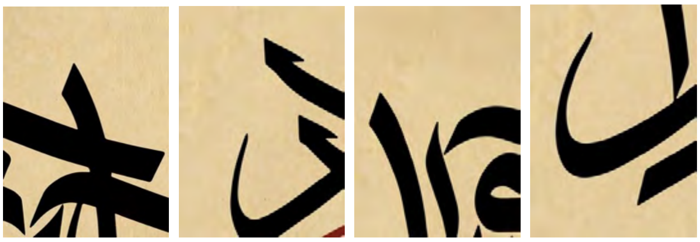
ISLAMIC FINANCE & WEALTH MANAGEMENT 2021

ALPEN CAPITAL

ALPEN ASSET ADVISORS

دبي عاصمة الاقتصاد الإسلامي
DUBAI THE CAPITAL OF ISLAMIC ECONOMY

Foreword from Alpen Capital and Alpen Asset Advisors



The Islamic finance industry has grown over the years to become an integral and influential part of the global financial landscape. The COVID 19 pandemic has disrupted the industry and put its resilience to test. At the same time, it has also brought ethical consumerism and Environment, Social and Governance (ESG) factors to center stage. Islamic finance by its very nature, incorporates sustainability and accountability and therefore has the potential to appeal to a broader consumer base. The performance of the sector during the pandemic has shown that it also make good business sense.

Alpen Capital and Alpen Asset Advisors are committed to supporting the 'Dubai: Capital of Islamic Economy' strategy launched under the directive of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai. Islamic finance and wealth management have the potential to make significant contribution to this strategy. We expect to see rapid growth in the sector and we are gearing up to meet the rising demand through our Shari'ah-compliant financial products.

We are pleased to present our Islamic Finance and Wealth Management Report 2021. The report provides insights into the global Islamic Finance market along with a perspective on the growth drivers and outlook for the sector. We hope you enjoy reading our report.

Thank you for your continued trust in Alpen Capital and Alpen Asset Advisors.

Foreword from Dubai Economy

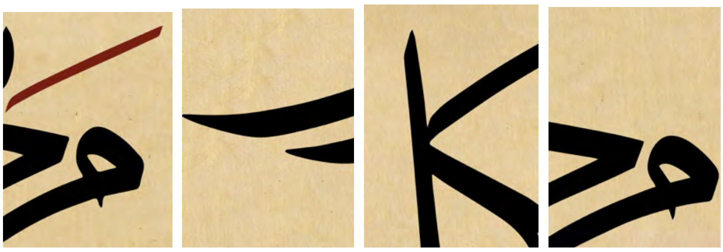
Over the past couple of years, the Islamic economy has established an increasingly important footing in the global economy driven by increasing consumer demand for dedicated products and services based on the Islamic law. The Islamic economy is not only creating value for consumers and economies involved but also contributing towards global well-being through its underlying socially-conscious ethos.

The Dubai: Capital of Islamic Economy Strategy launched under the directive of His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, aims to establish Dubai as the global capital of the Islamic economy. This strategic plan is a roadmap for the future which sets the framework for uniting the efforts of various institutions and parties operating in this sector to meet the increasing demands of consumers across the world. The initiative has driven substantial developments within the Islamic economy in the UAE.

Islamic Finance is an important pillar of The Dubai: Capital of Islamic Economy Strategy. We are happy to collaborate with Alpen Capital and Alpen Asset Advisors in this report which provides a broad overview of the market dynamics and characteristics of the Islamic finance and wealth management industry.

His Excellency Sami Al Qamzi,
Director General,
Dubai Economy

Foreword from the Shari'ah Supervisory Board of Alpen Capital and Alpen Asset Advisors



The global Islamic finance industry has been growing rapidly over the past couple of years and has witnessed a rise in the number of Islamic platforms set up around the world, to provide a range of Shari'ah compliant structured finance solutions. Furthermore, under the 'Dubai: Capital of Global Islamic Economic' strategy we are witnessing a renewed interest and demand for Shari'ah compliant products and services.

In response to the growing interest in the sector, Alpen Asset Advisors and Alpen Capital have published this report that outlines the growth and recent developments in Islamic finance and wealth management. The report gives an overview of the global Islamic finance market and analyses the demand drivers and opportunities in the sector.

We, as the Shari'ah Board, are pleased with this initiative that showcases the landscape of the Islamic finance and wealth management industry. It demonstrates the ability and commitment of Alpen Asset Advisors and Alpen Capital to contribute towards the growth of the sector. We would like to express our best wishes and hope that they achieve sustainable success.

Wallahu Waliuu Al-Tawfiq

Sheikh Dr. Mohamed Ali Elgari
Chairman

Sheikh Abdulsattar Ali Al Kattan
Board Member

Sheikh Dr. Amin Fateh
Board Member

Table of Contents

1. Executive Summary

COVID-19 has disrupted global financial markets at an unprecedented scale, and the impact has tested the resilience of Islamic finance markets in equal measure. However, the global penetration of the Islamic finance sector over the last couple of decades has been influential in driving the overall growth. Moreover, the ability to exhibit higher levels of ethical credibility is likely to sustain this growth post-pandemic, especially amid the rise in ethical consciousness. As the industry aims to stabilize, rise in technology adoption, digital solutions, data-driven decision-making and data sharing across the finance, banking, capital markets and microfinance domains, are likely to accelerate the recovery and further augment its resilience. Digitization is disrupting business models across the Islamic Finance with services such as digital payment platforms and wallets to robo-advisory services, insurance (takaful), digital currency exchanges (crypto) and sukuk, among others. Governments of major Islamic finance markets are also playing a major role in spearheading recovery through initiatives aimed at reforming the industry. Core Islamic finance markets in the wider Middle East, the GCC and SE Asia will continue evolving, such as through plans for centralized regulations and forging national strategies aimed at boosting the role of Islamic finance in the economy. At the same time, non-core markets are likely to witness higher penetration and implementation of Islamic finance frameworks.

1.1 Scope of the Report

This report provides insight into the global Islamic finance and wealth management industry. It presents a broad overview of the market dynamics and characteristics, along with a perspective of the COVID-19 impact on the industry. The report also covers the various instruments driving the market, along with demand drivers and challenges, emerging trends, and an outlook for the sector.

1.2 Industry Overview

- Islamic Finance has grown into an influential global financial segment, buoyed by the large and growing Muslim population seeking Shariah-compliant financial instruments, and the industry's ability to demonstrate a higher level of ethical credibility.
- The global Islamic finance market grew at a steady pace, benefitting largely from strong investments in the halal sectors, infrastructure, sukuk and Islamic funds, especially through electronic mediums.
- The global Islamic asset market remained largely concentrated in Iran, Saudi Arabia and Malaysia. Region-wise, the GCC held the highest share in Islamic finance assets, while SE Asia also gained significant momentum over past few years.
- Islamic Banking accounts for majority of the total global Islamic finance industry assets. The segment has developed at a steady pace, with non-core markets growing the fastest, and is likely to see further expansion with newer services.
- Global Islamic financial assets have witnessed robust growth, partly due to elevated levels of sukuk issuance recorded in traditional markets within the GCC and SE Asia.
- Islamic funds recorded high growth levels, mainly driven by new launches of Islamic exchange traded funds (ETFs) in several countries and ESG-related investment assets made available through digital media.
- Global takaful assets considerably recovered from losses witnessed over the past two years, with takaful assets in GCC recording higher growth due to improved profitability.

1.3 Demand Drivers

- Stimulus packages, fiscal and monetary easing, and liquidity support by major Islamic governments and Central banks; along with higher projected global growth in 2021, is likely to drive post-pandemic recovery and demand for Islamic finance assets.
- The Islamic finance industry recorded strong growth in 2019, driven by Islamic Capital Markets, Islamic Banking and Islamic Funds due to higher sukuk issuances, new banks emerging, and the onset of Islamic ETFs and ESG-related investment assets.
- The rapidly growing young Muslim population has been boosting demand for Shariah-compliant and Islamic financial products and services.
- The global trend of ethical consumerism has grown in popularity in recent years, leading to higher appeal of Islamic products. This uptick is likely to attract a new class of consumers driven by social consciousness, trickling down to higher demand for Islamic finance services and platforms.
- Governments across the globe have taken measures to support the Islamic FinTech ecosystem, encourage digitalization of banks, boost tokenization of sukuks, and bolster markets that are rising in prominence such as Islamic social finance and ESG. Such measures are likely to enhance the Islamic finance market and drive growth.
- The continuous adoption and integration of new and emerging technologies is likely to accentuate the Islamic finance market, as digital solutions offer improvements in accessibility and efficiency, along with broadening their service offerings.

1.4 Industry Outlook

- Islamic financial institutions spent most of 2020 coping with the dual shocks of adjusting to the pandemic and low oil prices. Thus, a speedy and effective response has now become crucial to ensure profitability, as well as spur recovery and growth in the industry.
- Governments of major Islamic finance markets have been spearheading this recovery through initiatives aimed at reforming the industry. Although the industry lacks in terms of global standardization, governments are likely to focus more towards infrastructure development in the near-term.
- With new applications within AI, blockchain, and IoT being explored, fresh digital solutions are likely to enhance the market attractiveness and further strengthen the Islamic finance industry.
- The rise in Islamic FinTech's popularity is also prompting a surge in FinTech-focused investment funds, which are likely to accentuate the market and create opportunities for Islamic FinTechs to expand services.
- Concepts such as ESG/sustainable investing, and green sukuk are also rising in prominence and gaining investor interest. Potential developments within such conceptual instruments are likely to support growth in the coming years.
- Several new avenues have opened up within Islamic investment, such as charitable trusts with a focus on specialized sectors, private equity, exchange-traded sukuk funds, Shariah-compliant Mortgage Investment Funds, Mutual Halal funds and other Islamic funds. The wide offerings are likely to appeal to a broader consumer base, thus improving demand prospects for Islamic instruments.

Although the industry lacks in terms of global standardization, there is a renewed and higher focus on infrastructure development, creating new opportunities for private players through M&A, consolidation and innovation across the Islamic finance and wealth management domain. Consolidation is expected to continue amid the prevailing weak economic condition. At the same time, new players are emerging globally with niche offerings, especially in the nascent Islamic markets. Newer markets are likely to drive growth as the core Islamic countries grow towards maturity.

2. Islamic Finance Industry

The global Islamic finance market has been growing at a steady pace, recording a CAGR of 7.8% between 2014 and 2019

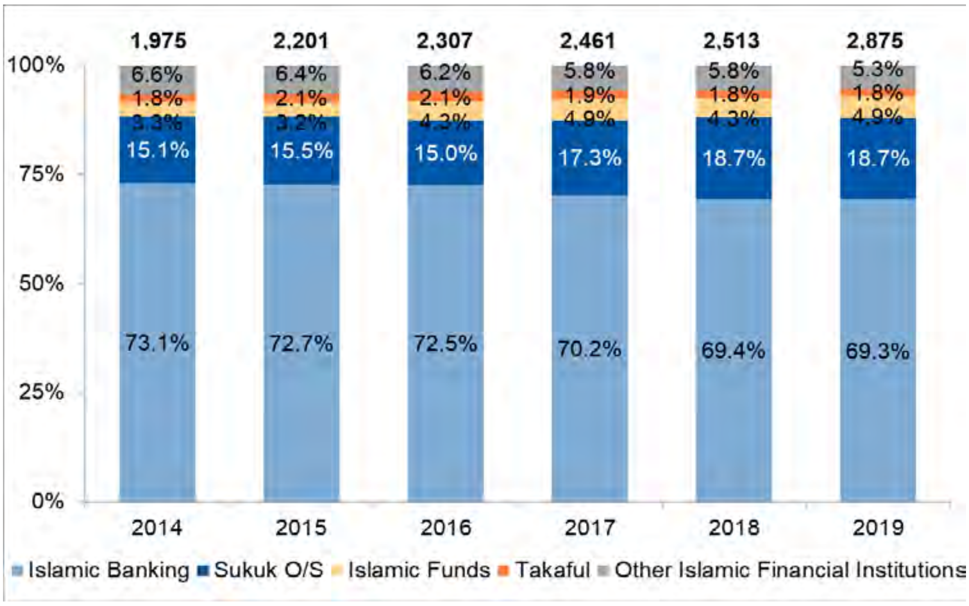
Islamic finance has grown from a discrete service to an influential segment in the global financial landscape over the past couple of decades. The Islamic finance model relies on several principles derived from the Shariah law, including but not limited to shared risk/reward, prohibition of interest, prohibition of uncertainty/speculation, and the necessity of physical presence for money transfers[1]. Besides the large and growing Muslim population that seeks Shariah-compliant financial instruments, the industry's ability to demonstrate a higher level of ethical credibility has fueled the sector's growth, especially after the 2008 financial crisis, which led investors to seek instruments that emphasized risk sharing[2]. However, this growth continues to remain largely concentrated to a few jurisdictions and is only now beginning to penetrate several new potential markets across the globe[3].

Global Islamic Assets

Green Sukuk and SRI Sukuk are growing in prominence in the UAE and SE Asia

The global Islamic finance market has been growing at a steady pace, recording a CAGR of 7.8% between 2014 and 2019. The industry has largely benefitted from strong investments in the halal sectors, infrastructure, sukuk and Islamic funds, especially through electronic modes in all products and services.

Exhibit 1: Islamic Financial Asset by Segments (US$ billion, 2014-2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

In 2019, the global Islamic financial assets grew 14.4% y-o-y due in parts to the higher sukuk issuance in the traditional markets

In 2019, the global Islamic financial assets grew 14.4% y-o-y to reach US$ 2,875 billion, picking up pace after a moderate rise of 2.0% y-o-y in 2018[4]. This double-digit growth was recorded partly due to higher sukuk issuance in the traditional markets. The sukuk market expanded by 14.5% y-o-y to US$ 538 billion in 2019 compared to a 10.3% y-o-y rise in the previous year. Accounting for 19% of the total global Islamic finance industry assets, it grew 18.3% y-o-y in issuance value to US$ 145.7 billion, maintaining the double-digit growth in the sukuk industry seen over the past five years. The GCC and Southeast Asia (SE Asia) markets recorded elevated levels of sukuk issuance during the year. Indonesia recorded a

---

[1] Source: "The rise and rise of Islamic finance", Bearing Point
[2] Source: "Realizing the Potential of Islamic Finance", The World Bank, March 2012
[3] Source: "The Future of Islamic Finance in the Global Economy", The Pangean, July 18, 2019
[4] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

37% y-o-y rise in issuance and Brunei became the fastest growing market, as sukuk remained the debt instrument of choice to finance budget deficits and maintain liquidity. Notably, green sukuk and SRI (Socially Responsible Investment) Sukuk are growing in prominence in the UAE and SE Asia, while non-core markets such as Kazakhstan and Uzbekistan prepare regulations to issue green sukuks. Islamic funds also made a significant contribution to the industry's growth with the asset class rising 29.6% y-o-y in 2019 to reach US$ 140 billion. The segment bounced back from a 10% y-o-y slump in 2018 to record the highest growth over the last decade. This growth was mainly driven by new launches of Islamic exchange traded funds (ETFs) in a number of countries and of ESG-related investment assets made available through digital media[5].

Exhibit 2: Distribution of Global Islamic Finance Assets (2019)

Banks	Size (US$ Billion)	Share of Islamic Finance Assets	No. of Institutions/ Instruments
Islamic Banking	1,993	69%	526
Sukuk	538	19%	3,420
Other IFIs	153	5%	645
Islamic Funds	140	5%	1,749
Takaful	51	2%	336

Source: ICD-Refinitiv Islamic Finance Development Indicator

Islamic Banking, which accounts for 69.3% of the total global Islamic finance industry assets, grew at a pace of 14.2% y-o-y during 2019

Islamic Banking, which accounts for 69.3% of the total global Islamic finance industry assets, grew at a pace of 14.2% y-o-y during 2019 to reach US$ 1,993 billion. Non-core markets such as Morocco, where 'participatory banking' was introduced in 2017, witnessed the fastest expansion[6]. Islamic banking in Morocco has since seen growth averaging an annual 120%[7]. Other markets likely to see further expansion in Islamic banking include the Philippines and Turkey. The Philippines passed a new Islamic banking law in 2019 that allows domestic and foreign banks to establish Shariah-compliant banking windows. The core markets accounted for the highest share of Islamic banking assets to GDP in 2019. Islamic banking assets to GDP in Bahrain was the highest (111% of GDP), followed by Iran (79% of GDP), Kuwait (37% of GDP), Qatar (31% of GDP) and the UAE (24% of GDP).[8]

The global Takaful assets grew 10.9% y-o-y in 2019 while grew 5.5% y-o-y during the year

On the other hand, the global Takaful assets grew 10.9% y-o-y to US$ 51 billion, a considerable recovery from losses witnessed over the past two years. Saudi Arabia, the world's largest Takaful market, recorded 8.8% y-o-y growth in contributions as the introduction of mandatory health insurance brought in new business. Takaful assets in other GCC markets recorded higher growth, with contributions rising 14% in 2019[9]. During the year, Takaful operators in the GCC reported improvement in profitability of investments as growth was seen across several business lines. Lastly, the Other Islamic Financial Institutions (OIFI), which consists of financial institutions such as investment and financing firms, mortgage, leasing and factoring companies, grew 5.5% y-o-y to US$ 153 billion in 2019. Malaysia topped the list of OIFIs with assets worth US$ 54 billion in 2019. The Maldives was the fastest growing market in OIFI, with total assets rising 62% to US$ 44 million, aided by government support for developing conducive frameworks. The rising

[5] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[6] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[7] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[8] Source: Islamic Banking Act passed in the Philippines", ZICO Law, November 25, 2019
[9] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

popularity of Shariah-compliant housing financing in the Maldives led to a 31% y-o-y increase in such assets during 2019[10].

Global Top 10 Countries by Islamic Assets

The global Islamic asset market remained largely concentrated in Iran, Saudi Arabia and Malaysia, together accounting for 66% of the total assets in 2019

The global Islamic asset market remained largely concentrated in Iran, Saudi Arabia and Malaysia, which together accounted for 66% of the total assets in 2019. Bahrain holds the highest Islamic finance assets to GDP at 124%, followed by Malaysia (53%), Iran (47%), Kuwait (43%), and Qatar (40%). Countries that hold a huge Muslim population, outside the core markets of GCC and Malaysia, are also gathering momentum. For instance, Morocco recorded the fastest growth in 2019, following the opening of its first 'participative bank' in 2017. Tajikistan and Nigeria followed Morocco to record the fastest growth in Islamic Financial assets during the year. Among the top 10 countries in Islamic finance by assets, Iran led with US$ 698 billion in assets, followed by Saudi Arabia with US$ 629 billion. Indonesia recorded the highest average growth of 19.7% over five years to 2019[11].

Exhibit 3: Top Countries by Islamic Finance Assets (US$ billion, 2014-2019)

Country	2014	2015	2016	2017	2018	2019	5-year CAGR
Iran	345	434	545	578	575	698	15.1%
Saudi Arabia	413	447	473	509	541	629	8.8%
Malaysia	415	414	406	491	521	570	6.5%
UAE	161	187	203	222	238	234	7.7%
Qatar	87	101	68	129	125	144	10.7%
Kuwait	98	100	120	109	116	132	6.3%
Indonesia	40	48	82	82	86	99	19.7%
Bahrain	73	81	99	84	86	96	5.6%
Turkey	54	52	50	54	51	63	3.1%
Bangladesh	23	26	31	34	38	45	14.2%
Others	265	311	230	169	136	164	-9.1%
Total	**1,975**	**2,201**	**2,307**	**2,461**	**2,513**	**2,875**	**7.8%**

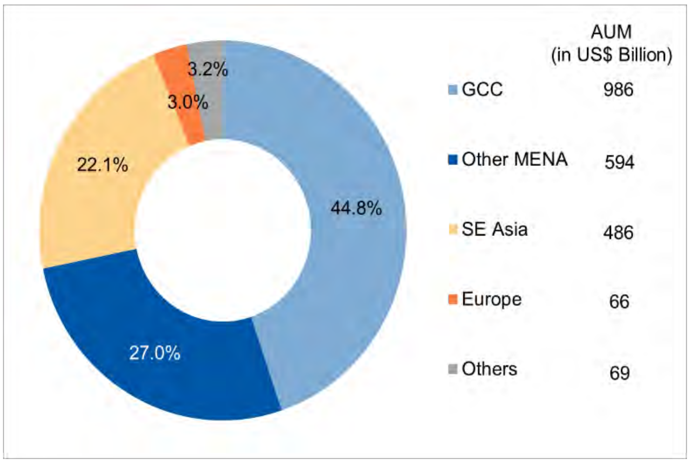
Source: ICD-Refinitiv Islamic Finance Development Indicator

GCC held the highest share in Islamic finance assets with 43.6% while other MENA countries and SE Asia accounted for 26.3% and 23.8%, respectively

Region-wise, the GCC held the highest share in Islamic finance assets with 43.6% or US$ 1,253 billion, while other MENA countries and South East Asia (SE Asia) accounted for 26.3% (US$ 755 billion) and 23.8% (US$ 685 billion), respectively[12]. Notably, SE Asia gained significant momentum in terms of growth in Islamic finance over past few years. This growth was largely backed by the growing Muslim population in the region, along with a rising proportion of Muslims who seek to make investments that are in line with their religious beliefs. Consequently, the governments in the region, especially Malaysia and Indonesia, played an active role in promoting Islamic finance instruments and rolled out a number of regulations to support the landscape[13].

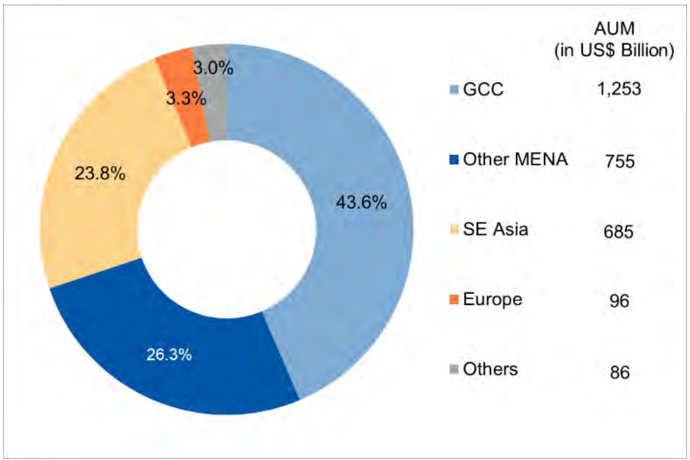
[10] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[11] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[12] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[13] Source: "An Overview of Islamic Banking and Finance in Asia", ADB Institute, July 2018

Exhibit 4: Islamic Finance Assets by Region (2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

Exhibit 5: Islamic Finance Assets by Region (2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

2.1 Islamic Banking

Overview

Islamic banks have grown to create a market that is competitive for conventional banks in several Islamic countries, gradually eating up their market share and offering products that match their level of service and scale of operation. The increasing need amongst Islamic population for Shariah-compliant banking has led to its growth across the Middle East, South Asia and North Africa regions. While Shariah compliance is at the core of every Islamic banking institution, there are differences in opinions related to the application or interpretation of Shariah law amongst the different regions, notably between the Middle East and Malaysia. Recently, a number of Central Banks and financial authorities have started officially adopting AAOIFI standards (Accounting and Auditing Organization for Islamic Financial Institutions) which can help financial institutions with Shariah compliance[14].

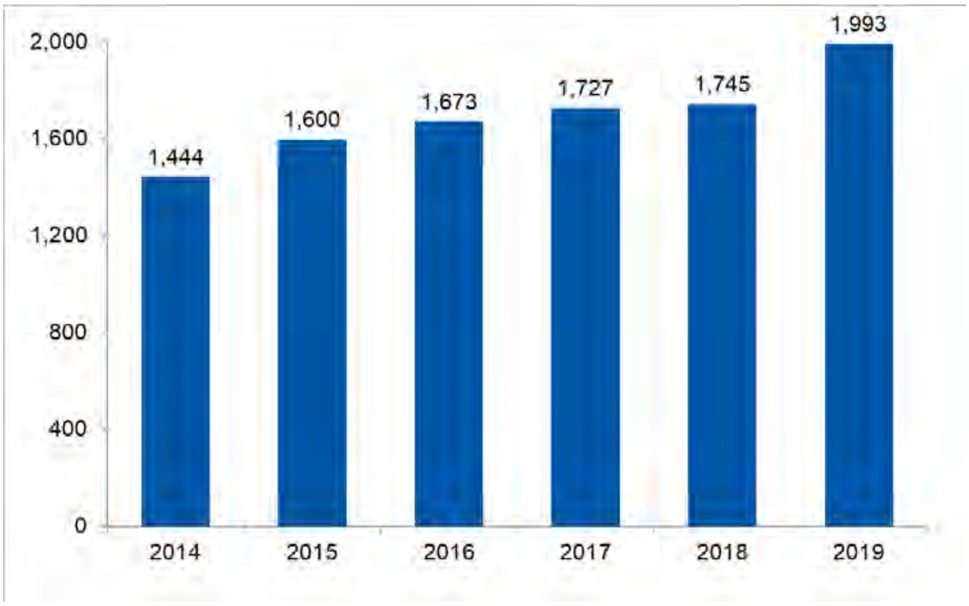
Islamic Banking Assets

Islamic banking is the largest sector in the Islamic finance industry, contributing to 69.3% of the industry's assets in 2019

Islamic banking is the largest sector in the Islamic finance industry, contributing to 69.3% of the industry's assets in 2019. The sector is supported by an array of commercial, wholesale, and other types of banks. Although the total share of Islamic banking has fallen from 73.1% in 2014 due to the rapid rise of Islamic Capital Market (ICM) instruments, especially sukuk and Islamic funds, it recorded a CAGR of 6.7% over the past five years. After weathering subdued growth since 2016, the sector rose 14.2% y-o-y in 2019 to US$ 1,993 billion in global assets[15]. This growth can be largely attributed to improvements in assets across the GCC, which witnessed significant mergers of Islamic banks to strengthen competitiveness, attract stable deposits and enhance efficiency.

[14] Source: "Islamic Banking Processes and Products – Key Regional Variations", Oracle Financial Services 2017
[15] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

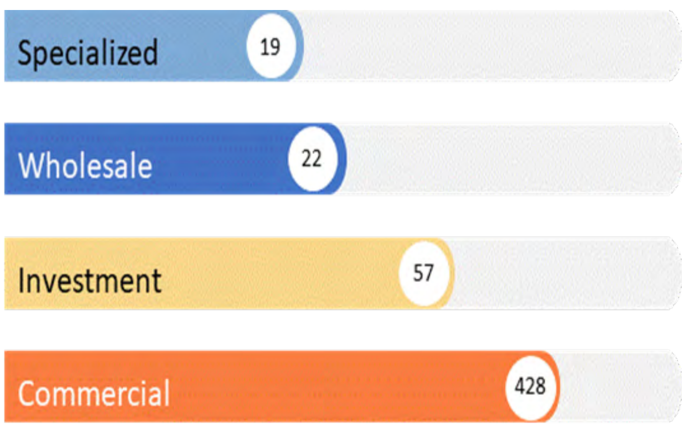
Exhibit 6: Global Islamic Banking Assets Size (US$ billion, 2014-2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

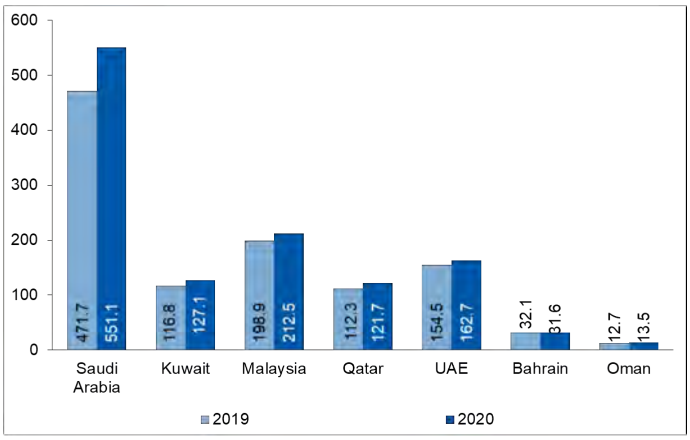
Aggregate Islamic banking assets growth in Malaysia, one of the largest markets, grew 38.8% to US$ 297 billion in 2019 after surging by 6.5% y-o-y during the previous year[16]. This growth was backed by the country's 'Islamic First' strategy, as part of which new banking customers are offered Islamic products over conventional ones[17]. This approach led to a healthy 18.3% y-o-y growth in financing during 2018. In 2019, Islamic financing grew 8.0% y-o-y for Malaysian banks. On the other hand, deposits in Malaysia grew by 19.4% y-o-y and 8.0% y-o-y in 2018 and 2019, respectively[18], reflecting the healthy liquidity of the country's Islamic banking industry. Malaysia continues to enjoy a level playing field that is supported by the favorable demographics, supportive regulations and prudential banking requirements that are broadly similar to the country's conventional banks[19].

Exhibit 7: No. of Islamic Banks by Type (2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

Exhibit 8: Islamic Banking Annual Assets for Select Economies (US$ billion, 2019-2020)



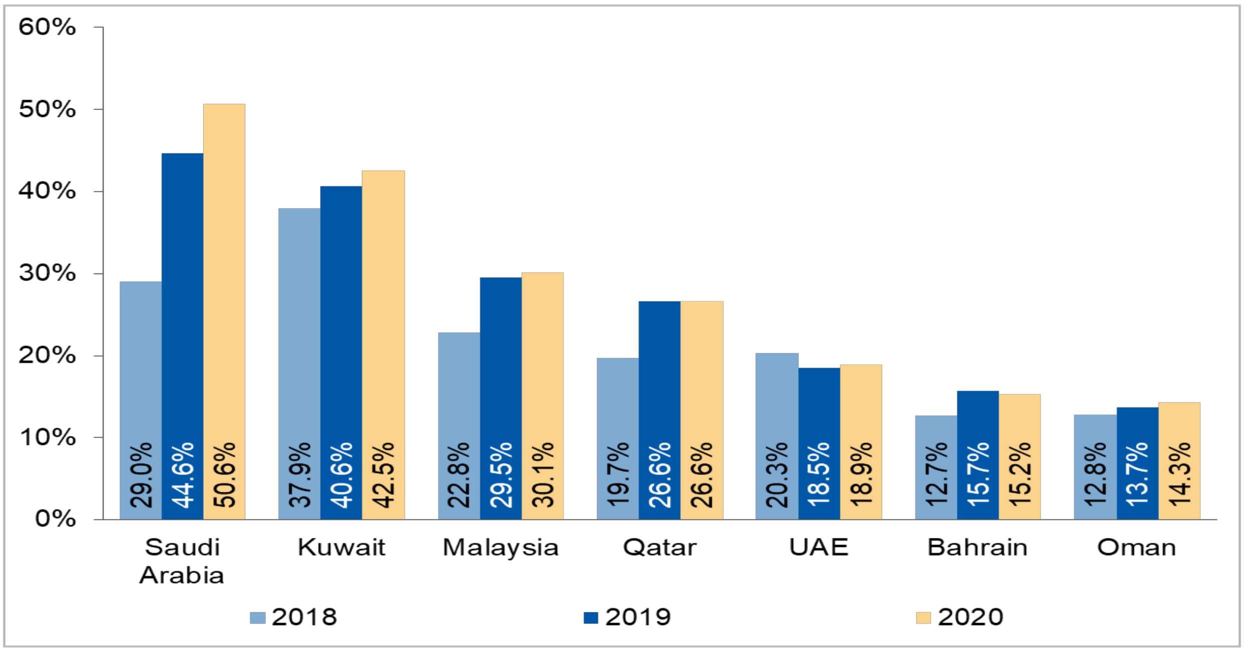
Source: Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman

[16] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[17] Source: "Islamic first' strategy puts Malaysia on track toward 40% Shariah banking goal", China Go Abroad
[18] Source: Bank Negara Malaysia Statistical Bulletin
[19] Source: "Malaysia Islamic Banks Dashboard 2020", Fitch Ratings, March 04, 2020

GCC countries collectively account for 45.2% of the total Islamic banking assets globally

Shariah-compliant assets represent a significant portion of total banking assets of the GCC. Moreover, the GCC countries collectively accounted for 45.2% of the total Islamic banking assets globally. Within the region, Saudi Arabia (US$ 551.1 billion) leads the GCC in terms of Islamic banking assets, followed by the UAE (US$ 162.7 billion), Kuwait (US$ 127.1 billion) and Qatar (US$ 121.7 billion) [20].

Exhibit 9: Share of Islamic Banking Assets of Total Banking Assets in Select Economies (2018-2020)



Source: Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman

Saudi Arabia recorded double-digit asset growth rates in 2020 while Kuwait, Oman, and Qatar remained strong amid the economic headwinds due to pandemic

Saudi Arabia, the second largest market in global Islamic banking, recorded 16.8% y-o-y asset growth in 2020 compared to 13.8% y-o-y in 2019. This growth was supported by a 16.7% y-o-y growth in financing underpinned by strong credit demand and support from the authorities amid the pandemic[21], coupled with a robust recovery in the deposit base with 15.4% y-o-y growth in 2020[22]. Islamic banks in Saudi Arabia remained well placed with the larger retail franchises reporting a lower cost of funding and better asset quality. Moreover, their lower proportion of corporate banking allowed the banks to enjoy lower impaired financing ratios and financing impairment charges, and thus, better asset quality as compared to the conventional banks[23]. In 2019, Islamic banks in Kuwait rode high on the infrastructure program launched under the 'New Kuwait Vision 2035', recording a 16.5% y-o-y rise in assets during 2019[24]. However, this growth was hampered in 2020 amid the dual shock of oil price crash and the pandemic with the Islamic banking assets recording a 8.8% y-o-y rise during the year[25]. The market in Oman continues to remain strong despite the economic headwinds owing to regulatory improvements and enhanced maturity. While the annual growth slowed down to 6.3% in 2020 from 11.1% in 2019, Islamic banking assets as a share of the total banking assets continued to rise[26]. The country was also rated as the second fastest-growing Islamic financing market in the world by Moody's[27]. In Qatar, the

[20] Source: Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman
[21] Source: "Saudi Arabian Banks' Retail Rush to Continue", Fitch Ratings, February 18, 2021
[22] Source: Saudi Central Bank Monthly Statistical Bulletins 2020
[23] Source: "Saudi Islamic Banks: 2019 Dashboard", Fitch Ratings, May 19, 2020
[24] Source: Kamco Invest 2020 Report
[25] Source: Kamco Invest 2020 Report
[26] Source: Central Bank of Oman Annual Reports
[27] Source: "Islamic Banking in Oman hits RO5.4bn in assets as market share rises", Salaam Gateway, April 20, 2021

8.4% y-o-y growth in assets during 2020[28] was buoyed by strong regulatory support and focus on technological developments that allowed easy and safe execution of services amid the pandemic[29]. On the other hand, Islamic banking assets in the UAE recorded an improved performance, growing by 5.3% y-o-y in 2020 as against the 1.9% decline in 2019 due to severe economic strains. Moreover, the UAE reported weakening in their asset quality largely due to stressed real estate and contracting sectors, along with pressures in the entertainment, hospitality, and retail & wholesale trade during 2019[30]. The country fared better than conventional banks during 2020 and significantly improved its market share, largely driven by a 6.8% growth in financing which primarily comprised of private corporate and retail financing[31].

Competitive Landscape: Largest Islamic Banks by Asset Size

There were 526 Islamic banks across the globe as of 2019; Malaysia, Saudi Arabia, the UAE, Qatar and Kuwait are the largest markets in terms of the Islamic bank assets

As of 2019, there were 526 Islamic banks including windows across the globe[32]. The global Islamic banking market is highly competitive, with the presence of large number of international players. Al-Rajhi Bank, Dubai Islamic Bank, Kuwait Finance House, Qatar Islamic Bank, and Abu Dhabi Islamic Bank are some of the major players operating in the region. Saudi Arabia, the second-largest market for Islamic finance, has 16 Islamic banks (including windows) which is less than the smaller markets of Malaysia and the UAE. The 100 largest Islamic banks globally recorded an average asset growth of 8.0% in 2019, higher than that recorded by the 100 largest banks in the Middle East (5.3%) and the 500 largest banks (5.6%) in Asia Pacific[33]. Compared to the conventional banks, margins also remained wider for the Islamic banks, supported by a low-cost deposit-funding base[34]. Malaysia, Saudi Arabia, the UAE, Qatar and Kuwait are the largest markets in terms of the Islamic bank assets, with their aggregate assets representing 79% of the combined assets of the 100 largest Islamic banks.

Exhibit 10: Largest Islamic Banks in GCC (US$ billion, 2020)

Bank	Country	Assets	Deposits	Net Loans
Al Rajhi	Saudi Arabia	126.58	103.31	85.24
Dubai Islamic	UAE	78.18	55.60	53.11
Kuwait Finance House	Kuwait	70.74	50.39	35.36
Alinma	Saudi Arabia	42.36	32.25	30.02
Abu Dhabi Islamic	UAE	34.51	27.34	22.56
Al Baraka Banking Group	Bahrain	28.25	7.51	2.85
AlJazira	Saudi Arabia	24.86	18.36	14.57
Dukhan Bank (Barwa Bank)	Qatar	23.30	1.98	15.80
Bank Boubyan	Kuwait	21.18	16.80	15.87
Sharjah Islamic Bank	UAE	14.47	9.07	2.11

Source: Company Financial Reports, Annual Reports

[28] Source: "Financial Stability Review 2019", Qatar Central Bank
[29] Source: "Islamic finance making steady growth in Qatar", Gulf Times, June 12, 2021
[30] Source: "UAE Islamic Banks: 2019 Results Dashboard", Fitch Ratings, June 30, 2020
[31] Source: Central Bank of the UAE Quarterly Reports
[32] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[33] Source: "Largest Islamic Banks 2019", The Asian Banker
[34] Source: "Strongest Islamic Banks 2019", The Asian Banker

The GCC accounted for 62.3% of the combined assets of the 100 largest Islamic banks globally in 2019

The GCC accounted for approximately 62.3% of the combined assets of the 100 largest Islamic banks globally in 2019. Strong profitability, asset quality, capital position and ample liquidity of the four large Islamic banks in Saudi Arabia, makes the Kingdom a leader in the region. It accounts for 18.7% of the assets of the 100 largest Islamic banks globally, and Saudi Arabia's Al Rajhi Bank is the largest Islamic bank globally. In 2020, Al Rajhi Bank recorded a 22.1% expansion in assets to US$ 126.6 billion from US$ 103.7 billion in 2019[35]. The UAE followed closely, accounting for 17.7% of the global assets with seven of its Islamic banks featuring amongst the top 100. Although Bahrain led the region with 15 Islamic banks, it accounted for only 5.8% of the aggregate assets in 2019.

Consolidation in the GCC Islamic Banking Sector

As the sector looks to enhance its service offerings, consolidation is likely to remain a key theme in the GCC markets. This can be seen in the recent mergers of Barwa Bank with International Bank of Qatar, which made it the country's third-largest Islamic banking franchise[36], and the Dubai Islamic Bank's merger with Noor Bank, which created one of the largest Islamic banks in the world with about US$ 75 billion worth of Shariah-compliant assets[37]. Similarly, the merger between Abu Dhabi Commercial Bank, Union National Bank and Al Hilal Bank created another banking powerhouse in the UAE with about US$ 115 billion of assets, making it the country's third largest lender. The new entity plans to tap on Al Hilal's strength in the Islamic finance market, and accounts for about 21% of the country's total loan market[38]. In a bid to tap on the growing demand for Islamic banking services, Bahrain Islamic Bank accepted an offer from the National Bank of Bahrain to raise its shareholding in the Shariah-compliant lender from 29% to 78.8%[39]. Kuwait Finance House, the country's largest Islamic financial institution, has also agreed to acquire Ahli United Bank of Bahrain that boasts shareholdings in banks in Egypt, Libya, Iraq, Kuwait and Oman[40].

Malaysia is the largest market in terms of assets for Islamic banking, accounting for 22.7% of the total assets of the 100 largest Islamic banks in 2019

Islamic banking outside the GCC are largely concentrated in a few countries in the wider MENA and the SE Asia region. Globally, Malaysia is the largest market in terms of assets for Islamic banking, accounting for 22.7% of the total assets of the 100 largest Islamic banks in 2019[41]. 16 Islamic banks from the country featured amongst the 100 largest Islamic banks globally while six of them were amongst the top 20. However, the ROA for Malaysian banks is significantly lower at 0.8%, as compared to its closest peer, Saudi Arabia, which records ROA at 2.0%. Amongst the other notable SE Asian countries, Indonesia had 13 banks amongst the top 100 but accounted for a mere 2.4% in aggregate assets. The fastest expansion was seen in countries outside the core SE Asian and GCC markets, particularly Morocco, where assets more than doubled in 2019. Introduced in 2017, Islamic banking in Morocco has since seen exponential growth averaging an annual 120%[42]. Iran, on the other hand, accounts for 4.0% of the total assets[43]. Among the smaller markets that hold immense potential for growth, Turkey is likely to double its Islamic banking assets over the next 10 years amid government initiatives and new regulations that will help expand the sector[44].

---

35 Source: Company Financial Reports
36 Source: "World's Best Islamic Financial Institutions 2020: Fair Winds Before The Storm", Global Finance, May 12, 2020
37 Source: "Safest Islamic Banks In The GCC", Global Finance, November 12, 2020
38 Source: "GCC banks consolidate as oil prices remain flat", The Banker, March 9, 2020
39 Source: "National Bank of Bahrain to acquire 78.8% stake in Bahrain Islamic Bank", NS Banking, January 20, 2020
40 Source: "Virus May Force Kuwait Finance and AUB to Reassess Merger", Bloomberg, May 3, 2020
41 Source: "The Largest Islamic Banks Rankings 2019", The Asian Banker
42 Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
43 Source: "The Largest Islamic Banks Rankings 2019", The Asian Banker
44 Source: "Top Islamic Financial Institutions 2020", The Banker, November 2, 2020

Exhibit 11: Largest Islamic Banks Outside GCC (US$ billion, 2020)

Bank	Country	Assets	Deposits	Net Loans
Maybank Islamic	Malaysia	60.80	39.37	48.51
AmBank Islamic	Malaysia	40.30	26.91	25.24
CIMB Islamic Bank	Malaysia	27.74	23.02	20.18
Bank Rakyat**	Malaysia	26.82	20.77	18.08
RHB Islamic Bank	Malaysia	18.28	12.96	14.35
Bank Islam Malaysia	Malaysia	17.78	12.17	13.02
Public Islamic Bank	Malaysia	17.05	14.73	12.90
Islamic Bank Bangladesh**	Bangladesh	15.54	12.84	-
MBSB Bank**	Malaysia	11.80	6.21	7.94
Hong Leong Islamic Bank	Malaysia	9.71	8.05	7.08

Source: Company Financial Reports, Annual Reports

*Note: **Data as of September 2020 (Q3 2020)*

Islamic Deposit Products

Broadly, Islamic banks have two types of accounts: Savings and Current Accounts that are not committed for investment; and, Investment Accounts. While Current Accounts are operated in a manner similar to that of conventional banks, Savings and Investment Accounts are operated differently[45].

Savings Account: Similar to conventional banks, Savings account in Islamic banks allow the customers to deposit their savings, allowing the banks to use that money with a guarantee of getting the complete amount back. The difference, however, lies in the avoidance of Riba (interest or usury). Islamic banks are not obliged to pay any rewards to the savers. In case of significant profits, banks either pay a cash reward from their year-end profits using a pre-determined ratio, or give certain privileges to the account holders. There are two types of popular savings account: Wadiah and Qard. Wadiah correspond to safekeeping, custody, deposit and trust.

Investment Account: Such accounts are divided further into accounts with and without authorization. Accounts with authorization allow the banks to invest the money in any of the bank's projects. At the end of the specified period, the account holder receives a profit from this investment. In case of investment accounts without authorization, the account holder chooses any particular project for investment, receiving a share of its profit at the end of its tenure using a pre-determined percentage. As the Islamic banks cannot charge interest on the money lent, they invest money in projects and earn profits, not only for itself but also for the depositors in investment accounts. The investment procedures based on the Islamic principles of Musharkah (Equity Participation), Dimishing Musharkah, Mudarabah (Agencies), Murabaha, Iljarah, Istisna, Tawarruq and Salam.

[45] Source: "How Islamic Banks Operate", Islamic Markets

Exhibit 12: Key Islamic Banking Deposit Products across Geographies

Product/Process	Middle East	North Africa	Malaysia	Indonesia
Savings Account based on: ➢ **Wadiah** ➢ **Mudharabah** ➢ **Qard**	Mudharabah and Qard are standard offerings	Mudharabah and Qard are standard offerings	Wadiah is more popular than Mudharabah	Mudharabah is most popular, followed by Wadiah
Current Account based on: ➢ **Wadiah** ➢ **Mudharabah** ➢ **Qard**	Qard and Mudharabah are standard offerings	Qard and Mudharabah are standard offerings	Only Wadiah is offered to customers	Only Wadiah is offered to customers
Fixed Deposit based on: ➢ **Mudharabah** ➢ **Commodity Murabaha** ➢ **Wakalah**	All three are popular products, especially within GCC countries	All three are popular products	Mudharabah is the standard offering. Commodity Murabaha and Walakah are gradually becoming more popular	Only Mudharabah is being offered to customers

Source: Islamic Banking Processes and Products, Oracle Financial Services

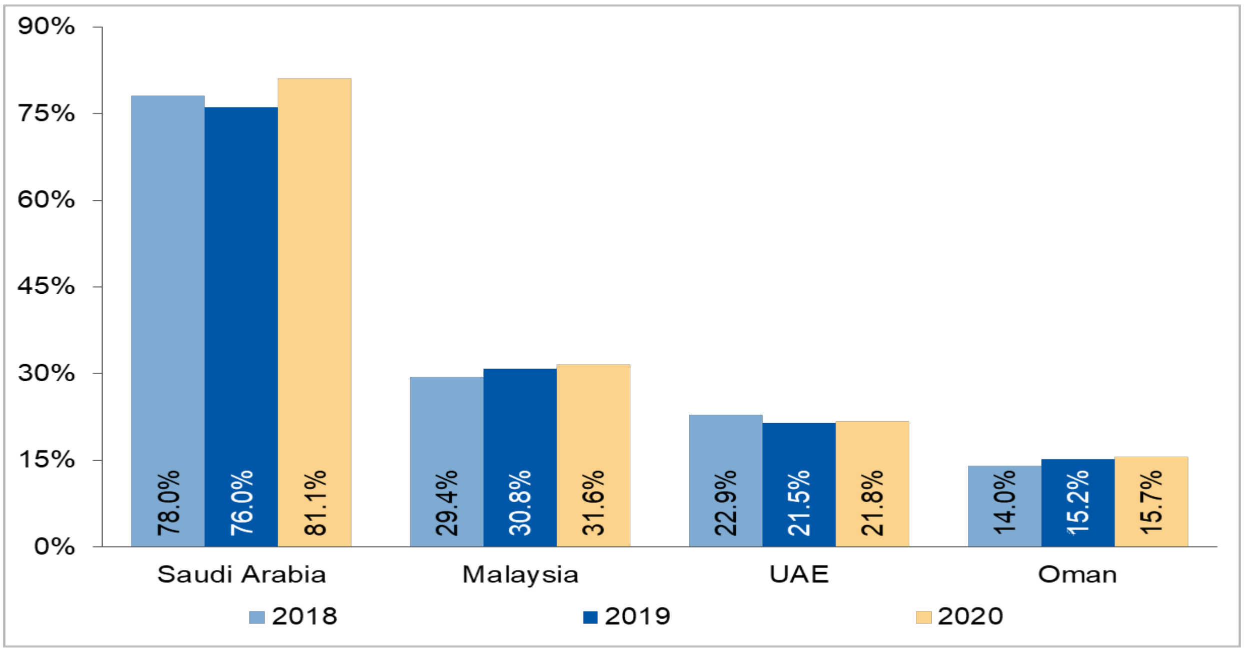
Performance of Islamic Banking Deposits

The share of Islamic banking deposit of the total in Saudi Arabia is the highest in the world; It recorded 15.4% y-o-y growth in 2020

Islamic banks across the GCC have become systemically important and continue to increase their market penetration, outpacing conventional banks. The share of Islamic banking deposit of the total in Saudi Arabia (81%) is one of the highest in the world as its banking market trends towards converting to full-fledged Islamic banks. In 2020, the Kingdom's Islamic banks reported 15.4% y-o-y growth in deposits to reach SAR 1,576,073 million (US$ 425,539 million)[46]. Deposits in the UAE Islamic banks grew marginally higher than the previous year by 2.2% to reach AED 410.9 billion (US$ 110.9 billion), accounting for 21.8% of the total bank deposits in the country[47]. Although the share has been relatively muted since 2017 due economic pressure, the market has been mainly driven by growth in non-resident deposits. The gross financing/deposits ratio in the UAE rose to 95.2% at the end of 2020, slightly above the conventional banks[48]. Oman recorded a growth of 5.4% y-o-y in deposits during 2020, slower than 10.3% y-o-y recorded in the previous year, due to the severe economic pressure caused by the pandemic and the fall in oil prices. The Sultanate's Islamic banking deposits reached OMR 3,788.5 million (US$ 9,850.1 million), and its share of the total rose to 14.3% in 2020 from 12.8% in 2018[49]. In Malaysia, Islamic banking deposits grew 6.9% y-o-y to reach MYR 659,825 million (US$ 157,170 million) in 2019, and accounted for 31.6% of the total banking deposits in the country[50].

[46] Source: Saudi Central Bank Monthly Statistical Bulletins 2020
[47] Source: Central Bank of the UAE Quarterly Reports
[48] Source: Central Bank of the UAE Quarterly Reports
[49] Source: Central Bank of Oman Annual Reports
[50] Source: Bank Negara Malaysia Statistical Bulletin

Exhibit 13: Share of Islamic Banking Deposits of Total Deposits for Select Economies (2018-2020)



Source: Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of the UAE, Central Bank of Bahrain

While the sustained slowdown in oil prices continue to reduce the flow of deposits from the government and government-related entities, poor economic environment has also led to an overall slowdown in corporate deposits inflows in most GCC countries. Despite tightening liquidity in the region, Islamic and conventional banks have generally coped well. In Saudi Arabia, the largest Islamic banking system by assets in the GCC, retail deposits at Islamic banks represent more than 80% of their deposit bases. As deposit growth slows, such banks are likely to increase market funding to bridge the funding gap and support credit growth, which will in turn pressure their Liquidity coverage ratio (LCR).

Exhibit 14: Islamic Deposits Growth of Top Islamic Banks in the GCC (2019-20)

Banks	2019 (US$ Billion)	2020 (US$ Billion)	Y-o-Y Growth
Al Rajhi Bank	84.35	103.31	22.5%
Kuwait Finance House	44.59	50.39	13.0%
Alinma Bank	27.56	32.25	17.0%
Abu Dhabi Islamic Bank	27.38	27.34	-0.1%
Bank Boubyan	14.30	16.80	17.5%
Sharjah Islamic Bank	7.37	9.07	23.0%
Al Baraka Banking Group	6.20	7.51	21.2%
Dukhan Bank (Barwa Bank)	1.46	1.98	36.0%

Source: Company Financial Reports; Annual Reports

Islamic Financing Products

Islamic banking financing instruments consist of equity-like and debt-like instruments. Fixed claim instruments include Murabaha, Ijarah, Salam, and Istisna, among others.

Exhibit 15: Key Islamic Banking Financing Products across Geographies

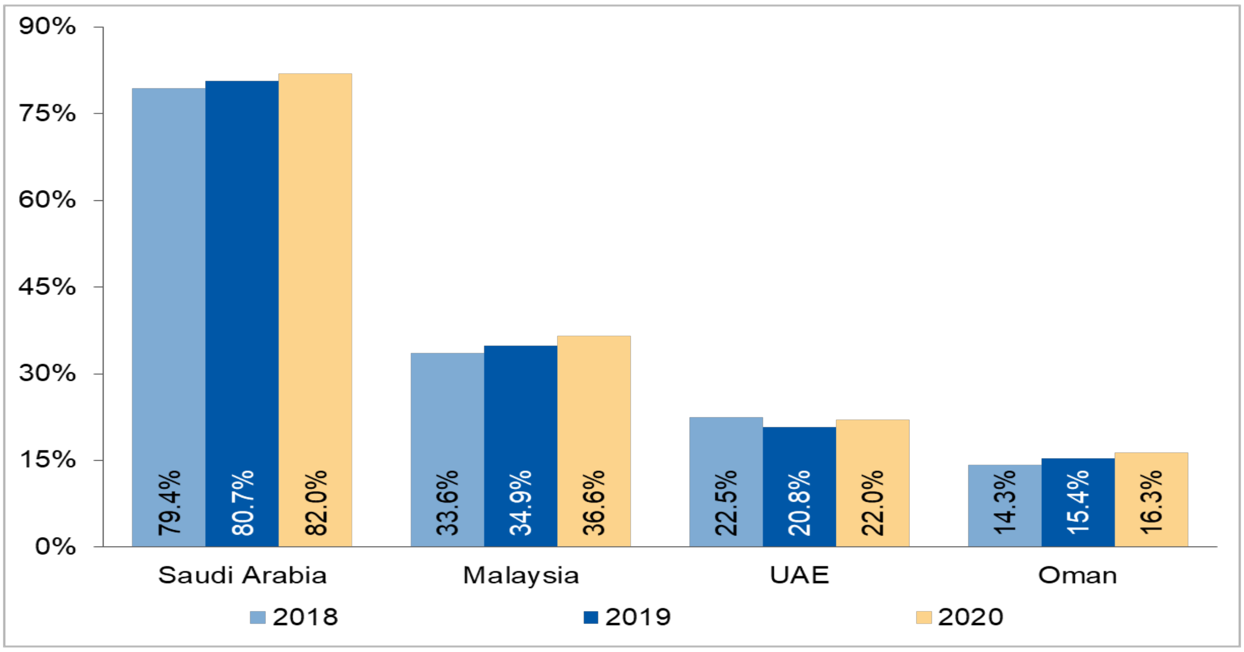
Product/Process	Middle East	North Africa	Malaysia	Indonesia
Monetization products (Cash finance based on Tawarruq and Salam)	Salam structure is preferred as Tawarruq is discouraged by scholars	Salam structure is preferred	Very popular scheme based on Tawarruq concept	Both Tawarruq and Salam structures are not approved by scholars
Vehicle Financing (Murabaha and Ijarah)	Standard Offering	Standard Offering	Standard Offering	Standard features, some are managed by multi-finance outfits
House Financing (Murabaha, Ijarah and Diminishing Musharakh)	Only Ijarah and Diminishing Musharakh are popular	Only Ijarah and Diminishing Musharakh are popular	Only Murabaha and Diminishing Musharakh are popular	Only Ijarah and Diminishing Musharakh are popular
Pawn Broking (AlRahnu)	Prohibited product	Prohibited product	Popular, as a form of personal financing with gold as collateral	Popular form of financing with gold as collateral
Equipment/Industrial leasing (Operating / Financial) based on Ijarah concept	Operating and financial leases are popular	Operating and financial leases are popular	Mostly financial lease	Mostly financial lease
Plant/Construction financing using Istisna and forward Ijarah	Both structures used but forward Ijarah is popular	Forward Ijarah is Popular	Istisnaq and forward Ijarah are prevalent	Istisnaq structure is more popular
Project Financing based on Musharakah and Dim Musharakah and Mudharabah	Popular form of financing	Popular form of financing	Banks not keen to offer as deemed too risky	Popular form of Financing
Working capital financing based on Tawarruq, Mudharabah or Musharakah	Mudharabah and Musharakah offered but not Tawarruq as it is prohibited	Mudharabah and Musharakah offered but not Tawarruq as it is prohibited	Only Tawarruq is being offered by banks	Mudharabah and Musharakah offered but not Tawarruq as it is prohibited

Source: Islamic Banking Processes and Products, Oracle Financial Services

Performance of Islamic Banking Financing

Islamic banks have evolved significantly over the past few years, and have reached a point where they have a product to match almost every conventional banking product. Paving way for the future of Islamic banking, industry leaders are now also turning their attention towards sustainable finance by rolling out value products that help make a difference in the society. This includes channeling finance towards activities that benefit the society and the environment, while also catering to higher growth for the companies. In the long run, this move will also help in mitigating the overall risk that stems not only from the social and environmental impacts, but also from monetary and financial instability.

Exhibit 16: Share of Islamic Banking Financing of Total Financing for Select Economies (2018-2020)



Source: Saudi Central Bank, Kamco Invest, Bank Negara Malaysia, Qatar Central Bank, Central Bank of the UAE, Central Bank of Bahrain

Saudi Arabia accounted for the largest share (82.0%) of Islamic bank's financing; It recorded 16.7% y-o-y growth in 2020

Saudi Arabia accounted for the largest share (82.0%) of Islamic bank's financing of any country where conventional and Islamic banks run side-by-side. Islamic financing value in the Kingdom reached SAR 1,461,902 million (US$ 394,713 million) in 2020, up 16.7% y-o-y[51]. While the bank's financial metrics deteriorated slightly due to the pandemic, they remained sound overall aided by larger retail franchises supporting higher margins, a lower cost of funding and better asset quality[52]. Islamic banks financing in the UAE grew 6.8% in in 2020 to AED 391.4 billion (US$ 105.7 billion) as against a fall in conventional banking[53]. However, Islamic banks' financing impairment charges (FICs) to average-gross-financing ratio remained elevated with high provisions due to the pandemic[54]. The country's Islamic financing share of the total, which was on a decline between 2017 and 2019, made a recovery in 2020 to 22.0%[55]. Islamic bank financing in Oman constituted 16.3% of the total financing in 2020. The Sultanate reported 9.5% y-o-y growth in financing in 2020 to OMR 4,344.7 million (US$ 11,296.2 million)[56], primarily driven by the rising demand for Islamic products, support from Islamic windows of conventional banks offering Islamic products and supportive regulations[57]. Outside the GCC, Islamic banks' financing in Malaysia grew 8.5% y-o-y during 2020 to MYR 670,523.9 million (US$ 159,719.9 million)[58], outpacing the growth in conventional banks (0.6%). Malaysia's Islamic financing share of the total has been on the rise (36.6% of the total in 2020 compared to 30.6% in 2017) driven by household financing and banks that promoted Islamic products as part of the 'Islamic First' strategy. According to Fitch Ratings, penetration of Islamic finance is likely to continue to rise supported by economic recovery, a conducive regulatory environment, and banks that continue to promote Islamic products[59].

---

[51] Source: Saudi Central Bank Monthly Statistical Bulletins 2020
[52] Source: "Saudi Islamic Banks: 2020 Results Dashboard", Fitch Ratings, March 30, 2021
[53] Source: Central Bank of the UAE Quarterly Reports
[54] Source: "UAE Islamic Banks Dashboard: 2020 Results", Fitch Ratings, June 16, 2021
[55] Source: UAE Central Bank: Quarterly Economic Review
[56] Source: Central Bank of Oman Annual Reports
[57] Source: "Oman's Islamic Banking Growth to Continue Despite Pandemic", Fitch Ratings, March 23, 2021
[58] Source: Bank Negara Malaysia Statistical Bulletin
[59] Source: "Malaysia's Islamic Banking Sector Continues to Expand Despite Pandemic", Fitch Ratings, Februaru 28, 2021

Among the various financing products offered by the Islamic banks, Murabaha has grown to become a very popular tool of financing[60]. This is largely due to its simplicity and flexibility in offering short term financing to small, medium, commercial as well as corporate entities[61]. Majority of the top Islamic banks in GCC have recorded double-digit growth for Murabaha in 2020. Mudarabah, on the other hand, is still in infancy likely due to operational difficulties and principal-agent problems occurring due to the inbuilt structure of the instrument[62].

Exhibit 17: Growth of Financing Products by Top Islamic Banks in GCC (in US$ billion, 2019-20)

Al Rajhi Bank			
	2019	**2020**	**Y-o-Y Growth**
Mutajara	11.23	10.05	-10.45%
Murabaha	4.65	5.31	14.17%
Others	51.54	69.88	35.59%
Total	**67.41**	**85.24**	**26.45%**
Kuwait Finance House			
	2019	**2020**	**Y-o-Y Growth**
Murabaha and Wakala	30.19	34.47	14.2%
Istisna and Other Receivables	0.30	0.29	-2.7%
Others	6.59	7.04	6.7%
Total	**37.08**	**41.80**	**12.7%**
Qatar Islamic Bank			
	2018	**2019**	**Y-o-Y Growth**
Murabaha	22.32	22.32	17.7%
Musawama	4.55	4.55	-9.7%
Ijarah Muntahia Bittamleek	5.73	5.73	5.7%
Istisna	0.23	0.23	14.0%
Mudaraba	0.00	0.00	-74.3%
Others	0.57	0.57	-35.8%
Total	**33.40**	**33.40**	**9.4%**
Abu Dhabi Islamic Bank			
	2019	**2020**	**Y-o-Y Growth**
Murabaha	14.20	13.80	-2.8%
Mudaraba	0.01	0.01	-45.2%
Wakala	0.20	0.30	51.2%
Istisna	0.03	0.03	-1.1%
Others	0.04	0.02	-60.0%
Total	**14.48**	**14.14**	**-2.3%**
Alinma Bank			
	2019	**2020**	**Y-o-Y Growth**
Murabaha	5.03	5.65	12.3%
Ijara	9.43	10.86	15.1%
Bei Ajel	11.72	14.22	21.3%
Others	0.10	0.19	83.4%
Total	**26.29**	**30.91**	**17.6%**
Masraf Al Rayan			
	2018	**2019**	**Y-o-Y Growth**
Murabaha	14.57	14.89	2.2%
Ijara	4.16	4.99	19.8%
Istisna	0.27	0.31	12.6%

60 Source: "Mostly Used Islamic Finance Instrument: Murabaha", Mondaq, November 23, 2015
61 Source: "Murabaha-Islamic Banking", Soneri Bank
62 Source: "Hindrance of Mudharabah Financing: A Study from Islamic Banking Industry of Pakistan", International Journal of Islamic Banking and Finance Research, November 10, 2018

Musharkah	1.70	1.64	-3.5%
Others	0.10	0.11	3.8%
Total	20.80	21.92	5.4%

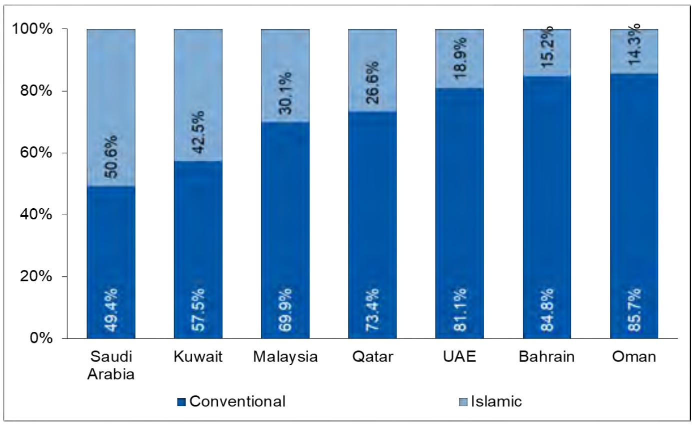
Source: Company Financial Reports; Annual Reports

The Islamic banking financing has continued to outperform the conventional banking (both national and foreign) in the GCC. This is reflected by growth witnessed in the total loan books of majority of the top Islamic banks in the region by asset size. The retail focus of Islamic banks in the GCC countries provides greater stability for their funding profiles and hence typically offers a significant advantage over their conventional peers in terms of liquidity coverage ratio (LCR). GCC banks, which are more reliant on corporate deposits and institutional funding display lower LCRs because of the higher outflow rates that their funding base attracts[63]. This allowed the Islamic banks to remain resilient despite the economic downturn caused by the pandemic in 2020. Moreover, the share of Islamic financing assets of the total financing assets increased during the year. Moody's expects this growth to continue in 2021 and mergers between Islamic and conventional banks in the GCC, with Islamic banks as the surviving entity, to drive further one-off increases in assets[64]. Within the region, Islamic banks have outperformed conventional banks across all countries, except the UAE, in terms of asset size growth between 2018 and 2019.

Islamic banking financing has continued to outperform the conventional banking in the GCC nations

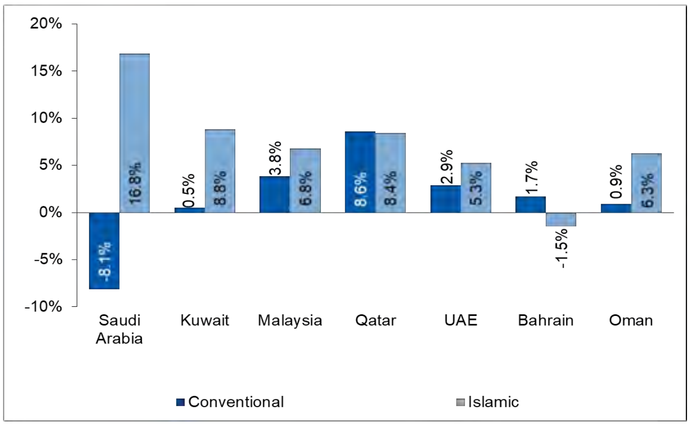
Amid poor performance by majority of the conventional financial institutions, especially during the global financial crisis, Islamic Banking institutions have stood resilient globally. The inherent structure of such banks, which call for asset-backed financial products, maintaining profit-equalization reserves, and withholding more liquidity, aid them in times of market distress. While the risk profiles for the two are different, Islamic banks exhibit lower hazard rates on an average, as compared to conventional banks. For Islamic banks, the higher the leverage and higher the net interest margin, the higher the survival probability, while the same is generally negative for conventional banks. However, Islamic banking's heavy reliance on cash reserves and use of commodities for collateral makes them relatively more vulnerable to high inflation and real economic activity[65].

Exhibit 18: Conventional vs Islamic Banking Assets by Share (2020)



Source: Saudi Central Bank, Kamco Invest, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman

Exhibit 19: Conventional vs Islamic Banking Assets by Growth (2019-2020)



Source: Saudi Central Bank, Kamco Invest, Qatar Central Bank, Central Bank of UAE, Central Bank of Bahrain, Central Bank of Oman

[63] Source: "GCC Islamic banking system outpaces conventional banks", Al Arabiya, September 2016
[64] Source: "Islamic financing growth to outpace conventional lending in GCC, core Islamic markets in 2021", Gulf News, February 27, 2021
[65] Source: "Are Islamic banks inherently more stable than conventional banks", Cass Business School, April 25, 2016

2.2 Sukuk

Overview

The global market for sukuk has developed significantly and in 2019, it contributed 19% to global Islamic finance industry

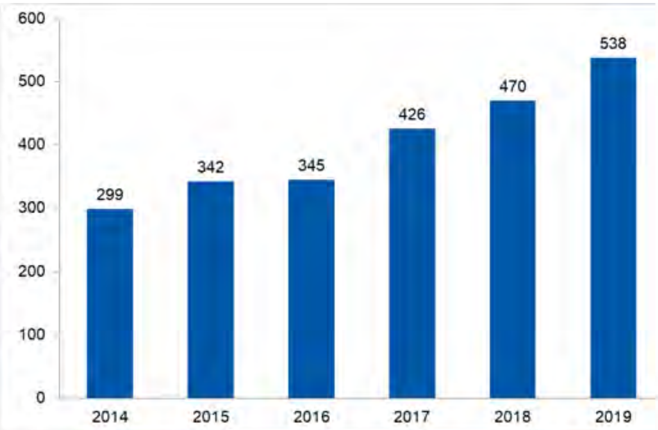
Sukuk is the flagship Islamic Capital Market (ICM) instrument and one of the fastest-growing sector of the Islamic finance industry. The financial crisis of 2008 played an influential role in propelling the instrument towards prominence, as it highlighted flaws in the conventional system and urged investors to consider sukuk as a viable financing route[66]. Since then, the global market for sukuk has developed significantly and in 2019, it contributed 19% to global Islamic finance industry. The better financing conditions in general have supported the market, but growth for the large part, has been driven by increased sukuk issuances for the purpose of liquidity management and also for financing fiscal deficits of governments in various jurisdictions[67]. Additionally, the market has also grown in terms of investor base, which was initially limited to just financial institutions. This in turn, has encouraged new and diverse range of issuers including from Takaful sector, aircraft financing, etc. to tap the market for different purposes such as project financing, infrastructure development, among others. Product diversification and development of Basel III-compliant sukuk, Fin-tech sukuk or block-chain sukuk have also demonstrated the sector's ability to rapidly innovate and create new opportunities. Furthermore, the market has made huge strides towards the goal of sustainable development in recent years, aligning investment policies and practices towards those that can achieve social development with environmental protection. The concept of 'green sukuk' and 'socially responsible sukuk' was founded on such values, while sukuk financing to support SMEs has also gained momentum in the past few years[68].

Sukuk Outstanding

The sector has grown at a CAGR of 12.5% between 2014 and 2019

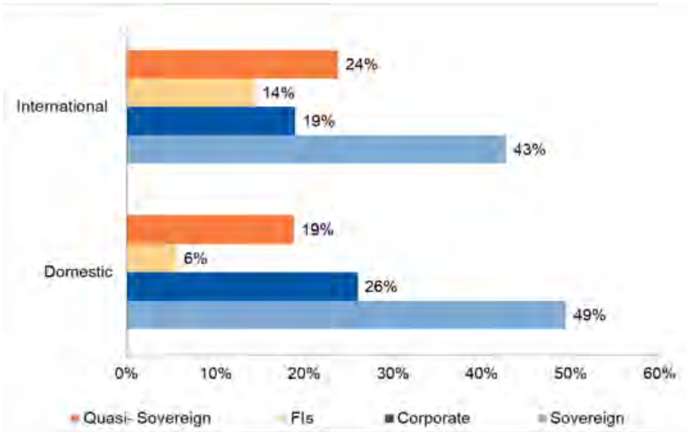
Total sukuk outstanding reached US$ 538 billion in 2019, accounting for 19% of the total global Islamic finance industry. The sector has grown at a CAGR of 12.5% between 2014 and 2019, mainly driven by strong performance in domestic market, which reflects increased confidence in the instrument over the years.

Exhibit 20: Sukuk O/s (US$ billion, 2014-2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

Exhibit 21: Sukuk O/s by Entity Status (2019)



Source: IIFM Sukuk Report

Malaysia, Saudi Arabia and Indonesia accounted for 77.5% of the global market

The top three countries – Malaysia, Saudi Arabia and Indonesia together accounted for 77.5% or US$ 417 billion of the global market. Their market share amounted to US$ 242 billion, US$ 118 billion, and US$ 57 billion, respectively. As of 2019, there were 3,420 sukuk

[66] Source: Thenews.com- The rise of Sukuk
[67] Source: Islamic Financial Services Industry Stability Report 2020, IFSB, July 2020
[68] Source: IIFM Sukuk Reports (multiple editions), International Islamic Financial Market (IIFM)

outstanding globally. Malaysia accounted for the highest number of sukuk outstanding at 2,576, followed by 288 in Indonesia and 110 in Saudi Arabia. Of the total sukuk outstanding in 2019, sovereign leads other entities in both the domestic and international markets in terms of value, followed by corporate, quasi-sovereign and financial institutions (FIs).

Sukuk Issuances

2019 saw the market close with a record sukuk primary market issuance amounting to US$ 145.7 billion

Demand for sukuk continues to outstrip supply and the sector surpassed the US$ 100 billion in annual issuances in three consecutive years from 2012 to 2014[69]. In 2015, the market witnessed a decline due to drop in oil prices, weak global economy, tight supply of liquidity, possibility of increase in reference rate and slowdown in China[70]. However, since 2015, the sector has been on an upward trajectory until the slowdown in 2018 due to fall in issuances in the international market amid global economic and financial uncertainties[71]. In 2017, the market made several new developments with the issuance of 'green sukuk' in Malaysia[72] followed by the first-ever blockchain-based sukuk issued in Indonesia by Blossom Finance in 2018[73]. As a result, 2019 saw the market close with a record sukuk primary market issuance amounting to US$ 145.7 billion, resulting in an increase of 18.3% as compared to 2018. The steady issuance volume during 2019 was mainly due to sovereign sukuk issuances from the GCC, Asia, Africa and other jurisdictions. Moreover, the value of issuances has increased by 115% over the past five-years from US$ 67.8 billion in 2015 to US$ 145.7 billion in 2019. The total number of sukuk issuances rose to 1,267 during in 2019 from 1,235 in 2018. Nevertheless, decisions by major borrowers to tap the market are still a significant determinant of sukuk volumes[74]. For example, Saudi Arabia priced a US$ 2.5 billion 10-year issue In October 2019, as part of its systematic efforts to diversify its budget financing and help develop the regional Shariah-compliant debt capital markets.

The entry of new issuers and investors over the years has expanded the sukuk market beyond traditional Islamic jurisdictions

The entry of new issuers and investors over the years has expanded the sukuk market beyond traditional Islamic jurisdictions to regions such as the US, Europe, Africa and other CIS countries[75]. In 2014, particularly several non-Muslim countries issued their debut sukuk, including Hong-Kong, Luxembourg, South Africa, Senegal and the United Kingdom. Malaysia and the GCC countries, however, retain their positions as largest issuers of sukuk in terms of both value and volume. Malaysia accounted for 43.7% or US$ 63.6 billion of total global sukuk issuances in 2019, followed by Saudi Arabia with a share of 19.5% or US$ 28.5 billion. On the other hand, Indonesia and Turkey have become the fastest-growing sukuk markets and Sudan is the most prolific issuer of sukuk from the Africa region[76].

Domestic sukuk issuances increased by 18.9% in 2019 to reach US$ 107.3 billion while international sukuk issuances rose 16.6% to US$ 38.5 billion

The domestic sukuk issuances increased by 18.9% in 2019 to reach US$ 107.3 billion from their 2018 level of US$ 90.2 billion. Malaysia contributed US$ 54.0 billion to the 2019 issuances, followed by Saudi Arabia (US$ 18.9 billion), Indonesia (US$ 17.3 billion and Turkey US$ 8.8 billion). On the other hand, total international sukuk issuances stood at US$ 38.5 billion in 2019, a 16.6% increase over 2018. 2019 was a landmark year with the highest value of international sukuk issuance recorded since the inception of the sukuk market.

---

69 Source: IIFM Sukuk Report 2016, International Islamic Financial Market (IIFM)
70 Source: IIFM Sukuk Report 2016, International Islamic Financial Market (IIFM)
71 Source: IIFM Sukuk Report 2015-2019, International Islamic Financial Market (IIFM)
72 Source: IIFM Sukuk Report 2018, International Islamic Financial Market (IIFM)
73 Source: IIFM Sukuk Report 2019, International Islamic Financial Market (IIFM)
74 Source: "Sukuk Issuance Rose in 2019 as Diversification Continues", Fitch Ratings, February 11, 2020
75 Source: IIFM Sukuk Report 2016, International Islamic Financial Market (IIFM)
76 Source: IIFM Sukuk Report 2020, International Islamic Financial Market (IIFM)

Exhibit 22: Sukuk Issuances (US$ billion, 2015-2019)

Source: IIFM Sukuk Report

Short-term sukuk issuances have played an important role in addressing the liquidity needs of Islamic financial institutions. Short-term ṣukuk issuances has been on a decline since 2015 but showed a notable reversal in 2019 with several countries issuing short-term sukuks of less than one year for liquidity management. Malaysia dominates the short-term sukuk market followed by Bahrain, while countries like Turkey, Indonesia, Brunei, Sudan, Gambia are regular issuers in the market[77]. Between 2015 and 2019, short-term issuances amounted to US$ 90.1 billion in domestic market as compared to US$ 43.9 billion in the international market. On the other hand, long-term issuances amounted to US$288.9 billion in domestic market compared to US$118.3 billion in international market.

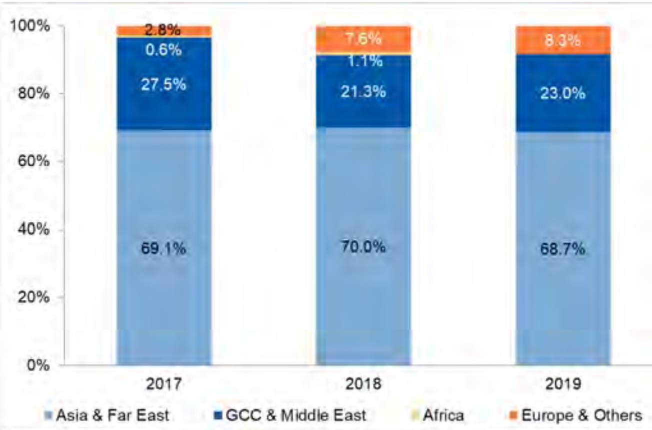
Sukuk Issuances by Region

Asia & Far East region accounted for the largest share of 69.3% of domestic sukuk issuances between 2017 and 2019

Asia & Far East region accounted for the largest share of 69.3% or US$ 191.5 billion of domestic sukuk issuances between 2017 and 2019. The market was largely driven by Malaysia - a pioneer and a long-standing leader in the domestic market. The country accounted for 75.7% or US$144.9 billion of the region during the three-year period with corporate sukuk issuances continuing to surpass conventional bond issuances as the primary mode of raising capital[78]. GCC had the second largest share of 23.7% or US$ 65.7 billion of domestic sukuk issuances during the same period with Saudi Arabia leading the region with a share of 79.8% or US$ 52.4 billion followed by Bahrain with a share of 10.0% or US$ 6.4 billion. In 2019, Saudi Arabia financed 50% of its fiscal deficit through sukuk and a majority of them were issued in the domestic market. Globally, Malaysia dominates with a share of 52% of domestic issuances and is followed by Saudi Arabia with a share of 19% while other countries such as Bahrain, Indonesia and Turkey have continued to improve their share over the three year period.

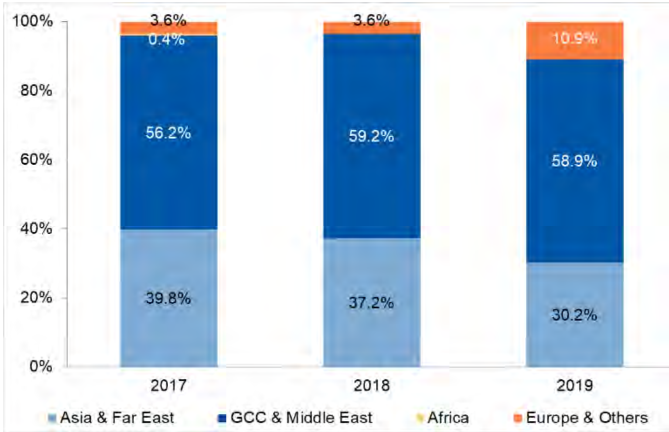
[77] Source: IIFM Sukuk Reports (multiple editions), International Islamic Financial Market (IIFM)
[78] Source: IIFM Sukuk Report 2018, International Islamic Financial Market (IIFM)

Exhibit 23: Domestic Issuances by Region (2017-2019)



Source: IIFM Sukuk Report

Exhibit 24: International Issuances by Region (2017-2019)



Source: IIFM Sukuk Report

GCC and Middle East dominated issuances in the international market with a share of 58.1% issuances between 2017 and 2019

GCC and Middle East dominated issuances in the international market with a share of 58.1% or US$ 63.3 billion issuances between 2017 and 2019. For the period, Saudi Arabia led the GCC region with a share of 47.9% or US$ 30.8 billion followed by the UAE with a share of 33.1% or US$ 21.0 billion, and Oman with a share of 6.0% or US$ 3.5 billion. Ṣukuk issuances from the GCC have been generally taken up by a wider group of investors internationally rather than regional investors. The increased uptake by international investors not only reflects the prevailing supply/demand imbalance of ṣukuk, but also the low interest rate environment, which has resulted in a renewed risk appetite and more capital flows to the GCC markets[79].

Sukuk Issuances by Entity Type

Over the five-year period, the contribution of Domestic sukuk issuances have increased from 67.7% to 73.6% of global issuances

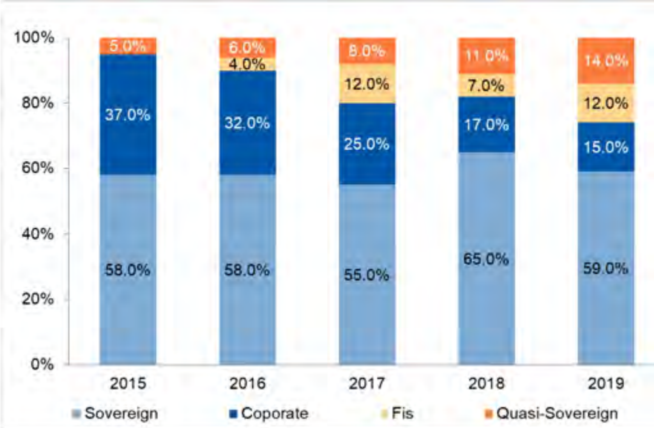
Over the five-year period, the contribution of Domestic Sukuk issuances have increased from 67.7% to 73.6% of global issuances. For the domestic market, sovereign issuances have consistently dominated the market as governments across jurisdictions have increasingly used sukuk to finance their budget while the investors' need to include 'risk-free' assets in their portfolios has maintained the growth[80]. The growth in sovereign issuance has played a critical role in providing a strong foundation to the global sukuk market. Sovereign issuances rose from 55% of total domestic issuances in 2017 to 65% in 2018.

On the other hand, share of corporate issuances have witnessed a decline from 37.0% in 2015 to 15.0% in 2019 whereas Quasi sovereigns and FIs have steadily increased their share during the period. In 2019, domestic sovereign issuances, quasi-sovereign issuances, FIs and corporate issuances amounted to US$ 63.3 billion, US$ 15.0 billion, US$ 12.9 billion and US$ 16.1 billion, respectively. For the international market, quasi-sovereign issuances accounted for 41% of the market equating to US$ 15.8 billion in 2019. The share of sovereign, corporate and FIs issuances have shown an uneven trend over the past five-years and accounted for 30%, 13% and 16%, respectively, as of 2019.

---

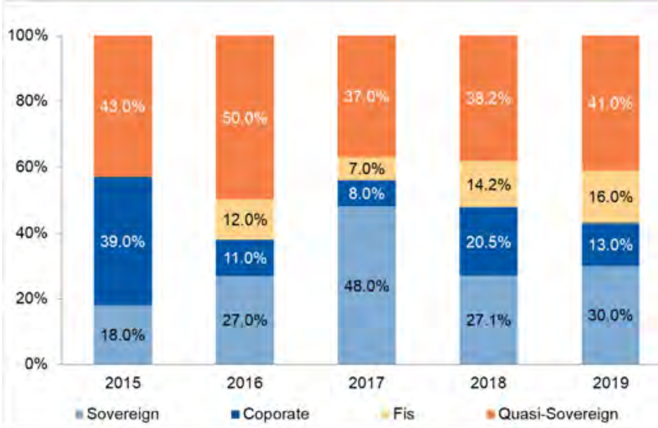
[79] Source: Islamic Financial Services Industry Stability Report 2020, IFSB, July 2020
[80] Source: IIFM Sukuk Report 2014, International Islamic Financial Market (IIFM)

Exhibit 25: Domestic Issuances by Entity (2015-2019)



Source: IIFM Sukuk Report

Exhibit 26: International Issuances by Entity (2015-2019)



Source: IIFM Sukuk Report

For both the international and domestic market, corporate issuances have followed a pattern, which shows that issuances were impacted during economic downturn and were relatively stable during favorable economic conditions. This can be largely attributed to the corporate sector being averse to raising capital during economic slowdown as they remained at the forefront of reducing spending or delaying projects.[81] Although corporate issuances have picked up over the years, they remain below potential outside of Malaysia. In quasi-sovereign issuances, Islamic Development Bank, Saudi Electricity Company, PLUS Berhad, and Saudi Aramco are examples of few entities that have participated in the sukuk market during the years and lent support to the market[82].

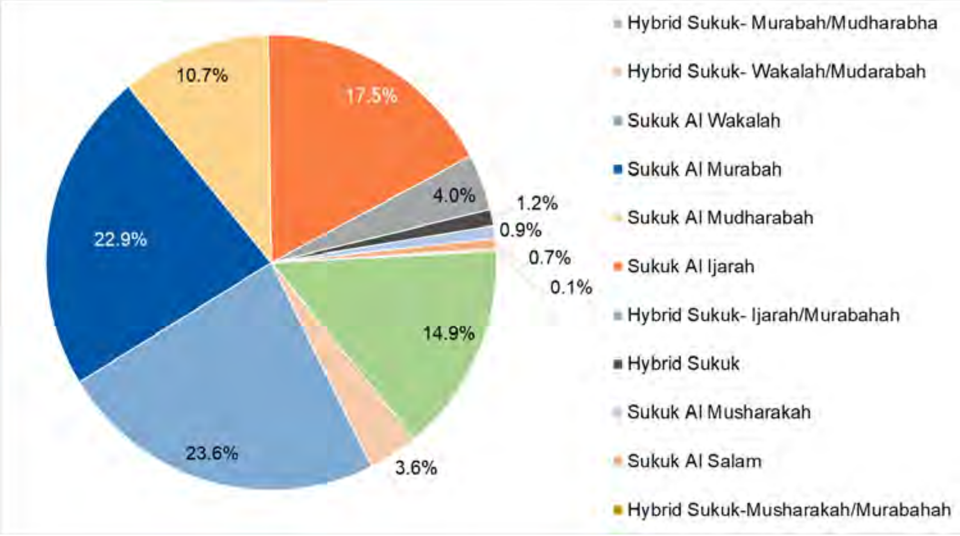
Sukuk Issuances by Structure

Increasing utilization of profit-sharing contracts was observed among new issuances in 2019 compared to preceding years

The diversity in the types of Shariah-compliant contracts used for ṣukuk issuance has increased over the last five-years. There has been a gradual shift to Sukuk Al Wakalah contracts from Sukuk Al Murabah contracts, which had a share of 43% (US$ 29.1 billion) in 2015 but constituted only 22.9% (US$ 33.3 billion) of total sukuk issuances in 2019. Sukuk Al Wakalah contracts, on the other hand, dominated the market with 23.6% share (US$ 34.3 billion) in 2019. This is followed by other contracts such as Sukuk Al Ijarah, which had a share of 17.5% (US$ 25.45 billion) and Hybrid Sukuk (Murabah/Mudharabha) with a share of 15% (US$ 21.7 billion) in 2019. The majority of ṣukuk issuances continue to be based on debt or lease-type contracts. This suggests that the market still favors contract types that are considered to have more stable return profiles. Profit-sharing contracts currently constitute a relatively small proportion of the total volume of issuances. However, increasing utilization of profit-sharing contracts was observed among new issuances in 2019 compared to preceding years[83].

[81] Source: IIFM Sukuk Report 2017, International Islamic Financial Market (IIFM)
[82] Source: IIFM Sukuk Reports (multiple editions), International Islamic Financial Market (IIFM)
[83] Source: Islamic Financial Services Industry Stability Report 2020, IFSB, July 2020

Exhibit 27: Sukuk Issuances by Structure (2019)



Source: IIFM Sukuk Report 2020

Demand for Ṣukuks

Ethical and responsible investing elements of Islamic finance products have attracted participation from HNI and UHNI alongside non-Muslim investors

The rise in demand for sukuks from investors have led to a growth trajectory in terms of size and issuances over the past decade, especially over the last five years[84]. Sukuk issuances have diversified over the last few years, which had been historically dominated by Malaysia and Saudi Arabia. The investor base of sukuk has also diversified with a growing number of sukuk funds and sub funds witnessing strong investment demand from fund managers[85]. The instrument has therefore emerged as a key fixed income asset class with an attractive risk-return profile. Further, characteristics inherent to sukuk such as lower volatility, attractive yields, improving liquidity and lower correlation to oil prices as compared to conventional bonds have persuaded investors to include sukuk as an asset class in their portfolio[86]. Sukuks can reduce risk and offer diversification benefits to portfolios alongside exposure to Islamic countries[87]. The growing acceptance of such issuances from the Islamic and non-Islamic jurisdictions coupled with positive regulatory developments have also been instrumental in driving demand for sukuks[88]. This has resulted in diversification in investor base from traditional Islamic banks to regional and international investors. Some of them have also launched dedicated sukuk funds or sub-funds to invest in such instruments[89]. Ethical and responsible investing elements of Islamic finance products have attracted participation from high net-worth individuals (HNI) and ultra-high net-worth individuals (UHNI) alongside non-Muslim investors. Such investors seeking to extend their investment involvement in more sustainable areas of benefit to the planet and society have also helped in broadening the investor base across the globe.

[84] Source: "2020: A strong year for Sukuk", Refinitiv, October 19, 2020
[85] Source: Islamic Financial Services Industry Stability Report 2020, IFSB, July 2020
[86] Source: "Opinion: why the future is bright for sukuk investment", Arabian Business, June 22, 2020
[87] Source: "Global Sukuk: An Increasingly Relevant Asset Class Amid Ongoing Uncertainty", Franklin Templeton, December 19, 2020.
[88] Source: "Maintaining Sukuk's Momentum", Franklin Templeton, May 30, 2019
[89] Source: "Sukuk Issuance Rose in 2019 as Diversification Continues", Fitch Ratings, February 11, 2020

Green and SRI Sukuk Growing in Prominence

SRI Sukuk and in particular green sukuk have become the latest trends in Islamic Capital Markets. As the world moves towards sustainable development, these instruments present an opportunity to expand the universe of Islamic Finance if leveraged to their full potential. In 2019, green sukuk issuances totaled US$ 4.4 billion, comprising of issuances from Indonesia and GCC countries. The instrument continues to draw attention with several countries already in the process of transforming their regulatory framework to allow for such issuances. For instance, authorities in Kazakhstan and Uzbekistan are framing regulations that will allow green sukuk to be issued.[90] With the sukuk market fast expanding to regions across the globe, the instrument could further aid in broadening the investor base by attracting wealth from HNIs focused on financing green developments. Besides this, COVID-19 has accelerated digital adoption in Islamic Finance and this is reflected in new sukuk issuances in few countries. For example, Malaysia's Ministry of Finance launched first digital sukuk in August 2020 while Indonesia also issued retail sukuk worth US$ 342 million that can be subscribed through online channels to attract the younger generation[91].

Global sukuk issuances increased during 2020 amid steady issuances from sovereigns to finance stimulus packages in support of the pandemic-ravaged economies

The COVID-19 pandemic has led to number of challenges including health crisis, disruption in economic activity, and financial instability to an unprecedented level. The pandemic led disruption in economic activity prompted governments to introduce unprecedented stimulus packages, which resulted in widening of fiscal deficit across major sukuk issuing sovereigns. Despite the COVID-19 induced uncertainty, global sukuk issuances increased during 2020 amid steady issuances from sovereigns to finance stimulus packages in support of the pandemic-ravaged economies. Three major sovereign heavyweights - Indonesia, Malaysia and Saudi Arabia – accounted more than 66% of global sovereign issuance in 2020[92]. Within the GCC, sukuk issuances saw strong momentum during the first three quarters of 2020 as the decline in oil prices prompted a ramp-up in sovereign issuances. Similar to the other major issuing sovereigns, higher issuances in the GCC was largely to support the stimulus packages aimed at alleviating the economic ramifications of COVID-19[93].

Strong Pre-Pandemic Dynamics

Risk appetite remained elevated during 2019 as rates of oversubscription were substantial, reflecting the attractiveness of a diverse range of ṣukuk. This included Tier-1 ṣukuk and green sukuk, as well as generally for both corporate and sovereign issuances of varying maturities and credit quality. The high subscription rates for ṣukuk across a range of credit ratings were largely a result of Central Bank policy shifts, as well as improving geopolitical stability towards the end of the year[94].

KIB's (Kuwait International Bank) Tier 1 Sukuk was issued under Basel III Capital Adequacy compliance to support its plans of capital diversification and expansion strategy. It was oversubscribed nearly 15 times, which reflects the confidence of both international (51% of investors) and regional investors in Kuwait's Islamic banking sector. The sukuk issued was based on the principle 'Mudarabah', by which banks provide banking facilities to governments and companies. This highlights the growing importance of sukuk as a core product of Islamic banking.[95]

[90] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[91] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[92] Source: "Global sukuk issuance in 2020 fueled by sovereign stimulus packages", RAM, April 01, 2021
[93] Source: "Sukuk issuances beat 2019 record, fueled by COVID-19 crisis", Zawya, January 21, 2021
[94] Source: Islamic Financial Services Industry Stability Report 2020, IFSB, July 2020
[95] Source: "KIB issues USD300 million AT1 Sukuk", Kib Website, May 29, 2019

The Almarai corporate Sukuk worth US$ 500 billion was also oversubscribed by 11 times and saw strong participation from the European (36%) and Asian (23%) accounts. The sukuk also attracted more fund capital (60%) than banks (32%) while insurance and pension funds picked up 4% and central banks and corporates took the rest 4% of allocation. The sukuk marked the first corporate International sukuk of Saudi Arabia and the issue, coupled with the blockbuster issuance from Saudi Aramco, set the stage for other Saudi companies to enter the international market.[96]

The Sharjah Islamic Bank Sukuk was 10 times oversubscribed and follows the trend of increased demand of bonds from the UAE as Dubai recovers from its debt crisis. The issue coupled with the ESIC Sukuk issuance, which was oversubscribed 6.2 times, played a crucial role in promoting the development of capital markets and Islamic finance in the UAE.[97]

The green sukuk issued by the government of Indonesia, on the other hand, was oversubscribed 3.8 times and displays the relatively strong international demand for the instrument. The issuance was also in line with Indonesia's goal to strengthen the global Shariah financial market as well promote environmentally friendly green financing.[98] *Majid Al Futtaim and Saudi Telecom Company were corporate entities that issued green sukuk during the year, setting an example of growing commitment of GCC companies to support the transition to a low carbon economy.*

Exhibit 28: Demand Comparison for Select Ṣukuks Issued in 2019

Sukuk Name	Issue Size (US$ Million)	Issuer Type	Tenure (Years)	Rating	Oversubscription (Times)
KIB Tier 1 Sukuk Perp	300	Corporate	Perp	A+ (Fitch)	15
Almarai Sukuk 03/24	500	Corporate	5	Baa3 (Moody's)	11
Edra Solar	59.5	Corporate	18	AA2 (RAM)	11
Sharjah Islamic Bank Tier 1 Sukuk Perp	500	Corporate	Perp	BBB+ (Fitch)	10
QIIB Tier 1 Sukuk Perp	300	Corporate	Perp	A (Fitch)	9
Warba Bank 09/24	500	Corporate	5	Baa2 (Moody's)	6.3
ESIC Sukuk 07/24	600	Corporate	5	Baa3 (Moody's)	6.2
Aldar Sukuk 10/29	500	Corporate	10	Baa1 (Moody's)	6
Majid Al Futtaim (MAF) Sukuk 05/29	600	Corporate	10	BBB (Fitch)	6
Saudi Government Sukuk 10/29	2,500	Sovereign	10	A+ (Fitch)	5
DIB Tier 1 Sukuk Perp	750	Corporate	Perp	A3 (Moody's)	4.9
QIB Sukuk 03/24	750	Corporate	5	A1 (Moody's)	4.1
Prasarana Malaysia Sukuk 08/34	202.7	Corporate	10	AAA (RAM)	4
Arabian Centres Company (ACC) Sukuk 11/24	500	Corporate	5	BB+ (Fitch)	4
Indonesia Green Sovereign Sukuk 08/24	750	Sovereign	5.5	Baa2 (Moody's)	3.8
Saudi Telecom Co (STC) Sukuk (05/29)	1,250	Corporate	10	A1 (Moody's)	3.5
CBB Sukuk 12/19	69	Sovereign	0.5	BB- (Fitch)	3
Masrak Al Rayan (MAR) Sukuk 11/24	500	Corporate	5	A1 (Moody's)	3

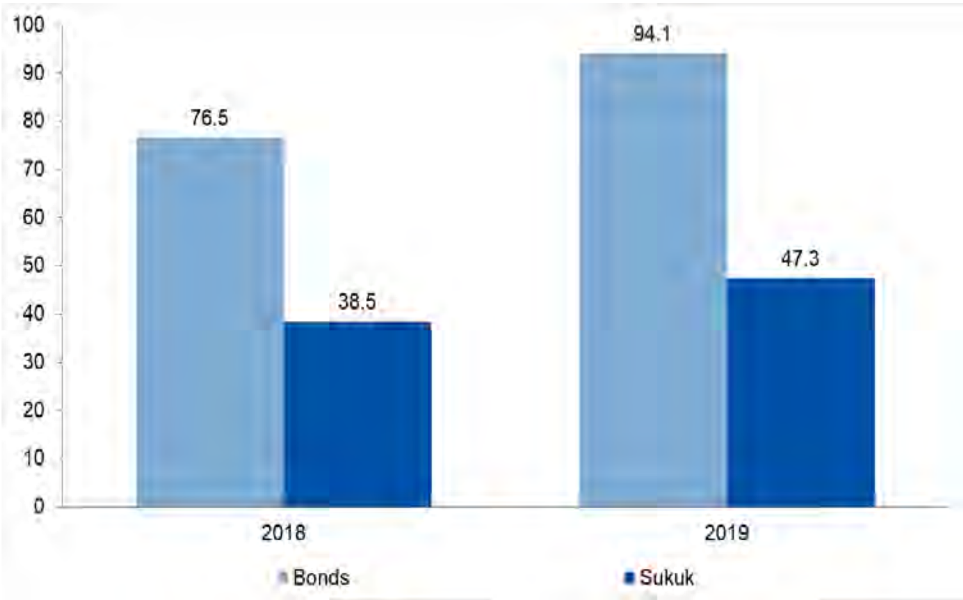
Source: IFSB Stability Report 2020

[96] Source: Bondsloans.com- AI
[97] Source: Ddcap.com- ESIC Maiden US$600 mn Benchmark Sukuk is 6.2 times oversubscribed.
[98] Source: Thejakartapost.com- Indonesia issue USD2 billion global green, regular Sukuk.

GCC Sukuk vs GCC Bonds

GCC fixed income issuances recorded growth of 22.9% y-o-y reaching US$ 141.4 billion worth of issuances in 2019. Bond issuances increased by 23% y-o-y, at par with sukuk, which grew by 22.8% y-o-y during 2019. Within GCC, UAE and Saudi Arabia remained major issuers of sukuk in 2018 and 2019. At present, 50% of the region's funding needs are met by sukuk financing. However, for Saudi Arabia, sukuk issuances have surpassed bond issuances in the past few years. Being a core Islamic Finance market, the Saudi Arabian government has increasingly issued sukuk to access local investors in order to finance its ambitious plans under the 'Saudi Vision 2030'. COVID-19, recent collapse in oil prices and the subsequent expansion in budget deficit have only added to this need. In 2017, the country's National Debt Management Center established the first-ever unlimited SAR-denominated sukuk programme with an aim of diversifying its borrowing sources. Following the program, Saudi Arabia's financial institutions and corporates stepped up their sukuk issuances in both domestic as well as International markets. Other countries in the GCC are also likely to follow suite with majority of their local debt issuances being in sukuk[99].

Exhibit 29: GCC Sukuk vs. Bond Issuances Size (US$ billion, 2018-2019)



Source: IIFM Sukuk Report, Kamco Invest

Growing importance of Green Sukuk

Green Sukuk is still in the nascent stages of development as issuers have been largely constrained by a shortage of certifiable green projects

Green Sukuk is a Shariah-compliant instrument that is used to finance environmentally sustainable initiatives. Such instrument may fund renewable energy production, waste management, sustainable agriculture, the construction of energy-efficient buildings, natural resource management, or other endeavors that benefit the environment or mitigate climate change risks. First introduced in 2017, green and socially responsible investing (SRI) Sukuk came to the fore in 2019 as governments and corporates stepped up efforts to achieve the United Nations' Sustainable Development Goals (SDGs), a trend which is expected to accelerate in the years ahead. Although the market for green sukuk is relatively small compared to its conventional peers, the instrument has garnered significant interest from a broad-range of investors looking to invest in projects with solutions for low carbon. Within

[99] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

the GCC, the increasing focus on renewable energy as underlined in the national power strategies of different nations, will play an important role in boosting green sukuk issuances[100].

Green Sukuk is still in the nascent stages of development as issuers have been largely constrained by a shortage of certifiable green projects. Moreover, sustained government support and a conducive regulatory environment remains critical for the development of this segment. For instance, Malaysia's Securities Commission (SC) launched the SRI Sukuk framework in 2014, which makes green sukuks issued under this framework compatible with the International Capital Market Association's Green Bond principles (GBP) - an internationally accepted and widely used standard for the development of national green bond guidelines. Indonesia too has established a regulatory framework for green bonds and sukuk while the Dubai Islamic Economy Development Center (DIEDC) is working towards promotion of green sukuk issuances in the UAE and create certification standards aligned with Climate Bonds Standard and Certification Scheme[101]. Such efforts will play as a crucial role for other countries to follow and develop their infrastructure in a way that will facilitate green sukuk issuances.

The first green sukuk was issued in Malaysia in 2017 by Tadau Energy to finance a US$ 64 million 50 MW solar project

The first green sukuk was issued in Malaysia in 2017 by Tadau Energy to finance a US$ 64 million 50 MW solar project and since then a handful of them have been issued in the country.[102] These include Quantum Solar Park (Semenanjung) Sdn Bhd, PNB Merdeka Ventures Sdn Bhd, Sinar Kamiri Sdn Bhd, and UiTM Solar Power Sdn Bhd. Indonesia issued the world's first sovereign green sukuk in 2019 worth US$ 1.3 billion with investors distributed around the globe (32% Islamic, 25% Asia, 15% EU, 18% USA, 10% Indonesia)[103]. It was soon followed by another green sukuk worth US$ 750 million and both the issuances were oversubscribed[104]. In 2019, Saudi Arabia's Islamic Development Bank (IsDB) became the first AAA-rated institution to issue a green sukuk worth EUR1 billion (US$ 1.2 billion) under the Sustainable Finance Framework to finance climate change-related and green projects among its member countries[105]. UAE based retail company Majid Al Futtaim issued a green sukuk worth US$ 600 million in 2019 with a 10-year maturity[106]. IsDB issued its debut sustainability sukuk valued at US$ 1.5 billion to support various social projects undertaken by member countries affected by the COVID-19 pandemic. This was the first ever AAA-rated sustainability sukuk to be issued on the global capital markets. Elsewhere, Saudi Electricity Company raised US$ 1.3 billion from the sale of a dual-tranche green sukuk in September 2020 to raise capital for various green projects such as smart meters. As of July 2020, Nasdaq Dubai hosts six green and one sustainable sukuk with a total value of US$ 6.6 billion including Indonesia's sovereign green sukuk[107]. Overall, US$ 6.1 billion has been raised through 12 unique green sukuk issuers from Indonesia, Malaysia, the UAE and one multilateral development bank. US$-denominated issuances make up 65% of green sukuk issuances, followed by Euro-denominated (18%), Ringgit-denominated (16%) and Rupiah-denominated (1%)[108].

---

[100] Source: Islamic Finance Development Report 2019: Shifting Dynamics, ICD Refinitiv
[101] Source: IIFM Sukuk Report 2018 & 2019, International Islamic Financial Market (IIFM)
[102] Source: Gifiip.org- Green Sukuk Initiative
[103] Source: Undp.org- Indonesia's Green Bond and Green Sukuk Initiative
[104] Source: Thejakartapost.com- Indonesia issues US$2b global green, regular Sukuk
[105] Source: Isdb.org- Debut Green Sukuk
[106] Source: English.alaraiya.net- Majid al Faittaim set to raise US$600 mn
[107] Source: "Nasdaq Dubai welcomes listings of three Sukuk valued at USD 2.5 billion by Indonesian government", NASDAQ Dubai, July 1, 2020
[108] Source: "Pioneering the Green Sukuk : Three Years On", Trade Council, October 6, 2020

Exhibit 30: List of Green Şukuk Issuance (as of July 2020)

Issuer	Amount Issued ($ Mn)	Issue Date	Country	Final Maturity	Sector	Structure
Tadau Energy	58.4	Jul-2017	Malaysia	Jul-2033	Renewable Energy	Al Istisna & Ijara
Quantum Solar Park	235.9	Oct-2017	Malaysia	Apr-2035	Renewable Energy	Murabahah
PNB Merdeka Ventures (Tranche 1)	169.9	Dec-2017	Malaysia	Dec-2032	Real Estate	Murabahah, Al-Wakalah
Sinar Kamiri	62.8	Jan-2018	Malaysia	Jan-2036	Renewable Energy	Wakala Bi-Al Istithmar
Republic of Indonesia (SBSN INDO III)	1,250.0	Mar-2018	Indonesia	Mar-2023	Sovereign	Al Wakala Al Istithmar
UITM Solar Power	56.6	Apr-2018	Malaysia	Apr-2036	Renewable Energy	Murabahah
Republic of Indonesia (SBSN INDO III)	750.0	Feb-2019	Indonesia	Aug-2024	Sovereign	Al Wakala Al Istithmar
Pasukhas Green Assets	4.2	Feb-2019	Malaysia	Feb-2029	Renewable Energy	Murabahah, Al-Wakalah
MAF Sukuk Ltd	600.0	May-2019	UAE	May-2029	Real Estate	Wakalah, Al Murabaha
PNB Merdeka Ventures (Tranche 2)	107.5	Jun-2019	Malaysia	Dec-2032	Real Estate	Murabahah, Al-Wakalah
Telekosang Hydro	112.1	Aug-2019	Malaysia	Aug-2037	Renewable Energy	Murabahah, Al-Wakalah
MAF Sukuk Ltd	600.0	Oct-2019	UAE	Feb-2030	Real Estate	Wakalah, Al Murabaha
The Islamic Development Bank (IsDB)	1,100.6	Nov-2019	Saudi Arabia	Nov-2024	Green Projects	Wakalah
Republic of Indonesia (Sukuk Tabungan Seri)	86.2	Nov-2019	Indonesia	Nov-2021	Sovereign (Retail)	Al-Wakalah
PNB Merdeka Ventures (Tranche 3	105.3	Dec-2019	Malaysia	Dec-2032	Real Estate	Murabahah, Al-Wakalah
Republic of Indonesia	750.0	Jun-2020	Indonesia	Jun-2025	Sovereign	Al Wakala Al Istithmar
Leader Energy	62.7	Jul-2020	Malaysia	Jul-2038	Renewable Energy	Murabahah, Al-Wakalah

Source: World Bank Knowledge & Research October 2020

2.3 Islamic Funds

Islamic Funds' Assets

Islamic Funds' assets grew at a CAGR of 16.2% between 2014 and 2019, the fastest pace among all Islamic instruments during the period

Total assets for Islamic investment funds recorded its highest growth in the last decade, rising 29.6% to US$ 140 billion from US$ 108 billion in 2018. The sector grew at a CAGR of 16.2% between 2014 and 2019, the fastest pace among all Islamic instruments during the period. However, it accounts for 5% of the Islamic finance industry. The average size of assets for Shariah-compliant investment funds is small and only around 2% of funds hold assets of US$ 1 billion or above, while 46% of funds have assets of less than US$ 10 million.

Exhibit 31: Islamic Funds Assets (US$ billion, 2014-2019)

Source: IFSB Stability Report

The assets of Islamic funds witnessed the weakest performance in a decade during 2018, falling by 10.0% y-o-y amid subdued global economic conditions in addition to the poor performance of Asian equities (the stock markets of Malaysia and Indonesia suffered losses during the year). The market rebounded in 2019 and 127 funds were launched during the year, including Shariah-compliant mutual funds, pension funds, insurance funds, and exchange-traded funds (ETFs). This signals a positive trend in the sector that has the potential to grow as demand for Shariah-compliant investments rises. However, at present, Islamic funds remains a niche segment of the Islamic finance industry and is highly concentrated in a few jurisdictions.

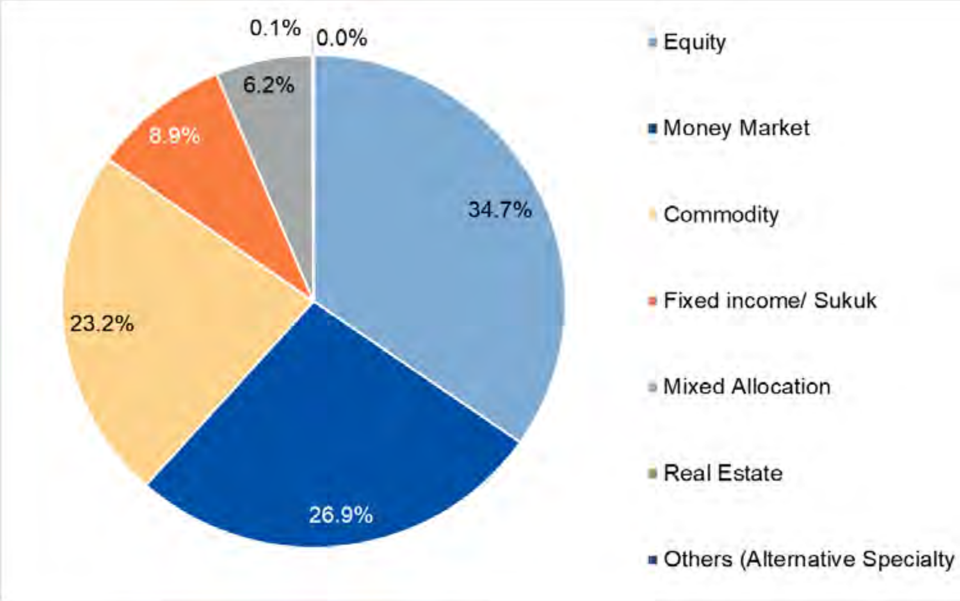
Islamic Funds by Asset Classes

Accounting for 35%, equity-based funds has maintained its position as the most preferred asset class for Islamic funds

Islamic funds are currently primarily concentrated across equity, money market and commodity asset classes. Accounting for 35%, equity-based funds has maintained its position as the most preferred asset class for Islamic funds, followed by money market (27%) and commodity-based funds (23%). Commodities-focused funds were the top performers in 2019, largely supported by a recovery in hydrocarbon prices and a rally in gold and palladium. Mixed allocation funds, which provide diversification across asset classes, provided the second-highest average returns in 2019[109]. However, the share of money market-based funds rose in 2019 amid rising uncertainty in the global equity markets, leading to risk-averse retail investors switching to the safety provided by the asset-class. Between 2014 and 2019, equity, money market and commodity-market Islamic funds amounted to US$ 235.3 billion, US$ 161.6 billion, and US$ 93.4 billion, respectively[110].

[109] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[110] Source: Islamic Finance Development Reports 2019 and 2020, ICD Refinitiv

Exhibit 32: Islamic Funds by Asset Class (2019)



Source: IFSB Stability Report

In October 2020, the world's first actively managed global equity Sharia-compliant ETF was listed on the London Stock Exchange. The ETF, which currently invests in 23 companies specializing in healthcare, consumer staples and IT, targeted institutional investors such as pension funds, large family offices in the UAE and wider Middle East. The Almalia Sanlam Active Shariah Global Equity UCITS ETF aims to achieve capital growth over the medium to long by investing in companies with high returns on capital and low leverage[111].

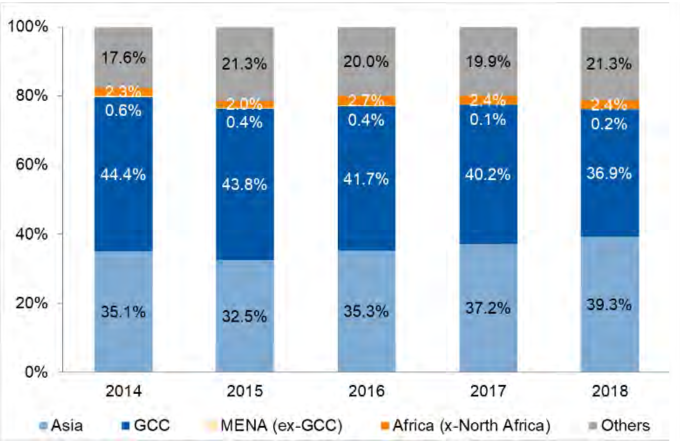
Islamic Funds by Region

The GCC accounted for the highest share of Islamic funds by assets between 2014 and 2019

Islamic Funds assets are largely concentrated in the GCC and SE Asian markets. The GCC accounted for the highest share of Islamic funds by assets between 2014 and 2019. In 2019, Saudi Arabia, Malaysia and Iran together accounted for 82.0% or US$ 114.1 billion of total Islamic funds' assets. The market share of other major countries such as Luxembourg, US, Indonesia and Pakistan amounted to US$ 5.9 billion, US$ 5.5 billion, US$ 4.1 billion and US$ 2.2 billion, respectively, during the year. This shows that the sector has made little progress in terms of expanding to other regions. However, a large proportion of Islamic funds have a global investment focus, followed by concentrated investments in Saudi Arabia and Malaysia. This can be largely attributed to uncertain economic environment that encouraged funds to diversify their portfolio and increase their exposure to different markets, outside the core jurisdiction of the MENA region.

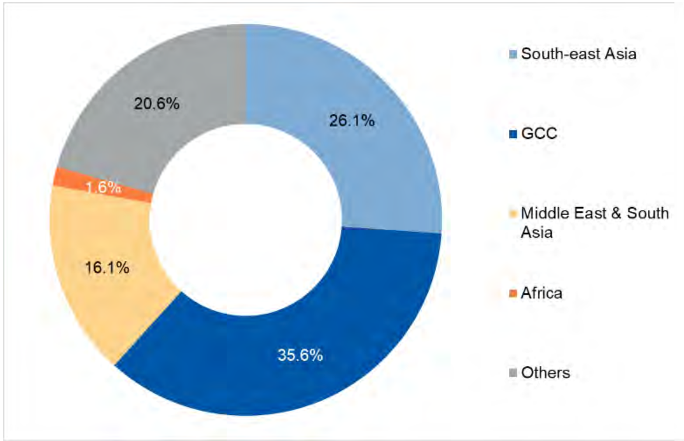
[111] Source: "World's first active sharia-compliant global equity ETF lists on London Stock Exchange", The National NEWS, September 29, 2020

Exhibit 33: Islamic Funds by Region (2014-2018)



Source: IFSB Stability Report

Exhibit 34: Islamic Funds by Region (2019)



Source: IFSB Stability Report

Pandemic-led Growth in ESG-Shariah Funds and Digital Solutions

The pandemic has brought ESG considerations to center stage and countries worldwide are increasingly recognizing its importance in creating a sustainable ecosystem. Meanwhile, the case for corporations to shift to clean energy for their business operations has also grown stronger with COVID-19 and oil price collapse[112]. The trend will shape the future of Islamic Finance sector as well with more Shariah-ESG funds likely to be launched in coming years. Many countries have taken initiatives in this regard and Malaysia leads them in the ESG investment space. For example, BIMB Investment Management Bhd (BIMB), an arm of Bank Islam Malaysia, launched its Global Shariah-ESG Equity fund for retail investors in October 2019. The Public e-Islamic Sustainable Millennial Fund was launched by Public Mutual, and an Islamic-ESG fund- the Maybank Global Sustainable Equity-I Fund was launched by Maybank Asset Management in 2020[113].

Equity Markets

Shariah-based equity funds have grown in terms of size and number of funds over the past decade

Shariah-based equity funds have grown in terms of size and number of funds over the past decade. Initially, the Islamic equity funds witnessed a number of challenges, especially lack of investment opportunities and financial assets coupled with underperformance compared to conventional funds. However, the real awakening of Shariah-compliant equity funds was during the global financial crisis of 2008-09, where such investment principles proved to significantly outperform the conventional funds. Since then, the demand for Islamic equity funds have been overwhelming and only expected to drive the growth in total Islamic assets.

[112] Source: "ESG in the time of COVID-19", S&P Global, April, 2021
[113] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

Exhibit 35: Islamic Equity Indices (2011-2021 YTD)

Source: S&P Global

Note: Data as of 27th April, 2021

During 2015 and 2020, the conventional S&P Global 1200 grew at a CAGR of 9.5% compared to 13.6% by S&P Global 1200 Shariah during the same period

The Shariah-compliant equity investing provides protection against the downward risk, as evidenced during the COVID-19 pandemic. In March 2020, the S&P Global 1200 dropped by 23% y-o-y whereas S&P Global 1200 Shariah recorded a fall of 17% y-o-y. Between 2015 and 2020, the conventional S&P Global 1200 grew at a CAGR of 9.5% compared to a growth of 13.6% CAGR by S&P Global 1200 Shariah during the same period. In terms of absolute return, the conventional S&P Global 1200 rose by 57.3% compared to 88.9% in S&P Global 1200 Shariah, an outperformance of 31.6% during the period. Between 2015 and 2016, the Shariah index has outperformed the conventional index every year with the exception of underperformance in the year 2016.

Strategic sector allocation (overweight on technology and healthcare sector) contributed to the outperformance of Shariah-compliant indices

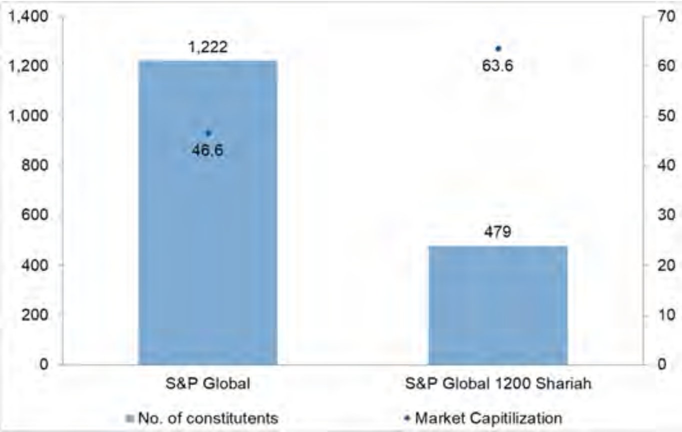
Social and economic uncertainties arising from COVID-19 pandemic led to sporadic shifts in equity markets globally during 2020. The S&P Global 1200 dropped by 31.9% YTD by March-end 2020 (year low), while the S&P Global 1200 Shariah was down by 28.0%, outperformance of 3.9% during the period. Despite the challenges and sharp decline until March 2020, global equity markets closed the year on a positive note. From the lows of March 2020, the S&P Global 1200 rose by 66.1% at the end of 2020, while the S&P Global 1200 Shariah was up by 70.2%, outperformance of 4.0%. Two factors contributed to the outperformance of Shariah-compliant indices, sector allocation (overweight on technology and healthcare sector) and exclusion of highly leveraged companies.

The number of constituents of S&P Global 1200 were 1,222[114] in 2020, while it was 479[115] for the S&P Global 1200 Shariah. However, the average market capitalization of the Islamic Index was US$ 63.6 billion compared to US$ 46.6 billion in 2020[116]. Similarly, other indices such as Dow Jones Islamic Market World and S&P Global BMI Shariah also have a higher market capitalization than conventional benchmarks, such as Dow Jones Global and S&P Global BMI respectively. This can be attributed to higher weightage of technology stocks,

[114] Source: S&P Global 1200 Index
[115] Source: S&P Global 1200 Shariah Index
[116] Source: S&P Global

which witnessed significant increase in market capitalization, which are also amongst the world's largest companies by market capitalization.

Exhibit 36: Number of components and Market Cap (2020)



Source: Spglobal.com

Exhibit 37: Sector Breakdown (2020)

Source: Spglobal.com

The Information Technology sector accounts for 34.4% of the Islamic index compared to 22.2% for the conventional benchmark

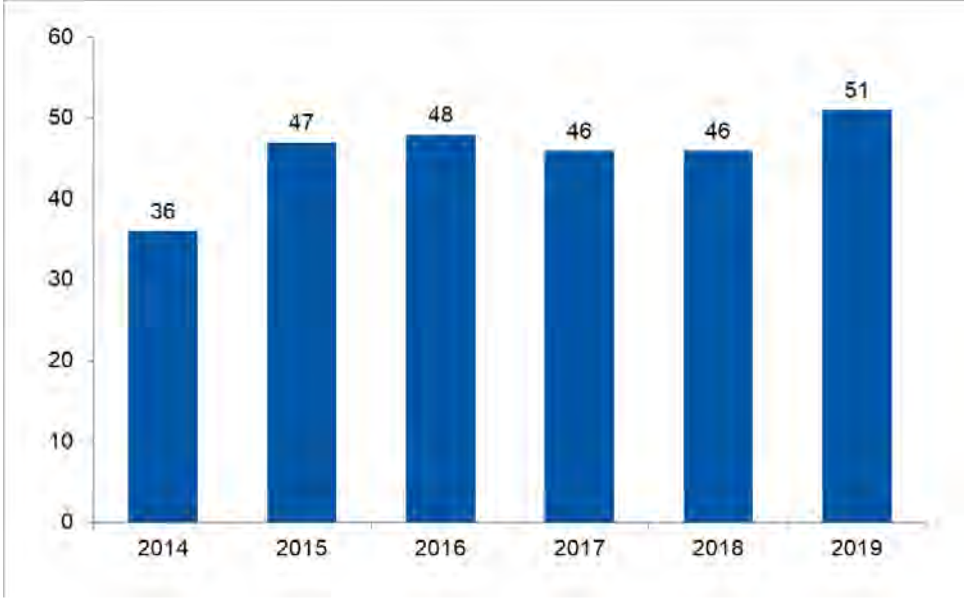
The sector breakdown of S&P Global 1200 and S&P Global 1200 Shariah substantiates the outperformance recorded over the years. During any crisis, cyclicals and highly leveraged companies are likely to witness significant selling pressure, which are excluded under the Shariah-compliant equities or funds based on Islamic principles. The Information Technology sector accounts for 34.4% of the Islamic index compared to 22.2% for the conventional benchmark. Healthcare is another sector with noticeable change in sectoral allocation between the Islamic and non-Islamic indices. Within the Financial sector, Shariah-compliant companies would mainly comprise of Islamic banks, which only account for 0.6%, while the conventional index accounts for more than 13.0% of the total index representation. Therefore, these prominent changes in sector allocation has played out over the years and becomes more apparent during global crisis.

2.4 Takaful

Overview

Takaful represents a Shariah-compliant insurance framework that highlights harmonious living and cooperation within a community. Under this system, members, or policyholders, mutually contribute an amount of money on a regular basis, which goes towards protecting each other against unexpected circumstances through financial support in the event of a loss, damage or theft. Similar to conventional insurance, these contributions are then pooled and managed by a Takaful management firm, and the surplus is employed for making investments, which assist in earning a higher profit for the policyholders.

Exhibit 38: Global Takaful Market Size (US$ billion, 2014-2019)



Source: ICD Refinitiv

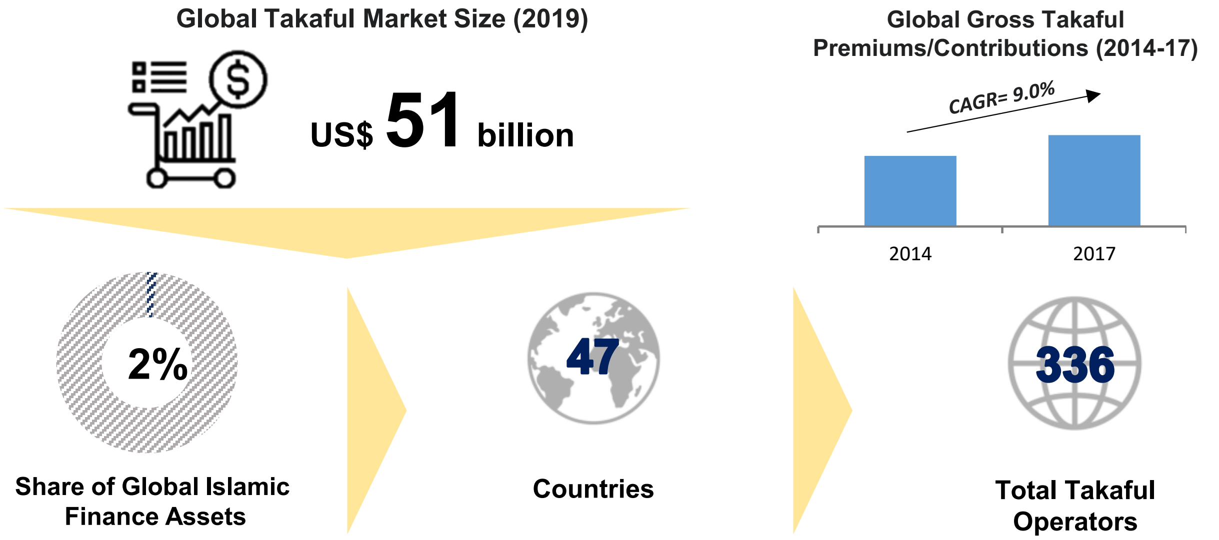
Takaful Assets

The global Takaful market has grown at a steady pace of 7.2% CAGR between 2014 and 2019; The sector accounts for just 2% of the Islamic finance industry

The global Takaful market has grown at a steady pace of 7.2% CAGR between 2014 and 2019. After a relatively muted period, the Takaful market saw a turnaround in 2019 with a 10.9% market expansion over 2018 to reach US$ 51 billion. With over 336 Takaful operators across the globe, the sector accounts for just 2% of the Islamic finance industry[117]. The growing popularity of tech-enabled services and rising digitization across the globe resulted in the emergence of fresh markets such as InsurTech and FinTech, opening up a cohort of new avenues and opportunities within the Takaful market. These avenues are well-poised to transform the industry and provide it with the much-needed boost to revive growth. Major developments within core Takaful markets such as Malaysia, Indonesia, Saudi Arabia and the UAE, is likely improve the sector dynamics. Stronger and improved regulations, and a higher compulsory cover, especially in the GCC nations, is likely to bolster profitability and margins for Takaful insurers[118].

[117] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[118] Source: Moody's - Islamic insurance demand spurs higher premiums, April 2019

Exhibit 39: Takaful Market Statistics (2019)



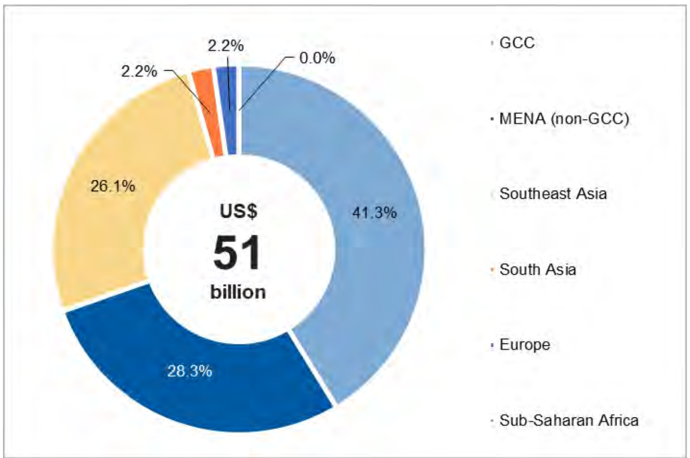
Source: ICD Refinitiv, Moody's

Takaful by Geographical Presence

The GCC accounts for a 41.3% of the global Takaful assets; Saudi Arabia remains the top market for Takaful globally

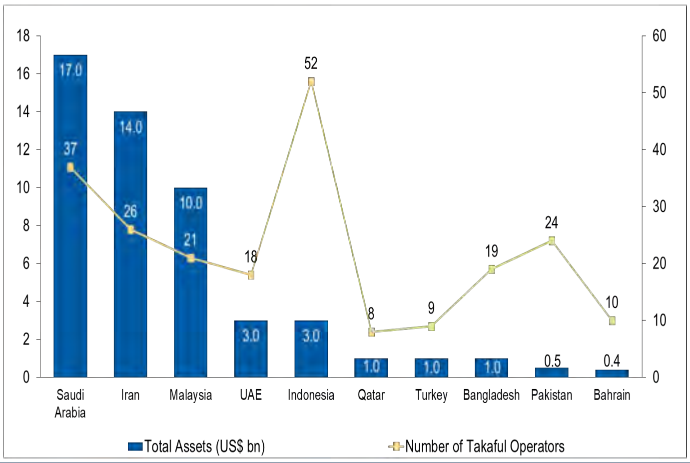
The GCC accounts for a 41.3% of the global Takaful assets, owing to its large and growing affluent Muslim population while MENA (28.3%) and SE Asia (26.1%) also have a sizable market. In 2019, Saudi Arabia maintained its position as the top market for Takaful with assets totaling US$ 17 billion, followed by Iran (US$ 14 billion), and Malaysia (US$ 10 billion), and the UAE (US$ 3 billion)[119]. In terms of growth, Maldives, Pakistan and Brunei were the fastest-growing markets in 2018[120], while Turkey recorded the fastest-growing market for Takaful assets in 2019[121].

Exhibit 40: Takaful Market Size by Region (2019)



Source: ICD Refinitiv

Exhibit 41: Takaful Markets by Assets & Operators (2019)



Source: ICD Refinitiv

Majority of the Takaful operators in Saudi Arabia and the UAE witnessed a dip in profitability during 2018. In Saudi Arbia, measures to increase taxes for expats and promote Saudization led to mass expat-outflows and capped profitability, while the UAE saw a fall in net income

---

[119] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[120] Source: Islamic Finance Development Report 2019: Shifting Dynamics, ICD Refinitiv
[121] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

Takaful operators in the GCC markets, outside of Saudi Arabia, recorded higher growth in 2019, with contributions rising 14% during the year

due to high competition within its relatively small market[122]. However, the market revived in 2019 with Takaful contributions rising 8.8% during in Saudi Arabia, the world's largest market for Islamic insurance. The growth was primarily aided by medical insurance following the introduction in 2018 of mandatory cover for dependents of Saudi nationals. Mandatory health cover was also introduced in Dubai, Abu Dhabi, and several other GCC regions, leading to rising demand for Takaful products. Most notably, the UAE introduced new regulations in 2019 covering banking, Takaful, and sukuk, in a bid to enhance and strengthen its current regulatory framework[123]. Consequently, Takaful operators in the GCC markets, outside of Saudi Arabia, recorded higher growth in 2019, with contributions rising 14% during the year[124].

Within the SE Asian region, countries such as Indonesia and Malaysia have strong Takaful market. Malaysia remains the regional leader, largely driven by the government's efforts to revise and improve its Takaful framework. The country's Takaful sector has consequently grown on the back of new credit-related Takaful products, improved contributions, and better investment performance. Notably, InsurTech platforms are providing access to a larger consumer base at controlled costs across the region, along with the benefits of improved speed, convenience and efficiency. For instance, Malaysia-based Wakaful uses blockchain technology to direct Waqf funds towards providing affordable Takaful products for low-income consumers[125].

Outside the core jurisdictions, the Sub-Saharan Africa is a growing Takaful market comprising of around 20 operators across nine countries. The region's market is expected to expand as countries continue to introduce regulatory framework and update existing ones. Tanzania's Takaful regulatory framework was approved in early 2019, following which three insurance firms applied for licenses in March 2019[126]. In August 2019, Moroccan legislation allowed insurance companies to launch offerings for Family and General Takaful operators[127], with three companies approaching the regulator to open Takaful operations. Most recently, the Algerian government in September 2020 announced plans to introduce Takaful for the first time in the country in a bid to boost the nation's Islamic finance sector[128].

Consolidation in the Global Takaful Sector

Slowing economies have resulted in fall in profitability for the Takaful operators, leading to higher consolidation and M&A activity, especially within the GCC countries and Indonesia[129]. Moreover, several regulatory changes have been introduced across core Takaful markets that have forced the industry to streamline operations. For instance, new solvency requirements in the UAE demanding higher capital, coupled with the Saudi Arabian Monetary Authority's (SAMA) plan to increase minimum capital requirements for insurance providers to SAR 500 million (US$ 133.3 million) – five times the current requirement, has increased the challenges for operators[130]. This move would essentially require nearly 90% of insurers in the Kingdom to either raise fresh capital, consolidate with other players, or cease market operations. Such factors have attributed to the rising consolidation activity within the Takaful sector. Along with the GCC, Indonesia has also witnessed substantial M&A activity.

---

122 Source: Islamic Finance Development Report 2019: Shifting Dynamics, ICD Refinitiv
123 Source: Islamic Finance Development Report 2019: Shifting Dynamics, ICD Refinitiv
124 Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
125 Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
126 Source: "Tanzania:3 Takaful companies apply for Islamic insurance licences", ME Insurance Review, March 2019
127 Source: "Morocco approves law on sharia-compliant insurance", Reuters, July 2019
128 Source: "Algeria to launch Islamic insurance, open banks in Africa", NASDAQ, September 2020
129 Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
130 Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

- *In June 2020, UAE-based Dar Takaful acquired Noor Takaful General and Noor Takaful Family for a total consideration of US$ 58.5 million[131].*
- *In March 2020, Merger between Saudi Arabia-based Walaa Cooperative Insurance Company and MetLife AIG ANB Cooperative Insurance[132].*
- *In November 2019, Swiss-based Zurich Insurance Group AG acquired an 80% stake in PT Asuransi, Adira Dinamika Tbk after which it converted its business PT Zurich Insurance Indonesia into a Shariah-compliant general insurance company under the name PT Zurich General Takaful Indonesia (to be operational by 2021)[133].*
- *In July 2019, Oman-based private investment firm Siraj Holding, announced the acquisition of Al Hilal Takaful from Al Hilal Bank, a fully-owned subsidiary of Abu Dhabi Commercial Bank[134].*

Growing Prominence of InsurTech

Several Takaful firms are now integrating enhanced technology into their insurance models, through InsurTech platforms and offerings

Technology innovations are widely known and are becoming increasingly popular due to their value add, offering increased speed, convenience and efficiency for both operators and consumers, while also helping operators reduce expenses significantly. Several Takaful firms are now integrating enhanced technology into their insurance models, through InsurTech platforms and offerings. In August 2019, five Takaful operators - Aman Insurance, Al Wathba Insurance, National Takaful Company (Watania), Noor Takaful, and Oriental Insurance signed up for an integrated blockchain platform developed by InsurTech startup Addenda to streamline processes between insurance companies, allowing them to cut costs by 30% through reduced claim response times[135]. Takaful operators have also been benefiting from the emergence of online payment systems. For instance, Souqa FinTech's PayHalal system leveraged by Malaysia's Zurich Takaful, provides its customers easier Shariah-compliant payment options[136]. In June 2020, the National Takaful Company (Watania) launched a customer portal to underwrite policies and enable customers to get a policy online in under 4 minutes, providing them easy and efficient access to buy an insurance policy backed up with hassle-free fast claim settlements[137]. Meanwhile, Oman launched its first online Takaful platform in July 2020, Bima, which has already partnered with eight insurance and Takaful providers to offer auto and domestic helper coverage. It further plans to introduce Takaful coverage spanning travel, property, and term life[138].

Competitive Landscape

Some of the leading players and operators in the global Takaful market include:

---

[131] Source: "Dar Al Takaful completes $58m acquisition of Noor Takaful", NS Insurance, July 2020
[132] Source: "Walaa, Metlife AIG ANB create history with merger", Arab News March 2020
[133] Source: "Zurich Insurance to convert Indonesia entity into Syariah general insurer", S&P Global, June 2020
[134] Source: "Siraj Holding acquires Al Hilal Takaful", Trade Arabia, July 2020
[135] Source: "UAE:5 insurers are first to join blockchain platform", ME Insurance Review, August 2019
[136] Source: Islamic Finance Development Report 2019: Shifting Dynamics, ICD Refinitiv
[137] Source: "National Takaful Co. takes underwriting policies online", Gulf News, June 2020
[138] Source: "Oman's first online platform to provide insurance services launched", Zawya, July 21, 2020

Exhibit 42: Major Players in the Global Takaful Market (2019)

Company	Country	Total Assets (US$)*	Net Earned Contributions (US$)*	Net Profit (US$)*
Tawuniya	Saudi Arabia	3,762,268,341	1,868,617,741	87,319,264
Syarikat Takaful Malaysia Keluarga Berhad	Malaysia	2,563,139,127	583,286,054	90,746,731
Islamic Arab Insurance Co. (Salama) PJSC	UAE	1,141,455,806	225,937,589	17,324,399
Prudential BSN Takaful Berhad	Malaysia	1,056,483,116	465,469,571	12,262,858
Abu Dhabu National Takaful Company	UAE	335,431,377	60,653,491	19,781,026
Qatar Islamic Insurance Group	Qatar	321,382,331	54,554,478	3,343,480
Dar Al Takaful	UAE	152,088,015	49,976,944	-12,227,914
Takaful International BSC	Bahrain	105,557,419**	38,225,961**	2,246,371**
Takaful Brunei Keluarga Sdn Bhd	Brunei	91,971,166	14,359,437	1,374,607

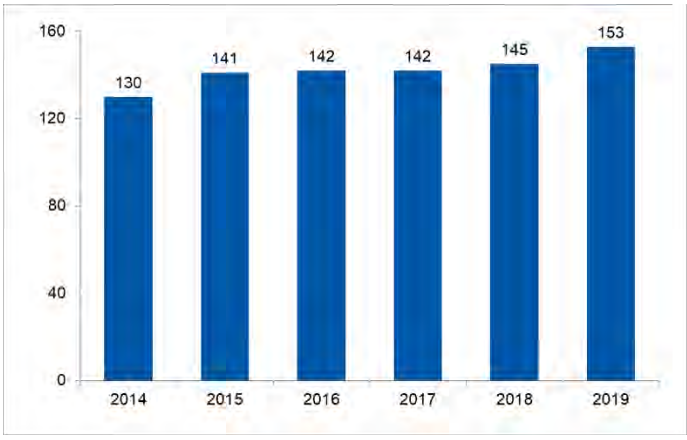
*Source: Company Annual Reports and Websites, Alpen Capital; * All figures as of 31 December, 2019, ** Figures as of 31 December, 2018*
Note: Figures have been converted from local currency at the following rates: US$/MYR: 0.2477395, US$/AED: 0.27225923, US$/SAR: 0.26655371, US$/BHD: 2.652707, US$/BND: 0.7544495, US$/QAR: 0.2746498

2.5 Other Islamic Financial Institutions (OIFIs)

Overview

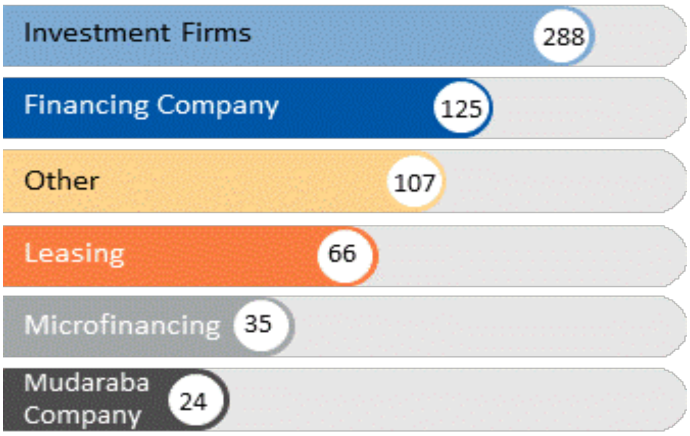
Other Islamic financial institutions (OIFIs) entail all Islamic financial institutions that do not fall under the umbrella of Islamic banks and takaful operators, such as investment firms, financing, mortgage, leasing and factoring companies, microfinance institutions and others.

Exhibit 43: OIFI Assets Growth (US$ billion, 2014-2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

Exhibit 44: Number of OIFIs by Type (2019)



Source: IIFM Sukuk Report

In 2019, OIFIs witnessed a 6% y-o-y growth in total assets; Investment firms account for the largest share globally

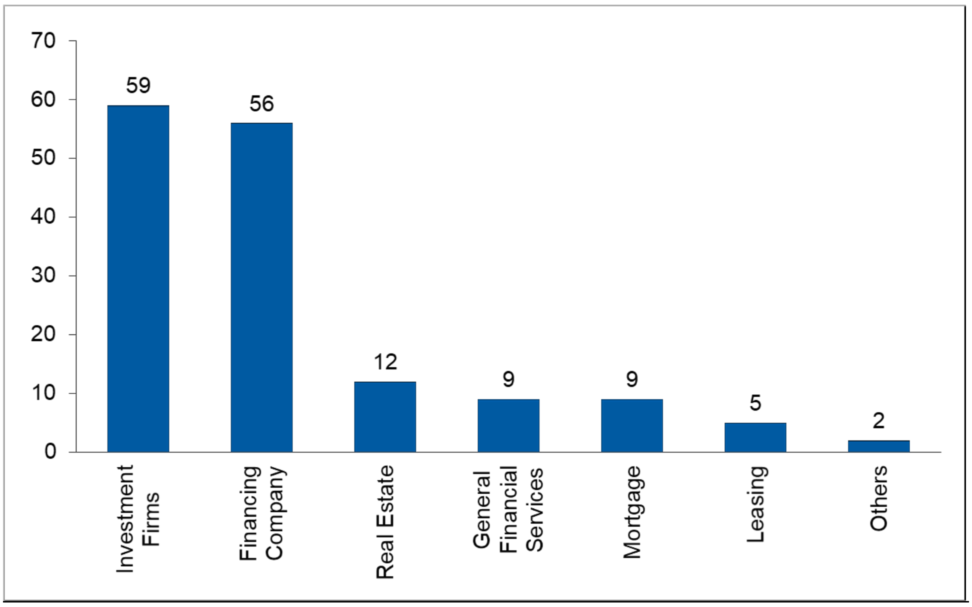
OIFI Assets

In 2019, OIFIs witnessed a 6% y-o-y growth in total assets to reach US$ 153 billion[139]. Investment firms made up 45% of total global OIFIs in 2019, followed by financing companies, which accounted for 19%. In terms of assets, investment firms retained its

[139] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

leading position, accounting for nearly 40% of total global OIFI assets at US$ 59 billion, closely followed by financial companies with 37% share valued at US$ 56 billion, and real estate OIFI with 8% share worth US$ 12 billion.

Exhibit 45: Total OIFI Assets by Category (US$ billion, 2019)



Source: ICD-Refinitiv Islamic Finance Development Indicator

OIFIs by Geography

Malaysia, Iran and Saudi Arabia are the top three markets in terms of OIFI assets, and accounted for a combined 72% of the total global OIFI assets in 2019[140]. The Maldives registered the fastest growth within the OIFI segment in the year, as the country's total assets rose 62% y-o-y to reach US$ 44 million. The nation has made significant efforts to develop the industry through stringent regulatory frameworks, leading to rapid growth in assets[141]. Investment firms, which accounted for the largest share of OIFIs globally as well as of OIFI assets, are highly concentrated in Bahrain. Majority of the 19 OIFIs in the country are investment firms holding US$ 693 million in assets[142]. Moreover, banks such as Gulf One Bank[143] and Ibdar Bank[144] converted licenses to Category 1 Investment Business Firms in 2019, followed by GB Corp[145] and Al Baraka Banking Group in 2020[146]. Investcorp, which has an Islamic window, also applied for license conversion to an investment firm in 2020[147].

The Maldives has been witnessing growth of OIFIs, especially in real estate. In 2012, HDFC Amna was established as a unit of the Maldivian Housing Development Finance Corp. (HDFC) to offer home financing instruments that were Shariah-compliant[148]. With Islamic housing retail financing garnering particular prominence in the country, HDFC witnessed a 31% spike in these assets in 2019. Many other financial institutions have also emerged to

[140] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[141] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[142] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[143] Source: Gulf One Investment Bank: Semi Annual Report 2018, March 15, 2018
[144] Source: Idbar Bank Consolidated Financial Statements 2018, December 31, 2018
[145] Source: "Bahrain's GFH inks deal to hold majority share in Sharia investment firm", Arabian Business, August 24, 2020
[146] Source: "Al Baraka Group to convert parent company's license", S&P Global, September 22, 2020
[147] Source: "Investcorp Holdings B.S.C. Report 2020", Fitch Ratings, April 9, 2020
[148] Source: "A new Islamic finance hub emerges in the Indian Ocean", Gulf Times, July 30, 2019

offer Islamic financial services and products, including Islamic insurance through institutions such as BML Islamic, Ayady Takaful, Bank of Ceylon and Habib Bank[149].

Exhibit 46: Major Players among Other Islamic Financial Institutions

Company	Description	Recognition & Awards (2019-20)
Kuwait Finance House (KFH)	Widely considered a pioneer in global Islamic Finance, Kuwait Finance House (KFH) is one of the largest IFIs in the world, with a network spanning the GCC, Turkey and other Asian and European countries. It is gaining momentum in the Islamic insurance (takaful) market, with an active presence in resinsurance as well. The KFH Takaful app and website led to a surge in demand for its takaful products, as they facilitated easier access to its wide range of insurance products. It also established its Islamic fund management operations through KFH Capital Investment, its investment arm. KFH continues to introduce innovative and new Islamic products and services to bolster its Islamic product portfolio.	Best Islamic Financial Institution, Best Islamic Fund Manager, Best Islamic Takaful, Best Islamic Trade Finance Provider
Boubyan Capital	Boubyan Capital operates as an Islamic company and the investment arm of Boubyan Bank. It designs and builds well-diversified portfolios, balancing long-term goals with short-term needs to deliver an intensely resourced pool of wealth management solutions. Boubyan Capital focuses on four core services; including Asset Management, Alternative Investments, Brokerage, and Robo Advisory.	Best Islamic Asset Manager
Jadwa Investment	Jadwa Investment is a Saudi investment management and advisory firm offering a comprehensive range of financial and investment services for both individual, as well as corporate financial goals. It provides services that include asset management, financial advisory, mergers and acquisitions and researched brokerage, among others. A Sharia Supervisory Board governs all investments and financial services offered by Jadwa. The firm aims to pioneer in the Sharia-compliant investment services domain, with innovative investment products and services that can facilitate clients and customers to meet their objectives. Most recently, the firm launched Aldar Investment Fund, a SAR 1 billion (US$ 266 million) Islamic real estate fund to develop over 1,500 homes in Riyadh.	Best Islamic Fund Manager
Al Rajhi Capital	Al Rajhi Capital (ARC) is one of the largest asset managers in Saudi Arabia and a leading investment firm in the region, operating regionally from 16 offices across the Kingdom. ARC is a financial services firm that provides a diverse range of innovative Shariah-compliant financial products and services. It is the investment-banking subsidiary of Al Rajhi Bank, one of the largest global Islamic banks, and integrates its knowledge, resources and experience to deliver streamlined solutions. It leads the market in offering bespoke financial and investment solutions, which address the investment needs and goals of clients, institutional customers and HNWIs	Best Islamic Asset Manager
Offa	Offa emerged in September 2019 as the first-of-its-kind Shariah-compliant bridging lender in the UK. It initiated operations with GB£ 20 million in funding by an Islamic UK financial services institution. It lends up to 75% FTV on residential bridging and up to 65 per cent FTV on commercial bridging products, with a procuration fee of 2% going towards the introducers. Offa's products are available to both domestic and international clients based overseas; and its launch is likely to spur growth by expanding the reach of the Islamic finance market in the UK. The lender plans to extend its reach into bridging and other specialist forms of lending. This remains an untapped market, but with significant and growing demand from property investors seeking alternatives. It also intends to expand into refurbishment, stretched development, planning and shared risk ethical finance.	-

Source: Best Islamic Financial Institutions In The World 2019, 2020; Global Finance, The Magazine, Institution Websites

[149] Source: "A new Islamic finance hub emerges in the Indian Ocean", Gulf Times, July 30, 2019

3. Islamic Wealth Management

Overview

Islamic wealth management has five key components: wealth creation, wealth accumulation, wealth purification, wealth protection, and wealth distribution. It primarily aims to provide a level of investment protection, generate and accumulate income and distribute wealth in accordance with the norms of Islamic law. In other words, it stipulates wealth creation through Shariah-compliant investment vehicles such as Islamic funds, sukuks and Islamic equities. Other wealth management tools include estate planning/inheritance, private equity and venture capital. Notably, all Islamic wealth management propositions incorporates the concept of social responsibility and accountability[150].

Exhibit 47: Key Components of Islamic Wealth Management

Source: CAPCO

Islamic wealth management remains at a nascent stage of development, both in size and sophistication

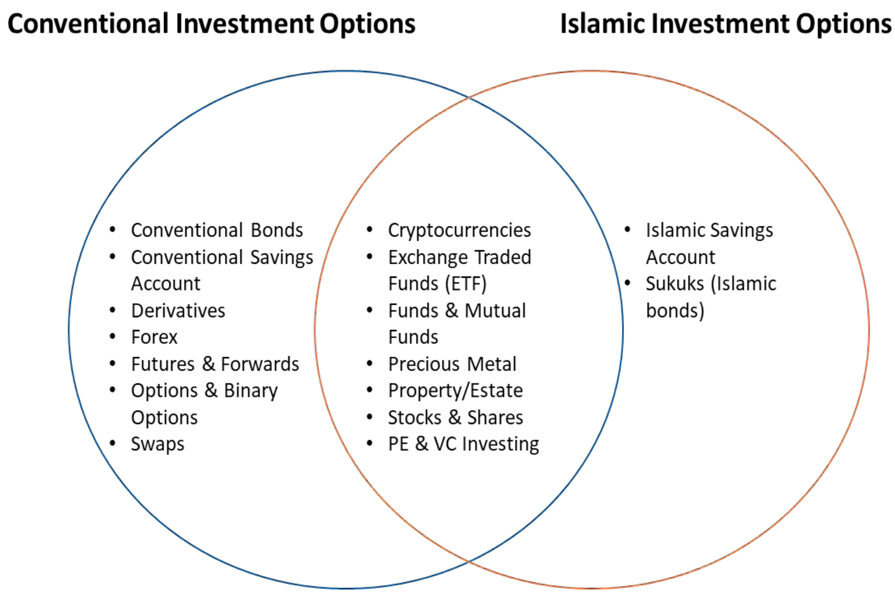
Although Islamic finance has made significant advancements over the past two decades, Islamic wealth management remains at a nascent stage of development, both in size and sophistication. The market is estimated to be small in comparison with the conventional global wealth market and the growing private wealth in the Muslim majority countries in MENA and Asia[151]. The lack of diversity in product offerings has limited the rise in demand from the wider population group. While more Sharia-compliant Islamic finance solutions are needed in the wealth management segment, there is also a need for market players to boost understanding of Sharia-compliant finance structures and solutions to the wider investor communities. Nevertheless, Islamic wealth creation is witnessing expansion amongst the wealthy individuals and families in the Muslim majority countries across the globe. The trend towards embracing alternative investment options, need of investment in ethical and socially responsible vehicles coupled with the rising population of high net-worth individuals (HNI) and ultra-high net-worth individuals (UHNI) has boosted the market. Younger generations of Muslim HNI and UHNI wealth management clients are more receptive to Islamic finance and Shariah-compliant products, partly as they qualify with the other investment considerations such as environmentally friendly and socially impactful investment for return or yield. Industry stakeholders and providers in the MENA and Asian countries are thus

[150] Source: "The Emergence of Islami Finance in Wealth Management", CAPCO
[151] Source: "The Evolution Of Wealth Management In The World Of Islamic Finance", Hubbis, Jersey Finance, 2019

Evolving regulatory developments across the GCC, Malaysia and Indonesia have led to investments flowing back onshore across the world of wealth management

offering a wide range of Shariah-compliant wealth management products and solutions, specifically targeting the affluent class of investors. Consequently, the evolving regulatory developments across the GCC nations, Malaysia and Indonesia have led to investments flowing back onshore across the world of wealth management. This offers an opportunity to the region's Islamic wealth management industry to enhance their onshore Shariah-compliant propositions[152].

Exhibit 48: Comparison of Investment Options



Source: CAPCO

Islamic Private Banking

Growing affinity for Islamic products among the HNI/UHNI and affluent family offices is likely to aid growth and innovation within the Islamic private banking sector

Numerous major global private banks have realized the advantages of integrating Islamic banking services alongside their conventional offerings, due to the large potential it holds for growth. Leading banks in core Islamic finance markets such as SE Asia, the GCC, and the broader MENA region have thus begun to tap into this segment. Large private banks such as Maybank, CIMB Malaysia, Standard Chartered Bank (SCB), HSBC Amanah and Qatar National Bank (QNB) have accordingly developed robust product portfolios that cater to Islamic private banking requirements.

A 2019 survey by Hubbis suggests that Islamic private banking is likely to witness growth if major global private banks integrate Islamic banking within their product portfolio[153]. Such integration is likely to have a two-fold effect - propelling the reach of Islamic private banking in non-core Islamic markets, as well as expanding innovation and product options available to affluent Shariah-conscious investors in core Islamic finance regions. The Islamic finance market is poised to witness strong growth with the onset of more investment opportunities, wherein Islamic banking can meet the needs of capital markets[154]. Islamic private banking has a large role to play in innovating products and meeting these needs. The growing affinity for Islamic products among the HNI/UHNI and affluent family offices is likely to aid growth and innovation within the Islamic private banking sector[155].

[152] Source: "The Evolution Of Wealth Management In The World Of Islamic Finance", Hubbis, Jersey Finance, 2019
[153] Source: The Evolution of Wealth Management in the World of Islamic Finance, Hubbis, November 20, 2019
[154] Source: The Evolution of Wealth Management in the World of Islamic Finance, Hubbis, November 20, 2019
[155] Source: The Evolution of Wealth Management in the World of Islamic Finance, Hubbis, November 20, 2019

Islamic private banking has witnessed notable developments by large institutions across core markets. For instance in December 2020, Ahli United Bank's (AUB) Private Banking, through its Islamic window Al Hilal Islamic Banking Services, announced a partnership with Islamic investment management firm, Principal Islamic Asset Management, to support its clients' long-term financial objectives[156]. Many private banks, both Islamic and non-Islamic, have notably emerged with comprehensive frameworks for Islamic private banking. Some other major players in the Islamic private banking space include:

Maybank Group Islamic Banking is a key player in the Islamic private banking market, and the largest Islamic banking group by assets in the ASEAN region. In 2020, the group's regional wealth franchise comprising Private Wealth, Premier Wealth and Privilege Wealth segment stood at MYR 244.0 billion (US$ 59.5 billion) in total AUM, registering a growth of 8.3% CAGR over the five year period from 2016[157]. Maybank's offers its wide range of Islamic financial products and services through 354 Maybank facilities in Malaysia. It also has a strong presence in Indonesia, Singapore, Hong Kong, the UK and the UAE[158]. It is one of the largest banks in Malaysia, strengthening its asset management business through new and innovative Islamic banking products. Notably, it has maintained a strong focus on digitalization and the integration of digital tools to improve its services. Its mobile app, Smile, for example, is providing clients access to their insurance policies, and information for strategic decision-making. The bank's Private and Premier Divisions provide a suite of personalized services for their customers' daily banking requirements, along with addressing long-term investment objectives[159].

Some of Maybank's digital wealth management and private banking offerings include the Maybank Wealth app, which provides affluent clients with an amalgamated view of their product holdings in order to help them manage finances, and evaluate investment status. It also has a digital banking platform, the Maybank2u app, which utilizes Secure2u features and biometrics[160], and even enables customers to write wills online. It has also launched a real-time chat platform M2U Live Chat, to provide round-the-clock assistance for premier banking customers. Its QRPay and Tap2Phone solutions have provided affordable digital payment solutions for small merchants, while SMEs in Malaysia can avail of its SME Digital Financing with ten-minute approvals and digital real-time account opening services for SMEs[161]. Maybank was also the first Malaysian local bank to introduce SWIFT Global Payments Innovation (GPI), enabling faster, more convenient and safer cross-border remittances[162]. As part of its key focus areas in 2019, Maybank Trade improved its engagement platform to integrate predictive analytic capabilities for customer behavior, as well as introduce biometrics logins for faster and more secure transactions[163].

---

[156] Source: "Ahli United Bank's Private Banking Partners with Principal Islamic Asset Management to support clients' long-term financial goals", Ahli United Bank, December 27, 2020
[157] Source: Maybank Annual Report 2020
[158] Source: Maybank Annual Report 2020
[159] Source: "World's Best Private Banks 2021: Middle East", Global Finance Magazine, December 9, 2020
[160] Source: Maybank Annual Report 2020
[161] Source: Maybank Annual Report 2020
[162] Source: "World's Best Private Banks 2021: Middle East", Global Finance Magazine, December 9, 2020
[163] Source: Maybank Annual Report 2019

Exhibit 49: Maybank Malaysia Financials (2018-2020)

Maybank Group					
(in US$ billion)	2016	2017	2018	2019	2020
Total Assets	175	182	192	199	204
Deposits from Customers	116	120	127	130	133
Shareholder's Equity	16	17	18	19	20

	Group			Bank		
(in US$ million)	2018	2019	2020	2018	2019	2020
Operating Revenue	11,272	12,593	12,156	6,355	6,414	5,803
Operating profit	2,573	2,586	2,012	2,084	2,004	1,650
Net Income	1,933	1,953	1,544	1,741	1,734	1,421
Deposits from Customers	126,897	129,707	132,522	60,779	57,825	59,556
Net Loans	120,787	122,297	122,008	54,873	53,973	54,768
Total assets	192,225	198,757	204,104	108,765	110,611	113,456

Source: Maybank Financial Statements

CIMB is the largest private Bank in Malaysia, with MYR 602.4 billion (US$ 146.8 billion) in total assets as of 2020. Its operating income reached MYR 17.2 billion (US$ 4.2 billion) in 2020, while net profit stood at MYR 1.2 billion (US$ 0.3 billion)[164]. In 2017, CIMB became the first bank in Malaysia to get regulatory sandbox approval for electronic-know your customer (e-KYC) to accentuate its Consumer Banking proposition[165]. It established the first Big Data platform in Malaysia, by leveraging open-source software technology. CIMB Private Banking now offers HNIs and affluent clients personalized advisory, portfolio planning and wealth management solutions[166]. Its digital private banking offerings include Clicks Trader, an online portal that offers online trading conveniences to help clients grow their investments through the CIMB Clicks mobile app. In 2015, CIMB Private Bank collaborated with UOB Asset Management (Malaysia) and BNY Mellon Managed Investments, to introduce a discretionary portfolio platform, and Separately Managed Accounts (SMA) for its ultra-HNI clients. The platform facilitates access to investment strategies from global asset managers for investors, and assists them to invest in global stocks through multicurrency strategies[167].

Standard Chartered Bank (SCB) has emerged as the first global bank in Malaysia to launch an Islamic banking arm and introduce Islamic products. Its Islamic banking network Saadiq offers global Islamic private banking services that integrate in-depth Shariah expertise with business acumen. In Malaysia, total assets for SC Saadiq Berhad reached MYR 7.9 billion (US$ 1.9 billion) by September 2020[168]. Saadiq also has a presence in Bangladesh, Bahrain, Malaysia, Pakistan and the UAE, among other nations spanning Asia, Africa and the Middle East[169]. SCB is the first bank in Malaysia to offer both secured foreign currency wealth lending, as well as banking services through video, audio and chat mediums for Personal and Priority Banking customers[170]. It won the award for Malaysia's best Islamic Digital Bank for the fourth straight year in 2020. Its digital private banking offerings include Smart Direct, a tool that enables FX transacting across 250 mutual funds and online portfolio tracking; Smart Goals, for customizing financial goals per investor needs and preferences; and

[164] Source: CIMB Annual Report 2020
[165] Source: "CIMB is First Bank to Receive Regulatory Sandbox Approval For E-KYC", CIMB, November 23, 2017
[166] Source: Digital Wealth Management in Asia Pacific Report, KPMG, March 10, 2021
[167] Source: "CIMB Private Banking To Offer SMA", Finews Asia, May 29, 2015
[168] Source: Standard Chartered Saadiq Berhad Financial Statements for the period ended 30 September 2020
[169] Source: Standard Chartered Website
[170] Source: Digital Wealth Management in Asia Pacific Report, KPMG, March 10, 2021

Wealth Power, which enables investing in bonds, unit trusts, insurance products and more, for potentially better returns[171].

HSBC Amanah Malaysia is another major player in the Islamic private banking market that offers a host of Shariah-compliant products and services to its customers, as part of its Islamic private banking portfolio. In December 2020, its total assets stood at MYR 18.4 billion (US$ 4.5 billion). Although this represented a 13.2% decline from MYR 21.2 billion (US$ 5.2 billion) in 2019, the bank's capital and liquidity ratios have stayed strong, and above regulatory requirements[172]. HSBC Amanah's offerings enable investors to engage in Shariah-compliant equity market investing, and offers a range of wealth management solutions for individual needs. Moreover, it offers personalized assistance and tools such as its online payment gateway FPX, which enables easy and real-time online payments; NetPlus, offering fraud awareness and cybersecurity threat information. Its digital wealth management and private banking offerings include digital account onboarding, real-time mobile access to trade transactions (Trade Transaction Tracker), online wealth management platform (Wealth Dashboard), fund monitoring access, investment-related news and updates, and instant cross-border money transfers via mobile banking[173]. HSBC Amanah has won several awards for its Islamic banking offerings in 2020 including the Islamic ESG Bank of the Year, Best Islamic Trade Finance Bank, Best New Sukuk, Best Quasi-Sovereign Sukuk, Best Trade Finance Product, Best Structured Financing, Islamic Finance House of the Year, and Best Islamic Syndicated Financing Deal of the Year[174].

Qatar National Bank (QNB), which is one of the largest and fastest growing lenders in the Middle East, holds a 30% market share in the region's private banking[175]. It has tailored its private banking services to cater to the evolving preferences of the Middle East's customer base that comprises of increasingly young HNIs. The bank's investments into technology have enabled it to create a niche digital banking system with advanced digital tools such as video link platforms, mobile applications using face recognition and collaborations with telecom operators. Accordingly, the bank has expanded its offerings across the globe with presence in more than 31 countries spanning Asia to Europe[176].

Several other private banks continue offer a wide range of similar services in core markets like Malaysia. For example, Citi Malaysia's total wealth advisor platform, and its array of investment products comprising retail bonds, unit trusts, market-linked investment to dual currency accounts, and many more are witnessing strong growth[177]. This trend is likely to continue, largely driven by an uptick in the appetite for Shariah-compliant banking products from HNIs in the Middle East, as well as in Asian countries like Malaysia and Indonesia.

Retirement and Pension Funds

The belief in administration and management of wealth in a sustainable manner, along with the religious guidance that encourages Muslims to save during times of abundance, makes it imperative for religiously observant investors to plan for their old age in advance[178]. This leads to the need for good retirement planning that is Shariah-compliant, where apart from constantly ensuring the compliance to Shariah laws, the investors also need to establish a procedure for Zakat. Another factor that makes retirement planning important is the growing

---

[171] Source: Digital Wealth Management in Asia Pacific Report, KPMG, March 10, 2021
[172] Source: HSBC Amanah Malaysia Berhad Financial Statements 2020
[173] Source: Digital Wealth Management in Asia Pacific Report, KPMG, March 10, 2021
[174] Source: HSBC Amanah Malaysia Annual Report 2020
[175] Source: "World's Best Private Banks 2021: Middle East", Global Finance Magazine, December 9, 2020
[176] Source: "World's Best Private Banks 2021: Middle East", Global Finance Magazine, December 9, 2020
[177] Source: Digital Wealth Management in Asia Pacific Report, KPMG, March 10, 2021
[178] Source: "Analysing Shariah Compliant Retirement Planning: the Case of Malaysia", Science Publishing Corporation, 2018

proportion of ageing population across countries, along with the rising levels of living costs[179].

Despite favourable demographics and stable demand, the growth of Islamic pension funds has been relatively slow compared to conventional funds

Despite favorable demographic profiles and stable demand for such investment vehicles, the growth of Islamic pension funds has been relatively slow compared to conventional funds. In 2017, EY reported that public pension funds (conventional and Islamic) amount to ~US$ 400 billion in the GCC alone, wherein more than half this volume would preferably be invested in Shariah-compliant funds if enough Islamic investment opportunities existed. While this talks about the huge potential of Islamic pension funds as a market, it also strongly magnifies the lack of adequate investment opportunities[180]. Nevertheless, the market for such funds has picked up pace in the past decade, largely backed by governments initiatives to channel proportional institutional capital into Shariah-compliant funds. According to Thomson Reuters, pension funds were the top performer among the various Islamic asset classes in 2014, representing 0.2% of the global Islamic funds, and amounting to an asset size of US$ 146 million amongst 64 funds[181]. By 2019, this asset size recorded a historic jump to US$ 86 billion[182].

The asset size of pension funds recorded a jump to US$ 86 billion in 2019 from US$ 146 million in 2014

SE Asian countries have been at the forefront of introducing pension fund schemes. Malaysia introduced an Islamic savings scheme option as part of its state pension plan in 2016, called the Employees Provident Fund (EPF), in addition to the existing investment of about a third of the EPF's portfolio in Sharia-compliant stocks and bonds. Of the US$ 160 billion assets that make up the EPF's assets, US$ 25 billion were dedicated to a new Shariah-compliant investment vehicle, equating to 15% of the total portfolio. This made it the largest standalone Islamic pension fund globally. It also allowed the country to attract new money and encourage higher issuance of sukuk and Shariah-compliant equities for investments by the pension fund, indirectly boosting demand for Islamic securities in Malaysia[183]. Additionally, Malaysia announced plans to make its second-largest pension fund scheme, Retirement Fund Inc. or KWAP, fully Shariah-compliant[184]. In Turkey, voluntary Islamic pension funds, known as participation retirement schemes have been introduced. They allow investments in property and commodity bonds or funds, Shariah-compliant equities, government bonds and other permissible vehicles.

Outside the core markets, there has been an upsurge in demand for appropriate investment vehicles and options for religiously observant investors across the EU and Asia Pacific regions. The UK and Australia were among the first countries to introduce Islamic pension funds. In 2008, UK became the first Western country to provide halal retirement savings options for its large Muslim population. This was followed by the then-Islamic Bank of Britain, one of the largest Shariah-compliant banks in the UK and today known as Al Rayan Bank, creating the Islamic Pension Trust. The trust enabled Muslim employers and charities to provide a Shariah-compliant workplace pension that met all government criteria for an auto-enrolment scheme. Australia launched its first private Islamic pension fund in 2012, followed by other investment instruments such as halal superannuation funds. As of 2020, Crescent Wealth Super is the only provider of Shariah-compliant superannuation in Australia, with several smaller players gradually entering the market. Crescent Wealth Super manages just under US$ 300 million in retirement funds or 0.5% of the total market of US$ 43.3 billion[185].

---

[179] Source: "Analysing Shari'ah Compliant Retirement Planning: the Case of Malaysia", Science Publishing Corporation, 2018
[180] Source: "Shariah-compliant pension schemes gaining popularity", Gulf Time, January 24, 2017
[181] Source: "Global Islamic Asset Management Outlook 2015", Thomson Reuters
[182] Source: "Islamic Finance Development Report 2020", Thomson Reuters
[183] Source: "Shariah-compliant pension schemes gaining popularity", Gulf Time, January 24, 2017
[184] Source: "Islamic Finance Development Report 2017", Thomson Reuters
[185] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

Inheritance/Estate Planning

Another important aspect of Islamic wealth management is of Islamic estate/inheritance planning that governs the distribution of wealth in the family. Significantly different from the conventional method of writing wills, Islamic estate planning is guided by the principles of Faraid or Mirath under the Shariah law. Faraid, defined as fixed shares, involves following a fixed order and formula for distribution of wealth of the deceased to ensure fairness and justice[186]. The first in order is the allocation of funds for funeral expenses, followed by the settlement of any debt that might be left behind. This stage also includes the payment of any outstanding Zakat, dowry, etc. The third step is the settlement of Wassiyah. This is the distribution of one-third of the remaining estate to individuals or organizations who are not heirs of the descendant by law, a gift to adopted children, charity, friends or other organizations[187]. Lastly, the remaining portion of the estate makes up the inheritance given to the descendants in the proportion mentioned below:

- A surviving husband receives one-half of the assets involved;
- A surviving husband receives one-fourth of the assets if he has children;
- A surviving wife receives one-fourth of the assets involved;
- A surviving wife receives one-eighth of the assets if she has children;
- The deceased person's mother and father will receive one-sixth of a share each;
- If the deceased person has children, the remaining shares will go to the children in a 2:1 ration for sons and daughters[188].

The law also allows for consideration of a will to a certain extent[189]. However, it does not allow disinheritance or changing the fixed proportions of distribution as laid down under Faraid. Such a permission is only given when all the heirs agree to do so[190].

[186] Source: "Inheritance in Islam", Islamic Wills
[187] Source: "Sharia Estate Planning (Islamic Law)", Klenk Law
[188] Source: "Property Distribution According To Islam", Islamic Wills
[189] Source: "Inheritance Under Muslim Law: Framework of Sharia Law", Dr.Hasan Elhais, February 27, 2019
[190] Source: "Property Distribution According To Islam", Islamic Wills

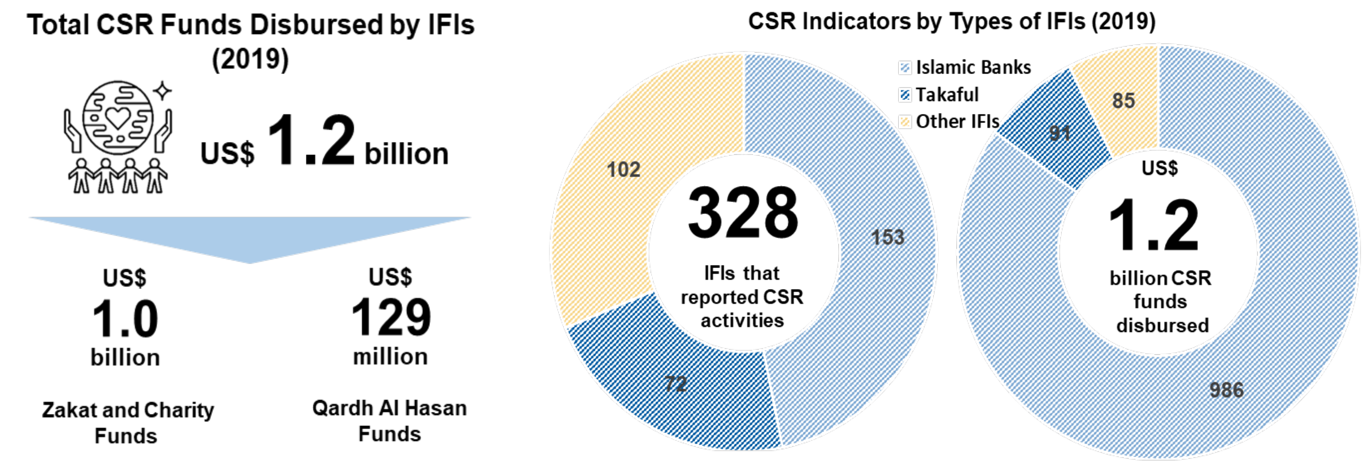
4. Islamic Social Finance

Overview

Islamic social finance or 'philanthropic' umbrella covers several types of charitable giving and funds in the Islamic finance space. Most prominent among these are Zakat, which refers to obligatory Islamic charitable giving; Waqf, synonymous to charitable endowments or donations; and Qard al-Hasan, which are essentially benevolent interest-free loans.

The market for Islamic social finance remains largely untapped. Global Waqf endowments were estimated to have reached US$ 410 billion in 2016, while Zakat was estimated to have reached US$ 76 billion in 2018[191]. Data further suggests that Zakat could peak as high as US$ 356 billion, if mechanisms are adequately improved to enable Muslims to safely and properly fulfil these obligations[192].

Exhibit 50: Islamic Finance Corporate Social Responsibility Market Size (2019)



Source: ICD Refinitiv

US$ 1.2 billion was disbursed by IFIs through Islamic CSR funds during 2019

Islamic Finance Corporate Social Responsibility (CSR) funds comprise of charitable funds distributed by Islamic Financial Institutions (IFIs) across the world. Overall in 2019, US$ 1.2 billion was disbursed by IFIs through Islamic CSR funds, a staggering 81.5% surge over the US$ 639 million distributed during the previous year[193]. It also marked a landmark moment as the first year wherein Islamic CSR funds crossed the US$ 1.1 billion mark. Of these, Zakat and charity funds accounted for US$ 1 billion, while Qard al-Hasan Funds comprised the remaining US$ 129 million[194].

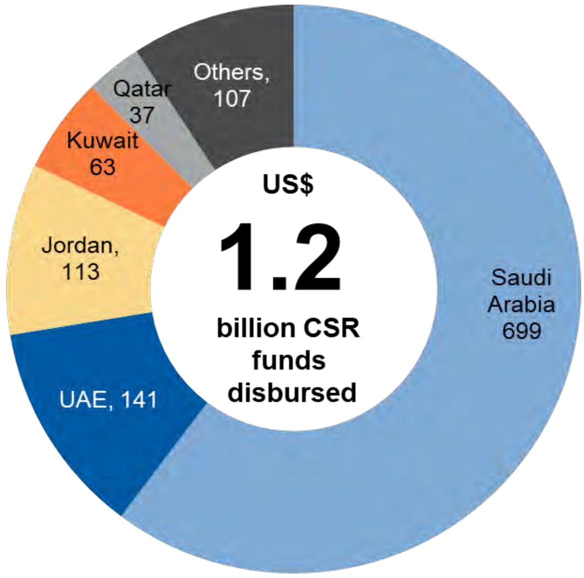
Top Countries within Islamic Social Finance

Saudi Arabia, Jordan, the UAE, South Africa and Nigeria ranked the top 5 countries in the Islamic Finance Development Indicators 2020. Saudi Arabia, Jordan and the UAE were the top three countries in terms of CSR funds distributed, while South Africa, Nigeria and Sri Lanka led in terms of CSR activities. Notably, Syria and Egypt were the countries with the largest score improvements due to higher funds distributed during 2019[195].

---

[191] Source: State of the Global Islamic Economy Report 2019/20, DinarStandard & Salaam Gateway
[192] Source: State of the Global Islamic Economy Report 2019/20, DinarStandard & Salaam Gateway
[193] Source: Islamic Finance Development Report 2019: Shifting Dynamics, ICD Refinitiv
[194] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[195] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv

Exhibit 51: Total CSR Funds Disbursed by Top Countries (2019)



Source: ICD Refinitiv

Saudi Arabia witnessed 231% increase in its Zakat and charity activities in 2019/2020; UAE recorded 61% increase in the value of its Zakat and charitable collections

Total CSR funds disbursed during 2019 were higher than the preceding year due to high outstanding settlement claims by Islamic banks in Saudi Arabia[196]. Globally, Saudi Arabia comprises the largest market, in terms of charitable funds distributed by its Islamic financial institutions. Zakat contributions, in particular, have been on the rise in the Kingdom, having reached US$ 699 million in 2019[197]. The General Authority of Zakat and Tax (GAZT) has taken notable steps to enhance the quality of governance and legislation for Zakat. In March 2019, the GAZT issued a new Zakat by-law stipulating that Zakat/tax due on locally-issued bonds and sukuk would be borne by the government, along with new Zakat rules for financing activities by SAMA-licensed firms[198]. In August 2020, GAZT was awarded two internationally-recognized certificates for upholding the efficacy of quality control systems, dealing with complaints and increasing customer satisfaction[199]. Consequently, Saudi Arabia witnessed a staggering 231% increase in its Zakat and charity activities in 2019/2020, maintaining its position as the top-ranking country in terms of Zakat and charitable contributions[200]. Other Middle-Eastern countries have also seen a surge in interest within the Islamic social finance space. In 2019/2020, the UAE, a significant market in terms of Islamic social finance contributions, witnessed a 61% y-o-y increase in the value of its Zakat and charitable collections, while Jordan's value of Zakat and charity also grew by 13% over the previous year[201].

Within SE Asia, Malaysia and Indonesia boasts are the most prominent markets for Islamic social finance. The Malaysia Digital Economy Corporation (MDEC) is focused on leveraging Islamic social finance tools such as Zakat, Waqf and Sadaqah, to achieve sustainable development by improving the status of poverty-ridden citizens. For instance, in March 2020, MDEC worked with the Islamic Medical Association of Malaysia's Response and Relief Team (IMARET) and several Malaysian crowdfunding platforms (Global Sadaqah, pitchIN, SimplyGiving) to launch a donation drive supplying safety gear for the nation's COVID-19

[196] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[197] Source: Islamic Finance Development Report 2020: Progressing Through Adversity, ICD Refinitiv
[198] Source: "KSA: New Zakat By-Law, new specific Zakat rules for financing activities and cost of Zakat/Tax on Bonds and Sukuk issued locally by the Ministry of Finance is borne by the Government", PWC, April 2019
[199] Source: "Saudi Arabia's zakat authority awarded two recognized certificates", Arab News, August 2020
[200] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[201] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

pandemic frontline officers[202]. Meanwhile, Indonesia's Islamic finance market also remains substantial, with strong potential in the social finance segment. Despite Zakat collections coming in at just 4.4% in 2019, Indonesia has a strong Waqf industry, and has remained focused on its Waqf endowments. The country is estimated to have IDR 180 trillion (US$ 12.8 billion) in potential cash Waqf and 11,000 hectares in current land Waqf[203]. In March 2020, the government issued its first cash Waqf-linked Sukuk or Cash Waqf-Linked Sukuk (CWLS), an Islamic bond financed by endowments, valued at over IDR 50 billion (US$ 350,000)[204].

Emergence of Islamic Social/Philanthropic Funds to Create Global Social Impact

Islamic social finance is witnessing a growing role in driving positive impact across the globe. The COVID-19 health crisis has brought the rising importance of Islamic social finance to the frontlines, highlighting the growing need for social impact funds to promote sustainable development, especially in current times. Accordingly, a number of prominent global funds have emerged, such as the UK's One Endowment Trust, which was established in March 2020 with the aim to become a GBP 1 billion Waqf fund[205]. This Trust will invest in real estate, PE, sukuk and Islamic funds, alongside reinvesting in sustainable social projects. Another UK-based fund is the National Waqf Fund (NWF), which was established to cater to the growing Muslim population in the UK, and is investing in real estate, along with looking at other investment avenues such as start-ups, and establishing a central fund to manage Waqf for other organizations[206]. In 2020, the fund directed part of its profits towards its pandemic response program to provide hygiene kits, along with Ramadan food parcels for Gaza and Niger families.

The United Nations Refugee Organization (UNCHR) is working to utilize Islamic charitable donations for creating long-term social impact. In April 2019, UNCHR introduced the Refugee Zakat Fund, a fully Shariah-compliant fund backed by five fatwas, which would authorize Zakat collections to be delivered to eligible refugees. Built with the objective to transform UNHCR's existing Zakat program into a global fund, it aimed to raise US$ 200 million for the most vulnerable displaced families in the MENA region[207]. In 2019, the fund raised more than US$ 43 million, directly benefiting over 1 million vulnerable displaced persons[208]. To date, the fund has helped over one million beneficiaries across Yemen, Lebanon, Iraq, Jordan, Egypt, Pakistan, Bangladesh, India and Mauritania[209].

Digitization in Islamic Social Finance

In 2020, many Zakat, Waqf and other charitable/endowment funds adopted technology integration as part of the digitalization drive. Several FinTech platforms were developed to offer Islamic social finance services such as apps to collect Zakat contributions digitally[210], and digital Waqf contributions, which have emerged in the past few years. Indonesia's National Committee for Islamic Finance (KNKS) launched a digital platform to distribute charitable funds via LinkAja, a centralized payment platform, which not just digitizes mosque's Sadaqah donation system but also helps trusts and other organizations better manage and disburse funds via Zakat and Waqf payments[211]. Indonesia also developed the first blockchain-based crowdfunding Waqf globally. Following suit, other blockchain-based

---

[202] Source: "Malaysian crowdfunding platforms raise funds for hospital PPE", Salaam Gateway, April 2, 2020
[203] Source: "Indonesia could be Asia's next Islamic finance hub", The Jakarta Post, January 2021
[204] Source: "Government Issued First Cash Waqf-Linked Sukuk in 2020", KarimSyah, April 22, 2020
[205] Source: "New Islamic endowment trust seeks to be UK's first Waqf to combine commercial and social investments", Salaam Gateway, March 18, 2020
[206] Source: National Waqf Fund Website (nwk.org.uk)
[207] Source: "UNHCR unveils the Refugee Zakat Fund", UHCHR, April 2019
[208] Source: "After visiting refugee camps, Saudi comedienne Hatoon Kadi urges people to support displaced families this Ramadan", Salaam Gateway, May 2020
[209] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[210] Source: "The rise of zakat-tech", Salaam Gateway, November 8, 2019
[211] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

services are now being offered by US-based Shariah-compliant decentralized payment system Stellar; global payment provider Ripple, whose technology has already been deployed by several major Islamic banks; Waqf Chain, a Waqf crowdfunding system by Malaysian FinTech operator Finterra for investing in development projects[212]. In May 2020, Malaysian FinTech GlobalSadaqah announced the facilitation of cryptocurrency donations on its Social finance platform, which enables Zakat and Waqf payments using Bitcoin[213].

Despite significant advances, technology integration has been slower within Islamic social finance as compared to other verticals, due to lack of regulations, differences in global legislation governing transactions in Zakat and other charitable giving, and Shariah law (fiqh and fatwa) that lags behind digital innovations for Zakat management[214]. In February 2020, Saudi's GAZT even highlighted the concerns surrounding ongoing digital transformation and emphasized the need for exchanging knowledge and benefiting from global practices[215]. However, tech adoption has been accelerated since the COVID-19 pandemic, bringing in fresh avenues and opportunities for growth within blockchain, cryptocurrencies, digital payments, and other tech-enabled offerings within Islamic social finance. Continuous innovation and integration of new and emerging technologies will only further expedite the growth within this segment.

[212] Source: "Blockchain paves the way for genuine innovation in Islamic finance", Gulf Times, April 6, 2020
[213] Source: "GlobalSadaqah to Enable Zakat and Waqf Payments Using Bitcoin", FinTech News Malaysia, May 11, 2020
[214] Source: "The rise of zakat-tech", Salaam Gateway, November 8, 2019
[215] Source: "Saudi Arabia's zakat and tax authority urges exchange of knowledge for modernization", Arab News, February 2020

5. Islamic Acquisition Deals

Overview

In 2020, US$ 11.8 billion was invested in the overall Islamic economy; M&A accounted for 55% of transactions, followed by VC (38.5%)

Investments in the Islamic economy have seen substantial growth in the past five years. In 2020, US$ 11.8 billion was invested in the Islamic economy (including halal food, modest fashion and healthcare), falling by 13% compared to 2019 due to the pandemic[216]. Nonetheless, investments still represent a meagre 0.3% of the global merger and acquisition (M&A), private equity (PE) and venture capital (VC) investments in the broader consumer and financial services categories. With 86 deals during the year, M&A accounted for 55% of transactions, followed by VC (38.5%).A significant portion of investments has been in favor of the Halal food industry and the sector accounted for 39% of the total number of deals in 2019/20[217]. The sector has witnessed increased participation from multinationals like Nestle, Cargill and continues to draw important investments in response to technological developments and government initiatives especially in the delivery, health-based and ready-to-eat/cook segments[218].

Exhibit 52: Total Islamic Deals by Sector (2020)

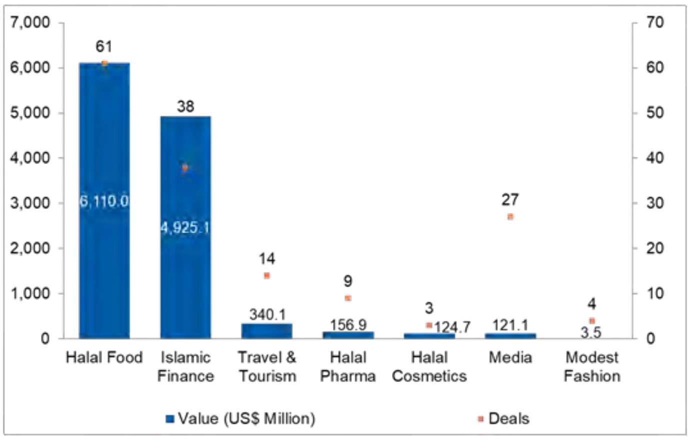
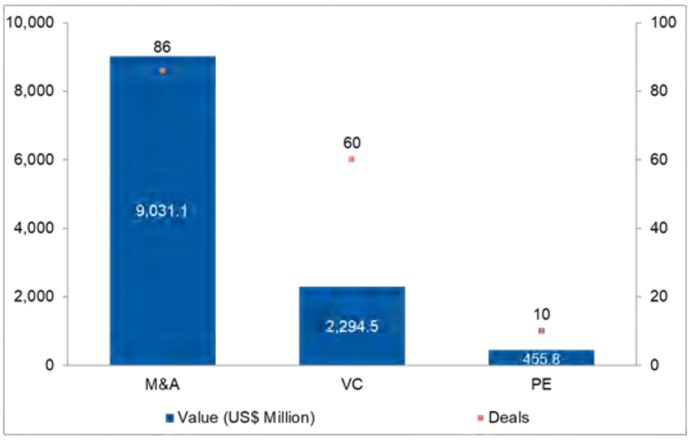


Exhibit 53: Total Islamic Deals by Type (2020)



Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

Deals in Islamic Finance Sector

Islamic finance accounted for the second largest share of investments by sector, valued at US$ 4.9 billion from a total of 38 deals in 2020

Islamic finance accounted for the second largest share of investments by sector, valued at US$ 4.9 billion from a total of 38 deals in 2020. The total deal value, however, fell by more than 50% y-o-y from US$ 10.7 billion in 2019. Islamic M&As rose slightly over the same period, with several companies seeking to consolidate their balance sheets. Indonesia alone bagged 14 deals followed by UAE (7 deals), and Kuwait (5 deals). The new Islamic finance regulations and guidelines introduced in various countries including the non-Muslim majority countries have helped the sector grow and attract large investments. For instance, Thailand's largest corporate bank, Bangkok Bank acquired an 89.2% stake in Indonesian bank, Bank Permata, which offers both conventional and Shariah-compliant services in a deal valued at US$ 2.2 billion to increase presence in Indonesia. Similarly, In the UAE, Noor Bank was acquired by Dubai Islamic Bank to become one of the largest Islamic banks in the world, with assets exceeding US$ 75 billion. Some major deals were postponed to 2021 such as Kuwait Finance House's US$ 8.8 billion acquisition of Bahrain's Ahli United Bank and National Commercial Bank's US$ 15 billion merger with Samba Financial group in

[216] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[217] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[218] Source: State of the Global Islamic Economy Report 2019/20 & 2020/21, DinarStandard & Salaam Gateway

Saudi Arabia[219]. The demand for Islamic finance products continues to grow and there exists vast potential for Shariah-compliant investments, especially in the ESG and Islamic social finance space. Given the slowdown in oil-based economies across the MENA region and the ongoing financial crisis, consolidation through M&A activity is expected to continue in the sector.

Exhibit 54: Top 10 Islamic Acquisition Deals (2018-2020, by Value)

Year	Target Name	Deal Value ($ Mn)	Target Country	Acquiror	Sector
2020	Pinehill Company	3,000.0	British Virgin Islands	Indofood CBP SUKSES MAKMUR	Halal Food
2020	PT Bank Permata Tbk	2,168.9	Indonesia	Bangkok Bank Public	Islamic Finance
2020	Noor Bank PJSC	893.5	UAE	Dubai Islamic Bank	Islamic Finance
2019	Banque Saudi Fransi	575.7	Saudi Arabia	Ripplewood Advisors	Islamic Finance
2019	Dangote Flour Mills Plc	484.0	Nigeria	Crown Flour Mills Nigeria	Halal Food
2020	Asuransi Adira Dinamika	414.0	Indonesia	Zurich Insurance Group	Islamic Finance
2018	AATCO Food Industries	408.8	Oman	Kerry Group	Halal Products
2019	F & B Nutrition Sdn Bhd	239.4	Malaysia	Southern Capital Group	Halal Food
2018	Mubasher Financial Services	208.4	Bahrain	Al Safwa Islamic Financial Services	Islamic Finance
2020	Alizz Islamic Bank	178.7	Oman	Oman Arab Bank	Islamic Finance

Source: IFSB Stability Report 2020

Private Equity (PE) and Venture Capital (VC)

60 VC deals valued at US$ 2.2 billion and 10 PE deals valued at US$ 455.8 million were concluded in 2020, accounting for ~45% of the transactions

PE and VC investments have also picked up pace accounting for approximately 45% of the transactions in 2020. During 2020, 60 VC deals valued at US$ 2.2 billion and 10 PE deals valued at US$ 455.8 million were concluded[220]. The Islamic economy presents a huge opportunity for PE and VC investors to invest in high-growth businesses, especially those which are tech enabled. For instance, Islamic FinTech has garnered significant attention in recent years and opportunities remain abound in this segment. The, robo-advisory segment in particular, has seen pickup in activity and the market is expected to expand with the entry of new players. For example, USA's robo-advisory platform, Wahed Invest raised US$ 25 million in a VC round led by Saudi Aramco Entrepreneurship Ventures in 2020[221].

[219] Source: Salaam "Islamic Finance After COVID-19", Global Finance, December 28, 2020
[220] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[221] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

Exhibit 55: Top 10 Islamic PE Deals (by Value)

Year	Company Name	Deal Size ($ Mn)	Target Country	Fund Name
2017	Banvit	470.0	Turkey	QIA
2020	Traveloka	250.0	Indonesia	QIA, GIC
2015	A'Saffaa Foods	63.3	Oman	Zulal Investments Co.
2019	Meezan Bank	58.6	Pakistan	Undisclosed Investors
2019	Carsome	50.0	Malaysia	Gobi Partners, Endeavor Catalyst, Others
2020	Tim Hortons	50.0	UAE	Gateway Partners
2020	PT Mitrausaha	40.4	Indonesia	Undisclosed Investors
2018	Prima Cakrawala	38.1	Indonesia	Asabri
2015	Wuhui Shuanghui Food	32.8	China	Henan Shuinghui Investment
2016	Janan Halal Meats	30.5	UK	Kingsley Capital, ESO Capital Partners

Source: Company Websites, Crunchbase, Salaam Gateway

Exhibit 56: Top 10 Islamic VC Deals (by Value)

Year	Company Name	Deal Size ($ Mn)	Target Country	Fund Name
2020	Gojek	1,200.0	Indonesia	Mitsubishi Corp, Visa, Others
2020	Gojek	375.0	Indonesia	Facebook, PayPal
2020	Kopi Kenangan	209.0	Indonesia	Sequoia Capital, Horizons, GIC, Others
2019	FinAccel Pte Ltd	90.0	Singapore	Asia Growth Fund, Singtel, Others
2020	Kitopi Catering Services	60.0	UAE	Knollwood
2020	Sociolla	58.0	Indonesia	Temasek, Others
2018	HolidayME	40.4	UAE	Accel Partners, F&C Investment, Others
2019	Sociolla	40.0	Indonesia	Temasek, EV Growth
2020	Vezeeta.com	40.0	Egypt	Gulf Capital, Others
2020	Jahez	36.5	KSA	Impact46

Source: Company Websites, Crunchbase, Salaam Gateway

Shariah-compliant PE Fundraising Activity Remains Weak

Shariah-compliant PE fundraising forms a small part of total PE fundraising in Islamic jurisdictions. The aggregate capital raised by Shariah compliant funds has declined in recent years. In 2019, US$ 0.1 billion was raised from a single fund in 2019 compared to US$ 0.6 billion raised through four funds in 2018. After the collapse of Abraaj Capital in 2019, the prominent PE funds in the space include Amanah, Amwal, Citadel Capital, Global Investment House, Fajr Capital, COPE PE, Gulf Capital, Injazat Capital, Investcorp, Sana Capital and a few captive Shariah compliant funds that are operated by the major Islamic banks in the GCC and SE Asia[222].

[222] Islamicfinancenews.com- Islamic Venture capital on the way up, Islamic private equity on way out.

Exhibit 57: Shariah-Compliant PE Fundraising (2015-2019)

Year	No. of Funds Closed	Aggregate Capital Raised ($bn)
2015	3	0.27
2016	1	0.32
2017	3	0.19
2018	4	0.55
2019	1	0.05

Source: Salaam Gateway, Preqin

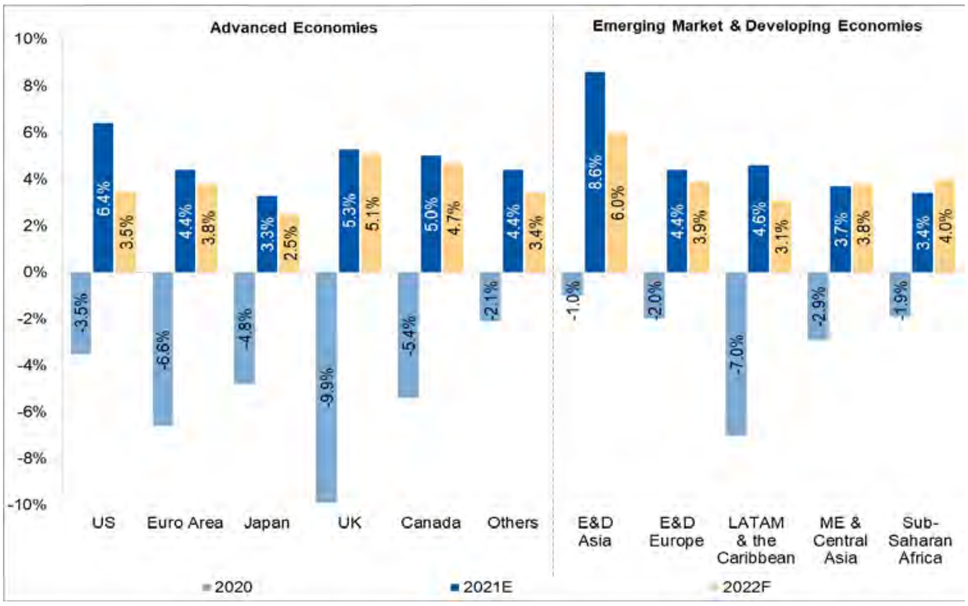
6. Demand Drivers

Post Pandemic Recovery

The global economy is expected to rebound and is projected to accelerate at a pace of 6.0% in 2021, followed by a growth of 4.4% in 2022

The outbreak of the novel coronavirus (COVID-19) has caused significant damage to global economies. In addition to affecting human lives, the pandemic has impacted businesses and financial markets across the globe and triggered a recession as countries were brought to a standstill. The effect of the pandemic arguably presents the most significant shock to the financial system since the global financial crisis. As a result, unemployment rates soared with many nations recording a sharp spike in job losses during the year[223]. Given the scale of disruption, both advanced economies as well as developing nations are facing a recessionary phase. Each region is subject to substantial downgrades as the pandemic is expected to have a lasting effect on human capital, financial systems, trade, tourism, education and healthcare. The IMF, in its April 2021 World Economic Outlook (WEO) update, estimated a 3.3% contraction in global GDP for 2020. However, the global economy is expected to rebound and is projected to accelerate at a pace of 6.0% in 2021, followed by a growth of 4.4% in 2022[224].

Exhibit 58: Global Economy Growth Forecast



Source: IMF World Economic Outlook, April 2021 Update

Note: E = Estimated; P = Projected; E&D = Emerging and Developing; LATAM = Latin America; ME = Middle East

Weakened business and economic activity due to lockdowns aimed at curbing the spread of the pandemic resulted in weakening global demand for oil. This led to the governments and the Central Banks across the major Islamic economies, especially in the GCC, to respond via stimulus packages and fiscal and monetary policy easing measures[225]. To deal with the economic crisis, Central Banks across the globe also announced various measures for liquidity support to the banking sector, including lowering reserve requirements, lowering of the regulatory capital buffer, bond/sukuk buying programs, and availability of Central Bank credit lines (reverse repo). At the same time, the economic slowdown led to a sharp decline in household savings and investments. Consequently, the Islamic finance assets recorded a rather muted performance in 2020. However, with the IMF upgrading its global economic

[223] Source: "Coronavirus: How the pandemic has changed the world economy", BBC News, January 24, 2021
[224] Source: World Economic Outlook Update: April 2021, IMF
[225] Source: "Tracking the $9 Trillion Global Fiscal Support to Fight COVID-19", IMF, May 20, 2020

growth forecast for the second time in three months is likely to boost consumer confidence and investments, driving the demand for Islamic finance assets.

Islamic Capital Markets, Banking and Funds Driving Industry Growth

Emergence of new Islamic Banks in markets such as the UK, Uganda, Tajikistan and others are likely to boost offerings

The Islamic finance industry has been growing at a modest pace over the past few years and in 2019, the sector recorded double-digit growth globally across segments. Total global Islamic financial assets grew 14.4% in 2019 to reach US$ 2,875 billion, fueled by higher sukuk issuances. The sukuk market, comprising 19% of total global Islamic finance assets, grew 14.5% during the year and surged by 18.3% in terms of issuance value. The emergence of new avenues such as green sukuk and Socially Responsible Investing (SRI) are likely to drive growth as higher attractiveness of the issuances lead to more issuances. Going forward, core markets across the MENA and SE Asia regions could see higher issuances, as well as non-core markets such as Kazakhstan and Uzbekistan. Islamic Funds also had a spectacular run, growing 29.6% in 2019, largely driven by the onset of Islamic ETFs and growing accessibility of ESG-related investment assets via digital mediums[226]. Islamic Funds are likely to further fuel growth on the back of the growing interest in ESG and sustainable considerations in investment[227]. Meanwhile, Islamic Banking, comprising 69.3% of total global Islamic finance assets, grew 14.2% in 2019 with non-core markets witnessing the fastest growth[228]. The emergence of new Islamic Banks in markets such as the UK, Uganda, Tajikistan and others are likely to boost offerings[229]. Growth is also likely to be aided by the newly introduced Shariah-compliant banking laws in the Philippines[230].

Favorable Muslim Demographics Boosting Demand

Muslims account for the second largest religious population group (26%) in the world; Young Muslim population has been boosting demand for Shariah-compliant and Islamic financial products and services

The global Muslim population remains one of most significant drivers of growth for the Islamic Finance industry. Muslims account for the second largest religious population group (26%) in the world, with the global population reaching ~1.9 billion as of 2020[231]. This population's influence goes beyond the Organization of Islamic Cooperation (OIC) nations, with over 500 million Muslims comprising minorities in many countries. The Muslim population is also characterized by millennials - Muslims had the youngest median age of all major religious groups at 24, nearly eight years less than the median age of 32 for non-Muslims. The Muslim population is projected to remain relatively young in 2050 as well, with only 16% being over 60 years of age, while 24% fall in the 0-14 age bracket and 60% in the 15-59 bracket. In comparison, the total world population is expected to see 22% over 60 years of age by 2050, with 20% in the 0-14 age group and 58% aged 15-59. Moreover, Muslims are projected to make up a majority of the population in 51 countries by 2050[232].

The rapidly growing young Muslim population has been boosting demand for Shariah-compliant and Islamic financial products and services. Muslim youths are increasingly demanding the wide range and functionality of convenience-focused products available in conventional financial institutions such as internet banking, mobile banking and multiple credit card products, in addition to Shariah compliance. The preference among the new generation of Muslims regarding digital banking services and product offerings have compelled the industry stakeholders to strategize according to the growing demand[233].

---

[226] Source: ICD-Refinitive Islamic Finance Development Report 2020
[227] Source: "Islamic Finance And ESG The Missing 'S'", S&P Global, May 20, 2019
[228] Source: ICD-Refinitive Islamic Finance Development Report 2020
[229] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[230] Source: Islamic Banking Act passed in the Philippines", ZICO Law, November 25, 2019
[231] Source: The Muslim 500: 2021 Edition, October 20, 2020
[232] Source: "The Future of World Religions: Population Growth Projections, 2010-2050", Pew Research, April 2, 2015
[233] Source: "Millennials to drive the future of Islamic finance", Bobs Guide, April 11, 2018

Rising Prominence of Ethical Consumerism

Consumers spent over US$ 2.0 trillion in halal food, clothing, finance, cosmetics, pharmaceuticals, tourism, media and recreation in 2019

The global Islamic economy is driven by consumers whose preferences are influenced by a value system encouraging halal consumption across food, clothing, finance, cosmetics, pharmaceuticals, tourism, media and recreation. Consumers spent over US$ 2.0 trillion on these sectors in 2019[234]. The user-base adhering to such ethos is predominantly the Muslim population, which is largely driving the growth in consumption of halal products.

The global trend of ethical consumerism has grown in popularity in recent years, leading to higher appeal of Islamic products for ethical consumers. A 2019 study showed that in the UK, total ethical spending had risen almost 4x in the past 20 years, outgrowing all UK household expenditure[235]. Meanwhile, a global study indicated that 66% of respondents are willing to pay more for ethical/sustainable products, while over 50% are influenced by key sustainability factors, and 56% influenced by a company's commitment to social value[236]. The uptick in demand for ethical consumerism is likely to attract a new class of consumers that are driven by social consciousness, trickling down to higher demand for Islamic financing, investment, insurance services, and Islamic financing platforms[237].

Government Initiatives Buoying Industry Expansion

Governments across the globe have taken particularly bold measures to support the Islamic FinTech ecosystem

In recent years, many governments strengthened the Islamic finance sector through targeted initiatives. Governments across the globe have taken particularly bold measures to support the Islamic FinTech ecosystem[238], encourage digitalization of banks, boost tokenization of sukuks, and bolster growth in markets that are rising in prominence such as Islamic social finance and ESG or impact investments[239]. The regulatory framework around Islamic finance has also been modernized with new and amended laws to bolster the industry. In 2020, the UAE launched an initiative to build a unified global legal and legislative framework for the Islamic finance sector to expand its reach amid calls for improved standardization[240]. Recently, Kuwait's parliament approved a proposal to establish a Shariah board that would regulate the banking sector and ensure banks' adherence to Islamic law[241], while Qatar's Central Bank announced plans to centralize its Islamic finance sector[242]. Malaysia's Central Bank issued a guidance document on Value-based Intermediation Financing and Investment Assessment Framework (VBIAF), to assist in deploying a risk system evaluating financing and investment activities of Islamic financial institutions[243.] Meanwhile, the Securities and Exchange Commission of Pakistan (SECP) approved regulations for Murabaha Share Financing in a bid to strengthen capital markets, boost Shariah-compliant financing and liquidity in the securities market[244].

Apart from regulatory developments, industry stakeholders across several countries led initiatives that were aimed at strengthening their Islamic Finance markets. In May 2020, South Africa announced working on a rand-denominated sukuk for the financial year 2020-21[245]. In January 2020, Indonesia's National Islamic Finance Committee (KNKS) reinforced its new strategy on Islamic finance development, Islamic social finance development, the

---

[234] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[235] Source: "UK ethical consumer spending hits record high, report shows", The Guardian, December 30, 2019
[236] Source: The Sustainability Imperative, Nielson, October 2015
[237] Source: State of the Global Islamic Economy Report 2019/20, DinarStandard & Salaam Gateway
[238] Source: Leveraging Islamic Fintech to Improve Financial Inclusion, World Bank Group, October 2020
[239] Source: State of The Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[240] Source: "UAE launches initiative to build unified global legislative framework for Islamic finance", Khaleej Times, May 6, 2020
[241] Source: "Kuwait approves sharia board to regulate banking sector", Arabian Business, February 20, 2020
[242] Source: "Qatar to centralise Islamic finance sector regulation", International Finance, August 16, 2019
[243] Source: "Value-based Intermediation Financing and Investment Impact Assessment Framework - Guidance Document", Malaysia Central Bank website, November 1, 2019
[244] Source: "SECP Approves Murabaha Share Financing Regulations for the Capital Market", Pro Pakistani, August 19. 2019
[245] Source: "South Africa working on rand-denominated sukuk issue", Ifaas, May 16, 2020

halal products industry development, and on increasing Islamic business activities[246]. Expansion and growth strategies have started materializing with Malaysia's biggest Islamic bank, Maybank Islamic, establishing its first overseas branch in Dubai[247], and Malaysia's electronic government service provider MyEG setting up a new subsidiary for Islamic financing activities such as Islamic financial leasing and other credit-granting activities[248]. Such measures, primarily aimed at enhancing and augmenting the Islamic finance market, are likely to drive growth and helps create efficient and smoother functioning of the markets.

Amid the COVID-19 pandemic, governments and Central Banks of Islamic finance markets announced many stimulus packages to combat the pandemic. Some of the most prominent measures include Saudi Arabia's SAR 50 billion (US$ 13.3 billion) package[249], the UAE's US$ 27 billion stimulus package later boosted to US$ 70 billion[250], Malaysia's MYR 305 billion (US$ 73.8 billion) in economic stimulus measures[251], and Indonesia's government-led financial assistance initiatives[252], among others.

COVID-19 Pandemic Fueling Acceleration in Digital Solutions

Continuous adoption and integration of new and emerging technologies is likely to accentuate and streamline the Islamic finance market

With the onset of COVID-19, governments across major Islamic finance markets were quick to adopt digitization in order to sustain and expand the sector. Over the past year, technology adaption became one of the most critical drivers of survival, and many banks and financial organizations turned to integrating technology in order to seamlessly provide services. Concurrently, there was a surge in the deployment of digital solutions within Islamic finance. Islamic banks offered mobile banking and virtual advisors/robo-advisory services to counter concerns over lockdowns and bank closures, and also introduced services such as remote account opening for deposits and credit cards, conducting webinars for client, selling mutual funds, takaful products and other products online[253]. There was also a rise in new digital platforms that facilitated online trading and investment, as well as platforms offering online insurance (Takaful) services.

Digital solutions in Islamic finance domain have been on the rise prior to the pandemic as well, with Qatar Islamic Bank introducing their digital onboarding services in 2019 through a mobile app for improved access[254]. However, developments remained at nascent stages and services were largely accelerated post-pandemic. In February 2020, the Central Banks of the Philippines and Indonesia signed a MoU declaring their cooperation within the domain of payment systems and digital financial innovation[255]. Meanwhile Saudi Arabia, who had issued added licensing requirements and guidelines for building digital-only banks in February 2020, is now set to witness the establishment of a new Saudi Shariah-Compliant Digital Bank[256]. The continuous adoption and integration of new and emerging technologies is likely to accentuate and streamline the Islamic finance market, as digital solutions offer improvements in accessibility and efficiency, along with assisting Islamic finance entities to enhance and broaden their service offerings. This is likely to drive demand within the sector.

---

[246] Source: "Indonesia's KNKS to be renamed National Sharia Economy and Finance Committee to be headed by VP Ma'ruf Amin", Salaam Gateway, January 20, 2020
[247] Source: "Maybank Islamic opens first overseas branch in DIFC", Khaleej Times, February 10, 2020
[248] Source: "MyEG incorporates new subsidiary to undertake Islamic financing activities", the Edge Markets, June 26, 2019
[249] Source: "UAE, Saudi central banks roll out $40 billion stimulus for virus-hit economies", CNBC, March 15, 2020
[250] Source: "UAE central bank boosts anti-coronavirus stimulus to $70 billion", Reuters, April 5, 2020
[251] Source: "Malaysia finance ministry says stimulus measures to add 3.7%-4% to 2020 GDP" Reuters, September 25, 2020
[252] Source: "COVID-19: Indonesian Government Financial Assistance Measures", White Case, May 14, 2020
[253] Source: "Islamic banking is getting its perfect storm moment", Gulf News, January 28, 2021
[254] Source: "QIB launches digital onboarding for new customers through mobile application", QIB, June 24, 2019
[255] Source: "The Philippines and Indonesia sign MOU on digital financial innovation", OpenGovAsia, February 10, 2020
[256] Source: "Shariah-Compliant Digital Bank to be Established in Saudi Arabia by a Consortium of Banks", Islamic Markets, February 16, 2021

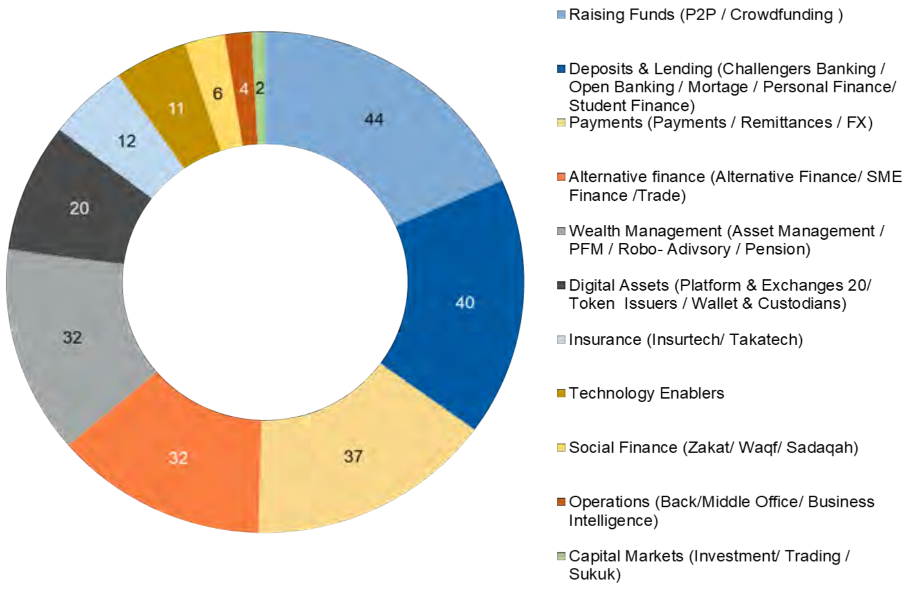
7. Emerging Themes

Islamic FinTech

As of 2020, Islamic FinTech in OIC countries accounted for US$ 49 billion in transaction volume

The implementation of financial technology (FinTech) in Islamic finance has increased over the last few years, largely supported by digitalization of Islamic financial services and the issuance of FinTech-related sukuk. Islamic FinTech has thus emerged as a promising segment that has not only overhauled traditional methods of offering financial services, but also transformed business models, operational models and customer experience[257]. Partnerships and collaborations with FinTechs have continued to grow as financial institutions are leveraging the avenue to expand their market presence[258]. This, in turn, has increased investors' appetite towards the technology domain. 2019 was a landmark year for the sector as it witnessed major funding rounds for FinTechs such as IslamicMarkets.com, Wahed Invest and Yielders[259]. For 2020, highlight of the year remained the acquisition of UK-based Niyah by US-based FinTech provider Wahed Inc. The strong investment dynamics are expanding the reach of Shariah-compliant financial products and services, while also leveraging ethical financial platforms catered to the Muslim community. In the OIC countries, Islamic FinTech has become the fast-growing segment of financial technology, with the UAE and Saudi Arabia leading in terms of transaction volume[260]. As of 2020, Islamic FinTech in OIC countries accounted for US$ 49 billion in transaction volume, constituting 0.7% of global FinTech transactions[261]. s

Exhibit 59: Islamic FinTech by Sector (2019/20)



Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

There are ~241 Islamic FinTech firms, majority of which focus on raising capital through P2P and crowd funding

There are around 241 Islamic FinTech firms globally that cater to bridge the gaps of financial inequality, exclusion, and poor customer experience[262]. Majority of the FinTechs (44 firms) focus on raising capital through P2P and crowd funding platforms. These platforms are easily scalable, use technology to directly connect investors with users of capital, and fit well with a profit-sharing model. Therefore, this segment has become the top growth contributor

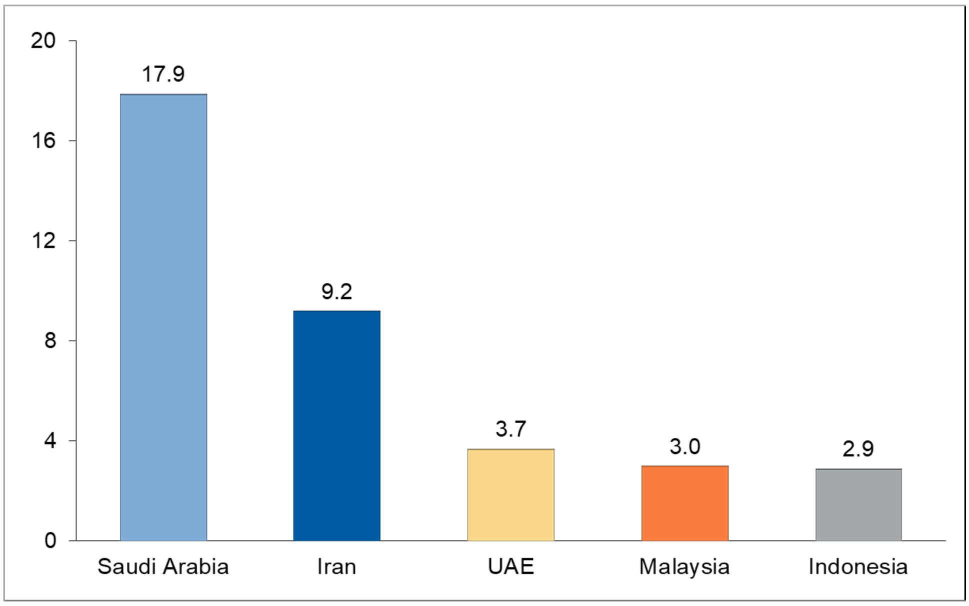
[257] Source: "Leveraging Islamic FinTech", World Bank, October 2020
[258] Source: Islamic Fintech Report 2018, DinarStandard
[259] Source: The Global Islamic FinTech Report 2019, Elipses & Salaam Gateway, December 2019
[260] Source: "Islamic FinTech is on the rise in Saudi Arabia, UAE and globally", Arabian Business, March 21, 2021
[261] Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021
[262] Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021

of Islamic FinTech in recent years. Deposit and Lending is the second most popular segment for FinTechs (40 firms), wherein the focus lies on providing services to the underserved market. This segment has been largely driven by the rise in number of Islamic digital banking solutions introduced across the globe by traditional banks[263]. For instance, Niyah and Rizq were launched in the UK during 2020, with Niyah being recognized as the country's first FinTech Islamic Banking app and ethical financial marketplace. Wahed's recent acquisition of Niyah will expand customer offerings through access to interest-free financial products, and investments through a mobile app[264].

The GCC wealth management market is undergoing a transformation as regulators embrace digital financial advisories

Wealth management and Payments segments are also gaining popularity with robo-advisory leading the market trend. Primarily concentrated in developed markets such as the US and the UK, the technology has started to make inroads in other parts of the world as traditional financial institutions and FinTech firms seek to tap the segment's potential. Within the MENA region, especially GCC, the wealth management market is undergoing a transformation as regulators embrace digital financial advisories offered by robo-advisors. The UAE and Bahrain have introduced broader policies that foster the technology, while others are also supporting it for wider investment practices[265]. Consequently, several institutions in the region are collaborating with robo-advisory firms to offer more personalized solutions to their customers. For instance, Saudi Arabia's SaaS banking platform Mambu and Islamic trade finance FinTech Ta3meed aim to deliver innovative digital Islamic financing for regional SMEs and investors[266]. The inclusion of ESG and impact investing options are likely to boost these two segments not only in the developed markets of Europe and North America but also across the emerging Islamic markets[267].

Exhibit 60: Top 5 Islamic FinTech Countries by Market Size (US$ billion, 2020)



Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021

The top five markets (Saudi Arabia, Iran, UAE, Malaysia, and Indonesia) account for 75% (US$ 36.7 billion) of the total OIC market size (US$ 49 billion). Besides the OIC countries, Islamic FinTech is also flourishing in countries such as UK, USA and Singapore. These

[263] Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021
[264] Source: "Islamic fintech Wahed Invest enters challenger bank race with Niyah acquisition", Finextra, December 17, 2020
[265] Source: "Robo-advisors set to shake up region's asset management industry", Banker MiddleEast, April 01, 2021
[266] Source: "The adoption of Islamic fintech in Saudi Arabia", Mambu website, January 20, 2021
[267] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

emerging countries in Islamic FinTech rank high on various factors such as talent pool, regulatory environment, and digital capabilities, among others. Malaysia, Saudi Arabia, UAE, Indonesia and the UK have the strongest Islamic FinTech ecosystem while Kuwait, Pakistan, Qatar, Bahrain, and Jordan are fast maturing markets[268].

Growth in the segment has been further supported by the COVID-19 pandemic, which accelerated the adoption of digital technology

Growth in the segment has been further supported by the COVID-19 pandemic, which accelerated the adoption of digital technology. This shift is likely to be more pronounced in GCC and SE Asian countries, which are actively encouraging the development of their Islamic FinTech ecosystems. Indonesia and Malaysia signed an agreement for FinTech cooperation in August 2020 to establish a collaborative framework for developing the FinTech environment in both markets[269]. Active government support in Malaysia too is helping foster a strong ecosystem for Islamic FinTechs. For instance, Bank Negara Malaysia, BNM (Malaysia Central Bank) and the Securities Commission have allowed for innovation in FinTech to support such expansion[270]. Other Islamic markets within the GCC have emerged with an expanse of accelerators and incubators such as the DIFC FinTech Hive in Dubai, ADGM in Abu Dhabi, and Bahrain's Fintech Bay. In Saudi Arabia, the Central Bank allowed nine more FinTechs into its regulatory sandbox in 2020. Similarly, the Central Bank of Oman, launched a new FinTech regulatory sandbox in December 2020. These entities are fostering a friendly environment for Islamic FinTech entrepreneurs by offering mentorship, investor access, shared working spaces and more[271].

The adoption of FinTech in Islamic finance markets has also led to the emergence of cryptocurrency exchanges

Consequently, Islamic FinTechs are growing within areas such as merchant platforms, charitable platforms, equity crowdfunding, group lending and digital banking services. Islamic FinTech start-ups now offer digital mortgage platforms, wealth management mobile applications, and sharia-compliant crypto-currency exchanges. Notably, blockchain has been a key FinTech technology due to its vast applications and yet relatively untapped potential[272]. Blockchain developments in Islamic finance include blockchain zakat systems, blockchain-enabled halal certification schemes[273], and the first blockchain-based sukuk issuance in 2019 by Indonesian microfinance firm BMT Bina Ummah that raised IDR 710 million (US$ 48,747) through Blossom Finance's SmartSukuk platform[274]. Blockchain has potential in applications such as automating Shariah contracts execution, issuing smart sukuks, and improving tracking and transparency of Islamic charitable funds[275]. The adoption of FinTech in Islamic finance markets has also fueled digitalization strategies among Islamic banks, and the emergence of cryptocurrency exchanges such as Bahrain-based RAIN, Adab Solution and CoinBundle (Halal Bundle); robo-advisory investment platforms (Wahed Invest, Aghaz Investments), gold-backed blockchain platforms (HelloGold), and several digital payment providers and digital wallets, among others.

---

[268] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[269] Source: "Malaysia and Indonesia ink fintech co-operation pact", FinExtra, August 24, 2020
[270] Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021
[271] Source: "Islamic banking is getting its perfect storm moment", Gulf News, January 28, 2021
[272] Source: "Blockchain paves the way for genuine innovation in Islamic finance", Gulf Times, April 6, 2020
[273] Source: "Blockchain paves the way for genuine innovation in Islamic finance", Gulf Times, April 6, 2020
[274] Source: "Blockchain development may facilitate market growth for Islamic financial instruments", Reuters, August 3, 2020
[275] Source: "Blockchain paves the way for genuine innovation in Islamic finance", Gulf Times, April 6, 2020

Non-Cyclical Halal Markets

The growing number of halal-certified products are driving the global halal market; Halal food, cosmetics, and pharma are growing in prominence

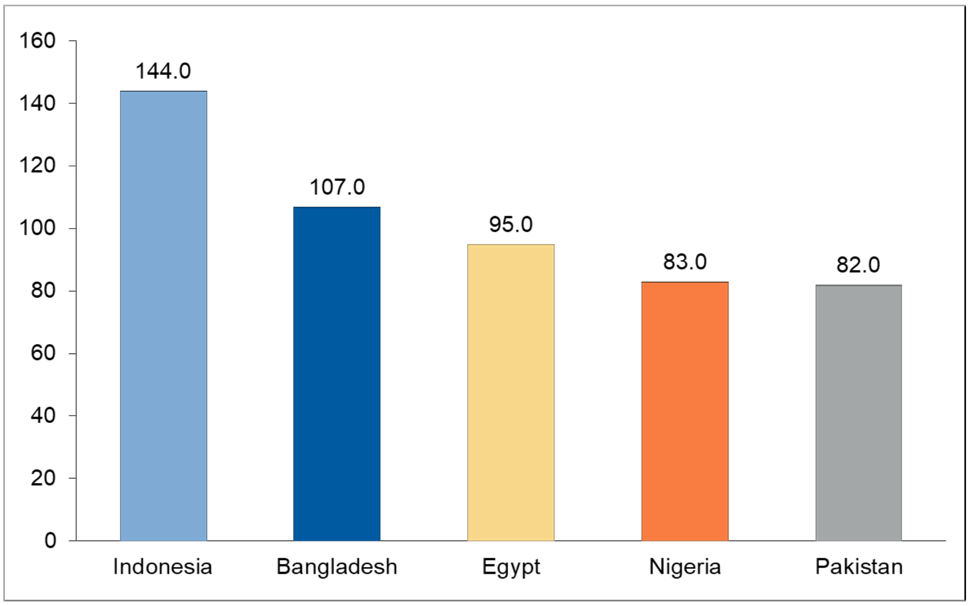
The Islamic economy is being driven primarily by the increasing youth population with high disposable incomes. The demographic has been strongly contributing to the growth of the halal market. Geographically, the persistently strong demand for halal consumer goods among the MENA and SE Asian markets, in addition to rising demand from the Western countries, have led to the rising demand for halal products and services. Economic development of leading Muslim countries such as Saudi Arabia, Indonesia, Malaysia, India, Pakistan, Nigeria, and Iran have particularly supported the market. In addition, the growing number of halal-certified products are driving the global halal market[276]. The confluence of these factors are boosting various segments of the halal market including food, cosmetics, and pharmaceuticals, among others. These sectors primarily acts as a hedge against the cyclical sectors such as Real Estate, which are highly correlated to oil prices. Being defensive in nature, these sectors remain resilient to economic disruptions and other crisis, making them a strong investment target for investors.

Halal Food

Muslim spend on halal food increased by 3.1% in 2019; The sector recorded total investments of US$ 6.1 billion in 2020 through 61 deals

Halal food has evolved from an identification mark of religious observation to an assurance of food safety and hygiene over the years. This has attracted interests not only from the growing Muslim population, but from the non-Muslim population as well. Additionally, the growing number of countries implementing stringent regulations in favor of globally accepted standards for halal food are helping bring new entrants in the market[277]. The overall Muslim spend on halal food increased by 3.1% in 2019 to reach US$ 1.2 trillion, up from US$ 1.1 trillion in 2018. Indonesia, Bangladesh, Egypt, Nigeria and Pakistan are the highest spenders on halal food across the globe. In 2020, the sector recorded total investments of US$ 6.1 billion through 61 deals globally. Malaysia (16) led the deals in halal food market, closely followed by Indonesia (10) and the UAE (8)[278].

Exhibit 61: Top Halal Food Consumer Markets (US$ billion, 2019)



Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

[276] Source: "How the Halal Consumer Market is Developing with the Growing Muslim Population and Islamic Economies", Muslim and Network, October 4, 2019
[277] Source: "Halal Food Market", imarc, 2020
[278] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

However, the COVID-19 pandemic has impacted the global halal food industry. Imposed lockdowns and restrictions on travel, coupled with household budget-cuts during Ramadan and Eid-al-Adha, is estimated to have caused a US$ 3 billion loss to the global Halal trade[279]. The supply-chain disruptions caused by the pandemic also raised the need for local production while creating demand for automating supply chains and manufacturing and adopt cost-reduction technologies. For this, a number of companies have already taken steps to optimize supply chains and bring in digital transformation[280]. Several halal ingredient manufacturers are now moving their production closer to the key halal markets. Some of the notable examples include the development ASEAN's first halal gelatin plant and industrial park in Malaysia by Sanichi Technology at a cost of US$ 300 million[281]. Japan-based Takasago[282] and Ajinomoto[283] are setting up halal production facilities in Indonesia and Malaysia, respectively.

The pandemic has opened up opportunities for growth and investment within the halal food industry

At the same time, the crisis has opened up opportunities for growth and investment within the halal food industry. From clean and healthy food options to the need for quicker food delivery, themed cloud kitchens, food delivery, ready-to-eat, and online groceries have become robust growth segments of the halal food market. A few notable examples include UAE-based cloud-kitchen platform, Kitopi, which raised US$ 60 million; expansion of the US-based The Halal Guys through the cloud kitchen model; launch of the first European multi-vendor marketplace for halal products, Deenary.com, in Italy; launch of M&S Food's own line of Western cuisine Halal ready-meals in the UK; and the IPO of Pakistan-based halal meat exporter, The Organic Meat Co. Ltd., which was oversubscribed 1.7x[284].

Several countries are introducing new halal food regulations and improving the existing standards. One of the most prominent examples include the introduction of mandatory halal certification and the establishment of the Halal Products Certification Agency (BPJPH) in Indonesia[285]. A number of non-OIC countries are also partnering with OIC countries to tap into the growing halal food market. For example, the partnership between Japan's Mitsubishi UFJ Financial Group (MUFG) and Malaysia's Halal Industry Development Corp (HDC) will allow 40 companies to participate in the Halal Industry Expert Development Programme[286]. HDC also collaborated with the Malaysia External Trade Development Corporation (MATRADE) in Chennai (India) to expand Malaysia's presence in India's Halal market[287].

Separately, banks across SE Asian countries are supporting the industry through a number of measures. For instance, the partnership between Standard Chartered Saadiq and Malaysia's HDC aims to help the local halal food industry grow beyond the country[288]. Similarly, Modern Industrial Estate, the developer of Indonesia's Modern Halal Valley (MHV), partnered with four Islamic banks - Bank Mandiri Syariah, BRI Syariah, BNI Syariah and Bank Muamalat Indonesia - to develop Indonesia's first integrated halal industrial cluster[289].

---

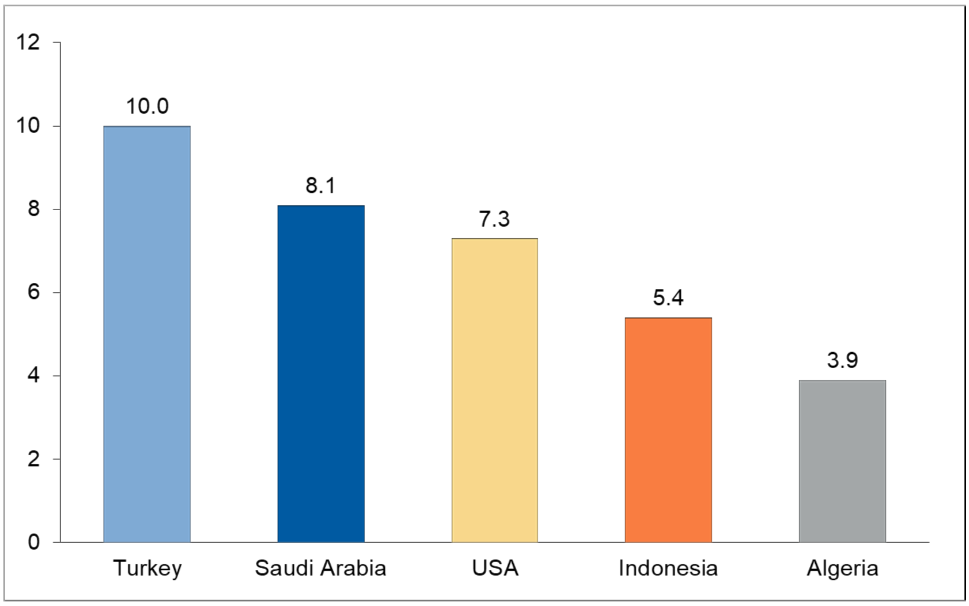
279 Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
280 Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
281 Source: "Sanichi to set up ASEAN's first JAKIM-certified halal gelatin plant in Melaka", The Edge Markets, December 02, 2019
282 Source: "Takasago unveils 100% halal production focus for its new Indonesia factory", Food Navigator Asia, January 15, 2020
283 Source: "Ajinomoto to open halal food plant in Malaysia in 2022", NNA Business News, August 16, 2019
284 Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
285 Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
286 Source: "HDC to create bigger halal market space in Japan", The Malaysian Reserve, December 12, 2019
287 Source: "Amid palm oil trade dispute, Malaysia goes in search of Indian buy-in for its halal expertise", Salaam Gateway, February 7, 2020
288 Source: "Standard Chartered Saadiq partners with HDC to catalyse growth of halal industry in Malaysia and beyond", The Edge Markets, July 02, 2020
289 Source: "Indonesian Company To Develop Halal Valley", The Halal Times,

Halal Pharmaceutical

Muslim spend on total pharmaceuticals was valued at US$ 94 billion in 2019, up 2.3% y-o-y; Halal-related pharmaceutical investments recorded US$ 157 million in 2020 from 9 deals

The growing Muslim population has led to an increased need for halal awareness within the pharmaceutical industry. Moreover, the Halal pharmaceutical products are setting a new standard of safety and quality, carving a niche not only in the Muslim-majority countries but also beyond[290]. The Muslim spend on total pharmaceuticals was valued at US$ 94 billion in 2019, up 2.3% y-o-y. Turkey, Saudi Arabia, US, Indonesia, and Algeria are the highest spenders on halal pharmaceuticals across the globe. Halal-related pharmaceutical investments recorded US$ 157 million in 2020 from 9 deals. Egyptian companies led the investment space with 5 deals, followed by Indonesia (2), and Kuwait (1)[291]. However, the COVID-19 pandemic impacted the industry, leading to a fall of 6.9% to US$ 87 billion in 2020 due to reduced demand.

Exhibit 62: Top Halal Pharmaceutical Consumer Markets (US$ billion, 2019)



Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

The halal pharmaceutical industry remains a strong opportunity for leading manufacturers to tap on the burgeoning demand

Despite the weakness caused by pandemic, the halal pharmaceutical industry remains a strong opportunity for leading manufacturers to tap on the burgeoning demand. As such, several established companies have entered the market through acquisitions, joint ventures and collaborations over the last two years. A few notable examples include the acquisition of Malaysia-based medical device firm Vigilenz, which has seven halal-certified products by JAKIM (Department of Islamic Development Malaysia), by Swedish medical technology company Bactiguard[292]. Malaysia's Duopharma Biotech, government-backed investment firm VentureTECH, and South Korea's PanGen Biotech have also made investments in development of the world's first halal biosimilar for treating anemia[293]. Indonesia, in particular, is a booming market for pharmaceutical companies as the country is phasing in mandatory halal certification. For instance, South Korea's Daewoong Pharmaceutical Co. has created a joint venture with Indonesia's Infion and obtained halal certification for biosimilar, Epodion[294]. The joint venture between South Korea's CKD Pharmaceutical Corp.

[290] Source: "Everything You Need to Know About the Halal Pharmaceutical Industry", Halal Watch World, February 23, 2021
[291] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[292] Source: "Bactiguard makes its first acquisition by acquiring Vigilenz", Bactiguard, February 04, 2020
[293] Source: "World's First Halal Biosimilar to Be Produced in Malaysia", AJMC, July 20, 2020
[294] Source: "Daewoong Pharmaceutical Receives World's First Halal Certification for Biopharmaceutical Product Derived from Animal Cells through Indonesian Joint Venture, Daewoong Infion", PR Newswire, January 08, 2020

and Indonesia's OTTO has also received halal certification for a plant manufacturing anti-cancer drugs[295].

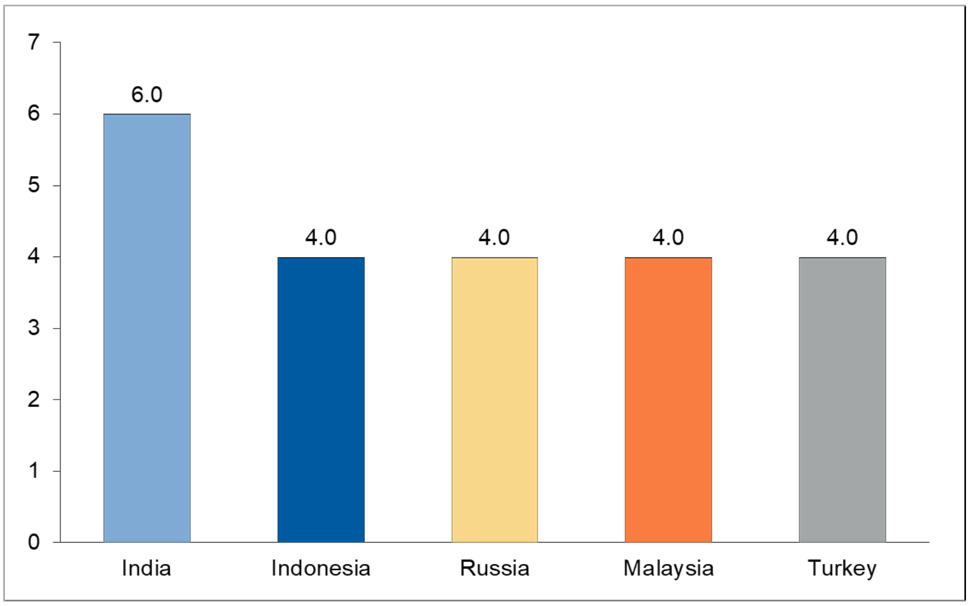
Governments across the OIC member nations are also ramping up their policies to support the development of halal pharmaceutical products. For example, Indonesia introduced the Halal Product Guarantee Act in 2019, requiring mandatory labeling and certification of all Halal chemicals and biological products[296]. Besides this, the OIC's Standards and Metrology Institute for the Islamic Countries (SMIIC) set up a new committee on halal pharmaceuticals to improve the standardization process. Malaysia is a trailblazer when it comes to certifications in its halal pharmaceutical industry, having produced the world's first halal certification for pharmaceuticals in 2012[297].

Halal Cosmetics

Muslim consumers spent around US$ 66 billion on cosmetics in 2019, growing at 3.4% y-o-y; Investments in the sector reached US$124.7 million in 2020

Halal cosmetics industry has witnessed strong growth in recent years, backed by its reputation of cleanliness, hygiene, and animal byproduct-free. Consequently, more brands are seeking halal certification for cosmetics and personal care products to cater not only to the large Muslim population, but also to the non-Muslims consumers. In 2019, Muslim consumers spent around US$ 66 billion on cosmetics, growing at 3.4% y-o-y. India, Indonesia, Russia, Malaysia, and Turkey are the highest spenders on halal cosmetics across the globe. However, the COVID-19 pandemic impacted the cosmetics sales as consumers were forced to stay indoors due to the imposed lockdowns. Spending on halal cosmetics is expected to have dropped by 2.5% to US$ 64 billion in 2020. Investments in the halal-related cosmetics sector reached US$ 124.7 million in 2020 from US$ 45 million in the previous year with 3 deals in Indonesia (2) and Turkey (1)[298].

Exhibit 63: Top Halal Cosmetics Consumer Markets (US$ billion, 2019)



Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

E-commerce and synergy between halal cosmetics and modest fashion is further aiding growth of this segment. Brands are also appealing to the wider market by adding vegan,

---

[295] Source: " ChongKunDang Pharm dedicates anti-cancer drug plant, CKD-OTTO in Indonesia", The Korea Post, July 12, 2019
[296] Source: "Indonesia's Halal Law Takes Effect, Impacting Products and Services", Asean Briefing, October 25, 2019
[297] Source: " Malaysia: World's First Halal Certification for Prescriptive Medicine issued to CCM", Halal Focus, February 02, 2017
[298] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway

organic labels and other beauty trends to their halal product offerings. Moreover, several Halal cosmetic brands are also adopting inclusivity in response to the beauty needs of women of different ethnicities. Indonesia is expected to be a major growth driver for halal cosmetics with over 270 million inhabitants requiring halal labelling by 2024[299].

SE Asia is the largest producer of Halal cosmetics with a 40% global market share, and South Korea is among the largest exporters of halal cosmetics to OIC countries[300]. Very few OIC countries manufacture halal cosmetics, constrained by weak government support[301]. Governments in Indonesia and South Korea have taken significant steps in this regard. In 2019, Indonesia has mandated halal certification for all products that are halal. Similarly, South Korean government is aiding the certification of cosmetics through Halal Certification Bodies and pushing for higher exports to the OIC countries through joint ventures with halal cosmetics companies in Malaysia and Indonesia[302].

[299] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[300] Source: "Halal cosmetics 2020: More traction in Asia led by demand from Malaysia, Indonesia, and exports from South Korea", Salaam Gateway, January 28, 2020
[301] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[302] Source: "Halal cosmetics 2020: More traction in Asia led by demand from Malaysia, Indonesia, and exports from South Korea", Salaam Gateway, January 28, 2020

٢١

8. Industry Outlook

A speedy and effective response has now become crucial to ensure profitability, as well as spur recovery and growth in the industry

The COVID-19 pandemic highlighted the Islamic finance industry's susceptibility to exogenous risks, as it was exposed to the severe implications of the pandemic in equal measure as its conventional equivalent. Islamic financial institutions spent most of 2020 coping with the dual shocks of adjusting to the pandemic and historically low oil prices. Consequently, the industry slowed down during the year after experiencing 14.4% y-o-y growth in 2019. Total Islamic finance assets are estimated to have reached US$ 2.9 trillion by the end of 2020, matching last year's figures[303]. Thus, a speedy and effective response has now become crucial to ensure profitability, as well as spur recovery and growth in the industry. The rise in technology adoption, digital solutions, data-driven decision-making and data sharing across the banking, finance, capital markets and microfinance domains, are likely to quicken this recovery and cement the industry's overall resilience. Meanwhile, Islamic social finance tools are likely to assert a more dominant role in the global market, along with unique Islamic investment instruments such as sukuk, which can be leveraged as alternate financing vehicle amid the COVID-19 induced slowdown.

Developments are likely to be strong towards tech infrastructure empowerment and development

Governments of major Islamic finance markets, in particular OIC nations, have been spearheading this recovery through initiatives aimed at reforming the industry[304]. Nations such as Pakistan, Kuwait and Qatar are working on plans for centralized regulations, while other countries are forging national strategies aimed at boosting the role of Islamic finance in the economy (e.g. Indonesia's Islamic Economy Masterplan 2019-24). Among nascent Islamic finance markets, Uzbekistan is witnessing a rise in demand for Islamic finance post the setup of an Islamic financial institution, while others such as Morocco are issuing their first Islamic sovereign sukuk. Although the industry lacks in terms of global standardization, governments are likely to focus more towards infrastructure empowerment and development. Amid these efforts, technology integration remains the key in fueling recovery and growth in the Islamic finance industry. Digitization is disrupting business models across the industry with services such as digital payment platforms and wallets to robo-advisory services, insurance (takaful), digital currency exchanges (crypto) and sukuk, among others. With new applications within AI, blockchain, and IoT being explored, fresh digital solutions are likely to enhance the market attractiveness and further strengthen the industry. FinTech has particularly taken off across major Islamic finance markets. The UAE, Saudi Arabia, Malaysia and Indonesia, which rank among the most robust Islamic FinTech ecosystems globally, continue to drive growth[305]. There remains growing room for further innovation and collaboration, paving the way for higher profitability for Islamic finance institutions.

Sukuk market is expected to gain momentum, fueled by its applications as a financial tool to raise funding for governments as well as corporates

The impact of the crisis on Islamic banks is expected to be comparable to conventional banks given the similarity of their business model. However, the sukuk market is expected to gain momentum, fueled by its applications as a financial tool to raise funding for governments as well as corporates. The instrument witnessed record-breaking issuances – both public and corporate – over the past year, and this is likely to continue. Concepts such as ESG/sustainable investing, and green sukuk are also rising in prominence and gaining mounting investor interest. Potential developments within such conceptual instruments are likely to support growth in the coming years. Additionally, several new avenues have opened up within Islamic investment, such as charitable trusts with a focus on specialized sectors (e g. real estate), private equity, exchange-traded sukuk funds, Shariah-compliant Mortgage Investment Funds, Halal Mutual funds and other Islamic funds. The wide offerings are likely to appeal to a broader consumer base beyond the Muslim population, thus improving demand prospects for Islamic instruments.

---

[303] Source: State of the Global Islamic Economy Report 2020/21, DinarStandard & Salaam Gateway
[304] Source: State of the Global Islamic Economy Report 2019/20, DinarStandard & Salaam Gateway
[305] Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021

Integrating Islamic Social Finance tools with government policy will aid recovery

Most notably, the pandemic has highlighted the prominence of Islamic Social Finance tools. Social impact-focused investments that are consistent with ESG considerations and sustainable goals are expected witness rising demand. Regional and global humanitarian and development agencies such as the UNICEF, UNDP and UNHCR, are increasingly deploying Islamic social funds through initiatives such as cash transfers, start-up capital, funds for providing interest-free loans, micro-takaful and other forms of microfinance. Many Islamic social finance initiatives have also been launched, such as the UNICEF and the IsDB's Global Muslim Philanthropy Fund for Children[306], initiatives aimed at exchanges of expertise between global philanthropic organizations[307], forging zakat governance standards, and accentuating other areas of Islamic philanthropy. Meanwhile, synchronized efforts are being taken to integrate tools like Zakat, Sadaqah and Waqf with government policies to improve the dissemination of financial aid amid the economic fallout. Instruments such as Waqf are growing in popularity driven by innovations such as temporary cash Waqf and corporate Waqf, which can be linked to government-issued sukuks. For instance, linking a sukuk with a temporary cash Waqf can enable issuers to mobilize charitable funds at rates lower than the market[308]. With Indonesia already having deployed a government-issued cash Waqf-linked sukuk to fund infrastructure development[309], this instrument holds promise for future applications in the market. Islamic Microfinance is also developing across the globe with new funding programs aimed at supporting SMEs impacted by the pandemic. Going forward, Islamic Social finance tools are likely to play a significant role in ensuring financial safety nets to accentuate the recovery for economies.

The next surge of growth for the Islamic finance industry is expected to be driven through innovation, standardization, and M&A activity

The next surge of growth for the Islamic finance industry is expected to be driven through innovation, standardization, and M&A activity[310]. In recent years, the Islamic finance sector has recorded strong M&A activity in both the banking and takaful sectors, and consolidation is expected to continue amid the prevailing weak economic conditions, At the same time, new players are emerging globally with niche offerings, especially in nascent Islamic markets. New Shariah-compliant Islamic Banks are receiving regulatory approvals and licenses in countries such as Tajikistan and Turkey, while Africa is witnessing rising demand for Islamic banking services. Newer markets are likely to drive growth as the core Islamic countries grow towards maturity. On the other hand, investment activity is expected to remain tepid, with majority skewed towards the FinTech sector as digital capabilities become more critical due to COVID-19[311]. As several countries with huge Islamic FinTech potential rank among the top 50 nations in global mobile phone penetration, there is a huge opportunity to bridge the accessibility gap for the unbanked population[312]. The rise in Islamic FinTech's popularity is also prompting a surge in FinTech-focused investment funds such as the US$ 50 million MEC Ventures Fund launched by Bahrain's Al Salam Bank in partnership with China's MSA Capital[313]. Such funds are likely to accentuate the market and create opportunities for Islamic FinTechs to expand services.

The COVID-19 induced slowdown as well as financial vulnerability in jurisdictions where Islamic banking is practiced are envisaged to put the industry's resilience to test in 2021 and beyond. Nevertheless, an optimistic outlook by the IMF on global economic recovery coupled with prudent measures by the governments are expected to spur a recovery.

---

[306] Source: "UNICEF and the Islamic Development Bank launch first global Muslim philanthropy fund for children", UNICEF, September 26, 2019
[307] Source: "AAOIFI And UNHCR Sign an MOU For Joint Initiatives and Collaboration to Enhance Islamic Social Finance", UNHCR, June 14, 2020
[308] Source: The Covid-19 Crisis And Islamic Finance Discussion Draft, Islamic Development Bank, September 2020
[309] Source:" Government Issued First Cash Waqf-Linked Sukuk in 2020, KarimSyah, April 22, 2020
[310] Source: "Islamic Finance After COVID-19", Global Finance, December 28, 2020
[311] Source: Global Islamic Fintech Report 2021, DinarStandard, Elipses & Salaam Gateway, March 19, 2021
[312] Source: Leveraging Islamic Fintech to Improve Financial Inclusion, World Bank Group, October 2020
[313] Source: "Al Salam Bank and China's MSA Capital launch $50 million regional venture fund", Wamda, November 20, 2019

Glossary

Corporate Sukuk: Sukuk that is issued by a company to finance different projects or to expand its business is called as corporate Sukuk.

Dimishing Musharkah: It is a form of partnership used mostly when one party wants to own an asset or a commercial business but does not have adequate funds, taking the assistance of financing from another party. The share of the financier is divided into a number of units such that the client purchases these units periodically until he becomes the sole owner. Here, all partners are co-owners of every part of the asset on a pro-rata basis and one partner cannot make a claim to a specific part of the asset.

Faraid: Generally applied to the assets of a deceased Muslim except for assets that have been given away under the deceased's Will (Wasiat) and certain other 'excluded' assets. The rules of Faraid ensure that the assets of a deceased Muslim are distributed among his/her beneficiaries (Waris) fairly and equitably. It is forbidden (haram) for any Muslim to disobey or disregard Faraid.

Fatwa: A fatwa is a non-binding legal opinion on a point of Islamic law given by a qualified jurist in response to a question posed by a private individual, judge or government.

Green Sukuk: Green Sukuks are Shariah compliant investments in renewable energy and other environmental assets.

Halal: An Arabic term that means lawful or permitted. It is the opposite of word 'haram' and just like the term, it is universal and applies to all facets of Muslim life. The term is used to refer to food products, meat products, cosmetic, personal care products, pharmaceuticals, food ingredients and food contact materials among others.

Halal certification: Means that the food or product adheres to Islamic law and no 'haram' product/procedure was used in its manufacturing/processing. While each country has its own certification body, efforts are being taken to develop a universal halal standard.

Ijarah: A mode of finance where the bank purchases an asset or equipment, and leases it to the client at a price that includes a fair return for the bank. While this is commonly used for financing consumer goods, equipment and vehicles, home financing, it is also used for project and transportation financing and into asset-based financing in larger and more complex transactions. The client may have to purchase the asset at the end of the lease period, and normally does not have the option to purchase the asset in installments.

Istisna: Under this transaction, the bank acts as a financer to the client who manufactures goods for the bank and upon delivery of the goods, the client is appointed as an agent of bank to sell those goods in the market.

Mirath: Islamic law on inheritance (Mirath), based on the Quran, requires that Muslim women receive specifically regulated inheritance shares and permits inheritance to pass through the female line.

Mudarabah (Agencies): Here, the banks provide complete financing, while the customer only contributes his managerial efforts and labor. Both the parties are entitled to profits in pre-determined ratios, while the burden of a financial risk is only borne by the bank. Banks may require a security in such cases.

Murabaha: Also referred to as cost + financing, wherein the bank purchases a commodity in order to supply it to a customer who is not financially able to make such a purchase directly. The bank then sells the commodity to the customer for cost plus profit — the profit being a markup that both the bank and customer agree on upfront. The bank is allowed to take assets as security against potential future default by the client.

Musharkah (Equity Participation): Similar to a joint venture, banks and their clients enter in a temporary agreement for effecting a project for an agreed period. Both the parties contribute to the capital in varying degrees (including assets, management, working capital etc.), and agree to share the net profit in proportions agreed upon in advance.

Qard: Refers to a contract of lending money by a lender (Customer) to a borrower (Bank), where the latter is bound to repay an equivalent replacement amount to the lender. In this situation, the bank is guaranteeing the repayment of the money, returning the same to the lender accordingly, subject to the Bank's procedures.

Qard al-Hasan: Refers to an interest free loan. In a Qard al-Hasan transaction, the borrower repays the principal amount of the loan without interest, mark-up, or a share in the business for which the loan was used. This product is consistent with the Sharia prohibition against riba because the borrower is not compensating the lender for the money advanced.

Quasi-Sovereign Sukuk: Sukuk that is issued by a public-sector entity with partial or full government ownership or control and may carry implicit or explicit government guarantee.

Salam: A form of forward contract where the bank buys certain goods and pays for it upfront, setting the delivery at a future date.

Shariah: Refers to a set of principles and guidelines in Islam that governs aspects of day-to-day life for Muslims in addition to religious rituals.

Shariah Board: Also called Shariah Supervisory Board or Religious Board, which primarily advises and certifies the Islamic financial products as being Sharia-compliant by reviewing the related contracts and provides an opinion about whether those agreements would be permissible under the Islamic law.

Sovereign Sukuk: Sukuk that is issued by a national government usually in foreign currency is called as Sovereign Sukuk, whereas Sukuk issued in their own domestic currency is referred to as government Sukuk.

Sukuk: A sukuk is an Islamic financial certificate, similar to a bond in Western finance, which complies with the Islamic religious law.

Sustainable and Responsible Investment (SRI) Sukuk: SRI Sukuk was introduced by the Securities Commission of Malaysia in 2014 to facilitate the creation of an ecosystem that promotes sustainable and responsible investing for investors and issuers.

Takaful: It is a type of insurance system devised to comply with the Shariah laws, in which money is pooled and invested.

Tawarruq: Here, a buyer purchases a commodity from a seller on a deferred payment basis (borrowing the cash from a bank to make this payment), and then sells the same commodity to a third party on a spot payment basis. Later, when he secures the cash from the second transaction, the buyer pays the original seller the installment or lump sum payment he owes (which is cost plus markup, or Murabaha).

Wadiah: This type of accounts correspond to safekeeping, custody, deposit and trust. Wadiah refers to the deposit of funds or assets by a person in an Islamic bank where the depositor deposits his funds or assets with the bank for safekeeping and in most of the agreements, is charged a fee by the bank. The basic types of Wadiah are - Wadiah yad amanah where property is deposited based on trust; and Wadiah yad Dhamanah where savings are deposited with guarantee.

Waqf (Endowment): A special kind of philanthropic deed in perpetuity. It involves donating a fixed asset which can produce a financial return or provide a benefit. The revenue or benefit generated then serves specific categories of beneficiaries. Muslims giving Waqf typically donate a building, land or cash with no intention of reclaiming the value gained from them. A charitable trust may hold the donated assets.

Wassiyah: The assignment of wealth after death to some beneficiaries of choice. It constitutes the statement of a muslim in which they plan on their wealth distribution to heirs after death.

Zakat: A religious obligation, ordering all Muslims who meet the necessary criteria to donate a certain portion of wealth each year to charitable causes. Zakat is based on income and the value of possessions. The common minimum amount for those who qualify is 2.5%, or 1/40 of a Muslim's total savings and wealth. If personal wealth is below the nisab during one lunar year, no Zakat is owed for that period.

Description of Calligraphy Concepts

Who toil succeeds

Learn and then speak

Heart & Sight

I suffered, I learned and changed

Prevail

Balance

Gain

Wissam Shawkat

Born in Basra, Iraq in 1974, for Wissam Shawkat it was the form of four letters from the Arabic alphabet written across a school blackboard that started him on a journey that has shaped him both in early years and adulthood. He recalls finding peace and patience writing and repeating calligraphic letters on the dusty tiles of a makeshift shelter during a heavy aerial bombardment and, spurred on by supportive parents, he became his own tutor.

His teen summers were spent lettering for a local sign shop before he began studying for a degree in Civil Engineering at Basra University, graduating in 1996. The life as a Civil Engineer, though, was not Shawkat's destiny and the point where his affinity for letterforms would wait no longer quickly came.

In recent years, Shawkat has become known for a new calligraphic style, Al Wissam, which references a number of traditional scripts including Sunbuli, Jali Diwani, Eastern Kufic, and Thuluth, bringing them together with modern design.

Wissam Shawkat is an award-winning designer and has worked nationally and internationally for some of the world's best-known branding, advertising and creative agencies.

As a revered calligraphic artist, Shawkat has been the subject of a number of high-profile solo exhibitions including Monumental Forms at the Islamic Art Festival, Sharjah Art Museum (2016), Monumental 11/11 at Tashkeel Gallery, Dubai (2015) and Letters of Love at Reedspace Art Gallery, New York (2011).

His numerous awards and accolades include Baghdad's 4th International Calligraphy Festival in 1998, his first international prize, 5 times winner of Al Burda International Calligraphy Competition, Al-Baraka Turk Bank Calligraphy Competition, Visual & Audible Arabic Calligraphy, Iraqi Calligraphy Society Prize, International Calligraphy Competition (IRCICA), and Dar Al-Salam 3rd Arabic & Islamic Ornamentation Festival.

Wissam Shawkat is based in Dubai and engaged as a full-time artist and designer. His work features in collections including that of the Sharjah Royal Family, The Dubai Royal Family, and the Abu Dhabi Royal Family, as well as private and museum collections around the world.

Instagram handle: @wissamshawkat

Sameena Ahmad	Sudarshan Malpani	T.M Lakshmanan	Zahra Husain
Managing Director	Managing Director	Senior Executive Officer	Executive Manager
sameena.ahmad@alpencapital.com	sudarshan.m@alpenadvisors.com	lakshmanan.tm@alpenadvisors.com	zahra.h@alpencapital.com
+971 (0) 4 363 4345	+971 (0) 4 363 4396	+971 (0) 4 363 4306	+971 (0) 4 363 4321

DISCLAIMER: