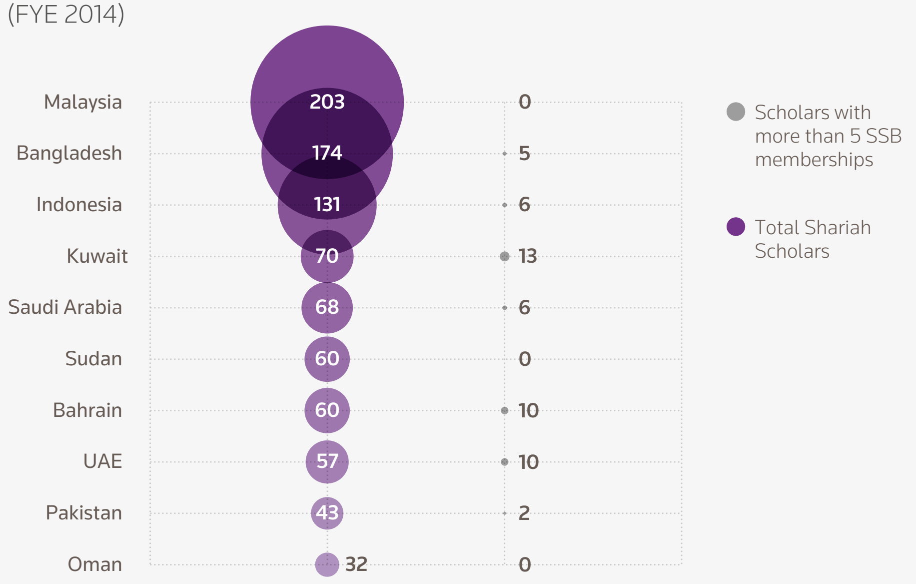
Country	Indicator Value
Bahrain	142
Malaysia	116
Kuwait	106
Bangladesh	92
Sudan	89
Oman	70
Indonesia	57
Pakistan	56
Lebanon	53
Egypt	48

952 Shariah scholars in the global Islamic finance industry, Bahrain tops Shariah governance

Bahrain, Malaysia and Kuwait lead in Shariah Governance. Most of the 952 Shariah scholars practice in Malaysia, followed by Bangladesh and Indonesia. Kuwait ranks a high 3rd on the Shariah Governance sub-indicator and with the call by the Kuwaiti central bank governor for an independent Shariah supervision body Kuwait's Shariah Governance will only improve and strengthen. Oman broke into the top 10 after setting up its central Shariah board. While not in the top 5, Oman and Sudan have been vigilant at ensuring a strong Shariah oversight and have put in place measures to avoid conflicts of interest by Shariah scholars sitting on multiple Shariah boards.

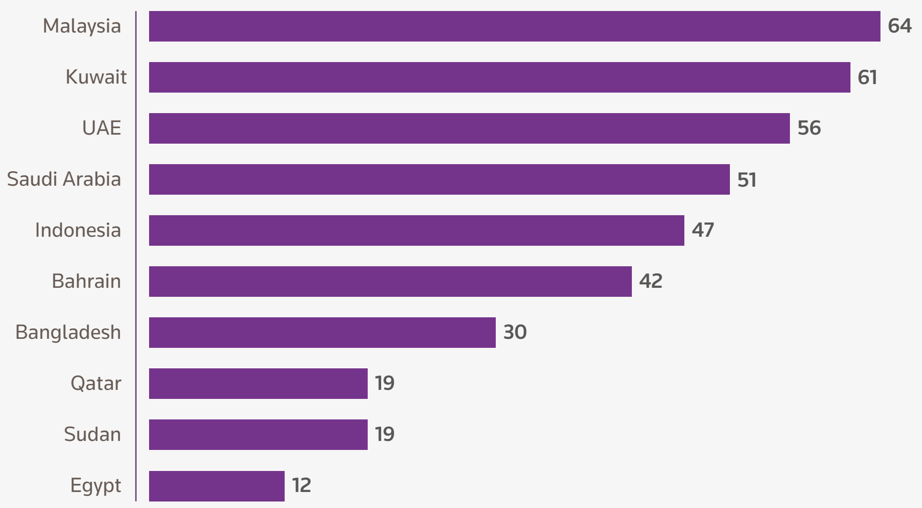
TOP COUNTRIES BY NUMBER OF SHARIAH SCHOLARS

(FYE 2014)



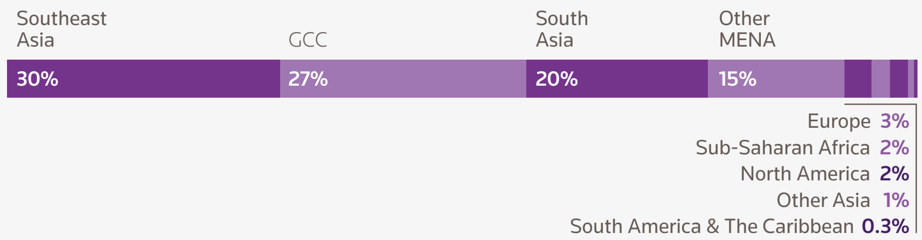
TOP COUNTRIES WITH INSTITUTIONS CONSISTING OF 3 OR MORE SHARIAH SCHOLARS

(FYE 2014)



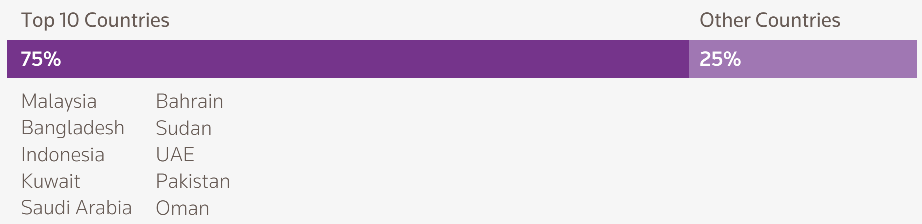
SCHOLARS REGIONAL CONCENTRATION

(FYE 2014)



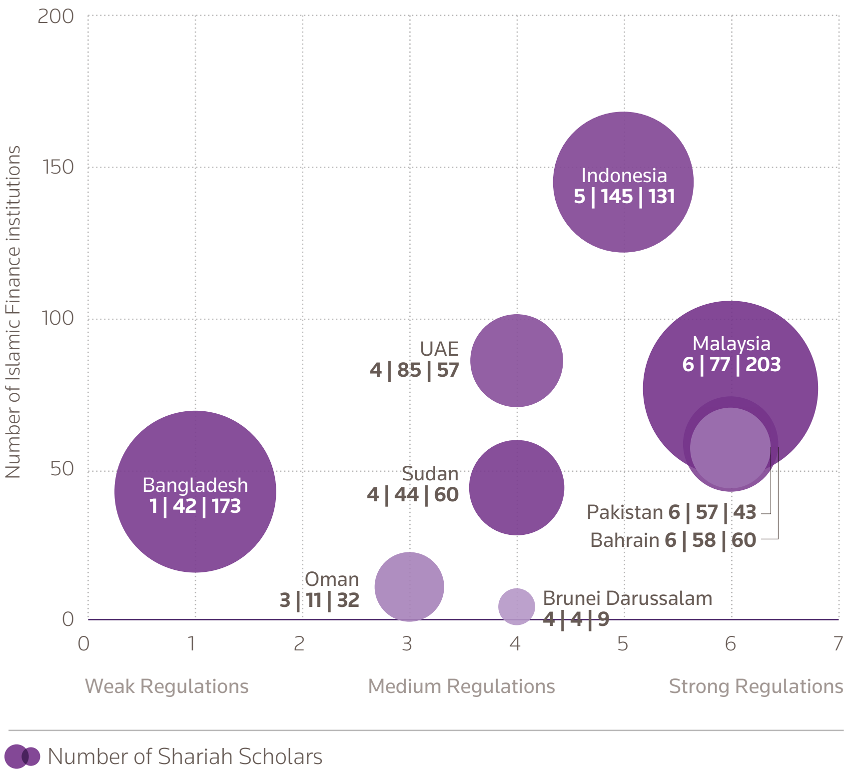
TOP 10 COUNTRIES WITH HIGHEST NUMBER OF SHARIAH SCHOLARS

(FYE 2014)



Analysis

ISLAMIC FINANCE SHARIAH GOVERNANCE
SELECTED COUNTRIES
(FYE 2014)



Regulatory Environment | No. of Islamic Finance Institutions | No. of Shariah Scholars

Islamic financial institutions of only 46 countries have at least 1 Shariah scholar on Shariah Supervisory Boards (or equivalent body)

75% of the 952 Shariah scholars practice primarily in the top 10 countries. Scholars are concentrated in 3 main regions: Southeast Asia (30%), GCC (27%) and South Asia (20%).

Kuwait, Bahrain and UAE especially have the most number of Shariah scholars sitting on multiple boards. This may change moving forward as these 3 countries pay closer attention to Shariah Governance and establishing national or central Shariah boards.

Smaller markets continue to strengthen their Shariah Governance frameworks

Brunei Darussalam, Oman and Pakistan are making great strides towards further strengthening their Shariah Governance frameworks. Pakistan put in place a new Shariah Governance framework which outlines the roles and responsibilities of Shariah scholars and their management, including — but not limited to — renewable 3-year terms , serving a maximum of 3 Islamic banks at a time (not applicable for resident Shariah scholars), Shariah board decisions are binding on the bank's management, and each Islamic bank in Pakistan must have a resident Shariah scholar to provide day-to-day advice, and who must serve only one Islamic bank at a time.

Governance Sub-Indicator:

Corporate Governance

A view shows the Bank Indonesia building in central Jakarta. REUTERS/ Enny Nuraheni

Indicator Value Analysis

CORPORATE GOVERNANCE SUB-INDICATOR TOP 10 COUNTRIES

Country	Indicator Value
Oman	66
Maldives	65
Kuwait	62
South Africa	56
Malaysia	54
United Arab Emirates	49
Sri Lanka	45
Singapore	44
Qatar	44
Saudi Arabia	43

Strong corporate governance in the GCC, Maldives breaks into the top ranks

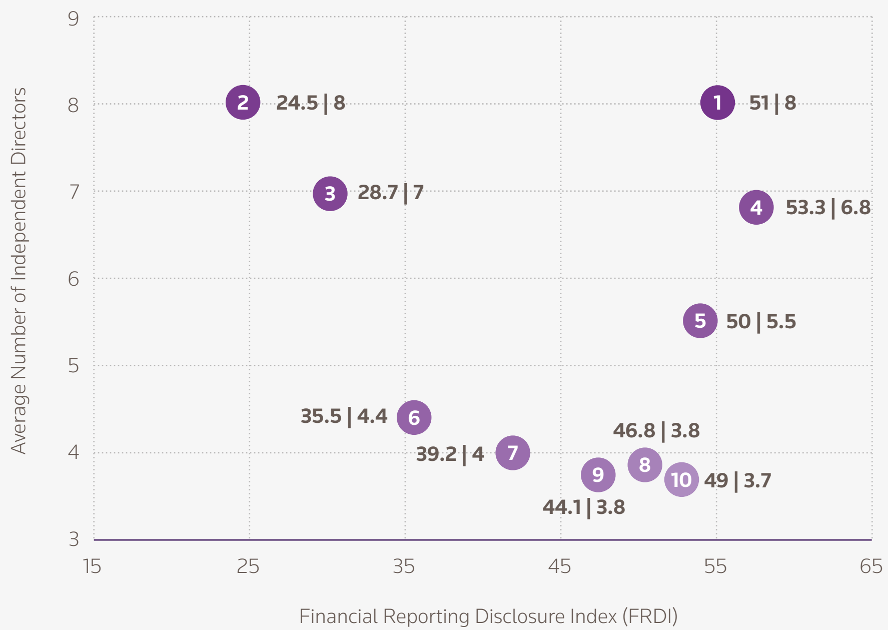
There are 3 tiers or levels of Corporate Governance compliance among the top 10: (1) Maximum compliance level (60+): Oman, Maldives and Kuwait; (2) average compliance level (50+): South Africa and Malaysia; and (3) lower compliance level (<50): UAE, Sri Lanka, Singapore, Qatar and Saudi Arabia.

Relative newcomer Oman beat all other Islamic finance markets to top the Corporate Governance sub-indicator. Kuwait strengthened its Corporate Governance framework when, in 2013, it brought rules in line with international practices.

There is no correlation between performance on the disclosure index and the number of IFIs in a market; countries with low numbers of IFIs — Singapore, Sri Lanka, South Africa and UK score high on the financial reporting disclosures index while Indonesia has far more IFIs but which didn't score as highly on the disclosure index.

FINANCIAL REPORTING VS. AVERAGE NUMBER OF INDEPENDENT DIRECTORS

(FYE 2014)

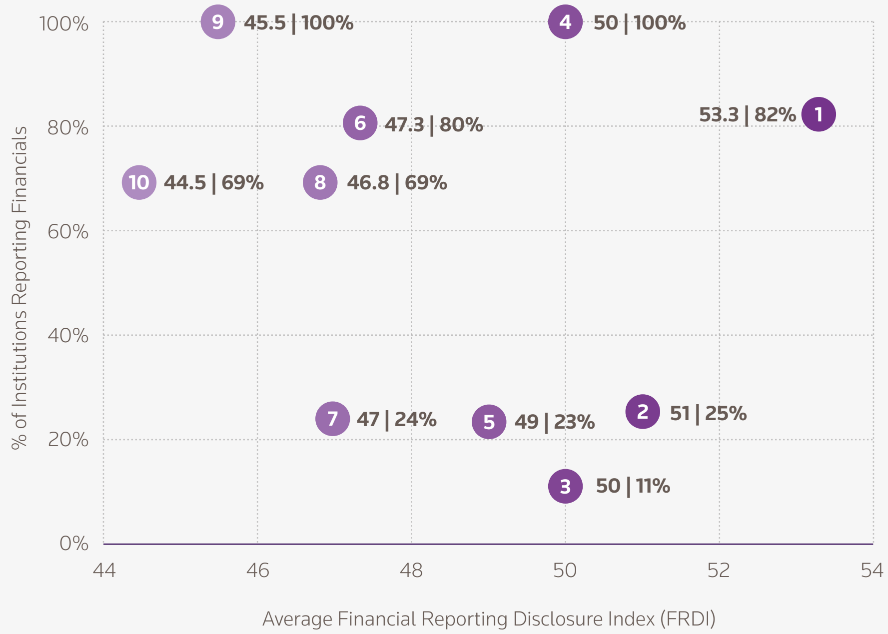


1 South Africa
2 Australia
3 Kuwait
4 Oman
5 Maldives
6 Saudi Arabia
7 Qatar
8 Malaysia
9 Bahrain
10 Sri Lanka

FRDI | Average no. of Independent Directors

AVERAGE FRDI VS. % OF INSTITUTIONS DISCLOSING FINANCIALS*

(FYE 2014)



1 Oman
2 South Africa
3 Singapore
4 Maldives
5 Sri Lanka
6 Turkey
7 United Kingdom
8 Malaysia
9 Palestine
10 Bangladesh

* Financials refer to financial information other than reporting, including numerical data from balance sheet, income statement and cash flow statement

FRDI | % of Institutions reporting financials

Analysis

Uneven disclosure practice: from public/private, fully-fledged/windows, to financial vs. annual reports

Globally, financial reporting disclosure ranged from one-page reports and online highlights, to comprehensive reports in Islamic financial operations. 47% of all Islamic financial institutions covered in the IFDI universe disclose their financials i.e. banks/takaful/other financial institutions, full-fledge/window, and public/private institutions.

- **Full-fledged versus windows operation, by public/private breakdown**

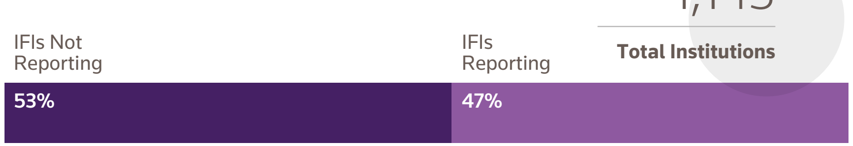
Of all the Islamic financial institutions within the IFDI universe that disclose their financials, 74% are full-fledged IFIs and 26% are windows (made up of 40% of 355 Islamic windows globally). 49% of full-fledged IFIs and 60% of Islamic windows do not report their financials.

- **Financial Reports versus Annual Reports**

What is still sorely lacking in the market is the disclosure of comprehensive Annual Reports. There are more Financial Reports released (59%) than there are Annual Reports, which do not provide full transparency to determine levels of Corporate Governance.

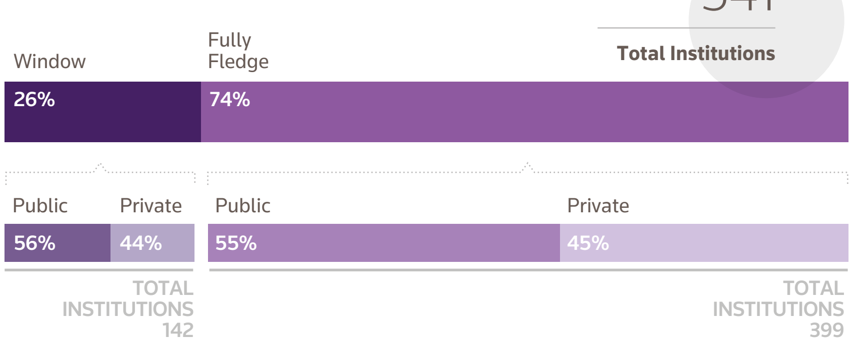
ISLAMIC FINANCIAL REPORTING BY ISLAMIC FINANCIAL INSTITUTIONS

(FYE 2014)



TYPE OF REPORTING FOR IFIS

ISLAMIC FINANCIAL REPORTING BY SHARIAH BASIS

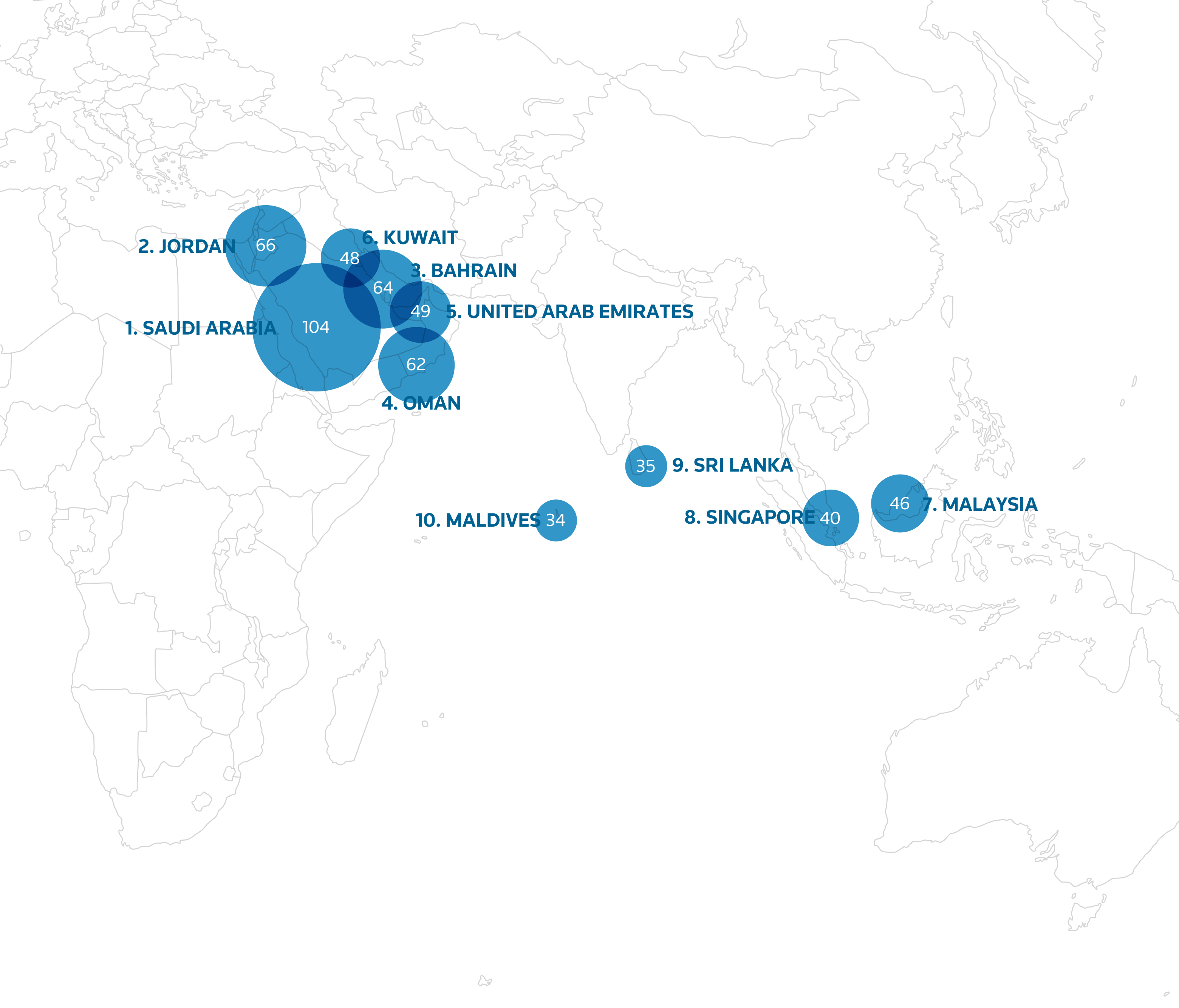


Corporate Social Responsibility Indicator

People hug trees as they take part in an attempt to break the Guinness World Record for the most people hugging trees for two minutes in Kathmandu. REUTERS/Navesh Chitrakar

The Corporate Social Responsibility Indicator is a weighted index that considers two subindicators: Corporate Social Responsibility (CSR) activities and amount of disbursed funds through zakat, qard hasan and charity.

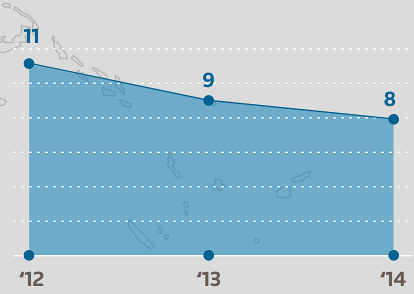
CSR INDICATOR LANDSCAPE IN 2014



CSR INDICATOR TOP 10 COUNTRIES

1	SAUDI ARABIA	104
2	JORDAN	66
3	BAHRAIN	64
4	OMAN	62
5	UNITED ARAB EMIRATES	49
6	KUWAIT	48
7	MALAYSIA	46
8	SINGAPORE	40
9	SRI LANKA	35
10	MALDIVES	34

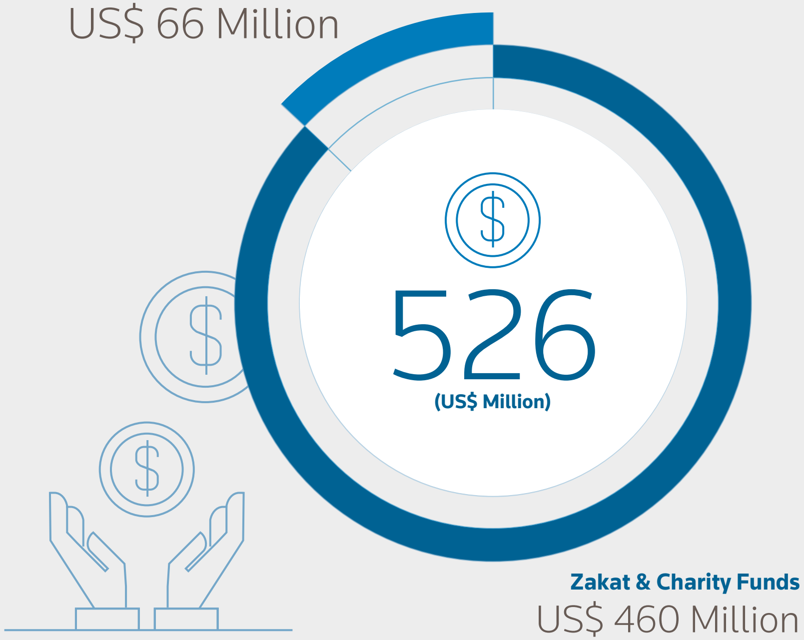
CSR INDICATOR GLOBAL AVERAGE



AVERAGE CSR DISCLOSURE BY FINANCIAL INSTITUTIONS IN 2014

4.6 **Out of 11 Items**

TOTAL ISLAMIC FINANCE CSR FUNDS DISBURSED IN 2014



SUB-INDICATORS GLOBAL AVERAGE

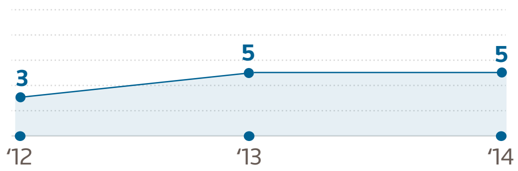
CSR FUNDS

Top Countries (CSR Funds Disboursed)
SAUDI ARABIA · US$ 266.6 Mn
UNITED ARAB EMIRATES · US$ 60.6 Mn
KUWAIT · US$ 37.6 Mn

SUB-INDICATOR TOP 5 COUNTRIES

1	**Saudi Arabia**	158
2	Jordan	84
3	Bahrain	66
4	Kuwait	63
5	United Arab Emirates	50

GLOBAL AVERAGE



TOP MARKET PLAYERS FOR CSR FUNDS DISBURSED

- Al Rajhi Bank (Saudi Arabia)
- Abu Dhabi Islamic Bank (UAE)
- Jordan Islamic Bank (Jordan)
- Kuwait Finance House (Kuwait)
- Al Baraka Bank (Bahrain)

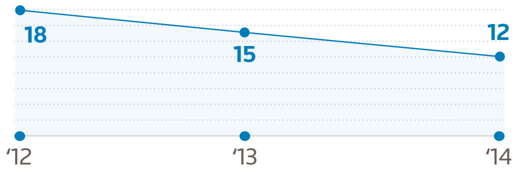
CSR ACTIVITIES

Top Countries (Average CSR Disclosure Index)
OMAN · 7.6 (Out of 11)
SINGAPORE · 7 (Out of 11)
MALAYSIA · 6.1 (Out of 11)

SUB-INDICATOR TOP 5 COUNTRIES

1	**Oman**	87
2	Singapore	80
3	Malaysia	70
4	Sri Lanka	69
5	Maldives	69

GLOBAL AVERAGE



TOP MARKET PLAYERS FOR CSR DISCLOSURE INDEX

- Bahrain Islamic Bank (Bahrain)
- Bank Muamalat (Malaysia)
- Ahli Bank SOAG (Oman)
- Jordan Islamic Bank (Jordan)
- Kuwait Finance House (Kuwait)

Solar panels are pictured on the Marina Barrage building, with the Singapore Flyer observation wheel and office and hotel buildings pictured in the background, in Singapore. REUTERS/Laurence SiMeng Tan

Islamic Finance Corporate Social Responsibility in 2014

The IFDI measures Corporate Social Responsibility according to two components: 1. CSR funds disbursed, which is divided between zakat and voluntary funds such as charity, and qard al hasan, and 2. CSR Activities. CSR funds disbursed, grew at a low CAGR of 2% due to a slowdown in 2013. The global average disclosure of CSR items for 2014 was 4.36 out of 11 items; this takes into consideration items disclosed through annual, financial and corporate governance reports.

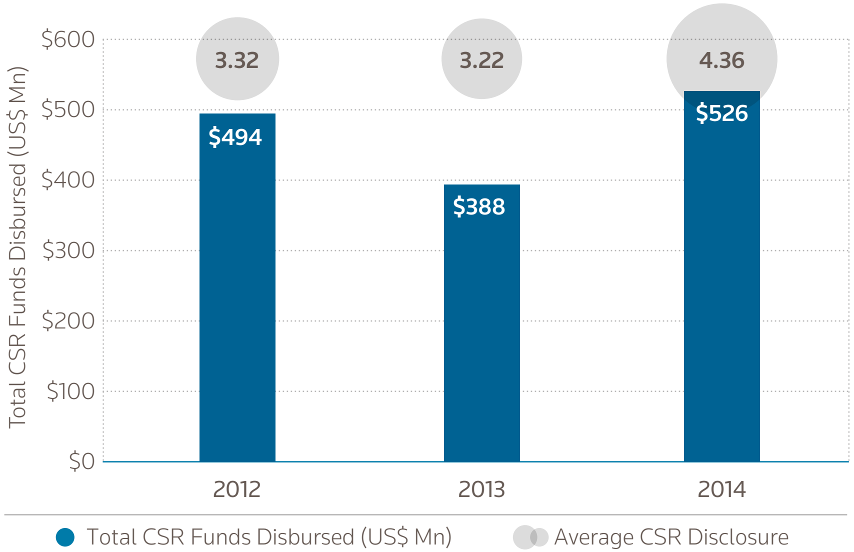
Indicator Value Analysis

Slow momentum for Islamic finance CSR

The global average score of the 2014 CSR Indicator is 8. This is a low score linked directly to the small number of countries contributing to the overall indicator — 25 out of 108 in the IFDI universe. There is a serious lack of disclosure of CSR activities and funds disbursed. Of the 25 countries that had any CSR Disclosure, not all institutions disclosed the amount of zakat, charity or qard al hasan funds. Palestine was the only jurisdiction whose financial institutions all disclosed CSR activities and funds disbursed.

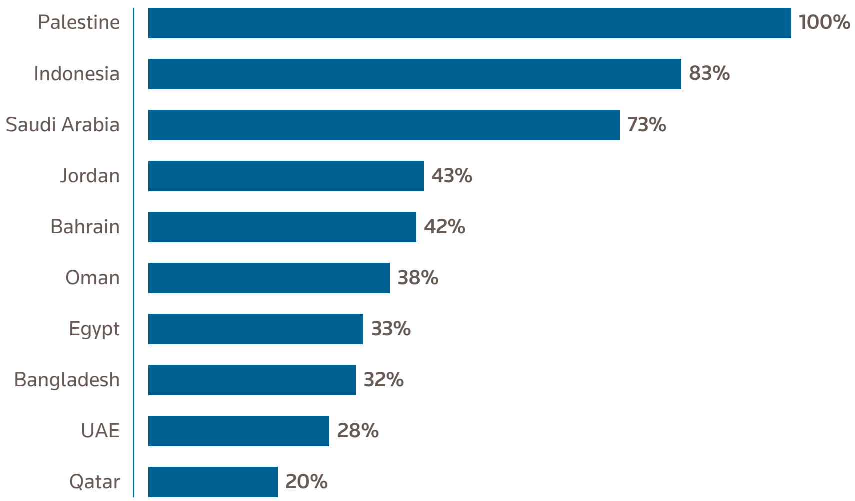
ISLAMIC FINANCE CSR

(2012-2014)



% OF INSTITUTIONS THAT REPORTED CSR FUNDS DISBURSED

(FYE 2014 – Out of Institutions that had CSR Disclosure)



Saudi Arabia outright leader on 2014 CSR indicator

Saudi Arabia disbursed the most CSR funds (driven by mandatory zakat payments), resulting in its leadership on the CSR Funds sub-indicator. This pulled up its weak performance on the CSR activities sub-indicator (13th) to give the Kingdom the lead on the CSR indicator overall. There is a very big gap between Saudi Arabia and 2nd placed Jordan. All other GCC states are in the top ten save Qatar, which languishes in 14th.

Southeast Asia and South Asian countries follow GCC and Jordan

Southeast Asian and South Asian nations trail the GCC countries (ex Qatar). For Southeast Asia, Malaysia and Singapore lead but Brunei and Thailand both failed to disclose any CSR Funds or CSR activities. In the sub-continent India is the only South Asian nation that did not contribute to the CSR indicator. For Malaysia (7th), Singapore (8th), Sri Lanka (9th) and the Maldives (10th), the disclosure of their CSR activities helped lift their rankings.

Jordan highest ranked of Other MENA countries

All Other MENA countries ex Jordan (2nd) rank in the bottom half of the CSR indicator — Sudan (13th), Palestine (15th), Egypt (16th), Iran (21st) and Syria (22nd). Notable absentees from the Other MENA region are Iraq, Yemen and all North African countries ex Egypt, reflecting a serious need to develop proper reporting mechanisms for CSR in the region.

A boy drinks water from a jerry can against the backdrop of monsoon clouds early morning in Karachi. REUTERS/Akhtar Soomro

Analysis

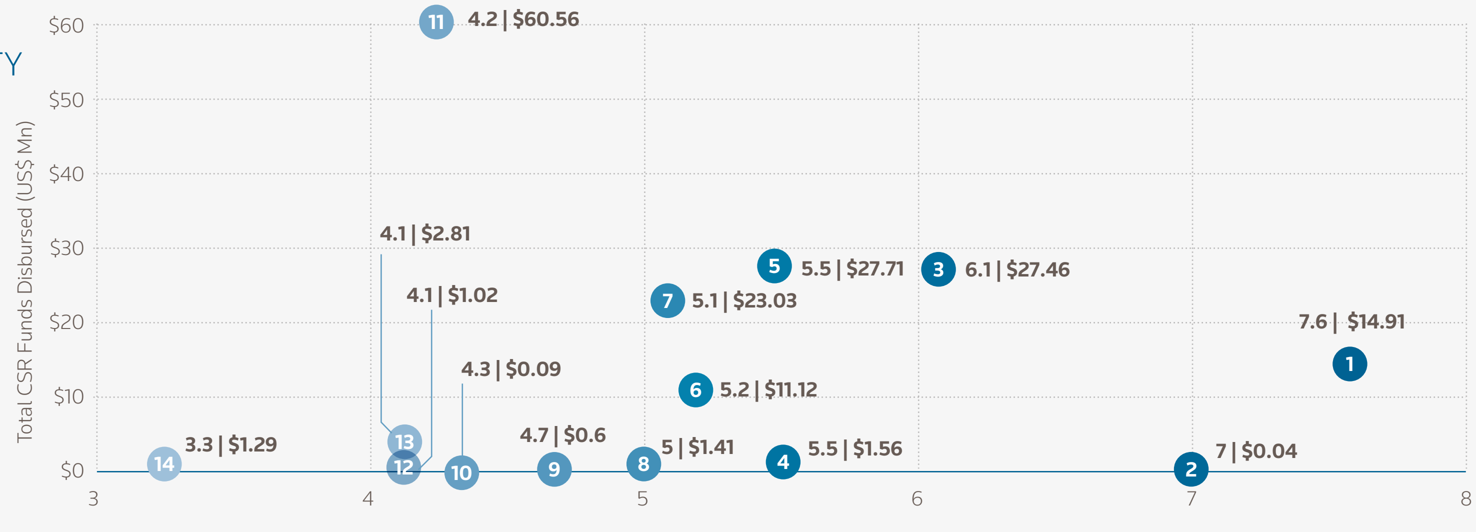
There is no strong correlation between funds disbursed and CSR activities

For the purposes of the IFDI CSR indicator we consider full CSR commitment based on both CSR funds disbursed and CSR activities. Not a single country achieved the maximum performance in both sub-indicators for CSR by disclosing all or most of the 11 CSR disclosure items in annual or financial reports, and disbursing and disclosing the different types of CSR funds.

For example, while United Arab Emirates institutions lead in terms of zakat and charity funds disbursed (disclosure by only 28% of UAE institutions), it scored relatively low in CSR activities compared to many other nations. On the latter sub-indicator, Oman's very young and very new Islamic finance industry has benefitted from strong regulations that demand a high level of CSR disclosure.

CORPORATE SOCIAL RESPONSIBILITY LANDSCAPE
(FYE 2014)

1 Oman
2 Singapore
3 Malaysia
4 Qatar
5 Bahrain
6 Bangladesh
7 Indonesia
8 Palestine
9 Egypt
10 Turkey
11 UAE
12 Jordan
13 Pakistan
14 Iran



Average CSR Disclosure Index | Total CSR Fund Disbursed (US$ Mn)

CSR Sub-Indicator:
CSR Funds Distributed

Homeless children reach out from behind a fence as they wait to collect free clothes at a local charity in the northeastern Indian city of Siligur, India. REUTERS/ Rupak De Chowdhuri

Indicator Value Analysis

CSR FUNDS SUB-INDICATOR TOP 10 COUNTRIES

Country	Indicator Value
Saudi Arabia	158
Jordan	84
Bahrain	66
Kuwait	63
United Arab Emirates	50
Oman	38
Sudan	34
Malaysia	22
Bangladesh	8
Indonesia	8

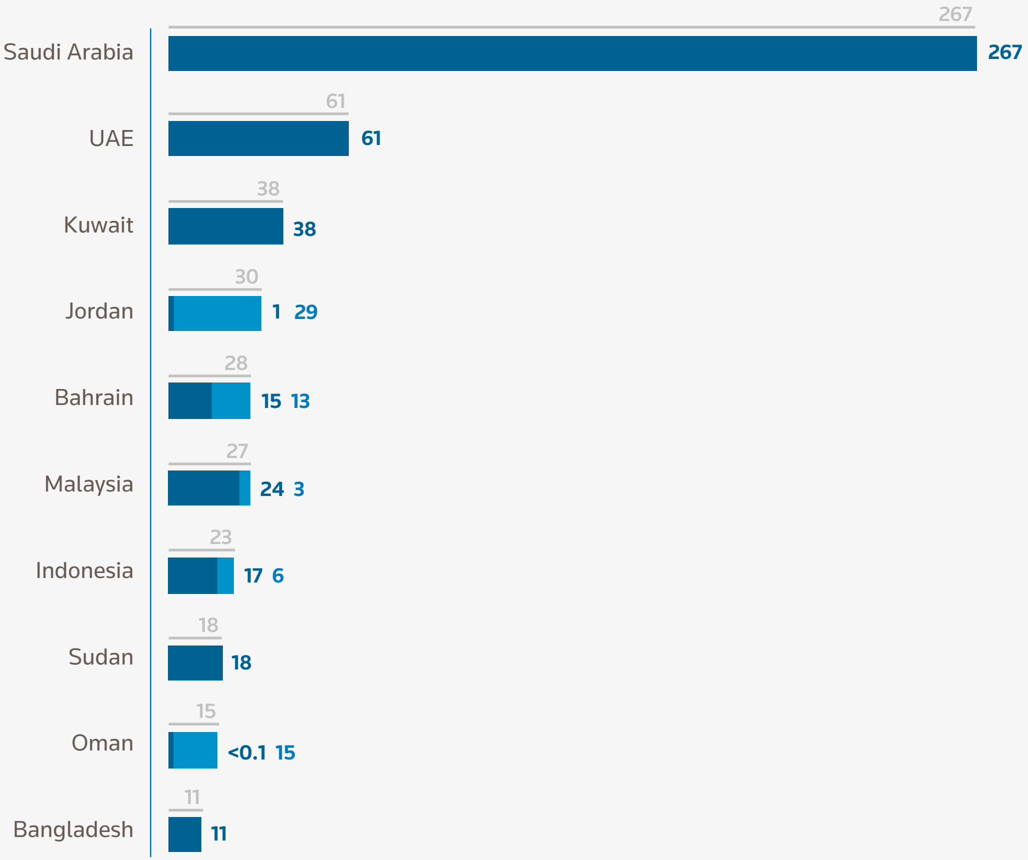
Saudi Arabia tops CSR funds sub-indicator followed by Jordan

21 out of 108 countries contributed to the CSR Funds sub-indicator.

Institutions in Saudi Arabia contributed almost 51% of total global CSR funds. They are bigger contributors to zakat and charity funds than qard al-hasan funds — their share of total zakat and charity funds reached US$267 million.

For 2nd placed Jordan 97% (US$30 million) of all its reported CSR funds were qard al-hasan. Jordan's ranking is lifted by its country size represented by GDP, population and banking system assets.

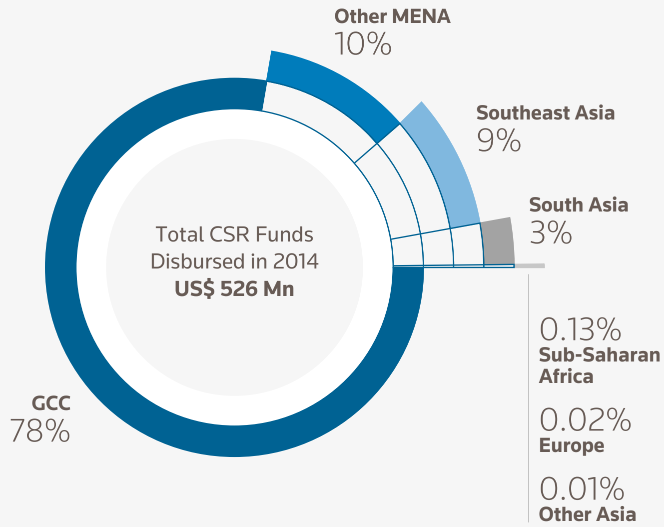
TOP COUNTRIES IN TERMS OF TOTAL CSR FUNDS DISBURSED (US$ Mn)



Zakat and Charity Funds Disbursed | Qard Al Hasan Funds Disbursed | Grand Total

CSR FUNDS DISBURSED BY REGION

(FYE 2014)



Analysis

GCC institutions pay highest amount of zakat and charity funds

As a whole, GCC institutions hold almost half of the world's total Islamic finance assets, so it does not come as a surprise that collectively, they disburse the most CSR funds. Globally, the amount of zakat and charity funds is 7 times higher than qard al hasan funds disbursed. It is compulsory in some GCC states to disburse zakat (Kuwait and Saudi Arabia) and charity (Kuwait, through Kuwait Foundation for the Advancement of Sciences) as part of corporate income taxes. Bahrain and Oman both disburse a mixture of both while UAE only disbursed zakat and charity.

There is no uniform amount disbursed

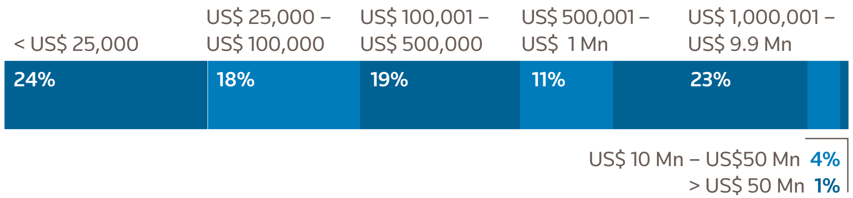
Most CSR funds disbursed lie were either less than US$25,000 or between US$1 million to US$10 million. In the first group we find primarily a mixture of South Asian full-fledged Islamic banks and Islamic windows, while US$1-10 million is paid out chiefly by full-fledged Islamic banks that are based in the GCC or Southeast Asia and Saudi takaful operators.

Top heavy — 9 IFIs contributed 75% of all CSR funds

The top 10 Islamic financial institutions for CSR funds disbursed contributed to around 75% of total CSR funds in 2014; 9 of these institutions are Islamic banks / windows disbursing a mixture of zakat and qard funds while the 10th institution is a Saudi takaful operator that paid out zakat.

NUMBER OF INSTITUTIONS DISBURSING CSR FUNDS BY SIZE

(FYE 2014)



TOTAL CSR FUNDS DISBURSED BY TOP 10 INSTITUTIONS

(FYE 2014)

CSR Sub-Indicator:
CSR Activities

Singapore city skyline at night.

Indicator Value Analysis

CSR ACTIVITIES SUB-INDICATOR TOP 10 COUNTRIES

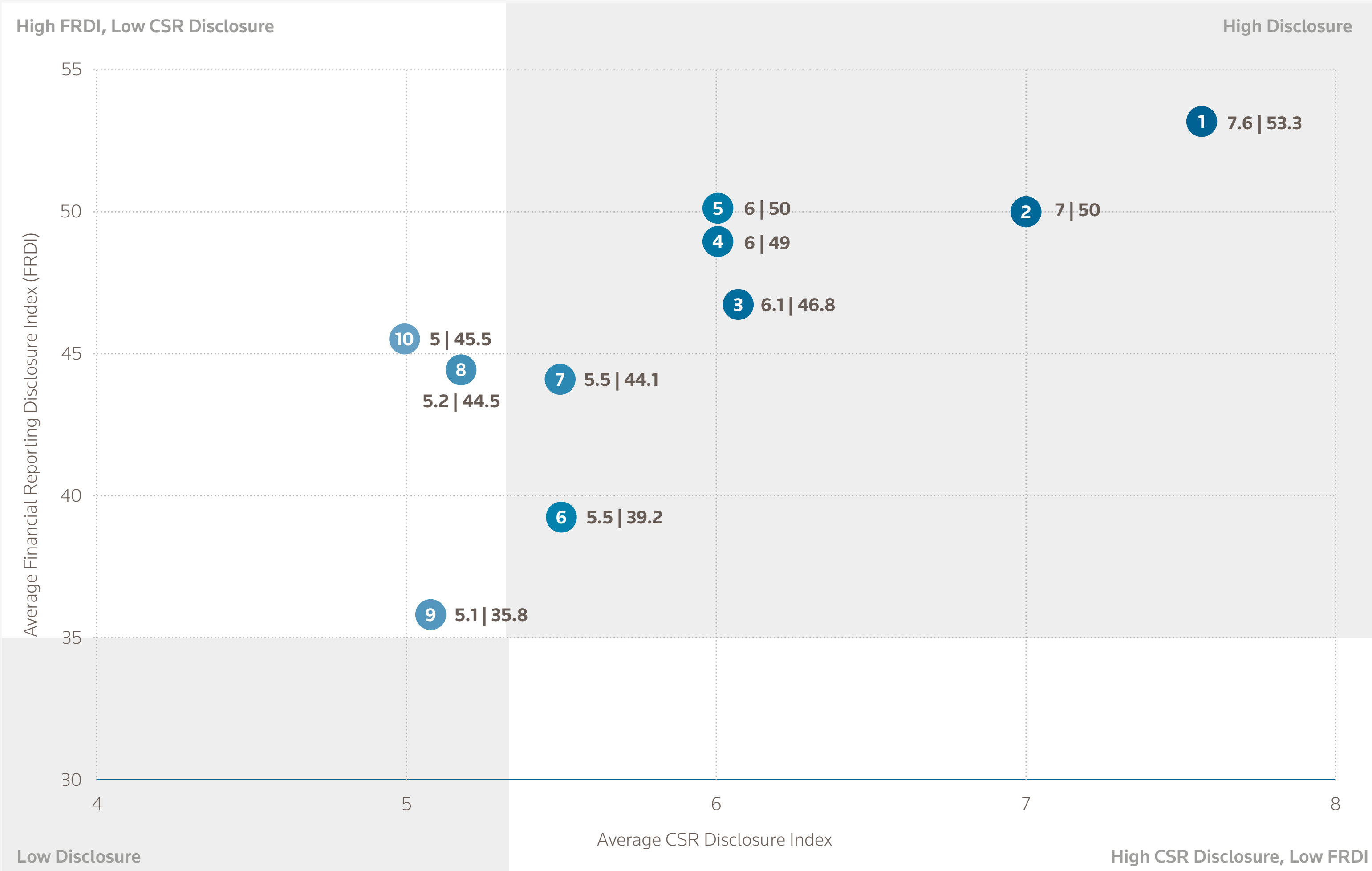
Country	Indicator Value
Oman	87
Singapore	80
Malaysia	70
Sri Lanka	69
Maldives	69
Qatar	63
Bahrain	63
Bangladesh	59
Indonesia	58
Palestinian territories	57

Oman and Southeast Asian nations lead

Once again, Oman leads, this time for CSR activities disclosure. The Sultanate scored highest on both the CSR and Financial Report Disclosure Index (FRDI).

Close behind are Singapore and Malaysia demonstrating high levels of transparency with an average CSR disclosure of 7 for Singapore and 6.1 for Malaysia.

CORPORATE SOCIAL RESPONSIBILITY LANDSCAPE
(FYE 2014)



1 Oman
2 Singapore
3 Malaysia
4 Sri Lanka
5 Maldives
6 Qatar
7 Bahrain
8 Bangladesh
9 Indonesia
10 Palestine

Average CSR Disclosure Index | Average FRDI

Analysis

Average CSR disclosure remains low for many nations

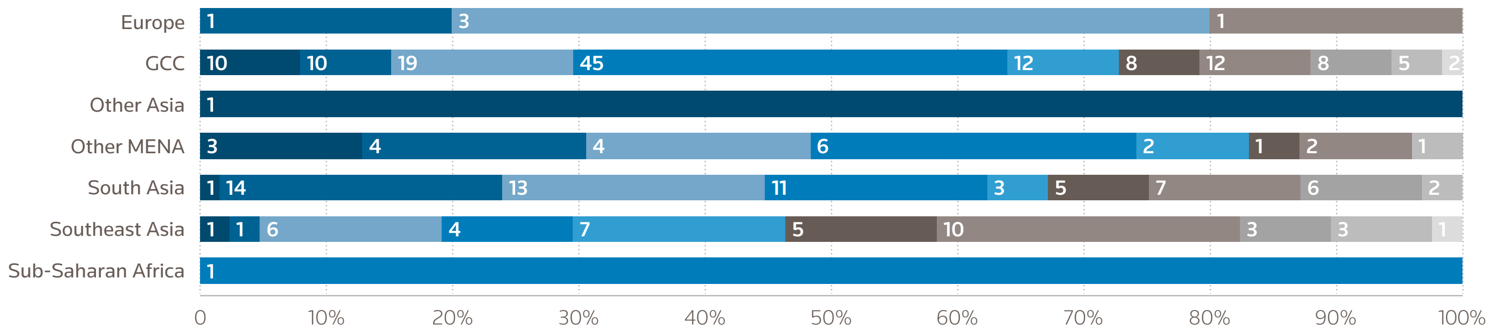
Only 7 of the top 10 countries on the CSR Activities sub-indicator registered average scores for both CSR and FRDI Disclosure (score of 5.5 or above for the former and 35 or above for the latter). As 25 countries contributed to this indicator, this indicates that the remaining nations (72%, or 18 out of 25) are below what is considered to be good CSR disclosure practice.

At the institutional level, most IFIs (primarily from GCC) scored 4

At the institutional level, most institutions (69%) scored below 6, with GCC institutions making up the bulk of this group. (11 is the maximum score, so the bulk of all institutions are in the bottom half.) Zakat is the most common item disclosed. For some countries, some items are disclosed as part of reporting requirements like zakat for Saudi Arabia, charity and zakat for Kuwait or qard and zakat for Indonesia.

CSR SCORE BY ISLAMIC FINANCIAL INSTITUTIONS

CSR DISCLOSURE SCORE BY ISLAMIC FINANCIAL INSTITUTIONS ACROSS REGIONS



DRS DAAN ELFFERS

Founder, Islamic Reporting Initiative (IRI)

DRS DAAN ELFFERS launched the not-for-profit Islamic Reporting Initiative in April 2015 as the first integrated reporting framework for corporate sustainability and social responsibility based on Islamic principles and values. Elffers was named one of the '100 Most Talented Leaders in CSR'. He was the Chairman of the recent CSR Summit in Dubai, the longest running CSR summit in the region. He is also a member of CSR Expert Panel at Erasmus University and a Guest Member of the Circular Economy Taskforce at the World Economic Forum.

Tell us about Islamic Reporting Initiative (IRI) and what led to its establishment.

IRI is: CSR Islamic Reporting Initiative for voluntary use by organizations reporting on people, planet and profit according to Islamic values and principles.While the IRI seeks to make CSR reporting standard practice for organizations across all sectors to advance economic opportunity responsibly in the Islamic world, the underlying vision is quite unique. The IRI seeks to achieve the above with a methodology that is culturally relevant and impact-oriented.

This approach is in response to research confirming that companies worldwide are not always finding the current, broad tools for CSR reporting to be as practical or relevant in a local context. The Islamic Reporting Initiative is a culturally-specific alternative and effective solution to this challenge, able to recognize and engage with the nuances of the organizational culture while still working towards international standards of best practice.

International standards are sometimes thought to be universal, but they seldom are. They are based on international experience and best practice, but that does not mean that they can replace local values. Already during the first 6 months since establishment in April 2015, IRI has formed partnerships with organizations from more than 30 Islamic countries.

From your experience, what are the benefits of CSR reporting specifically for Islamic financial institutions?

The process of reporting may yield multiple benefits; it provides a window of opportunity to analyse and evaluate an organization's internal systems and processes, and enables risk to be fairly assigned across all departments, stakeholders and partners by integrating them into an organization-wide process.

The IRI increases transparency, which is a pathway to increased trust in the organization. It fosters interest from consumers and investors and helps to sustain the business. The IRI, while promoting the use of CSR reporting for reasons of transparency, among others, does not make mandatory the comparison to peer organizations.
IRI believes that CSR reporting is first and foremost a business tool for the

practical benefit of the company and its stakeholders.

What type of CSR activities Islamic financial institutions usually engage in? What type is most recommended by your organization?

We see that organizations with an integrated CSR program are engaged in a circular sustainability process, whereby initiatives may serve to strengthen a community and environment, which in turn safeguards business opportunities in the middle to long-term future.

For example, CSR initiatives which encourage investment in society, whether that be in healthcare, youth engagement, education or environmental management, are widely applied and can generate a community that is healthier, better educated, and actively contributing to and benefiting from the local economy.

Financial Institutions that have already started to apply this behaviour to the core of their strategy (triple bottom line reporting: people, planet, profit) have demonstrated an exciting capacity to excel among their peers, and achieve sustainable value creation.

Some companies drag their feet when it comes to CSR as it is usually viewed as an expense-based activity because it involves spending and not revenue-making activities. Do you agree with this?

There is hesitation from many companies, across sectors, to implement CSR, and even more so for a fully integrated strategy. This is in part due to the risks associated with adjusting a seemingly functioning business model. However, most risks can be attributed to poor strategic integration, which can be minimised or overcome by ensuring a thorough assessment is conducted prior to, and during, the development of the strategy. This will ensure the strategy meets the needs of the stakeholders, and of course, that an appropriate CSR reporting tool is selected.

The IRI works to address these challenges, by recognizing that Islamic business principles serve to imbue individuals and organizations with a responsibility to care for society, and such principles infiltrate society through various practices and perspectives. As such, it is widely recognized that companies operating according to Islamic principles tend to embrace an organizational culture that is premised on notions of trust, morality and accountability. It is these cultural nuances that influence and shape an organization's conduct, and subsequently sculpt a CSR strategy.

CSR in Islamic countries and companies is naturally influenced by the prevailing and deeply embedded philanthropic culture, which serves to address a wide spectrum of needs on an international scale. At the organizational level, philanthropy represents an effort to balance their rights with society's rights, in contrast to a more typical understanding of an organization which seeks to conduct economic and social activities to maximise profits. CSR has the capacity to build on philanthropy and provide mutual benefits to the organization and wider society.

To what extent do you believe that standardization is required for the disclosure of CSR funds disbursed by Islamic financial institutions (such as zakat, qard al hasan and charity funds) in financial reports?

The standardization of disclosure mechanisms for CSR funds may be limiting and complex due to the integrated nature of good CSR and business practice. Disclosing CSR as a silo investment negates the effort of a company to integrate CSR into their business operations, as intended by the concept of triple bottom line. While standardization may provide a benchmark for organizations seeking to invest in CSR, driving the agenda forward, the separation of CSR from wider business practices may result in missed opportunities.

How can the governments further encourage CSR and CSR reporting within their respective jurisdictions?

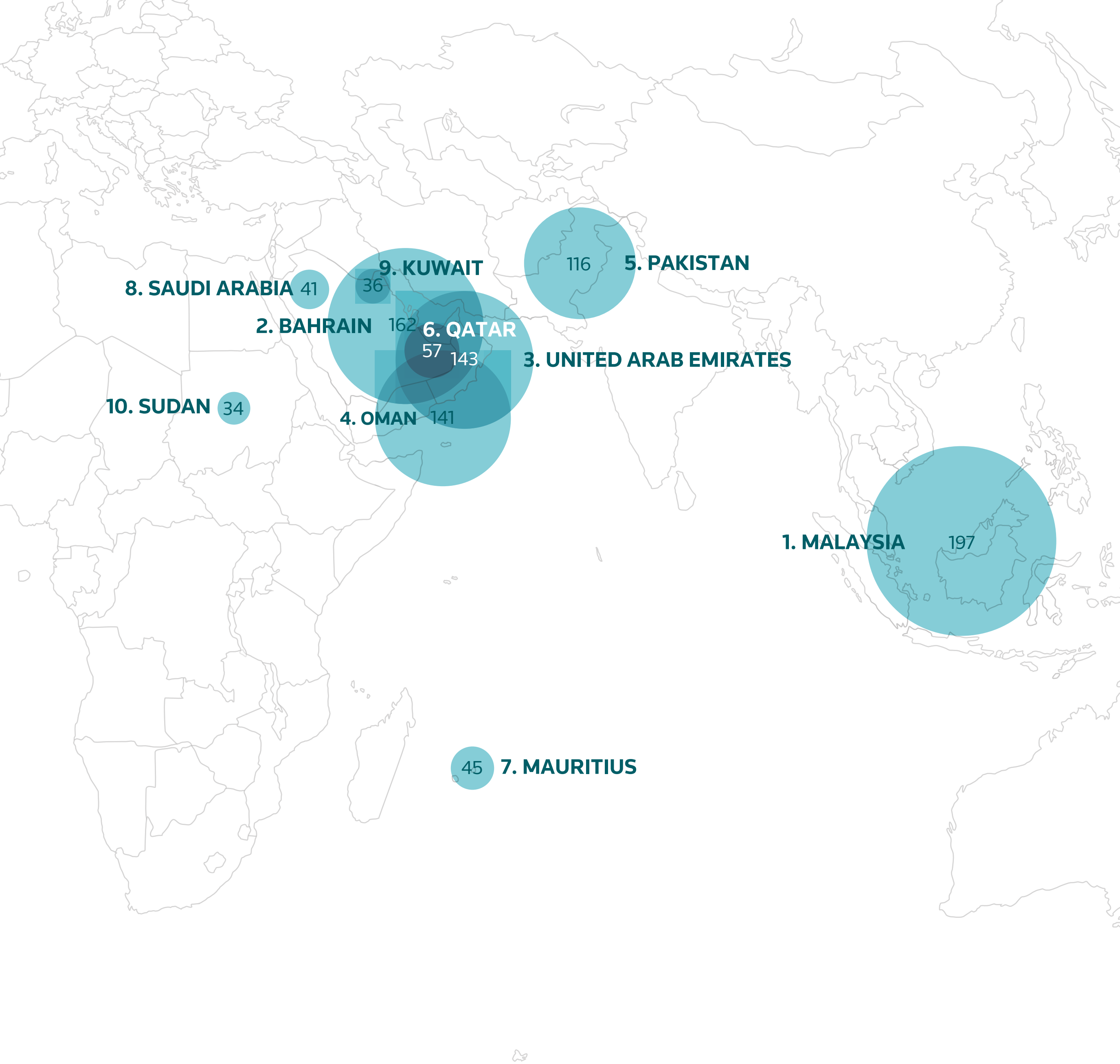
Governments can encourage a shift towards the implementation of CSR and CSR reporting through awareness raising, and voluntary and mandatory programs. The shift in the financial markets towards sustainable investment is indicative of the significance of sustainable business practices, and it is important that governments encourage and facilitate the progress of business in achieving such goals.

Awareness Indicator

A man looks a screen outside a United Overseas Bank (UOB) branch in Singapore's financial district. REUTERS/ Vivek Prakash

The Awareness Indicator is a weighted index of Islamic finance market awareness percountry. It is measured by assessing three components: conferences, seminars and news.

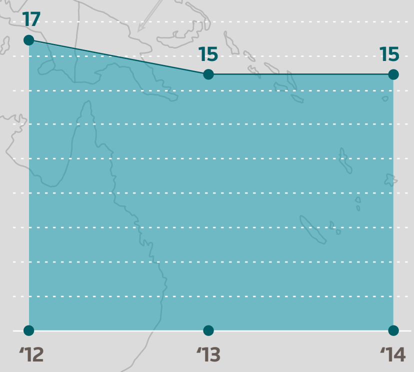
AWARENESS INDICATOR LANDSCAPE IN 2014



AWARENESS INDICATOR TOP 10 COUNTRIES

1	MALAYSIA	197
2	BAHRAIN	162
3	UNITED ARAB EMIRATES	143
4	OMAN	141
5	PAKISTAN	116
6	QATAR	57
7	MAURITIUS	45
8	SAUDI ARABIA	41
9	KUWAIT	36
10	SUDAN	34

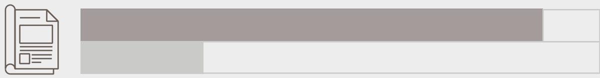
AWARENESS INDICATOR GLOBAL AVERAGE



TOTAL ISLAMIC FINANCE NEWS IN 2014

131,091

Exclusive + Regional News



19,119

Exclusive News

TOTAL ISLAMIC FINANCE EVENTS IN 2014

SUB-INDICATORS GLOBAL AVERAGE

SEMINARS

Top Countries (No. of Seminars)

PAKISTAN · 45

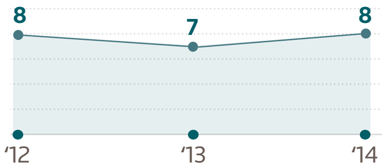
MALAYSIA · 27

UNITED KINGDOM · 11

SUB-INDICATOR TOP 5 COUNTRIES

1	**Pakistan**	189
2	Malaysia	145
3	Oman	102
4	Bahrain	95
5	Senegal	40

GLOBAL AVERAGE



TOP ISLAMIC FINANCE SEMINARS ORGANIZERS

- Alhuda Center of Islamic Banking & Economics
- Islamic Financial Services Board (IFSB)
- Halal Industry Development Corporation
- Worlds Islamic Finance Marketplace
- Oxford Centre for Islamic Studies

CONFERENCES

Top Countries (No. of Conferences)

MALAYSIA · 24

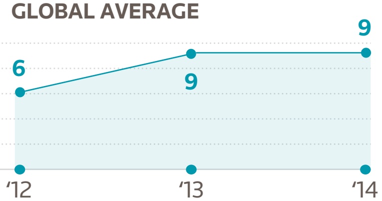
UNITED ARAB EMIRATES · 15

TURKEY · 11

SUB-INDICATOR TOP 5 COUNTRIES

1	**Malaysia**	148
2	Mauritius	109
3	United Arab Emirates	95
4	Bahrain	92
5	Tunisia	43

GLOBAL AVERAGE



TOP ISLAMIC FINANCE CONFERENCES ORGANIZERS

- RedMoney
- Mega Events
- Alhuda Center of Islamic Banking & Economics
- World Academy of Science Engineering and Technology
- Islamic Financial Services Board (IFSB)

NEWS

Top Countries (No. of Exclusive News)

UNITED ARAB EMIRATES · 3,944

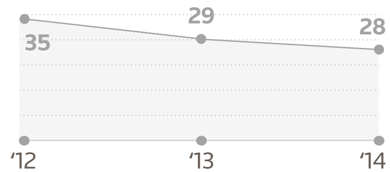
BAHRAIN · 3,900

OMAN · 2,409

SUB-INDICATOR TOP 5 COUNTRIES

1	**United Arab Emirates**	300
2	Bahrain	300
3	Oman	300
4	Malaysia	298
5	Qatar	150

GLOBAL AVERAGE



TOP ISLAMIC FINANCE NEWS PROVIDERS

- Islamic Finance News
- Zawya
- Gulf Base
- CPI Financial
- Global Capital

Islamic Finance Awareness in 2014

Islamic finance continued to make headlines in 2014 through news, conferences and seminars. The number of seminars had a CAGR of 11% from 2012 to 2014, reaching 142. Conferences grew at a faster pace of 17% during 2012-2014 to reach 122 in 2014 from only 76 in 2012. News settled at 19,000 exclusive news and 131,000 regional news; these increased from 14,000 exclusive news and 83,000 regional news in 2013, which is unsurprising as many countries are becoming increasingly interested in Islamic finance.

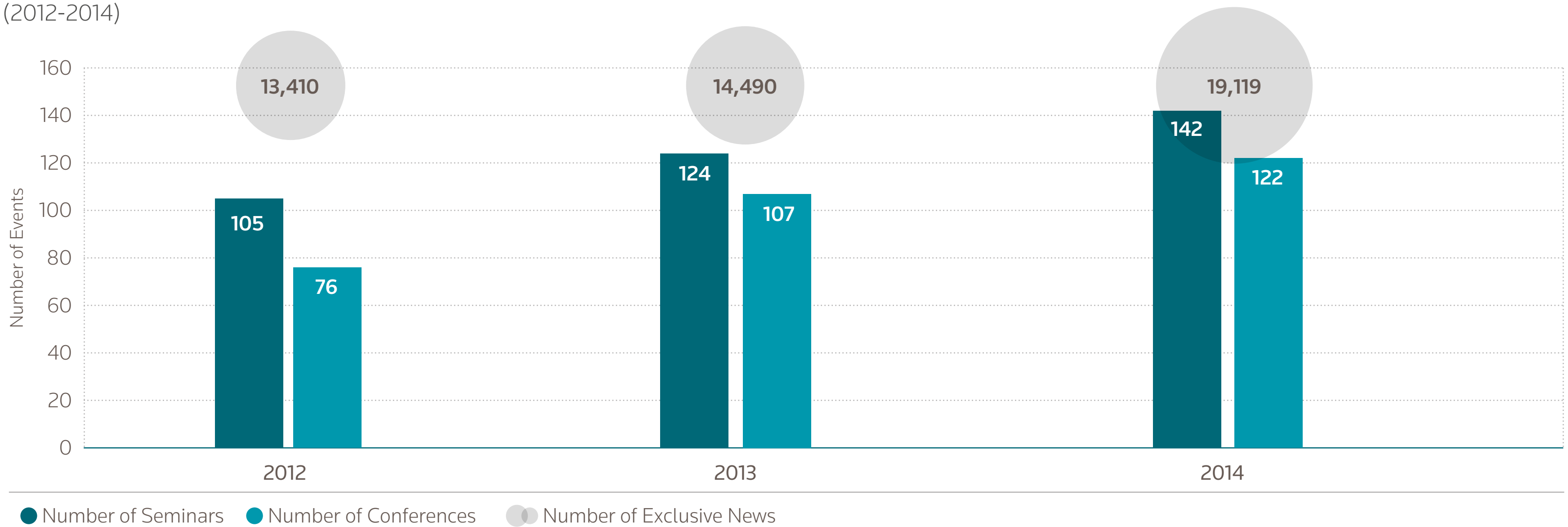
Indicator Value Analysis

Malaysia rises to lead Awareness indicator

Oman dropped to 4th from 1st in 2013 and Malaysia rose to lead the Awareness indicator. Likewise, Bahrain and UAE moved up a notch each to 2nd and 3rd, respectively. By regions, the GCC made the most headlines, but Southeast Asia and Europe hosted more Islamic finance-related events.

ISLAMIC FINANCE AWARENESS

(2012-2014)

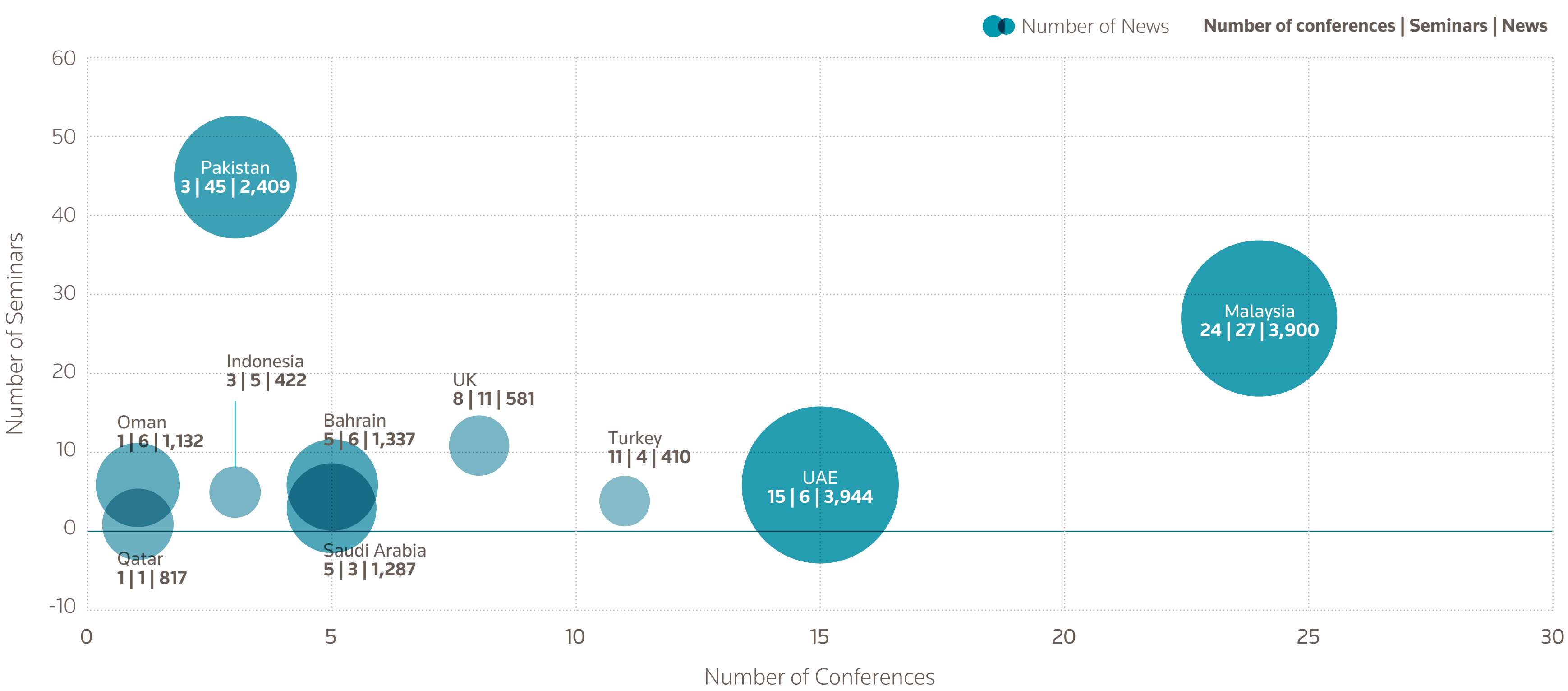


Pakistan's national Islamic finance campaign boosts its Awareness indicator ranking

Pakistan is South Asia's strongest Islamic finance economy. The country performed well on the seminars and news sub-indicators, finishing 5th overall on the Awareness indicator after Malaysia and GCC countries Qatar, Saudi Arabia and Kuwait. Pakistan contributed 85% of exclusive news for South Asia in 2014 and it is a clear frontrunner for seminars, leading Malaysia, which held 27 seminars (60% fewer than Pakistan).

TOP 10 COUNTRIES FOR ISLAMIC FINANCE AWARENESS INDICATOR

(FYE 2014)

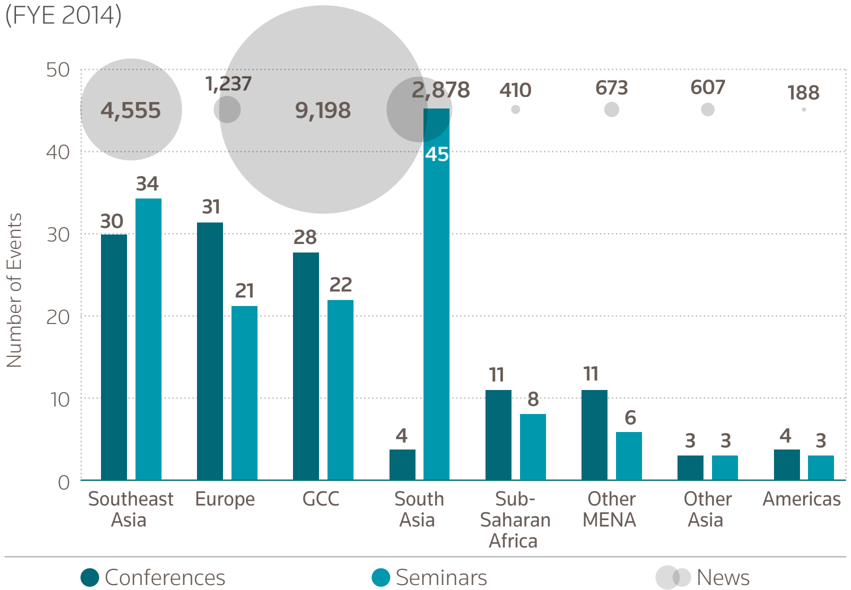


Analysis

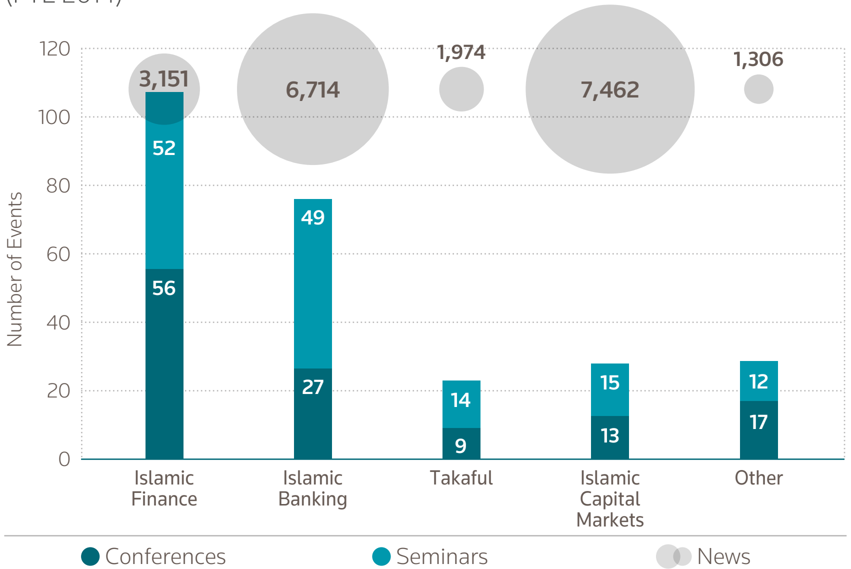
Top-line Islamic finance issues still central themes at seminars and conferences

41% of all Islamic finance seminars and conferences address general top-line Islamic finance issues; many of these events are held in younger or newer Islamic finance markets where the industry is lesser-known to the mainstream, for example in European countries. The second most popular theme is Islamic banking, which is addressed by 30% of all seminars and conferences. The remaining seminars and conferences were divided between takaful, Islamic capital markets and others (Shariah governance, microfinance and SME finance).

ISLAMIC FINANCE AWARENESS INDICATOR BY REGION
(FYE 2014)



ISLAMIC FINANCE AWARENESS INDICATOR BY TOPIC
(FYE 2014)



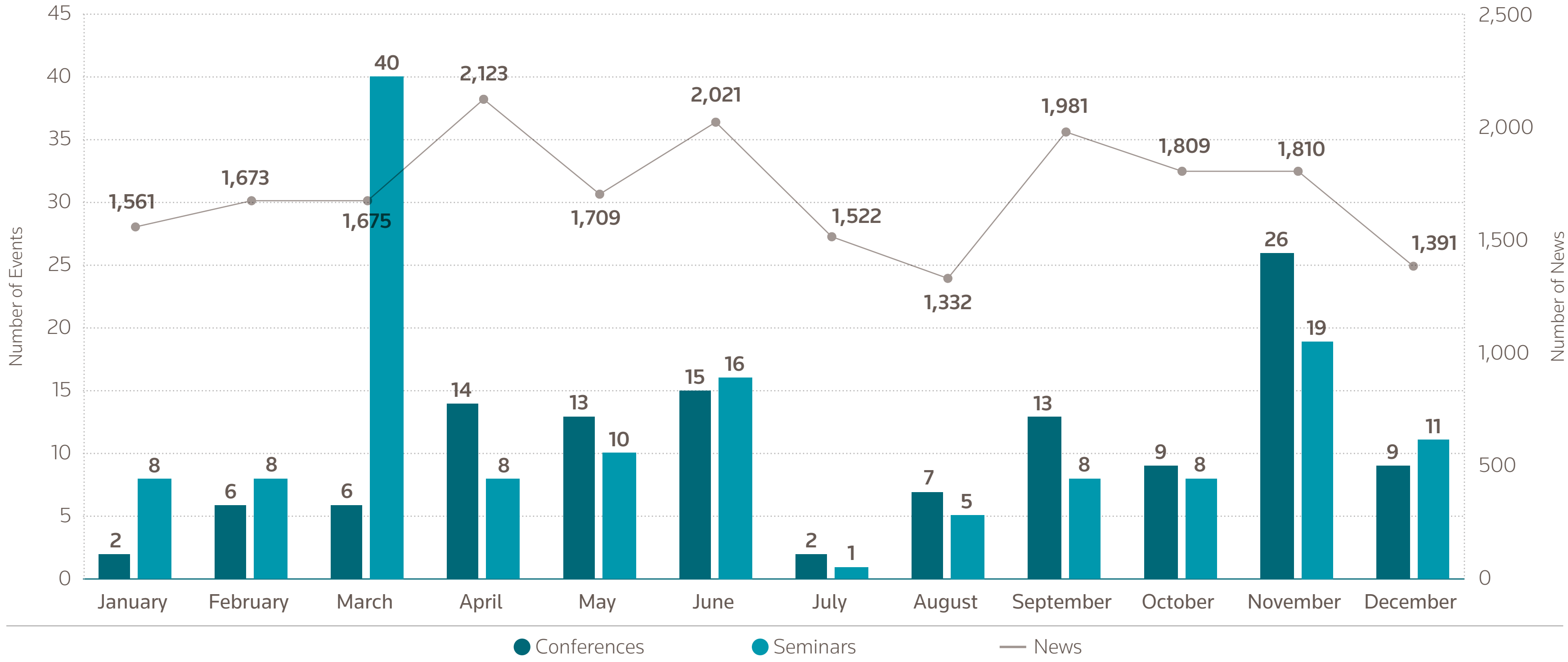
News important for Islamic capital markets and sukuk

Islamic capital markets is not a popular topic for seminars and conferences but it drives a lot of Islamic finance news (35% of total news), with Islamic banking trailing (28%). A month-to-month analysis shows a drop in volume of news during Ramadan (July 2014) when all Islamic finance activities slowed down.

Most Islamic finance events happen around November

The fewest number of events happen during Ramadan. The most number of seminars were held in March, boosted primarily by Pakistan's Banking and Takaful Roadshow. November is the favourite month for conferences.

ISLAMIC FINANCE AWARENESS BY MONTH IN 2014



Awareness Sub-Indicator:

Seminars

(L-R) BBC presenter Malak Jaafar, Head of the Islamic Supreme Council of Iraq Ammar al-Hakim, businessman Cuneyd Zapsu of Turkey, Britain's Oliver McTernan, co-founder and director of Forward Thinking, and Emad Abdel-Ghaffour, founder of the Salafist Islamist Homeland Party in Egypt, participate in the "Political Islam and Governance" session at the World Economic Forum on the Middle East and North Africa. REUTERS/Muhammad Hamed

Indicator Value Analysis

SEMINARS SUB-INDICATOR TOP 10 COUNTRIES

Country	Indicator Value
Pakistan	189
Malaysia	145
Oman	102
Bahrain	95
Senegal	40
Sudan	38
United Arab Emirates	33
Kenya	24
Malta	24
Kazakhstan	21

Pakistan held most seminars

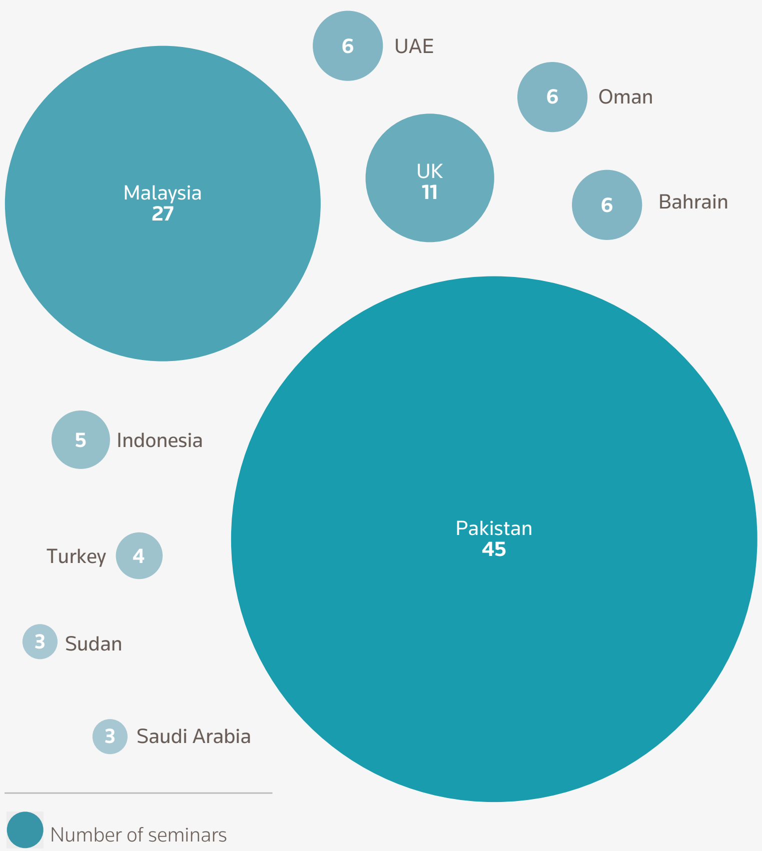
The global average value of the seminars sub-indicator is a result of the contribution of 31 out of 108 nations. We expect more countries to hold seminars in the coming years.

Pakistan surged in the seminars sub-indicator 2014, from 18th in 2013 to 1st in 2014. There were 3 seminars in 2013 in Pakistan compared to 45 in 2014. This surge is directly linked to the government's nation-wide campaign to promote Islamic banking and takaful.

Both Malaysia and Oman slipped down the seminars sub-indicator compared to 2013 but they continue to stay in the top 5. The small nation of Malta is a new entrant on the seminars sub-indicator as a result of an educational clinic discussing Islamic funds in June 2014.

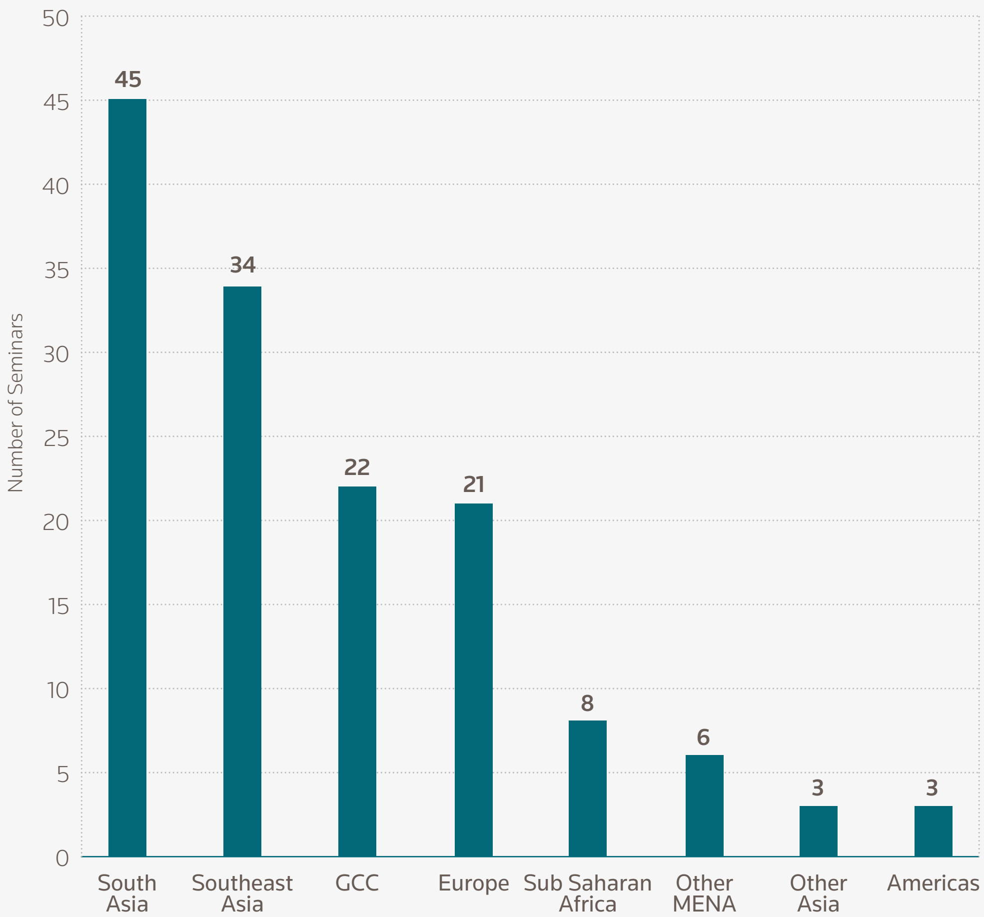
TOP 10 COUNTRIES HOSTING ISLAMIC FINANCE SEMINARS

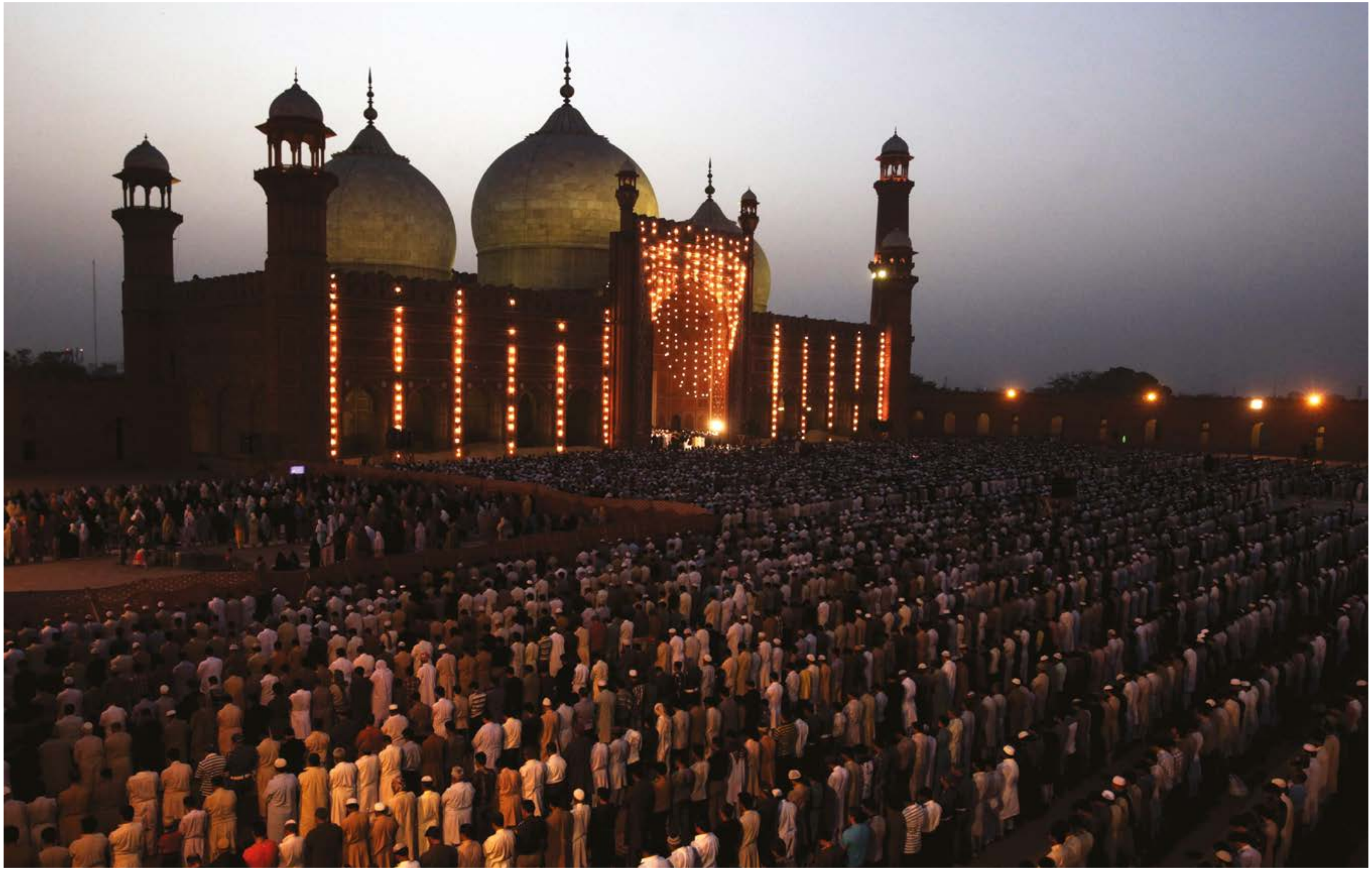
(FYE 2014)



ISLAMIC FINANCE SEMINARS BY REGION

(FYE 2014)





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People say their prayers under the leadership of Saudi Arabian Imam of the Grand Mosque Sheikh Khalid al Ghamdi during evening prayers at the Badshahi mosque in Lahore, Pakistan. REUTERS/ Mohsin Raza

Analysis

South Asian and Southeast Asian nations held the most number of seminars

In South Asia, only Pakistan held Islamic finance seminars while 4 out of 6 Southeast Asian nations (there is a total of 6 SEA countries in the IFDI universe) held seminars in 2014; these were primarily in Malaysia and Indonesia. The sub-Saharan African nations of Ghana, Kenya, Nigeria, Senegal, Tanzania, and Uganda held introductory workshops relating to Islamic banking and takaful. (Note: Workshops are counted under 'seminars' for IFDI purposes.)

Top-line, general Islamic finance issues were main topics covered in seminars, but Islamic banking to overtake

Most Islamic finance seminars addressed basic top-line general Islamic finance issues. Some of the topics covered in seminars were regulatory issues, treasury and liquidity for Islamic banking, family takaful and risk management for takaful, sukuk promotion, and issues related to corporate and sovereign sukuk issuance for capital markets. Other topics include Shariah and legal issues, microfinance and small and medium enterprises (SMEs).

UAE and Malaysia seminars organizers dominate

Malaysia had the highest number of Islamic finance seminar organizers, most of which are universities. However, the UAE held more seminars than Malaysia.

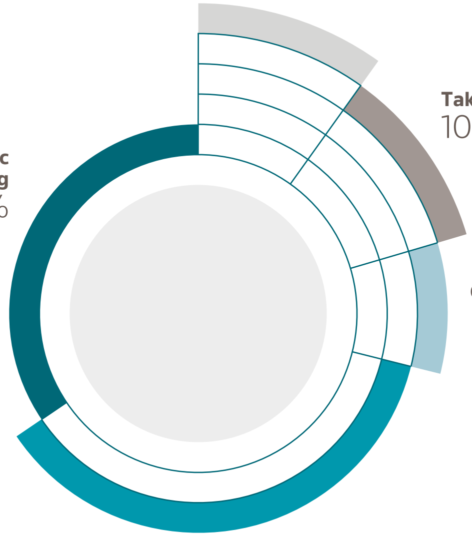
TOP 10 ISLAMIC FINANCE SEMINARS ORGANIZERS

Organizer	Country	Region	Number of Seminars Organized
Alhuda Center of Islamic Banking & Economics	UAE	GCC	51
Islamic Financial Services Board (IFSB)	Malaysia	Southeast Asia	15
Halal Industry Development Corporation	Malaysia	Southeast Asia	6
Worlds Islamic Finance Marketplace	Malaysia	Southeast Asia	5
Oxford Centre for Islamic Studies	UK	Europe	5

TOP 5 ISLAMIC FINANCE SEMINARS ORGANIZERS BY COUNTRY

Country	Number of Seminars Organized
UAE	55
Malaysia	42
UK	9
Bahrain	7
Pakistan	6

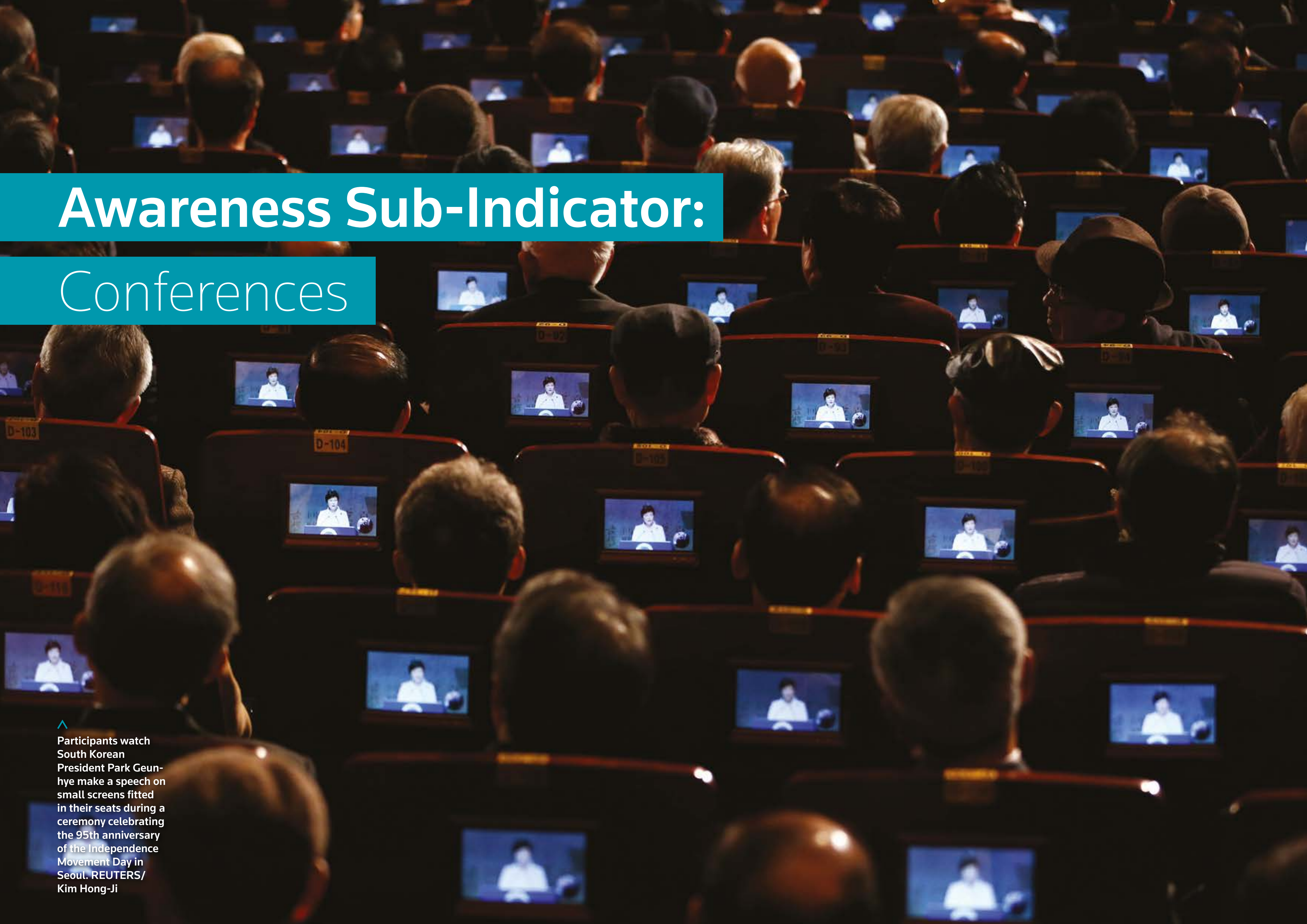
ISLAMIC FINANCE SEMINARS BY TOPIC
(FYE 2014)



TOP COUNTRIES IN TERMS OF ISLAMIC FINANACE SEMINARS ORGANIZERS

Country	Number of Organizers
Malaysia	17
UAE	4
UK	4
Pakistan	4

Awareness Sub-Indicator: Conferences



Participants watch South Korean President Park Geun-hye make a speech on small screens fitted in their seats during a ceremony celebrating the 95th anniversary of the Independence Movement Day in Seoul. REUTERS/ Kim Hong-Ji

Indicator Value Analysis

CONFERENCES SUB-INDICATOR TOP 10 COUNTRIES

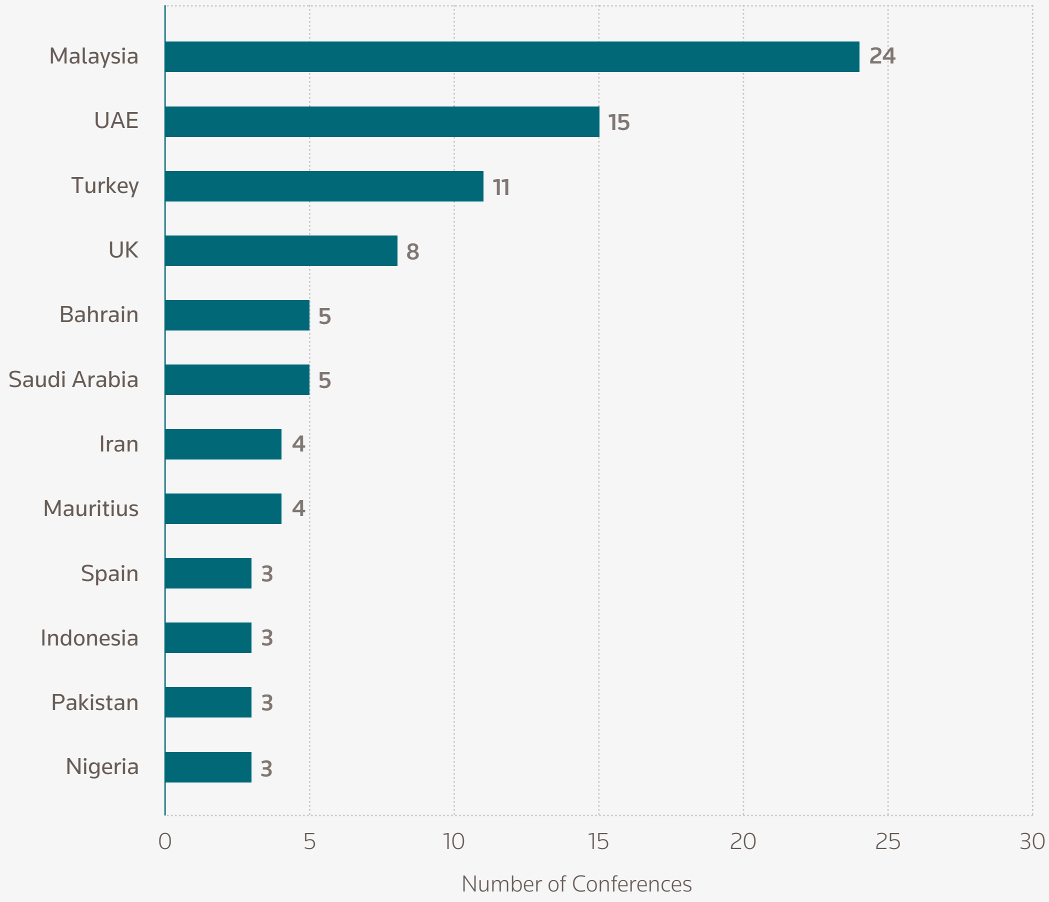
Country	Indicator Value
Malaysia	148
Mauritius	109
United Arab Emirates	95
Bahrain	92
Tunisia	43
Turkey	40
Djibouti	32
Sudan	29
Brunei Darussalam	29
Malta	27

European and African nations shake up the usual mix

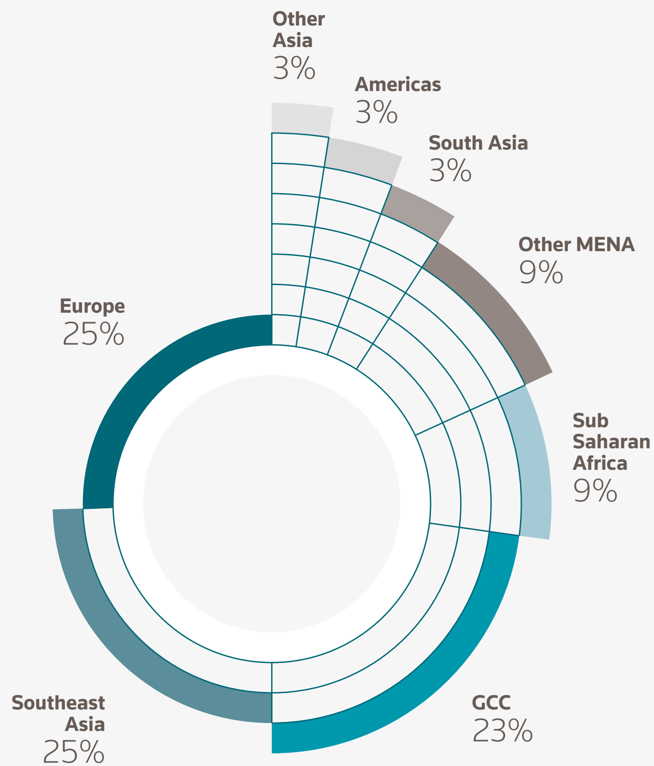
38 out of 108 countries of the IFDI universe hosted Islamic finance conferences during 2014. Notable new entrants are mostly from Europe: Bosnia, France, Liechtenstein, Luxembourg, Malta, Spain, and Switzerland. As a result Europe overtook GCC and Southeast Asia on number of conferences. Among the European nations, only Malta broke into the top ten.

African nations (whether part of MENA (i.e. North Africa) or sub-saharan Africa) also figure in the top 10 — Mauritius rose to 2nd as a result of 4 conferences during 2014 and it is joined by Djibouti, Sudan, and Tunisia.

TOP 10 COUNTRIES HOSTING ISLAMIC FINANCE CONFERENCES
(FYE 2014)



ISLAMIC FINANCE CONFERENCES BY REGIONS
(FYE 2014)



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An investor reads a paper as he monitors a stock exchange information screen on the trading floor at the Dubai Financial Market. REUTERS/Jumana El Heloueh

Analysis

Top 10 countries were responsible for more than 70% of all conferences

122 Islamic finance-related conferences were held in 2014. The top 3 nations of Malaysia, United Arab Emirates and Turkey collectively hosted 41% of all conferences while the top 10 countries as a whole hosted 72% of all conferences.

Topics addressed at Islamic finance conferences remain broad

Conferences that cover top-line general Islamic finance issues still dominate, making up 45% of all conferences. This is followed by Islamic banking conferences, and Islamic capital markets (mainly sukuk). Other specific topics covered were Islamic accounting, risk management and microfinance, as well as SME financing.

Islamic finance conference organizers are based in 27 countries

Malaysia and United Kingdom have the most number followed by United Arab Emirates. These organizers were responsible for 58% of all conferences. After the top three, United States-based organizers hosted 11 conferences (World Academy of Science Engineering and Technology organized seven conferences hosted in different countries).

TOP ISLAMIC FINANCE CONFERENCES ORGANIZERS

Organizer	Country	Region	Number of Conferences Organized
Redmoney	Malaysia	Southeast Asia	12
Mega Events	UAE	GCC	8
Alhuda Center of Islamic Banking & Economics	UAE	GCC	7
World Academy of Science Engineering and Technology	US	Americas	7
Islamic Financial Services Board (IFSB)	Malaysia	Southeast Asia	6

TOP 5 ISLAMIC FINANCE CONFERENCES ORGANIZERS BY COUNTRY

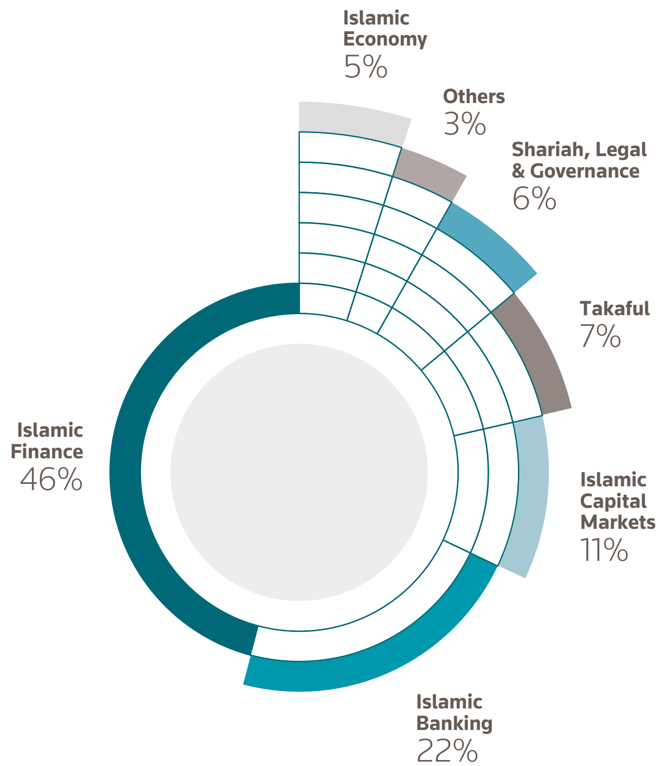
Country	Number of Conferences Organized
Malaysia	34
UAE	23
UK	14
US	11
Turkey	7

TOP COUNTRIES IN TERMS OF ISLAMIC FINANCE CONFERENCES ORGANIZERS

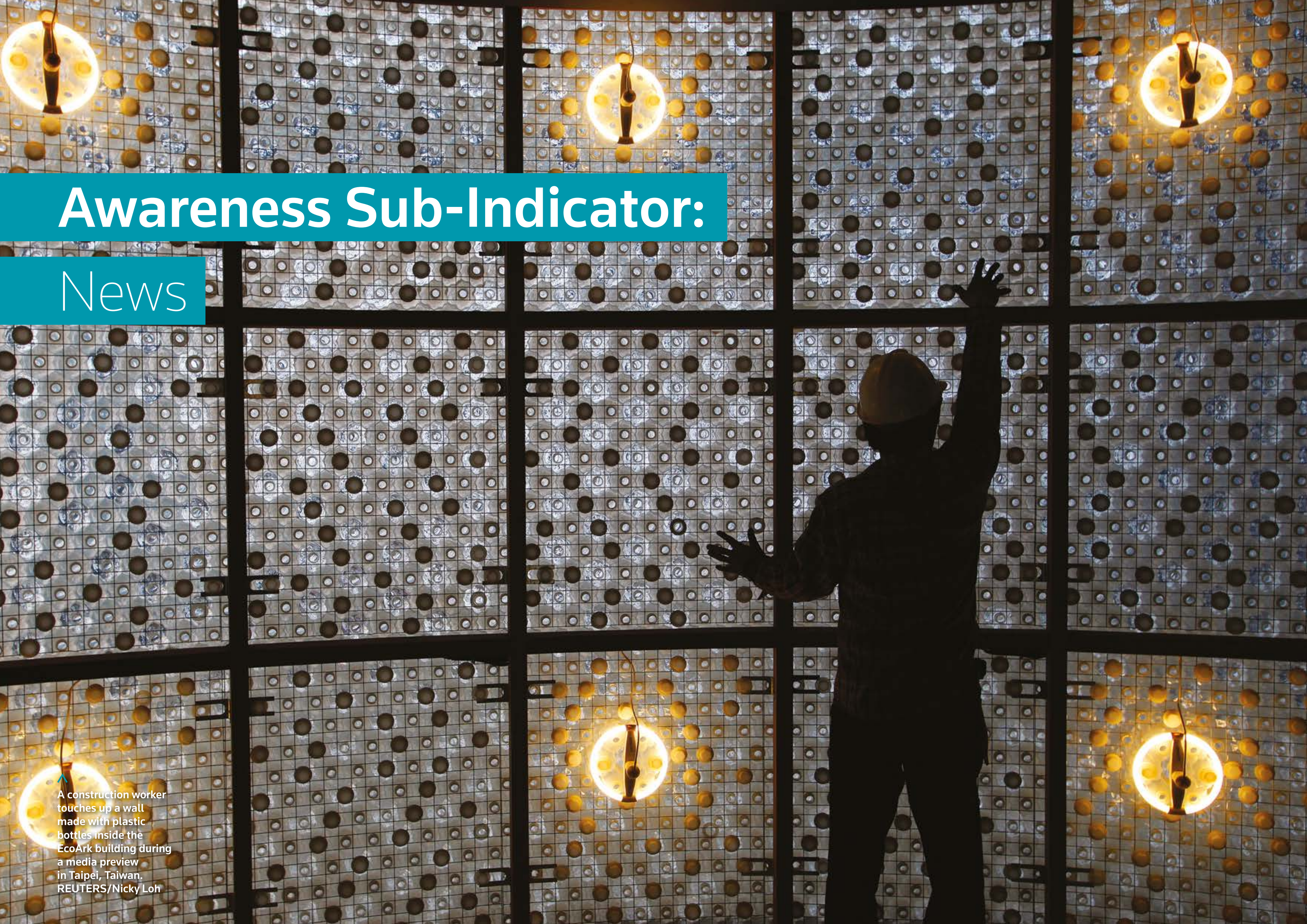
Country	Number of Organizers
UK	13
Malaysia	13
UAE	8
US	5

ISLAMIC FINANCE CONFERENCES BY TOPIC IN 2014

(FYE 2014)



Awareness Sub-Indicator: News



A construction worker touches up a wall made with plastic bottles inside the EcoArk building during a media preview in Taipei, Taiwan. REUTERS/Nicky Loh

Indicator Value Analysis

NEWS SUB-INDICATOR TOP 10 COUNTRIES

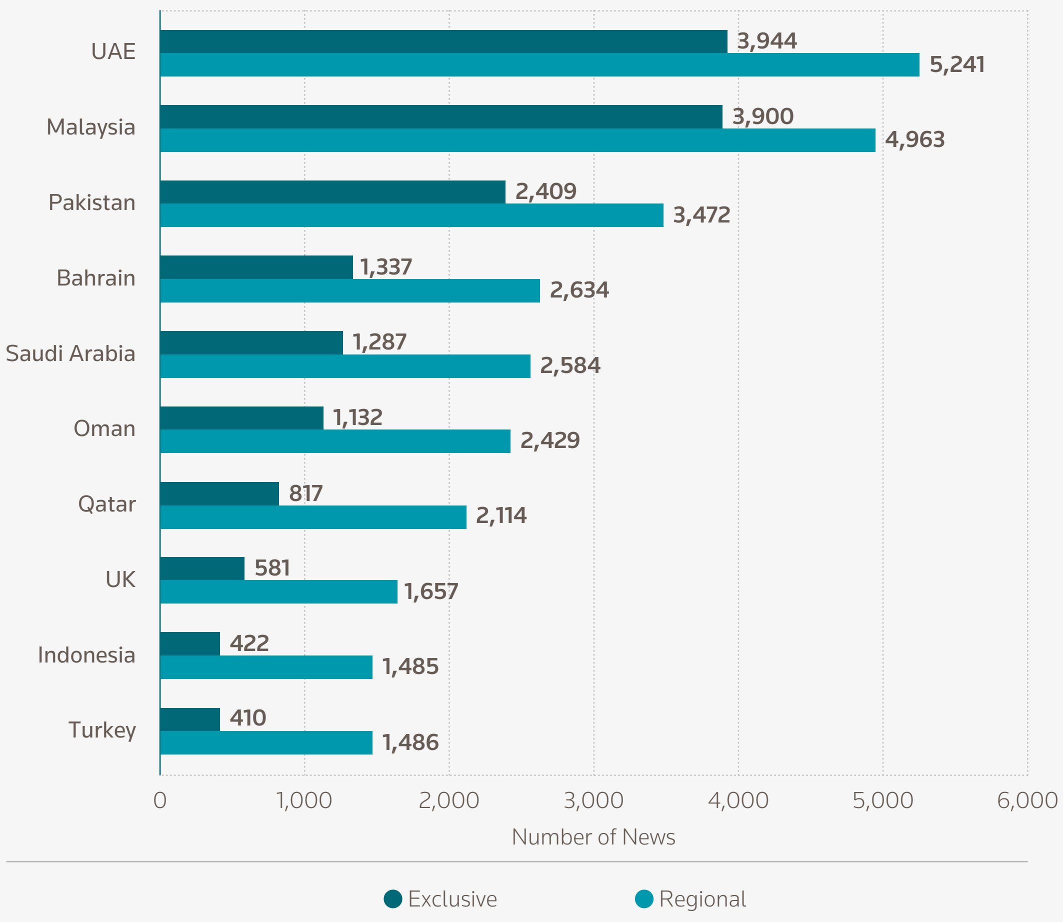
Country	Indicator Value
United Arab Emirates	300
Bahrain	300
Oman	300
Malaysia	298
Qatar	150
Pakistan	145
Kuwait	96
Saudi Arabia	88
Djibouti	69
Tunisia	57

A three-way tie on news sub-indicator

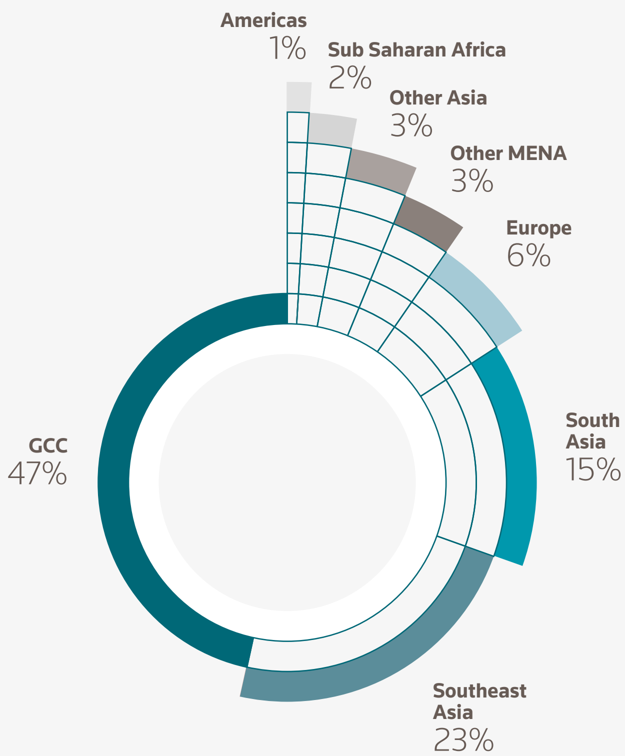
Once again, the GCC countries dominate the top 10 on the news sub-indicator: the top 3 spots were taken by United Arab Emirates, Bahrain and Oman while the remaining 3 GCC countries rank 5th (Qatar), 7th (Kuwait) and 8th (Saudi Arabia). There was a very regular and steady stream of regional GCC-related Islamic finance news in 2014.

Regional and local media attention towards Pakistan's strategic Islamic finance campaign pushed Pakistan up the rankings from 20th in 2013 to 6th in 2014.

TOP 10 PERFORMING COUNTRIES BY EXCLUSIVE & REGIONAL ISLAMIC FINANCE NEWS (FYE 2014)



ISLAMIC FINANCE NEWS BY REGION (FYE 2014)



Analysis

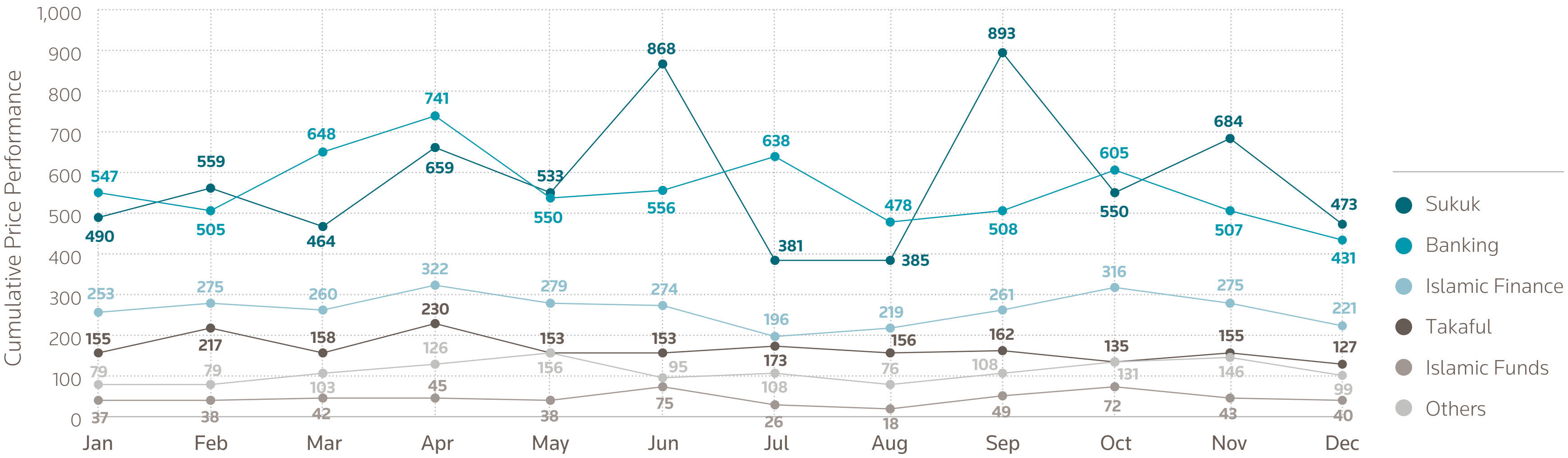
Sukuk most newsworthy asset class

Although the number of sukuk-related news seesawed monthly (especially during Ramadan in July), it is the most reported asset class be it news about issuance, rating or pricing. Islamic funds and asset management are the least covered of the main asset classes along with other topics such as regulation and Shariah governance-related news.

Other news covered related to Other Islamic financial institutions (OIFI), regulatory developments, Shariah governance, corporate social responsibility, SME and microfinancing, education and how Islamic finance connects with the Islamic Economy.

ISLAMIC FINANCE NEWS BY ASSET CLASS BY MONTH

(FYE 2014)



City of London, View from Trafalgar Square: Big Ben, double deckers, red phone box, taxi cab, people.

Top 5 news providers cover 44% of total Islamic finance news

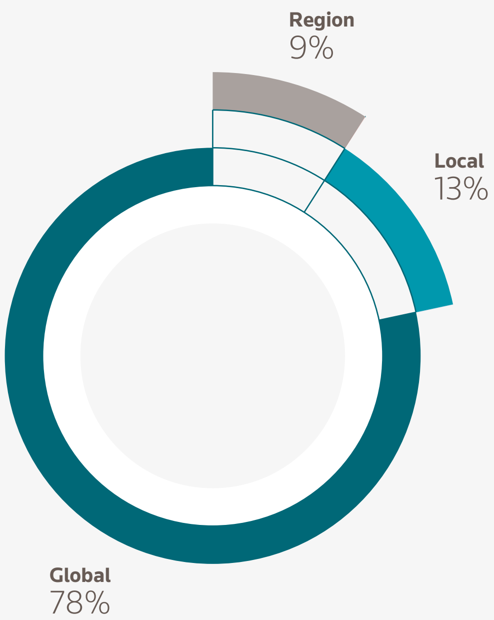
Local and regional providers, mostly local newspapers and regional portals, play a smaller part covering only 22% of Islamic finance news. By type of provider, news agencies such as Reuters and local newspapers dominate in terms of news coverage. Portals that cover regional news, publish original stories, or republish news and press releases from other sources play an important role in Islamic finance news distribution.

United Kingdom and the United States, ranked 57th and 94th, respectively on the News sub-indicator, published fewer Islamic finance news stories but they have the most number of news providers (85 and 55, respectively) covering Islamic finance. UAE, Malaysia and Pakistan have fewer news agencies covering Islamic finance but are responsible for a higher frequency of news stories than UK and the U.S.

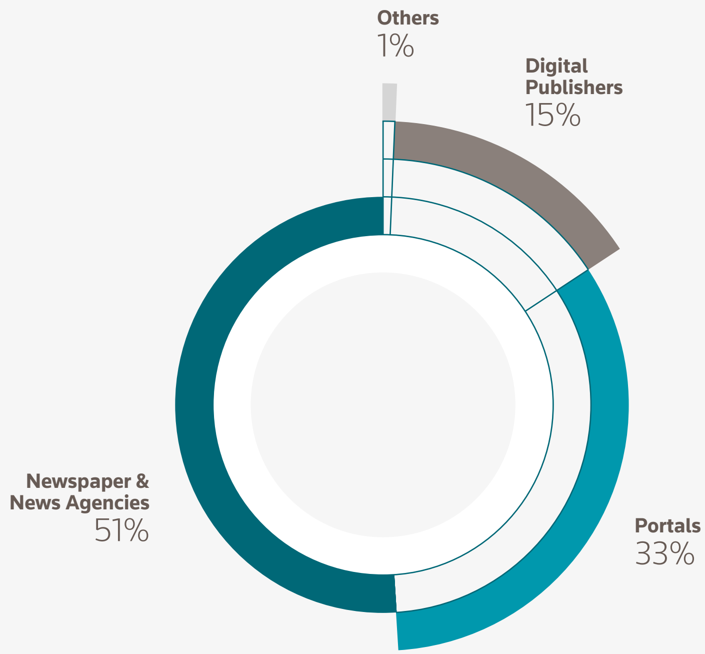
TOP 5 NEWS PROVIDERS COUNTRIES

Country	Number of Providers
UK	85
US	55
UAE	46
Malaysia	36
Pakistan	33

ISLAMIC FINANCE NEWS BY COVERAGE OF PROVIDER
(FYE 2014)



ISLAMIC FINANCE NEWS BY TYPE OF PROVIDER
(FYE 2014)



Methodology

People walk under an electronic board showing stock information at the Shanghai Stock Exchange in Lujiazui Financial Area in Shanghai, China. REUTERS/Aly Song

The Islamic Finance Development Indicator is the true barometer of the state of the industry across its fundamentals.

The Concept

The Islamic finance industry operates within a Darwinian business and financial environment that demands it adapt to constant change. Within this framework survival itself demands innovation and advancement that will both strengthen the very core of the industry as well as always keep it steps ahead of the curve. In the aftermath of the global financial crisis Islamic financial institutions, market players, regulators and other authorities have more purposefully sought out one another in order to improve the process of industry-wide cooperation and alignment. Reliable information and data are key to this exercise.

The Islamic Finance Development Indicator is the true barometer of the state of the industry across its fundamentals. The Indicator aims to introduce a new way of measuring development by combining data of the different elements of the industry into a singular composite Indicator. This quantified information will help facilitate further comprehension of how the different parts of the market are developing over time.

The Islamic Finance Development Indicator

The Islamic Finance Development Indicator is a composite weighted index that measures the overall development of the Islamic finance industry by assessing the performance of all its parts in line with its inherent faith-based objectives. It is a global level composite indicator with selected national and industry component level indicators.

Objectives

Global Indicator Level

- Present one single indicator to provide a pulse of the global Islamic finance industry's health
- Provide an indicator that is reliable and unbiased
- Inform current and potential Islamic finance stakeholders/investors about the industry's performance
- Gauge future forecasts for the industry's growth

Country Indicator Level

- Assess the current state and growth potential of Islamic finance in each country
- Highlight the performance of Islamic finance institutions in particular markets and its possible determinants
- Track changes over time and make comparisons across regions and countries

Specific Indicator Level

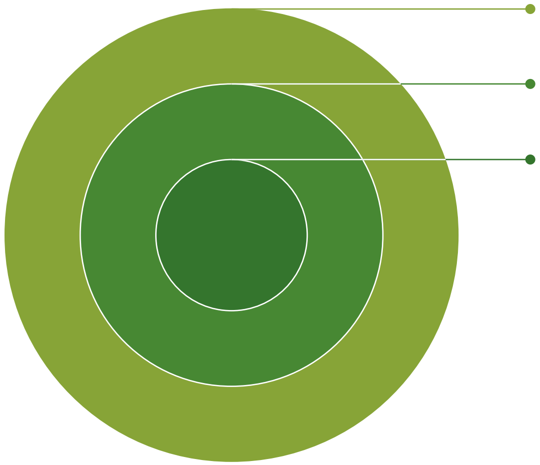
- Measure the industry's growth from various perspectives
- Enhance Islamic finance market transparency and efficiency
- Identify factors, problems and issues that prevent the growth of the industry
- Help market players formulate practical solutions to face current obstacles
- Assist in setting new targets, goals, standards for Islamic finance institutions and regulators

The Islamic Finance Development Indicator is a single measure that captures a holistic assessment of the Islamic finance industry across all sectors. It is a product of a number of key sub-indicators underlining the industry. Disaggregation of data helps expose the disparities, differences and movements that may not be exclusively covered in wide-ranging aggregate terms.

The different components that make up the Indicator were selected based on an outline of the key constituents of the industry as a whole and are based on key contemporary issues such as Corporate Governance, Corporate Social Responsibility, Knowledge and Awareness. All are fundamentally important for the development of the industry as a global business. The optimal level of development in any of the indicators is pegged to the maximum value of 300.

Selection Criteria

The word 'development' in Islam signifies well-rounded development. When an individual's life is assessed from an Islamic point of view, their monetary or financial wealth is the least important consideration. Instead, an individual's measurement is based on fulfilling their responsibilities towards God, family and the wider society.



Similarly, for Islamic finance institutions, measuring their performance or development entails assessing how well they have carried out their responsibilities in relation to their religious, economic, legal, ethical and discretionary responsibilities.

Therefore, in the context of measuring the development of the Islamic finance industry, an indicator must take stock of what the industry holds itself accountable for and in line with its Islamic economic underpinnings.

While there is no doubt that financial health by way of asset size or performance is an assumed indicator of the well-being of the industry, traditionally it has taken a disproportionate share of attention as compared to other dimensions. This is a function of the value ascribed to financial numbers in the overall financial markets and the rarity of other indicators in relation to the Islamic finance industry.

In contrast, measurements for the Islamic finance industry need to align with a holistic accountability concept that the industry and its stakeholders can take as their responsibility to develop in a coherent manner.

This accountability concept should take into view a presumption that the industry is foremost accountable to God, and this drives all other accountability for all individual actions.

1. What is the purpose of the Islamic finance industry?
2. What is considered development in the context of Islamic finance?
3. How is this translated to a pragmatic and sound theoretical framework?

These questions were deliberated in the context of the document "Islamic Financial Services Industry Development: Ten Year Framework and Strategies" prepared by the Islamic Research and Training Institute and the Islamic Financial Services Board in 2008.

That document provides recommendations covering the broad strategies and initiatives to be undertaken for the development of the various components of the Islamic financial services industry — banks, non-banking and microfinance institutions, capital markets, and insurance and reinsurance (takaful and re-takaful) services and the required support financial infrastructure.

The key priority areas identified along with traditional measures for quantitative development were used to provide a theoretical framework of the key aspects of development that need to be addressed in the Indicator.

These include:

1. Quantitative Development of IFIs and markets **('Quantitative')**
2. The industry's social contribution in line with Islamic principles **('Social Responsibility')**
3. The quality of Shariah governance to ensure that Islamic financial institutions and instruments comply with Shariah standards **('Sharia Governance')**
4. The quality of Governance and Risk Management measures to protect its stakeholders **('Corporate Governance')**
5. The availability and quality of education to ensure that its professionals are well versed in Islamic commercial jurisprudence and Islamic finance principles to serve the industry **('Education')**
6. The output of research to ensure that the industry's foundations and development are based on substantive knowledge **('Research')**
7. Awareness to facilitate better consumer protection and understanding of the principles on which Islamic finance is founded **('Awareness')**
8. Development of an enabling and supportive regulatory infrastructure for Islamic banking, sukuk, takaful and funds to flourish within a particular jurisdiction / country **('Regulation')**

Data Collection

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator values) include information that are publicly disclosed only. The employment of disclosed information ensures reliability and consistency of the results.

Universe

- All OIC countries are included
- All non-OIC countries with presence of Islamic financial institutions are included

Country list (108 countries distributed among main regions in our universe):

GCC (Gulf Corporation Council)
Bahrain
Kuwait
Oman
Qatar
Saudi Arabia
United Arab Emirates

Southeast Asia
Brunei Darussalam
Indonesia
Malaysia
Philippines
Singapore
Thailand

South Asia
Afghanistan
Bangladesh
India
Maldives
Pakistan
Sri Lanka

Europe
Albania
Austria
Belgium
Bosnia and Herzegovina
Cyprus
Czech Republic
Denmark
Finland
France
Germany
Ireland
Italy
Liechtenstein
Luxembourg
Malta
Netherlands
Norway
Poland
Romania
Serbia
Spain
Sweden
Switzerland
Turkey
United Kingdom

Other MENA (Middle East & North Africa Excluding GCC)
Algeria
Egypt
Iran
Iraq
Jordan
Lebanon
Libya
Mauritania
Morocco
Palestine
Sudan
Syria
Tunisia
Yemen

Sub Saharan Africa
Benin
Botswana
Burkina Faso
Cameroon
Chad
Comoros
Djibouti
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Ivory Coast
Kenya
Mali
Mauritius
Mozambique
Niger
Nigeria
Rwanda
Senegal
Sierra Leone
Somalia
South Africa
Tanzania
Togo
Uganda
Zambia

Other Asia
Australia
Azerbaijan
China
Hong Kong
Japan
Kazakhstan
Kurdistan
Kyrgyzstan
New Zealand
Russia
South Korea
Tajikistan
Uzbekistan

North America
Canada
United States

South America & The Caribbean
Bahamas
Brazil
Chile
Guyana
Mexico
Suriname
Trinidad & Tobago

More about the indicator methodology can be read in the rulebook which can be accessed at Zawya Islamic — Islamic Finance Development Indicator Page

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