CHAPTER 3

Country Sketches

AFGHANISTAN

IFCI Rank

2011: **21**

2012: **25**

2013: **29**

2014: **31**

Macroeconomic Data 2013

GDP (US$ in billion): **33.79**

Unemployment rate (%): **35**

Population below poverty line (%): **36**

Islamic banking and finance in Afghanistan remains meagre although there is a definite focus on primary sectors. The Agricultural Development Fund (ADF), set up in 2010 through a US$100 million grant from the U.S. Agency for International Development (USAID), offers both conventional credit and Islamic financing particularly to farmers. Demand for such financing has been particularly strong in rural communities because people there tend to be conservative. A law covering independent Islamic banks has yet to be approved by Afghanistan's parliament, and this is hindering the overall development of IBF in the country. The fund is not subject to banking regulations, making it easier to deploy Islamic banking services. Education is still poor about Islamic finance, requiring ADF to educate local communities.

Given the limited local expertise available, there are a number of foreign consultants involved. ADF has so far developed five Shari'a compliant contracts. The consultants are not well reputed and it seems the government are receiving poor advice. Afghanistan Rural Development Program (AREDP) aims to ensure the social, economic, and political welfare of rural society through the provision of basic services, strengthening local governance, and promoting sustainable livelihoods. It is designing products that meet Shari'a standards to meet financing and savings requirements for communities. The country is also developing general guidelines and regulatory framework to the Afghanistan Insurance Authority help develop the takaful industry.

While the industry has yet to receive guidance from state bodies, the private sector is building and edifice on which IBF can build. Working towards a framework for IBF will provide a stepping stone towards greater state recognition.

The World Council of Credit Unions launched a manual in July 2013 detailing how to establish and operate Shari'a-compliant credit unions in developing countries. The establishment of credit unions is hoped to help broaden the industry's retail customer base in the country.

IFCI Rank
2011: **N/A**
2012: **N/A**
2013: **34**
2014: **33**

Macroeconomic Data 2013
GDP (US$ in billion): **95.3**
Unemployment rate (%): **35**
Population below poverty line (%): **36**

AZERBAIJAN

With a predominately Muslim population - 93% of the 9 million population are Muslim – Islamic banking and finance (IBF) has a lot of potential. The IFIs in the country are reporting growing demand although Islamic banking assets are only approximately US$200 million.

Azerbaijan's largest lender, International Bank of Azerbaijan (IBA), is looking to improve the current state of affairs. It is working with national authorities on a draft Islamic banking law and a final version could be presented to parliament in 2014. However, the Central Bank of Azerbaijan (CBA) revealed that work on Islamic banking legislation is still at an exploratory stage.

Despite the optimism, it is unlikely that we will see Islamic banking legislation in 2014. So, the industry in Azerbaijan is likely to continue as it is for the foreseeable future. That being said, while IBA is currently the only bank to offer financial services through its Islamic window, there is growing interest. In September, IBA launched the first Islamic credit card in Europe. This card was issued in conjunction with MasterCard Platinum. The card itself is equipped with an electronic compass indicating the direction of Mecca. It functions primarily as a debit card; however, a debt limit can be put on the card if approved between the customer and the bank.

Amrahbank has plans to offer Shari'a compliant products in both Azerbaijan and neighbouring regions. For the moment, outside institutions are assisting in activity. In December, the Economic Policy Committee of the Azerbaijani Parliament discussed a bill On approval of the foundation agreement with the International Islamic Trade Finance Corporation. The agreement will support the financing and stimulation of trade with Islamic countries and the member states of the Organisation of the Islamic Conference (OIC). Hopes are that it will build trade relationship with OIC member countries.

Already there are budding relationships that are facilitating the development of Islamic banking in country. IBA has been instrumental in gathering the assistance of different countries. The range of services offered by the bank includes ijara, wakala deposit, Islamic bank cards, and Qard Hassan accounts. Dubai based Shari'a advisory firm, Dar al-Shari'a has been advisors on procedures and documentation on these types of services provided. Kuwait's Barwa Bank and UAE's Emirates NBD Capital and Noor Islamic Bank along with J.P. Morgan have been mandated by the International Bank of Azerbaijan to arrange a $100, 000, 000 syndicated murabaha facility. The facility will be used by the Bank to expand its financing activities in Azerbaijan. The facility was launched in May.

IFCI Rank
2011: **N/A**
2012: **N/A**
2013: **39**
2014: **38**

Macroeconomic Data 2013
GDP (US$ in billion): **961**
Unemployment rate (%): **5.2**
Population below poverty line (%): **N/A**

AUSTRALIA

Australia is not a country known for Islamic finance, but there is a sense that with its stable economy and growing Muslim population, Islamic finance can really take shape. Of the institutions that are present, the Muslim Community Co-operative of Australia (MCCA) manages a Shari'a compliant property income fund that is approximately US$30 million in assets under management. There were reports that MCCA is in advanced discussions with an unnamed Middle Eastern company with a view to setting up a A$180 million mortgage fund, a A$150 million property fund, a A$180 million sukuk fund and a A$5 million asset-leasing fund.

In February, SGI-Mitabu, a consortium of two Brisbane solar companies, announced that it will finance its entire Indonesian solar power project using Shari'a-compliant financing, starting in July with an offshore-domiciled sukuk, or Islamic bond. The deal was set to be Australia's first issuance of sukuk. The entire project requires A$550 million in financing.

Melbourne-based First Guardian plans to launch an Islamic pension fund in January 2014, collaborating with some of Australia's most well-known Muslim organisations to tap the country's US$1.5 trillion private pension system. The fund has been developed with MCCA. First Guardian's Islamic pension would be the second such product in Australia in as many years, after Sydney-based Crescent Wealth launched its own last year. Crescent Wealth is looking to expand, and plans to launch an Islamic fund investing in commercial property as it expands its range of products. The firm currently has A$20 million in assets across four Islamic funds which include cash, real estate and domestic and international equities.

BAHRAIN

IFCI Rank

2011: **8**

2012: **6**

2013: **6**

2014: **4**

Macroeconomic Data 2013

GDP (US$ in billion): **33.03**

Unemployment rate (%): **15**

Population below poverty line (%): **N/A**

2013 can be characterised by the consolidation of Islamic banks in Bahrain. Bahraini authorities have pushed for a concentration of Islamic banks to protect their capital, a reaction to the Arcapita restructuring. Arcapita has been undergoing Chapter 11 bankruptcy proceedings in the USA caused by a liquidity crisis after coming under pressure from hedge funds to repay a US$1.1 billion Shari'a-compliant loan facility. Arcapita emerged from bankruptcy courts in September. The US bankruptcy court approved a restructuring plan that splits Arcapita into two entities: one which holds the assets being sold to creditors; a second in charge of process management. It is hoped that the latter entity will allow a rebuild of the Arcapita brand. It is currently looking for new investors. The holding company will dispose assets over time to pay off creditors leading to a gradual wind-down. The US bankruptcy court approved a rare US$350 million debtor-in-possession financing from Goldman Sachs, arranged to fund Arcapita's wind-down operations. Arcapita's creditors include Barclays, CIMB, Royal Bank of Scotland, Standard Bank, Standard Chartered and the Central Bank of Bahrain. With Arcapita stretching itself too thin, and with multiple Islamic banks in the market, regulators have acknowledged that consolidation was the only way forward for Bahraini banks to stay competitive and financially strong. However, bank mergers in the Gulf are uncommon because main shareholders, often powerful local families, are reluctant to cede control and can demand exaggerated valuations. But from the beginning of the year there has been constant merger activity. The first merger of three Islamic banks took place in early 2013, a historic event for both the domestic and international Islamic financial industry. KFH-Bahrain acted as a Lead Advisor overseeing the merger of Elaf Bank, Capital Management House and Capinvest creating a financial institution with US$300 million of paid up capital, US$329 million in equity and assets of US$360 million. The bank has been named Idar Bank. The focus areas will be on capital markets, private equity and real estate. In February, Bank Ithimaar merged with one of its Bahrain-based associates, First Leasing Bank, increasing its capital to US$758 million.

Other banks are considering merging. Islamic lender Al Salam Bank said in September that it had agreed to merge with fellow Bahraini lender BMI Bank, an affiliate of Oman's Bank Muscat, through a share swap. Khaleeji Commercial Bank, 47 % owned by Gulf Finance House, said in June it was evaluating a potential merger with local lender Bank Al Khair. In March, National Bank of Bahrain and a local pension fund bought a 51.6% stake in Bahrain Islamic Bank from Kuwait's Investment Dar in a deal worth around US$92.6 million.

Bahrain has been slowly losing its mantle as a global Islamic finance hub. Malaysia has undoubtedly stolen a lot of its thunder while Dubai has brazenly declared its desire to not only be a global Islamic hub but also a global economic hub. In this highly competitive market, Bahrain is slowing its pace. The consolidation of banks is an implicit reflection of change: consolidate to strengthen, strengthen to grow. Their international footprint is visible - although Arcapita is no longer on the vanguard – but it requires internal reconstruction before external growth can truly be achieved. It has to be noted Islamic banks in the country have a slightly higher non-performing loan ratio than conventional banks, which is of concern. Bahrain's credit rating was cut in September. High subsidies for the energy sector have meant budget deficits are widening. Additionally, there are political tensions making the country unstable, a biggest constraint on creditworthiness.

Yet this is not to say that Bahrain's role has diminished in the industry. Its various multilateral institutions remain important and crucial for industry growth. The Bahrain based Liquidity Management Centre (LMC) is looking to solve the perennial liquidity problem afflicting the industry. LMC are combining sukuk, using portfolios of long term issues to back short term certificates. An SPV is created in which all the sukuk are booked. Sukuk will have different tenors and rates. However, this adds a layer of Shari'a concern although it improves liquidity.

Increasing liquidity is a prime concern for Bahraini Islamic financial institutions. In October, the Central Bank of Bahrain (CBB) introduced enhanced rules on the operational and solvency framework for takaful and retakaful for consultation. Bahrain's takaful sector grew 22% in 2012 to register BHD53.67 million (US$142.4 million) in gross contributions, outpacing the 9% growth in the overall domestic market. Gross takaful contributions represented around 22% of Bahrain's total gross premiums in 2012. In December, Solidarity General Takaful agreed to insure a public-private housing project in the country valued at US$450 million. It is the biggest single project ever awarded by the Ministry and involves the development of more than 2,800 social and affordable housing units in two locations.

IFCI Rank

2011: **9**

2012: **12**

2013: **10**

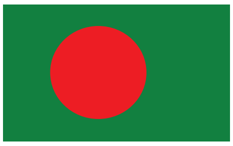
2014: **11**

Macroeconomic Data 2013

GDP (US$ in billion): **302.8**

Unemployment rate (%): **5**

Population below poverty line (%): **31.5**



BANGLADESH

Bangladesh is in serious turmoil. Religious tensions have risen and there is growing antagonism between the secular left and religious right. The already wrought political landscape fractured further in the last year leading to frequent strikes and clashes between groups of different political persuasions. Businesses have suffered greatly over the course of the year and caution is being practiced by many foreign investors. Several local commercial banks are unable to repay the loans against local and foreign letters of credit. Concerns have arisen about whether banks, like Islami Bank Bangladesh, might face a setback for their high dependence on readymade garment exports if the political unrest prolongs. Two local private commercial banks, Prime Bank and Dutch Bangla Bank allegedly failed to repay loans from the Islamic Corporation for Insurance of Investment and Export Credit (ICIEC), an associate organisation of the Islamic Development Bank (IDB). Yet the country has pattered along even as the enraged faces of discontents and burning buses stack up on the roads. And in this remarkable plodding, Islamic banks have been growing in popularity. So much so that in June , two conventional banks – NCC Bank and Southeast Bank –applied to the central bank for permission to convert into full-fledged Islamic banks. Several other banks have sought permission to open Islamic banking branches.. With growing interest and increase in activity, training and educational programmes are necessary. Bangladesh does not have any degree programmes in IBF offered by any of its universities, but there are a few training programmes. In September, the Chartered Institute of Management Accountants Bangladesh (CIMA Bangladesh) launched a CIMA qualification in Islamic finance for the first time in Bangladesh.

According to the central bank, growth of deposits is more in Islamic banks than in conventional banks. As of April 2013, Islamic bank deposit growth stood at 21.73% and credit growth at 14.59% compared to 18.90% and 11.12% respectively in conventional banks. Islamic banks in Bangladesh generally have higher capital adequacy ratios and lower non-performing loan ratios than their conventional banking counterparts. In July, Bangladesh's Securities and Exchange Commission approved the prospectus of Alliance S&P Shariah Index Fund. This is the first Islamic index fund in the country with subscription commencing in September.

IFCI Rank

2011: **N/A**

2012: **N/A**

2013: **N/A**

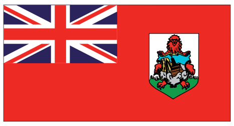
2014: **N/A**

Macroeconomic Data 2013

GDP (US$ in billion): **5.6**

Unemployment rate (%): **8**

Population below poverty line (%): **11**



BERMUDA

Bermuda has rapidly built its infrastructure for Islamic finance and has established partnerships with the financial centres of a range of Muslim countries. Bermuda has signed a double taxation agreement with Bahrain and Qatar. In a speech at the World Islamic Economic Forum, Bermuda leader Craig Cannonier announced Bermuda's government intent to make the island a leading Western destination for Islamic finance through building on its world-class position in insurance and reinsurance.

IFCI Rank

2011: **23**

2012: **15**

2013: **17**

2014: **17**

Macroeconomic Data 2013

GDP (US$ in billion): **21.64**

Unemployment rate (%): **2.6**

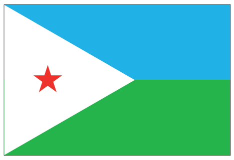
Population below poverty line (%): **N/A**

BRUNEI

Brunei's takaful sector grew 15% in the first half of 2013 to BND105 million (US$84 million), slightly more than the conventional sector's 12% growth in the same period. Statistics from Autoriti Monetari Brunei Darussalam (AMDB) show that the main driver of this growth was family takaful, which grew 81% in the first half to BND38 million, compared to the 4% rise in general takaful contributions to BND67 million.

The launch of the Brunei Insurance and Takaful Association in November provides a significant boost for the industry. The new trade body replaces the General Insurance Association Brunei Darussalem, which only consisted of conventional insurance companies. The new trade body unites all the nine registered conventional insurers and four takaful operators in Brunei.

DJIBOUTI



IFCI Rank

2011: **N/A**

2012: **N/A**

2013: **N/A**

2014: **N/A**

Macroeconomic Data 2013

GDP (US$ in billion): **2.35**

Unemployment rate (%): **59**

Population below poverty line (%): **42**

Djibouti is promoting Islamic finance to increase banking penetration in the tiny African nation and help fund upgrades to the country's infrastructure. It is hoped that Islamic finance will lift the country out of poverty. The majority of the country's population, who are Muslim, are not customers of banks limiting the country's ability to assemble capital for investment. An Islamic banking law introduced in 2011 and seven guidance notes from Djibouti's central bank have helped the industry. Four of the 11 small banks in the country are Islamic: Saba Islamic Bank, Salaam African Bank, Dahabshil Bank International and Shoura Bank.

The Islamic banks, which now account for about 15 % of the country's total banking assets and 12% of deposits, are backed by investors from Yemen, Somalia, the United Arab Emirates and Egypt . The country's Doraleh container terminal was built through a venture between the government and Dubai's DP World with financing came through a US$396 million Islamic deal partly funded by the Jeddah-based Islamic Development Bank.

ETHIOPIA

IFCI Rank

2011: **N/A**

2012: **N/A**

2013: **N/A**

2014: **N/A**

Macroeconomic Data 2013

GDP (US$ in billion): **109**

Unemployment rate (%): **N/A**

Population below poverty line (%): **29.2**

In September, the regulatory body, National Bank of Ethiopia (NBE), issued the first license to Oromia International Bank, a conventional bank, to offer Islamic banking services. NBE had previously issued a directive allowing banks to offer an Islamic window. Zemzem Bank, which was under formation to operate Islamic banking, collapsed because of NBE's directives that indicated that IBF services must be provided only by an Islamic window. Ethiopia provides an interesting model of Islamic banking, one of the only countries to completely use an Islamic window model.

EGYPT

IFCI Rank

2011: **13**

2012: **13**

2013: **14**

2014: **14**

Macroeconomic Data 2013

GDP (US$ in billion): **534.1**

Unemployment rate (%): **12.7**

Population below poverty line (%): **20**

What is going on in Egypt? Uncertainty haunts the country interminably. First, the 2011 revolution in which Mubarak was overthrown by the popular uprising. Mohammed Morsi, part of the Muslim Brotherhood took power against a backdrop of optimism. By July 2013, Morsi was thrown into jail, a military leader took control, violence prevails in the street, and it seems Egypt has gone back three years.

Islamic finance appeared to have been part of the agenda of the Muslim Brotherhood. Earlier in the year, before the unceremonious departure of the beleaguered Morsi, sukuk was being touted as a means to fill the growing hole in the country's accounts. Indeed, the protracted and vexatious debate on sukuk law (which was rejected by Al Azhar Senior Council) appeared to be reaching a positive conclusion before Morsi's removal. One of Morsi's final acts was to approve the sukuk law, but following his ousting, the law has been thrown into the air. In December, the Egyptian Financial Supervisory Authority announced that it would submit new rules to the government in 2014 to facilitate issuance of sukuk. The Egyptian Financial Supervisory Authority has said that sukuk will be issued in order to tap into funds from the GCC and Southeast Asia.

The market share of Islamic banks in Egypt remains at approximately 4%. However, the new authorities are showing some interest in Islamic finance. In a country of 77 million, with the majority being Muslims and only 10 – 15% using formal banking services, Islamic finance still presents a lucrative opportunity for a country in need of funds. Since the disposal of Morsi, Saudi Arabia, the United Arab Emirates and Kuwait have become Egypt's main financial backers, pledging US$12 billion in aid. Any revival of foreign investment into Egypt is expected to depend heavily on the Gulf to help replenish its foreign exchange reserves and bridge its huge state budget deficit.

At the retail level, financial institutions are pursuing growth and product development. With Morsi in charge, political encouragement had given the impetus that the industry needed in the country. The National Bank for Development signed its first Shari'a compliant syndicated financing agreement for the East Delta Company for electricity production. For the first time in the Egyptian banking market, Abu Dhabi Islamic Bank (Egypt) launched a Shari'a compliant cash back card in cooperation with Mastercard. The card offers a cash back system with a discount of two per cent on all purchases made within Egypt and five per cent on purchases abroad. In May, Abu Dhabi Islamic Bank (Egypt) arranged and signed the first Islamic ijara structure syndication for Maridive and Oil Services SAE. The company is looking to expand to meet increasing demand, especially in Latin America. In September a consortium comprising three banks, namely Bank Audi, Banque Misr and Egyptian Arab Land Bank, signed the final financing agreements for the biggest Islamic loan to be arranged for Egyptian Steel Co. The three banks will underwrite the EGP1.07 billion credit facility that is divided as follows: EGP150 million to be secured each by Audi and EALB and EGP770 million by Banque Misr.

To meet growing demand for Islamic banking services in rural areas, Egypt's main agricultural bank, Principal Bank for Development and Agricultural Credit, is offering Islamic financial services. As many farmers do not procure conventional loans, the presence of Islamic banking services in rural areas is expected to boost demand.

IFCI Rank
2011: **N/A**
2012: **37**
2013: **37**
2014: **36**

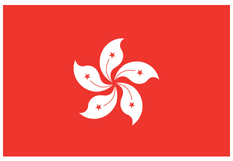
Macroeconomic Data 2013
GDP (US$ in trillion): **3.167**
Unemployment rate (%): **5.5**
Population below poverty line (%): **15.5**

GERMANY

FWU Group, a Munich-based financial services company, issued a US$20 million five-year Islamic bond backed by insurance policies in October. The sukuk is the first tranche of a US$100 million programme rated BBB- by Fitch, and arranged by EIIB-Rasmala, a venture between London-based European Islamic Investment Bank (EIIB) and Dubai's Rasmala Group. Proceeds of FWU's sukuk, which carries a profit rate of 7 %, will be used to fund a set of retakaful transactions for its Luxembourg-based unit Atlanticlux. The assets for the transaction are the beneficial rights of insurance policies; ownership is transferred to a Guernsey-based company which is in turn managed by AON PLC, which acts as the agent. In December 2012, FWU issued a US$55 million seven-year sukuk through a private placement that was backed by intellectual property rights.

IFCI Rank
2011: **N/A**
2012: **N/A**
2013: **N/A**
2014: **N/A**

Macroeconomic Data 2013
GDP (US$ in billion): **365.5**
Unemployment rate (%): **3.3**
Population below poverty line (%): **N/A**



HONG KONG

There has been intermittent burst of interest followed by a period of quietude in Hong Kong's approach to Islamic financ. But being in a strategic location and representing a key access point into China, any activity in the Islamic finance space can have osmosis effects. In January it was reported that Malaysian bank Maybank and Clifford Chance LLP were training Hong Kong staff for the city's first sukuk sales before lawmakers review a bill to give the debt equal tax treatment. In July, Hong Kong regulators passed a bill to facilitate issuance of sukuk in the local market, helping to clarify their tax status. In August, Bank Negara Malaysia and the Hong Kong Monetary Authority met to discuss bilateral economic and financial issues and to consider initiatives to help promote financial market development in Malaysia and Hong Kong. The joint efforts will cover offshore business development and Islamic finance. The two organisations hope to set up a private sector led joint forum for the promotion of IBF. Al Salam Bank-Bahrain and a group of Gulf-based financial institutions in a joint venture launched a new US$165 million waste-to-biodiesel plant in Hong Kong which will be operated by ASB Biodiesel.

INDIA

IFCI Rank

2011: **11**

2012: **30**

2013: **33**

2014: **34**

Macroeconomic Data 2013

GDP (US$ in trillion): **4.716**

Unemployment rate (%): **8.5**

Population below poverty line (%): **29.8**

India has not been particularly proactive in developing Islamic banking in a nation that boasts the third highest number of Muslims in the world. Positive developments have usually been countered by official statements of disinterest. Yet, incremental developments may lead to something more substantive. In August, India's central bank allowed Cheraman Financial Services, based in Kerala, to operate a non-banking financial company that follows Islamic principles. Kerala has a large Muslim population and an overseas diaspora of workers who remit money from the Gulf. In May, the Bombay Stock Exchange (BSE) launched an Islamic equity index based on the S&P BSE 500 index. This provides interested investors with a new benchmark to guide their Shari'a compliant investments. The new index comprises the largest 500 companies in the BSE, out of more than 5,000 listed, which fit Islamic finance principles. The Reserve Bank of India (RBI) has been supportive of an investment model of Islamic finance as opposed to a banking model. In 2012 the RBI directed Kochi-based Alternative Investments and Credits Ltd (AICL) to stop its non-interest entity business almost a decade after the firm was launched. This prompted a legal challenge by AICL which remains active.

INDONESIA

IFCI Rank

2011: **4**

2012: **7**

2013: **5**

2014: **7**

Macroeconomic Data 2013

GDP (US$ in trillion): **1.204**

Unemployment rate (%): **6.1**

Population below poverty line (%): **11.7**

It is perhaps difficult for Indonesia to be constantly compared to Malaysia in terms of its Islamic finance capacity. There is an expectation that as Indonesia has the world's largest Muslim population it should have an Islamic financial market of at least a comparable size to Malaysia. Currently, Indonesian Islamic lenders hold 4.8% of total banking assets compared to more than 20% for their Malaysian counterparts. In terms of the domestic infrastructure, there are 11 Islamic banks in Indonesia with combined assets of US$18.96 billion. There are 120 conventional banks with assets of US$387.64 billion. Indonesia allows 16 Islamic-banking products, compared with 59 in Malaysia. Regulators in Indonesia are assessing a Shari'a- compliant instrument for banks to hedge against currency swings.

But this ignores the infancy of the industry in Indonesia and the dedication of governmental authorities to help boost and develop the industry. Market analysts expect the Islamic finance industry to grow significantly over the next 10 – 15 years. Already the government is talking about developing a Shari'a compliant lender of last resort in the country. There is currently a draft law on takaful in parliament. Assets in Indonesian takaful firms grew 42.8 % to US$1.1 billion as of December 2012 representing 2.3 % of total industry assets. The takaful market is dominated by windows, 37 to be precise, with five full fledged takaful firms. The law itself is intended to close takaful windows and develop a consolidated takaful market. Indonesia's takaful sector has attracted global firms keen to capitalise on rapid economic growth. Canada's Sun Life Financial Inc is looking to expand in Asia. Already it is offering takaful products for Indonesian Hajj pilgrims. The company is the only North American life insurer in Indonesia to offer a Shari'a compliant savings and insurance plan for the Hajj.

Indonesia has 11 fully fledged Islamic lenders and 24 window operations at non-Islamic banks. The central bank is seeking to spur industry growth by requiring the windows to become standalone units by 2015. Currently Islamic banking's role in financing involves the consumer goods sector. Untapped areas include the government sector and infrastructure, productive sector and unbanked and unbankable/social aspects.

A new policy was announced in May in which Indonesia plans to shift 11 trillion rupiah (US$1.1 billion) of pilgrim's savings into Shari'a- compliant lenders. Deposits set aside by those planning a Hajj visit to Mecca in Saudi Arabia will be shifted by the Ministry of Religious Affairs from non-Islamic banks within a year. The funds are equivalent to 7.3 % of the 150.8 trillion rupiah in savings at Islamic lenders, central bank data show. The entire Hajj fund totalled 55 trillion rupiah in March, with about 35 trillion rupiah invested in non-tradable sovereign sukuk and 9 trillion rupiah already placed at Islamic lenders, official data show. The government wants to increase trading volumes by selling less bonds to the fund.

IFCI Rank

2011: **20**

2012: **16**

2013: **16**

2014: **16**

Macroeconomic Data 2013

GDP (US$ in billion): **38.24**

Unemployment rate (%): **12.5**

Population below poverty line (%): **14.2**

JORDAN

In May, Standard & Poor's Rating Services lowered its long term counterparty credit rating on Jordan Islamic Bank (JIB) from BB to BB-. This is a consecutive downgrade and reflects Jordan's economic problems. The rating reflects JIBs material exposure of assets and equity to domestic sovereign risk. The downgrade would indicate that there are potential storm-clouds on the horizon. But financial results suggest that JIB's performance is improving. Net profits after tax reached US$51.34 million compared to US$39.92 million in the same period in 2012. Profits before tax reached about $73.77 million compared to about US$56.70 million with a growth of 30 per cent in the third quarter of 2013. Thus, In November, the Islamic International Rating Agency (IIRA), affirmed that JIB ratings were stable. Growth momentum in the asset book of JIB has slowed since 2012 in consonance with the overall industry trend, but JIB has channelled excess liquidity kept as cash with the central bank towards meeting financing needs of a large public sector entity in the power sector. While this exposes the bank to concentration risk and possibility of economic losses in case of delays in repayment, it is offset by improvement in near-term profitability position of the bank. Retail, private-sector corporate and real estate financings have been positive.

IFCI Rank

2011: **N/A**

2012: **35**

2013: **31**

2014: **32**

Macroeconomic Data 2013

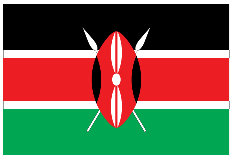
GDP (US$ in billion): **228.7**

Unemployment rate (%): **5.3**

Population below poverty line (%): **5.3**

KAZAKHSTAN

In 2008, Kazakhstan introduced Islamic finance in the country with the passing of an Islamic finance law. 5 years on, little has happened besides the establishment of a branch of Al-Hilal Bank in Kazakhstan. Things could radically change over the next few years. In November, Kazakh President Nursultan Nazarbayev sacked central bank Chief, Grigori Marchenko, and replaced him with Deputy Prime Minister Kairat Kelimbetov. There is now a renewed hope that the new head, coupled with assistance from the Islamic Development Bank, will provide impetus for the industry. IDB has offered a grant to kick start the drafting of a new, and more comprehensive, Islamic bank law. In March, the Islamic Corporation for the Development of the Private Sector (ICD) took a stake in Zaman Bank in order to convert it into an Islamic lender, a process which could be completed as soon as 2014. The ICD has also helped create an Islamic mortgage company, which is seeking foreign investors. Also in March, the ICD offered US$20 million of Islamic financing for real estate projects and earmarked US$40 million for financing small and medium-sized businesses.



KENYA

IFCI Rank

2011: **24**

2012: **17**

2013: **22**

2014: **23**

Macroeconomic Data 2013

GDP (US$ in billion): **75**

Unemployment rate (%): **840**

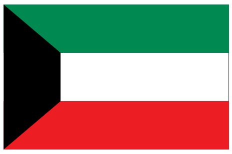
Population below poverty line (%): **50**

Demand for Islamic banking services is increasing in Kenya, so much so that the National Bank of Kenya, a conventional bank and one of the biggest in the country, signed up for Path Solution's iMal system which offers Islamic banking solutions. Standard Chartered will start offering Islamic banking in Kenya, using it as a platform to expand throughout Africa. Services would be offered through its Islamic banking brand, Standard Chartered Saadiq, targeting the country's Muslim population of 4 million people, as well as non-Muslims. The two Islamic banks operating in Kenya, Gulf African Bank and First Community Bank, were licensed in 2008. A takaful insurance company has also begun operating in the past two years.

In takaful, there has been several notable developments. Kenya's Retirement Benefits Authority (RBA) licensed the country's first Shari'a compliant pension product in April. Takaful Insurance of Africa (TIA) will offer both individual and company sponsored pension products. TIA is East Africa's first takaful operator and it became the first insurance company in the region to share its profits with clients. Kenya Reinsurance Corporation Limited (Kenya Re) opened its retakaful window. The conventional side was established in 1970, and as of 2011, has an asset base of over KES21 billion. The venture into Islamic financial reinsurance shows the depth of the market.

Takaful Insurance of Africa Ltd., Kenya's only Shari'a-compliant insurer, plans to expand its operations into five East African nations. Under its five-year plan spanning 2013-2017, it will expand into Ethiopia, Tanzania, Uganda, Somalia and Somaliland, where it was granted a license this year. Kenya's second-biggest insurer by premiums, is one of the largest investors in takaful with about 22 %, while four investment companies also have stakes. In Kenya, Takaful Insurance has four outlets and 80 agents in Nairobi and Mombasa.

Takaful has faced challenges including a regulatory requirement that 10 % of premiums be invested in treasury bills and bonds, both of which are not Shari'a-compliant. The regulators have allowed that this condition can be waivered and premiums be put in a charity account while the company awaits approval to invest the 10 % in the two Islamic banks.



KUWAIT

IFCI Rank

2011: **6**

2012: **4**

2013: **7**

2014: **5**

Macroeconomic Data 2013

GDP (US$ in billion): **150.9**

Unemployment rate (%): **2.2**

Population below poverty line (%): **N/A**

In February, Kuwaiti financial regulator, the Capital Markets Authority (CMA), issued a statement warning the country's Shari'a-compliant financial institutions to ensure they employ the right number of properly qualified Islamic finance practitioners. The CMA also called on institutions to offer a "commitment to full transparency" in their transactions.

Kuwait Finance House (KFH) continues its lead as a premier Islamic banking institution in the country. In July KFH was granted an Independent Assurance Certificate from Ernst & Young. The bank was been certified according to data and information related to the bank's sustainability performance, internal protocols, processes and controls related to the collection and collation of performance data, sustainability-specific data and information related to the workforce. The certification confirms KFH's sustainability performance at all levels. KFH is the first Islamic bank in the world to achieve this certification. The bank organises integrated training programmes about sustainability in which it covers environment, water usage, community, financial stability, energy usage, and Shari'a policies and compliance. KFH aims to build a sustainable future by delivering Shari'a-compliant products and services which stimulate positive economic outcomes. In June, KFH signed a MoU with INCIEF in order to enhance research and development in the industry as well as developing human resource capital.

KFH is also innovating in terms of its service offerings. It has launched Tamweel Online which allows KFH clients to access several banking and commercial services for free, including a detailed bank account statement, transferring money among accounts, following credit card transactions, and settling credit card due payments. For Tamweel Online subscribers, they can transfer money though ATM machines to their personal KFH accounts or to accounts at other banks. The service is a first in Kuwait.

KFH increased its capital by 20 % in June. The bank sought to raise US$1.12 billion through selling 639 million new shares and pushing the bank's Tier 1 ratio - the key measure of a bank's financial health - towards its 17 % target for the end of 2013. It currently stands at 13.6%, below the 15.5% average for the Kuwaiti banking sector. Moody's have downgraded KFH to A1 on the back of continuing pressure on asset quality, an increasing reliance on volatile investment income for revenue and the bank's complex organisational structure.

Warba Bank introduced a qard hasan financing facility into the local markets which is free of profit payments and administration expenses. The product is available to Kuwaiti nationals and GCC residents working in Kuwait. The product is provided through pre-paid cards that are issued for free for the first year. Growing trade flows between the Gulf and East Asia has raised interest in trade finance. Kuwait-based Asiya Investments has launched an Islamic trade finance fund with US$20 million in seed capital, aiming to cater to small Asian manufacturers.

IFCI Rank
2011: **N/A**
2012: **N/A**
2013: **N/A**
2014: **N/A**

Macroeconomic Data 2013
GDP (US$ in billion): **80.81**
Unemployment rate (%): **30**
Population below poverty line (%): **N/A**

LIBYA

Following the overthrow of Colonel Gaddafi, the Islamic authorities have been quite emphatic about establishing Shari'a as the national law. In finance, there are concerted efforts to incorporate Islamic finance into the economy. The authorities enacted a law that banned interest in financial transactions. The IMF warned of the impact of the interest ban particularly as the financial sector remains in a weakened state.

In December, the Libyan General National Council assembly voted to make Shari'a law the base for all legislation and for all state institutions. The outlines are not clear and a special committee has been formed to review all existing laws to check their complicity with Shari'a. Authorities have decided to issue three Islamic banking licenses. Applications have been made, but it will not be until 2014 that the banks will be set up. Currently the 16 banks operating in Libya, including seven foreign banks, offer mainly conventional banking services with some providing interest-free Islamic banking through Shari'a-compliant windows.

In May, the Central Bank of Libya signed an MoU with INCEIF. The collaboration enables the Central Bank of Libya to access INCEIF resources for developing its talent, and allows INCEIF to deliver its academic and industry services on the ground as well.

To build the economy, Libya is looking to its natural resources. Libya is holder of Africa's largest crude reserves and is currently seeking financing to double refining and expand chemical production. As one of the 12 members of OPEC, it is currently progressing toward a credit rating from Standard & Poor's. Most of the country's revenue is coming from oil and gas reducing the amount of debt. However, any debt that they do build in future has to be Shari'a compliant.

IFCI Rank
2011: **N/A**
2012: **N/A**
2013: **N/A**
2014: **N/A**

Macroeconomic Data 2013
GDP (US$ in billion): **41.86**
Unemployment rate (%): **6.1**
Population below poverty line (%): **N/A**

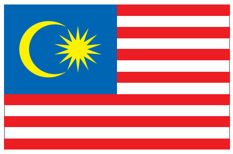
LUXEMBOURG

Luxembourg is the fifth most popular location for the launching of Shari'a compliant funds. There are over 40 regulated Shari'a compliant investment funds with a total AUM of US$5.5 billion. Four Luxembourg –based firms (Amanie Advisors, ADEPA Asset Management, Theisen Law, and KBL European Private Bankers) launched the Alliance for Luxembourg Islamic Finance offering fund managers the service to have their custodianship and fund servicing carried out in a Shari'a-compliant manner.

Private investors from Gulf countries, including a royal family from the United Arab Emirates, plan to establish the first full-fledged Islamic bank, known as Eurisbank, headquartered in Luxembourg. Expected opening date will be the last quarter of 2014. With initial capital of 60 million Euros (US$80 million), the bank would offer retail, corporate and private banking services, and would open branches in Paris, Brussels, the Netherlands and Frankfurt. Excellencia, an Islamic fund manager based in Luxembourg, has been contracted with consultants Deloitte to handle procedures for establishing Eurisbank.

In October, FWU Group, a Munich-based financial services company, issued a US$20 million five-year sukuk backed by insurance policies. Proceeds of FWU's sukuk, which carries a profit rate of 7 %, will be used to fund a set of re-takaful transactions for its Luxembourg-based unit Atlanticlux, which is the ultimate obligor under the programme.

MALAYSIA



IFCI Rank

2011: **2**

2012: **2**

2013: **2**

2014: **2**

Macroeconomic Data 2013

GDP (US$ in billion): **494.7**

Unemployment rate (%): **3**

Population below poverty line (%): **3.8**

In August, the Prime Minister of Malaysia, Dato' Sri Najib Razak, introduced Malaysia's Islamic finance marketplace to the world with the brand slogan - "Malaysia: World's Islamic Finance Marketplace." One of the aims of the branding exercise is to attract investment and interest from foreign entities, and judging by the strengthening of the industry in Malaysia, this is very achievable. Every single aspect of the Islamic financial sector has been addressed in Malaysia starting from education all the way up to investment banking. To consolidate, the Islamic Financial Services Act 2013 (IFSA) came into force in June providing greater clarity in legal and Shari'a requirements. The law makes scholars legally accountable for financial products, with the potential of levelling steep fines and prison time for wrongdoing. The new rules also include a plan to require Islamic life insurers to separate the life arm from other parts of their business. Companies need to establish a new board and capital base for each business under the IFSA, making operations more capital-intensive. This could favour companies with large balance sheets, spurring consolidation as smaller players struggle for scale. Regulators also have greater oversight over the industry. The Malaysian government is currently reviewing the operations of Islamic endowments as it looks to have them run by private corporations instead of religious bodies. Malaysian awqaf hold 11,091 hectares of land valued at MYR1.2 billion (US$384 million). It has been accepted that corporate involvement is needed to make awqaf more productive. Currently, it has been estimated that only a fifth of awqaf projects generate significant revenue meaning that there are not enough funds for charitable purposes. Sustainability is a major concern.

Government dedication and commitment give industry players the manoeuvrability to grow. Bursa Malaysia is keen to turn domestic companies into regional champions. It is promoting industries such as palm oil, Islamic finance and oil and gas, after putting in place governance rules that match standards in Singapore and Thailand. Malaysia boasts the biggest Islamic debt market and the most liquid crude palm-oil futures contract in the world.

With the strengthening of the industry, it has meant developing a qualified workforce that can underpin the global growth of the industry. Already home to a number of universities offering Islamic financial courses, UK's University of Nottingham Malaysia Campus launched a new programme – a master's in Investment and Islamic finance in December. The programme aims to enhance students' understanding of techniques that are particular to Islamic and conventional finance and help develop analytical tools. There is also a strong focus upon equipping students with an awareness of corporate and social responsibility issues.

The introduction of the new course, which combines theoretical and practical knowledge, attempts to tackle a problem in Malaysia. Malaysia has an estimated 50 course providers and 18 universities which provide Islamic finance degrees. It also boasts the largest academic output globally. The problem, however, is that the training and qualifications do not provide the levels of specialism required by employers. However, this is slowly changing. UUM, a leading university offering IBF qualifications, was awarded a Global Islamic Finance Award for its provision of educational services.

At the same time, Malaysia has not forgone the conventional financial sector. In fact, it has attempted to ensure a dual system and has been at the forefront of ensuring a level playing field between Islamic and conventional finance. In October, it released the Law Harmonisation Committee Report which documents the current phase of the committee's initiatives since its inception in 2010. The high level committee has a mandate to recommend legal reforms that will advance the development of Islamic finance. A total of nine issues concerning 17 laws were reviewed. Recommended amendments were made on four issues, which have been escalated to the relevant Government ministries, departments and agencies. The four recommendations are 1) introduce provisions in court rules to account for Shari'a rules concerning late payment charges on judgement debts in Islamic financial cases; 2.) amendments to reserve land legislations to allow better access to Islamic financing; 3.) recognition of Islamic finance in the National Land Code 1965; and 4.) introduce the usage of more globally accepted Shari'a compliant product structures of the for the Islamic money market through appropriate modifications in the Companies Act 1965 that would enable a more efficient conduct of collateralised commodity murabaha transactions. Only the first recommendation has been fully implemented.

Along with the statutory legislation, standard issuing bodies remain active. The Securities Commission issued new standards for Shari'a compliant equities in November that are expected to attract investment funds from the Gulf. It uses a new screening methodology which incorporates quantitative filters such as benchmarks for financial ratios, moving closer to the approach generally used in the Gulf. The new list will add 16 stocks and remove 158 that were on the previous list, which was issued in May. The International Islamic Financial Market (IIFM) issued guidelines to broaden the range of tools for Islamic lenders to manage excess funds. The rules govern wakala contracts. IIFM's unrestricted wakala would be a reference point for lenders in managing treasury operations, defining roles and obligations of principals and agents for matters including due diligence, profit warnings, insolvency and contract termination.

The Islamic Financial Services Board (IFSB) is continuing to build up its position as a regulatory board for the Islamic finance industry. In December it published guidelines on capital adequacy for Islamic banks and risk management of takaful institutions. These guidelines represent forward thinking and serve to only strengthen the industry. Many regulatory initiatives in conventional finance are sparked by crises; the IFSB have been drafting their guidelines with understanding of the Islamic financial industry, and the problems that hit conventional banks. There have also been revised guidelines for sukuk. IFSB membership currently stands at 185.

The International Islamic Liquidity Management Corp (IILM) changed its chief executive last year. Since then, it has been going through a major upheaval. In July it reshuffled its Shari'a Board, losing four of its original six members. In April Saudi Arabia's central bank gave up its shareholding in the IILM. Of the original members of the IILM's Shari'a board, formed in 2010, only two scholars from Nigeria and Malaysia remain. They have now been joined by scholars from Indonesia and Kuwait. Currently the board consists of four members.

A major concern for the IILM has been the lack of liquidity in the Islamic banking markets. The hope is to ensure that Islamic banks are sufficiently liquid to sustain its operations and compete with the financial sector. To address this problem, and in collaboration with Standard Chartered Bank who is the Primary Dealer, IILM issued the US$490 million short term sukuk. The maturity lengths are less than a year. The landmark issuance carries an A-1 rating by Standard & Poor's and is backed by Shari'a-compliant sovereign assets. It is the first tranche of an approved US$2 billion programme by the IILM to create US dollar cross border liquidity instruments for use by Islamic financial institutions globally. However, IILM recognise that the benefits of the sukuk can only be realised if the sukuk is traded on the secondary market, rather than being held till maturity. A number of international banks, such as Albaraka Turk will be responsible for ensuring a secondary market for the sukuk. In November, IILM expanded the number of primary dealers handling its sukuk programme from seven to nine. This represents a step towards expanding cross border trade the banks are Abu Dhabi Islamic Bank, AlBaraka Turk, CIMB Bank Bhd, Europe's KBL Private Bankers, Kuwait Finance House, Malayan Banking Bhd (Maybank) , National Bank of Abu Dhabi, Qatar National Bank and Standard Chartered Bank.

In December, BIMB Holdings Bhd (BHB) issued a MYR1.7 billion (US$525.75 million) Islamic bond to help raise the US$884 million it needs to buy the remaining shares of Bank Islam, the country's oldest Islamic bank. The 10 year sukuk was sold to Tabung Haji. BHB will buyout the 49% shares held by Dubai group and Tabung Haji.

The capital markets remain robust. The Export-Import Bank of Malaysia became the first bank in Asia to formulate a sukuk programme to use a special type of wakala structure. The multicurrency programme is valued at US$1 billion. In January, the Exchange Traded Bonds and Sukuk (ETBS) was launched on Bursa Malaysia creating a new asset class within the panoply of sukuk. For the first time sukuk and bonds were available to all investors. DanaInfra Nasional Berhad ("DanaInfra"), the infrastructure funding entity, was the first issuer. The funds will be used to partly fund the proposed My Rapid Transit project, which intends to transform Kuala Lumpur's inadequate public transportation coverage. To increase market liquidity, investors will enjoy non-taxable coupon payments. In May, Cagamas Behard, the National Mortgage Corporation from Malaysia, completed the sale of MYR 500 million Islamic Medium Term Notes. Cagamas issued the largest sukuk in its 26 year history in September. It was also the country's largest sukuk-murabaha issuance which attracted a booksize of MYR8 billion. This is a testament to Cagamas credit.

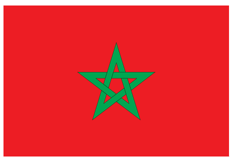
One of the weaker segments in the Islamic finance industry in Malaysia has been investments funds. This is as much an indicator of the general malaise in the market with 88 Islamic funds liquidating globally in the last two years. In addition, there is a lack of awareness about Islamic fund management. The number of new launches has slowed down in recent years but there are signs that the trend is about to change. Total Islamic assets under management in Malaysia reached MYR79.6bil (US$24.9 billion) in 2012, a 24% increase from a year earlier. Threadneedle, Britain's fourth largest retail fund manager, appointed a Malaysian based team in October to develop their own brand of Shari'a compliant funds. The Securities Commission are looking at ways of developing this position which includes more tax incentives, more licenses to Islamic fund management firms (to date, the regulator has issued 19). Concern about the growth of the wealth management is compelling policy makers and industry players to address weaknesses. Labuan International Business and Financial Centre (IBFC) will be signing a MoU with (INCEIF) to conduct research in Islamic wealth management. Demand is strong for wealth management but the supply is low due to lack of expertise.

With regards to takaful, the introduction of a risk-based capital (RBC) regime for Malaysia's takaful sector and the limited scale of most operators could lead to further consolidation. It is now a requirement for insurers – both conventional and Islamic- to segregate their operations into life and general insurance units. The risk based capital framework will take effect from January 2014. The top three operators hold roughly 90% of the assets. There are 12 firms in the industry. By relying on domestic investments, takaful operators are missing their target returns. Moreover, failure to broaden and innovate decreases the competitive edge with conventional insurance companies. Hence the Malaysian government has said that takaful firms will be allowed to invest abroad without limit. Currently, takaful firms are required to hold at least 80% of assets locally. Takaful firms, with US$6.1 billion of total assets as of 2012, are major investors in domestic sukuk. Any shift into foreign-denominated issuance could open the sukuk market to an additional pool of liquidity although takaful firms are highly risk averse and may be reluctant to expand into new markets too quickly. Takaful firms, however, are cautious due to a lack of expertise and also industry concentration.
In September, Standard Chartered Saadiq and Credit Guarantee Corp (CGC), Malaysia, collaborated to launch Malaysia's first Islamic portfolio guarantee scheme to provide financing to small and medium enterprises in the country. The term-financing facility, which offers financing from MYR100,000 to MYR800,000 over a flexible financing tenure of between 12 and 84 months, is expected to benefit about 400 small and medium enterprises (SME) within the next one year. Under the agreement, CGC would guarantee 70% of the approved total principal amount undertaken by SMEs. This is the first Islamic bank to enter into such an agreement with CGC.

Malaysian Islamic banks are also expanding beyond the island's shores. Maybank identified Islamic banking as one of the four areas of expansion in the US. They expect the greater trade relationships between the US and Southeast Asian nations to improve if the Trans Pacific Partnership is finalised. Maybank already has US operations, established in 1984 and focused on wholesale banking. In October, Maybank launched an Islamic asset management company. The central banks of Malaysia and the United Arab Emirates are working on a fund passporting mechanism that would facilitate sales of funds from one country into the other. The plan is part of a bilateral agreement signed in October between the central banks of the two countries, aimed at building closer economic ties with a focus on Islamic finance. The two countries have a total of over 270 Islamic funds. The Malaysian commission also signed an agreement earlier this month with regulators in Singapore and Thailand to encourage cross-border offers of investment funds (though not necessarily Islamic).

Malaysia is the most recent entrant to the private pension business, launching a Private Retirement Scheme (PRS) which now has 13 Islamic funds out of 36 in 2012. Authorities are considering additional incentives for the industry. The PRS has 30,500 account holders with total net assets - both conventional and Islamic - of MYR97.5 million (US$29.8 million). The Securities Commission has estimated the overall industry could grow to as much as 30.9 billion ringgit in ten years. Malaysia is encouraging employer engagement, with the Securities Commission contributing to the PRS of its own staff. The Malaysian government plans to channel MYR7 billion from the state's Employees Provident Fund to Islamic fund managers.

MOROCCO



IFCI Rank
2011: **N/A**
2012: **N/A**
2013: **N/A**
2014: **N/A**

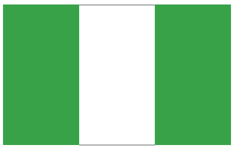
Macroeconomic Data 2013
GDP (US$ in billion): **168.9**
Unemployment rate (%): **9**
Population below poverty line (%): **15**

Morocco is cash strapped. But it is seeking ways to shore up its finances. The governing Justice and Development Party reformed its securitisation law thereby enabling sukuk to be issued. The Islamic Development Bank has proposed to buy the sukuk rather than offering another loan. Earlier in the year, Morocco agreed a US$2.4 billion package with the IDB where the country will receive US$600 million each year from 2013 to 2016. However, the government had originally planned to issue the first sovereign sukuk in 2013, but was delayed due to policies and a cabinet reshuffle.

Draft Islamic banking and insurance regulations have been prepared in Morocco and could be passed by parliament before the end of 2014. It is hoped that the law will mark the entry of an Islamic banking window and a takaful company, and the issuance of sukuk. The government is looking to pass a law on takaful by June of 2014. After feedback from the market on the draft takaful law, market players have been allowed to start offering family takaful products. Morocco has been seeking to develop Islamic finance for about two years, partly as a way to attract Gulf money and fund the huge budget deficit. The Islamic finance laws could clear the way for Morocco to see its first conventional bank with an Islamic window, as well as sukuk issuance by private firms.

IFCI Rank
2011: **N/A**
2012: **31**
2013: **32**
2014: **30**

Macroeconomic Data 2013
GDP (US$ in billion): **444.3**
Unemployment rate (%): **23.9**
Population below poverty line (%): **70**



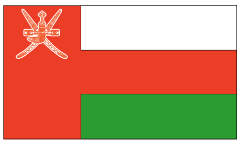
NIGERIA

Nigeria is keen to build the Islamic finance industry in the country. It has issued a string of regulatory initiatives that will enable the deployment of sukuk, takaful and interbank lending products. The central bank has set up an advisory committee to regulate Shari'a compliance. Currently there is only one Islamic bank, Jaiz Bank, and an Islamic window, Stanbic IBTC, a unit of South Africa's Standard Bank. Jaiz Bank is planning to obtain a license to expand beyond Nigeria's north. Jaiz has grown its branch network and hopes to have a 100 branches by 2017. It completed capital raising in August and as of June had assets of 20.6 billion naira (US$129 million) and capital of 10 billion naira. There are currently three takaful windows operating in Nigeria. In December 2012, the Nigerian central bank issued guidelines for asset-backed securities that would use IILM certificates as collateral - potentially putting Nigeria ahead of many other Islamic finance centres in developing products.

Religious tensions brew in Nigeria and this is affecting Islamic finance. In June, the cocoa-producing Osun State announced plans to issue the first sukuk borne in the country. The planned 7-year paper is part of a 60 billion naira debt raising programme by Osun State, which started last year. The funds will be used to finance education projects and institutions. In March, Nigeria's SEC approved new rules allowing firms to issue Islamic bonds, a move aimed at attracting Middle Eastern investors. However, the Peoples Democratic Party, and the Christian Association of Nigeria have been fear-mongering claiming sukuk would be a means to Islamisize the state.

IFCI Rank
2011: **N/A**
2012: **21**
2013: **25**
2014: **24**

Macroeconomic Data 2013
GDP (US$ in billion): **89.06**
Unemployment rate (%): **15**
Population below poverty line (%): **N/A**



OMAN

Oman is in a hurry. After announcing the entry of Islamic banking and finance in the Sultanate, the framework is being set up and the institutions are taking form. Oman has already arranged a sukuk, which took other countries a number of years. Al Madina Investment arranged the first corporate Sukuk in Oman for Tilal Development Company - a OMR50 million (US$130 million) ijara sukuk. In November, the Oman government formed a working committee to issue sovereign sukuk, in a move to fund infrastructure projects in the near future. The purpose of the sukuk is to deepen the financial markets in the Sultanate, although no time has been set for the issuance.

Oman is attempting to tackle the issues that are plaguing the Islamic banking industry early on. Bank Nizwa partnered with Maisarah Islamic Banking Services to help develop the liquidity markets through a wakala agreement that follows AAOIFI standards. It enables Omani banks to engage with international Islamic banks for their interbank liquidity management.

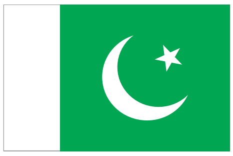
Bank Nizwa opened its headquarters in January along with a number of branches. It was the first bank to offer services such as account opening through identity cards for Omanis, and resident ID cards for expatriates. In July, it received an investment banking license allowing it to manage funds and issue capital market instruments. To generate interest, Bank Nizwa conducted a road show, visiting shopping malls, university campuses and hospitals for one month. Introductions to Islamic banking and finance along with question and answer sessions allowed participants a greater understanding of the industry.

Alizz Islamic bank opened its doors in October. The UAE based Al Ahli Bank received a license from the Central Bank of Oman to operate its Islamic banking services in the country. National Bank of Oman, Dhofar Bank and Oman Arab Bank opened their Islamic windows as well. Oman's first Shari'a compliant fund, Vision Al Khair GCC Fund, was also established. Islamic banks in Oman are quickly offering a range of products in the country. Bank Sohar launched an Islamic housing finance programme in August that finances 80% of the property value.

The government is taking an active role in promoting Islamic finance, and even incorporating it into government affairs. The Ministry of Awqaf and Religious Affairs signed a MoU with Meethaq Islamic Banking Group, the Shari'a compliant window of Bank Muscat. Under the agreement the Ministry will open bank accounts with Meethaq. The window will also manage the waqf portfolio, restructure the waqf assets under the management of the Ministry and manage the cash fund. It will also act as the investment advisor.

In November, Takaful Oman, one of the first companies to offer takaful products in the country conducted an IPO offering 40 million shares. By December, Takaful Oman raised OMR23 million (US$60 million). The other insurance company, Al Madina Takaful, raised OMR36.6 million (US$95.1 million) through its IPO. The shares have been listed. Al Madina Takaful follows a hybrid model using wakala for its takaful operations and mudaraba for the investment side. Al Madina's articles of association provide for its operation to be on a mutual basis.

PAKISTAN



Islamic banks held RS903 billion (US$8.4 billion) or 9 % of total banking assets as of June this year, posting 27 % year-on-year growth. Meezan bank plans to arrange the country's first airtime sukuk that allows telecommunications operators to tap into liquidity in the Islamic capital markets. In July, Pakistan's central bank adopted investment sukuk guidelines from AAOIFI. Issuers looking to issue sukuk will have to abide by these guidelines or face penalties according to the State Bank of Pakistan. In May, the country's securities commission established a Shari'a advisory board to oversee Islamic financial instruments, while last year it announced rules for sukuk, takaful and Islamic deposits.

In December, the Ministry of Finance set up a committee to explore areas to promote Islamic banking. The committee will submit recommendations on 10 areas by December 2014 including legal obstacles to converting banks into Islamic ones and changes required to remove those obstacles. Other tasks for the committee, which will be supported by the country's central bank, include formulating a comprehensive policy framework and timeframes for the industry's progression. Proposals involving Islamic money markets, secondary market liquidity and maximising equity-based financing rather than debt-based financing will also be explored.

In August 2012, following the promulgation of Takaful Rules 2012, five Islamic insurance companies challenged the new set of regulations in court, claiming that window operators would conduct takaful business in a manner against the principles of Shari'a. A compromise was reached in December 2013 and it has been agreed that conventional insurers which will be allowed to run Shari'a-compliant insurance business through parallel window operations. Following the compromise, general and family takaful companies will now withdraw their petition against the Securities and Exchange Commission of Pakistan.

Islamic pensions are making inroads, and their success may help the growth of asset management industries across much of Asia and the Middle East. A voluntary pension system (VPS) was launched in 2005 which now holds RS3.4 billion (US$32.4 million) of Islamic assets, or 61 % of all VPS assets. While modest in absolute terms, Islamic pension assets account for a much larger proportion of the VPS sector than Islamic bank deposits' 10 % share of all Pakistani bank deposits. All seven VPS managers offer Islamic pensions and the largest, run by a unit of Meezan Bank, is triple the size of its conventional peer.

IFCI Rank

2011: **7**

2012: **8**

2013: **8**

2014: **9**

Macroeconomic Data 2013

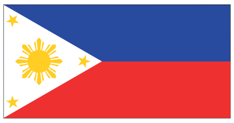
GDP (US$ in billion): **546.7**

Unemployment rate (%): **6**

Population below poverty line (%): **22.3**

IFCI Rank
2011: **N/A**
2012: **40**
2013: **38**
2014: **37**

Macroeconomic Data 2013
GDP (US$ in billion): **419.6**
Unemployment rate (%): **7**
Population below poverty line (%): **26.5**



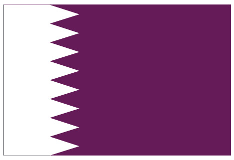
PHILIPPINES

The Philippines central bank is intent on developing the Islamic banking sector to encourage financial inclusion of the Muslim minority. A 40 year conflict with Muslim separatists was concluded with a peace deal signed in October 2013. Islamic banking services are seen as a means of building relationships. The bulk of the Muslim population lives on the Midanao island, the heartland of the conflict. The central bank has requested congress to amend its charter allowing it to provide Shari'a compliant instruments such as interbank lending products to Islamic banks. The central bank hopes an Islamic banking law can help attract more market participants as there is only one Islamic bank, Al Amanah, which has struggled financially and is being privatised by the Development Bank of the Philippines (DBP). The central bank has setup a working group that is now drafting the proposed law which would then be presented to congress. The central banks sought support from industry bodies such as Malaysia-based IFSB.

In December, the Philippine Stock Exchange partnered with IdealRatings to screen listed securities for Shari'a compliance. This marks a milestone in the Islamic finance industry in the country. Previously, Muslim Filipinos that wanted to invest in Shari'a compliant companies had to turn to other ASEAN markets.

IFCI Rank
2011: **12**
2012: **9**
2013: **11**
2014: **10**

Macroeconomic Data 2013
GDP (US$ in billion): **185.3**
Unemployment rate (%): **0.5**
Population below poverty line (%): **N/A**



QATAR

Qatar is on a quest to develop their infrastructure. Three vital projects that Qatar Rail is implementing will enormously boost the public transport connectivity across the country and even beyond its borders in coming years. The Doha Metro, the Long Distance Passengers and Freight Rail and Lusail Light Rail Transport will give immense and speedy connectivity to the public to access areas like Lusail City, Hamad International Airport, Education City and West Bay locations in about six years from now. The Doha Metro is about 230km long and the first stage is expected to be completed in 2019. The speed of the trains will be about 80 km/hour inside the city. A consortium of Italian, South Korean and Qatari firms have signed a QR2.11 billion (US$580m) Islamic finance facility to build the underground line.

Islamic trade finance is likely to make strong inroads into markets such as Qatar. There is also talk of setting up a cross border Islamic megabank. Last April the Qatari government signed a MoU with the Jeddah-based Islamic Development Bank, a multilateral lender, and Saudi Arabia's Dallah Albaraka Group to establish a megabank with initial capital of US$1 billion.

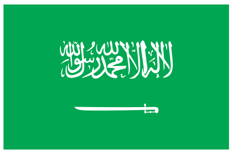
Qatarisation and the development of the Islamic financial industry appear to be key policy goals for the Qatari government. Government support has given Qatar's Islamic banks much comfort, allowing it to broaden its outlook and play an active role in the country's own growth. Qatar's Islamic banks have shown ambition and growth. They are also actively involved with Qatari society. Qatar Islamic Bank sponsored the Reyada Award, a leading entpreneurship programme, marking its commitment to the development of Qatari entrepreneurs. Qatari Islamic banks are showing growth and innovation in the market. The rollout of new products that target different market segments are impressive. There is also greater competition between banks that is compelling banks to develop and innovate. Qatar Islamic Bank launched the "Family Comes First" campaign allowing customers to transfer their monthly salary from other banks into QIB banks. Applicants will receive a package of benefits including insurance, a free Gold Card, and protection against job loss.

Islamic financial institutions are making their presence in wider society. Alkhaleej Takaful bid for a five year contract with the Supreme Council of Health to be a third party administrator to the National Health Insurance Company which is solely owned by the state. Masraf Al Rayan acquired a commercial bank in Libya thereby spanning their coverage. Qatar Islamic Bank (QIB) introduced specific sector related packages for SMEs covering key sectors such as construction, trading and services. These packages provide SMEs in this sector guarantees and discounts helping them to grow.

QInvest is experiencing a change in its business practices. It intends to focus on three core business lines – investment banking, asset management and investing its own capital, of which it has $750 million. Wealth management and brokerage services have been discontinued. QInvest will focus on companies that are seeking access to capital in the Gulf state and within the region and will also advise Qatar entities deploying capital abroad. The focus for the bank is mid-sized deals and assisting large family owned business and sovereign wealth funds to expand investments. Qinvest advised the Turkish government on its $1.25 billion sukuk and also Kingdom Holding acquisition of Chinese online retailer 360Buy. It is currently working with leading asset managers to develop and distribute Shari'a compliant funds.

In January, Qatar Exchange and Al Rayan Investment launched the QE Al Rayan Islamic Index. The index is intended to support the creation of a Shari'a compliant exchange traded fund. Qatar Exchange's Independent Index Committee governs the index weighting methodology and adherence to index rules. The Shari'a Board of Al Rayan Investment governs the Shari'a rules.

In a study sponsored by Qatar Financial Centre Authority in partnership with the International Tax and Investment Center, findings showed that Turkey and Qatar Financial Centre had the most Islamic finance friendly tax systems. The study, "Cross border taxation of Islamic finance in the MENA region - Phase One" shows that while simpler Islamic finance transactions can be carried out in some countries without prohibitive tax costs, only Turkey and the QFC - of the countries reviewed- have a tax system that enables sukuk transactions to be carried out without excessive tax costs.



SAUDI ARABIA

IFCI Rank

2011: **3**

2012: **3**

2013: **3**

2014: **3**

Macroeconomic Data 2013

GDP (US$ in billion): **883.7**

Unemployment rate (%): **10.6**

Population below poverty line (%): **N/A**

Saudi commercial organisations are showing interest in the broader Islamic financial market. Al Bayan Group, an IT and Communications company, issued a Malaysian ringgit sukuk which gives it exposure to both the Middle Eastern and Far Eastern markets. Saudi Electricity Company issued US$1 billion sukuk certificates, one tranche due in 2023 and a similar amount due in 2043. The latter transaction represents the first international 30 year sukuk issuance. The sukuk was offered to the US and other international investors in accordance with Rule 144A of the US Securities Act of 1933. It was oversubscribed 6.5 times.

The recovery of the global economy is encouraging institutions to return to the capital markets. The Saudi real estate developer Dar Al Arkan returned to the debt markets after more than three years by issuing an Islamic bond to take advantage of low borrowing costs in order to finance future growth. The company plans to raise at least US$500 million from the five-year sukuk. Dar Al Arkan last issued a five-year US dollar sukuk in 2010. The sukuk was led by Goldman Sachs.

It was the first ever sukuk from a Saudi entity available to investors in the United States. However, after downturns in the regional property market and Dubai's credit crisis, market sentiment in the region has been negative. Recovery in the property sector and rising demand for regional debt has lowered funding costs. At the same time, Saudi Arabia is attempting to adopt Basel III rules showing a wiliness to work under the global regulatory system. In October, the Saudi Stock Exchange approved the issuance of a sukuk by Saudi Hollandi Bank that complied with both Shari'a and Basel III.

But broader economic issues may affect the growth of certain segments of the Islamic banking industry. Saudi Arabia has the second largest insurance market within the GCC, but real growth rates have slowed down significantly. Insurance companies have posted deteriorating profitability levels. As the Saudi insurance market matures further, takaful companies have to be cautious in their strategies to increase market share in the Kingdom. At the same time, there has been the creation of new takaful companies such as Aljazira Takaful Taawuni Company.

Diversification is key for many of the Islamic banks in the country. NCB Capital has launched AlAhli Global Natural Resource Fund. With the growth of the emerging markets, and increased urbanisation, the demand for natural resources is significant. Such a move by NCB Capital shows perspicacity and a diversification away from traditional asset classes such as real estate.

In February, Saudi Arabia issued final regulations on real estate financing, leasing and the supervision of financial companies. The kingdom wants to ease a housing shortage by opening up its mortgage market and enacting the first home-loans law. The regulations outline three laws and goes into effect when regulations for the two remaining laws are finished. The mortgage law will overhaul the Kingdom's home-finance market and could increase residential lending to approximately US$32 billion annually. The rules will lead to the creation of licensed private mortgage providers as well as a state-run company for refinancing. The Saudi Real Estate Refinancing Corp. would be responsible for issuing Islamic bonds or securities backed by mortgages or real estate.

Saudi Arabia is investing heavily into infrastructure projects. The Kingdom is revamping many of its airports to cater for the growing passenger traffic, particularly during the Hajj season. In June, the General Authority for Civil Aviation picked three banks to arrange a sukuk to fund construction of airports. Corporate sukuks are generally growing in popularity. Almarai Company, the largest integrated consumer food producer in the Middle East, issued the first hybrid sukuk to have originated in Saudi Arabia for an amount of US$453.2 million. It is the first hybrid sukuk undertaken by a non-bank corporate in the Gulf region.

The Islamic Development Bank continues to be a central organisation for the development of the Islamic banking and finance industry. In May, the Board of Governors agreed to triple the bank's authorised capital from 30 billion dinars to approximately 100 billion dinars reflecting the bank's strong balance sheet and the needs of its 56 member countries. The Islamic Corporation for Insurance of Investment and Export Credit (ICIEC), an organ of the organisation, launched a sukuk insurance product that will insure sukuk investors from member countries against default on sovereign sukuk.

IFCI Rank

2011: **33**

2012: **23**

2013: **26**

2014: **21**

Macroeconomic Data 2013

GDP (US$ in billion): **323**

Unemployment rate (%): **1.9**

Population below poverty line (%): **N/A**

SINGAPORE

It has been a bit quiet in Singapore. Maybank Singapore has started offering auto finance based on the Al ijarah Thumma Al Bai contract. The bank is offering Singaporean customers financing of up to 60% of the purchase or valuation price, whichever is lower over periods of up to five years.

In April, Maybank Singapore Islamic launched two Shari'a compliant products allowing buyers to finance residential as well as commercial and industrial properties in Malaysia. Maybank Singapore is also in discussions with the Central Provident Fund Board (CPF) to allow home buyers to use their CPF savings for Islamic finance home loans. The two new products bring to 11 the number of Shari'a compliant products available to Maybank Singapore customers.

IFCI Rank

2011: **29**

2012: **27**

2013: **30**

2014: **27**

Macroeconomic Data 2013

GDP (US$ in billion): **645.2**

Unemployment rate (%): **0.7**

Population below poverty line (%): **7.8**

THAILAND

The Islamic Bank of Thailand, the country's sole Islamic bank, is not doing too well. In February the bank had to insist that its finances and liquidity were strong despite non-performing loans reaching Bt39 billion. In May, the Finance Ministry, and Government Savings Bank and Krung Thai Bank injected Bt6 billion into the bank in order to recapitalise, a sign that the bank was stuttering. In June state owned Islamic Bank of Thailand announced plans to increase its capital by US$235 million and issue a sukuk. It is also planning to open 24 branches over the next few years.

TURKEY

Turkey's position in Islamic history is cemented with the success of the Ottoman Empire, but after 1924 the country has pursued secularist policies and attempted to remove Islamic vestiges from the public space. There has been success, but as the minarets of the Blue Mosque glare over the Bosphorus, and the importance of Islam in the lives of millions of Turks, a complete expunging of Islam was never going to be possible.

Yet the balance of Islam and secularist policies is a delicate one. The protests in spring over a public mall exposed deep discontent amongst some Turks that resented Prime Minister Erdogan's outward Islamic allegiance. It is perhaps little wonder that Turkish Islamic banks are still known as Participation Banks, a handy misnomer disguising the underlying Islamicness of the banks.

Nevertheless, the Turkish government do not shy behind equivocation in their support of "Islamic" endeavours. The Qatar Faculty of Islamic Studies organised the 9th International Conference on Islamic Economics and Finance in Istanbul under the theme "Growth Equity and Stability: An Islamic Perspective". President Abdullah Gul was the patron. In October, the World Bank launched the Islamic Finance Development Centre. The centre is expected to share information on the development of Islamic finance, to give consultancy service on Islamic finance, and play the role in strengthening the institutional infrastructure. The centre was opened by World Bank Group President, Jim Yong Kim and Deputy Prime Minister, Ali Babacan.

There is evidence that Turkey financial organs are keen to tap into the Islamic capital markets. Turkey's Capital Markets Board is finalising regulations on five new types of Islamic bond as the country aims to become a major issuer of Islamic debt: murabaha, mudaraba, musharaka, istisna and wakala. Stronger local Islamic banks should help the country attract more funding from the Gulf, where appetite for Islamic products far outstrips supply. The country's recent upgrade to investment grade status by major rating agencies Fitch and Moody's will also make international borrowing easier for Turkey. Investment banks such as Commerzbank are advising Turkey to sell more Shari'a compliant debt. However, there is concern about market volatility. The Turkish lira is the most-volatile emerging-market currency in the EMEA region after the South African ran. Along with the uncertainty in the financial markets caused by quantitative easing and its eventual tapering, Islamic finance, according to the Deputy Prime Minister Ali Babacan, cannot take a proper foothold in the Republic.

However, in a study sponsored by Qatar Financial Centre Authority in partnership with the International Tax and Investment Center, findings showed that Turkey and Qatar Financial Centre had the most Islamic finance friendly tax systems. The study, "Cross Border Taxation of Islamic finance in the MENA Region - Phase One", shows that while simpler Islamic finance transactions can be carried out in some countries without prohibitive tax costs, only Turkey and the QFC - of the countries reviewed- have a tax system that enables sukuk transactions to be carried out without excessive tax costs.

As part of plans to celebrate the 100th anniversary of the founding of the modern republic in 2023, Turkey aims to turn Istanbul into a major financial centre. It foresees US$350 billion of infrastructure spending on the project, with Islamic finance expected to be one of the major sources. Construction company Agaoglu, which will build the Istanbul Finance Center, has said it plans to borrow US$2 billion through Shari'a-compliant instruments, topping the total value of Turkey's existing sovereign dollar sukuk issuance.

KFH – Turkey announced in April that it would increase its capital by TRL960 million to reach TRL2.06 billion by May 2014. The goal of the increased capital is to support expansion plans. The bank wishes to open a full-fledged Islamic bank in Germany, thereby building on the current branch in Manheim.

Turkey's first global fund, Azimut Holding SpA expects that their funds will beat returns from Shari'a-compliant bank deposits and will lure inflows of US$1 billion during the next three years, Since opening in January, it has attracted almost US$160 million for local and international funds. The company has AUM of over US$30 billion and has operations in 11 countries. The company expects that an increasing number of Turkish investors will put their money in sukuk funds particularly as sukuk funds offer returns that beat the profit rates that Islamic banks offer on their deposits. AZ Global's sukuk fund will allow Turkish investors to put money into Islamic funds issued outside the country.

Turkish banks are also gaining the assistance of other Islamic banks in the area to structure financial facilities. In July Turkiye Finans closed a US$426 million Islamic financing facility which had the participation of 28 banks from UAE and the UK. Participation banks are also expanding. Kuveyt Turk Participation Bank is opening a branch in Qatar Financial Centre. It is licensed to undertake deposit taking; providing Islamic credit facilities (including letters of credit & letter of guarantee business); and dealing in Islamic investments (restricted to Profit and Loss Sharing Investments Accounts).

IFCI Rank

2011: **14**

2012: **14**

2013: **13**

2014: **12**

Macroeconomic Data 2013

GDP (US$ in trillion): **1.109**

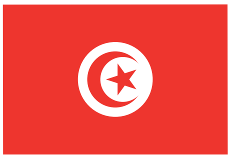
Unemployment rate (%): **9.2**

Population below poverty line (%): **16.9**

Islamic fund managers see potential in the Turkish pension pool. Following government reforms this year, a 2001 private pension law has been resurrected. The number of contributors to private pensions has reached 3.8 million, up from 3.1 million in December, after the Turkish state began making a 25 % contribution to private pension premium payments and fund management charges were cut. While the majority of the private pension assets are in conventional financial instruments, there is expectation in the industry that the market share will increase. The government has set a 15% market share for Islamic banks by 2023. Asya Emeklilik is the only full-fledged Islamic pension firm out of 17 conventional and Islamic pension firms in the Turkish system. A few others offer Shari'a-compliant products. Launched in May 2012, Asya Emeklilik now has 102,043 clients and its fund size is 111.6 million lira (US$55.0 million); at 1,092 lira, its average amount of assets per client is much smaller than the system's average of 6,086 lira. However, the 17 firms will soon be joined by an Islamic venture between Al Baraka Turk and Kuveyt Turk, 62% owned by Kuwait Finance House, which was announced in March.

IFCI Rank
2011: **25**
2012: **20**
2013: **28**
2014: **28**

Macroeconomic Data 2013
GDP (US$ in billion): **104**
Unemployment rate (%): **17.4**
Population below poverty line (%): **3.8**



TUNISIA

In July, the parliament passed a law that will allow the state to issue sukuk. There are plans to issue a sovereign sukuk in the next year. IDB has given a financial guarantee to Tunisia to issue sukuk worth US$600 million. It is also extending its US$1.2 billion funding to Tunisia for industrial, agricultural and trade products. The IDB funding line will include loans and grants. The funding line will be for three years with disbursements of US$400 million each year until 2015.

Regulators have said that Islamic windows would be permitted provided that their operations are segregated. Several well known Tunisian banks are trying to facilitate Islamic banking business and three takaful companies have applied for licensees. Zitouna Bank, the country's only full-fledged domestic Islamic lender, also plans expansion. In August, the conventional bank El Wifack Leasing applied to regulators to become the country's third full-fledged Islamic bank.

United Gulf Financial Services launched the Themar Investment Fund with a capital of US$32 million, the largest Shari'a compliant investment fund in the country. The fund targets Tunisian SMEs seeking financing in different business sectors that support the Tunisian economy. Itis financed by the Islamic Corporation for the Development of the Private Sector (ICD) and the Deposits and Securities Fund of Tunisia.

IFCI Rank
2011: **5**
2012: **5**
2013: **4**
2014: **6**

Macroeconomic Data 2013
GDP (US$ in billion): **225.8**
Unemployment rate (%): **2.4**
Population below poverty line (%): **19.5**

UAE

Sheikh Mohammed bin Rashid al-Maktoum, UAE Vice President, Prime Minister and Ruler of Dubai does not mince words. UAE will "be the world's number one centre for Islamic finance". A laudable aim, and in this, he launched the launched the "Dubai – Capital of Islamic Economy" initiative. In October, a "Higher Committee for the Development of Islamic Economy" was formed, under the patronage of Dubai Crown Prince Sheikh Hamdan. The committee has three years to transform Dubai into the world's capital of the Islamic economy. In December, the ruler issued law No. 13 regarding the establishment of the Dubai Islamic Economic Development Centre. The three key pillars of the Islamic economy plan is that Dubai becomes a hub for sukuk and Islamic financial services; a market leader for halal goods and services, including products and certification, and creator of global legislation for regulation of the Islamic market.

Economic strategy is poised towards building the Islamic banking industry in the country. Dubai, plans to create an Islamic finance council to regulate the Islamic capital markets. In November it witnessed three conferences in one week: the Global Islamic Economic Summit, the Global Islamic Retail Banking Conference and the Global Islamic Finance Awards. There were approximately 2000 delegates that attended the events.

In conjunction with developing the Islamic economy, the UAE is keen to enhance domestic human resource capacity particularly in banking and finance. Under the UAE government initiative, Masrafi, banks are geared towards hiring Emiratis. This could have long term effects on expatriate employment in the UAE. Dubai Islamic Bank (DIB) is a supporter of the Masrafi initiative and welcomed 15 females to undertake two months of theoretical training followed by on-job training. DIB has committed to recruit and train 60 UAE nationals. Similar to Dubai Islamic Bank, Emirates Islamic Bank is also committed to Masrafi. In August, it organised an open day for Emirati job seekers. Abu Dhabi Islamic Bank (ADIB) and Emirates National Development Programme (ENDP) signed an MoU in August to train and offer employment opportunities to UAE nationals interested in joining the Islamic banking industry. ADIB will advise ENDP of available vacancies as well as the skills needed for employment within the bank, and ENDP will identify UAE nationals eligible for these opportunities. The partnership will also see ADIB offer a range of training courses for eligible candidates.

In conjunction with Masrafi, commitment is strong to build the domestic industry, one that meets the needs of indigenous people. Dubai Islamic Bank signed an agreement with the Mohammed Bin Rashid Housing Establishment to assist UAE nationals secure housing. DIB will offer UAE nationals financing of up to 100% of the property's value, ranging up to AED 2 million with tenure of up to 25 years and profit rates starting from 3.99 % per annum. Noor Islamic Bank is focusing on providing insurance to blue collar workers. The Domestic Aid Medical Plan is the first product to be launched under Noor Popular. The product is aimed at employers of domestics workers and can provide security to UAE's privately sponsored 400, 000 domestic workers. Once again it shows a focus at helping indigenous staff.

Several government agencies are adopting Islamic banking and finance e products. Employees will benefit from a takaful plan with National Bonds Corporation. They will also have the opportunity to win prizes through periodic draws. The initiative offers employees a 10% discount on takaful family coverage programs, as well access to free consultations pertaining to income management and financial planning. Dubai has a proposed to the federal government of the UAE to create a Shari'a compliant retirement savings scheme for foreign workers, a step which would help develop the Islamic funds industry. Currently, companies employing expatriates in the UAE pay them end-of-service sums when they leave. Under the proposed scheme, which would be voluntary for companies, employers would pay money earmarked for future retirement into a central system that would manage the money under Islamic principles. There is a general sense of ambition with Islamic banks in UAE and the desire to grow is clear by the broadness of their goals. DIB is looking to increase its foreign ownership limit to 25% from 15% in order to address the huge demand for DIB shares by large foreign institutional investors. It shows the growing interest in the UAE's banking markets. DIB is also looking to acquire new markets in Asia. In July, ADIB Securities inaugurated its newest branch. ADIB wishes to be the Islamic brokerage house of choice for the global community. Sharjah Islamic Bank issued a US$500 million five-year sukuk, which is due April 2018 under its newly established US Dollar 1.5 billion sukuk programme. Nasdaq Dubai is preparing to open a platform on which investors can trade sukuk and conventional bonds. The platform will be available for HNWIs and institutions. Al Hilal issued its debut sukuk in October, which was oversubscribed 12 times at $6.3 billion. In January, the Dubai Financial Market launched the draft of its standard for sukuk and requested consultation on the provisions.

Conventional banks are also keen to build their Islamic finance capacity. First Gulf Bank (FGB) has increased its stake in Aseel Islamic Finance from 40% to full ownership. Rakbank, the fastest growing bank in the country, has started offering Islamic banking services.

Banks in UAE are pursuing new markets as the low domestic population of 8.3 million limits growth. ADIB plans to expand into North Africa. ADIB applied for licenses in Algeria and Libya and is considering Tunisia and Morocco. Dubai Islamic Bank reported in September that it would use Deutsche Bank to facilitate letters of credit in Europe. This is to capture the growing trade flows throughout the world with the rise of emerging markets no longer situated solely in the West. Noor Islamic Bank has been building operations in Turkey. By June it had led Islamic capital market mandates valued at US$1.4 billion. There is a general sense that the domestic market has been exploited fully. Banks are over-capitalised and are looking for growth. The push to diversify revenue comes after UAE banks set aside more money for bad debt as defaults by local companies jumped during the credit crisis. The lenders extended cheap credit to government-related companies to purchase assets near peak prices, while others bought real estate prior to the collapse of the UAE.'s property market.

Expansion is coupled with innovation and novel practices. DIB became the first Islamic bank in Central Europe, Middle East and Africa to issue Visa Signature Debit Cards for all priority and premier customers. The cards enable DIB to reward its customers with priority customer service available 24 hours a day, seven days a week, travel and retail cardholder benefits and emergency travel services. Bank customers will also have access to concierge services, exclusive lifestyle offers at establishments around the world and a cardholder web service that provides personalised travel information and links to a variety of cardholder services.

Al Hilal Bank opened the Seghaar branch in Abu Dhabi which aims to improve the financial literacy of children. Although the Seghaar branch operates just like a typical bank, its products and services are specifically tailored to meet the unique needs of young clients. The branch was opened in April and was marked by short lectures to 200 children as to how earn, spend and save wisely. The bank also overtly celebrates major religious and cultural festivals. To celebrate Haq al Lailah – a custom in which Arab children sing traditional songs and knock on neighbours doors to receive gifts – the bank decorated all its branches and distributed gifts wearing traditional Emirati clothing. Islamic banks are contributing to social welfare in the country. Emirates Islamic Bank contributed AED7 million to Dubai Healthcare Authority in July to support the purchase of equipment for Rashid Hospital. It is an indicator that Islamic banks in the UAE are not simply pursuing profits. Their work in the community is being acknowledged. Abu Dhabi Islamic Bank was awarded Dubai Chamber of Commerce & Industry's CSR Label in July. The accolade recognised ADIB's initiatives in financial planning and education along with community projects such as encouraging young people to play football. ADIB signed an agreement with Dubai Education Zone (DEZ) to launch dedicated services and products to teachers and employees of the DEZ. ADIB will also deliver courses educating employees about Islamic finance.

At the beginning of the year, banks in Dubai, were still struggling with non-performing loans stemming from the 2008 real estate crash. Moody's Investors Service last month downgraded Dubai's biggest banks, including Emirates NBD, for failing to do enough to address the bad loans that piled up following the crash. Amid recovery in the property sector, banks are poised for aggressive expansion. UAE is poised to invest heavily once again in developing real estate. Such a product captures the budding zeitgeist. Noor Islamic Bank is offering home financing to both residents and non-residents wanting to buy holiday homes or to invest in UAE real estate. Dubai Islamic Bank (DIB) increased its shareholding of Tamweel, the mortgage company from 58% to 90%, with a hope to take full ownership.

In December, the Securities and Commodities Authority circulated draft rules for feedback from the industry that for the first time treat sukuk and non-Shari'a compliant debt separately. UAE is currently the only country in the GCC that doesn't have a domestic, local- currency debt market. It is hoped that the new sukuk and bond regulations will help the growth of local issuance that can be listed in local markets as opposed to going abroad.

IFCI Rank

2011: **15**

2012: **11**

2013: **12**

2014: **13**

Macroeconomic Data 2013

GDP (US$ in trillion): **2.313**

Unemployment rate (%): **8**

Population below poverty line (%): **14**

UNITED KINGDOM

There is renewed hope for the Islamic finance industry in the UK borne at least by the government's explicit desire to issue sukuk in 2014. At the World Islamic Economic Forum in October, the Prime Minister, David Cameron, announced that his government would attempt to make London a capital for Islamic finance. Two key proposals were the issuing of a GBP200 million sukuk by next year and the creation of an Islamic index. By the end of the month, FTSE Group ("FTSE"), the global index provider, announced the launch of its new FTSE Shariah Developed Minimum Variance Index. The index series aims to deliver reduced index volatility through ethical and financial screening. The methodology for the FTSE Shariah Developed World Index targets a balanced index risk profile by over-weighing stocks that reduce index volatility and under-weighing stocks that increase index volatility. With regards to the sovereign sukuk issuance, the Debt Management Office announced that the sukuk was likely to be a one off, and it was more of a symbolic gesture to show that London is, and remains, a financial centre.

Activity in the Islamic financial space has been quiet but stable. This steadiness has resulted in positive activity that may push Islamic finance forward in the country. One particular vexed issue for the UK is increasing house prices and the decrease of first time buyers. Reports show that to reduce prices more houses need to build. Gatehouse Bank, one of the four Islamic investment banks in the country, has joined with Sigma Capital to build 6,600 properties. If successful, Gatehouse would overtake Britain's largest stock market-quoted landlord, Grainger Trust.

Gatehouse Bank reported income for 2012 up 153 per cent to GBP13.3 million (US$20.3 million). Operating profit was GBP4.9 million (US$7.5 million). Income has been driven by an active real estate strategy, with assets under management now approaching GBP1 billion (US$1.5 billion). In 2012, the bank completed seven new acquisitions (five in the UK, two in the US) and made two successful disposals. Gatehouse Bank remains a significant net funder to the UK real estate market, exceeding the higher capital and liquidity requirements required by Basel III at the start of 2013 with more than 50 per cent of its balance sheet readily convertible into cash or cash equivalents. It is also embarking on a global expansion. In April, former CEO Richard Thomas moved to Malaysia to spearhead the representative office in ASEAN region. Gatehouse issued its first real estate sukuk. The sukuk asset is property leased to IT company, Fujitsu Services Ltd. Activity of most Islamic investment banks in the UK connects to real estate and there is a real appetite for high-yield properties.

In fact there is a concentration of Shari'a compliant funding that is Shari'a compliant into real estate. In December 90 North Real Estate Partners, a Shari'a compliant real estate company, completed GBP40 million acquisition of ten care homes on behalf of a Middle Eastern client. Structured using ijara, the homes have 510 registered beds providing nursing care for elderly people and adults with mental health problems or learning disabilities.

The Bank of London and Middle East (BLME) is targeting 15 % growth in assets with plans for a Dubai office to boost its capital market and wealth management offerings. The bank expects double-digit asset growth in coming years, with its balance sheet growing past GBP1 billion (US$1.6 billion) by December 2012, up from GBP807 million in 2011. The bank returned to profitability in 2012, posting a net operating profit of GBP5.5 million, after a GBP10.8 million loss in 2011. The bank holds over $100 million in assets under management across a range of Islamic funds, including a fixed income fund rated A by Moody's. In October, BLME completed a primary listing on NASDAQ Dubai. The share price was US$2.5671 for each BLME Holdings share, implying a market capitalisation of approximately US$503 million. It was the first stock to be listed on a Dubai stock exchange in four years reflecting the slow recovery since the 2008 crash. BLME opened a representative office in May in the DIFC.

Assistance from parent banks in the Middle East do provide indigenous Islamic bank's a degree of comfort as well the support to expand their business. Qatar Islamic Bank (QIB) launched the International Sukuk Portfolio Investment Product in April which will be managed by QIB-UK. The International Sukuk Portfolio invests predominantly in global sukuk issued by sovereign, quasi-sovereign and corporate issuers using well defined investment guidelines, designed to keep risk exposure under control.

Foreign Islamic banks are entering the UK market. The First Investor (TFI), the investment banking division of Qatari Barwa Bank Group, partnered with Investra Investments to create a Shari'a compliant fund that invests in income-generating property in the distribution, logistics and light industrial sector of the UK. Investors from the EMEA are increasingly seeking to include distribution and warehousing property within their logistics portfolios, and fundamental market conditions in the UK are allowing for enhancements to their overall return profiles. The fund's first property acquisition was a manufacturing warehouse located in Wolverhampton, leased to one of the largest manufacturers of highway and road railing and barriers, for an unexpired lease term of at least 10 years and a gross yield of 9.1 per cent.

The single retail bank in the UK, Islamic Bank of Britain, continues to make loss. In April, it reported a loss of GBP 6.99 million for 2012 although this was less than the previous year. The reduction in loss can be accounted for by the strong performance enjoyed by the bank in 2012. In December, the bank branched out from England to Scotland. It completed its first transaction in the country by financing the renovation and extension of a local school, Al-Meezan. The school provides Islamic education to over 600 students in Glasgow and surrounding areas. As a result, Al-Meezan now has ten purpose built classrooms, a refurbished lecture theatre, a large foyer area, a multi-purpose room, a prayer hall, toilet facilities on both the ground and first floor, a lift and new kitchen facilities. In December, Qatar's Masraf Al-Rayan agreed with IBB and Qatar International Islamic Bank to take over IBB's entire bank capital. There were a few unique developments. The newly formed Cobalt developed a Shari'a compliant insurance platform that uses a syndication model to help spread risk across a panel of underwriters. The aim of Cobalt is to address capacity constraints in the takaful industry. In November, property acquired by PWC Property Holding was underwritten by Cobalt, its first transaction.