#IFDI2017

ICD-THOMSON REUTERS

ISLAMIC FINANCE DEVELOPMENT REPORT 2017

TOWARDS SUSTAINABILITY

A JOINT INITIATIVE OF

Islamic Corporation for the Development of the Private Sector

the answer company™

THOMSON REUTERS®

CONTENTS

FOREWORD

6 EXECUTIVE SUMMARY

12 GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

The Islamic Finance Development Indicator 2017 14
Top Performing Markets 17
IFDI Regional Performance 18
Islamic Finance Outlook 22

26 QUANTITATIVE DEVELOPMENT INDICATOR

Quantitative Development Indicator Performance In 2017 28
Islamic Banking Sub-indicator 32
Takaful Sub-indicator 42
Other Islamic Financial Institutions Sub-indicator 46
Sukuk Sub-indicator 54
Islamic Funds Sub-indicator 60

64 KNOWLEDGE INDICATOR

Knowledge Indicator Performance in 2017 66
Education Sub-indicator 68
Research Sub-indicator 72

78 GOVERNANCE INDICATOR

Governance Indicator Performance In 2017 80
Regulation Sub-indicator 82
Shariah Governance Sub-indicator 86
Corporate Governance Sub-indicator 92

94 CORPORATE SOCIAL RESPONSIBILITY INDICATOR

Corporate Social Responsibility Indicator Performance In 2017 96
CSR Funds Disbursed Sub-indicator 98
CSR Activities Sub-indicator 100

102 AWARENESS INDICATOR

Awareness Indicator Performance In 2017 104
Seminars Sub-indicator 106
Conferences Sub-indicator 108
News Sub-indicator 110

112 METHODOLOGY AND APPENDIX

IFDI Concept and Background 114
Key Objectives 115
Country List 117

118 CONTRIBUTORS

THOUGHT LEADERSHIP AND INTERVIEWS

22 **Enabling Enterprise, Building Prosperity**
The Islamic Corporation for the Development for Private Sector

36 **The Growth and Future of Islamic Finance**
Mubashar Khokhar, Managing Director and CEO of Bank Islam Brunei Darussalam

50 **The Ethical Investor's Guide to Shariah-Compliant Investing**
Thomas J. Hochstettler, PhD, Founder of Islamic Investment Compass (IICompass)

76 **Executive interview with Mohammad Farrukh Raza**
Managing Director of IFAAS (Islamic Finance Advisory & Assurance Services) and Member of AAOIFI's Governance & Ethics Board

FOREWORD

The Islamic finance industry has been accommodating growing demand for Shariah-compliant finance for more than 40 years, but as it moves towards greater maturity it has become essential that there is a simplified tracker of its ongoing development. The Islamic Finance Development Indicator (IFDI) addresses this need by measuring the health of the US$ 2.2 trillion industry across five broad indicators covering 131 countries. We recommend that all components of these indicators are integrated within all jurisdictions' Islamic finance ecosystems to maintain the industry's growth.

It thus gives us a great pleasure in presenting the fifth edition of the Islamic Finance Development Report based on IFDI data. We intend this report to make simple and clear the fragmented elements of the Islamic finance industry and to provide exclusive insights and analysis that will benefit the wider world. We would also like to acknowledge the contributions of external authors from a wide range of backgrounds and markets, who have offered their expertise to provide a greater depth and breadth of knowledge in the industry.

This year's report examines the condition of the Islamic finance industry in the wake of the financial market and economic slowdowns caused by the dramatic decrease in oil revenues in some of the industry's main markets. The data for 2016 make it clear that the industry is continuing to grow and develop despite the slowdown. Islamic finance and economic updates through 2016 and 2017 also make it evident that Islamic finance can serve as a strategic tool for policymakers to cope with the slowdown, especially in the Middle East. This can be seen in the many steps taken by governments and regulatory authorities such as introducing new regulations for the Islamic finance sector, raising awareness of the industry among potential market players through hosting seminars, or building a roadmap to plot development of the overall industry.

All of these actions look set to drive further development of the industry in its different jurisdictions, as highlighted throughout the report. The report also looks into the other key trends shaping the industry such as the potential of financial technology, or fintech, to shape the future of the industry, as well as consolidation among Islamic financial institutions and the growth of socially responsible investment.

Given these developments, we have no doubt that the Islamic finance industry will continue to flourish over the next years, and predict the industry to reach US$ 3.8 trillion by 2022, from US$ 2.2 trillion at the end of 2016.

Khaled Al-Aboodi
Chief Executive Officer,
Islamic Corporation for
the Development
of the Private Sector

Mustafa Adil
Head of Islamic Finance
Thomson Reuters

ABOUT

THOMSON REUTERS Islamic Finance

Thomson Reuters is the leading global provider of intelligent information to the leading decision makers in the financial and risk, legal, tax and accounting, intellectual property, science and media markets.

Global Information Provider	Combining industry expertise innovative technology, our information services cover deep coverage of Islamic finance news, market insights and Shariah-compliant pricing data, indices, screening solutions, regulation, standards, and more.
Leading Research House	Built on the back of the world's most extensive data capabilities, we leverage global networks to provide primary source intelligence on markets, industries and institutions to a wide range of sectors, including Islamic finance and broader Islamic economy.
Global Growth Solutions	Thomson Reuters consulting professionals include renowned experts with subject-matter know-how and extensive experience in all major areas of the Islamic financial services industry, including deep understanding of Shariah law.
Global Community	With more than 100,000 clients in over 30 industries in more than 100 countries worldwide, we have built a growing global network with major decision making executives from top governments and leading institutions.

Salaam Gateway is the global reference for industry intelligence, news, information, and data from the Islamic Economy. Our news and research resources and extensive database of Islamic Economy companies from across the globe, help professionals to advance their businesses and fuel their innovations. Our insights and intelligence come from Islamic Economy experts, industry analysts, and thought leaders.

www.SalaamGateway.com

TO VIEW OUR IFG RESEARCH SOLUTIONS: http://zawya.com/mena/en/business/islamic-finance

To contact us, please go to **https://forms.thomsonreuters.com/ifgbusiness**

Connect with Us: Facebook.com/IFGateway Twitter.com/IFGateway

the answer company™

THOMSON REUTERS®

EXECUTIVE SUMMARY

The Islamic finance industry has reverted to growth after a brief downturn caused by low oil prices and stumbling economies in some of its key markets, with total industry assets growing 7% in 2016 to US$ 2.2 trillion. Governance in particular made strong gains as governments saw the industry as one way to rekindle their economies. Islamic finance may be young, and still tiny in comparison with the global financial industry, but the industry's rapid development suggests it will continue to grow.

The **ICD Thomson Reuters Islamic Finance Development Indicator (IFDI)** presents the key numbers behind that growth, covering the entire Islamic finance ecosystem in terms of Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness. Measurements have been taken for 131 countries, up from 124 in last year's report.

This fifth annual IFDI report looks in detail at the drivers of the industry's renewed expansion, its top performers, and the trends that will propel future growth.

IFDI GLOBAL INDICATOR :
Recovery in confidence puts industry back on track

The IFDI average value recovered to 9.9 for 2017 from 8.8 last year as each of the five main indicators it measures rose. The overall gain shows a recovery in confidence following economic slowdowns in some of the core Islamic finance markets after oil prices tumbled in 2014. The main contributors were the Quantitative Development (QD) indicator measuring the industry's size, due to improved financial performances, and Governance, as authorities stepped up efforts to strengthen Islamic finance oversight.

The leading country in IFDI remains Malaysia and the leading region the GCC. Countries including Tunisia, Morocco, Iraq, Russia, Spain and Poland saw notable developments in their IFDI values and improved their rankings.

Given these developments, total Islamic finance assets are expected to grow to US$ 3.8 billion by 2022 from US$ 2.2 billion in 2016 – a compound annual growth rate of 9.5%.

QUANTITATIVE DEVELOPMENT INDICATOR :
Institutions and governments adapting to economic conditions

QD advanced the most of the five indicators, to 5.7 from 4.3, though it remains the weakest. Progress was assisted by a partial recovery in oil prices in 2016 that boosted government revenues in the GCC – a region that holds 45% of global Islamic finance assets. It was also helped by the improved performances of Islamic financial institutions and funds in that region and others around the world.

In order to adapt to the straitened economic conditions, Islamic financial institutions have been pursuing efficiencies and governments have been working to better support the Islamic finance industry. There has been an increase in industry consolidation, with mergers agreed between various Islamic banks and takaful operators in the GCC, Indonesia, Malaysia and Pakistan. At the same time, governments in Iraq, Morocco, Algeria and Tunisia are turning to Islamic finance to attract investment in the face of weakened government revenues.

Newcomers to the industry within major Islamic finance hubs may soon include Fintech companies given the growth in supporting financial technology ecosystems. Islamic finance has also begun attracting new financial institutions beyond its traditional centres, as seen in Russia, Africa and South America.

The single area of weakness within QD was Sukuk, which failed to match the improvements shown by other QD sub-indicators despite the addition of new players such as Togo. Previous major sukuk issuers such as the governments of the GCC resorted to issuing conventional bonds during the period covered in order to reduce issuance costs.

However, Sukuk's outlook remains bright. A new sovereign sukuk giant, Saudi Arabia, issued its first domestic and international sukuk in 2017. Other countries are also planning to issue sukuk in order to reduce budget deficits, or are encouraging corporate issuance through newly introduced tax concessions. Another noteworthy trend is the push towards socially responsible sukuk, which are a milestone on the road towards Shariah-compliant socially responsible investment (SRI) funds.

KNOWLEDGE INDICATOR : Islamic finance education and literacy could be improved by government initiatives

This indicator, which encompasses education and research, edged up to 7.8 from 7.6, with growth recorded for both sub-indicators. Between 2014 and 2016, Islamic finance research increased to 2,581 papers produced by 830 different affiliations including universities. These included 1,751 peer-reviewed articles published by 728 journals. The countries with the highest number of research papers were also amongst the most-covered countries in those papers.

The number of Islamic finance education providers around the world increased to 677. Of these, 190 provided a total 322 Islamic finance degrees covering subjects such as Islamic banking, finance and economics. The majority were Master's degrees, followed by diplomas. There were also government initiatives to improve education and literacy in Islamic finance in Indonesia, Malaysia and Bahrain.

GOVERNANCE INDICATOR : Islamic finance governance takes the lead in IFDI

Governance became the most developed of the five main indicators as its value jumped to 14.0 for 2017 from 11.3 in 2016, marginally surpassing Awareness. Takaful was a particular area of interest to regulators, with countries including Kenya, Oman and Uganda amending insurance laws to accommodate Shariah compliance. Turkey and Tanzania plan to follow suit. Sukuk also received its fair share of government attention, with the introduction of tax concessions in Turkey, Pakistan and Nigeria to encourage corporate issuance.

There were 44 countries in 2016 with specific Islamic finance regulations, 12 countries with centralised Shariah boards, and 1,075 Shariah scholars involved in industry governance. Efforts are being made to further tighten Shariah governance, as shown by a growing emphasis on appointing external Shariah auditors for Islamic banks in the core markets. External Shariah scholars and centralized Shariah boards are likely to become much more common following the scandal caused by the announcement by Dana Gas in June 2017 that its sukuk were no longer Shariah-compliant and its repayments therefore unenforceable.

The Corporate Governance sub-indicator remained weak, however. Only 55% of Islamic financial institutions released financial reports, and a majority of institutions scored low on disclosure. However, efforts have been made to improve Islamic banks' corporate governance in Brunei and Jordan and transparency in Pakistan and Saudi Arabia.

CORPORATE SOCIAL RESPONSIBILITY INDICATOR : Improvements in both performance and disclosure

The Corporate Social Responsibility (CSR) indicator value rose to 7.9 for 2017 from 7.1 for 2016, in line with improvements in both performance and disclosure by Islamic financial institutions. A total US$ 683 million in CSR funds were distributed in 2016, up 18% from 2015. However, even though there was an increase in the number of Islamic financial institutions reporting CSR activities in 2016, the average disclosure score remained low as many items were still not reported.

There were several developments in 2016 that may contribute to stronger CSR readings in the future. In Indonesia, disbursement of socially responsible funds by Islamic financial institutions is set to grow as the government strengthens the governance and management of zakat and waqf instruments, which it hopes will increase trust in the industry and boost financial inclusion.

Malaysia has introduced the concept of the 'charity house', in which Islamic banks will invest donations and disburse profits to designated charities. A special task force has been established to study the idea. Also, Malaysia's central bank has released a paper on 'Value-Based Intermediation' to help Islamic banks contribute to the social good without impairing financial performance.

In the UAE, Dubai has established the Awqaf International Organization to improve the management of funds used to fund social projects such as schools and mosques. It is aimed at improving efficiency and economies of scale while developing a set of awqaf standards.

AWARENESS INDICATOR : Seminars and conferences address Islamic and ethical finance mutual values

The Awareness indicator's average value moved up very slightly, to 13.9 from 13.8, and as a result it dropped to the second most developed indicator after Governance, for the first time since the introduction of IFDI in 2013.

The number of Islamic finance news items edged slightly higher, but the News sub-indicator's average value was a little down on the previous year because of the slower growth. The Seminars sub-indicator saw strong growth, however, mainly on the back of an increase in seminar numbers in Africa. Some African countries also made bigger contributions to the Conferences sub-indicator, with Morocco, Tunisia, Kenya and Djibouti taking places on the sub-indicator's leaderboard. The Conferences sub-indicator ended a touch lower, however.

Many of the seminars and conferences in 2016 examined the mutual values shared by Islamic finance with ethical and socially responsible finance. This can be seen in the rise of Islamic microfinance seminars held in countries including Nigeria, Pakistan and Sudan, and events in Spain and the UK that explored the interaction between Islamic and ethical finance.

As for news, while developments within the GCC's Islamic finance industry dominated, regulatory developments are beginning to receive wider coverage, particularly where they concern Shariah governance, Islamic banking regulation, and sukuk tax concessions.

ISLAMIC FINANCE DEVELOPMENT LANDSCAPE

ISLAMIC FINANCE DEVELOPMENT INDICATOR (IFDI)

Average Indicator Values	
2013	10
2014	10
2015	10
2016	9
2017	10

Top Three countries

1. Malaysia
2. Bahrain
3. UAE

Quantitative Development Indicator

Average Indicator Values	
2013	6
2014	6
2015	6
2016	4
2017	6

Top Three countries

1. Malaysia
2. Iran
3. Kuwait

Knowledge Indicator

Average Indicator Values	
2013	7
2014	8
2015	8
2016	8
2017	8

Top Three countries

1. Malaysia
2. Jordan
3. Tunisia

Governance Indicator

Average Indicator Values	
2013	12
2014	12
2015	11
2016	11
2017	14

Top Three countries

1. Bahrain
2. Malaysia
3. Oman

CSR Indicator

Average Indicator Values	
2013	11
2014	9
2015	8
2016	7
2017	8

Top Three countries

1. Saudi Arabia
2. Jordan
3. Oman

Awareness Indicator

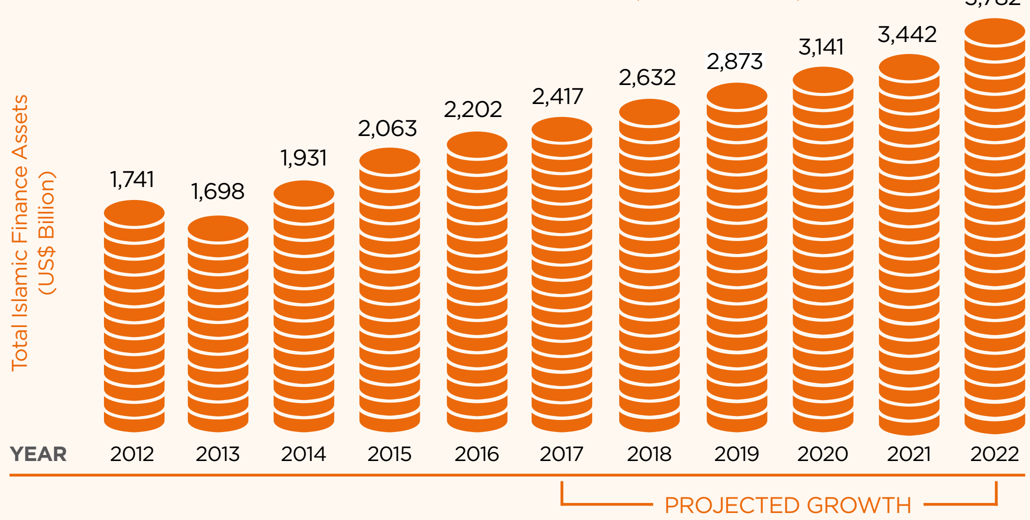
Average Indicator Values	
2013	17
2014	15
2015	15
2016	14
2017	14

Top Three countries

1. Malaysia
2. Bahrain
3. UAE

QUANTITATIVE DEVELOPMENT INDICATOR

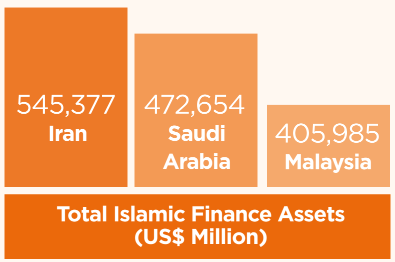
Islamic Finance Assets Growth (2012 – 2022)



US$ 2.2 Trillion Total Islamic Finance Assets in 2016

7% Growth in Islamic Finance Assets in 2016

Top Countries in Islamic Finance Assets (2016)



Islamic Finance Assets Distribution (2016)

	Total Assets (US$ Million)	Share of Total Islamic Finance Assets
Islamic Banking	1,598,881	73%
Takaful	42,536	2%
Other IFIs	124,414	6%
Sukuk	344,770	16%
Islamic funds	91,233	4%

KNOWLEDGE

2,581
Number of Islamic Finance Research Papers Published in 2016

683
Number of Islamic Finance Education Providers in 2016

GOVERNANCE

44
Countries have at Least One Type of Islamic Finance Regulation in 2016

1,075
Total Number of Scholars Representing Islamic Financial Institutions in 2016

31.40/70
Average Financial Reporting Disclosure Index

CSR

2.61 / 11
Average CSR Disclosure by Islamic Financial Institutions

US$ 683 MILLION
Total CSR Funds Disbursed in 2016 by Islamic Financial Institutions

AWARENESS

21,964
Number of Islamic Finance News Items in 2016

417
Number of Islamic Finance Events in 2016

GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

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

THE ISLAMIC FINANCE DEVELOPMENT INDICATOR 2017

The Islamic Finance Development Indicator (IFDI) provides rankings and profiles for different Islamic finance markets around the world, drawing on instrumental factors grouped into five broad areas of development (the main indicators). The indicator does not just focus on the overall size and growth of Islamic finance sectors in different countries; it instead evaluates the strength of the overall ecosystem that assists in the development of the industry.

The key methodology highlights used are :

- Equal weights have been given to each of the five indicators because of their equal impact on the development of the industry.
- A total of 55 different metrics across 131 countries have been used in IFDI 2017.
- Three rationalizing coefficients were used to adjust indicator values to each country's size: population, gross domestic product, and total banking assets.

(The full methodology is detailed in the appendix.)

The five main indicators for the IFDI are weighted indices representing different sub-indicators, which are

Indicator Level	**Quantitative Development**	**Knowledge**	**Governance**	**Corporate Social Responsibility**	**Awareness**
Sub-indicator Level	• Islamic Banking • Takaful • Other Islamic Financial Institutions • Sukuk • Islamic Funds	• Education • Research	• Regulations • Shariah Governance • Corporate Governance	• CSR Activities • CSR Funds Disbursed	• Seminars • Conferences • News

Rebound in 2017 IFDI value shows faith in the industry

The Islamic Finance Development Indicator global average value recovered to 9.9 for 2017, from 8.8 for 2016, with stronger performances by all of the main indicators.

Governance jumped to 14.0 in 2017 from 11.3 in 2016, taking top spot for the first time from Awareness, which edged up to 13.9 from 13.8. Many governments have been stepping up regulatory and governance efforts in order to develop their Islamic finance industries and attract market players. These efforts demonstrate governments' faith in the ability of Islamic finance to boost struggling economies.

A strong showing for Governance had been expected anyway after the industry faltered before the 2016 report and governments began to intervene to rekindle their economies.

By stepping up Governance, governments also increased Awareness, as news releases, seminars and conferences are some of the best tools available to support their governance initiatives and objectives. Governance and Awareness are in this way mutually supporting, as are each of the main indicators.

Just as the Awareness indicator recorded marginal growth, so too did Knowledge, which measures education and research. The Knowledge indicator rose to 7.8 for 2017 from 7.6 in 2016.

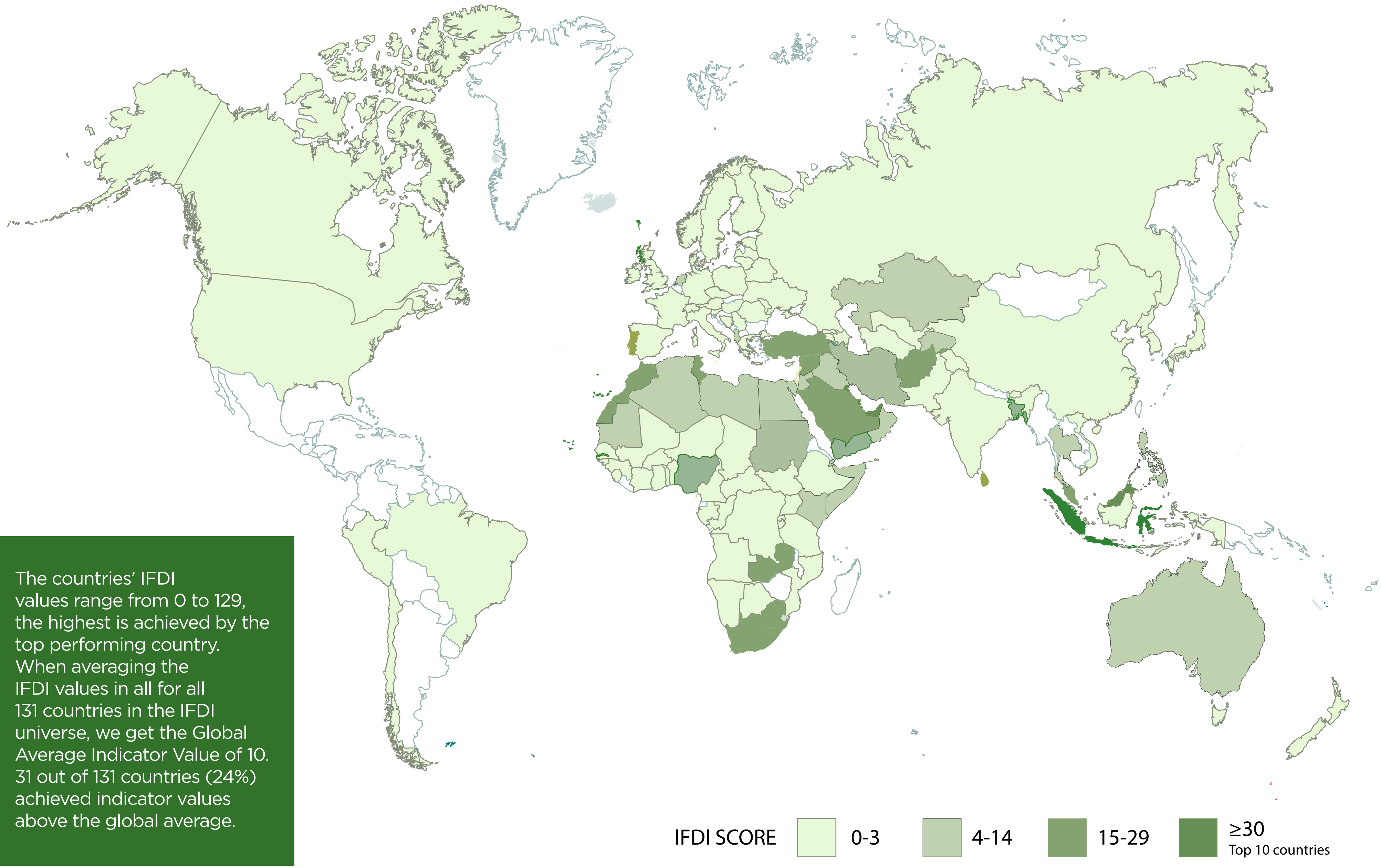
A partial recovery in the Corporate Social Responsibility indicator to 7.9 for 2017 from 7.1 for 2016 hinged on a recovery in Quantitative Development, as improved financial performances for some Islamic financial institutions allowed them to refocus on their CSR initiatives. QD recovered to a 2017 indicator value of 5.7 from 4.3 in 2016, though still short of 2015's level of 6.4.

Islamic Finance Development Indicators Averages (2013 – 2017)

Average Indicator Values

Indicator	Islamic Finance Development Indicator (IFDI)	QD	Knowledge	Governance	CSR	Awareness
2017	9.9	5.7	7.7	14.0	7.9	13.9
2016	8.8	4.3	7.6	11.3	7.1	13.8
2015	9.9	6.4	8.4	11.5	8.3	14.9
2014	10.2	6.1	8.2	12.4	9.5	14.6
2013	10.6	6.2	6.3	13.0	10.9	16.6

Islamic Finance Development Indicator Values by Country for 2017



The countries' IFDI values range from 0 to 129, the highest is achieved by the top performing country. When averaging the IFDI values in all for all 131 countries in the IFDI universe, we get the Global Average Indicator Value of 10. 31 out of 131 countries (24%) achieved indicator values above the global average.

TOP PERFORMING MARKETS

Islamic Finance Development Indicator 2017 Top Performers

IFDI 2017 Rank	Country	IFDI	IFDI 2016 Rank	Quantitative Development	Knowledge	Governance	CSR	Awareness
1	Malaysia	129	1	81	197	88	35	243
2	Bahrain	83	2	38	52	108	52	166
3	United Arab Emirates	64	3	30	38	63	48	144
4	Oman	64	4	14	21	81	67	136
5	Pakistan	54	6	28	43	67	33	100
6	Kuwait	51	7	52	15	72	45	73
7	Saudi Arabia	50	5	48	27	39	95	43
8	Jordan	48	8	19	71	49	79	25
9	Brunei	47	14	13	56	54	60	51
10	Qatar	46	9	25	25	46	52	84
11	Indonesia	35	10	23	37	61	26	31
12	Maldives	32	12	17	13	63	33	36
13	Sri Lanka	31	13	11	26	37	43	37
14	Tunisia	29	17	8	68	24	-	44
15	Sudan	27	11	22	12	58	129	22

IFDI values recover for most leaders to levels seen before oil price crash

The leading 15 countries on the IFDI indicator are from Islamic finance's four dominant regions : the GCC, Southeast Asia, Other MENA, and South Asia. The top four countries – Malaysia, Bahrain, the UAE and Oman – were the same as in both IFDI 2016 and 2015. Palestine dropped out of the top 15, while Tunisia jumped into 14th place from 17th.

Of the 15 leading countries, 13 saw their IFDI indicator values rise to levels seen before the economic slowdowns suffered by GCC and other countries on the back of falling oil prices.

IFDI REGIONAL PERFORMANCE

The GCC
QD recovery puts GCC back on track

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
1st	6	Bahrain	60	7%

The GCC region's average performance recovered for IFDI 2017 after the slight downturn of the previous year. The main driver of this was the QD indicator, which improved across each of its sub-indicators. QD was the only indicator to gain for all of the GCC countries, helped by a partial rebound in oil prices to US$ 55 per barrel from US$ 30 at the beginning of 2016. This boosted the performances of several industry sectors such as Islamic banking and Islamic funds. Despite this, the GCC's IFDI value rose less than for other regions, as the other indicators apart from QD performed less consistently well depending on country.

Oman improved the most of the GCC countries. This was mainly due to the issuance of a number of sukuk and an improved regulatory infrastructure following the introduction of sukuk and takaful laws in 2016. Other contributing factors included a higher total of CSR funds disbursed and a rise in the number of seminars targeting the Islamic finance industry.

Southeast Asia
Indonesia and Brunei most improved but Malaysia stays top

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
2nd	8	Malaysia	31	21%

Southeast Asia also recovered for IFDI 2017, after QD dragged Malaysia and Indonesia lower last year. As in the GCC, the QD indicator led the recovery. Though Malaysia remained the region's most developed Islamic finance market, it didn't have the most improved performance in either IFDI or QD values. The Malaysian ringgit depreciated by 4% in 2016 due to economic concerns, particularly over emerging markets' US trade following the election of Donald Trump as US President. As a result, Malaysia's total Islamic finance assets declined 3% to US$ 406 billion in 2016. However, Malaysia remained world leader in sukuk, with a similar level of issuance as in 2015, and maintained its unbeatable performance in some of the rest of the indicators, resulting in a world-high IFDI value of 129.

The most improved performances were by Indonesia and Brunei. Indonesia's rupiah, like the ringgit, was impacted by the US election, but a rebound in the currency by the end of 2016 contributed to growth in Indonesia's total Islamic finance assets. Another contributor to that growth was an increase in Indonesia's sukuk outstanding following a rise in sukuk issuance. Knowledge and Awareness also improved.
Despite this, Brunei was the biggest gainer in Southeast Asia as it improved across all indicators and its much smaller size compared to Indonesia affected their rationalizing coefficients.

South Asia

Sukuk helps Pakistan shine while Awareness and Knowledge drag Bangladesh lower

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
3rd	7	Pakistan	24	28%

South Asia has three countries ranked in the IFDI top 15: Pakistan, the Maldives and Sri Lanka. Although Bangladesh has the region's largest Islamic finance market, with assets totaling US$ 29 billion in 2016, it had lower Awareness and Knowledge indicator values. This pulled the country's ranking down to 17th, compared with Pakistan's 5th, the Maldives' 12th and Sri Lanka's 13th. If Bangladesh is to regain its position, it needs to improve in both indicators.

Governance was the strongest indicator for the region, with all sub-indicators showing strong values. Corporate Governance was the most developed sub-indicator, as most South Asian Islamic financial institutions have high levels of financial disclosure. As in the other major IFDI regions, QD was the most improved indicator for Southeast Asia for IFDI 2017.

Pakistan's rise to 5th place in the global IFDI 2017 rankings was helped by a return to the international sovereign sukuk market after two years' absence, along with locally denominated sukuk issuance and an improved performance by Islamic funds. Pakistan is also turning to Islamic finance to help fund infrastructure projects as part of the China-Pakistan Economic Corridor (CPEC).

Other MENA

Best performances driven by different indicators

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
4th	14	Jordan	17	12%

The Other MENA region had a mixed year. Although QD was the most improved indicator for the region as a whole, the most improved countries had different reasons for their gains.

Tunisia's Governance indicator value was boosted by the introduction of Islamic banking and Shariah governance laws, while Iran's QD value increased the most due to much-improved mutual fund performances and a stronger OIFI (other Islamic financial institutions) sector.
Morocco's gain was supported by the Awareness and Knowledge indicators as the government prepared to allow Islamic financial institutions to operate by increasing public awareness through events and knowledge through research papers.

Iraq jumped 14 places in the rankings with the addition of several new Islamic banks and as a rise in the number of Shariah scholars in the country boosted its Shariah Governance value. Iraq's Governance and CSR readings also improved, as a result of the listing of Islamic banks on the country's stock exchange, which necessitated greater transparency in their financials, corporate governance, and CSR activities.

Sub-Saharan Africa
Governance, Awareness and QD driving strong growth

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
5th	34	Nigeria	5	29%

Sub-Saharan Africa is a fast-growing region in Islamic finance. Its average IFDI value rose strongly for 2017 on the back of a gain for the Governance indicator as new regulations were introduced by countries including Kenya and Uganda. The Shariah Governance sub-indicator value also rose with the addition of Shariah scholars at newly established Islamic financial institutions in Kenya and other countries, as well as a new, centralized Shariah board in Djibouti.

Another indicator that has been active for the region is Awareness. News concerning the potential growth of Islamic finance and sukuk in West Africa increased in 2016. Events such as conferences and seminars were also contributing factors in countries such as Nigeria, Tanzania, Djibouti and Zambia. For the QD indicator, Sukuk was another gainer as there was increased issuance in 2016, whether sovereign or quasi-sovereign.

Other Asia
Opportunities emerge in CIS, Russia and China

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
6th	14	Kazakhstan	3	17%

In Asia outside of Southeast and South Asia, the most improved region was the Commonwealth of Independent States (CIS). The Corporate and Shariah Governance sub-indicators played a large part in this. There was also growth in the number of other Islamic financial institutions (OIFIs) – either leasing or investment-based companies – in countries including Kazakhstan, Azerbaijan, Kyrgyzstan and Tajikistan. This suggests there is greater potential from OIFIs flourishing in the region than Islamic banking to drive growth in Islamic finance.

The Awareness indicator, on the other hand, declined in the Other Asia region, with falls in each of the Conferences, Seminars and News sub-indicators. News, which had been the biggest factor in lifting these countries' IFDI value for 2016, dropped for most of the countries, with the exception of Russia, China, Kyrgyzstan and Australia. For Russia, 2016 was a landmark year, especially with the introduction of the Islamic Finance Roadmap for 2016-17 and the interest shown by some Russian banks in Islamic banking. In China, which still lags in Islamic finance development, opportunities have arisen from the government's massive Silk Road project: the Belt and Road initiative. With these developments, China and Russia have great potential to become major contributors to the industry in coming years.

Europe

Spain and Poland showing growing interest in Islamic finance

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
7th	37	Turkey	2	37%

In Europe, there was growth across all indicator values except Awareness, where the average slipped as a result of a fall in the number of events for countries that used to drive the value such as Turkey and the UK. Despite this, there are still countries adding Islamic finance to their agendas. Education and Research improved across a number of countries that showed interest in the industry, thus increasing their indicator values.

Two countries in particular that are beginning to advocate Islamic finance are Spain and Poland, which are learning from the experiences of the UK and Luxembourg. Spain and Poland's IFDI values more than doubled, driven by gains in Awareness and Knowledge. In Spain, Banco de España acknowledged the importance of Islamic finance by hosting an event that drew national press attention. There was also an increase in research published by affiliates. Poland also saw efforts to broaden knowledge in the industry through events, education and research.

Europe's Governance indicator value, however, increased the most, aided by higher Corporate Governance values from improved financial disclosure. Similarly, CSR rose through improved disclosure on CSR activities in Turkey and the UK.

Americas

Growth in indicator values but Awareness and Knowledge remain low

Regional Ranking	Number of Countries Covered	Top Performing Country	Average IFDI Value	Growth in Average IFDI
8th	11	Trinidad and Tobago	1	25%

Both North and South America saw growth in indicator values. Although South America had some countries drop to a value of nil since 2016, such as Chile, Bolivia and Mexico, others improved, such as Trinidad & Tobago, Suriname, and Guyana.

Financial performance continued to improve for Trinidad & Tobago, while there was wider coverage of news on Suriname and Guyana's interest in the industry. Suriname is gaining particular attention given that this year it will have South America's first Islamic bank converted from a conventional bank, for which it has approval from the country's central bank.

Despite these improvements, and the United States' and Canada's continued growth in industry assets, Awareness and Knowledge remain slow, contributing just a small part to the region's Islamic finance development.

ENABLING ENTERPRISE, BUILDING PROSPERITY

The Islamic Corporation for the Development of the Private Sector (ICD) is a multilateral development financial institution within the Islamic Development Bank (IDB) Group.

ICD was established in November 1999 to support the economic development of its member countries through the provision of finance for private sector projects, promoting competition and entrepreneurship, providing advisory services to governments and private companies, and encouraging cross-border investments.

ICD's Theory of Change is based on a clear path for both producers and consumers to improved social welfare through the development of a competitive private sector. By benefitting from ICD's credit and advisory services, clients improve their business processes and products. This leads to higher sales and profits, which boosts jobs and raises household incomes, leading in turn to higher household spending in agriculture, health, education and other areas.

In 2016, the financial industry accounted for the majority of ICD's gross approvals, with a gross approved amount of US$ 2,145.5 million. This was followed by industry and mining, and funds. Real estate, health and other social services, information and communication, energy, trade and transportation, accounted for 22.4% of total approvals. The remaining US$ 74.38 million, representing 1.5% of cumulative approvals, was allocated to agriculture; education; and water, sanitation and waste management.

In 2017, ICD continues to provide asset management services. These connect other funding sources such as sovereign wealth funds, financial institutions, pension funds, insurance companies, endowments, and high-net-worth individuals with investment opportunities in emerging and developing market member countries.

ICD is actively seeking out and creating new development partnerships. These partnerships will enhance the enabling environment for private sector development and leverage additional funding. By doing so, ICD will promote development opportunities for its member countries.

ICD will also extend its Industry and Business Environment Support (IBES) Program, Sukuk and Capital Markets Program, Islamic Finance Institution (IFI) Development Programs, and Funds for SMEs to new member countries. In support of this, ICD will enhance private sector investment with governments, investment promotion agencies, regulators and other stakeholders.

Islamic Corporation for the Development of the Private Sector

ISLAMIC FINANCE OUTLOOK

Islamic finance assets expected to grow to **US$ 3.8 trillion by 2022**

Given the positive developments in the industry since 2016, as outlined throughout this report, and a rebound in performance by Islamic finance's largest markets including the GCC, total industry assets are expected to continue to grow.

Growth is expected to be 9.5% per year on average, taking total assets to US$ 3.8 trillion by 2022.

Islamic Banking

Islamic banking will remain the biggest driver of growth given that it has the largest share of total Islamic finance assets. It is expected to grow 1.5 times between 2016 ans 2022. Two of the world's largest Islamic banking markets, Iran and Saudi Arabia, are undergoing economic transformations that could lead to a bigger role for Islamic banks.

For Saudi Arabia, one notable development is that Islamic banks are reaping the benefits of sovereign sukuk issuances by the Saudi Ministry of Finance in 2017, as this helps address the shortfall in Islamic liquidity tools from which Islamic banks have suffered.

Meanwhile, Iranian banks are looking to benefit from foreign investment in the country since sanctions were suspended, albeit slowly given that only a few major European companies have returned to the Iranian market. However, there is still a fear of renewed economic hardship given US President Donald Trump's move to back away from the Iran nuclear accord, though other signatories such as the European nations and China are sticking to the deal. Other markets are also working to develop their Islamic banking sectors, such as Morocco and Russia.

Islamic Capital Markets

Still, the Islamic banking sector's share of the industry is expected to decline over coming years, to 64% by 2022 from 73% in 2016, as a result of the larger role played by other Islamic finance sectors and asset classes. The Islamic asset management sector has the highest potential despite its volatile nature, given that many Islamic funds are invested in equities and so are easily impacted by market movements. The reasons for the sector's high expected growth, to US$ 403 billion by 2022, are the same as for Islamic banking, and growth will focus on the largest markets: Malaysia, Saudi Arabia and Iran. Malaysia, IFDI's most developed market, has released a blueprint specifically for this sector and is working to benefit from the common mutual demand for Islamic and SRI funds. Islamic pension and hajj funds are also on the rise as the retail public turns its attention towards Islamic investment options in markets such as Malaysia and Indonesia.

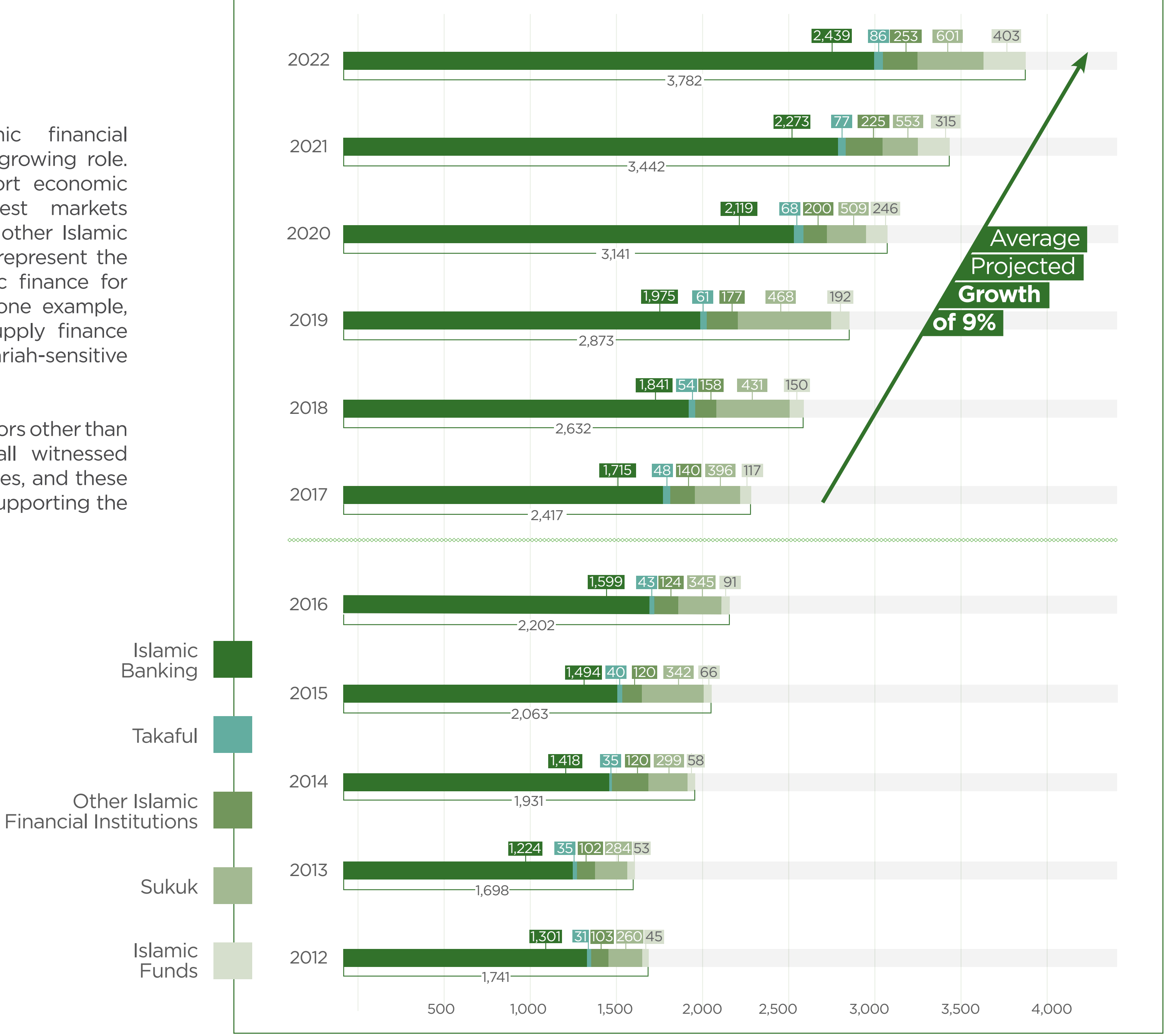
Despite slowing in 2016, sukuk has significant growth potential as there is still high demand for this Shariah-compliant debt instrument, particularly from investors with an Islamic mandate. This is best illustrated by the low yields for Saudi Arabia's latest international and domestic sukuk issuances. Successful corporate issuances such as Saudi Aramco's could encourage issuance by other corporates. Meanwhile, those that have previously issued sovereign sukuk are planning to return to the market, such as the UK's planned issue after Brexit in 2019, which could raise up to GBP 1 billion. In addition, Africa has the highest potential for further sovereign issuance given recent announcements by North African nations and issuance by countries such as Nigeria.

Takaful and Other Islamic Financial Institutions

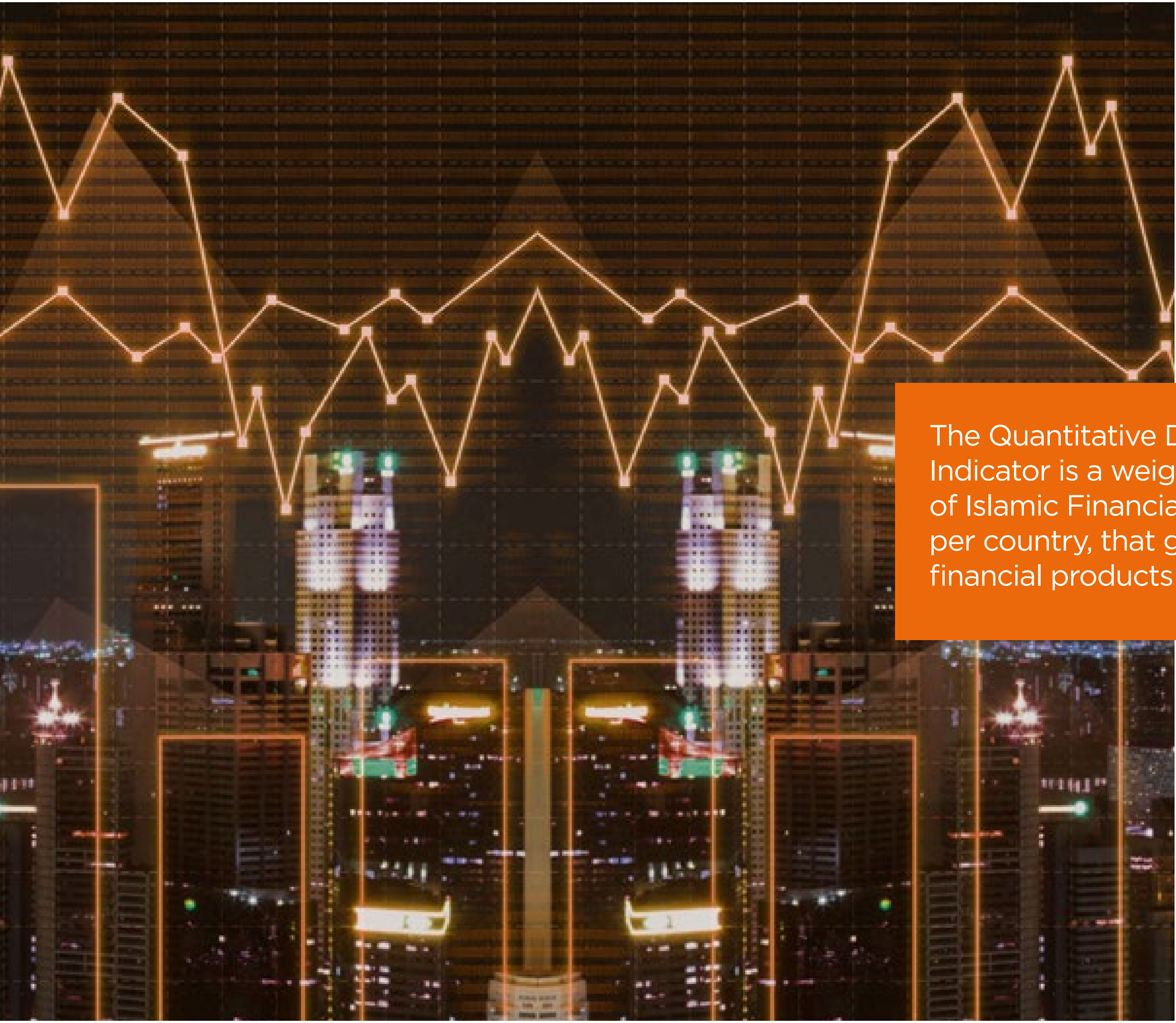
Takaful and other Islamic financial institutions will also play a growing role. Takaful is needed to support economic developments in its largest markets such as Saudi Arabia, while other Islamic financial institutions (OIFIs) represent the easiest way to enter Islamic finance for some jurisdictions. India is one example, where OIFIs continue to supply finance and investment tools to Shariah-sensitive consumers.

It is important too that indicators other than Quantitative Development all witnessed growth in their indicator values, and these too will have a large role in supporting the industry.

Global Islamic Finance Assets by Sector Growth (2012 - 2022, US$ Billion)



QUANTITATIVE DEVELOPMENT INDICATOR



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

QUANTITATIVE DEVELOPMENT INDICATOR PERFORMANCE IN 2017

Quantitative Development Indicator Global Average

6

Quantitative Development Top Countries

	Country	Value
1	Malaysia	81
2	Iran	73
3	Kuwait	52
4	Saudi Arabia	48
5	Bahrain	38
6	UAE	30
7	Pakistan	28
8	Qatar	25
9	Bangladesh	24
10	Indonesia	23

Islamic Banking Sub-indicator Global Average

9

Islamic Banking Top Countries

	Country	Value
1	Bahrain	103
2	Sudan	77
3	Iran	69
4	Kazakhstan	55
5	Syria	53
6	Malaysia	48
7	Saudi Arabia	48
8	Iraq	48
9	Kuwait	45
10	UAE	45

Takaful Sub-indicator Global Average

5

Takaful Top Countries

	Country	Value
1	Saudi Arabia	73
2	Iran	52
3	Bangladesh	44
4	Kuwait	42
5	Qatar	36
6	Malaysia	31
7	Indonesia	30
8	Jordan	29
9	UAE	28
10	Sudan	26

Other Islamic Financial Institutions (OIFI) Sub-indicator Global Average

6

OIFI Top Countries

	Country	Value
1	Kuwait	132
2	Iran	112
3	Malaysia	81
4	Maldives	49
5	Bahrain	41
6	Sri Lanka	36
7	Qatar	34
8	Azerbaijan	33
9	Saudi Arabia	32
10	UAE	30

Sukuk Sub-indicator Global Average

4

Sukuk Top Countries

	Country	Value
1	Malaysia	142
2	Gambia	60
3	United States	33
4	Bangladesh	30
5	Hong Kong	28
6	UAE	24
7	Saudi Arabia	20
8	Qatar	20
9	Kazakhstan	20
10	Indonesia	19

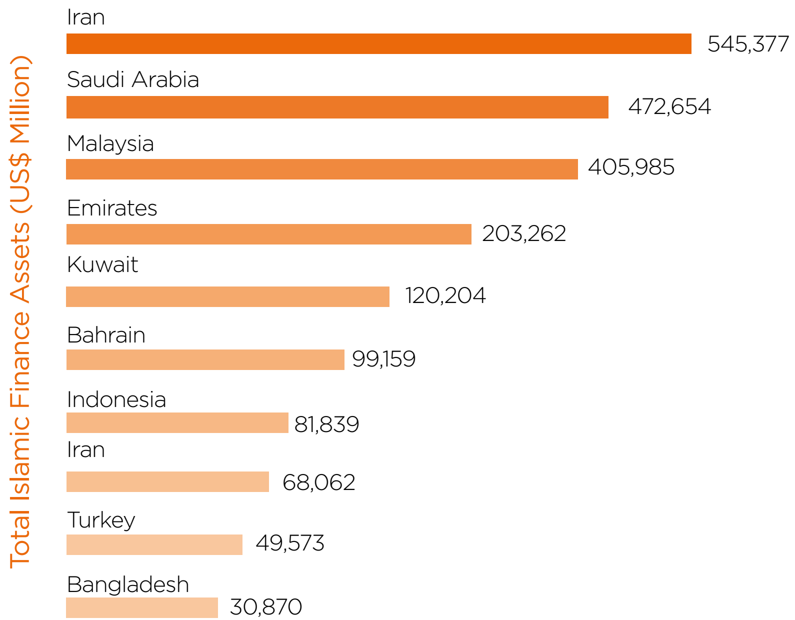
Islamic Funds Sub-indicator Global Average

6

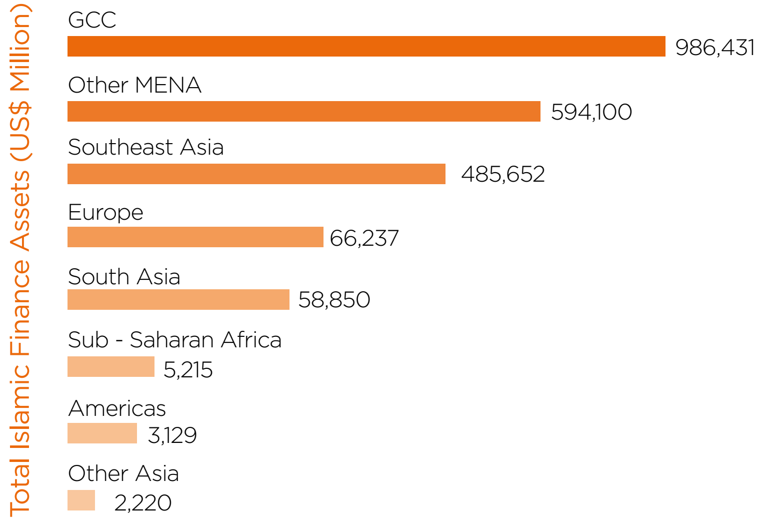
Islamic Funds Top Countries

	Country	Value
1	Iran	132
2	Malaysia	101
3	Saudi Arabia	69
4	Pakistan	62
5	Luxembourg	54
6	Singapore	49
7	Indonesia	40
8	Kuwait	35
9	Thailand	34
10	South Africa	30

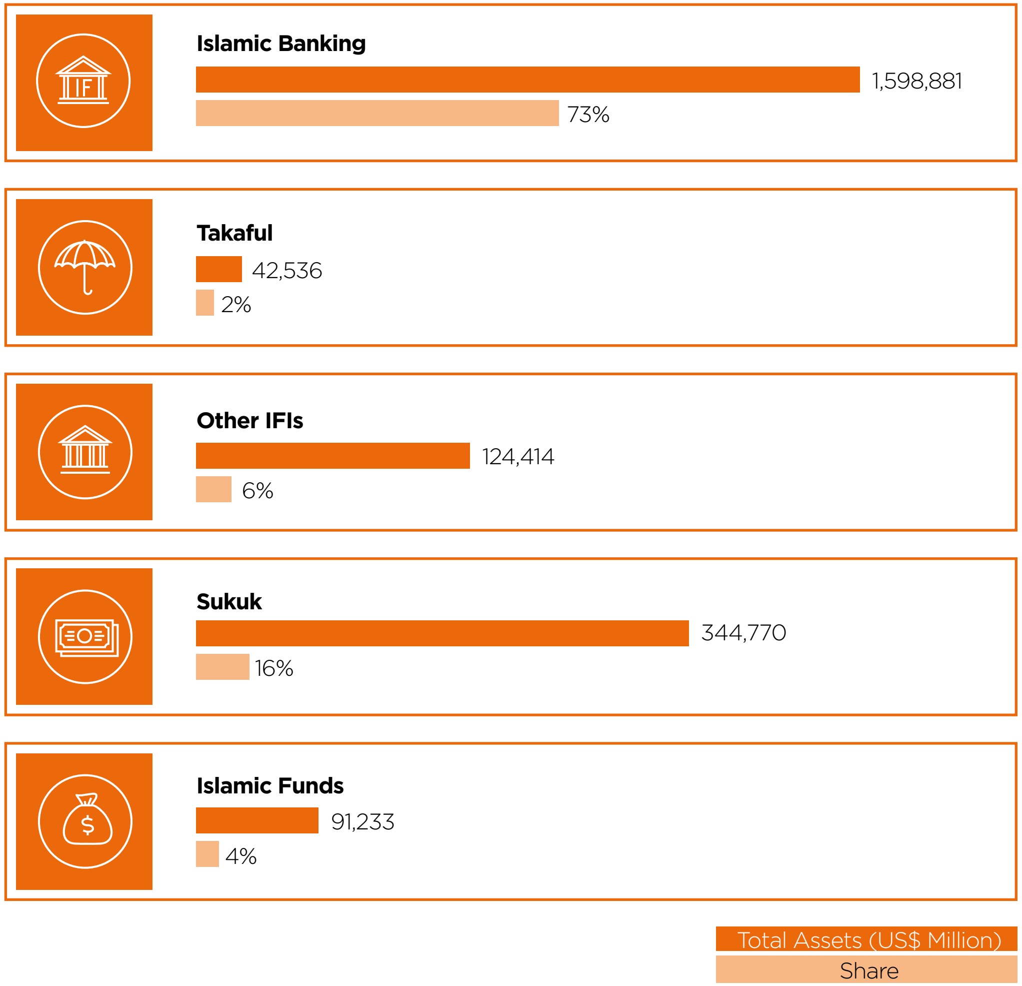
Top Countries in Islamic Finance Assets (2016)



Islamic Finance Assets by Region (2016)



Islamic Finance Assets Distribution (2016)



1,407 Total Islamic Financial Institutions

Robust growth of total Islamic finance industry assets supported by growth in all sectors

Islamic finance industry assets grew 7% to US$ 2.2 trillion in 2016 from US$ 2.1 trillion in 2015. Assets were contributed by 57 countries. Iran, Saudi Arabia and Malaysia were the largest markets, contributing 65% of the industry's total assets, or US$ 1.4 trillion. Total assets declined in Malaysia, however, due to depreciation in the Malaysian ringgit.

By sector, Islamic banking contributed 73% of total Islamic finance assets, followed by sukuk (16%), other Islamic financial institutions (6%), Islamic funds (4%), and takaful (2%). In terms of growth, the two components of Islamic capital markets – sukuk and Islamic funds – had contrasting fortunes in 2016. The Islamic funds sector grew the most of the Islamic finance sectors, by 37% in 2016, while sukuk grew the least at 1%.

OIFI leads rebound in Quantitative Development as most countries show growth

The Quantitative Development indicator saw a rebound in its average value to 5.7 for 2017 from 4.3 the year before. There was improvement for 89% of countries' QD indicator values for 2017, showing the industry's financial development is back to where it was before the economic slowdown hit some of the main markets such as the GCC and Malaysia.

The QD indicator takes into account five sectors: Islamic Banking, Takaful, Other Islamic Financial Institutions (OIFI), Sukuk, and Islamic Funds. All five sub-indicators showed improvement. OIFI was the most improved, growing to an average of 5.9 for 2017 from 3.5 last year. This was partly due to many countries including Saudi Arabia, Pakistan and Iran having newly established OIFIs operating. There was also growth in total reported OIFI assets for the existing countries, which contributed to the growth in value of their OIFI indicators.

Turnaround in Islamic Funds following recovery in economic growth in core markets

The second most improved sub-indicator was Islamic Funds, led by Iran, which reported growth in assets under management to US$ 38 billion. This growth was assisted by the country's existing funds reporting an average cumulative growth of 28%. Most of the improved fund performances were invested in local equities, reflecting improved prospects in the local market since sanctions were lifted in January 2016. The improvement was also helped by the launch of 18 new funds in 2016 as many local asset managers jumped on the bandwagon.

Other countries that made it into the Islamic Funds top 10 also witnessed a rebound in their sub-indicator values, such as Malaysia, Saudi Arabia and Pakistan. This was attributed to a rebound in their average cumulative performances, many of which had been negative the preceding year. The movement reflects the volatile and risky nature of Islamic funds when compared to other asset classes, as many Islamic funds are invested in equities and so were negatively impacted by the economic slowdown accompanying the drop in oil prices.

Islamic Banking and Takaful see an upturn in returns

The Islamic Banking and Takaful sub-indicators had similar growth in their average values, reflecting an overall improvement in performance by these areas of Islamic finance globally.

For Takaful, Saudi Arabia took top spot. The large number of takaful operators in the country contributed total assets of US$ 15 billion in 2016. Another contributing factor was the turnaround in average return on assets to 3% for Saudi takaful operators from -1% in 2015. Generally, most countries with a takaful presence had enhanced Takaful sub-indicator values for 2017, with only four of 46 countries reporting negative growth.

Some countries had notable improvements in Islamic Banking values. Iraq jumped the most, from 28th position into the top 10, following new regulatory requirements imposed by the central bank. The rapid rise in number of Islamic banks to 18 along with growth in total Islamic banking assets, especially given that these banks were listed, boosted development in Iraq's Islamic banking sector.

Islamic Banking and Takaful also share a trend of consolidation, particularly in the core Islamic finance markets of the GCC, Southeast Asia and South Asia. Mergers and acquisitions became viable options for some industry players, including the largest institutions, seeking to adapt to economic and regulatory transformation.

Sukuk underperforms as sovereigns switch to bonds

In line with slowing growth in the sukuk industry's size over the year, Sukuk showed the least improvement in its average sub-indicator value, reflecting a decline in popularity as a financing option. Many sovereigns in core markets such as the GCC opted to issue conventional bonds instead of sukuk because of their lower issuance costs and relative simplicity. Corporate issuers, mostly Islamic banks, also saw slowed issuance growth in 2016. Overall slower growth in sukuk has been accompanied by a lack of growth in the number of countries tapping the market, which remained at 28 in 2016.

Malaysia still dominates the global sukuk market despite a decrease in its Sukuk sub-indicator value to 142 from 170. There has also been an ongoing decline in domestic issuance as a result of Bank Negara Malaysia's decision to halt short-term sukuk issuances in 2015.

Outside the top 10, Jordan, Senegal, Ivory Coast and Togo had notable issuances in 2016, resulting in higher indicator values, although these are still small compared to other markets. Oman could also become a major player following a pickup in sukuk issuance and introduction of a sukuk law in 2016. The country's ranking lifted to 12th.

ISLAMIC BANKING SUB-INDICATOR

US$ 1.6 Trillion
Total Islamic Banking Assets in 2016

7%
Growth of Islamic Banking Assets in 2016

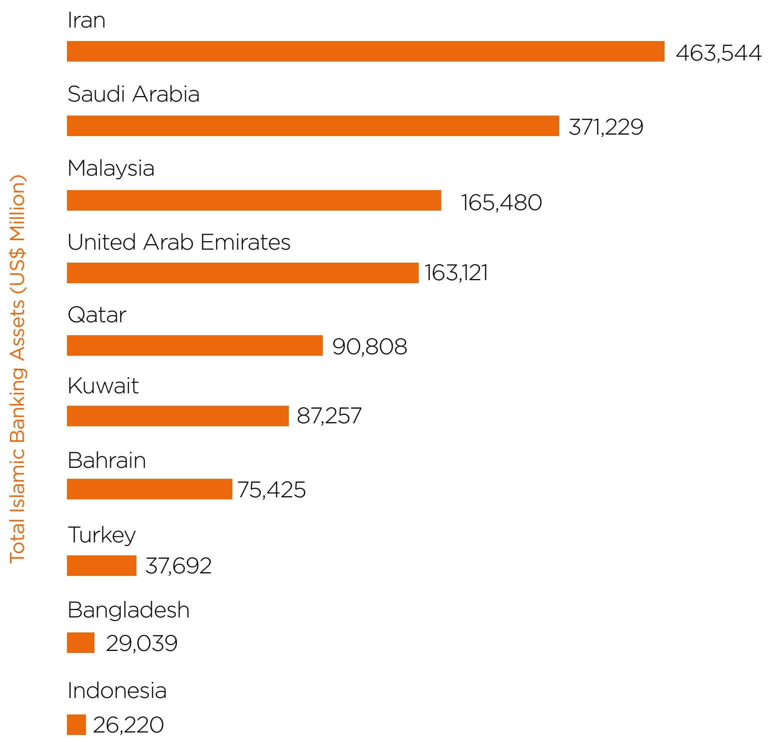
US$ 2.4 Trillion
Projected Islamic Banking Assets by 2022

63%
Top 3 Countries' Share of Global Islamic Banking Assets in 2016

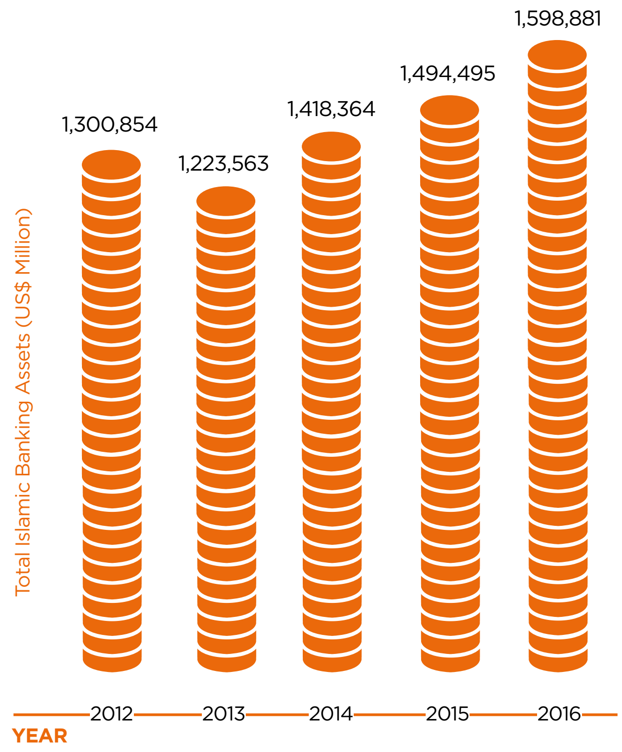
Top Islamic Banking Trends in 2016 and 2017

- Islamic banking encouraged as a tool for economic reform in the MENA region
- A rise in consolidation and efficiency in the Islamic banking sector in the GCC and other markets
- Introduction of new Islamic banks in sub-Saharan Africa, South America, and Russia

Top Countries in Islamic Banking Assets (2016)



Islamic Banking Assets Growth (2012 – 2016)



Islamic Banking Performance by Region (2016)

Region	Total Islamic Banking Assets (US$ Million)	Number of Islamic Banks / Windows	Share of Total Banking Assets*
GCC	795,673	101	37%
Other MENA	511,254	153	30%
Southeast Asia	200,242	81	11%
South Asia	46,963	65	13%
Europe	42,630	34	1%
Sub - Saharan Africa	1,694	44	0.30%
Americas	324	6	0%
Other Asia	101	10	0.10%

***In countries that reported Islamic banking assets**

294
Number of Full-Fledged Islamic Banks in 2016

200
Number of Islamic Banking Windows in 2016

67
Number of Countries with Islamic Banks / Windows in 2016

Islamic Banking Assets by Full-Fledged / Window (2016)

Type	Total Islamic Banking Assets (US$ Million)
Full-Fledged	1,320,594
Window	278,287

MALDIVES
OMAN
PALESTINE

Fastest-Growing Countries in Islamic Banking Assets in 2016

5%
Share of Islamic Banking Assets in Total Global Banking Assets*

*In countries that reported Islamic banking assets

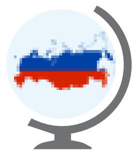
Islamic banking grows outside of core markets and more growth is expected

In 2016, 67 countries had Islamic banks or Islamic banking windows, and this number is likely to increase with the entrance of new players and markets as recently shown in South America, Russia and Africa.

SOUTH AMERICA

One new entrant to the Islamic finance industry is Suriname, which planned to create South America's first Islamic bank by the end of 2017 through the conversion of the conventional Trust Bank.

The proposed new full-fledged Islamic bank, Trust Bank Amanah, received approval for the change from the Central Bank of Suriname in May 2016. Suriname is an Islamic Development Bank member, along with another South American country, Guyana, which joined in May 2016.



RUSSIA

Another potentially major contributor to the Islamic banking sector is Russia, where an Islamic finance working group set up by the central bank and other banks drafted an Islamic Finance Roadmap for 2016-17. State lenders Sberbank and Vnesheconombank are among the banks working on Islamic finance products under participation finance models.

Sberbank executed a pilot Islamic finance deal in Tatarstan in January 2017 and is planning to do the same for other regions with Muslim majorities such as Chechnya and the Republic of Bashkortostan. The bank also received Shariah certification in June 2017 for its first mudaraba finance transaction.

Meanwhile, Vnesheconombank is looking at opportunities in infrastructure investment through Islamic banking products in project financing, trade financing and hire purchase. Tatfondbank in Tatarstan was also reported to be working on this, but its license was revoked in March 2017 as a result of unsatisfactory compliance with Russian banking laws.

SUB-SAHARAN AFRICA

Islamic banking is gaining traction in West Africa following the success and rapid growth of sukuk issuance during 2015 and 2016. One potential entrant is Coris Bank, which announced in May 2017 it was collaborating with the Islamic Corporation for the Development of the Private Sector (ICD) to establish Islamic banking windows in its different subsidiaries in the region, including Mali, Senegal, Benin and Ivory Coast.

In East Africa, Uganda's regulator gave clearance for Islamic banking products in May 2016. The move came eight years after Bank of Uganda first received a request from an institution wishing to operate as an Islamic bank. During that time, other African countries such as Kenya have begun their own Islamic finance operations. Kenya now has nine entrants including Dubai Islamic Bank, which was licensed to operate in May 2016.

Strength

14TH

STRONGEST

BANK IN ASIA PACIFIC*- AGAIN!

THE ASIAN BANKER

STRONGEST BANK IN BRUNEI 2017

by balance sheet

For the second year in a row, we were ranked 14th among 500 strongest banks in Asia Pacific. As one of the strongest banks, you can rely on us all the time. So let us do the heavy lifting, while you can enjoy your freedom.

BIBD

Bruneian at Heart

*The Asian Banker (TAB) is a leading regional provider of strategic business intelligence to the financial services community. Headquartered in Singapore, its business model revolves around three core business lines: publications, research services, and forums. The TAB Strongest Banks is an annual assessment of the financial and business performance of the commercial banking industry in the Asia Pacific region. The assessment ranks the top performing banks in each country by strength, an evaluation based on a belief that a strong bank demonstrates long-term profitability from its core businesses. For more information, please visit www.theasianbanker.com

THE GROWTH AND FUTURE OF ISLAMIC FINANCE

Mubashar Khokhar, Managing Director of Bank Islam Brunei Darussalam

The global Islamic finance industry has grown rapidly over the past two decades, reaching total assets of US$ 2.2 trillion as of the end of December 2016 - an increase of 7% over 2015. In keeping with this growth, Shariah-compliant financial products and services have increased their reach to more than 50 Muslim and non-Muslim countries.

Even Asian financial powerhouses such as Japan, South Korea, Hong Kong and China with established conventional banking foundations have shown interest in developing Islamic banking markets, creating further opportunities for Islamic institutions to tap into.

Stronger governance and regulatory frameworks

As Islamic finance and Shariah-compliant ecosystems continue to develop and build momentum, there has been an encouraging shift towards the institutionalisation of governance and regulation of key players within the sector, demonstrating the market's increasing maturity.

In Brunei, the national Shariah Financial Supervisory Board was established in 2006 to enhance governance and supervision of Islamic products, with the aim of stimulating growth in the industry. In predominantly Muslim countries, governments have enacted laws such as the Islamic Financial Services Act 2013 in Malaysia and Act No. 21 of 2008 in Indonesia to provide Shariah-compliant legal frameworks for the regulation of Islamic banks and their business operations.

There is also growing demand for Islamic finance in non-Muslim countries, fuelled by individuals and corporations seeking safe and ethical banking solutions. This broader popularity is evident in the UK Financial Services Authority's policy of fairness and justice, which is in line with the guidelines set out by the Islamic Financial Services Board. The recent development of SRI (socially responsible investing) and green sukuk, and their popularity with both Muslim and non-Muslim investors, is a further case in point.

Progressive and inclusive approach

While Islamic finance is informed and guided by religious principles, it should not be viewed merely as a tool for Muslims to have a separate banking system. The success and growing popularity of Islamic finance can be attributed to its confluence with ethical and responsible banking principles such as transparency and the avoidance of excess uncertainty and exposure to risk. These are characteristics that are not only consistent with Islamic laws, but are the fundamentals of common-sense banking principles.

There remains great potential for further growth in Islamic finance through the development of a wider ecosystem of offerings for clients and customers. Beyond sukuk, we have also seen takaful – or Shariah-compliant insurance – gain prominence too. The global takaful insurance market experienced 13-14% annual growth in the years 2012 to 2015.

Moreover, the rise of fintech (financial technology), though regarded as an industry disruptor, presents huge potential for innovative partnerships and developments in areas such as regulatory technology, P2P takaful platforms, automated Islamic wealth management portals, or online remittance platforms in compliance with the concept of Bay al-Sarf, among others.

Islamic finance outlook

The Islamic finance sector is expected to continue to expand in 2018, notwithstanding geopolitical issues and the subdued economic prospects in core Islamic finance markets due to low oil prices.

There are several encouraging trends that could contribute to further growth in the industry. The prominence of responsible finance, impact investing, and the United Nations' Sustainable Development Goals in recent years has led to greater awareness of Islamic finance as they share objectives in creating an equitable financing system that has a positive impact on society. This could open the way for greater collaboration between organisations to develop Shariah-compliant financial products that appeal to both Muslim and non-Muslim customers.

We are also encouraged by the Accounting and Auditing Organization for Islamic Financial Institutions' efforts to standardise accounting standards within the Islamic finance industry with the development of the Accounting Standard FAS 30 on impairment and credit losses. The move towards standardisation – whether in accounting practice, documentation, or even interpretation of Shariah law – will set the foundation for closer collaboration and growth within the Islamic finance industry.

The BIBD case study

As the foremost Shariah-compliant licensed bank in Brunei, Bank Islam Brunei Darussalam (BIBD) is ideally positioned to seize the opportunities presented by rising demand for Shariah-compliant products from the Brunei government, government-linked corporations (GLCs) and SMEs, particularly with its robust approach to governance. We see here the potential to promote development, boost shared prosperity, and make meaningful contributions to the economy and society as a whole.

At the same time, we are committed to constant innovation in order to propel our development and position BIBD for future growth. We currently lead the Brunei market in introducing innovative solutions to our customers such as a mobile banking app, a customer-driven contact centre, payment via QR code, biometric ATMs, cardless withdrawals, virtual cards, and e-vouchers.

Conclusion

The institutionalisation of Islamic finance is an encouraging trend, and will ensure a stringent control and safety system as the industry continues to develop and mature. At the same time, the industry needs to adapt in order to capture new opportunities.

After all, a progressive dedication towards the integration of Islamic principles with the needs of an increasingly global customer base was what enabled the Islamic finance industry to achieve the esteemed standing it has today.

About the Author :

Mubashar Khokhar
is a financial services professional with more than 30 years' experience across fifteen developed and emerging markets, including the USA, Europe, Asia, Africa and Gulf Cooperation Council (GCC) member states.

Prior to his role as Managing Director at Fajr Capital, Mr Khokhar was CEO of Ajman Bank, a publicly listed Shariah-compliant bank in the UAE, and also served as CEO of Mashreq Al-Islami (formerly Badr Al-Islami), a wholly owned subsidiary of Mashreq Bank.

During his tenure, Ajman Bank received widespread industry recognition, including the coveted 'Best Domestic Bank' award in 2011. Mr Khokhar has previously served on the boards of directors of Badr Al-Islami and Samba Pakistan Ltd, and held senior positions in American Express Bank and Bank of America. He has an MBA and BBA (Hon.) from Ohio University, USA.

GCC banks looking to consolidation and efficiency to counter economic slowdown

Several economic and financial reforms were announced in the GCC during 2016 and 2017 following the collapse in oil prices, and both conventional and Islamic banks in the region adapted to the new market conditions by looking to consolidation and efficiency. Banking profit margins in the region, which held 50% of total global Islamic banking assets in 2016, came under pressure from lower consumer spending and governments' fiscal consolidation measures.

SAUDI ARABIA

A merger of conventional banks is likely after the newly rebranded Alawwal Bank and Saudi British Bank initiated talks in April 2017.

This would create Saudi Arabia's third-largest bank, behind Al Rajhi Bank and National Commercial Bank, and increase Islamic banking competition in the Kingdom given that all have strong Islamic banking window operations.

KUWAIT AND BAHRAIN

A cross-border banking merger in the GCC is also being considered, between Kuwait Finance House (KFH) and Bahrain's largest lender, Ahli United Bank, KFH reported in July 2017.

Bahrain's Ithmaar Bank sought efficiencies through restructuring instead of consolidation. At the beginning of 2017, the bank created a new group structure by converting into Ithmaar Holding, with two subsidiaries: Ithmaar Bank, an Islamic retail bank holding its core retail operations; and IB Capital, to hold investments and non-core assets.

The new structure lowers the risk profile of the whole by separating retail and investment, given the latter could be adversely affected by investment valuations given current market conditions.

UNITED ARAB EMIRATES

National Bank of Abu Dhabi and First Gulf Bank merged to become First Abu Dhabi Bank in April 2017. Both banks had strong Islamic banking window operations.

Each will benefit from the other's competetive advantages, resulting in a stronger combination of their wholesale and consumer banking businesses.

QATAR

A three-way merger is expected between Islamic banks Barwa Bank, Masraf Al Rayan and the conventional International Bank of Qatar (IBQ) by the end of 2017.

The new bank will be run in compliance with Islamic priciples and lower the number of commercial Islamic banks operating in Qatar to three. The others are Qatar Islamic Bank and Qatar International Islamic Bank.

SPOTLIGHT : Impact of VAT on Islamic Banking in the GCC

The planned introduction of a 5% value added tax (VAT) across the GCC region is aimed at boosting government revenues following the steep drop in oil prices. It will impact many businesses operating in the region, including banks. Saudi Arabia was first in the GCC to legislate to implement VAT, in July 2017.

The tax will come into effect on January 1st, 2018, as it will in the UAE. For the UAE, the tax could mean higher costs for the banking sector if fee-based services are taxed, though margin-based services such as interest on loans are likely to be exempt. The law also specifies that Islamic banking products will have aligned treatment with conventional banking products. For Saudi Arabia, most financial services are exempt from VAT, including Islamic finance products.

Bahrain and Oman have not announced specific legislation concerning VAT, but plan to introduce the tax in 2018, while Kuwait and Qatar have approved draft bills for its introduction that year too.

Mergers in Pakistan reduce number of Islamic banks; Malaysia may follow

There have been a number of mergers within Pakistan's Islamic banking industry to cope with more stringent capital requirements under Basel III and sliding profit margins.
Market consolidation is also likely in Malaysia, although some large-scale mergers have so far failed to go through.

PAKISTAN

Pakistan's Islamic banking sector ranks 11th in the world in terms of size, yet the number of Islamic banks has fallen as a result of market consolidation. There was an increase in mergers as some small and medium banks struggled to meet Basel III capital requirements or suffered falling profit margins caused by low interest rates and rising costs.

Al Baraka Bank Pakistan acquired Burj Bank in October 2016, cutting the number of full-fledged Islamic banks in Pakistan to five. Summit Bank and Sindh Bank, both with Islamic operations, also merged, in August 2017. This followed the merger a month before of NIB Bank with MCB Bank, which has a full-fledged Islamic banking subsidiary: MCB Islamic Bank.

MALAYSIA

Malaysian banks also could improve their balance sheets and reduce expenses through consolidation, although merger talks in the country have so far failed to produce results.

The acquisition of AMBank by RHB Bank, both with large Islamic banking subsidiaries, would have been one of the country's biggest banking deals, but it was announced in August 2017 that the two were unable to reach agreement.

There had been a similar failure in 2015 in a proposed three-way merger between RHB, CIMB and Malaysian Building Society (MBSB), which would have created Malaysia's largest bank. MBSB's second attempt, with Bank Muamalat, also fell through in February 2016. However, it could be third time lucky if MBSB successfully aquires Qatar Islamic Bank's Asian Finance Bank and becomes a full-fledged Islamic bank, a move which received approval from Malaysia's Finance Minister in August 2017.

Tough economic measures impacting other MENA financial systems

Countries in the Middle East and North Africa have also been busy reforming their economies to help them recover from dwindling oil revenues and in some cases seroius political unrest. Iraq and Morocco are showing promising signs of recovery, but others such as Egypt continue to struggle

EGYPT

Egypt is undergoing a short-term austerity programme and economic reforms in order to obtain a US$ 12 billion loan from the IMF. The loan was necessitated by the country struggling to attract investors and tourists following the 2011 uprising and as it faced a large budget deficit.

Reforms included subsidy cuts, raised taxes, new investment regulations, and floatation of the Egyptian pound in November 2016, which resulted in a 59% devaluation of the currency by the end of the year.

According to IFDI, the devaluation caused Egyptian Islamic banking assets to decrease by 39% to US$ 8.4 billion when reported in USD, compared with actual 40% growth in the reported currency. The country has 14 Islamic banks, mostly Islamic windows.

IRAQ

Iraq has undergone a transformation in its Islamic finance industry. New laws covering Islamic finance as well as money laundering and terrorism financing were introduced in 2015 to rescue the economy from the difficulties caused by tumbling oil prices and the fight against Islamic State.

A number of money transfer companies were successfully converted into Islamic banks in 2016. This increased the total number of full-fledged Islamic banks operating in Iraq to 18, including foreign Islamic banks.

Total Islamic banking assets rose to US$ 6 billion. The increased number of Islamic banks could boost the share of Iraq's population holding formal financial accounts, which stood at just 11% in 2014, according to World Bank financial inclusion data.

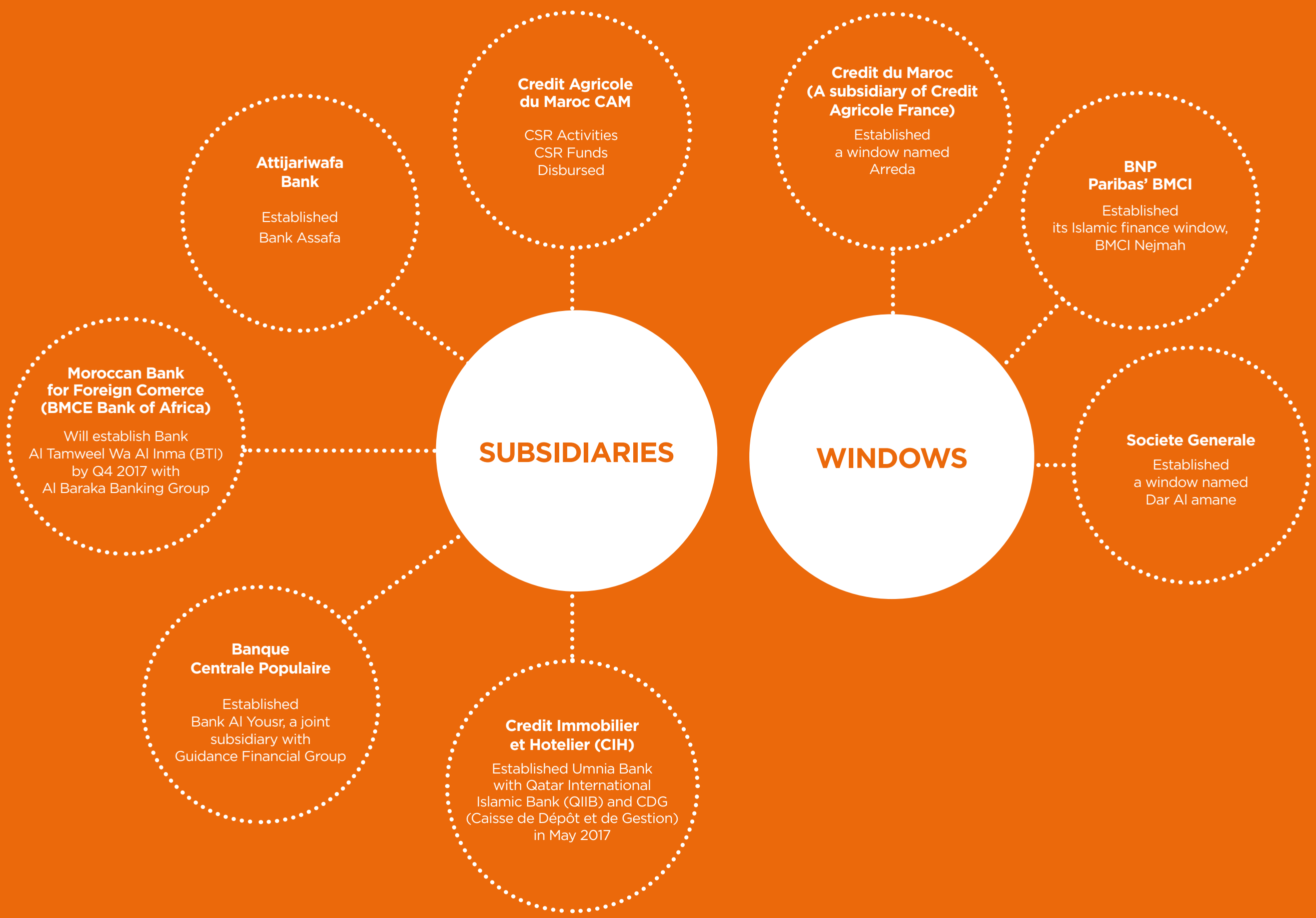
ALGERIA

The Algerian government – led by Prime Minister Abdelmadjid Tebboune for three months this year and since August by his replacement Ahmed Ouyahia – has turned to Islamic finance, or 'participative finance', to help restore its ailing economy to where it was before the sharp fall in energy revenues, which form 60% of total government revenues. Like its neighbours, Algeria aims to draw more investments into its economy and pursue spending cuts, including of state subsidies.

Both prime ministers' governments announced the inclusion of Islamic finance in their policies in order to offer banking services to Shariah-compliant investors. As a result, two state banks in Algeria reportedly will begin offering Islamic banking services by the end of 2017 and four other banks will do so in 2018.

Despite such announcements, the country lags behind neighbours such as Morocco and Tunisia in introducing an Islamic finance legislative framework. Algeria has two full-fledged Islamic banks and reported total Islamic banking assets of US$ 2.3 billion for 2016, up 5% since 2015.

Banks that Received Approval to Operate Islamic Banking Subsidiaries or Departments in Morocco



The Moroccan central bank also announced that it approved new Islamic banking subsidiary requests at the beginning of 2017 along with the approval of windows by three French banks. The central bank also approved five Islamic transaction types in March 2017: murabaha, mudaraba, ijara, musharaka, and salam. Since Islamic banking has been permitted in Morocco there has been a high level of interest in knowing how these banks function, as shown by the large gathering of curious clients outside Umnia's Rabat branch, Morocco's first Islamic bank, when its doors opened in May 2017.

If Morocco is successful in introducing Islamic finance to the general public and attracting consumer deposits, this could set a precedent for other North African nations such as Algeria and Tunisia.

MOROCCO

Morocco, which legislated to allow Islamic, or 'participation banking', in March 2015, could be among the North African leaders of the Islamic finance industry within the next few years. Bank Al-Maghrib, the country's central bank, initially rejected the concept of Islamic finance because of a fear of Islamist movements, but after receiving numerous requests for Islamic banks to open, it now allows them to operate.

Despite the attraction of Islamic finance to the country's retail sector, the main motive for Morocco's opening up to Islamic finance is financial rather than religious. The country adopted economic reforms in order to rebuild its financial market and attract foreign investment and liquidity from regions such as the GCC that lead the Islamic finance industry. IMF-backed reforms including the country liberalising its currency and targeting inflation following the drop in oil prices, which as the region's biggest oil importer had dented its finances.

TAKAFUL SUB-INDICATOR

US$ 43 Billion
Total Takaful Assets in 2016

7%
Growth in Takaful Assets in 2016

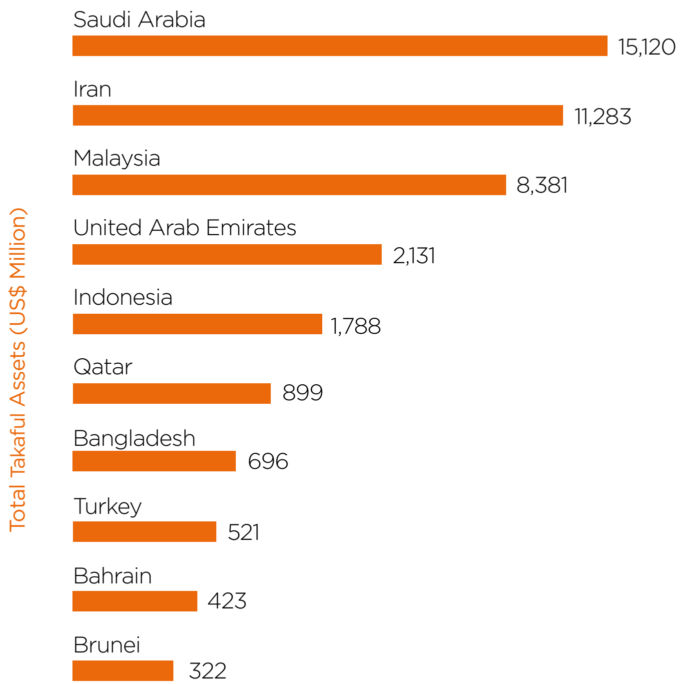
US$ 86 Billion
Projected Takaful Assets by 2022

82%
Top 3 Countries Share of Global Takaful Assets in 2016

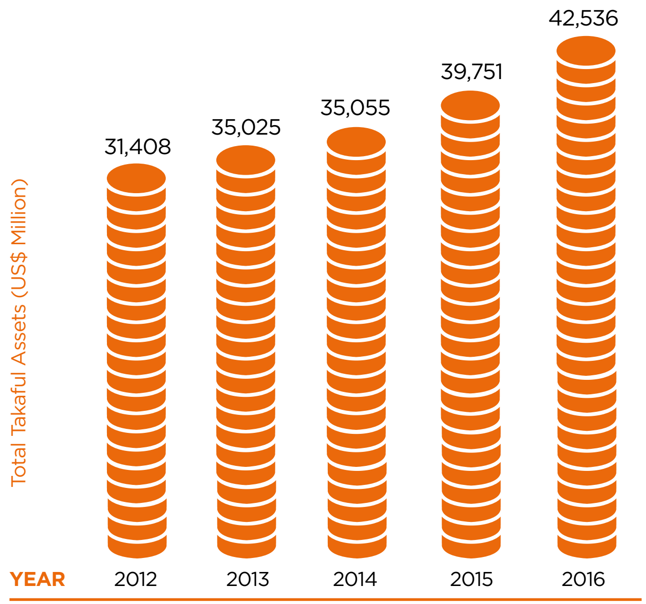
Top Takaful Trends in 2016 and 2017

- Regulatory developments and economic hardships raised the need for consolidation in the takaful sector
- GCC government actions are impacting the region's takaful sector

Top Countries in Takaful Assets (2016)



Growth in Takaful Assets (2012 – 2016)



Takaful Performance by Region (2016)

Region	Total Takaful Assets (US$ Million)	Number of Takaful Operators / Windows
GCC	18,902	94
Other MENA	11,591	75
Southeast Asia	10,491	88
South Asia	1,020	44
Europe	521	16
Sub - Saharan Africa	8	17
Americas	3	3
Other Asia	-	2

226
Number of Full-Fledged Takaful Operators in 2016

113
Number of Takaful Windows in 2016

48
Number of Countries with Takaful / Windows in 2016

Takaful Assets by Full-Fledged / Window (2016)

Type	Total Takaful Assets (US$ Million)
Full-Fledged	40,717
Window	1,819

TURKEY
PAKISTAN
INDONESIA

Fastest-Growing Countries in Takaful Assets in 2016

Malaysian and Indonesian takaful operators to be required to stand alone

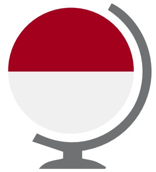
Southeast Asia has the third-largest takaful assets globally, amounting to US$ 10.5 billion in 2016, up 8% from US$ 9.7 billion the year before. Most of the region's takaful assets were in Malaysia, with US$ 8.4 billion, followed by Indonesia with US$ 1.8 billion. Takaful operators underwent estructuring in both markets to meet regulatory requirements.

MALAYSIA

Malaysia has seen restructurings in its takaful sector to comply with the Financial Services and Islamic Financial Services acts of 2013, which require takaful businesses to operate under separate licenses with effect from January 1st, 2018. Among them is Malaysia's second-largest takaful operator, Syrikat Takaful Malaysia, which will rename as Syarikat Takaful Malaysia Keluarga for family takaful, while Syarikat Takaful Malaysia Am will be its subsidiary for general takaful.

This separation could lead to an increase in operating expenses but might also enhance the company's position in the takaful market.

The new law may spur consolidation in the sector given the need for added capital for separated operators. It could also encourage the entry of foreign insurers to consolidate with other players or to take advantage of Malaysia's takaful market potential. MAA Takaful, for example, was acquired last year by Zurich Insurance. Allianz Malaysia also expressed interest in acquiring HSBC Amanah Takaful Malaysia, but talks were discontinued in April 2017.



INDONESIA

In Indonesia, insurance companies will be required to provide a roadmap for spinning off their Shariah units by 2020. The separations will need to be completed by 2024.

Among the new full-fledged takaful operators in Indonesia formed last year as a result of this requirement are Asuransi Jiwa Syariah Bumiputera, Asuransi Jasindo Syariah and Reasuransi Syariah Indonesia. Companies that reported spin-off plans include Asuransi Jiwa Manulife and Asuransi Recapital.

Given that most Indonesian takaful windows are small, most could take up to 10 years to comply with the new requirements. Otherwise, they may seek mergers to remain competitive.

Takaful operators in GCC feeling impact of austerity

The takaful sector in the GCC grew 6% to US$ 19 billion in 2016. Saudi Arabia remained the largest market globally, with US$ 15 billion in assets held by 35 operators, though it is still a fragmented market, with just 53% of those assets held by the top five operators.

There have been several recent developments in the GCC affecting the market following the drop in oil prices: industry consolidation, the planned introduction of VAT, and the extension or introduction of mandatory health insurance schemes.

Also, the Saudi government's decision in September 2017 to allow women to drive will boost the Saudi takaful sector through increased premiums from motor insurance.

VALUE ADDED TAX

Takaful and conventional insurers may face increased costs when VAT comes into effect next year as operators will need additional budget to administer the VAT process and determine a suitable payout policy. In the UAE, for example, which will introduce the 5% VAT on all transactions involving goods and services in January 2018, life insurance will be exempt but all other insurance types including medical and vehicle insurance will be taxable.

As a result, insurance premiums and takaful contributions paid by policy holders could rise, in addition to rises already in place for some lines such as motor insurance due to changes in the tariff system imposed by the UAE Insurance Authority earlier in 2017.

In Saudi Arabia, which will also introduce the 5% VAT at the beginning of January 2018, life insurance is similarly exempt from VAT.

MERGERS AND ACQUISITIONS

With the Saudi market suffering from reduced economic activity and infrastructure spending along with regulatory restrictions, there is likely now to be some market consolidation, which has been limited in the past. Among the potential mergers are Malath Cooperative with Allied Cooperative and Gulf Union with Al-Ahlia. Sanad Cooperative Insurance, on the other hand, applied for voluntary liquidation in March 2017 after reporting a loss. Saudi operators reported an average 2.8% return on assets (ROA) in 2016, with six reporting net losses. This was an improvement from 2015's average ROA of -0.08% reflecting losses by 13 operators.

Consolidation is also expected In Bahrain. It was announced in August 2017 that Solidarity General Takaful would join with conventional insurer Al Ahlia to become the country's biggest takaful company: Solidarity Bahrain.

MANDATORY HEALTH INSURANCE SCHEME

Another outcome of the region's economic slowdown is that some countries have introduced or extended mandatory health insurance schemes. Among them is Saudi Arabia, which rolled out such a scheme for private employees in four different stages across 2016 and 2017. The country also in June 2016 made health insurance mandatory for visitors, although it exempts Umrah and Hajj pilgrims. Abu Dhabi and Dubai already had mandatory health insurance schemes, while Oman is expected to implement its own in January 2018.

Turkish takaful sector has untapped opportunities to grow

With its first takaful operator launched in 2013, Turkey had seven such companies by the end of 2016, not including Bank Asya's pension and takaful units, which were put up for sale following the bank's liquidation in 2016.

Turkey's takaful market has untapped opportunities to grow given the low penetration of the country's insurance sector – 1.6% versus a global average of 6.2% in 2015. Realizing this, the Turkish government released new regulations for takaful in September 2017.

The government believes there will be a lot of interest in Islamic insurance as under takaful any money remaining from funds set aside to cover compensation claims will be returned to the insurer rather than being filed as company income. Among the takaful companies operating in Turkey are insurance companies with takaful windows, though the government expects such units to be spun off as separate companies, as in Indonesia.

However, the government expects this process will take three to five years to complete, rather than 10 as in Indonesia. Total takaful assets in Turkey amounted to US$ 521 million in 2016.

OTHER ISLAMIC FINANCIAL INSTITUTIONS SUB-INDICATOR

US$ 124 Billion
Total OIFI Assets in 2016

3%
Growth in OIFI Assets in 2016

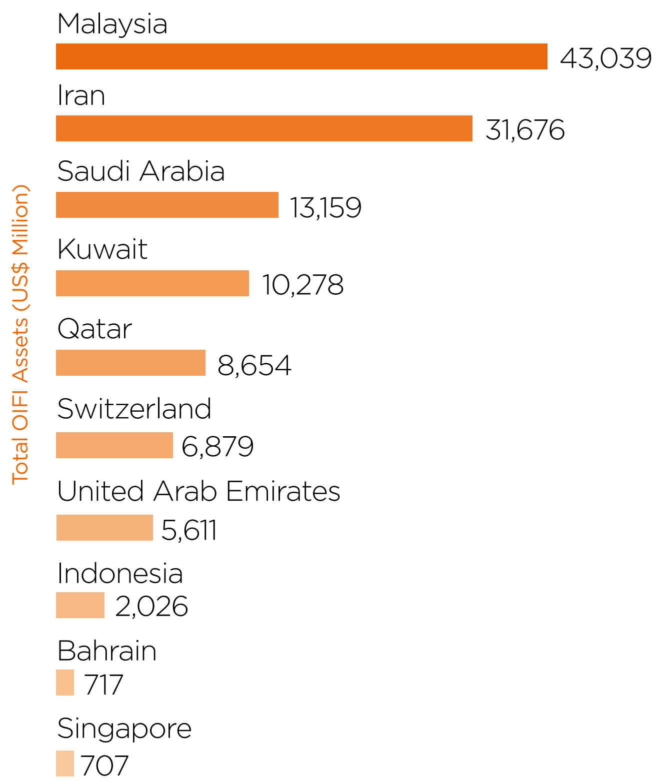
US$ 253 Billion
Projected OIFI Assets by 2022

71%
Top 3 Countries' Share of Global OIFI Assets in 2016

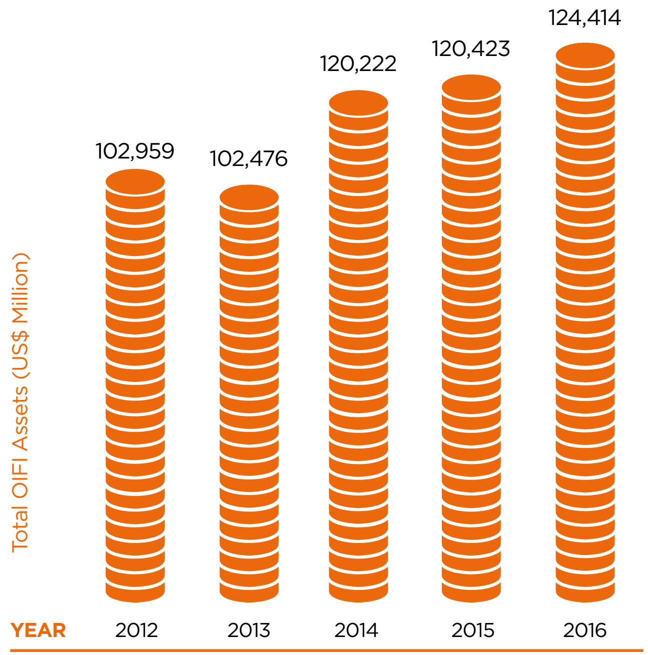
Top OIFI Trends in 2016 and 2017

- OIFIs can play a role in supporting SMEs during economic difficulties
- Ijara-based OIFIs are gaining larger market share, as seen in Saudi Arabia and Pakistan
- Islamic financing becoming an accepted option for microfinancing in new entrants such as Cambodia

Top Countries in OIFI Assets (2016)



OIFI Assets Growth (2012 – 2016)



OIFI Performance by Region (2016)

Region	Total OIFI Assets (US$ Million)	Number of OIFIs / Windows
Southeast Asia	46,319	79
GCC	38,419	220
Other MENA	32,034	106
Europe	6,879	24
South Asia	705	76
Other Asia	42	29
Americas	14	21
Sub - Saharan Africa	1	16

457
Number of Full-Fledged OIFIs in 2016

117
Number of OIFI Windows in 2016

50
Number of Countries with OIFI / Windows in 2016

Top Types of OIFIs (2016)

Type	Number of Institutions
Investment Firms	260
Financing Firms	105
Leasing	65

OIFI Assets by Full-Fledged / Window (2016)

Type	Total OIFI Assets (US$ Million)
Full-Fledged	117,657
Window	6,757

AUSTRALIA
MALDIVES
INDONESIA

Fastest-Growing Countries in OIFI Assets in 2016

Cambodia turns to Islamic microfinance with help from Malaysia

In 2016, 571 Islamic financial institutions other than banks and takaful companies were operating across 50 countries. These included Islamic microfinance institutions and, given the popularity of Islamic social financing, even Cambodia with its small Muslim minority was set to gain two microfinance institutions late in 2017 and in early 2018. The institutions setting up in Cambodia are both Malaysian: Amanah Ikhtiar Malaysia (AIM) and the Malaysian Islamic Economic Development Foundation (Yapeim).

The Muslim minority in Cambodia has had a long and close association with Malaysia. The microfinance institutions in Cambodia will charge fees instead of interest and by serving the Muslim minority this should boost financial inclusion. The development could also pave the way for further Cambodian collaboration in Islamic finance with Malaysia and Indonesia.

Growth in ijara-based mudaraba companies in Pakistan

In Pakistan, mudaraba companies remain at the forefront in the development of the Shariah-compliant non-banking financial institutions sector. In 2016, 25 mudarabas were operating in the country, with total assets of US$ 367 million, up from US$ 318 million in 2015. As the Securities & Exchange Commission of Pakistan (SECP) works to draft new and improved mudaraba legislation, it is also receiving new mudaraba applications. In February 2017, the SECP's religious board approved prospectuses for two new mudarabas: Orient Rental Modaraba and Habib Metro Modaraba.

The first focused on providing equipment rental solutions based on ijara contracts, while the latter is managed by a wholly owned second mudaraba subsidiary of Habib Metropolitan Bank. This mudaraba is focused on car financing and solar power solutions, also based on the ijara model.

This follows Japan's leasing giant Orix, which became the first Japanese company to handle a mudaraba when it acquired Standard Chartered Services of Pakistan, which ran Standard Chartered Modaraba, in 2016.

Shariah-based non-bank financing firms to support GCC economies more

The GCC is the second-largest OIFI market, with assets totalling US$ 38 billion in 2016. Saudi Arabia still has the largest total assets in the region at US$ 13 billion, with 73 OIFIs operating, second to Kuwait's 76. Although the OIFI assets in the GCC constitute just 4.8% of total Islamic banking assets, GCC financing and investment companies could play a bigger role in coming years.

Low oil prices and strict Basel III capital requirements have cut into banks' liquidity levels. This together with an increase in non-performing loans has lessened the financing available to SMEs and corporates, an outcome that has been exacerbated in the UAE and will soon be in Saudi Arabia by newly introduced bankruptcy regulations that demand a more flexible restructuring of bad loans. This in addition to increased interest rates after the US Federal Reserve's rate hikes of last year – GCC currencies are mostly pegged to the dollar – and higher banking fees due to the introduction of VAT across the GCC next year will further increase borrowing costs for SMEs and corporates. These clients are now increasingly looking to non-bank lenders, particularly to provide working capital. These funds can be secured through options such as private debt that can be converted into equity in times of stress, as well as venture capital funds, private equity, and peer-to-peer lending.

Another boost to the ijara-based financing companies, specifically in Saudi Arabia, is the announcement that women in Saudi Arabia will in 2018 finally be permitted to drive. In a country where it is estimated there are 10 million women, including foreigners, its more than 20 ijara companies will look to capture their share of the car rentals market.

IICOMPASS

ISLAMIC INVESTMENT COMPASS, LLC

بوصلة الاستثمار الاسلامي،ذ.م.م

Your Guide to Shari'ah-Compliant Investments

www.IICompass.com

THE ETHICAL INVESTOR'S GUIDE TO SHARIAH-COMPLIANT INVESTING

Thomas J. Hochstettler PhD
Partner and Managing Director of
Islamic Investment Compass (FZC), LLC

IICOMPASS
ISLAMIC INVESTMENT COMPASS, LLC
بوصلة الاستثمار الاسلامي،ذ.م.م

Despite significant strides in the growth of the global Islamic economy over the last decade, we who support the expansion of Shariah-based management practices still have huge challenges ahead of us if we are ever to become a major force in shaping the global economy. Take, for example, the case of mutual funds, which have undergone phenomenal growth in recent years. In the United States, the net assets of mutual funds swelled from US$ 5.5 trillion in 1998 to US$ 16.3 trillion in 2016. It is estimated that the total value of mutual fund assets in the world stood at US$ 40.4 trillion at the end of 2016. In contrast, Islamic mutual funds have experienced relatively uneven growth in recent years, following a promising launch of several major new Islamic mutual fund initiatives early this century. In 2015, global Islamic mutual funds stood at US$ 60 billion, with optimistic projections forecasting growth to some US$ 77 billion by 2019. Although Islamic mutual funds do represent a major breakthrough as a vehicle for promoting Shariah principles of management and investing, Islamic mutual funds today represent only about 0.2% of the world's total market in managed mutual funds. Clearly those of us who seek to infuse Shariah principles of ethical management into the global marketplace must invent more aggressive methods for promoting Islamic investing.

One group within the Islamic world that represents an open field for innovation in Islamic finance is the younger generation of investors who prefer greater flexibility and control over portfolio management than mutual funds can offer. Islamic Investment Compass™ (IICompass) has been designed to serve the needs of relatively young, technologically sophisticated Muslims, who are inclined to engage actively in managing their portfolios. IICompass is an electronic data service that for pennies a day provides individual investors with up-to-date, comprehensive financial information, including Shariah-compliant status, on every publicly traded company in the world.

IICompass was founded with the express purpose of encouraging individual Muslims, as well as individuals from other religious and cultural backgrounds who are interested in ethical investing, to engage as active participants in the Islamic global economy. Compared to conventional investing, Islamic investing provides a relatively high probability of sustained, positive returns in the long term. Our goal is to promote ethical business practices that provide those long-term stable returns for individual investors and thereby to support healthy, sustainable growth within the economy at large. IICompass partners with Thomson Reuters in delivering its products and services, and TR provides the raw data and analytical support for us to do our job in the most efficient and effective way possible. With our business-to-customer approach, we at IICompass have staked out a market niche that complements other service providers in support of the Islamic economy, including not only Islamic mutual funds, but also Islamic financial advisors, Islamic banks, and Islamic brokerage houses.

IICompass is distinctive for several reasons. First of all, IICompass has a **global reach**, providing information on Shariah-compliant investment opportunities for every listed company on every stock exchange in the world, as well as over-the-counter offerings, every single trading day of the year. Our data bank contains financial performance statistics and company profile information on over 41,000 listings, and we are continuously updating that information. For individual Muslim investors in countries with underdeveloped financial information services, IICompass provides a window on the world of Shariah-compliant investment opportunities, both within the home country as well as in the regional and global arenas.

Second, IICompass is **comprehensive** in that it does not solely focus on companies that purposely adhere to Shariah standards of good business practice. We also provide information on companies that conform to those standards without their necessarily intending to do so. Every day, we feature on our website 10 of the top-performing Shariah-compliant stocks from the preceding day's trading, highlighting those companies as being noteworthy for their ability to attract investors. On any given day, several of those companies will have no explicit connection to Islam. The point is that the halal goods and services and the ethical business practices that characterize Shariah-compliant companies have broad currency in the larger economy, simply because they embrace intrinsically ethical ways of doing business that are consistent with Islam.

Finally, IICompass also highlights local investment opportunities by providing visibility for small publicly traded Islamic companies with **locally oriented** products and services. For these companies, IICompass provides a unique platform for demonstrating the value of indigenous businesses to investors from around the corner and around the world. Our stock screener allows our subscribers to pinpoint companies based on location, industry sector, market capitalization, stock price, and Shariah status. As a bilingual Arabic-English website, we also understand the need to serve all constituencies within the Islamic world in a user-friendly, service-oriented environment.

The Great Recession of 2008-2009, which was precipitated by the over-leveraged markets in the West, has prompted financial professionals around the world to re-examine the ethical as well as practical foundations of our industry, in an effort to come up with ways to counter the boom-bust business cycles that have plagued the world for centuries. Those of us at work within the Islamic sector understand very well that Shariah business principles constitute a powerful weapon for promoting sustainability, for combating hyper-speculation, and for addressing the global boom-bust cycle. We at IICompass sincerely believe that we have a new method for helping to disseminate the positive value of Shariah business practices.

Our global reach, comprehensive mission, and local focus reflect that conviction.

About the Author :

Dr. Thomas J. Hochstettler
earned his PhD in modern economic history at the University of Michigan and has held faculty appointments at Michigan, Bowdoin College, and Stanford University.

He has served in leadership positions at Stanford and Rice Universities, and he was founding Vice President for Academic Affairs at Jacobs University in Germany. Dr. Hochstettler later served as President of Lewis & Clark College in the US, as Provost and Acting Chancellor at the American University of Sharjah, and most recently as President of the Petroleum Institute in Abu Dhabi.

In 2014, Dr. Hochstettler founded Islamic Investment Compass (IICompass) with Dr. Abdelaziz Chazi, Professor of Finance at the American University of Sharjah. In collaboration with Thomson Reuters, IICompass promotes the expansion of the global Islamic economy by providing up-to-date information on Shariah-compliant investment opportunities around the globe to socially responsible investors, regardless of religious belief or affiliation. Dr. Hochstettler is jointly based in Dubai and in Portland, Oregon.

THE EMERGENCE OF ISLAMIC FINTECH

Fintech, or financial technology, is the new buzzword in the global finance industry and its potential for massive industry disruption is getting a lot of attention. Fintech was slower to take off within Islamic finance, however, despite the industry's double-digit growth over the past five years. But this is beginning to change as a slowing in product innovation causes the industry to look instead at fintech to drive it forward.

Islamic fintech has been in existence since the mid-2000s, when Shariah-compliant crowdfunding platforms were created to provide financing alternatives for faith conscious consumers. These fintech companies partnered with payment providers such as MasterCard, Visa or American Express to facilitate transactions, or with conventional banks to create virtual Islamic branches.

Major Islamic finance hubs embracing fintech's potential

Major Islamic centres including Malaysia, the UAE and Bahrain have embraced fintech's potential for market disruption by issuing sandbox regulations allowing fintech companies to set up and thrive within their banking ecosystems. Malaysia issued details of its regulatory sandbox framework in October 2016 and Bahrain followed in June this year.

In April 2016, Malaysia granted licenses to six peer-to-peer lending providers including Ethis Crowd, which made Ethis the world's first licenced Islamic crowdfunding platform. Also in Malaysia, CIMB Group, which includes CIMB Islamic Bank, has created a standalone unit – CIMB Fintech – that will actively explore new innovative banking solutions using financial technology.

In May, the Dubai Financial Services Authority (DFSA) introduced its Innovation Testing Licence, which will allow new products and business models to be tested from within the Dubai International Financial Centre (DIFC). Earlier in the year, the DIFC also launched the Fintech Hive to incubate fintech companies and allow them to work with financial institutions within the DIFC to develop their products. Also in the UAE, Mashreq Bank, a Dubai-based Islamic bank, launched a full-service digital bank in October 2017. This was a world first for the Islamic finance industry.

Islamic crowdfunding platforms launched

Within the area of Islamic social finance, Finocracy, a UAE-based Islamic fintech firm, in April launched a zakat crowdfunding platform to enable Muslims to pay their zakat digitally. A similar initiative launched the year before by Narwi, a digital crowdfunding platform for micro-entrepreneurs in the Middle East, was acquired by the World Congress of Muslim Philanthropists in late 2016. This was the first-ever Islamic fintech acquisition.

In 2016, the Islamic Fintech Alliance was launched to promote business matching between investors and entrepreneurs and develop a Shariah-compliant fintech ecosystem, with an initial focus on Islamic crowdfunding. The alliance was set up by a consortium of Islamic fintech companies from Europe, the Middle East and Asia.

In the United Kingdom, Shariah-compliant real estate crowdfunding platform Yielders became the first Islamic fintech firm to be directly regulated by the Financial Services Authority. The UK has made efforts to position itself as a global fintech and Islamic finance hub, and was ranked the number one fintech hub in the world in an EY report.

Financial advisory going digital

Financial advisory is another big area for technological innovation. Under the traditional model, an individual would need to identify a financial planner, arrange to meet up, and decide on how much risk they had an appetite for, before being offered a suite of investment options to choose from. Now the middle man has been removed, giving way to digital financial advisory services. Financial advisors such as Wahed Invest based in the U.S. and Farringdon Group based in Malaysia offer robo advisory services to faith-conscious investors by providing an easy-to-use digital platform that can advise clients on Shariah-compliant investments based on risk appetite. As digital financial advisory grows in popularity, we anticipate this will lead to an increase in demand for Islamic funds around the world, in turn causing a shift to digital Islamic asset management.

As digital financial advisory grows in popularity, we anticipate this will lead to an increase in demand for Islamic funds around the world, in turn causing a shift to digital Islamic asset management.

Cryptocurrencies one area of fast-moving innovation

Another area of fast-moving experimentation within fintech is digital tokens of exchange, otherwise known as cryptocurrencies. Some of these tokens, such as Bitcoin and Ethereum, have achieved truly spectacular growth rates, and various entrepreneurs have taken advantage of soaring demand for cryptocurrencies to create digital currency exchanges. These include Bitcoin Egypt and the UAE-based Bitoasis.

Cryptocurrencies run on a network using blockchain technology, which creates digital ledgers for each transaction. Compliance teams in banks have begun to employ blockchain technologies in their operations because the digital ledger makes it easier to detect fraudulent activities.

What next for Islamic fintech?

The disruption of banking by fintech is likely to become the norm, particularly as younger financial market participants prefer new methods of investing and borrowing money. As such, banks must keep up if they are to remain relevant. Islamic banks in particular should work with regulators to draft regulations for Islamic fintech operators covering compliance, risk, and risk mitigation.

One challenge that may hinder the growth of Islamic fintech, especially in the digital currency space, is that a digital currency may not be deemed Shariah-compliant because it is not backed by a real commodity. Additionally, with crowdfunding and lending, a profit rate may not be able to be easily determined due to the absence of a physical product from which to derive intrinsic value.

However, one notable effort to launch a Shariah-compliant digital currency is Islamic financial services and technology company OneGram, which backs each of its digital coins with 1 physical gram of gold.

As demand for Muslim inclusion within the fintech space grows, we expect to see more fintech solutions catering to the Islamic market take shape.

SUKUK SUB-INDICATOR

US$ 345 Billion
Total Sukuk Volume Outstanding in 2016

1%
Growth in Sukuk Outstanding in 2016

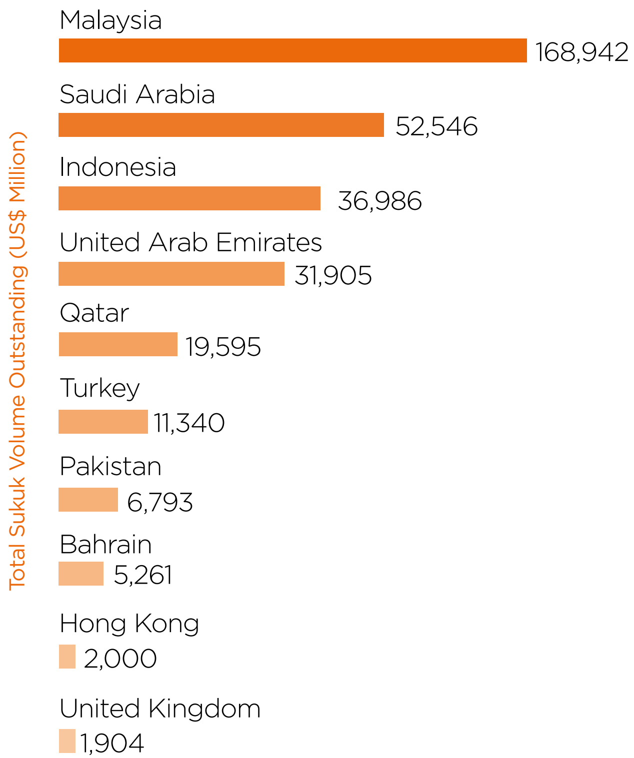
US$ 601 Billion
Projected Sukuk Outstanding Volume by 2022

75%
Top 3 Countries' Share of Global Sukuk Outstanding in 2016

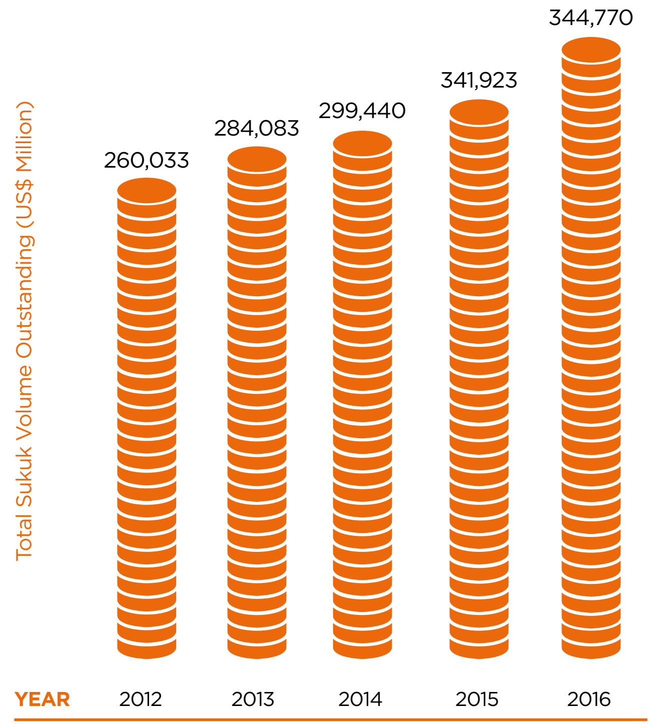
Top Sukuk Trends in 2016 and 2017

- Jump in sovereign sukuk issuance in GCC in 2017 following a slump in 2016
- More nations resorting to sukuk to support economic policies
- Growing interest in green and SRI sukuk

Top Countries in Sukuk Assets (2016)



Sukuk Assets Growth (2012 – 2016)



Sukuk Performance by Region (2016)

Region	Volume of Sukuk Outstanding (US$ Million)	Number of Sukuk Outstanding
Southeast Asia	206,823	2,029
GCC	111,112	194
Europe	13,528	51
South Asia	7,828	44
Other Asia	2,056	3
Sub - Saharan Africa	1,745	87
Other MENA	1,410	26
Americas	266	3

2,438
Number of Sukuk Outstanding in 2016

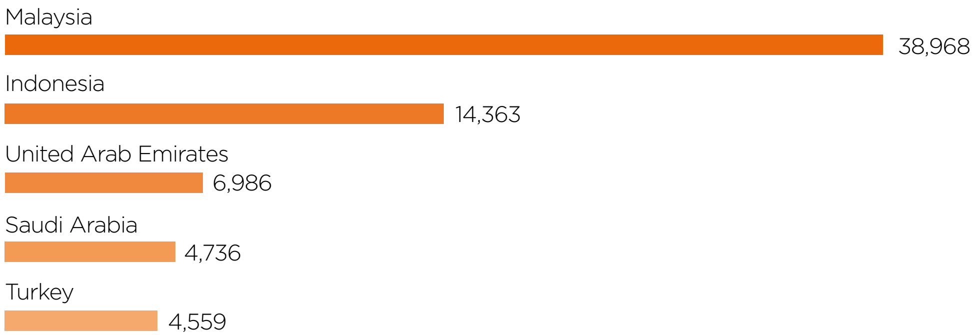
877
Number of Sukuk Issued in 2016

28
Number of Countries with Sukuk Outstanding in 2016

19
Number of Countries that Issued Sukuk in 2016

Top Countries in Sukuk Issued (2016)

Total Sukuk Volume Issued (US$ Million)



PAKISTAN
JORDAN
IVORY COAST

Fastest-Growing Countries in Sukuk Volume Outstanding in 2016

Slowed growth for GCC sukuk in 2016 following the drop in oil prices

Growth in sukuk issuance in the GCC stalled in 2016 as the region struggled with the decline in oil revenues. The region issued US$ 19 billion in sukuk in 2016, down slightly from 2015. The amount outstanding stood at US$ 111 billion in 2016, up 7% from 2015. The UAE was the largest GCC market in terms of sukuk issuance, amounting to US$ 7 billion. But it was second to Saudi Arabia in terms of sukuk outstanding, which in Saudi Arabia totalled US$ 53 billion in 2016, against US$ 32 billion for the UAE. Islamic finance professionals paid particular attention to developments in sukuk in the region in 2017, particularly with regard to sovereign sukuk following Saudi Arabia's spectacular debut dollar sukuk issue.

The Saudi Vision 2030 announced in April 2016 – an ambitious plan of reform to diversify the economy away from reliance on oil and to attract foreign investment – will open the door to greater sukuk issuance. The Saudi government has directed the newly established Debt Management Office to find the financing needed to realise its vision. After opening up its equity market to foreign direct investment in June 2015, the country in 2017 allowed qualified foreign investors to buy listed debt instruments such as bonds and sukuk in the hope that foreign asset managers will tap into the market.

SAUDI ARAMCO SUKUK

It was an exciting 2017 for investors with Shariah-compliant mandates, especially Saudi Islamic banks which reaped the benefits of developments in Saudi sukuk. Oil behemoth Saudi Aramco began its first fund-raising exercise in March with a 7-year, riyal-denominated, sukuk issuance that raised US$ 3 billion. This was the first move in the company's US$ 10 billion sukuk programme.

This and the planned IPO of 5% of its shares on overseas stock markets – with an estimated total company value of US$ 2 trillion this would make it the biggest IPO in world history – are aimed at diversifying revenue sources after the sharp drop in oil prices.

DEBUT SOVEREIGN SUKUK

Aramco's sukuk was shortly followed by the Saudi government's record-breaking, debut dollar sukuk issuance amounting to US$ 9 billion across two 5- and 10-year tranches. The international sukuk followed the same hybrid structure as Aramco's, being based on mudaraba and murabaha, though this is more common in the local market. The complexity of the structure, however, did not hinder the order book from reaching in excess of US$ 33 billion.

This sukuk followed Saudi Arabia's and emerging markets' largest-ever bond issuance, of US$ 17.5 billion, in October 2016. This mammoth bond was the Kingdom's first international debt offer, and attracted orders totalling four times the needed amount. As a result, it both paved the way and acted as a benchmark for the first Saudi sovereign international sukuk. Both issuances were helped by a bounce-back in oil prices to above US$ 50 per barrel, from US$ 30 at the beginning of 2016, as Saudi Arabia decided to support oil output cuts by OPEC. The Kingdom also launched its debut domestic riyal-denominated sukuk in July in three tranches amounting to US$ 4.5 billion, which received US$ 13.6 billion of investors' orders.

More sovereign sukuk issuance coming in other parts of MENA

Sovereign issuance was also popular elsewhere in the world during 2016 and 2017. Jordan auctioned its first sovereign sukuk in May 2016, amounting to US$ 105.9 million, in order to finance purchases by the National Electric Power Company.

Tunisia announced in May 2017 it was also preparing a first-ever sukuk issuance. Its government needed around US$ 2.85 billion in external funding in 2017 and was planning a US$ 500 million sukuk to cover its budget deficit. It took into consideration Shariah-compliance and legal and commercial issues ahead of the potential issuance.

Tunisia's neighbour, Morocco, also announced it was aiming for sovereign sukuk issuance during 2017. Algeria also planned to issue sukuk in 2018 to counter an economic recession caused by the drop in energy revenues.

Revamp planned for ailing debt market in Iran

Iran was the only other country apart from Jordan that contributed towards Other MENA's total sukuk in 2016. However, the financial market infrastructure is still lacking for Iran's debt markets, including sukuk. According to the IMF's February 2017 country report, devising a debt market plan would help the Iranian government develop its open market operations so it can implement its economic reform plans. This could help it bring inflation under control, with liquidity in Iran controlled more by rationing than pricing. One possible financial reform to improve Iran's capital market would be to issue inflation-adjusted bonds to clear debts, a plan announced by the Central Bank governor last year. Another is the securitization of Islamic banking facilities such as mortgage-backed securities and other receivables from non-bank companies.

More sub-Saharan countries moving towards sovereign sukuk

Sukuk is also gaining traction in sub-Saharan Africa, which had total sukuk outstanding of US$ 1.5 billion in 2016, growing from US$ 273 million in 2015. Ivory Coast, Togo and Senegal issued sukuk worth US$ 263 million each in 2016.
In January 2017, the Nigeria-based Africa Finance Corp. (AFC) issued a US$ 150 million, 3-year sukuk. This paved the way for Nigeria's US$ 328 million sovereign sukuk issuance in September. This sukuk was intended to fund road projects using retail and institutional investors' funds and set the benchmark for local corporates to follow.

Despite the criticism against the issue, the paper was still oversubscribed by 5.8%, demonstrating there is still more demand that could be tapped by the Nigerian government in the future. By adding sukuk to its current debt portfolio, which also included this year a first 'diaspora bond' targeted at Nigerian citizens abroad, the country could plug a budget deficit caused by low oil revenues, which constitute 70% of the government's revenue. The country suffered economically when oil prices tumbled in 2016, with the Nigerian naira plunging 37% against the dollar.

Innovative sukuk solutions towards SRI in Southeast Asia

Southeast Asia remained the biggest region in terms of both sukuk outstanding and issuance in 2016, with US$ 206 billion of sukuk outstanding and US$ 54 billion in sukuk issuance. Malaysia made up the bulk of that, with US$ 168 billion of sukuk outstanding, accounting for 82% of Southeast Asia's total. The country issued US$ 39 billion in sukuk, accounting for 72% of Southeast Asia's issuance and 46% of global issuance. Malaysia was followed by Indonesia, which had US$ 37 billion sukuk outstanding and US$ 14 billion total sukuk issued in 2016, making it third globally in terms of sukuk outstanding after Malaysia and Saudi Arabia, and second in terms of sukuk issuance. Malaysia and Indonesia both made efforts to improve their sukuk markets in 2016 and 2017.

MALAYSIA

In a boost to Malaysia's desire to incorporate social responsibility in its investment mandate, Tadau Energy in June 2017 issued the world's first ever green sukuk, amounting to MYR 250 million (US$ 58.4 million). The proceeds will be used to finance a major solar-power project in Sabah state. The sukuk was a joint effort between Malaysia's Securities Commission, its central bank, and the World Bank Group. The sukuk also exemplifies Chinese participation in Malaysia's sukuk market given that Tadau Energy is owned by China's Edra Power.

The green sukuk was not the first SRI sukuk, however. Khazanah Nasional issued this in 2015 to fund a trust school programme. A second tranche issued in August 2017 had a retail offering, which provided the retail public with an opportunity for impact investing. This was followed by Quantum Solar Park's green SRI sukuk in October 2017 of up to MYR 1 billion (US$ 238 million), which benefited from robust demand and tax incentives granted by the Malaysian government to both issuers and investors.

INDONESIA

Indonesia's OJK financial authority is also working towards launching a green bond framework, which would create the opportunity to introduce green sukuk. The move could complement Indonesia's sukuk masterplan, unveiled in September 2016, aimed at raising sovereign sukuk to 50% of total debt issuance over the following 10 years and at encouraging government funding of infrastructure, education and agriculture projects. This could encourage Indonesian companies to follow suit and provide Islamic banks with Shariah-compliant investment tools to meet their liquidity requirements.

Towards this end, the government also plans to introduce sukuk based on waqf (charitable endowment) and remittances from Indonesian migrant labour to fund infrastructure projects. The government also launched in August 2016 non-tradable savings sukuk aimed at reaching retail investors' savings. The sukuk offered higher returns than bank savings or deposits. Another incentive to buy into the retail sukuk was a minimum purchase of IDR2 million, compared to government bonds' minimum of IDR5 million. The sukuk proved popular, with sales beating the targeted amount.

ISLAMIC FUNDS SUB-INDICATOR

US$ 91 Billion
Total Islamic Funds AuM Outstanding in 2016

37%
Growth in Islamic Funds AuM Outstanding in 2016

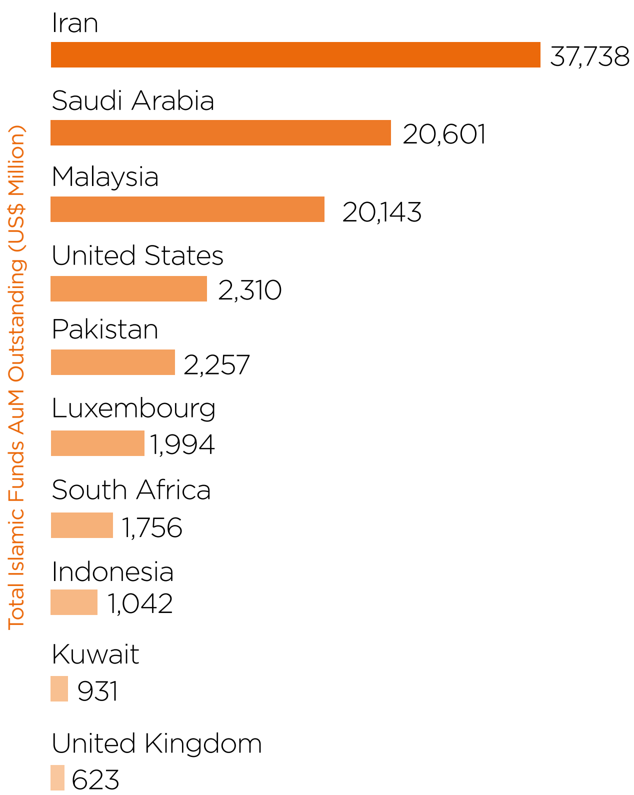
US$ 403 Billion
Projected Islamic Funds AuM Outstanding Volume by 2022

86%
Top 3 Countries' Share of Global Islamic Funds Outstanding in 2016

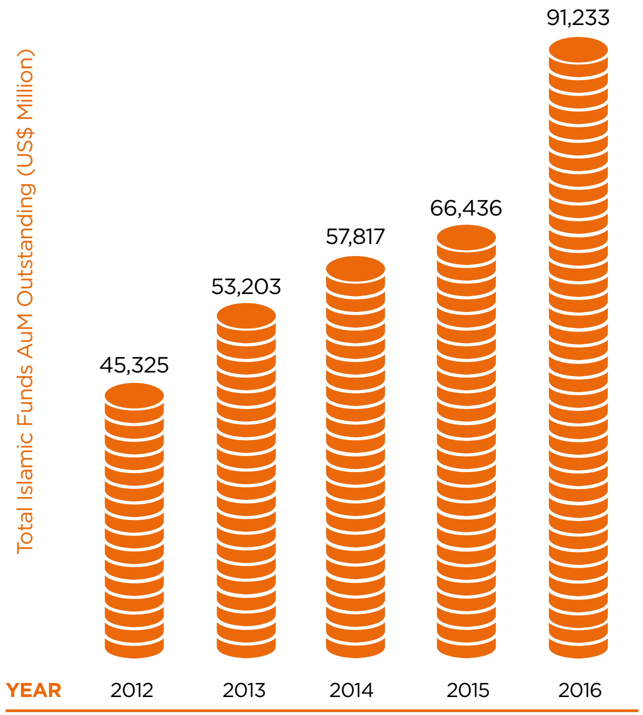
Top Islamic Funds Trends in 2016 and 2017

- Malaysia turns to Islamic pension funds, Islamic wealth management and SRI funds
- Opportunities by Shariah-compliant indices to attract Middle Eastern funds in regions such as Europe
- Capital market reforms in Saudi Arabia could give a lift to its Islamic asset management sector

Top Countries in Islamic Funds AuM Outstanding (2016)



Islamic Funds AuM Outstanding Growth (2012–2016)



Islamic Funds AuM Outstanding Performance by Region (2016)

Region	AuM of Islamic Funds Outstanding (US$ Million)	Number of Islamic Funds Outstanding
Other MENA	37,810	191
GCC	22,325	292
Southeast Asia	21,776	422
Europe	2,679	253
Americas	2,523	23
South Asia	2,333	104
Sub - Saharan Africa	1,766	99
Other Asia	21	10

IRAN PAKISTAN TURKEY

Fastest-Growing Countries in Islamic Funds AuM Outstanding in 2016

1,394
Number of Islamic Funds Outstanding in 2016

167
Number of Islamic Funds Launched in 2016

28
Number of Countries with Islamic Funds Outstanding in 2016

27
Number of Countries that Launched Islamic Funds in 2016

6.64%
Average Global Cumulative Performance (2015 – 2016)

Developments in Southeast Asia Islamic fund management

Southeast Asia had the third-largest Islamic assets under management by region, at US$ 21.8 billion in 2016. Malaysia held 92% of total Islamic mutual funds AuM in the region, or US$ 20 billion, followed by Indonesia with US$ 1 billion. Both countries are working to develop their overall Islamic funds industries.

SHARIAH-COMPLIANT PENSION FUNDS IN MALAYSIA

Among 2016 milestones for Malaysia was the successful introduction of a Shariah pension scheme for its Employees Provident Fund (EPF), alongside its conventional fund scheme. In addition, it was announced that the country's second-largest pension fund scheme, Retirement Fund Inc., or KWAP, will become fully Shariah-compliant. Bursa Malaysia also introduced Bursa Malaysia-i, the world's first Islamic securities exchange platform, in order to attract global Islamic funds. Services include trading, listing and clearing.

ISLAMIC WEALTH MANAGEMENT AND SRI FUNDS IN MALAYSIA

Malaysia kicked off 2017 with the Securities Commission releasing its five-year Islamic Fund and Wealth Management Blueprint to drive its Islamic capital markets. This includes a proposal for launching a fund for investing in the country's Islamic funds, which it is hoped will resolve the challenge of attracting international and institutional investors. The blueprint also focuses on directing efforts towards promoting the Islamic wealth management sector by enabling a supportive infrastructure such as facilitating digital business models.

It also aims to position Malaysia as the hub for SRI funds by establishing an SRI funds framework to be released by the end of 2017. The strategy benefits from the common principles underlying Islamic investing and SRI funds. Malaysia already paved the way for this when it established its SRI sukuk framework in 2014, and the fruit of this framework is showing with the issuance of SRI sukuk since 2015.

A NEW HAJJ MANAGEMENT COMPANY IN INDONESIA

Indonesia planned to introduce its newly established Hajj Fund Management Agency (BPKH) by the end of 2017 to match its Malaysian counterpart, Tabung Haji. The agency will be independent of the government's Religious Affairs Ministry and audited by the National Audit Board (BPK). It will manage around US$ 7.14 billion collected from 3.4 million hajj depositors in investments such as sukuk, gold and Islamic banking products and aims to exceed Tabung Haji's US$ 14.4 billion of AuM within 10 years.

Investments by the hajj fund could also target the infrastructure project gap of US$ 500 billion that Indonesian President Joko Widodo aims to plug.

Shariah-compliant indices created in Bosnia and Malta to attract investment

Europe followed Southeast Asia, with asset managers in the UK, Luxembourg, Turkey and Ireland managing a total US$ 2.7 trillion worth of Shariah-compliant mutual funds.

In Bosnia, the Sarajevo Stock Exchange (SASE) jointly launched the Balkan region's first Islamic index alongside the country's sole Islamic bank, Bosna Bank International (BBI), in October 2016. The index is aimed at attracting local and international investments in the country's equity market, especially from the Middle East.

Islamic economy opportunities in Bosnia, where half the population is Muslim, are gaining traction with the growth of family-friendly tourism from the Gulf and property purchases by an estimated quarter of those tourists. The move by Bosnia follows another European nation, Malta, after its stock exchange launched an Islamic equity index in February 2016 to attract businesses from the Middle East.

Saudi capital market reforms set to enhance Islamic funds industry

Saudi Arabia is the second-largest market globally in terms of Islamic assets under management. These totalled US$ 20.6 billion in 2016, constituting 23% of global Islamic AuM. Around 86% of Islamic funds managed by Saudi Arabian asset managers are invested locally.

Reforms in the country's capital markets will allow further development of the Islamic asset management industry after the Kingdom granted direct access to overseas investors in 2015. They will also make the MSCI Emerging Market Index possible, which would make the Saudi capital market more attractive to international investors as it would signal better governance and market maturity.

EASING STOCK MARKET REQUIREMENTS FOR FOREIGN INVESTORS

Reforms introduced in September 2016 helped the Kingdom attract more institutional funds to its bourse. Among the reforms was a lowered minimum AuM of US$ 1 million in order to qualify as a foreign investor and a raised 10% direct ownership ceiling. However, foreign investors will still be limited to 49% total ownership of a single firm. Goldman Sachs and Citigroup are among the latest institutions to have applied for capital markets licenses in Saudi Arabia. For Citi, it is a return after a 13-year absence, when it sold its stake in Samba Financial Group. They join other international institutions such as BlackRock and HSBC.

ESTABLISHING PARALLEL EQUITY MARKET

Saudi Arabia's Tadawul stock exchange also established a parallel equity market for all companies, Nomu, in February 2017. Nomu will allow companies including SMEs to access alternative routes to raising capital. Before launching this market, the CMA issued rules including restricting access to qualified professional investors such as institutions and high-net-worth individuals, but it has lighter requirements when compared to the main market. Companies can also transit to the main market if they apply the appropriate filing process with the CMA after two years.

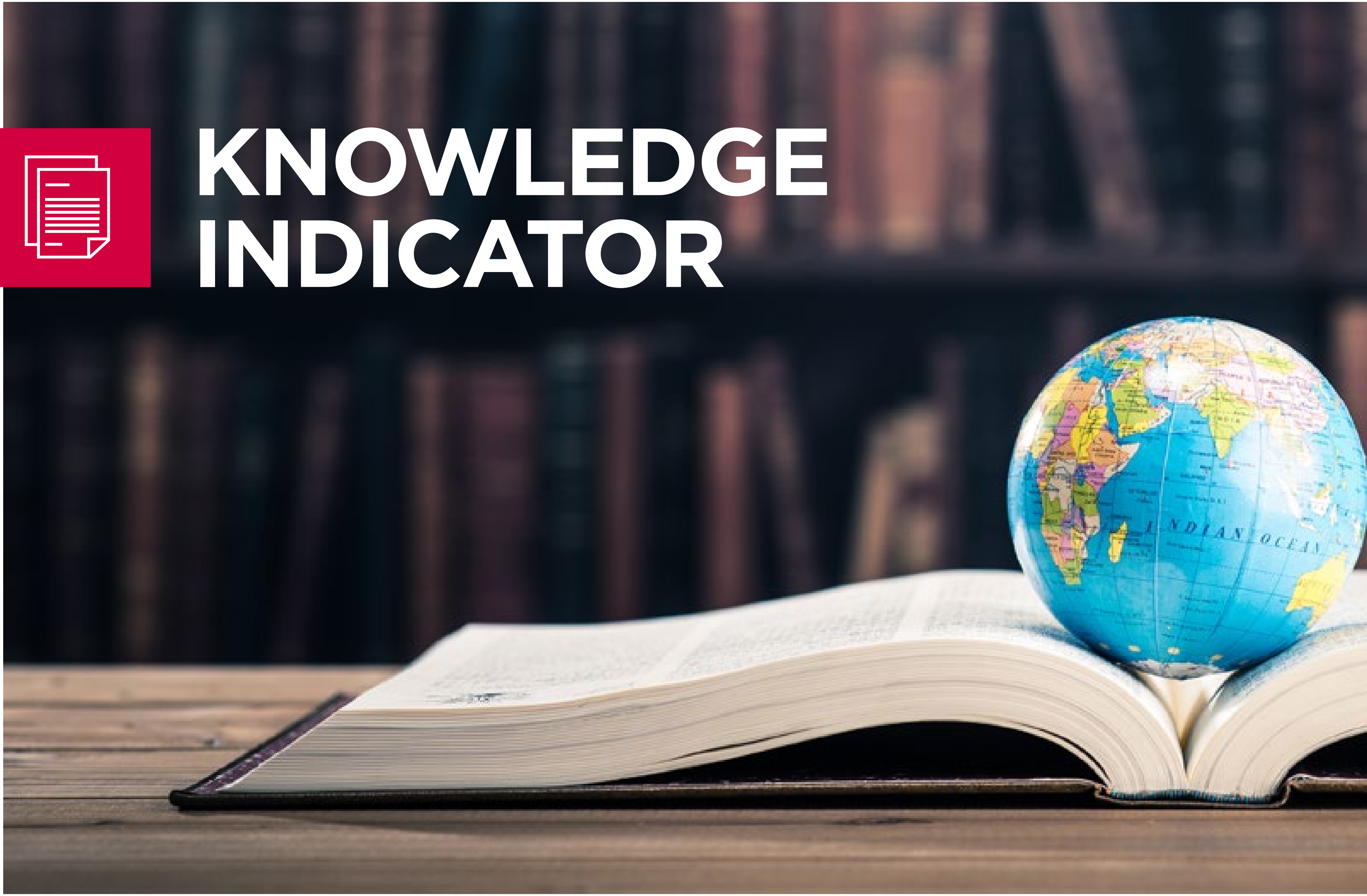
ALLOWANCE FOR FOREIGN COMPANIES TO LIST ON SAUDI STOCK MARKET

The Kingdom's efforts to compete with other markets in the GCC such as Dubai as capital-raising centres did not stop here as the Capital Market Authority (CMA) is also planning to list foreign companies on its stock market. An advantage Riyadh offers over other regional counterparts is that the Saudi market is larger and thus provides greater liquidity and a more diverse investor base.

INTRODUCTION OF REIT REGULATION

The CMA approved regulations in October 2016 for listing real estate funds (REITs) that will invest in residential, commercial and other types of real estate. This was shortly followed by the listings of Riyadh REIT and other Islamic REITs such as Jadwa REIT Al Haramain and Al Jazira Mawten REIT. The introduction of such regulations could spur further growth of Shariah-compliant REITs in the Kingdom.

KNOWLEDGE INDICATOR



The Knowledge Indicator is a weighted index of two sub-Indicators - education and research which are the main building blocks for any knowledge-based industry.

Education and research are the input factors needed to reach depth and efficiency in the Islamic finance industry.

KNOWLEDGE INDICATOR PERFORMANCE IN 2017

Knowledge Indicator Global Average

8

KNOWLEDGE
Top Countries

	Country	Value
1	Malaysia	197
2	Jordan	71
3	Tunisia	68
4	Brunei	56
5	Bahrain	52
6	Pakistan	43
7	United Arab Emirates	38
8	Indonesia	37
9	Saudi Arabia	27
10	Sri Lanka	26

Education Sub-Indicator Global Average

7

EDUCATION
Top Countries

	Country	Value
1	Malaysia	95
2	Jordan	89
3	Bahrain	60
4	United Arab Emirates	57
5	Brunei	43
6	Lebanon	35
7	Sri Lanka	34
8	Maldives	32
9	Pakistan	31
10	Indonesia	28

Research Sub-Indicator Global Average

8

RESEARCH
Top Countries

	Country	Value
1	Malaysia	300
2	Tunisia	110
3	Brunei	70
4	Pakistan	54
5	Jordan	53
6	Indonesia	45
7	Bahrain	44
8	Saudi Arabia	34
9	Qatar	29
10	Bangladesh	20

Slight growth in Knowledge value after mixed performances for Research and Education

The Knowledge indicator moved only slightly higher, to 7.8 from 7.6, with mixed performances for its two sub-indicators. Education – which measures the number of universities and other institutions offering degrees, professional qualifications and courses within Islamic finance – saw a slight decline as the number of degree providers fell. Research, which counts the papers published on Islamic finance, finished higher for IFDI 2017.

The number of countries contributing to the Knowledge indicator increased to 87 for 2017 from 80 for 2016. Malaysia remained top of the indicator leaderboard despite its indicator value decreasing slightly with a small drop in its Education sub-indicator value. For Research, however, Malaysia was the only country in the world to record a maximum possible indicator value of 300, while no other country made even 200.

Among the countries that joined the top 10 was Malaysia's neighbour, Brunei, which jumped into 4th place with strong performances in both Research and Education.

Growth of Education in Europe, while Russia offers more Islamic finance courses

There were a total 683 education providers offering one or more courses related to Islamic finance during 2016. Of these, 191 offered degrees and some offered more than one type. In all, there were 322 degree courses offered in Islamic finance. Despite the growth in number of education providers, the Education sub-indicator decreased in value to 7.5 from 7.7 due to a drop in the number of degree providers.

The Education sub-indicator also found that 76 of the 131 countries covered had at least one Islamic finance education provider. European nations including Poland, Spain and Belgium continued to demonstrate interest in Islamic finance, as seen by the growth of their sub-indicator values. Russia also increased the number of Islamic finance courses, in line with the country's ambitions to introduce Islamic finance in its Muslim-majority regions.

Continued rise in number of countries producing research papers

The Research sub - indicator value rose to 8.1 from 7.5. This was the result of an increase in the number of published research papers produced between 2014 and 2016 to 2,583, including 1,752 peer-reviewed journal articles. The rise was also partly due to more countries joining the sub-indicator including Ukraine, Slovakia and Burundi.

EDUCATION SUB-INDICATOR

683
Number of Islamic Finance Education Providers in 2016

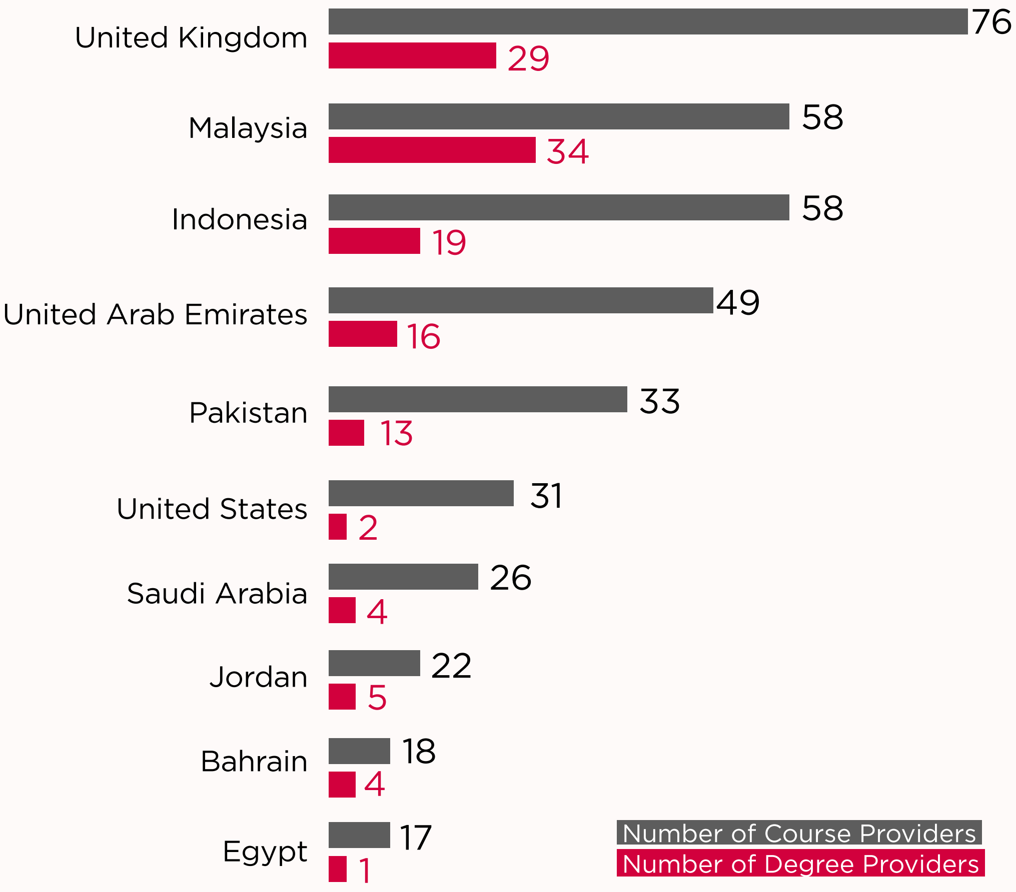
191
Number of Islamic Finance Degree Providers in 2016

170
Number of Islamic Finance Qualification Providers in 2016

322
Total Number of Islamic Finance Degrees in 2016

34%
of Islamic Finance Education Providers are in Non-OIC Countries

Top Countries by Number of Islamic Finance Education Providers (2016)



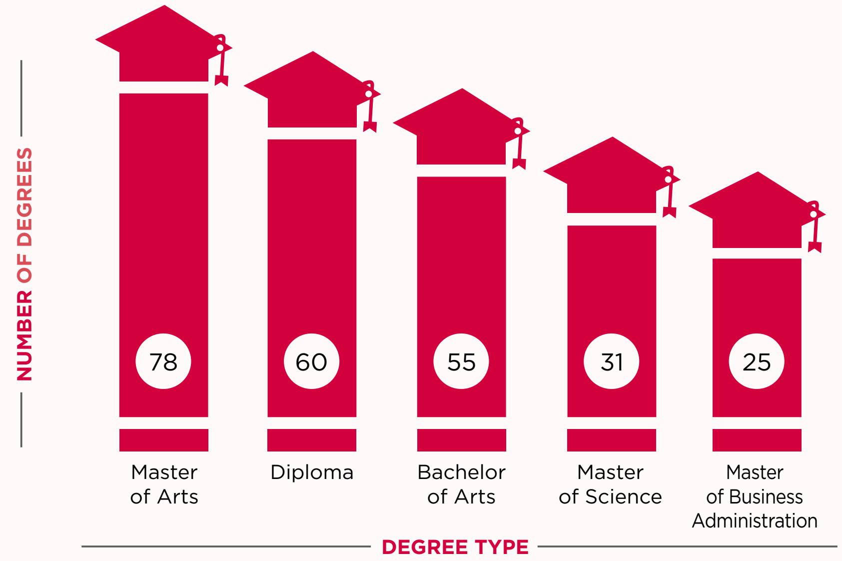
Top Islamic Finance Education Trends in 2016 and 2017

Education is an important tool for a country to become a regional leader in Islamic finance, as shown in Europe

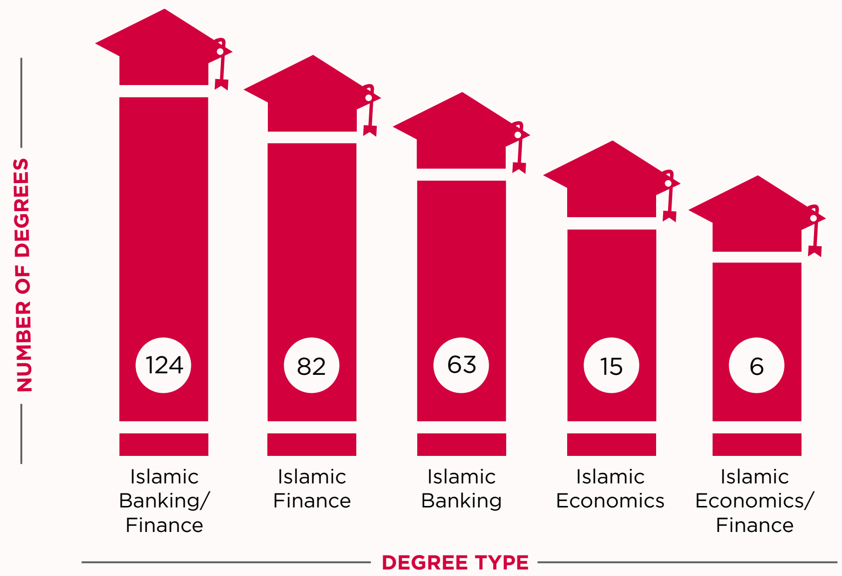
Interest in Africa as evidenced by the establishment of the Centre of Excellence in West and Central Africa to develop human capital in Islamic finance

Efforts by governments to encourage Islamic finance literacy, higher education and qualifications

Top Islamic Finance Degree Types in 2016



Top Covered Islamic Finance Degree Subjects in 2016

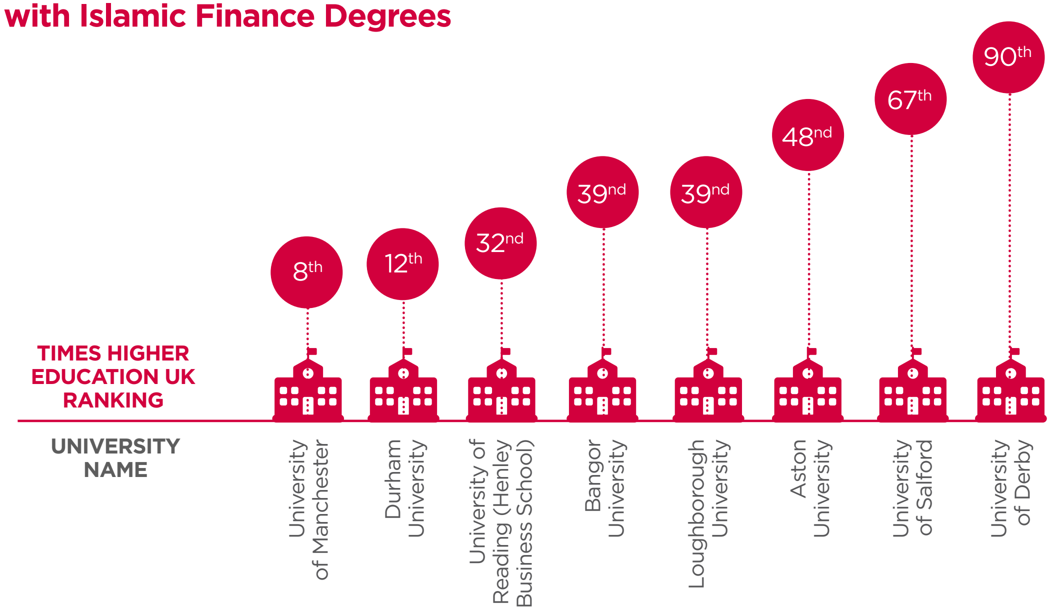


Brexit fears could stall Islamic finance education growth in the UK

The United Kingdom has the highest number of Islamic finance courses in the Education sub-indicator, with 76 in total. This is almost 20 more than Indonesia or Malaysia, which share second place. The UK is also second only to Malaysia in terms of degrees offered in the subject, with Malaysia offering 34 degrees and the UK 29. The UK is a leading advocate of the industry and aims to establish itself as the Islamic finance hub for Europe. The country has successfully developed an education ecosystem in the subject, with a number of British universities offering Master's and PhD degrees in Islamic finance and accounting, Islamic banking, and Shariah-compliant banking information services. Some of the Islamic finance education providers are among the UK's top-ranked universities.

Following the UK's vote to leave the EU, there are fears that prospective students from Europe will instead opt for universities outside the UK to avoid any potential residence restrictions. Other countries in Europe could take advantage of this to offer their own courses in Islamic finance and compete to become regional hubs. We are witnessing this trend in Germany and Turkey.

UK's Top Ranked Universities with Islamic Finance Degrees



Education deemed pivotal for Turkey to lead Europe in Islamic finance

Turkey has taken steps to establish itself as a hub for Islamic finance education with the launch last year of the International Research Center for Islamic Economics and Finance (IRCIEF) at Istanbul Zaim University. Besides conducting research in Islamic finance and economics, the centre will offer graduate and post-graduate courses as well as workshops and training programmes. In 2016, Turkey had 11 institutions providing courses in Islamic finance, with two offering Master's and PHD degrees, eight offering short courses, and one offering professional qualifications. This made Turkey the second-highest country in Europe in terms of number of Islamic finance courses. France came in third with 10 courses, Switzerland fourth with five, and Poland fifth with four. In all, 134 courses were offered in Islamic finance in Europe. We foresee Turkey becoming a regional leader in Islamic finance education, and potentially overtaking the UK if Brexit has a negative effect on London's financial services industry.

Desire to equip students with industry-ready knowledge

There are more courses in Islamic finance than there are degrees, suggesting a desire to equip students with industry-ready knowledge of Islamic finance. In Southeast Asia, of a total 55 degrees, the most popular are Bachelor's degrees in Islamic banking and Islamic finance.

In the MENA region, of 189 degrees, the most popular are Master's and Bachelor's in Islamic banking, Islamic finance, and Islamic finance management, and professional certifications in Shariah auditing. In Africa, 12 degree courses are offered, with Master's degrees in Islamic banking, Islamic finance, takaful, and Islamic economics.

With the emergence of financial technology, or fintech, solutions such as blockchain technology, there could be more courses offered linking Islamic finance to fintech. The Bahrain Institute of Banking and Finance (BIBF) has conducted a seminar on upcoming trends in fintech and its potential to boost growth in Islamic finance.

Governments need to gear up Islamic finance education

Despite projected growth to US$3.8 trillion by 2022 and new, innovative products being introduced to the global market at both an institutional and a consumer level, the Islamic finance industry is still slow in introducing new means to increase knowledge and awareness. Although some of the leading countries in the area have several Islamic finance higher education providers, governments need to step up efforts to push the subject. Awareness can be raised through seminars or media releases, for example, or by developing educational schemes.

Governments therefore need to include Islamic finance education in their strategic plans if they are to further the industry and develop a body of expert professionals. It is essential that students have some knowledge of Islamic finance before beginning higher education. With government support in aligning education with real-world industry, Islamic finance could attract higher-quality graduates who can hit the ground running and make an impact in the industry.

To address these issues, the governments of Malaysia, Indonesia and Bahrain have introduced tools to develop a healthy Islamic finance ecosystem by improving education and the development of human capital.

Despite efforts such as these, a major challenge overhanging the industry is that most of its educators lack practical experience, creating a misalignment with what the industry needs from graduates. The Islamic finance curriculum is basic and theoretical when compared to the real-world industry and has failed to keep up with industry trends. For example, there are no courses on Islamic fintech, on Islamic economics, or on sustainable finance and how this relates to Islamic finance. As the industry develops outside the classroom, Islamic finance education needs to be more dynamic in its approach if it is to turn out more versatile graduates.

INDONESIA

Indonesia is the world's 10th-largest Islamic finance market, with total assets of US$47.6 billion in 2016. However, when it comes to literacy in the subject, Indonesia falls behind despite having the second-highest number of Islamic finance education providers. According to a report produced by MasterCard in 2014, Indonesia sits in 14th place in Southeast Asia in terms of financial literacy. This opens up the opportunity for the government to include Islamic finance within any wider schemes to improve financial literacy.

With this in mind, Otoritas Jasa Keuangan (OJK), or the Financial Services Authority of Indonesia, introduced a financial literacy index for Islamic banking in 2016. This revealed a literacy level in the subject of just 8.11 percent of Indonesians. The OJK's National Strategy for Financial Literacy is a five-year programme running through 2018 aimed at measuring and increasing financial literacy among the Indonesian public. In addition, Bank Indonesia has begun working with Islamic boarding schools across the country to teach Islamic finance and economics.

BAHRAIN

There are several short courses and professional qualifications in Islamic finance-related subjects in Bahrain. The General Council for Islamic Banks and Financial Institutions (CIBAFI) provides certification in Islamic banking, capital markets, governance and compliance, and Shariah auditing and general management.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) offers its widely recognised Certified Sharia Adviser and Auditor (CSAA) qualification. Bahrain recently developed new standards in Shariah auditing, and this qualification will produce Shariah auditors who can advise on the adoption and implementation of these standards.

The Waqf Fund for Research, Education and Training has also since 2008 offered selected Bahraini graduates scholarships for an Advanced Diploma in Islamic Finance at the Bahrain Institute of Banking and Finance (BIBF) and internships with partner Islamic banks and windows.

MALAYSIA

Malaysia, the leading hub for Islamic finance in Southeast Asia, is second in the world along with Indonesia in terms of number of Islamic finance course providers. Bank Negara – Malaysia's central bank – in 2016 established the Steering Committee for Transformation of the Education Landscape for Islamic Finance, tasked with providing a clear strategic direction for talent service providers in the country.

The steering committee consists of Bank Negara's affiliates in Islamic finance education: the International Centre for Education in Islamic Finance (INCEIF), the International Shariah Research Academy (ISRA), the Islamic Banking and Finance Institute Malaysia (IBFIM), the Chartered Institute of Islamic Finance Professionals (CIIF), and the Association of Shariah Advisors (ASAS).

Additionally, Malaysia has published an educators' manual on Shariah standards and operational requirements. The country offers around 40 certificates in Islamic finance focusing on areas including Islamic banking, Islamic finance, Shariah auditing, Islamic capital markets and Islamic law (Shariah). This focus on niche areas sets Malaysia apart as a leading educator in the field, producing experts in particular areas of Islamic finance where others tend to know the subject only as a whole.

RESEARCH SUB-INDICATOR

2,581
Total Research Papers Published (2014-2016)

1,751
Total Peer-Reviewed Journal Articles Published (2014-2016)

728
Total Journals Publishing Islamic Finance Research Articles (2014-2016)

830
Total Affiliations Producing Islamic Finance Research Papers (2014-2016)

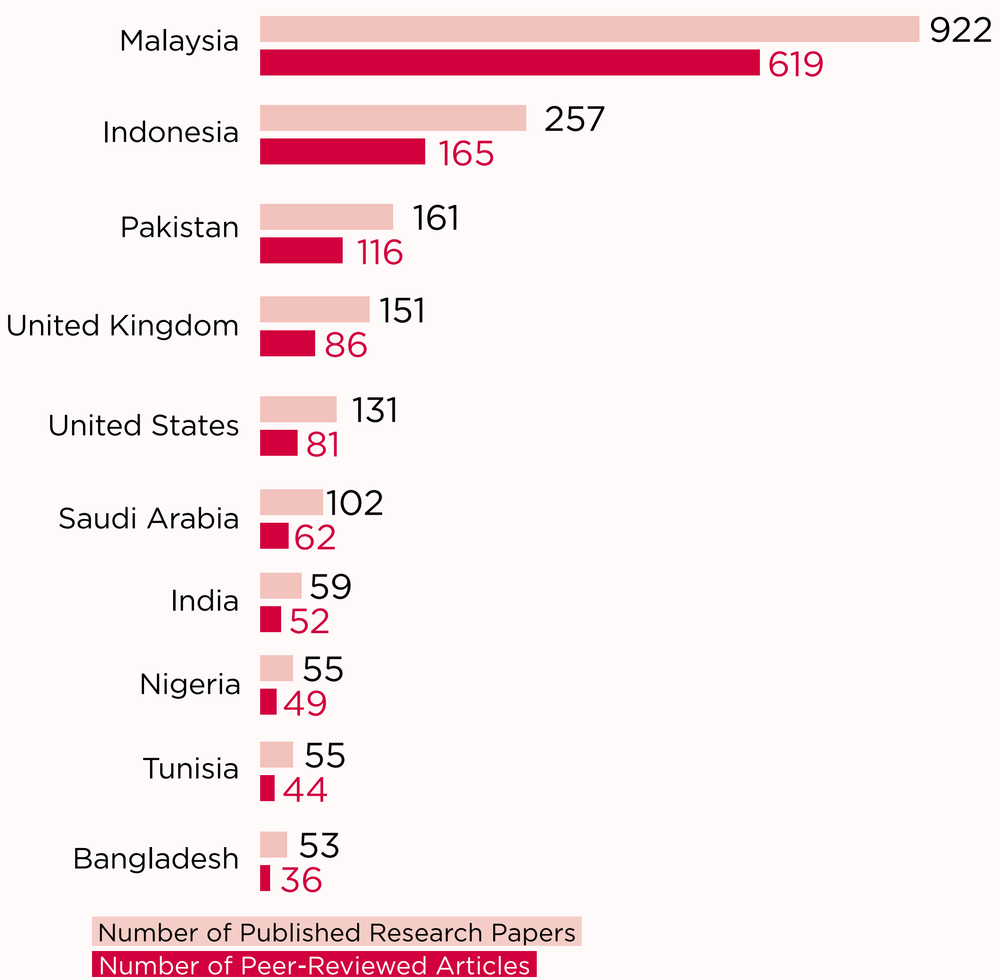
Top Islamic Finance Research Trends in 2016 and 2017

A huge interest in Islamic finance in Africa

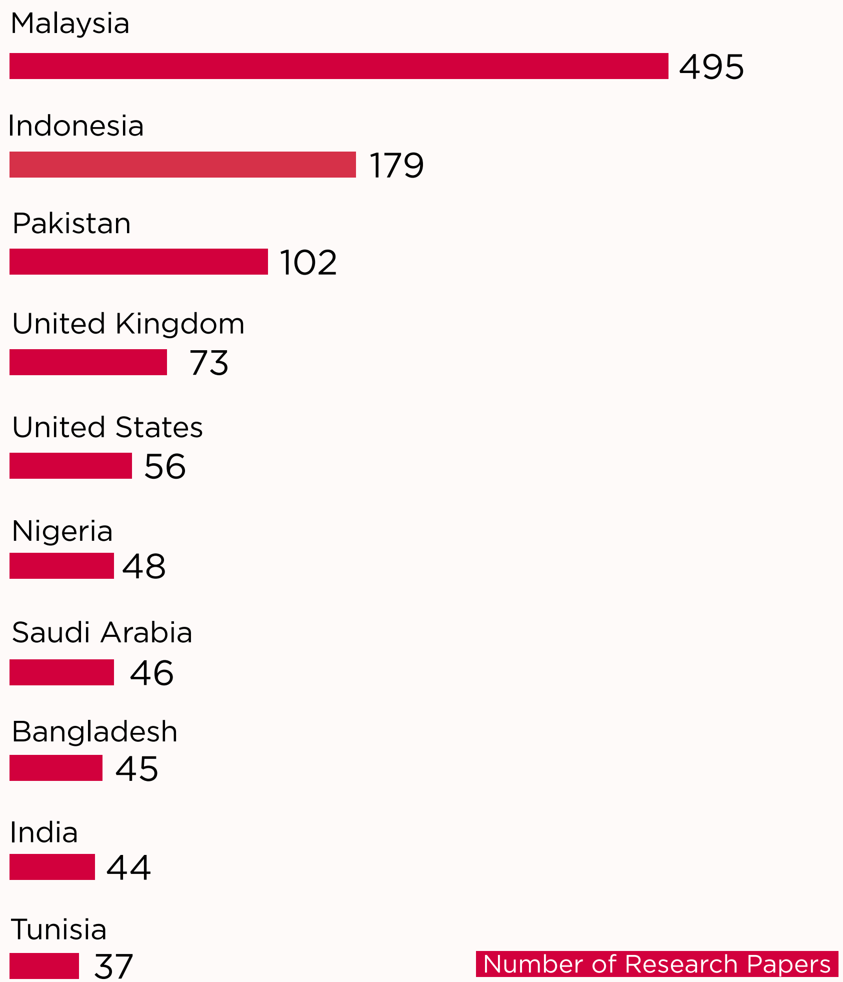
The countries producing the research papers are also among the most covered countries in these papers

Notable research collaborations in Europe

Top Countries Publishing Islamic Finance Research Papers (2016)



Top Countries Analysed in Research Papers (2016)



Southeast Asia and Pakistan providing benchmarks in Islamic finance research papers

Malaysia is the leading provider of Islamic finance research papers, contributing 47% of the total published in 2014-16. Malaysia is also the most covered country in Islamic finance-related research papers. With coverage in 44% of all papers published, the Malaysian Islamic finance sector provides a global benchmark for the industry's development. As the leading issuer of sukuk, the vast majority of research papers covered structures used by Malaysian entities in product development and Shariah compliance.

In second place was Indonesia, with 155 research papers, or 6% of the total. Research topics on Indonesia focused on zakat and the country's Shariah-compliant microfinance institutions, or Baitul Mal wa Tamwil. These two areas dominated analysis of the Indonesian Islamic finance industry for possible adoption in other jurisdictions.

Pakistan was the third most analysed country, with 102 research papers covering its Islamic banking and takaful products. Most papers on Pakistan covered corporate social responsibility, Islamic banking, and Islamic finance. There are several Islamic universities in Pakistan producing research papers. The International Islamic University in Islamabad was responsible for the highest number of research papers in the country, with 20 papers written.

Collaborations in Islamic finance research in Europe

After Southeast Asia, Europe was the second-largest region in terms of Islamic finance research, with 328 papers published. Research papers were written by 177 affiliations in 27 European countries. Leading the continent, the UK was the world's fourth-biggest contributor, with 151 papers published. There was also collaboration on research initiatives between European and Asian bodies. The UK's Oxford Centre for Islamic Studies (OCIS) together with the Securities Commission of Malaysia (SC) launched a visiting fellowship programme for Islamic finance aimed at fostering dialogue and exchange between the Islamic and Western worlds of learning.

Luxembourg, relatively new to the industry, is home to a research collaboration between academics and Islamic finance practitioners in Shariah-compliant blockchain technology.

Research flourishing across Africa and will grow with the new centre of excellence

A total 119 research papers were published on the Islamic finance industry in Africa. Most covered topics on microfinance and regulatory frameworks, the result of growing interest in ways to make finance available to the poor. There could be a further increase in research papers published in Africa once a new centre of excellence in Islamic finance in West and Central Africa is completed by the Islamic Corporation for Private Sector Development (ICD) together with the University of Paris-Dauphine and the African Centre for Advanced Studies in Management (CESAG).

Nigeria led Africa in terms of research papers in Islamic finance produced, with 55 papers, followed by Kenya with 17. Both countries aim to become the regional hub for Islamic finance education, but with 12 institutions offering Islamic finance courses in Nigeria compared to Kenya's four, Nigeria seems the best positioned to succeed.

IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

BUILDING AN INCLUSIVE ISLAMIC FINANCE INDUSTRY

IFAAS

Founded in 2007 to offer a comprehensive suite of Islamic finance advisory solutions to the industry

- **5** — We have **5** offices: UK, France, Bahrain, Pakistan & Morocco
- **5** — A strong client base encompassing many governmental & institutional clients spread across **5** continents
- **20** — Advised more than **20** governments on developing policies and building infrastructure for Islamic finance
- **4** — Our bespoke solutions are available in English, French, Arabic, and Urdu languages
- **40** — Credited with consultancy projects in **40** countries and counting
- **$3bn** — Trusted to audit the Shariah compliance of Islamic assets worth of **$3bn** at present
- **150** — Developed, implemented and launched over **150** Islamic financial products in various jurisdictions
- **1,000s** — Trained 1,000s of policy-makers, regulators, finance practitioners and other professionals

PROVIDERS OF CHOICE FOR ISLAMIC FINANCE ADVISORY SOLUTIONS TO GOVERNMENTS, REGULATORS AND FINANCIAL INSTITUTIONS

- National policy framework
- Industry development roadmap
- Legislative, regulatory & supervisory frameworks
- Shariah governance, compliance & audit
- Taxation & accounting frameworks
- Sovereign islamic financial instruments
- Capacity building
- Product development solutions

CONTACT US FOR MORE DETAILS: INFO@IFAAS.COM

OR VISIT: WWW.IFAAS.COM

Executive interview with Mohammad Farrukh Raza

Managing Director of IFAAS (Islamic Finance Advisory & Assurance Services) and Member of AAOIFI's Governance & Ethics Board

In your view, what are the biggest challenges in the development of Islamic finance ?

The Islamic finance industry has developed significantly over the last couple of decades. However, certain challenges remain to be addressed. The biggest of these is awareness, as most people – whether consumers or business managers and owners, practitioners or regulators – do not fully understand the underlying principles of Islamic finance and how Shariah-compliant products work. I see awareness as the Achilles heel of Islamic finance, and this area needs more attention than any other.

Human capital is another major challenge. Developing a new breed of practitioner who believes in Islamic finance and can convey its spirit to others, while reflecting its spirit operationally, is a major need of the industry. If these two key challenges are met, many other issues – such as product innovation and differentiation, Shariah governance, consumer confidence, and standardisation – will become much easier to solve.

Finally, the industry has now reached the stage where a fully developed ecosystem will be required to support and sustain its future growth.

What is meant by the Islamic finance ecosystem and why do you think it is important for the industry's growth?

The success and continuous growth of any industry depends upon how fast it can develop the infrastructure required to make it more inclusive and accessible for the masses. The Islamic finance ecosystem includes the appropriate legal and regulatory frameworks that recognise the intrinsic approach of Islamic finance and allow it to operate efficiently within a diverse financial system. It also includes supervisory, accounting and taxation frameworks that provide a level playing field with conventional finance and promote healthy competition between this and Islamic finance.

Also required are functional and dynamic Islamic money and capital markets with enough supply and trading of instruments to meet growing industry demand, along with bespoke liquidity management solutions and financial safety nets.

Corporate and Shariah governance structures that are fit for purpose, in addition to strategies for developing sustainable human capital and awareness are also part of this ecosystem, which now includes technology as a critical component of the modern world.

Some countries are applying an integrated approach towards developing this ecosystem. However, a wider effort at industry level is also required from active players and new entrants in Islamic finance.

Islamic finance is flourishing, so why would we need bespoke policies and frameworks?

Indeed, the industry has grown remarkably, but it remains short of reaching its full potential in the absence of an enabling environment. It's like the difference in performance between driving a Formula 1 car on a bumpy dirt road and driving it on a race track. Hence having bespoke policies and frameworks gives Islamic finance the opportunity to operate in harmony

IFAAS
ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

within the wider financial system and enables it to demonstrate its true spirit and tangible benefits for governments, businesses, and people of all backgrounds.

Such an approach requires a unified vision of Islamic finance, underpinned by concerted efforts by all stakeholders within the market. The countries that are enjoying the market's leadership positions are reaping the rewards of such visions.

Given your vast experience inpolicy-level advisory, could you list the five critical factors for success in Islamic finance?

We have worked with over 20 governments and regulators on different types of issues related to the development of Islamic finance.

From experience, we know that having a common vision about Islamic finance shared by all stakeholders usually comes at the top of the success pyramid. Coordinating and channelling all efforts towards achieving that vision and the agreed objectives comes second.

Then you need to make sure that you have adequate and supportive frameworks and policies, well-designed strategies for human capital development, and, of course, as we said earlier, the means to deal with awareness challenges. These are the critical factors that lead to the success or failure of Islamic finance within any market.

Tell us about IFAAS and which of your projects make you most proud?

IFAAS (Islamic Finance Advisory & Assurance Services) is a professional advisory firm, fully dedicated to Islamic finance. Over the decade of our existence, we have been blessed to undertake projects in over 40 countries spread across five continents.

IFAAS (Islamic Finance Advisory & Assurance Services) is a professional advisory firm, fully dedicated to Islamic finance. Over the decade of our existence, we have been blessed to undertake projects in over 40 countries spread across five continents.

We take pride in our team and all the projects it has completed. Our flagship projects to date include developing a national masterplan for the government of Indonesia to grow the Islamic finance industry in the world's largest Muslim population and a G20 economy; making legislative and regulatory reforms in Kenya by way of leading the government's Islamic Finance Project Management Office; preparing the regulatory, governance, taxation and accounting frameworks serving the Islamic banking, capital markets and microfinance sectors for the Central Bank of West African States; and winning the first Ethical Finance Innovation Challenge Award for our mudaraba-based working capital financing product for corporates and SMEs.

The journey continues as we expand our wings further and look forward to continue playing a leading role in developing an inclusive Islamic financial industry in line with its true spirit.

About the Author :

Farrukh enjoys many years of extensive and diverse experience in Islamic finance industry.
His contribution involves policy level advisory to the governments of more than 20 countries, building the infrastructure for Islamic finance, and playing key roles in launching ground-breaking Islamic finance operations across several jurisdictions.
He led IFAAS team in various high-profile projects, form the development of Islamic finance Masterplans, strategic blueprints and regulatory frameworks for countries to launching over 150 products for institutional clients.
He is actively contributing towards the industry's thought-leadership and standard-setting, pushing Islamic finance to a higher degree of Shariah compliance, professionalism and inclusiveness.

GOVERNANCE INDICATOR

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

GOVERNANCE INDICATOR PERFORMANCE IN 2017

Governance Indicator Global Average

14

GOVERNANCE
Top Countries

	Country	Value
1	Bahrain	108
2	Malaysia	88
3	Oman	81
4	Kuwait	72
5	Pakistan	67
6	United Arab Emirates	63
7	Indonesia	61
8	Sudan	58
9	Nigeria	58
10	Maldives	57

Regulations Sub-indicator Global Average

17

REGULATIONS
Top Countries

	Country	Value
1	Bahrain	100
1	Malaysia	100
1	Pakistan	100
1	Nigeria	100
1	Indonesia	100
1	Oman	83
2	Iran	83

Shariah Governance Sub-indicator Global Average

14

SHARIAH GOVERNANCE
Top Countries

	Country	Value
1	Bahrain	157
2	Malaysia	102
3	Sudan	99
4	Bangladesh	78
5	Oman	78
6	Brunei	68
7	United Arab Emirates	67
8	Indonesia	56
9	Jordan	52
10	Pakistan	52

Corporate Governance Sub-indicator Global Average

11

CORPORATE GOVERNANCE
Top Countries

	Country	Value
1	South Africa	115
2	Oman	83
3	United Kingdom	76
4	Sri Lanka	70
5	Bahrain	69
6	Australia	63
7	Malaysia	61
8	Maldives	60
9	India	57
10	Singapore	55

Exceptional performance for Governance

The Governance indicator value jumped to 14.0 for 2017 from 11.3 for 2016, the result of robust governance measures undertaken in many of the Islamic finance markets. The strong performance by the indicator, which takes into account three sub-indicators – Regulation, Shariah Governance, and Corporate Governance – shows that several countries are enforcing stronger monitoring regimes in their financial systems. Another contributing factor was the increase in number of countries contributing – up from 59 to 64 – with most of these also improving their indicator values.

Sub-Saharan Africa and Oman jump in Regulation rankings with new takaful and sukuk laws

Regulation was the strongest of the sub-indicators, with an average indicator value of 16.9 for 2017, up from 14.8 a year before. However, Regulation didn't improve as much as the other sub-indicators because countries which have already issued laws in each of the six regulatory regimes it covers – Islamic banking, takaful, sukuk, Islamic funds, specific accounting, and Shariah governance – are therefore unable to add to their scores. Six countries have already achieved full coverage of the 44 that have at least one type of regulation. However, that does not mean that leading Islamic finance markets are not working to further enhance their regulatory regimes.

One notable development was the introduction of takaful regulations by sub-Saharan African nations including Uganda and Kenya, with Tanzania expected to follow suit. Oman jumped into second spot in this sub-indicator when it enacted two more regulations during 2016 concerning takaful and sukuk.

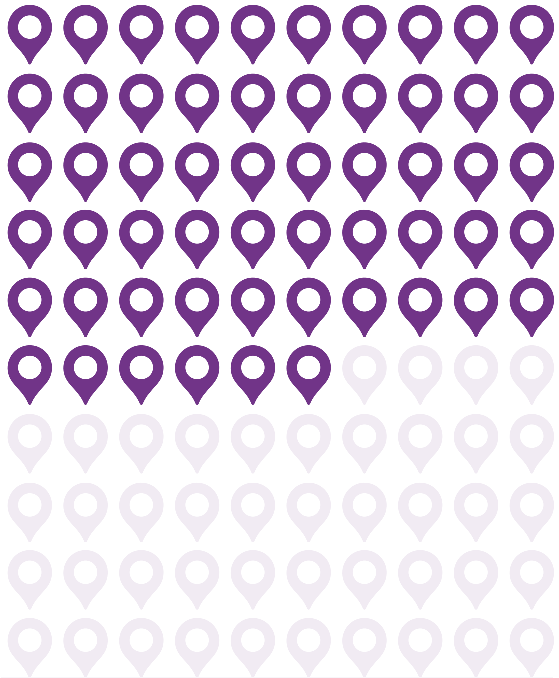
Increase in number of scholars and centralized boards lifts Shariah Governance

Shariah Governance improved the most of the Governance sub-indicators, to 14.2 for 2017 from 10.6 for 2016. This was on the back of an increase in the number of Shariah scholars and growth in the number of institutions. Of a total 1,075 Shariah scholars, 724 had single-board representation. The increase in single-board representation resulted in a higher number of scholars representing each country. The gain for Shariah Governance was also the result of an increase in the number of countries with centralized Shariah boards to 12 with the addition of the UAE and Djibouti. Bahrain, which also has a centralized Shariah board, leads in Shariah Governance for a second consecutive year.

Corporate Governance has least number of countries contributing due to lack of publicly listed institutions

The Corporate Governance sub-indicator also grew, to 10.8 from 8.6. However, this remains the sub-indicator with the least number of countries contributing, with many Islamic financial institutions not reporting financials because they are not publicly listed. On average, 31 items were reported of the 70 required. Another reason there are few contributing countries is that many do not have companies with chairmen independent of their boards, or non-executive chairs of auditing and risk management committees. Of the few countries that did adhere to this, Oman ranked second. Oman has performed consistently over the years given its strong corporate disclosure.

REGULATION SUB-INDICATOR



66% of **131** Countries

do not have **Islamic finance regulations**

Top Islamic Finance Regulatory Trends in 2016 and 2017

- Introduction of laws or tax incentives to make sukuk issuance easier
- New players from sub-Saharan Africa willing to tap takaful market by introducing takaful regulations
- Efforts to introduce Islamic microfinancing laws including micro-takaful
- Efforts to improve Islamic hedging practices

Countries with a Full Set of 6 Islamic Finance Regulations

Bahrain, Indonesia, Malaysia, Nigeria, Pakistan

Number of Countries per Number of Regulations (2016)

Number of Regulations	1	2	3	4	5	6
Number of Countries	10	9	9	8	3	5

Number of Countries per Type of Islamic Finance Regulation (2016)

Type of Regulation	Number of Countries
Islamic Finance	44
Islamic Banking	41
Accounting / Auditing	24
Shariah Governance	23
Sukuk	18
Takaful	17
Islamic Funds	10

Oman regulating newly established Islamic finance industry

Takaful is regulated by just 17 countries of the 131 covered. Oman enacted a takaful law in March 2016, which after also issuing sukuk regulations in April 2016 means Oman has now managed to cover five of the six aspects of Islamic finance regulation since introducing Islamic finance in 2012.

OMAN'S ROLLING OUT OF ISLAMIC FINANCE REGULATION

December 2012	March 2016	April 2016
Islamic Banking, Specific Accounting for Islamic financial institutions, Shariah governance through Islamic Banking Regulatory Framework	Collaborative Insurance Takaful Law	Sukuk Regulation

Pakistan continues polishing Islamic finance regulation

In 2016, 44 countries had Islamic finance regulations, though only five had a full set. Pakistan, which is one of those five, is working to further improve its regulatory framework.

ISLAMIC BANKING

In September 2016, Pakistan's central bank amended its regulations to exempt Islamic banks from having to use interest-based benchmarks for participatory modes of financing such as wakala, mudaraba and musharaka. This ensures that its banks' financings can be based on real economic activities, which is a key principal in Islamic finance. Pakistan also introduced guidelines on the conversion of conventional banks into Islamic banks, setting a three-year timeframe for this process. One requirement is that the banks must have existing Islamic window operations. Converting back to conventional operations will not be allowed.

Another boost to Pakistan's Islamic banking sector was the April 2016 government announcement that it would be compulsory to invest hajj dues in Shariah-compliant instruments through Islamic banks, according to its Hajj Policy 2016 and subsequent 2017 policy. As a result, only banks with Islamic operations were enlisted. Others were dropped.

NON-BANKING FINANCIAL INSTITUTIONS

The Securities & Exchange Commission of Pakistan (SECP) is also working towards non-banking financial institution reforms. Mudarabas, which play a large part in Pakistan's Islamic finance landscape, are expected to be subject to new reforms to promote them as pure Islamic financial institutions. This includes risk management measures, Shariah governance, and the introduction of the concept of unlisted mudarabas. The takaful and re-takaful sector will also undergo regulatory reform with the introduction of the Insurance Bill 2017.

SPOTLIGHT : Islamic Microfinance Regulations

One sector with great potential to expand, Islamic microfinancing, received its fair share of regulatory amendments. Nigeria issued guidelines on the regulation of Islamic microfinance banks, which have an established role in the country, in April 2017. The guidelines provided for an alternative concept of profit and loss-sharing rather than charging interest for micro, small and medium-sized enterprises and for the as-yet unbanked population.

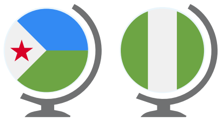
Moreover, Malaysia was looking into developing a micro-takaful regulatory framework based on Bank Negara Malaysia's discussion paper issued in April 2016.

Spread of takaful regulation in sub-Saharan Africa

Takaful was similarly gaining traction in new markets in sub-Saharan Africa. The Insurance Regulatory Authority in Kenya introduced takaful business in its amended insurance act of 2016. Uganda amended its Financial Institutions Act in February 2016 to allow for takaful and was drafting regulations to begin licensing takaful businesses. Tanzania is expected to issue takaful regulations in the near future.

Sukuk attractiveness boosted by tax concessions

Sukuk was also in the regulators' spotlight in Africa, especially after the issuance of sukuk in three West African nations. There were several efforts in 2016 and 2017 to make corporate sukuk issuance more attractive.



AFRICA

Djibouti's government was seeking technical assistance to establish a sukuk framework for either the government or state-owned enterprises.

The government was also aiming to exempt Islamic contracts from double taxation, following the lead of Nigeria's Federal Inland Revenue Services (FIRS), which granted sukuk the same tax concessions as conventional bonds in August 2016.

PAKISTAN

Pakistan's Federal Revenue Board has also allowed sukuk tax exemptions, providing them a similar tax treatment to conventional bonds. The SECP also looked into streamlining sukuk issuance rules in April 2017 in order to provide firms with alternative funding options. It was also collaborating with the Pakistan Stock Exchange to reduce sukuk issuance costs.

TURKEY

Turkey, Europe's largest Islamic finance market, extended tax concessions to all sukuk structures in August 2016 as part of its Law for Improvement of the Investment Environment.

SPOTLIGHT : Islamic Hedging Practices Regulation

Hedging is also important as a means to mitigate risk for Islamic investments as long as the transactions are in conformity with Shariah. Addressing this, the Dubai Financial Market issued the final version of a document on Shariah-compliant hedging in May 2017 as part of the UAE's effort towards expanding standardized guidance on transactions. The aim was to define possible substitutes for conventional derivatives for liquidity management, currency exchanges, and protection again index fluctuations.

Another effort to improve Islamic finance hedging practices involved the Bahrain-based International Islamic Financial Market (IIFM) releasing foreign exchange forward standards in June 2016. These involved using wa'ad, or unilateral promises, undertaken by each party.

The IIFM's move followed Bank Indonesia's hedging rules, effective from February 2016, for foreign exchange. These were aimed at protecting Indonesian Islamic banks from currency volatility in their forex activities.

NEW SECTORS COVERED BY INDONESIAN REGULATORY BODIES

Indonesia, like other leading Islamic finance markets, is adding to its regulatory landscape. Apart from Islamic hedging rules introduced in 2016, Indonesia's Financial Services Authority (OJK) issued regulations on venture capital for small companies including rules on Islamic-based venture capital companies. Indonesia is also looking into regulating Islamic Real Estate Investment Trusts (REITs) and Shariah pension funds as part of the OJK's 2015-2019 Shariah Non-Bank Roadmap.

Several countries strengthening Islamic banking oversight

Islamic banking is the most common area of government oversight, with 41 countries regulating it, and several countries are looking to improve their Islamic banking regulatory frameworks.

IRAN

Iran, which has the world's largest Islamic banking assets, amounting to US$ 464 billion, continued to push for reforms. President Hassan Rouhani sent a Banking Reform Bill and Central Bank Bill to parliament in August 2017. These were intended to replace the Usury-Free Banking Law, which was last amended in 1983. Among the wide-ranging changes are articles on bank mergers and bankruptcy, on the Deposit Guarantee Fund, and on strengthening the central bank's oversight of credit institutions.

PHILIPPINES

The Philippines Congress submitted its Islamic Financing Act 2016 aimed at expanding the Islamic banking system, which since 1973 has been served in the Philippines solely by Al-Amanah Islamic Investment Bank.

AZERBAIJAN

In Central Asia, Azerbaijan's cabinet ministers were working alongside Islamic Development Bank (IDB) to introduce Islamic finance regulations in order to facilitate the launch of the nation's first Islamic Bank.

TUNISIA

Tunisia passed a new banking law in April 2016 which for the first time included specific chapters on Islamic banking. The law allows for all banks to offer Islamic finance services through windows, not just Islamic banks, and specifies Shariah governance requirements for the banks.

SHARIAH GOVERNANCE SUB-INDICATOR

1,075
Total Scholars Representing Islamic Financial Institutions in 2016

724
Scholars with Single Board Representation

32
Scholars with 10 or More Board Representations

12
Countries with Scholars Representing more than 5 Shariah Board Memberships

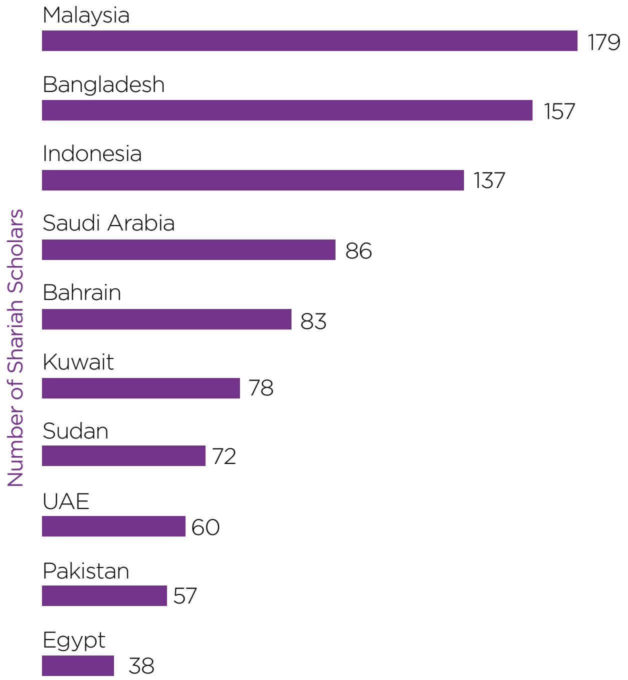
12
Countries have Central Shariah Boards

75%
of Institutions have at least 3 Shariah Scholars

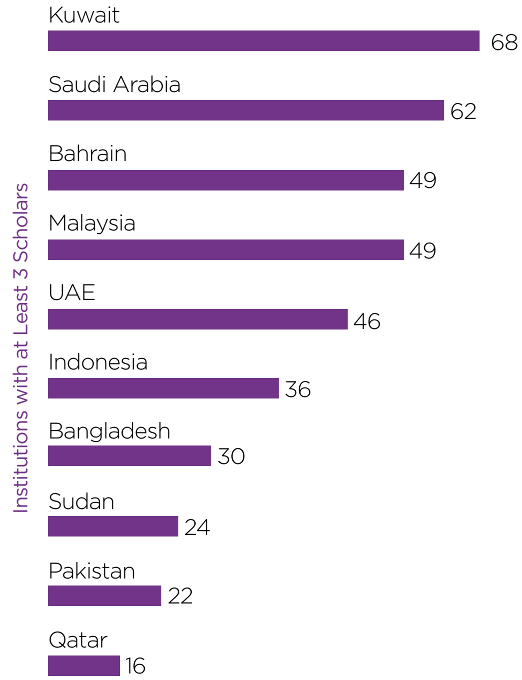
Top Shariah Governance Trends in 2016 and 2017

- Extending external Shariah auditors' role for Islamic banking operations
- More countries working towards having centralized Shariah boards
- Calls to reduce Shariah risks after emergence of Dana Gas's 'unlawful' sukuk issue

Top Countries by Number of Shariah Scholars for Islamic Finance (2016)



Top Countries by Islamic Financial Institutions Represented by at Least 3 Shariah Scholars (2016)



Pakistan increases transparency and addresses conflicts of interest

Shariah governance regulations are undergoing thorough revision. In 2016, there were several responses to growing calls for greater transparency in Islamic finance and to address conflicts of interest caused by Islamic banks traditionally having in-house Shariah boards. The State Bank of Pakistan (SBP) updated its guidance on Shariah governance and expanded the scope of external Shariah auditors in March 2017. It aimed to separate the auditing of profit and loss between external auditors and Islamic banks. The mandatory requirement for external Shariah auditors came a year before with the central bank's Shariah Governance Framework for Islamic Banking Institutions.

Centralizing Shariah governance

As of 2016, 12 countries had central Shariah boards. The newest addition was Djibouti, which established a national Shariah board consisting of five members in October 2016. There may be another addition with the UAE's Higher Shariah Board for Banking and Finance, which was approved by the UAE cabinet in May 2016. The UAE board is aimed at presenting a consistent set of Shariah standards for Islamic finance products, thus reducing disagreements. The need for a centralized Shariah board and better Shariah governance became particularly apparent with the emergence of the Dana Gas sukuk case in June 2017.

Emphasis on external Shariah auditors' role as instructed by AAOIFI

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) played a role in improving Shariah governance standards by issuing an exposure draft on external Shariah audits in June 2017. It proposed that external Shariah auditing should be an integral part of the auditing of annual financial statements. Kuwait and Bahrain also announced requirements for external Shariah auditors, though they were not the first in the GCC to do so : Oman included such a requirement when it issued its Islamic Banking Regulatory Framework in 2012.

BAHRAIN

The Central Bank of Bahrain in September 2016 announced a requirement to have external Shariah annual audits for Islamic bank operations. This decentralized approach was intended to address the issue of transparency and conflicts of interest. The new requirement will be applicable from June 2018, with the first Independent External Shariah Compliance Audit (IESCA) to be issued in 2020.

KUWAIT

Kuwait also issued a requirement for external Shariah auditors in December 2016, to be fully implemented by January 2018. Other requirements included that the scholars must serve a maximum three Islamic banks and that they have a minimum five years' relevant experience. Kuwait has the world's largest number of institutions with Shariah scholars serving its boards, with 68 institutions in 2016 served by 78 scholars.

Article : Dana Gas Sukuk

ISSUER | Dana Gas PJSC

ISSUER SECTOR | Oil and Gas Exploration

AMOUNT ISSUED | **US$ 700** million

ISSUE DATE | 2013

EXPECTED MATURITY | 2017

SUKUK STRUCTURE | Mudaraba including convertible paper with 7% profit rate and non-convertible with 9% profit rate

In June 2017, the popularity of sukuk as a Shariah-compliant financing option was jeopardised when UAE private gas company Dana Gas declared that its US$ 700 million Islamic bond was no longer Shariah-compliant, and therefore unlawful in the UAE and its repayments unenforceable. After this, investors might see sukuk as being much riskier than conventional bonds if issuers can refuse to honour their debts on the basis that the underlying religious basis has changed.

Background : Decline in Dana Gas liquidity due to regional instability

This was not the first time Dana Gas had trouble over its debt. In 2012, Dana became the first company in the UAE not to repay a bond on time. This led to an eventual US$ 1 billion sukuk restructuring which involved offering a US$ 70 million cash payment, cancelling US$ 80 million of the sukuk the company bought earlier in the market, and rolling the remainder into two new sukuk instruments. The company at the time faced a cash flow problem caused by delayed payments from the Egyptian government and the Kurdistan regional government in Iraq, both the result of political instability.

In April 2017, Dana Gas said it would reach a similar agreement with holders of its US$ 700 million sukuk, which was due to mature in October. Investors were once again concerned at the company's ability to repay, particularly as it was owed US$ 714 million by Kurdistan. It also received only partial payments from Egypt, and the company's cash balance remained at just US$ 298 billion as of the end of March, less than half the owed amount. This raised liquidity issues for Dana Gas rather than issues of solvency. In August 2017, the company was awarded arbitration payments from its Kurdistan dispute.

Dana Gas Declaration and Litigation : A cause for the Islamic finance industry to worry

Dana Gas surprised the Islamic finance industry when it declared its sukuk invalid according to religious advice it had received and that it would therefore stop redeeming the maturing sukuk. It said the sukuk were unlawful according to UAE law, «due to the evolution and continual development of Islamic financial instruments and their interpretation».

Reasons for sukuk not being Shariah-compliant, according to Dana Gas

1. Repurchase price was fixed
2. The coupon was based on interest and not profit-based calculations, as it should be in a mudaraba
3. Coupon paid regardless of the company's financial performance

Dana Gas's Initial Proposal

It was proposed that the creditors consensually agree to exchange the sukuk into:

1. A four-year new Islamic instrument
2. Less than half of the profit rates
3. Without a conversion feature
4. Its profit payment will include cash and payment-in-kind elements, less favourable to sukuk holders

Dana Gas Sukuk Governing Law

According to its prospectus :

- The Dana Gas sukuk are governed by English law
- The asset basis for its sukuk, its gas production line, falls under UAE law

Dana Gas obtained an injunction from the Federal Court of First Instance in the emirate of Sharjah blocking any claims for payment. It asked the court to rule the instruments unenforceable pending an initial hearing on this matter in Sharjah in December. It was also granted an additional injunction under English law in the British Virgin Islands and filed for a lawsuit in London's High Court to protect its interest against Deutsche Bank, which was representing investors. The judge in London ordered Dana to discharge the injunction in the UAE "to avoid duplication in multiple jurisdictions" as a condition for the continuation of the English court injunction. The judge also enforced a restriction on selling more assets, raising debt or paying dividends, but he approved a continuation of the English law injunction on the basis that Dana Gas had an arguable case.

The case is most likely to be resolved in the courts after Dana Gas axed its proposed offer to its creditors after they rejected it. In Dana Gas's first-half results issued in August, the company reclassified its sukuk to reflect the legal position, changing from borrowings to capital received on issuance of sukuk. It also said sukuk holders could face a "significant liability" in the UAE court case.

Potential "Significant Liability" for Sukukholders

Sukukholders could be required to repay the company surplus on account profit payments, based on "lawful reconciliation"

$65 million Liability

If the court decides the sukuk transactions were invalid

- Dana Gas needs to repay the principal
- However, Dana Gas claims the profit payments, which upon reconciliation net to $65 million for the sukukholders

$150 million Liability

If the purchase undertakings under sukuk are required to be treated as equity, as in the case of mudaraba

- The reconciliation will be made to adjust to actual profits, resulting in a $150 million liability for sukukholders.

Recent Ruling : London court overrules Dana Gas' sukuk claims

In November 2017, the London High Court judge ruled in favour of the sukukholders. The judge said that the Dana Gas' claims that its obligations towards its sukukholders were no longer valid were «unfounded» and declared the purchase undertakings of the sukuk enforceable.

Potential Implications :
A test for the UAE's Islamic finance ambitions

The claim of religious impermissibility by Dana Gas is the first of its kind. Given that the issuer was evidently under liquidity pressure, this move by Dana Gas could poison the global sukuk market if investors demand higher returns to offset the risk of Shariah incompliance. It could also implicate the Shariah governance framework in the UAE at a time when Dubai is seeking to become the global hub for the Islamic finance industry.

The treatment of the Dana Gas sukuk contract as a default case under UAE civil law, which is less familiar to international investors than English law, could lessen the attractiveness of UAE sukuk for international investors. This adds to the problem of some sukuk structures being too complex for inexperienced investors. Because of such issues, the UAE needs to form a centralized Shariah board, which it is working on, having received approval from its cabinet to establish a higher Shariah board in 2016. The Dana Gas case could prove a real test for the board in restoring confidence in the UAE sukuk market.

UAE Islamic Finance and Sukuk Market Figures in 2016 :

3rd | Most Developed Islamic Finance Market Globally According to IFDI

4th | Largest Islamic Finance Market Globally — **US$ 203 Billion** Total Islamic Finance Assets

4th | Largest Sukuk Outstanding Globally — **US$ 32 Billion** Total Amount of Sukuk Outstanding

Lessons Learned : More efforts needed in Shariah governance

With another case concerning Shariah compliance ongoing at the same time, that of Investment Dar in Kuwait, this gave the Islamic finance industry plenty to think about. The defence used in that case had similarities with the Dana Gas defence. The case raised several issues including the level of communication between the investment bank and Shariah scholars, and the need for improving due diligence when constructing Islamic transactions. It showed that a number of steps should be taken before getting into a contract, such as requiring independent Shariah experts to view a contract, and choosing a suitable jurisdiction for protection.

It also increased calls for industry standardization because potential new entrants, such as those from Western markets who are used to regulation and standardization, may otherwise be inhibited from investment. There were similarly more calls for standardization of sukuk documentation so as to avoid complexities. The road to industry standardization is bumpy due to differing interpretations of Shariah and local laws, for example as between Malaysia and the GCC, and there is greater compliance with better-known international standards such as IFRS-9 and Basel III. Still, there is some hope that differences in Shariah interpretations could increase innovation and hence growth for the US$ 2.2 trillion industry.

The Dana Gas case could also see sukuk investors begin to demand explicit waivers against a defence of non-Shariah compliance, and to push for more restrictive language in documentation. It could also stop issuers seeking boards that will endorse their sukuk rather than independent boards that will answer to shareholders.

Investment Dar Company (TID) vs. Blom Development Ban

The last time Shariah compliance was the basis of a legal wrangle was in 2010, when Kuwait's Investment Dar Company (TID) claimed a wakala agreement with Lebanon's Blom Developments Bank had not been Shariah-compliant and was therefore void. The agreement's specifications included that Investment Dar would invest Blom's money and that it would pay a fixed 5% return regardless of the results.

The contract was governed by English law, and under the contract, Investment Dar confirmed that the contract was Shariah-compliant when it was signed. The summary judgment was granted to Blom and ordered Investment Dar to pay back the principal amount, though not with the return. However, during Investment Dar's appeal against Blom, it argued that the contract was not Shariah-compliant and that its constitution prohibited it from entering into such transactions, thus the contract should be nullified given that it "was taking deposits at interest". The argument was raised despite the company's own Shariah board specifying that such an argument could not be used as a defence without first referring to the board. Ultimately, the court ruled in favour of Blom, which spared the Islamic finance industry any additional obstacles to its development.

CORPORATE GOVERNANCE SUB-INDICATOR

774
Islamic Financial Institutions Reporting Financials

55%
Share of Islamic Financial Institutions Reporting Financials

31.40/70
Average Financial Reporting Disclosure Index Globally

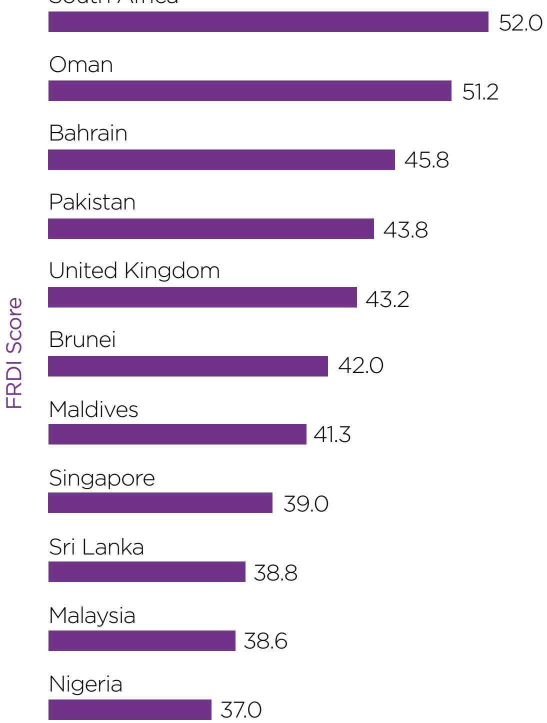
61%
of Countries with IFIs Have Institutions Reporting Financials

49
Countries with Institutions Reporting Financials

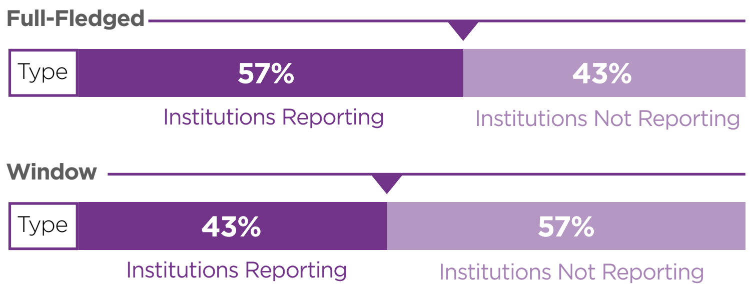
Top Islamic Finance Corporate Governance Trends in 2016 and 2017

- Efforts to improve Islamic banks' corporate governance in several countries
- Enhancement of overall corporate governance to meet improved transparency and accountability in Saudi Arabia

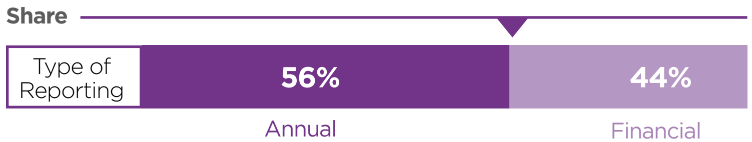
Top Countries by Average FRDI Score (2016)



Share of Islamic Financial Institutions Reporting on Shariah Basis (2016)



Share of Islamic Financial Institutions by Type of Reporting (2016)



Introduction of corporate governance instructions in Jordan and Brunei

Corporate governance for Islamic banks is usually covered by conventional banking laws. However, two countries have introduced specific Islamic banking corporate governance regulations : Jordan and Brunei.

JORDAN

Among IFDI's corporate governance criteria is financial reporting disclosure, for which institutions disclosed on average a low figure of 15 out of 70 items, according to their 2016 annual reports. However, with the recent emergence of international supervisory developments such as the Basel III requirements, the Central Bank of Jordan released a set of instructions governing Islamic banks in 2016. Among them was a requirement for independent board members and an increased Central Bank role in the termination or resignation of relevant governance officials at Islamic banks.

BRUNEI

The Brunei Monetary Authority issued Guidelines on Corporate Governance for Islamic Banks in March 2017 to be applied by the end of 2018. These served as an annex to Brunei's Islamic Banking Order 2008 and were aimed at safeguarding different stakeholders' interests. Among the requirements was that Islamic banks should include a corporate governance section in their annual reports. This requirement will add value to the financial reports disclosed by Brunei's Islamic banks. Brunei already has an above-average disclosure score of 42 out of 70 items.

Transparency in bank remuneration upgraded in Pakistan

Pakistan, ranked 9th in the Corporate Governance sub-indicator, also moved to enhance its corporate governance. The central bank issued revised guidelines in 2016 requiring banks, whether conventional or Islamic, to prepare transparent remuneration policies and frameworks for senior officials and board members. This includes remuneration for the banks' Shariah boards and the components of that remuneration. The aim was to align the remuneration framework with international standards.

Improved Saudi corporate governance to attract investors

As part of Saudi Arabia's efforts towards implementation of reforms in order to join the MSCI and FTSE emerging market indexes, the country's Capital Market Authority introduced new corporate governance policies to improve transparency and accountability. It hoped that by introducing such policies it would join the ranks of neighbours Qatar and the UAE, which joined the MSCI index in 2013. By joining the indexes, Saudi Arabia's capital market would meet international standards, thus attracting more foreign and domestic investors. The new policies introduced in February 2017 included enhancement of the role, formation and responsibilities of the board of directors and committees and protecting shareholder rights. It came into effect in April 2017, but some provisions will only come into force by the end of 2017.

Although such policies are not targeted specifically at IFIs, such reforms could improve Saudi Arabia's Corporate Governance sub-indicator value, especially given that most of the IFIs are listed. According to the IFDI, Saudi Arabia ranks 16th in terms of the Corporate Governance sub-indicator for its IFIs, while the UAE, which has joined the MSCI Emerging Markets Index, ranks 3rd. The main reason for Saudi Arabia's lower ranking is that Saudi IFIs disclosed on average 26.07 out of 70 items in the Financial Reporting Disclosure Index. In addition, not all of its IFIs achieved the requirement of having an independent chairman of the board along with non-executive chairs for both the risk management and audit committees.

CORPORATE SOCIAL RESPONSIBILITY INDICATOR

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

CORPORATE SOCIAL RESPONSIBILITY INDICATOR PERFORMANCE IN 2017

Corporate Social Responsibility Indicator Global Average

8

CORPORATE SOCIAL RESPONSIBILITY
Top Countries

	Country	Value
1	Saudi Arabia	95
2	Jordan	79
3	Oman	67
4	Brunei	60
5	Bahrain	52
6	Qatar	52
7	South Africa	51
8	United Arab Emirates	48
9	Kuwait	45
10	Sri Lanka	43

CSR Funds Sub-indicator Global Average

4

CSR FUNDS
Top Countries

	Country	Value
1	Saudi Arabia	147
2	Jordan	138
3	Kuwait	50
4	United Arab Emirates	46
5	Qatar	33
6	Malaysia	13
7	Bahrain	10
8	Brunei	9
9	Bangladesh	9
10	Sudan	5

CSR Activities Sub-indicator Global Average

12

CSR ACTIVITIES
Top Countries

	Country	Value
1	Oman	130
2	Brunei	111
3	South Africa	101
4	Bahrain	94
5	Sri Lanka	86
6	Turkey	76
7	Qatar	70
8	Bangladesh	68
9	Maldives	66
10	Pakistan	65

Saudi Arabia slips but still takes top spot as South Africa tumbles

In all, 33 countries contributed to the Corporate Social Responsibility indicator, which increased in its global average value to 7.9 for 2017 from 7.1 for 2016. The indicator is made up of two sub-indicators: CSR Funds Disbursed by Islamic financial institutions; and CSR Activities disclosure.

The top 10 countries in the CSR indicator had mixed performances. Saudi Arabia's average value was lower, due mainly to a smaller disbursal of zakat and charity funds. However, this did not prevent Saudi Arabia topping the CSR table. South Africa, which was top last year, tumbled to 7th this year due to lower reported CSR activities by its Islamic financial institutions.

Growth in CSR funds disbursed as financial performance improves

The CSR Funds sub-indicator slid to 3.6 from 4.1 despite the total CSR funds disbursed by Islamic financial institutions increasing 18% to US$ 683 million as a result of overall better financial performance. Around 89% of the CSR funds disbursed were sourced from zakat and charity funds. However, the total amount of these fell, while there was a rise in qardh al hasan funds disbursed to US$ 76 million.

In total, 251 institutions from 24 countries disbursed CSR funds in 2016. Most of these funds came from the GCC region, which disbursed US$ 534 million, or 78% of the total. As a result, five of the six GCC countries ended up in the top 10 in the CSR Funds sub-indicator. Southeast Asia was the second-largest region, with a total contribution of US$ 41 million.

Average CSR disclosure remains low

Despite average CSR activities disclosure by Islamic financial institutions remaining low at 2.61 out of 11 items, the CSR Activities sub-indicator value increased to 12.2 from 10.1. This was helped by increases in sub-indicator values for countries including Bahrain, Turkey and Brunei, and by the number of countries contributing to this sub-indicator rising to 32 from 25.

Among the newly joined contributing countries, Iraq established several new Islamic banks that listed on Iraq's stock exchange, resulting in greater transparency for their activities. Despite this, Iraq remains low with regards to CSR disclosure, with an average of just 0.31 items reported out of 11. This means the country is far from complying with the AAOIFI standard on CSR activities disclosure, a benchmark the CSR sub-indicator is based on.

CSR FUNDS DISBURSED SUB-INDICATOR

US$683 Million
Total CSR funds Disbursed in 2016 by Islamic Financial Institutions

US$607 Million
Total Zakat and Charity Funds Disbursed by Islamic Financial Institutions in 2016

US$76 Million
Total Qard al-Hasan Funds Disbursed by Islamic Financial Institutions in 2016

18%
Growth in CSR Funds Disbursed by Islamic Financial Institutions in 2016

251
Number of Islamic Financial Institutions that Disbursed CSR Funds in 2016

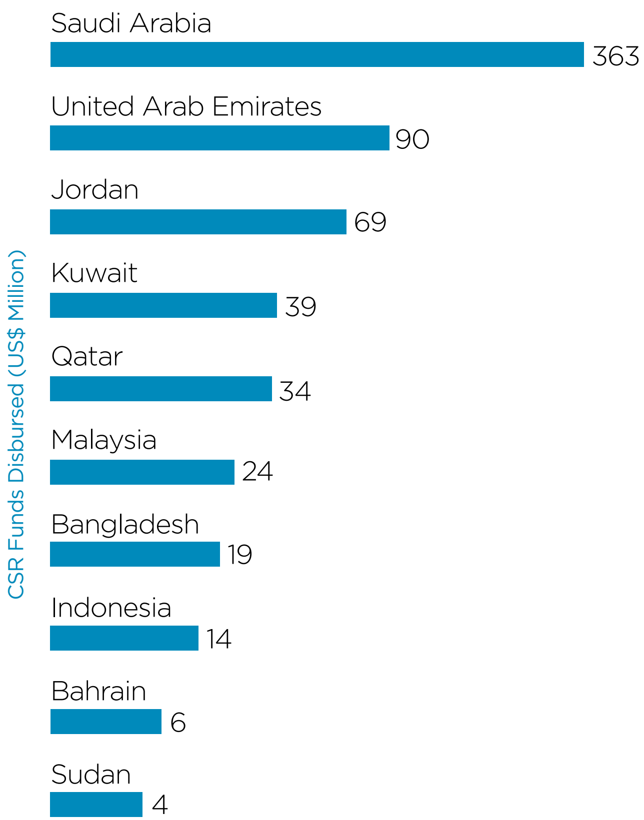
24
Countries with Islamic Financial Institutions that Disbursed CSR Funds in 2016

73%
Share of CSR Funds Disbursed by Top 10 Institutions

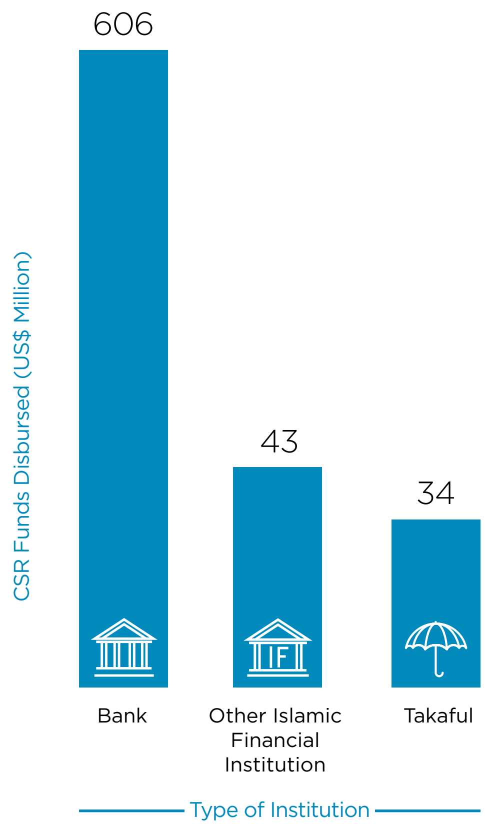
Top Islamic Finance CSR Funds Trends in 2016 and 2017

- Indonesia and Malaysia aim to improve Islamic social funds disbursement

Top Countries in CSR Funds Disbursed by Islamic Financial Institutions (2016)



CSR Funds Disbursed by Type of Islamic Financial Institution (2016)



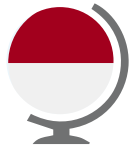
Moves to improve Islamic social funds disbursement in Southeast Asia

Islamic financial institutions in Southeast Asia disbursed US$ 41 million, or 6% of global CSR funds disbursed in 2016. Much of this came from Malaysia, with US$ 24 million, followed by Indonesia (US$ 14 million), Brunei (US$ 3 million), and Singapore (US$ 78,000). There were notable efforts in the region to improve CSR funds including charity and zakat.

MALAYSIA

In order to differentiate the role of Islamic banks from conventional banks, especially when it comes to social initiatives, a 'Sadaqa House' or charity house, is being mooted to complement the Islamic banking industry. The idea was first proposed in 2016 by a former managing director of Bank Islam Malaysia (BIMB) as a way to get the private sector more involved in voluntary charities.

A special task force was created to study the establishment of a Sadaqa House which included BIMB and Islamic educational institutions in Malaysia. A report released in April 2017 suggested that donations would be invested and the profits disbursed to specific charities. It aimed for cooperation between different Islamic banks to develop the charity house concept and it could be offered as a product by Islamic banks without the banks making profits.



INDONESIA

Bank Indonesia aims to strengthen the governance and management of zakat and waqf instruments in order to increase trust and thereby financial inclusion in the country. It released its Zakat Core Principles document alongside the Islamic Research and Training Institute and the National Zakat Board of Indonesia. It covers six main pillars through 18 principles.

The six pillars are :

- Legal Foundations
- Governance
- Supervision
- Intermediary Function
- Risk Management
- Shariah Governance

The country is also working towards releasing core principles for waqf management. A new standard-setting body, the Inclusive Islamic Financial Services Board (IIFSB), will be established by Bank Indonesia, the National Zakat Board and the UN Humanitarian Aid Agency to improve zakat and waqf management globally. Indonesia also launched a National Zakat Index in January 2017 to track the management of its zakat institutions. Through these developments, the zakat collection strategy of IFIs, as controlled by the OJK, can be improved. The OJK already signed an MoU with the National Zakat Board in April 2017 to increase financial literacy in the zakat field.

CSR ACTIVITIES SUB-INDICATOR

2.61 / 11 Items
Average CSR Disclosure by Islamic Financial Institutions Globally

Zakat
Most Reported CSR Activity Item

Waqf
Least Reported CSR Activity Item

70%
of Full-Fledged Islamic Financial Institutions Reporting CSR Activities

412
Number of Islamic Financial Institutions Reporting CSR Activities

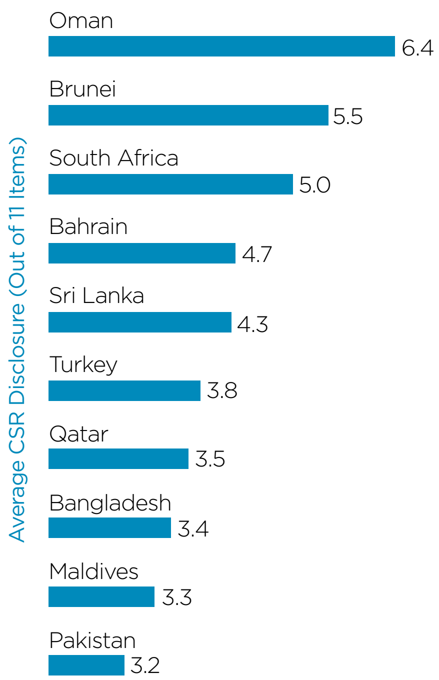
Top Islamic Finance CSR Activities Trends in 2016 and 2017

- Efforts to improve awqaf management
- Value-Based Intermediation in Malaysia's Islamic financial system could improve its CSR

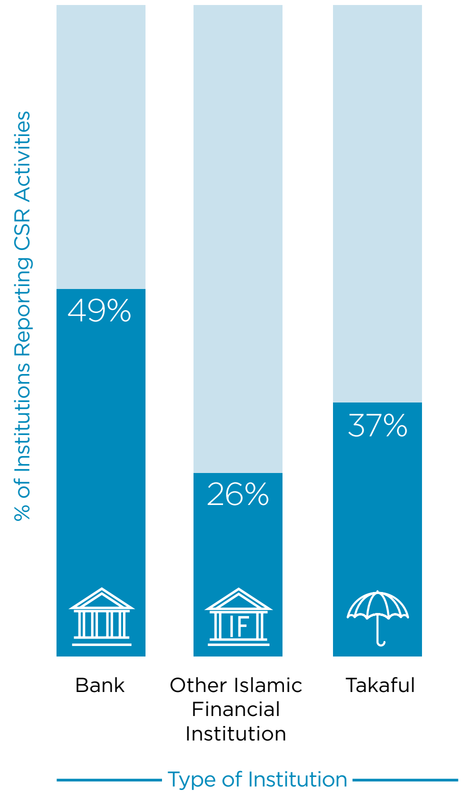
CSR Disclosure Scores by Islamic Financial Institutions – Out of 11 Items (2016)

CSR Disclosure Score	Number of Institutions
1	22
2	40
3	31
4	30
5	22
6	28
7	17
8	10
9	2
10	2
11	1

Top Countries in Average CSR Activities Reported by Islamic Financial Institutions (2016)



Share of Islamic Financial Institutions Reporting CSR Activities (2016)



Unlocking potential of Malaysian IFIs with Value-Based Intermediation

Malaysia is absent from 2016's top 10 countries in terms of CSR Activities reported as it had an average disclosure of 2.85 out of 11 items. Most of the reported items related to zakat, employee welfare, and charitable activities. Despite this, the country is championing social reporting through the release of a strategy paper on Value-Based Intermediation (VBI) in July 2017.

The aim of VBI is to increase Islamic banks' contribution towards creating a sustainable community, economy and environment without risking shareholder returns. It targets Islamic banking offerings achieving the intended outcomes of Shariah such as preservation of wealth, lives and intellect, rather than merely complying with Shariah requirements. According to Malaysia's central bank, Bank Negara, VBI is intended to create new market opportunities, and to be a profit centre where CSR is commonly thought of as a cost centre, so VBI could strengthen an institution's competitiveness. It encourages disclosures that are impact-focused, much like CSR disclosure items, in order to enhance public confidence in the bank. The move is in line with other Malaysian government initiatives such as the SRI funds framework.

UNDERPINNING THRUSTS OF VBI AND EXAMPLES OF POSSIBLE INDICATORS

ENTREPRENEURIAL MINDSET • Initiatives to support SMEs • Financial inclusion	**GOOD SELF-GOVERNANCE** • Consultation with stakeholders • Compliance with ESG reporting
COMMUNITY EMPOWERMENT • Products aimed at communities • Community-based projects	**BEST CONDUCT** • Employee satisfaction index • Improved after-sales service

Source : Value-based Intermediation Strategy Paper, Bank Negara Malaysia

New initiatives announced for awqaf management

The years 2016 and 2017 were marked by moves to govern and increase awqaf, or Islamic charitable endowments. Awqaf – the least reported CSR activity by IFIs – are used to fund social projects such as schools and mosques. Globally estimated at US$ 1 trillion by the Dubai government, they include holdings in real estate and other assets and are sometimes mismanaged by administrators rather than investment managers as most of them are tied to properties or banking deposits. Initiatives regarding awqaf, which could enhance their role for IFIs, include :

THE AWQAF INTERNATIONAL ORGANIZATION (AIO)

Launched in October 2016 by the Dubai government as part of its drive to become the capital of the Islamic economy, this organisation aims to coordinate different charities in order to improve efficiency and provide awqaf with economies of scale. It is also looking at legal framework templates and suitable initiatives to improve awqaf investments in several geographies.

AAOIFI'S STANDARDS FOR ISLAMIC ENDOWMENTS

One of the main standard-setting organizations in the Islamic finance industry, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) announced in April 2017 that it established a working group to develop standards for awqaf. It will cover accounting, governance and Shariah compliance.

AWARENESS INDICATOR

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

AWARENESS INDICATOR PERFORMANCE IN 2017

Awareness Indicator Global Average

14

AWARENESS
Top Countries

	Country	Value
1	Malaysia	243
2	Bahrain	166
3	UAE	144
4	Oman	136
5	Pakistan	100
6	Qatar	84
7	Kuwait	75
8	Brunei	51
9	Tunisia	44
10	Saudi Arabia	43

Seminars Sub-indicator Global Average

12

SEMINARS
Top Countries

	Country	Value
1	Malaysia	300
2	Pakistan	146
3	Bahrain	121
4	Oman	107
5	UAE	103
6	Brunei	75
7	Morocco	72
8	Qatar	62
9	Maldives	55
10	Indonesia	51

Conferences Sub-indicator Global Average

6

CONFERENCES
Top Countries

	Country	Value
1	Malaysia	130
2	Bahrain	78
3	UAE	62
4	Tunisia	61
5	Kenya	45
6	Maldives	31
7	Djibouti	31
8	Morocco	31
9	Saudi Arabia	30
10	Sri Lanka	27

News Sub-indicator Global Average

24

NEWS
Top Countries

	Country	Value
1	Malaysia	300
2	Bahrain	300
3	Oman	300
4	UAE	266
5	Qatar	190
6	Kuwait	186
7	Pakistan	135
8	Saudi Arabia	86
9	Brunei	77
10	Jordan	57

Slight growth in Awareness after slower news coverage

The Awareness indicator average global value edged up to 13.9 for 2017 from 13.8 for 2016. Awareness comprises three sub-indicators: News, Conferences and Seminars. The News sub-indicator measures the number of stories and articles released on the Islamic finance industry. Conferences and Seminars measure the effort being put in to spread awareness about the industry and to aid in the sharing of expertise and knowledge.

Brunei and Tunisia joined the top 10 as a result of an increase in the number of Islamic finance news and seminars in Brunei and a higher number of Islamic finance conferences in Tunisia. Outside the top 10, European countries such as Poland, Italy, and Spain jumped in their Awareness sub-indicator values after hosting Islamic finance events, demonstrating a wider acceptance of the industry in the region. Its wider acceptance is also demonstrated by the successful introduction of Islamic finance tools such as sukuk in the UK and Luxembourg and the continued efforts by these two countries to promote the industry.

Slowed hype on Islamic finance industry

The News sub-indicator had an average global value of 24.0 – the highest of all the Awareness and other indicators' sub-indicators – with 126 countries making a contribution. The total number of Islamic finance news articles increased slightly, to 18,018 from 17,795. Still, the indicator's average value was a little down from the previous year's 25.9 as a result of the slower growth in news.

Increased importance of seminars to spread awareness

The second most developed sub-indicator in Awareness and the most improved was Seminars, which rose to 11.9 from 9.6. There was an increase in the number of contributing countries to 44 from 41, and a total 294 seminars were hosted during 2016. However, the main reason for the increase was a rise in indicator values for the existing countries, several of which are outside the top 10. African countries including Nigeria, Tanzania, Tunisia and South Africa in particular saw an increase in seminar numbers.

Also in Africa, Morocco managed to break into the top 10 as a result of hosting eight seminars in 2016. This was a result of the Moroccan government's use of seminars to introduce Islamic finance to practitioners within conventional finance and to the general public before the industry was permitted to be practiced.

African nations taking over top spots in Conferences sub-indicator

In contrast to the Seminars sub-indicator, Conferences' average value slipped to 5.7 from 5.9. Morocco joined the top 10 here too, along with its North African neighbour Tunisia, as these countries geared up to formally introduce Islamic banking into their financial systems. East African nations Kenya and Djibouti are also ramping up efforts to increase the involvement of Islamic finance in their banking and financial systems.

SEMINARS SUB-INDICATOR

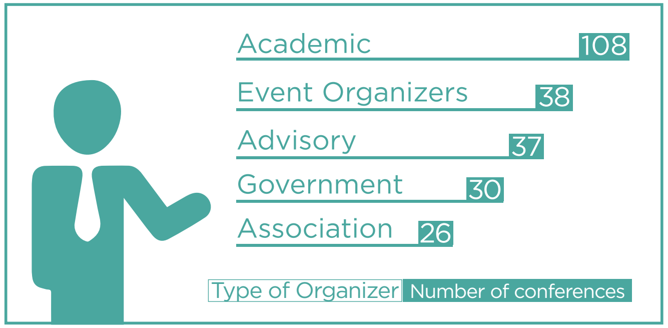
294
Total Islamic Finance Seminars Globally (2016)

44
Number of Countries that Hosted Islamic Finance Seminars (2016)

Top Islamic Finance Seminars Trends in 2016 and 2017

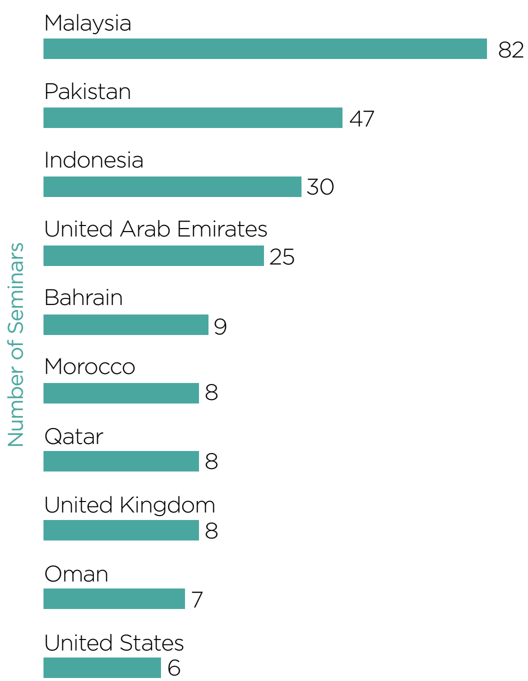
- Microfinance seminars are becoming popular
- Finding common ground between Islamic and ethical financing in Europe
- Seminars are becoming vital to address Indonesia's low Islamic finance literacy

Top Types of Islamic Finance Seminars' Organizers (2016)

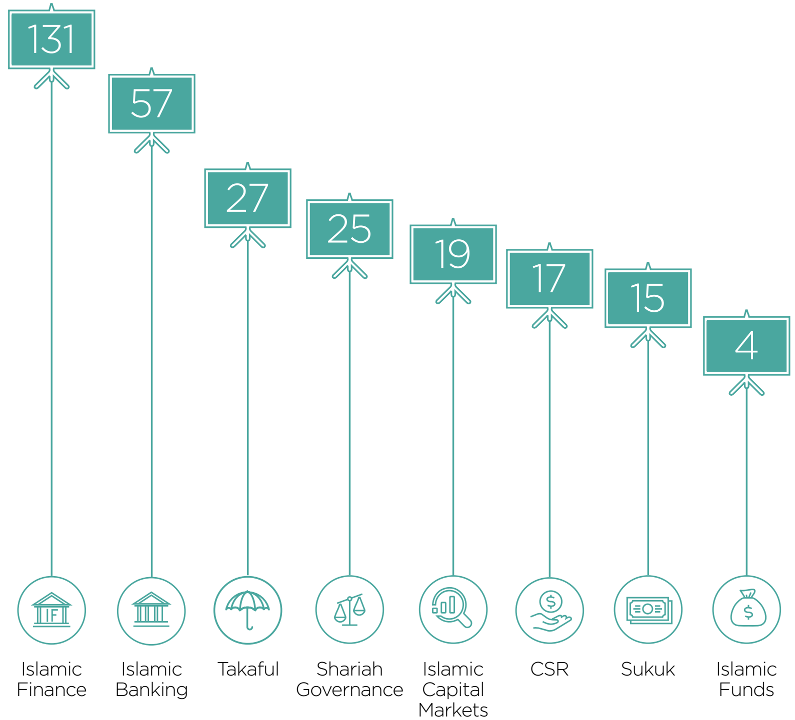


Top Types of Islamic Finance Seminars (2016)

Top Countries in Islamic Finance Seminars (2016)



Islamic Finance Seminars by Topic (2016)



Efforts by Indonesia to revamp Islamic finance awareness

Low literacy rates are perceived as a major barrier to growth in Indonesia's Islamic finance industry. The use of seminars is therefore seen as a good way to progress understanding of the sector and increase access to Shariah-compliant products and services. Islamic banking assets amount to just 5% of Indonesia's total banking assets.

In order to combat its low level of Islamic finance literacy, measured at just 6.63% according to the OJK, Indonesia has hosted 30 seminars and workshops as part of a roadshow to develop awareness in the industry. Indonesia held the third most seminars in 2016, behind Malaysia with 82 and Pakistan with 47. Topics covered by the seminars included Islamic capital markets, Islamic social finance, and takaful.

Microfinance a growing niche within Islamic finance

Eight countries around the world hosted 12 seminars in total related to Islamic microfinance. There has been a growing trend towards holding events discussing ethical and responsible finance, particularly in sub-Saharan Africa. Nigeria, Sudan, Tanzania and Zambia have held seven such seminars between them highlighting the role microfinance can play in building financial resilience in people on lower incomes, and how it can be employed as an ethical catalyst for economic growth.

In South Asia, where total Islamic finance seminars totalled 55 in 2016, the Maldives, Pakistan and Sri Lanka also spread awareness of Shariah-compliant microfinance products. Other topics covered were Islamic banking, takaful, and Shariah governance.

Increased ethical participation of Islamic finance in Europe

Europe hosted a total of 19 seminars in 2016 as countries there looked into growing investment by introducing Islamic finance. The rise in number of seminars followed a surge in Islamic financial transactions and initiatives across the continent, which is now home to 74 Islamic financial institutions and windows. Recent developments include successful sukuk issuance in Luxembourg and the UK and the opening of Germany's first Islamic bank.

SPAIN

Spain hosted three seminars in 2016. Banco de España's seminar exploring the alignment of Islamic financial services with the real economy received a lot of media interest. Another seminar explored the interaction of Islamic finance with ethical finance. Increasing the industry's visibility through seminars could spur the country's financial regulators to bring in regulations and tax incentives that allow it grow further.

UK

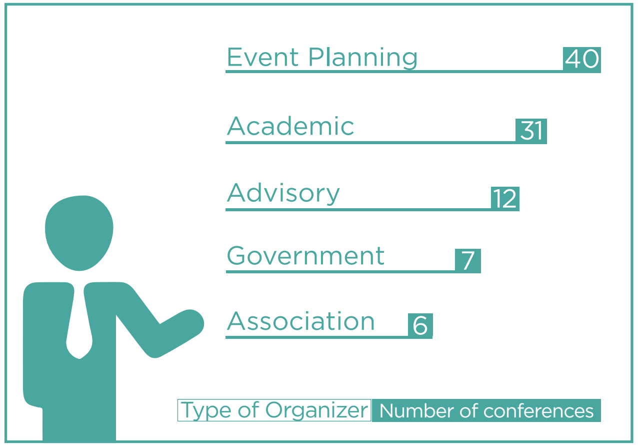
The UK, already home to 26 Islamic financial institutions, hosted eight seminars in 2016 as it stepped up efforts to attract investment through Islamic finance. One workshop sought to connect Islamic finance with other faith groups. The workshop, part of a series jointly hosted by the Church of Scotland and the Islamic Finance Council UK, considered practical models of ethical finance to tackle poverty and inequality.

CONFERENCES SUB-INDICATOR

120
Total Islamic Finance Conferences Globally (2016)

35
Number of Countries that Hosted Islamic Finance Conferences (2016)

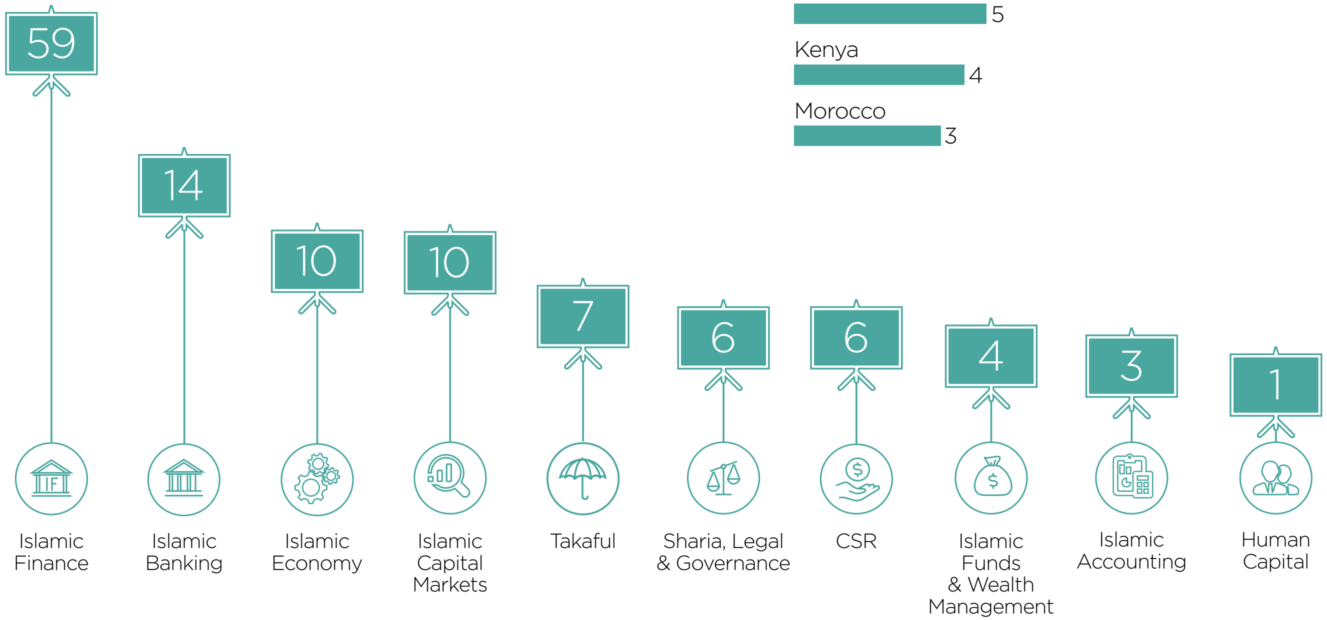
Top Types of Islamic Finance Conferences' Organisers (2016)



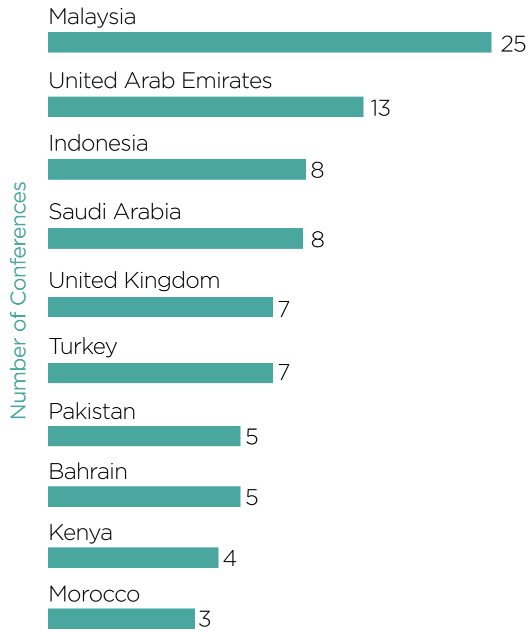
Top Islamic Finance Conferences Trends in 2016 and 2017

- Islamic fintech is becoming dominant in conferences
- Collaboration between developed and new markets in Islamic finance in conferences

Islamic Finance Conferences by Topic (2016)



Top Countries in Islamic Finance Conferences (2016)



Fintech becoming a key topic at Islamic finance conferences

Fintech represents an immense opportunity for Islamic finance. It overturns traditional structures and can streamline transactions between institutions that apply different versions of Shariah law. It also has the ability to capture people who are as yet unbanked. The launch of the Islamic Fintech Alliance this year is aimed at facilitating the adoption of fintech among Muslims in Europe.

Fintech's low penetration rate in the Islamic market when compared to conventional finance has spurred key Islamic economies to step up efforts to tackle issues within fintech and put them centre stage at Islamic finance conferences. Bahrain and Qatar have both hosted conferences specific to fintech. Discussions included the impact of fintech on Islamic finance and the need to foster supportive environments for technology companies to operate and innovate effectively within the area.

China stages Islamic finance conferences to grow industry and push investment in Belt & Road initiative

There were just three Islamic finance events hosted in Asia outside of South and Southeast Asia in 2016, but one of these was notable for being held in China. The China-UAE Conference on Islamic Banking and Finance was aimed at promoting the mutual growth of the countries' Islamic economies. It brought together industry experts to exchange knowledge and share key theoretical and practical developments. It also highlighted the main drivers of Islamic finance in China and the country's efforts to develop its Islamic finance investment market.

The success of China's first Islamic finance conference led to another being held in September 2017. Discussion there centred on the role of Islamic finance in China's Belt and Road Initiative, which is planned to recreate international Silk Road routes through investment in major infrastructure projects along the way. The event targeted a wide range of international stakeholders from policy makers to investors, and served as a platform to review the prospects and challenges for Islamic finance in funding Belt & Road projects. The conference also aspired to solidify China's Islamic finance relationships with key global players.

Conferences vital for UAE to develop Islamic finance industry and economy

The UAE's involvement in the success of China's Islamic finance conferences is indicative of its key role in developing an international Islamic economy. The country hosted 13 conferences in 2016. Many of these covered new themes such as developing human capital and increasing women's involvement in the sector. There was a series of conferences on Islamic economy, in line with the UAE's ambition to become the capital of the Islamic economy.

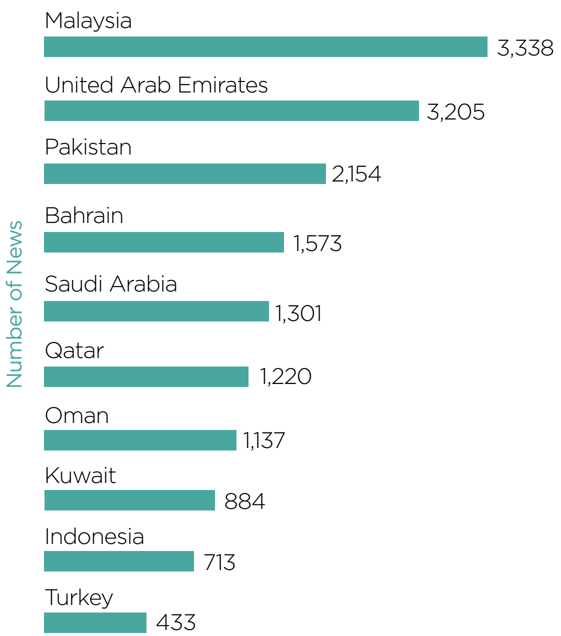
The UAE was second only to Malaysia in terms of the number of conferences held, and first within the GCC.

NEWS SUB-INDICATOR

18,018
Total Islamic Finance Exclusive News Globally (2016)

126
Number of Countries that had Islamic Finance News (2016)

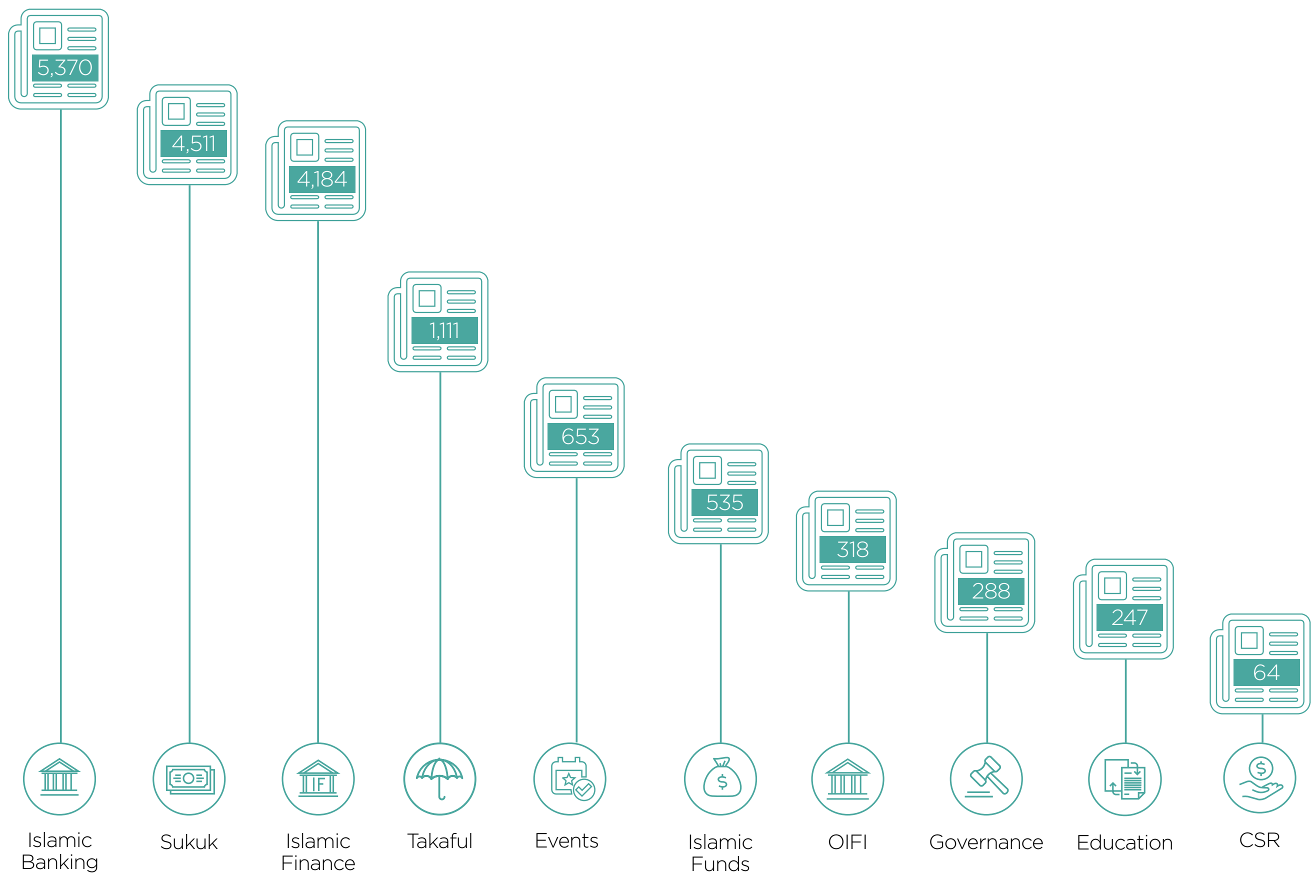
Top Countries in Islamic Finance News (2016)



Top Islamic Finance News Trends in 2016 and 2017

- Increase in Islamic finance regulatory developments covered in news
- Continued observation on the GCC Islamic finance industry's performance

Islamic Finance news by Topic (2016)



GCC continues to dominate news output as countries seek reforms in face of low oil prices

GCC countries continue to be the leading source of news on Islamic finance as their governments begin wide-ranging economic reforms following the collapse in oil prices. Of the world's news articles covering Islamic finance, 54% were attributed to the GCC. The UAE was the main source of news within the GCC, followed by Bahrain and then Saudi Arabia. Much of the news coverage surrounded opportunities to widen the roles of Islamic financial institutions, particularly within Qatar and the UAE, as their governments moved to diversify their economies beyond reliance on hydrocarbon resources.

Regulatory developments and market reforms a major area of Islamic finance news reports

Regulatory initiatives and financial market reforms were major subjects of Islamic finance news reports around the world in 2016. These included news on different types of Islamic finance regulations, as well as on reforms to counteract the impact of economic downturns, such as the introductions of VAT or mandatory health insurance. There was also attention on raising the bar for Shariah governance, on Islamic banking, and on sukuk tax concessions.

SHARIAH GOVERNANCE NEWS

There was a lot of coverage on Shariah governance regulatory developments such as in the UAE, which approved the establishment of a centralised Shariah board to oversee the Islamic finance sector and approve Islamic finance products. Elsewhere, there was news on Bahrain joining other markets in setting a requirement for external Shariah auditors for its Islamic banking system. In Africa, Kenya established a new Islamic Finance Project Management Office which envisioned putting in place a national Shariah governance framework and setting up a national Shariah supervisory board. With news such as this, Kenya rose to 15th place globally in terms of news coverage.

ISLAMIC BANKING REGULATION NEWS

A number of other emerging Islamic finance markets such as Uganda and India initiated laws and regulations for the Islamic finance sector. Uganda amended its Financial Institutions Act to accommodate Islamic banking. India received wide coverage when it studied the idea of allowing Islamic banking windows in November 2016. However, much of the attention in India was negative, as the debate turned against having banking products based on Shariah. The idea was eventually rebuffed when India's finance ministry said it was "not relevant anymore" towards achieving financial inclusion objectives.

SUKUK TAX CONCESSIONS NEWS

Sukuk was covered in 4,500 news items in 2016, second to Islamic banking with 5,400. Sukuk regulatory announcements drew added attention to the Islamic finance industry as they imply further sukuk issuance on the horizon. Turkey, for example, was pushed into the top 10 countries in terms of news items as it amended its tax regulations to encourage increased corporate sukuk issuance. Pakistan came third in terms of news items after introducing sukuk tax concessions.

METHODOLOGY AND APPENDIX

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

IFDI CONCEPT AND BACKGROUND

The Islamic finance industry operates within a wider financial environment that is always evolving. For the industry to prosper it therefore will need to constantly advance and innovate, not merely to maintain the strength of the core industry but to stay ahead of the curve. In the aftermath of the global financial crisis, Islamic financial institutions, market players, regulators and other authorities have made more determined efforts to seek one another out in order to improve industry cooperation and alignment. Reliable information and data are essential to the success of these efforts.

The Islamic Finance Development Indicator is the definitive barometer of the state of the industry across its fundamentals. It introduces a new way of measuring development by combining data on different elements of the industry into a single, composite indicator. The index assesses the performance of each of the industry's key areas in line with its inherent faith-based objectives, with data for their national and industry-level components.

Priority areas identified to provide a theoretical framework for the industry's development include :

1. Development and growth of Islamic financial institutions and markets ('Quantitative Development')
2. The industry's social contribution in line with Islamic principles (Corporate Social Responsibility)
3. The quality of governing structures to ensure compliance with Shariah standards ('Shariah Governance')
4. The quality of governance and risk management measures to protect stakeholders ('Corporate Governance')
5. The availability of training and degree courses to ensure industry professionals are well versed in Islamic finance ('Education')
6. The output of research papers contributing to greater knowledge within the industry and its continued development ('Research')
7. The output of news reports and staging of seminars and conferences that raise awareness of the industry ('Awareness')
8. Development of an enabling and supportive regulatory infrastructure for Islamic banking, sukuk, takaful and Islamic funds ('Regulation')

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator values) are based only on publicly disclosed information. This ensures both reliability and consistency in the results.

KEY OBJECTIVES

The Islamic Finance Development Indicator provides a single, holistic assessment of the Islamic finance industry across all of its sectors. It is a product of a number of key indicators and sub-indicators measuring particular aspects of the industry. Breaking down the data into these different areas reveals the disparities and movements that are less visible in the wider-ranging, aggregated numbers.

The different components that make up the Indicator – Quantitative Development, Governance, Corporate Social Responsibility, Knowledge and Awareness – are of fundamental importance to the development of a global industry. The optimal level of development in any of the indicators or sub-indicators is pegged to a maximum value of 300.

GLOBAL INDICATOR LEVEL	• Present one single indicator to show the pulse of the global Islamic finance industry's overall health • Provide an indicator that is reliable and unbiased • Inform Islamic finance stakeholders and investors about the industry's performance • Gauge future industry growth
COUNTRY INDICATOR LEVEL	• Assess the current state and growth potential of Islamic finance within each country • Highlight the performance of Islamic finance institutions in particular markets • Track progress and provide comparisons across different countries and regions
SPECIFIC INDICATOR LEVEL	• Measure growth within different key areas of the industry • Enhance Islamic finance market transparency and efficiency • Identify issues that are preventing growth within the industry • Help market players formulate practical solutions to face current obstacles • Assist in setting new targets, goals, standards for Islamic finance institutions and regulators

COUNTRY LIST

IFDI 2017 covers 131 countries and dependencies with a presence in Islamic finance either directly or in other metrics such as news, education or events on the industry. These countries are divided into eight broad regions.

OTHER MENA

(Middle East and North Africa Excluding GCC)

- Algeria
- Egypt
- Iran
- Iraq
- Jordan
- Lebanon
- Libya
- Mauritania
- Morocco
- Palestine
- Sudan
- Syria
- Tunisia
- Yemen

GCC

(Gulf Cooperation Council)

- Bahrain
- Kuwait
- Oman
- Qatar
- Saudi Arabia
- United Arab Emirates

OTHER ASIA

- Australia
- Azerbaijan
- China
- Hong Kong
- Japan
- Kazakhstan
- Kyrgyzstan
- New Zealand
- Russia
- South Korea
- Tajikistan
- Turkmenistan
- Uzbekistan
- Vietnam

SOUTHEAST ASIA

- Brunei Darussalam
- Cambodia
- Indonesia
- Malaysia
- Myanmar
- Philippines
- Singapore
- Thailand

EUROPE

- Albania
- Austria
- Belgium
- Bosnia and Herzegovina
- Bulgaria
- Cyprus
- Czech Republic
- Denmark
- France
- Georgia
- Germany
- Greece
- Guernsey
- Hungary
- Ireland
- Italy
- Jersey
- Latvia
- Liechtenstein
- Luxembourg
- Macedonia
- Malta
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Serbia
- Slovakia
- Spain
- Sweden
- Switzerland
- Turkey
- Ukraine
- United Kingdom

SOUTH ASIA

- Afghanistan
- Bangladesh
- India
- Maldives
- Nepal
- Pakistan
- Sri Lanka

AMERICAS

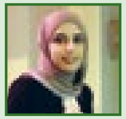
- Bahamas
- Bolivia
- Brazil
- Canada
- Cayman Islands
- Chile
- Guyana
- Mexico
- Suriname
- Trinidad and Tobago
- United States

SUB-SAHARAN AFRICA

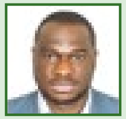
- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Chad
- Comoros
- Djibouti
- Ethiopia
- Gabon
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Ivory Coast
- Kenya
- Malawi
- Mali
- Mauritius
- Mozambique
- Niger
- Nigeria
- Rwanda
- Senegal
- Seychelles
- Sierra Leone
- Somalia
- Somaliland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

CONTRIBUTORS

REPORT AUTHORS



Shereen Mohamed
Senior Research Analyst
Project Leader



Abdulaziz Goni
Senior Research Analyst

REPORT CONSULTANTS

Mustafa Adil
Head of Islamic Finance

Shaima Hasan
Research and Bespoke Solutions Manager

Ammar Radhi
Senior Proposition Manager

IFDI TEAM

Ali Al Wasaibei

Marwa AbdulKarim

Mohammed AlBanna

Mohammed AlMajed

Disclaimer :

The data in this report is believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings and conclusions that the report delivers are based on information gathered in good faith from both primary and secondary sources, the accuracy of which we are not always in a position to guarantee. The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of Thomson Reuters. As such, the information presented is intended to provide general information only and, as such, should not be considered as legal or professional advice or a substitute for advice covering any specific situation. Thomson Reuters specifically disclaims all liability arising out of any reliance placed on this material. Thomson Reuters makes no representations or warranties of any kind, express or implied about the completeness, accuracy, reliability or suitability of this material for your purposes.

ICD THOMSON REUTERS
ISLAMIC FINANCE DEVELOPMENT INDICATOR (IFDI) 2017

Mapping Global Islamic Finance Development

ICD
Islamic Corporation for the Development of the Private Sector

the answer company™
THOMSON REUTERS®

Visit

www.zawya.com/islamic-finance-development-indicator

for IFDI Model and Report

#IFDI2017

ICD – THOMSON REUTERS

ISLAMIC FINANCE DEVELOPMENT REPORT 2017

TOWARDS SUSTAINABILITY

A JOINT INITIATIVE OF

Islamic Corporation for the Development of the Private Sector

the answer company™

THOMSON REUTERS®