

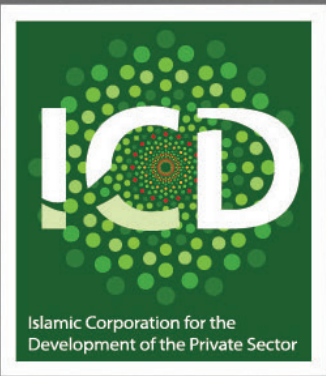
#IFDI2023

ICD - LSEG ISLAMIC FINANCE
DEVELOPMENT REPORT 2023

NAVIGATING UNCERTAINTY



LSEG DATA & ANALYTICS



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Foreword

The Islamic Corporation for the Development of the Private Sector (ICD), the private sector development arm of the Islamic Development Bank Group (IsDB), and the London Stock Exchange Group (LSEG), the world's leading provider of financial markets data and infrastructure, are pleased to present this year's edition of the Islamic Finance Development Report titled Navigating Uncertainty.

This study demonstrates our continued effort towards monitoring and charting the development of the global Islamic finance industry. The report is based on the Islamic Finance Development Indicator (IFDI) that covers data on different Islamic finance sectors, asset classes and industry supporting ecosystem. The indicator was first launched in 2013 and so this year is another milestone for us. Reaching this mark reminds us of the importance of the need for continued commitment to serve the global Islamic finance industry that has expanded exponentially in the last decade.

Over the years, the IFDI has strengthened in tandem with the changes in the industry. For example, the increasing prevalence of sustainability practices and Islamic FinTech developments necessitated the incorporation of their quantitative and qualitative analyses since last year's report.

Through the decade, the indicator has captured the highs and lows of the global Islamic finance industry. In this year's study that looks at the year 2022, the report sees the global financial industry grappling with intense periods of stress due to different factors including volatile commodity markets and interest rate hikes. Despite significant headwinds, the global Islamic finance industry increased its assets size by 11% from 2021 to US\$4.5 trillion. In the past decade, the industry grew by 163% as covered in our special analysis in this report.

The industry is expected to continue to grow, with assets forecasted to reach US\$6.7 trillion by 2027. Several key factors contribute to this outlook, including the large Islamic finance markets such as the GCC, Malaysia and Indonesia continuing to strengthen their domestic Islamic finance industries, and Pakistan addressing the requirements to convert its financial system to become interest-free following its Federal Shariah Court judgement on Riba in 2022. In other parts of the world, different jurisdictions are working towards embracing the Islamic finance industry further through regulations, such as West African nations.

In order to gain deeper insights and perspectives, we have exclusive articles from industry bodies and regulators based in emerging and leading markets such as the Philippines and Türkiye. These insights give this report a much-needed focus on the development of Islamic finance in these economies as well as their moves towards further strengthening their local industries.

Finally, we are pleased to see that the indicator results are consistently cited over the years by different regulatory authorities and multilateral organisations around the world, especially in those studies and publications that deal with strategies, blueprints, development roadmaps and masterplans that cover Islamic finance or the overall finance industry. We hope this year's report, following in the footsteps of previous IFDI reports, will have a meaningful impact for the Islamic finance industry.



Eng. Hani Salem Sonbol

Chief Executive Officer,
International Islamic
Trade Finance Corporation
Acting Chief Executive Officer, Islamic Corporation
for the Development of the Private Sector



Mustafa Adil

Head of Islamic Finance,
The London Stock Exchange Group

Executive Summary

During 2022, the world's financial industry grappled with an uncertain economy characterised by volatile international commodity prices and a global supply chain that had not quite returned to pre-pandemic stability, both of which combined to push up inflation levels. During the year, financial institutions (and their customers) held their breath at points when central banks tightened monetary policy and effected multiple rate hikes that sent yields to their highest levels. Amid this backdrop, the growth of the global Islamic finance industry slowed to 11% to US\$4.5 trillion worth of assets, from 17% in 2021.

Winners and losers among Islamic finance sectors and asset classes

While the Islamic finance industry grew overall, some of its sectors and asset classes posted negative results. Islamic funds were hit the worst, with most Islamic funds in most markets—both mutual funds and exchange traded funds (ETFs)—posting negative growth as a result of adverse sentiment in equities due to multiple rate hikes across many jurisdictions.

As a result, Islamic funds' assets under management (AuM) dropped by 10% from 2021 to US\$220 billion while the number of new Islamic funds declined significantly from 223 in 2021 to 71 in 2022. Yet, there were a few notable fund launches during 2022, such as Australia's first Islamic ETF and ESG ETFs in different regions.

In the Islamic banking sector that held US\$3.2 trillion in assets in 2022, 24% of Islamic banks reported lower profits or higher losses. Some Islamic banks reported a hit to their equity investments during the year. Other reasons for lower growth or returns include inflationary adjustments that impacted costs, and increase in expenses for digitalisation. For banks that reported positive performance, some of which were better than pre-pandemic levels in regions such as the GCC, their growth was underpinned by higher profit income and lower impairment charges as well. These markets reported better economic sentiment that led to higher levels of financing activities.

Sukuk, the second largest contributor to Islamic finance assets with US\$788 billion in value outstanding in 2022, posted a resilient performance. Issuances from a key market, Malaysia, increased year-on-year as corporates stepped up activity in the market. However, issues from the GCC declined in light of lower funding requirements from sovereigns and state-backed corporates due to a surge in oil prices in 2022. Notably, Sub-Saharan African nations Tanzania and Nigeria saw corporate issues during 2022.

The third largest sector in the global Islamic finance industry is takaful that grew by 16% to hold US\$90 billion in total assets in 2022. Only 52% of takaful operators posted positive performance during the year. This is largely due to the increase in claims payouts for business lines such as motor takaful. Some operators were also hit by investment losses.





The Other Islamic financial institutions sector (OIFI) was valued at US\$167 billion in total assets in 2022. Saudi Arabia is home to the largest number of OIFIs as more companies set up shop or opened a branch in the Kingdom.

Malaysia, Saudi Arabia lead but eyes are also on Pakistan as it transitions to become a fully Islamic financial system

In order to gain a better perspective of the development of the Islamic finance industry globally and by country, the Islamic Finance Development Indicator captures elements of the Islamic finance industry beyond financial performance. These include the industry's governance, sustainability, knowledge and awareness. By these metrics, Malaysia, Saudi Arabia and Indonesia return as the most developed Islamic finance jurisdictions among 136 countries.

Within the top ten countries, Pakistan moved to sixth in the IFDI 2023 rankings from eighth. Pakistan's improved position is in line with its ambition to become an interest-free economy by 2027 following the judgment of the Federal Shariah Court (FSC) in April 2022 that Riba is prohibited. The rise in Pakistan's ranking reflects improvements in the financial performance of its Islamic financial institutions and awareness metrics. Other countries with notable improvements in IFDI rankings are Nigeria, the Philippines and Tajikistan.

Outlook: Multiple growth channels to drive Islamic finance forward

While 2022 saw mixed financial performances, moving forward from 2023, the Islamic finance industry has many reasons to be optimistic in its outlook based on the positive developments in individual sectors, asset classes and the supporting ecosystem. Key developments include the following:

In new or emerging Islamic finance markets: Russia and Uganda pressed on through 2023 to incorporate Islamic banking into their financial systems. Algeria and Ethiopia started developing regulatory frameworks and roadmaps for Islamic capital markets.

In established Shariah-compliant markets: In the UAE, Islamic finance was incorporated in the commercial transactions law. Pakistan and Saudi Arabia continue to strengthen Shariah governance.

The different sectors will gain from developments across countries where Islamic finance is firmly rooted.

For Takaful, the Saudi market is bracing itself for changes following the establishment of the Kingdom's Insurance Authority in September 2023 to further develop and advance the sector in a country that is undergoing sweeping changes to meet the goals of Vision 2030.

An forward-looking trend that will only keep on growing based on the advances of technology is Islamic Fintech. In this sector we see the imminent launch of digital Takaful operators in Malaysia, and the continuing development of new products and services to better serve Islamic capital markets.

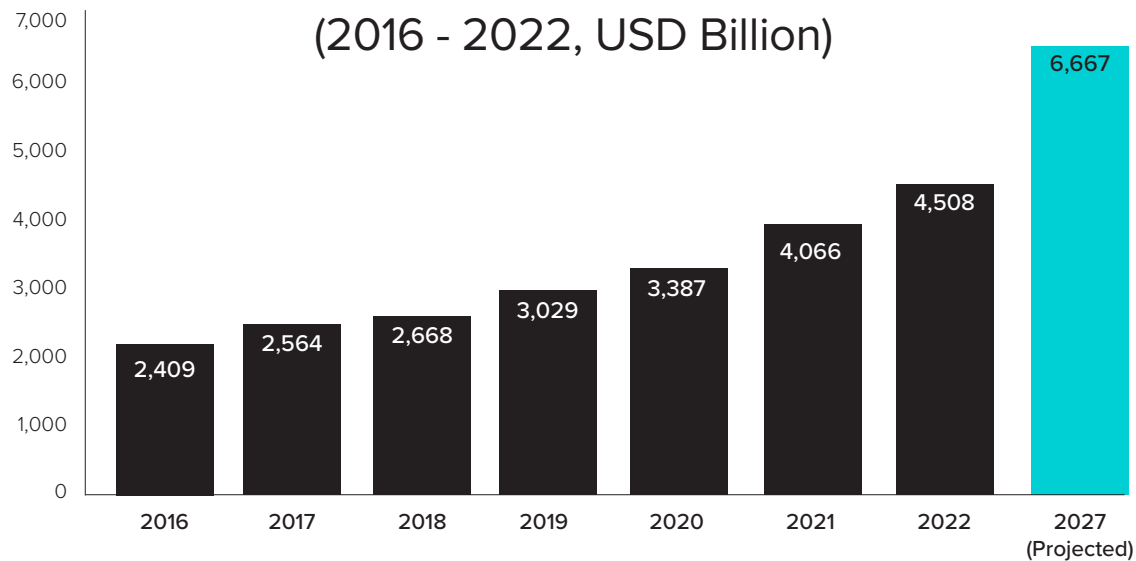
For Sukuk, an important asset class of Islamic capital markets, the pipeline continues to build even as sovereigns and corporates wait for favourable issuance windows, reduced market volatility and a more stable interest rate environment. At the same time, oil-importing nations still look to Sukuk to plug funding gaps. For oil-exporting countries like those in the GCC, the need to diversify funding requirements could persuade more issuers to sell Sukuk.

A segment of Sukuk that showed rapid growth momentum is ESG Sukuk whose issuance totalled US\$8.4 billion in 2022 compared to US\$6.1 billion in 2021. The growth of ESG Sukuk is expected to continue in the coming years as several governments have shown their intent to rebuild their economies more sustainably. Sustainability objectives can also be met by the Islamic finance industry through ESG financing by Islamic banks. We already saw an instance of this in 2022 with a first-of-its kind ESG financing by Islamic banks in the GCC that we detail in the Sustainability section of this report. Islamic sustainable finance will continue to be highlighted thanks to the UAE hosting COP28 in November and December 2023.

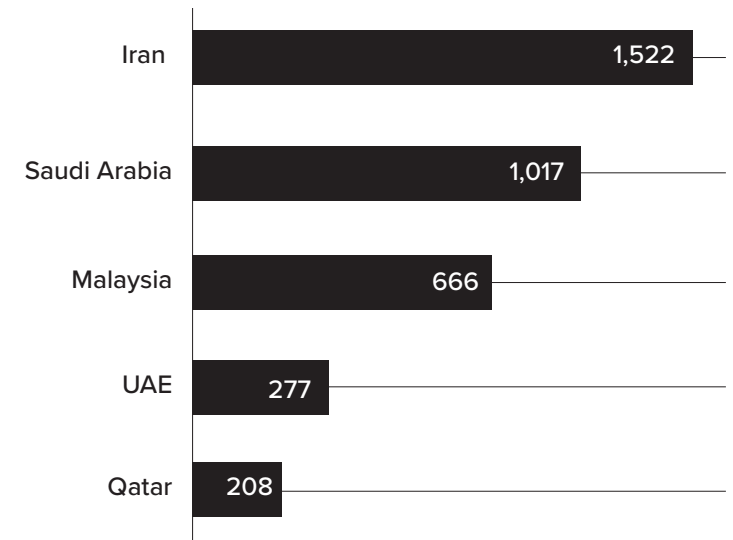
The industry is also seeing increased efforts towards developing knowledge and awareness of Islamic finance. Shariah qualifications, especially in jurisprudence in transactions, are becoming more important; this is evident in the UAE where authorities now require certain qualifications for Shariah board members in Islamic financial institutions. Meanwhile, Indonesia is implementing a diversity of means towards raising awareness for Islamic finance as part of its regulators' national strategy for financial literacy.

With these multiple growth channels and developments, we expect the Islamic finance industry to continue its growth trajectory to US\$6.7 trillion in 2027.

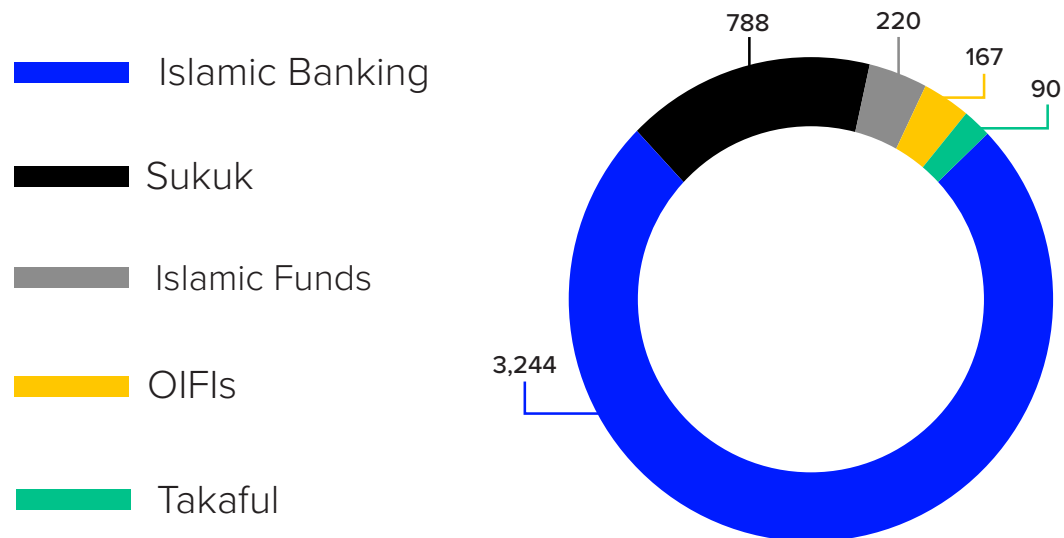
Islamic Finance Assets Growth (2016 - 2022, USD Billion)



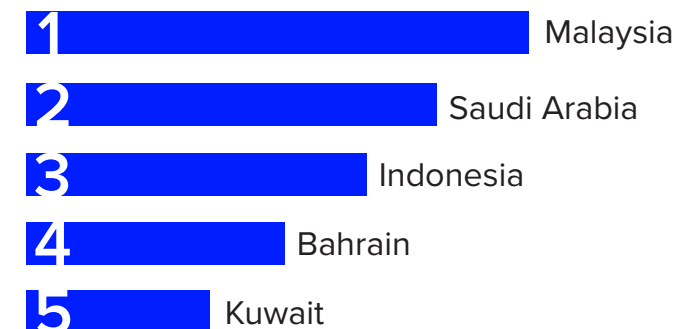
Top Countries in Islamic Finance Assets (2022, USD Billion)



Islamic Finance Assets (2022, USD Billion)



Most Developed Countries According to IFDI 2023



Islamic Finance Industry and its Supporting Ecosystem in 2022

FINANCIAL PERFORMANCE



Total Islamic Finance Assets

**US\$
4.5 Trillion**



YoY Growth of IF Assets

11%



Islamic Financial Institutions

1,871

GOVERNANCE



Countries with at Least One Type of Islamic Finance Regulation

56



Countries with FinTech Sandbox

55



Countries with Central Sharia Committee Presence

20



Average Disclosure Index

28%



Shariah Scholars

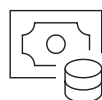
1,325

SUSTAINABILITY



Total Value of ESG Sukuk Outstanding (USD Million)

24,409



Total Value of ESG Islamic Funds Outstanding (USD Million)

6,558



Number of Countries with Sustainability Guidelines

42



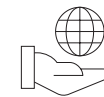
Average ESG Reporting Index

18%



Average CSR Reporting Index

14%



Total CSR Funds Disbursed (USD Million)

1,524

AWARENESS



Number of Islamic Finance Events

1,053



Share Islamic Finance Virtual Events of Total Events

78%



Number of Islamic Finance News

13,216

KNOWLEDGE



Islamic Finance Education Providers

882



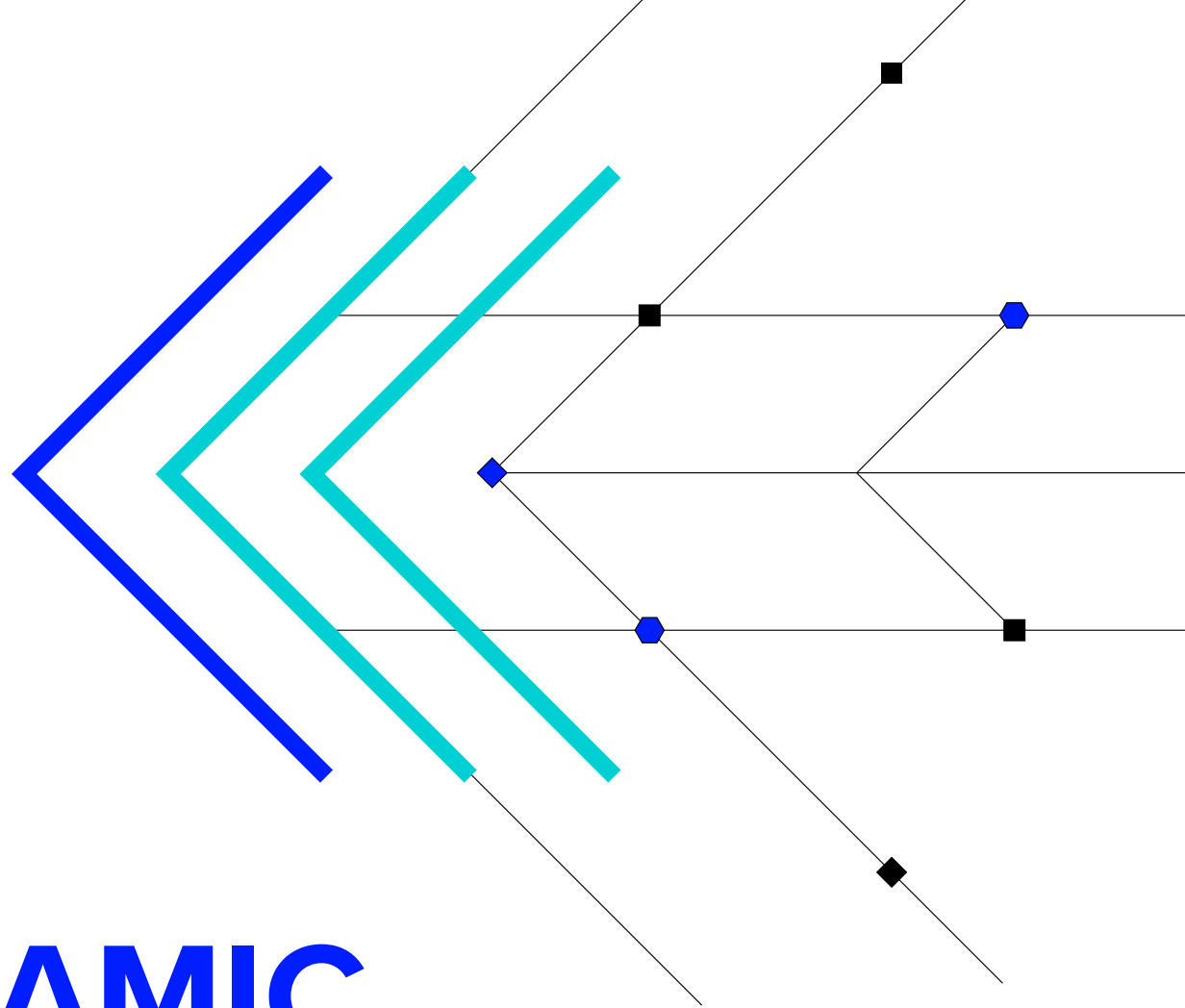
Islamic Finance Research Papers Produced

3,831



Islamic Finance Journals

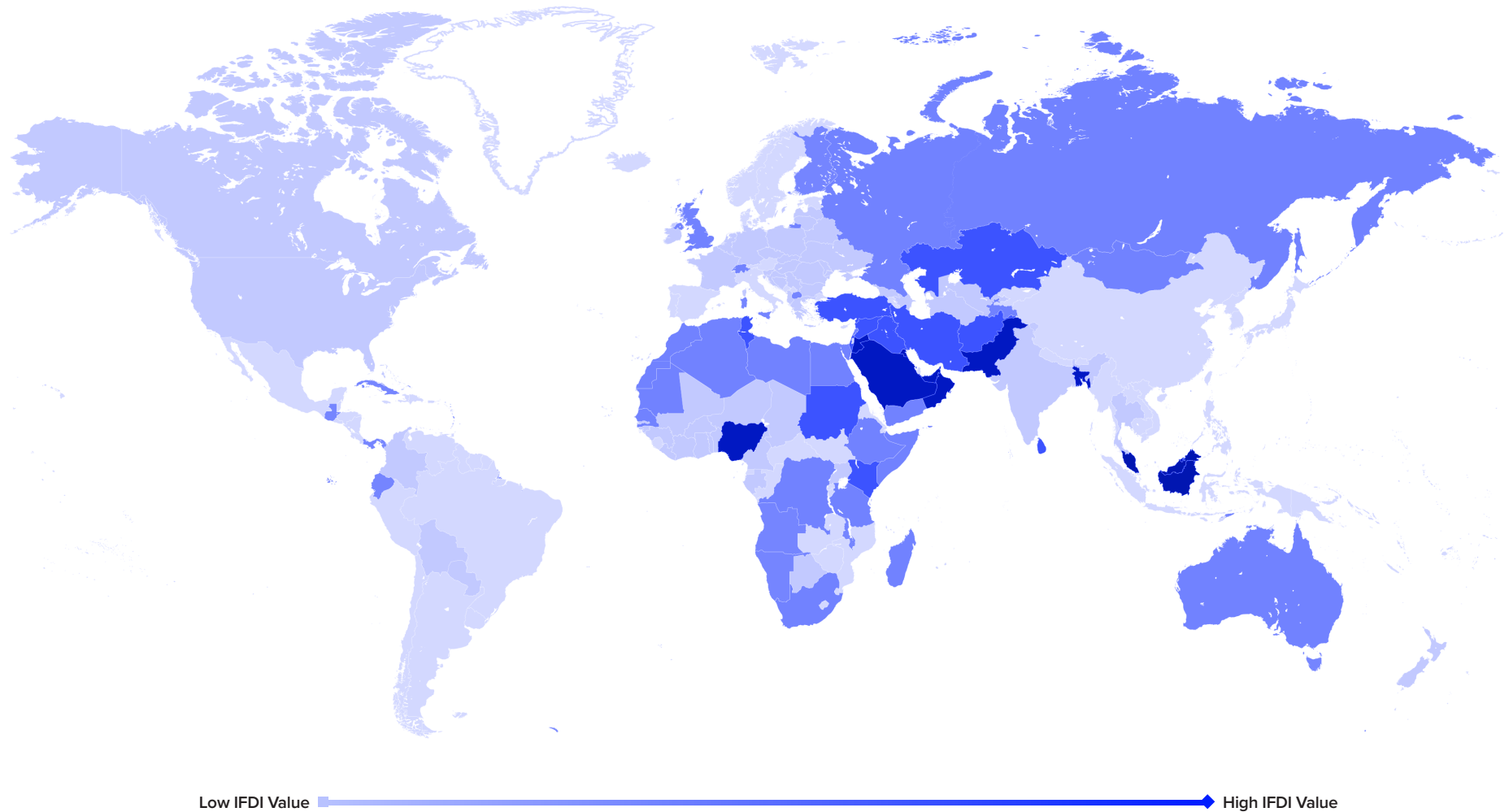
129



GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

Islamic Finance Development Indicator 2023

Most Developed Countries In Islamic Finance



Top five countries

- 1 Malaysia
- 2 Saudi Arabia
- 3 Indonesia
- 4 Bahrain
- 5 Kuwait

What is the Islamic Finance Development Indicator?

The Islamic Finance Development Indicator (IFDI) provides Islamic finance stakeholders such as governments and financial institutions a detailed analysis of the key factors driving the development and growth of the industry worldwide. The IFDI provides a vital tool in guiding policy within the industry by measuring changes in the indicator and its underlying components over time and across different countries. The IFDI also gives an indication of the strength of the ecosystem behind the industry's overall development as well as the size and growth of the different sectors in the many countries where Islamic finance has a presence.

The 2023 indicator measures the state of the development of the Islamic finance industry in 2022 and provides sub-sector performances and rankings for 136 countries around the world. The five indicators that are the main drivers of development in the industry for 2023 are: Financial Performance, Governance, Sustainability, Knowledge and Awareness. The changes made to the model include:

In terms of the weightage of the five main indicators, the overall indicator stresses more on the financial components (40%) and governance (25%). The remaining weightage is distributed among the rest of the indicators.

The underlying coefficients to produce the scores for the indicator are banking assets, GDP and population. The breakdown of the sub-indicators and their metrics are outlined in the next pages. In addition, a more detailed methodology of the indicator can be found in the IFDI rulebook online. Readers can view the underlying IFDI database on LSEG's Workspace that offers a wealth of additional information on the indicator and its rankings.

This chapter investigates the top-ranking countries according to IFDI and summarises the current state of the global Islamic finance industry through these indicators.

Global IFDI Indicator 2023

Measures performance for
136 COUNTRIES



Financial Performance



Governance



Knowledge



Sustainability



Awareness

Top IFDI Countries and Global Average IFDI Scores for 2023



Pakistan IFDI ranking improves as its economy transition to become fully interest-free

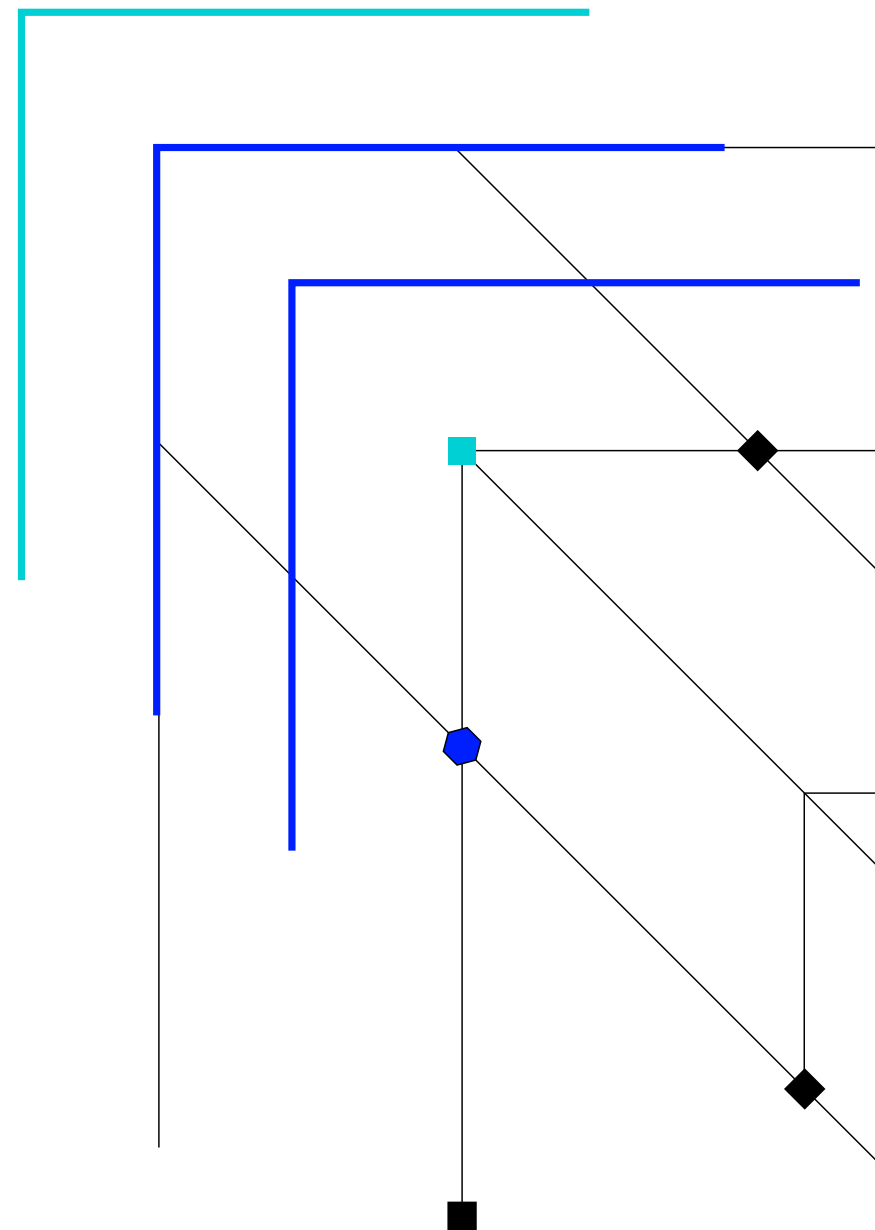
There is no change at the top of the IFDI 2023 compared to the previous year, with the average score unchanged at nine and the top five most developed Islamic finance countries from last year returning in their same positions. There were, however, movements among the rest of the top ten countries.

Pakistan leapfrogged Oman to jump to sixth position on IFDI 2023 from eighth. The improvement in Pakistan's ranking reflects the steps taken in 2022 for its economy to become fully interest-free by December 31, 2027 following the Federal Shariat Court (FSC) ruling prohibiting Riba in April of the same year. The developments in 2022 contributed to Financial Performance indicator saw increase in sukuk issues and takaful assets, a higher score for Awareness due to more media coverage of the FSC ruling and its aftermath, which included an appeal to that decision by the State Bank of Pakistan, the central bank, that was later dropped. Pakistan also organised and held the most Islamic finance-related seminars during 2022, and the country was among the top five markets on the Governance and Knowledge indicators.

Nigeria home to most developed Islamic finance industry in Sub-Saharan Africa

There was another notable rise up the IFDI ranking with Nigeria jumping from nineteenth to fourteenth. Nigeria's sovereign Sukuk issue in 2022 and growth in corporate Sukuk led to improvement to its Sukuk and News sub-indicator scores. The asset growth of newly-established banks, such as TAJ Bank, also boosted Nigeria's IFDI ranking. The development of Islamic finance in Nigeria has been years in the making, with government support driving authorities such as the Securities Exchange Commission (SEC) to aim for expansion of the Islamic or non-interest capital market to at least NGN5 trillion (US\$ 6 billion) by 2025.

Other countries with notable improvements in IFDI rankings were the Philippines and Tajikistan.





Country	Rank	Financial Performance Score	Financial Performance indicator is a weighted index of Islamic financial institutions (IFIs), per country, that generate Islamic finance services as well as Islamic capital markets
Malaysia	1	84	
Saudi Arabia	2	56	
Iran	3	48	
Kuwait	4	36	
Türkiye	5	34	

Top Countries by Sub-Indicator

Rank	Islamic Banking	Takaful	Other Islamic Financial Institutions (OIFIs)	Sukuk	Islamic Funds
Average Score	9	5	5	4	2
1	Iraq	Iran	Saudi Arabia	Malaysia	Malaysia
2	Iran	Saudi Arabia	Kuwait	Saudi Arabia	Iran
3	Sudan	Pakistan	Iran	Indonesia	Türkiye
4	Bahrain	Bangladesh	Malaysia	Türkiye	Saudi Arabia
5	Saudi Arabia	Malaysia	Türkiye	Jordan	Pakistan
Metrics Used	Per sector: Total assets, number of institutions (full-fledged Islamic or Islamic window), number of listed institutions, return on assets			Number and volume of Sukuk issued and outstanding, number of listed Sukuk, bid/ask spread	Number and TNA of funds outstanding, number of funds launched and number of asset managers, cumulative performance

Islamic funds worst hit by measures to curb high inflation

Overall, the Islamic finance industry remained resilient with a 13% increase in assets in 2022 from the previous year. By sector, tighter monetary policies from the end of the first quarter of 2022 to counter rising inflation hit stocks, which in turn impacted Islamic funds. The situation prevailed even in Saudi Arabia—the world's second largest Islamic finance market by assets behind Iran and the fastest-growing G20 economy in 2022—as the Tadawul All Share Index fell by 7.1%. Most Islamic funds globally suffered a negative cumulative performance, pushing down the Islamic Funds sub-indicator average global score to 2 for IFDI 2023 from 4 the previous year.

The volatile economy also hit Islamic banks. The Islamic Banking sub-indicator score dropped to 9 for IFDI 2023 from 10 the previous year because of lower profits reported by some Islamic banks across different countries, and 11% of all Islamic banks monitored by the IFDI were hit by losses. Many Takaful institutions posted lower profits due to higher claims and lower investment income but the sector's IFDI score remains the same as the previous year because of asset growth. The Sukuk sub-indicator score also stays unchanged from the previous year based on a similar level of issuance in 2022 as 2021 across most markets.





Governance Indicator

Country	Rank	Governance Score	The Governance indicator is a weighted index of standards of good practice with regard to regulations, corporate governance, and Shariah governance
Malaysia	1	95	
Oman	2	94	
Bahrain	3	80	
Maldives	4	80	
Pakistan	5	75	

Top Countries by Sub-Indicator

Rank	Regulations	Shariah Governance	Corporate Governance
Average Score	27	14	9
1	Malaysia, Pakistan, Indonesia, Oman, UAE, Bahrain, Brunei, Nigeria, Kazakhstan	Kuwait	Oman
2		Malaysia	Maldives
3		Sudan	Malaysia
4		Bangladesh	Sri Lanka
5		Bahrain	Australia
Metrics Used	Regulations on Islamic banking, specific accounting, Shariah governance, takaful, sukuk, Islamic funds, fintech sandbox	Centralized Shariah committee presence, number of scholars with at least 1 board membership, number of scholars with more than 5 board memberships (counts as negative), number of institutions with three Shariah scholars or more	Disclosure index score, number of independent directors, other corporate governance items (independent chairman of the board, non-executive chairs of audit and risk management committees)

Regulations spur improvement in Governance, supported by regulatory developments in FinTech, West Africa

The Governance indicator improved to 17 for IFDI 2023 from 16 the previous year. Four of the top five performing countries in the Governance indicator remain unchanged from the previous year. The fifth, Kuwait, was pushed out of the top five by Maldives that climbed from sixth to fourth in this indicator.

The Maldives' performance improved based on its higher financial reporting disclosure index score that IFDI tabulates under Corporate Governance. The remaining top five countries all earned perfect scores on the Regulations sub-indicator, reflecting regulations covering all the sectors and assets classes identified by the IFDI methodology. Malaysia tops the Governance indicator as it is among the highest scoring countries for both the Shariah Governance and Corporate Governance sub-indicators.

The overall Regulations score improved with many countries incorporating FinTech sandboxes. In addition, the West African region (WAMU) saw the adoption of Sukuk regulation during 2022. We're keeping a close watch on this space as the West African financial markets authority (AMF-UMOA) aims to incorporate Islamic mutual funds guidelines as part of the region's ambitions to establish a regulatory framework dedicated for Islamic capital markets.





Country	Rank	Sustainability Score	The Sustainability indicator is a weighted index of CSR activities and ESG practices for all Islamic finance sectors and asset classes
Malaysia	1	124	
Saudi Arabia	2	122	
Jordan	3	109	
Sri Lanka	4	60	
Singapore	5	60	

Top Countries by Sub-Indicator

Rank	CSR	ESG
Average Score	9	9
1	Saudi Arabia and Jordan	Malaysia
2		Saudi Arabia
3	Sri Lanka	Singapore
4	Oman	Indonesia
5	Singapore	Bahrain
Metrics Used	Funds disbursed to charity, zakat and qardh al hasan, disclosed CSR index score	Number and value of ESG sukuk outstanding, number and value of ESG Islamic funds outstanding, presence of sustainability guidelines given the presence of Islamic finance in the country, ESG reporting index score

Improved disclosures drive Sustainability indicator

Both CSR and ESG sub-indicators scored 9 compared to an average of 7 for CSR and 8 for ESG for IFDI 2022. The higher scores reflect the improvement in CSR and ESG disclosure indices scores by several Islamic financial institutions that started incorporating GRI reporting standards in their sustainability reports following recommendation by their regulators and securities exchanges. Another factor that led to the improvement in ESG score is the increase in the number of countries with sustainability guidelines.

Another important parameter in the Sustainability indicator is the amount of CSR funds disbursed by Islamic financial institutions in each country. Saudi Arabia used to lead on this metric each year but for IFDI 2023 it shares top ranking with Jordan that, on proportion, disbursed a large amount of CSR funds relative to its small size. The rest of the countries that topped the CSR sub-indicators are driven by their high CSR disclosure scores.





Knowledge Indicator

Country	Rank	Knowledge Score
Indonesia	1	200
Malaysia	2	112
Saudi Arabia	3	54
Pakistan	4	46
Jordan	5	40

The Knowledge indicator is a weighted index of education and research which are the main building blocks for any knowledge-based industry

Top Countries by Sub-Indicator

Rank	Education	Research
Average Score	8	5
1	Indonesia	Indonesia
2	Malaysia	Malaysia
3	Jordan	Saudi Arabia
4	United Arab Emirates	Pakistan
5	Saudi Arabia	Tunisia
Metrics Used	Number of Islamic finance course and degree providers	Number of research papers produced and number of Islamic finance journals

Pakistan's Islamic finance knowledge ecosystem expected to expand following court judgement on Riba

The average global score of the Education sub-indicator stayed at 8 but Research dropped to 5 from 6. Indonesia, Malaysia, Saudi Arabia and Pakistan returned as Knowledge leaders from the previous IFDI rankings.

The conversion of Pakistan's economy to become fully Islamic by the end of 2027 following the Federal Shariat Court's ruling in April 2022 outlawing interest is expected to increase the number of finance professionals and employees seeking industry knowledge. We also expect a boost in the number of Shariah board members to represent financial institutions that do not currently have Islamic finance operations, as well as academics and Islamic accounting and auditing experts, among others. This will lead to an increase in both Islamic finance research papers and education providers in the country.

Jordan, which ranks fifth in this indicator, has a high number of education providers for Islamic finance courses relative to its small size. Jordan is considered a study destination for international non-Arabic speaking students for subjects such as Islamic and Middle East studies. Elsewhere, the UAE saw an uptick in the number of education providers, most of which are academies, centres and institutions that provide Islamic finance qualifications or certificates.





Awareness Indicator

Country	Rank	Awareness Score	The Awareness Indicator is a weighted index of Islamic finance market awareness that assess two components: events and news
Malaysia	1	152	
Kuwait	2	142	
Bahrain	3	120	
UAE	4	120	
Saudi Arabia	5	116	

Top Countries by Sub-Indicator

Rank	Events	News
Average Score	5	19
1	Kuwait	Malaysia Saudi Arabia UAE, Bahrain, Qatar, Oman
2	Malaysia	
3	Indonesia	
4	Bahrain	
5	United Arab Emirates	
Metrics Used	Number of seminars, conferences and online events	Number of exclusive and regional news

News and Events sub-indicators see mixed developments

News and Events sub-indicators see mixed developments

The average global score for the Awareness indicator stayed the same as the previous year, but there were changes in its components. The Events sub-indicator score dropped from 6 to 5, and News improved to 19 from 18. Malaysia and four of the six GCC countries continued to dominate the top five positions of this indicator. Bahrain improved from its fifth position to third, pushing Saudi Arabia down to fifth.

On the Events sub-indicator, Kuwait overtook Malaysia to take the top spot, while Bahrain and the UAE joined the top five. Bahrain benefited from an increase in online events led by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), General Council for Islamic Banks and Financial Institutions (CIBAFI) and the International Islamic Financial Market (IIFM), all of which are headquartered in Bahrain. The UAE saw several online events and workshops during 2022 that introduced different aspects of the Islamic finance industry, such as auditing and Shariah governance. The country is also a destination for a few larger events such as conferences and awards in the Middle East. Overall, fewer countries hosted events in 2022 compared to 2021.

The score for the News sub-indicator improved for several countries, eventually boosting their Awareness indicator scores. The countries with the most improvement in Awareness scores because of an increase of news on local developments in Islamic finance are Afghanistan, Nigeria, Djibouti and Uganda.





Shaima Hasan
Senior Proposition
Manager, LSEG

Shaima Hasan is a Senior Proposition Manager at London Stock Exchange Group (LSEG) with more than 12 years of professional experience. She is leading the delivery of Islamic finance bespoke solutions including strategy development and products enhancements, knowledge and research, consulting services and market engagement with government entities, multilateral organizations and leading financial institutions.

IFDI SPECIAL COVERAGE :

Islamic Finance in the Past Decade

The Islamic finance industry from 2012 to 2022 transformed from niche to mainstream in many countries, demonstrating how a small sector can grow to become a large standalone industry. In this article, we cover the development of the industry based on the IFDI data that we have gathered since 2012.

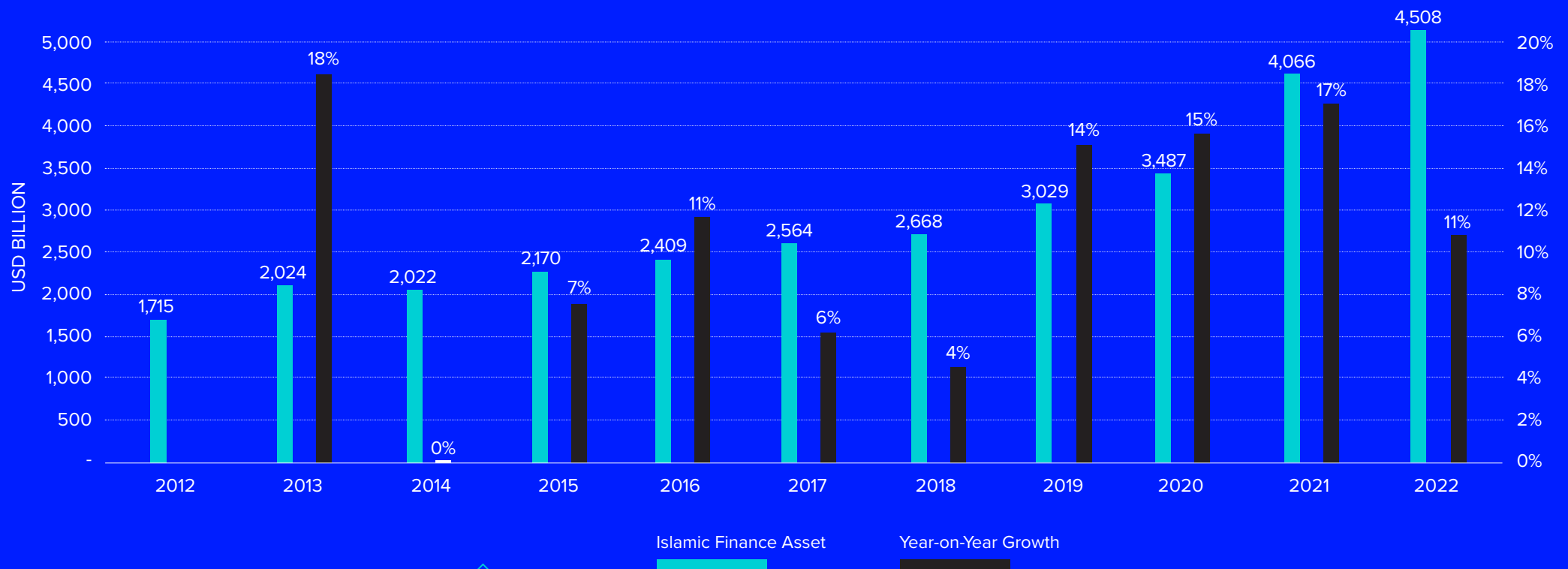
Wider and deeper global presence as more countries adopt or expand Islamic finance

Global Islamic financial assets expanded by 69% in the last 5 years and 163% in the past decade, from US\$1.71 trillion in 2012 to US\$2.67 trillion in 2018 to US\$4.51 trillion in 2022, according to the IFDI data. This growth reflects a healthy industry driven by strong balance sheets, high profits, regulator support and sustained demand by both customers and investors across different regions.

The largest and most developed Islamic finance markets are Iran, the GCC countries, Malaysia, Türkiye, Bangladesh and Pakistan. In the last decade, Islamic finance gained a foothold not only in more MENA nations such as Morocco, but also in countries that are not Islamic or Muslim-majority, such as the UK. The industry's geographical expansion has brought more diversity and depth to markets, for example with different instruments, structures and investor capital.

The industry has also deepened in presence and impact. In the last decade, regulators and governments have continued to strengthen Islamic finance regulations, growth strategies and comprehensive roadmaps to develop the industry and its ecosystem. Whatever their motives—political, meet local demand, capitalise on a growth industry or leverage funding options—we saw many jurisdictions build long-term strategies, invest in human capital and education, organise industry events and publish dedicated reports. Some, such as Indonesia, Malaysia, Saudi Arabia and Türkiye, even added Islamic finance metrics as part of their national economic strategies and blueprints. These initiatives bore much fruit in the form of double-digit growth rates in assets in the past few years.

Global Islamic Finance Assets (2012 -2022)





Islamic banking: Several factors that have reshaped the sector

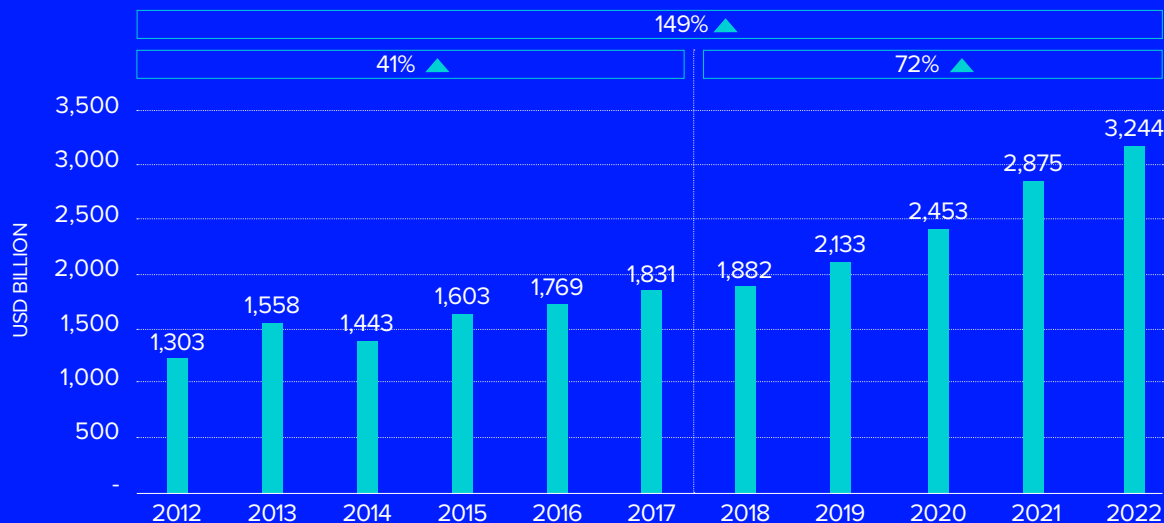
The assets of the world's Islamic banks expanded rapidly to reach US\$3.24 trillion in 2022 from US\$1.88 trillion in 2018 and US\$1.31 trillion in 2012. The number of full-fledged Islamic banks rose by 36% to 336 in 2022 while conventional banks with Islamic windows or services increased by 84% to 274 in 2022. The highest growth in Islamic banking in the past decade was in Saudi Arabia, the United Arab Emirates and Iran that capitalised on improvement of its local currency in the early years.

Holding around 70% share of global Islamic financial assets, Islamic banking was the main driver of the overall growth of the industry in the last decade, Islamic banks stayed resilient through market volatilities from 2012 to 2022, pertinently recovering from the intense stress inflicted on them during the Covid-19 pandemic and economic uncertainties post-2020 that prompted investors to push more capital and investments towards Islamic banking institutions. During the decade, more countries welcomed Islamic banks—significantly Oman was the last GCC country to adopt Islamic finance—while others closed Islamic windows, such as Qatar. Outside the GCC, countries in other regions also started focusing more on Islamic banking, with the prime examples being Türkiye, the CIS countries Kazakhstan and Uzbekistan, Nigeria and Uganda in Sub-Saharan Africa, and the Philippines in Southeast Asia.

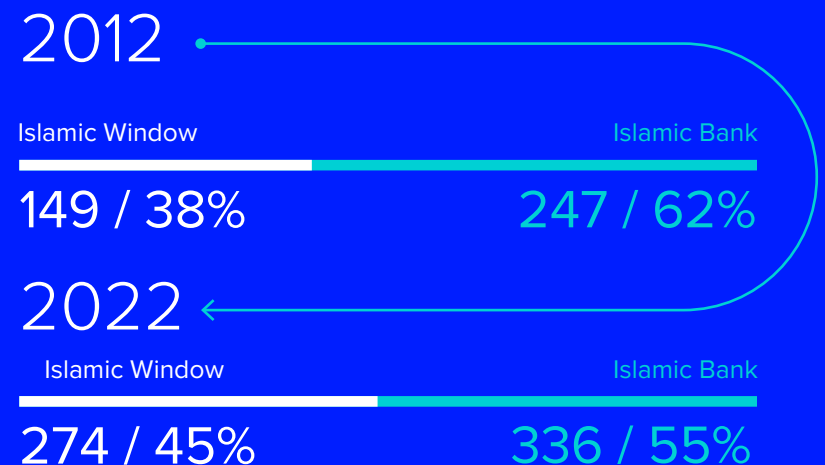
We also observed the push from governments in recent years for consolidation to create mega banks with international reach. We saw many mergers and acquisitions within the banking sector in key Islamic finance markets, starting with the UAE, followed by Indonesia, Malaysia, Bahrain, Kuwait, and Saudi Arabia, among others. In addition, we also saw the increasingly mainstream Islamic finance attract conventional financial institutions, for example in Morocco and Oman conventional banks established Islamic subsidiaries and in Pakistan more insurance operators opened Takaful windows.

Fintech, digital banking and artificial intelligence (AI) were some of the key developments that had material impacts on the development of Islamic banking in the decade leading up to 2022. We saw many new digital banks open such as in Malaysia and Indonesia in Asia, Bahrain and Saudi Arabia in the Middle East, and Türkiye and the United Kingdom in Europe. We also closely followed the increasing importance and practice of sustainable finance at Islamic banks that led to new departments and frameworks covering ESG, and sustainable finance and investments.

Global Islamic Banking Assets (2012 - 2022)



Global Islamic Banks and Islamic Windows Breakdown 2012 vs 2022





Sukuk: The asset class that gained the most interest

The value of Sukuk outstanding in 2022 was a threefold increase over 2012: US\$788.39 billion compared to US\$260.03 billion. In 2022, 1,458 Sukuk were issued with a value of US\$198.82 billion compared to 878 in 2012 with a total value of US\$142 billion. Issuance from both international and domestic markets reached a 10-year high in 2021.

The development of the Sukuk market was primarily driven by the ever-growing need for funding. Additionally, the wider investor base also caught on to the attractiveness of the instrument, partly due to its scarcity, and partly to its unique mixed features straddling equity and fixed income. Many governments and corporates tapped the niche market despite the instrument's complex structures and procedures relative to conventional bonds. Since 2002 when the first Sukuk was issued during this modern Islamic finance period, growth has primarily centred in traditional Islamic finance markets. However, in the past decade issuers from different countries in Europe, Asia and Sub-Saharan Africa entered the Sukuk market to contribute to its diversification and depth. Despite growth, the development of the Sukuk market was limited by fewer issuances compared to conventional bonds. Compared to the bonds market, the Sukuk market is fragmented, and has lower levels of liquidity in the secondary market due to many investors holding the Shariah-compliant papers to maturity due to instrument scarcity, attractive rates and low credit risk especially with regards government and multilateral issuances.

Over the decade, we saw the pick-up of different types and structures of Sukuk, such as project Sukuk and cross-border Sukuk. Treasury Sukuk and retail Sukuk also gained traction while more recently, there was a movement towards green and other types of ESG Sukuk. Overall, many sovereigns tapped the Sukuk market, including the UAE, Bahrain, Malaysia, Indonesia, Egypt, and those representing smaller Islamic finance markets such as South Africa and Nigeria. Most of their Sukuk were oversubscribed and sold at tight rates, reflecting high demand for Sukuk globally.

Murabaha

Top
Structure

Malaysian Ringgit

Top
Currency

Sovereign

Top
Issuer Type

> 1 Year

Top
Tenor

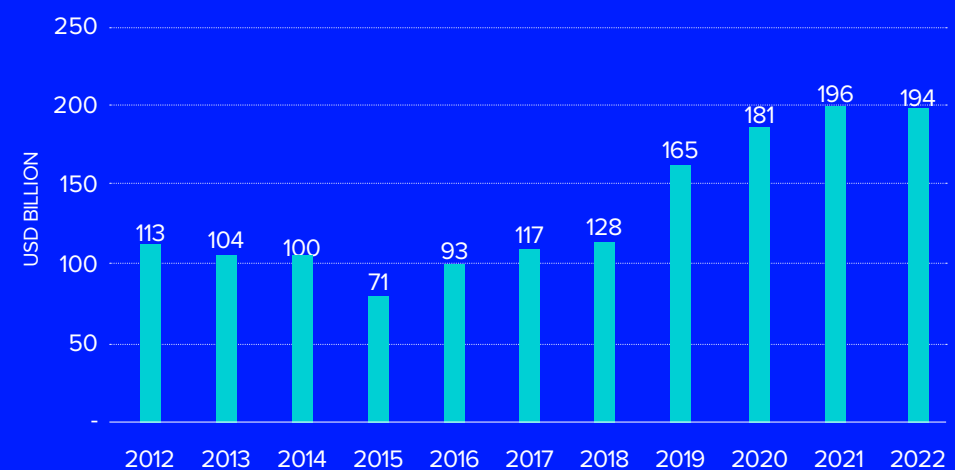
Domestic

Most
Issuance

Global Sukuk Outstanding
(2012 - 2022)



Global Sukuk Issuance
(2012 - 2022)



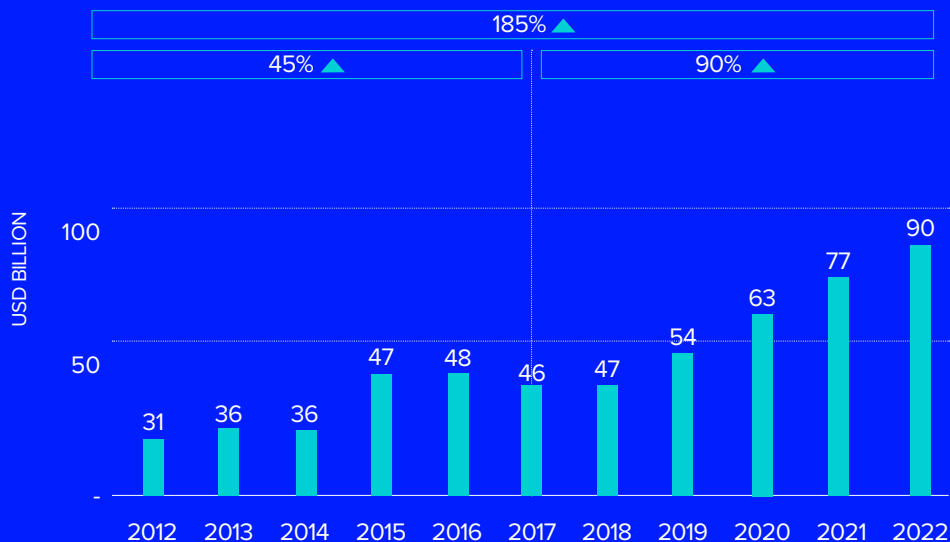


Takaful: A decade of growing prominence

The total financial assets of the world's Takaful sector grew threefold in the past decade to reach US\$89.5 billion in 2022. The number of Takaful and Retakaful institutions increased to 344 in 2022 from 274 in 2012. Reported financials improved significantly in recent years due to better disclosures and transparency within the Takaful sector in different markets.

Since the start of the last decade, Indonesia's Takaful windows were working towards meeting new regulations to convert into full-fledged Takaful institutions. However, because of several challenges, including capital requirements, the deadline was pushed several times, with the most recently announced being December 2026 from October 2024. On the other side of the globe, many north African countries began to introduce new Takaful products to help expand their business. In the biggest Takaful markets, consolidation was taking place via mergers and acquisitions especially in Saudi Arabia and the UAE. The goal was to form bigger and stronger Takaful companies that could better meet customers' increasingly demanding and complex insurance needs, as well as to spur healthy competition in the market overall.

Global Takaful Assets
(2012 -2022)



Other Islamic Financial Institutions: A decade of diversification

Assets held by Other Islamic Financial Institutions (OIFI) grew at a steady rate of 53% in the past decade to reach US\$166.53 billion in 2022. The number of OIFIs has also increased to 793 by 2022, which includes 124 Fintechs. The growth was mostly driven by digitalisation and the introduction of crowdfunding and Fintech companies. Growth also came from non-Islamic or non-Muslim-majority countries with low Islamic finance presence where many conventional financial institutions started offering Islamic finance products including SME financing, Ijarah and Mudaraba services.

Global OIFI Assets
(2012 - 2022)



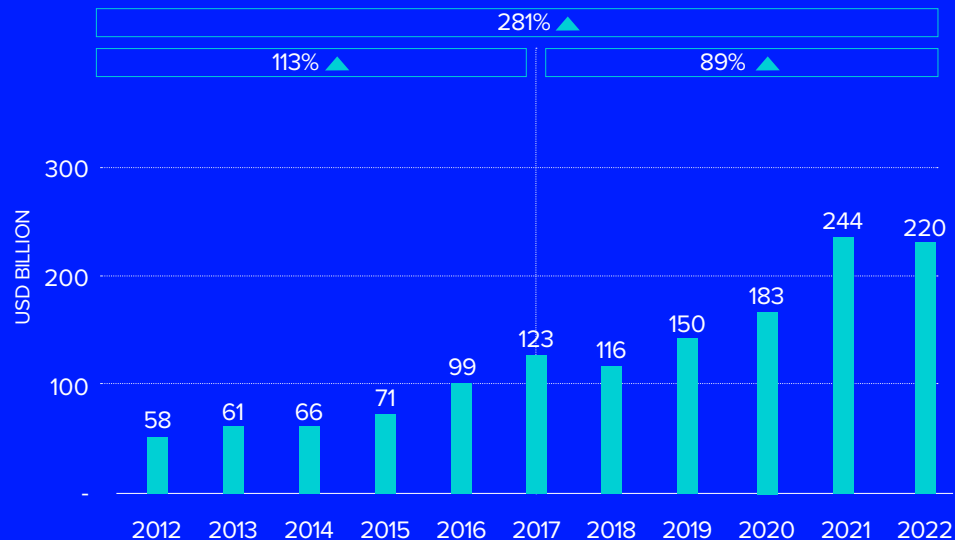


Islamic funds: Slow but steady growth

Growth of Islamic funds was almost imperceptible from 2012 to 2015 before the sector started to pick up pace. Thereafter, there was steady growth from 2016 albeit with slight dips in 2018 and 2022. The number of Islamic funds reached 2,233 in 2022, with 406 global asset managers holding US\$219.75 billion in assets under management.

Growth over the decade was driven by more asset managers offering Islamic funds to investors due to strong market demand and better performance of Islamic finance institutions and instruments. By geography, Islamic funds in Saudi Arabia and Malaysia enjoyed steady growth throughout the decade. On the asset management side, Waqf funds, Haj funds and Shariah-compliant pension funds gained traction. There was also robust development of new products due to the introduction of robo-advisory. The decade also saw more SRI funds and an expansion of Islamic wealth funds, as well as a greater attraction to Islamic indices and ETFs.

Global Islamic Funds Outstanding AUM (2012 -2022)





Governance: Regulations as key pillars of robust development

Regulations and standards are key drivers for the sound development of any industry. For Islamic finance, regulations have contributed significantly to the industry's overall development. The number of countries that introduced different types of Islamic finance regulations, including for Sukuk and Islamic banking, increased gradually since 2012 to reach 131 countries (that have at least one Islamic finance regulation) in 2022. We observed that many key Islamic finance markets improved their regulations and guidance with more depth and details especially following the introduction of Basel III and other regulatory changes globally and domestically. In contrast, frontier or emerging Islamic finance countries are building regulations from scratch, such as the Philippines and West African countries such as Ivory Coast, Niger and Senegal.

Shariah governance has also improved substantially with the introduction of centralised Shariah Boards such as in the UAE, Oman and Morocco.

By 2022, the number of centralised Shariah boards or committees had grown to 20, as many countries saw the merits of centralised governance. Despite the key challenges still being that many Shariah scholars sit on multiple boards and practise in a concentration of specific markets, Shariah governance overall has improved especially in Malaysia, Pakistan and Bahrain.

As for corporate governance, there was improvement in disclosures across the years, which reflects better transparency to gain investor trust. However, there is still room for improvements, with governments and regulators mandating financial reporting and encouraging better disclosures to improve transparency particularly for private entities.



Sustainability: Plans for a sustainable future

With the introduction of ESG metrics and sustainable finance frameworks in many countries, we saw many banks and financial institutions finding synergies between Islamic finance and sustainable finance, a topic that was showcased at numerous conferences and in research publications throughout the decade. Many of these institutions also started building sustainable finance departments and frameworks to guide their work going forward. In addition, many governments introduced sandboxes or full sets of guidance or frameworks to guide the industry towards sustainability. One of these countries is Malaysia that introduced the Value-Based Intermediation (VBI) concept in 2017.

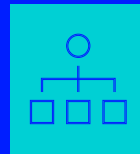
However, the overall disclosure of CSR activities and funds is still limited and concentrated in certain markets, according to IFDI data. We believe there is a need for governments and regulators to enforce more CSR and ESG disclosures in order to accurately capture market size and increase market transparency.

To date, Islamic finance CSR funds reached US\$1.524 billion in 2022 and outstanding Green and ESG Sukuk value stood at US\$24.4 billion in the same year. Malaysia and Saudi Arabia are the leaders of ESG Sukuk, followed by Indonesia and the UAE.



Regulations

2012
90 > **131**
2022
Countries



Centralised Shariah Board

2012
7 > **20**
2022
Countries



Shariah Scholars with Shariah Scholars Board Membership

385 > **1,530**



252
Number ESG Sukuk
Outstanding

Value
US\$
24.41
Billion



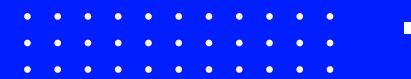
94
Number
of ESG funds

Value
US\$
6.56
Billion



Disclosed Funds Distributed to Charity, Zakat and Qard Al Hasan

2012
US\$ **494.61** Million
2022
US\$ **1.52** Billion

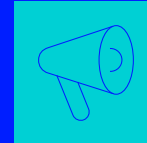


Knowledge: Islamic finance could use more specialised professionals

Over the last decade, education providers, including universities and training centres, increased their Islamic finance programmes. There were 882 education providers in 2022, up from 420 in 2012, providing either a course or a degree in Islamic finance. Historically, the hubs of education, such as the United Kingdom, Australia and European countries, were the leaders providing Islamic finance education and research. However, in the last decade we saw the rise of Muslim-majority countries Malaysia, Türkiye and Indonesia expanding their facilities and increasing resources to attract learners and students of Islamic finance.

Where most Islamic finance education and research started by covering general topics, more recently there has been an increasing focus on asset classes, Fintech and sustainability. We saw many education providers introducing online courses and degrees in recent years in the wake of Covid and political unrest affecting certain geographies.

Despite growth, there was a drop in demand for Islamic finance degrees in the last decade. There is a need for banks and Islamic institutions to encourage professionals to pursue Islamic finance training, degrees and education in order to uplift the level of knowledge and skills in the industry.



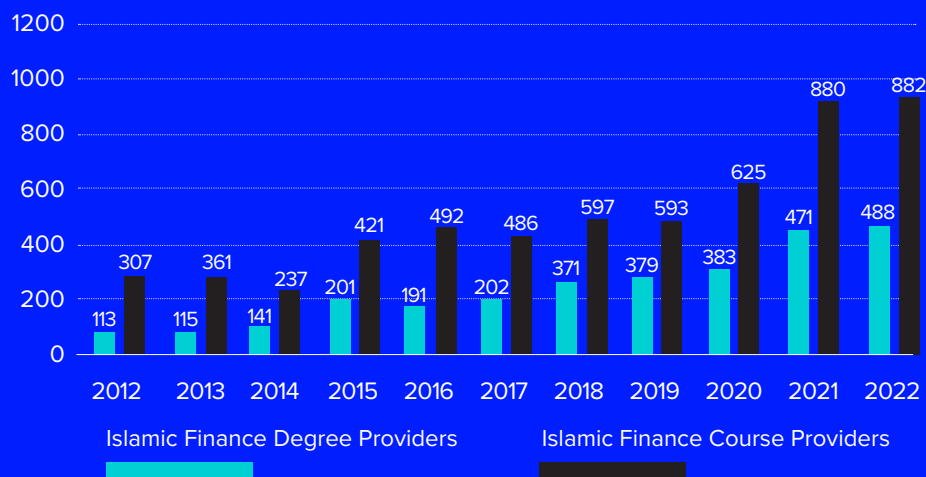
Awareness: Governments boost market awareness to raise Islamic financial literacy



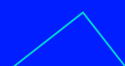
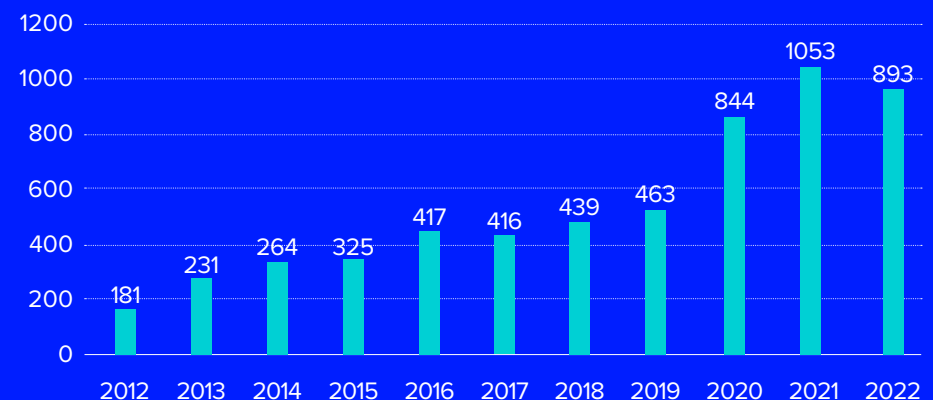
Market awareness and customer education are key to the success of industries that offer services and that depend heavily on retail consumers. Over the past decade, many governments, such as in Indonesia and Türkiye, ramped up awareness initiatives to tackle low Islamic finance literacy and improve overall market awareness. They hosted workshops and conferences, published reports and articles to engage the market. Popular topics covered moved away from general Islamic finance and Sukuk towards Fintech, AI, ESG and sustainability.

There was a fall in the number of Islamic finance events from a 10-year high of 1,053 in 2021 to 893 in 2022. This could be explained as an exuberance in 2021 after a year of physical restrictions accelerated the number of online events in 2020. In 2022, there was a continued proliferation of online webinars and web events as well as the introduction of hybrid events that accounted for more than 66% of the overall total Islamic finance events in that year.

Total Global Islamic Finance Education Providers
(2012 -2022)



Global Islamic Finance Events
(2012 -2022)





FINANCIAL PERFORMANCE

Setting the Milestones on Islamic Banking and Finance in the Philippines



ATTY. ARIFA A. ALA
Assistant Governor, Financial Supervision Sub-Sector III
Bangko Sentral ng Pilipinas (BSP)

Atty. Arifa A. Ala, a CPA-lawyer, is a career central banker, with extensive experience and wide technical expertise in banking supervision and regulation. She has handled different departments and units, and currently heads one of the four Sub-Sectors in the Financial Supervision Sector, where she is responsible for supervising different types of financial institutions, banks and non-banks alike.

Atty. Ala has made significant contributions in the development and enhancement of various policies that have made substantial impact in the conduct of BSP's supervisory function and processes. She has also played a vital role in the development of programs designed to enhance the rural and cooperative banking industry, such as the Strengthening Program for Cooperative Banks, Strengthening Program for Rural Banks and Consolidation Program for Rural Banks.

As the BSP's point person for Islamic banking and finance, Atty. Ala chairs the Islamic Finance Coordination Forum which aims to establish an Islamic banking system in the Philippines that can operate alongside the conventional banking system. She also sits in the Philippine Halal Export Development and Promotion Board as the Alternate Representative of the Governor of the BSP. In December 2022, she was cited as one of the Most Influential Women in Islamic Business and Finance and received the 2022 "WOMANi Professional Award" from the Cambridge Institute of Islamic Finance during a ceremony held in Jakarta, Indonesia.

Atty. Ala earned her BSBA- Accounting degree from the Mindanao State University, her Masters in Business Administration from the Ateneo de Manila University, her Law degree from the San Beda College, Manila, and her Masters in Public Management from the National University of Singapore (NUS) and Harvard Kennedy School.

Islamic Banking for an Expanded Financial Inclusion Agenda

The Philippines has one of the oldest Islamic banks in the world - the Philippine Amanah Bank (PAB) was established on 2 August 1973 by virtue of Presidential Decree (P.D.) No. 264. PAB was later re-chartered and given the powers of a universal bank under Republic Act (R.A.) No. 6848 on 26 January 1990 and became known as the Al-Amanah Islamic Investment Bank of the Philippines. The establishment of the bank was primarily envisioned to promote financial inclusion for Muslim Filipinos.

The Philippines recognised the huge potential of Islamic banking and finance in fostering economic growth and prosperity for all Filipinos, regardless of their religious affiliations. According to the Islamic Financial Services Board (IFSB)'s Islamic Financial Services Industry (IFSI) Stability Report 2023, the global IFSI increased its value to an estimated US\$3.3 trillion in 2022 (from US\$3.1 trillion in 2021) and sustained its growth momentum at a rate of 6.2% year-on-year on account of significant improvement, especially in the Islamic banking and Islamic capital market segments in some key markets.

To strengthen and improve the Philippine Islamic banking and finance landscape, the country recently instituted a series of legal reforms that paved for the expansion of the Philippine Islamic finance industry, created a conducive regulatory environment and laid a solid foundation for the development of an Islamic finance ecosystem under a holistic whole-of-government approach. Foremost among these legal reforms is the enactment of R.A. No. 11439 or the Islamic Banking Law on 22 August 2019, which sets the milestone for the country to solidify its track of strengthening the Islamic banking ecosystem. The said law grants the Bangko Sentral ng Pilipinas (BSP), the central bank, with clear authority to issue a broader set of rules and regulations on Islamic banking, including the entry of other Islamic banking players in the country consistent with the objective of providing an enabling regulatory environment that will allow Islamic banks to operate alongside the conventional banking system while considering the unique features of Islamic banking operations.

Recent developments

The BSP, which aims to create a competitive and broadly-inclusive financial system, has made significant strides in leading the Government's efforts in promoting the development of Islamic banking and finance in the country. Notably, the maiden issuance of the BSP's licensing framework and Sharah governance framework for Islamic banks (IBs) and Islamic banking units (IBUs) were completed in December 2019, barely three months after the effectivity of the Islamic banking law in September 2019.

Since then, the BSP continues to institute relevant prudential regulatory reforms following a progressive and flexible approach, foster active stakeholder collaboration, pursue continuous capacity building and conduct innovative awareness campaigns. Under a whole-of-government approach, it also created the BSP-led Islamic Finance Coordination Forum (IFCF) to ensure that parallel and complementary initiatives are undertaken, prioritised and coordinated with different relevant regulatory agencies/ institutions to reinforce and augment BSP's prudential regulatory reforms and spur the growth of the Philippine Islamic capital market and Takaful (Islamic insurance) sectors.

Key opportunities and challenges

Investors can, in general, look forward to benefit from various investment opportunities and financing options owing to the Philippines' open investment regime, strategic position as a gateway to the Asia Pacific, thrust for public-private partnerships and favourable demographic profile backed by a strong, dynamic and highly-educated English-speaking workforce. As Muslims, in general, would opt for Islamic finance as a competitive alternative to conventional financial services, this provides economies of scale and scope for the development of the Islamic finance industry.

The establishment of an enabling regulatory environment and the Shariah Supervisory Board in the BARMM, coupled with the assurance of tax neutrality of Islamic banking transactions with its counterpart in the conventional system, in addition to the forthcoming Philippine sovereign Sukuk issuance sends a strong signal to both global and domestic investors of our country's readiness to accept Islamic banking and finance players. Such players can participate in the Government investments in strategic priority areas that are seen to further spur our nation's growth and prosperity.

As of 30 June 2023, there were 475 unbanked cities and municipalities in the Philippines, of which 216 are located in Mindanao (with 110 located in the BARMM). Based on estimates of the world population review, about 8% of the Philippine population as of 2023 are Muslims; while latest data from the Philippine Statistics Authority's (PSA) 2020 Census of Population and Housing (released on 22 February 2023) showed that 91 in every 100 residents (90.9%) of the BARMM are Muslims. This presents an opportunity for investors (both domestic and offshore) to consider operating in the country to address the underserved financial needs of this segment, as well as provide non-Muslims and enterprises, including micro, small and medium enterprises with alternative financing and investment options.

In terms of challenges, the BSP actively pursues continuous capacity building and various awareness and information campaign in order to address the current challenge on the general public's low awareness of Islamic banking products and services. This is consistent with the Government's mandate under the Islamic banking law to increase awareness and advance the capacity building program on Islamic banking and finance.

Close collaboration and cooperation among the BSP and its partner-agencies/institutions under the IFCF also led to significant milestones that included the issuance by the Bureau of Internal Revenue of the regulations implementing tax neutrality, issuance by the Insurance Commission of the baseline Takaful guidelines; provision of legal authority to the Philippine Deposit Insurance Corporation to establish a Shariah-compliant deposit insurance scheme; and the establishment of the Shariah Supervisory Board in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), whose main responsibility is to issue opinions on Shariah compliance issues.

The IFCF also facilitated the issuance by the Department of Justice of favourable opinions affirming that the Republic of the Philippines can validly execute certain Sukuk structures under existing laws. This is a positive and welcome development for the Philippine Islamic capital market as the country is now marking its footprint in the global Sukuk space with the anticipated first sovereign Sukuk issuance in 2023.

1) Islamic Financial Services Board (IFSB)

2) Other laws which complement R.A. No. 11439 in the promotion of Islamic banking and finance include:

- R.A. No. 11211 which amended the provisions of R.A. No. 7653 or The New Central Bank Act;
- R.A. No. 11054 or the Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao; and
- R.A. No. 11840, which amended the provisions of R.A. No. 3591, as amended or The Philippine Deposit Insurance Corporation Charter.

3) BSP's prudential reforms espoused its single regulatory framework for both conventional and Islamic banks, which has provided an enabling regulatory environment and level-playing field for Islamic banks to viably thrive alongside the conventional banking system. Existing regulations for banks are adjusted as necessary, to address the peculiarities and specific requirements of Islamic banking to accord relevant flexibility to new Islamic banking players that will operate in the country. Prudential regulations for IBs and IBUs issued to date covers the BSP's licensing framework (Circular No. 1069), Shari'ah Governance framework (Circular No. 1070), frequently asked questions on Islamic banking (Memorandum No. M-2020-052); liquidity management framework (Circular No. 1116), Reporting framework (Circular No. 1139) and Modified Minimum capitalization for IBUs of conventional banks (Circular No. 1173)

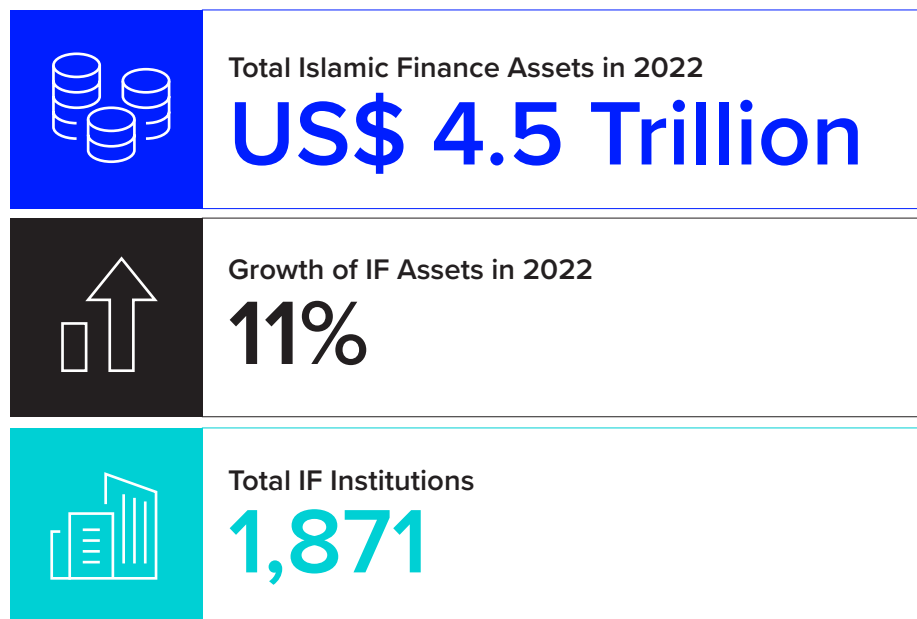
The BSP received an "Outstanding Industry Collaboration Award" from the Islamic Banking and Finance Institute Malaysia (IBFIM) on 25 February 2023 in recognition for its strong commitment to enhance the competencies on Islamic banking and finance of BSP personnel and of IFCF member-agencies through continuous capacity building and upskilling initiatives that included continuing education, certifications on the field of Islamic banking and finance, study visits and workshops, among others.

5) In order to promote better awareness and understanding of Islamic banking and finance, the BSP launched: (i) an introductory E-Course on Islamic Banking (IBS E-Course), which is now on its 4th offering since its maiden launch in October 2022; and (ii) the Islamic Banking Webpage under the BSP website in January 2023, which is envisioned to be a one-stop shop for information on Islamic banking and finance.

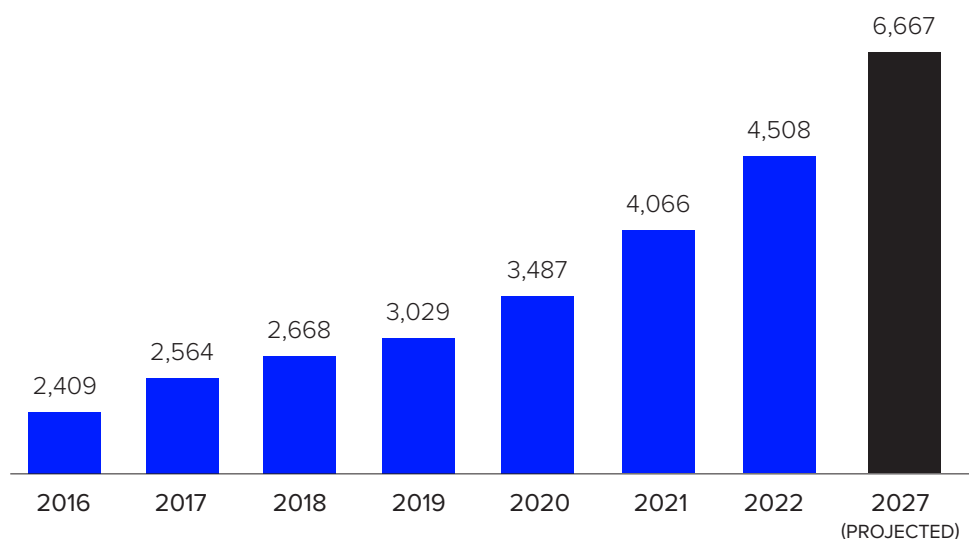
6) Established through a Joint Circular issued by the Bangsamoro Government, Department of Finance, National Commission on Muslim Filipinos and the BSP on 26 April 2022.

7) Source: Economic managers introduce PH to UAE investors in first Middle East economic briefing - Department of Finance (dof.gov.ph); and PH economic managers meet key UAE ministers and investors as part of Middle East roadshow, explores Islamic banking opportunities - Department of Finance (dof.gov.ph)

Global Islamic Finance Landscape



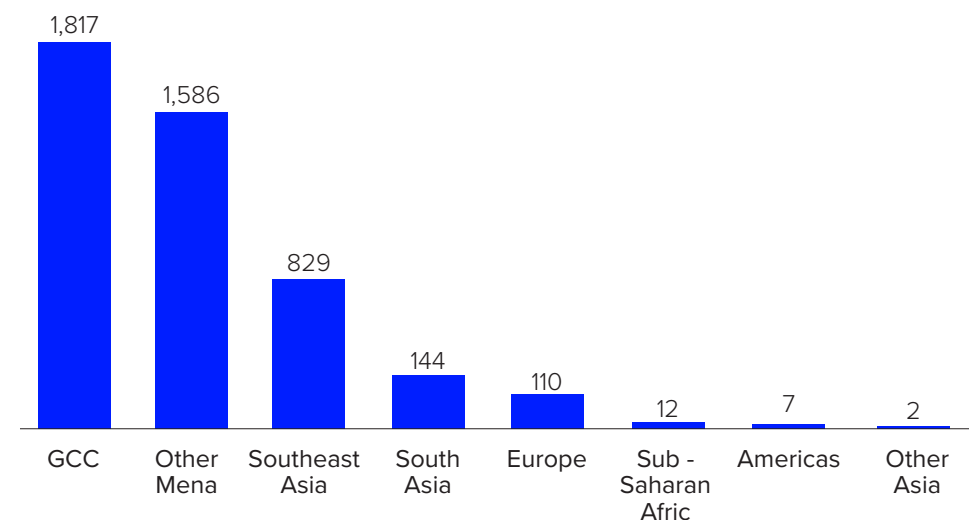
Islamic Finance Assets Growth
(2016 - 2022, USD Billion)



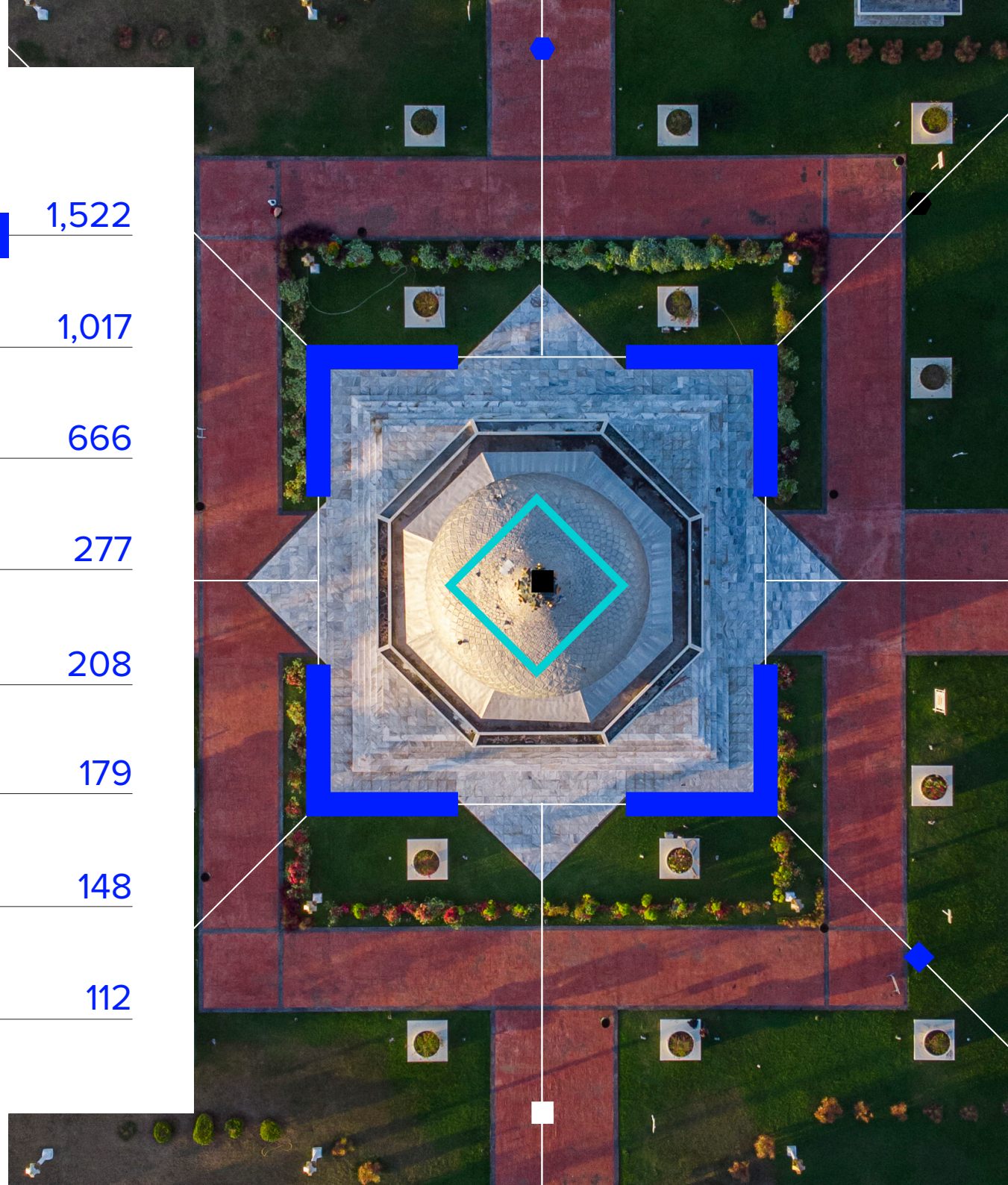
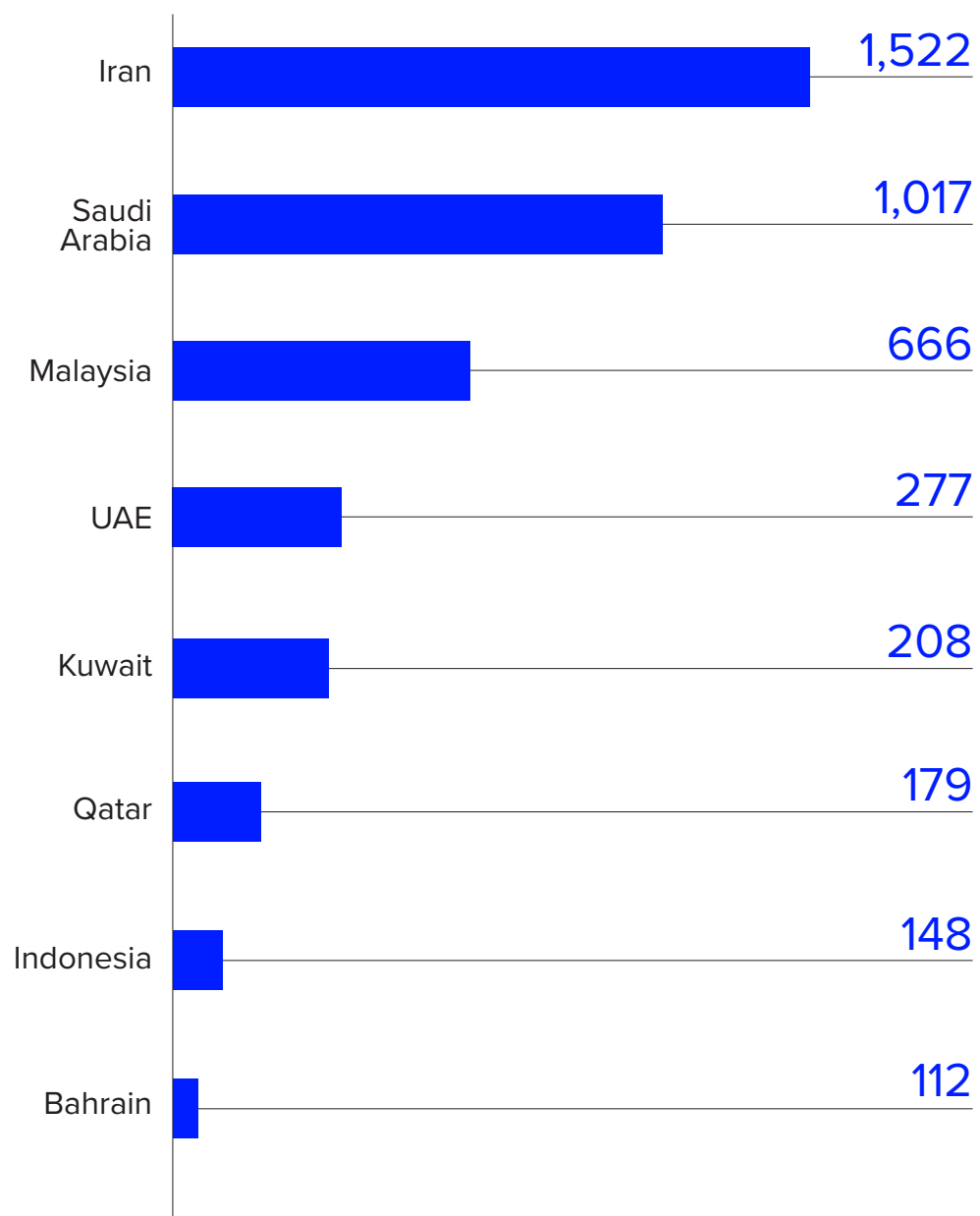
Islamic Finance Assets Breakdown (2022)

Sector / Asset Class	Total Assets (US\$ Billion)	Share (%)	Number of Institutions / Instruments
Islamic Banking	3,244	72%	610
Takaful	90	2%	344
OIFIs	167	4%	917
Sukuk	788	17%	4,806
Islamic Funds	220	5%	2,233

Islamic Banking Assets by Region
(2022, USD Billion)



Top Countries in Islamic Finance Assets (2022, USD Billion)



Continued growth in Islamic finance industry assets, albeit slower from previous period due to global economic slowdown

2022 was a challenging year filled with a confluence of crises: high inflation levels as economies emerged from COVID-19, the Russian invasion of Ukraine, disasters such as Pakistan's devastating floods that further strained government finances, a backlog in the global supply chain, and a collapse in tech stocks and crypto currencies. As a result, the US Federal Reserve started tightening monetary policy, a move that was followed by central banks across the globe, while the high proportion of public debt to GDP that started during the pandemic still prevails.

Oil prices increased significantly in the first half of 2022 due to tight supplies. They slid due to weaker demand due to fears of economic contraction. However, oil ended 2022 on a 10% increase for Brent crude and 7% gain for WTI.

The IMF in October 2023 forecasted global growth to be 3% in 2023 and 2.9% in 2024. While inflation is beginning to drop, it is still expected that targets will not be reached until 2025 in most cases. This leaves policymakers with difficult decisions to make to maintain growth while ensuring financial stability.

Among the developments directly impacting the financial industry during 2022, the series of quantitative tightening measures in most countries was the most critical on the markets and industry as a whole. Banks posted lower profits along with staff cuts. The banking crisis at the beginning of 2023 across the US and Europe had major economic and regulatory repercussions, the immediate effect of which has moderated. This shows us that the lessons learnt from the 2008 crisis placed safeguards that protect the financial industry.

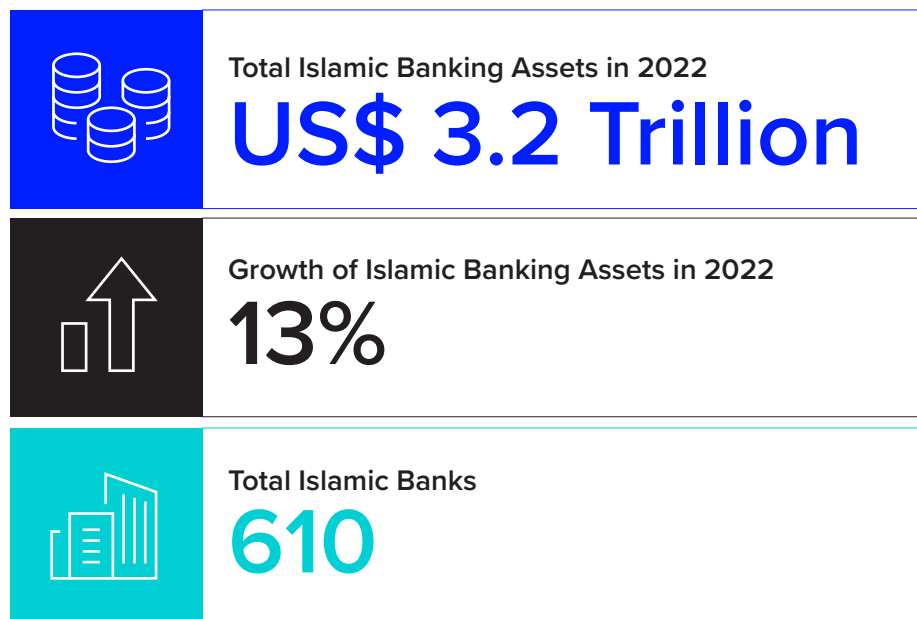
For markets, LSEG's Deals Intelligence reported a drop in global debt capital market activity by 19% to US\$8.3 trillion in 2022 while the global equity market fell to a 19-year low, plunging by 62% with activity totalling US\$487.5 billion.

For the Islamic finance industry, despite economic and financial turmoil, the IFDI sees a continued growth in its assets during 2022, with estimated total global assets increasing by 11% to US\$4.5 trillion from 2021. Still, this growth is slower than the 17% registered for the 2020-2021 period.

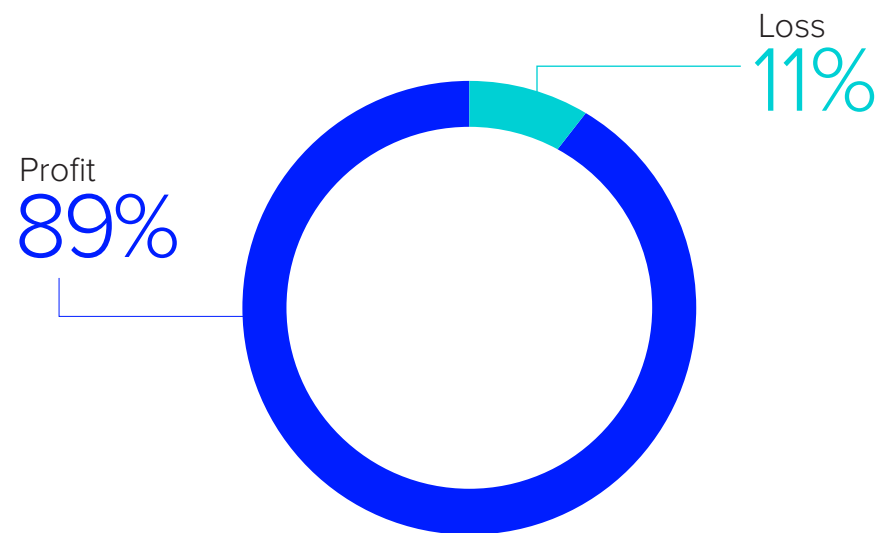
The fastest-growing countries by Islamic finance assets in 2022 were Kuwait, Iraq, Kyrgyzstan and Tajikistan. Out of the Islamic finance sectors and asset classes, Takaful, the smallest sector, posted the highest growth in 2022, 16%, while Islamic funds dropped by 10% for the same period.

While the world entered a new era shaped by uncertainty, the IFDI expects that the Islamic finance industry will continue its growth trajectory to US\$6.7 trillion in 2027. This is supported by the expected increase in economic growth and government spending in main Islamic finance markets such as Saudi Arabia. New and emerging markets in Islamic finance will also shape the industry further through different sectors and asset classes as discussed throughout this report.

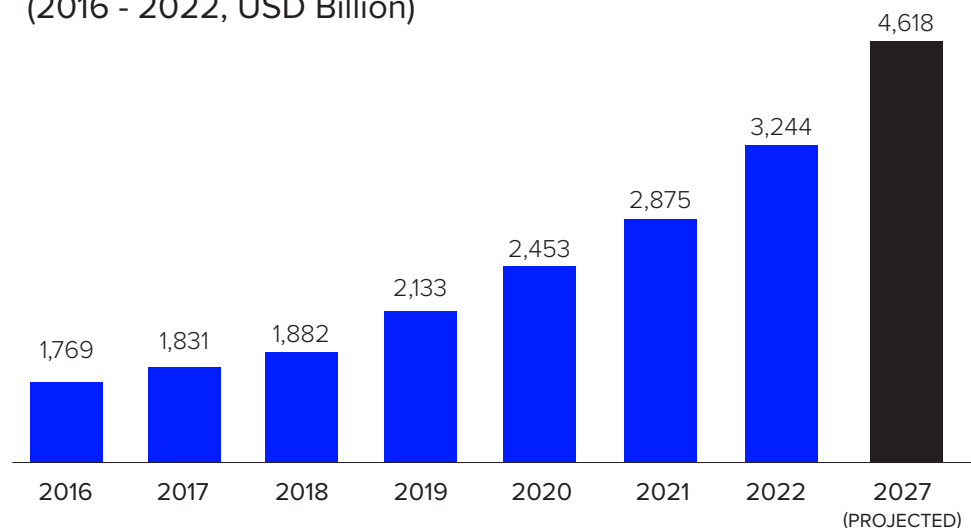
Islamic Banking



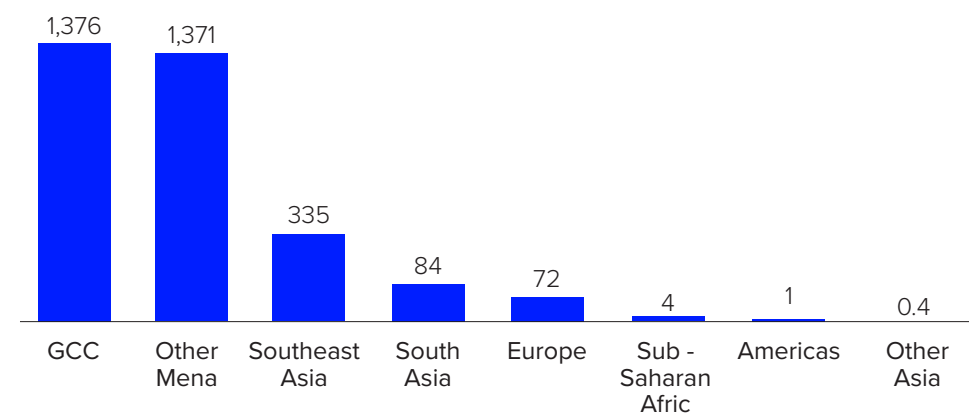
Reported Net Income by Islamic Banks (2022)

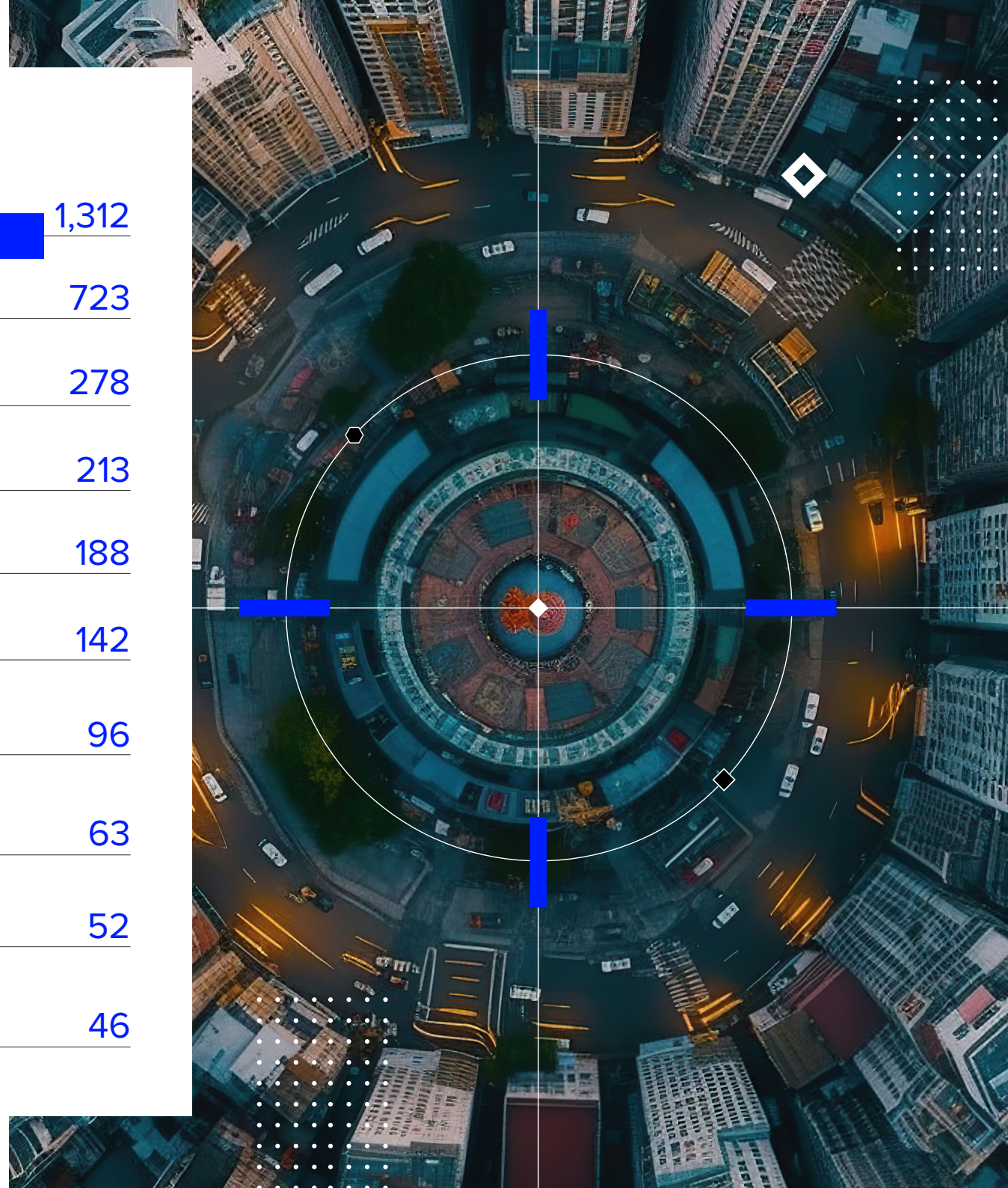


Islamic Banking Assets Growth
(2016 - 2022, USD Billion)

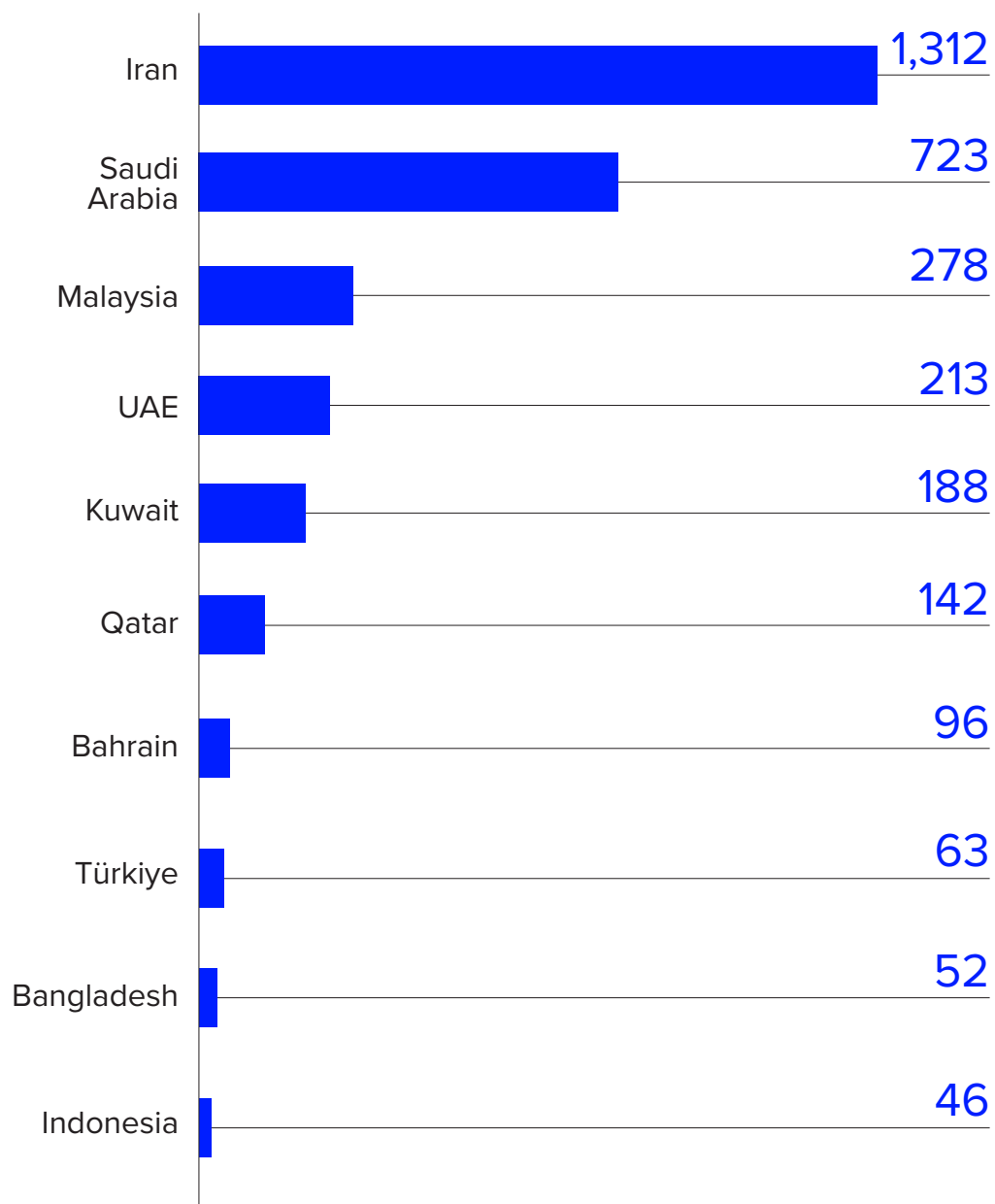


Islamic Banking Assets by Region
(2022, USD Billion)





Top Countries in Islamic Banking Assets (2022, USD Billion)



The Middle East region shown strong Islamic banking growth

Islamic banking is the biggest contributor to Islamic finance assets, accounting for 72% share in 2022. The sector is also the fastest growing in the industry. By region, the gap between the GCC and other MENA countries (including Iran), is closing with US\$1.4 trillion in assets each in 2022, from US\$1.2 trillion for the GCC and US\$1.1 trillion for Other MENA. Both regions have also shown strong rise in assets as well from 2021, at 13% and 23%, respectively.

Among the six GCC countries, it was Kuwait's Islamic banking sector that achieved the highest growth in assets from 2021. This is largely due to Kuwait Finance House (KFH) acquiring Bahrain's largest conventional bank, Ahli United Bank (AUB). AUB and its subsidiaries completed their conversion to become fully Islamic in October 2022, which was reflected in KFH's 2022 financials. KFH is now the second largest Islamic bank in the GCC behind Saudi Arabia's Al Rajhi Bank.

Resilient results reported by Islamic banks in 2022

The Islamic banking sector remained resilient in 2022, with 76% of full-fledged banks and windows posting higher profits or reduced losses compared to 2021. This is underpinned by higher profit income and lower impairment charges as well. This largely positive performance was achieved despite regulatory provision requirements in some markets, inflationary adjustments impacting costs, and bad investment performances after equities dropped in many regions. Some banks reported higher expenses channelled towards digitalisation that have since increased returns through operational efficiency.

The growth in profits can also be attributed to the strong presence of Islamic banking in main markets, with many countries having a sizable share of Islamic banking compared to the whole banking system. This is true for the GCC, where some banks posted better returns than pre-pandemic levels. This is due to fiscal stimulus packages meted out by the government and increased public and consumer spending that was supported by higher oil prices. These led to a rise in financing activities due to higher economic activity and positive sentiment.

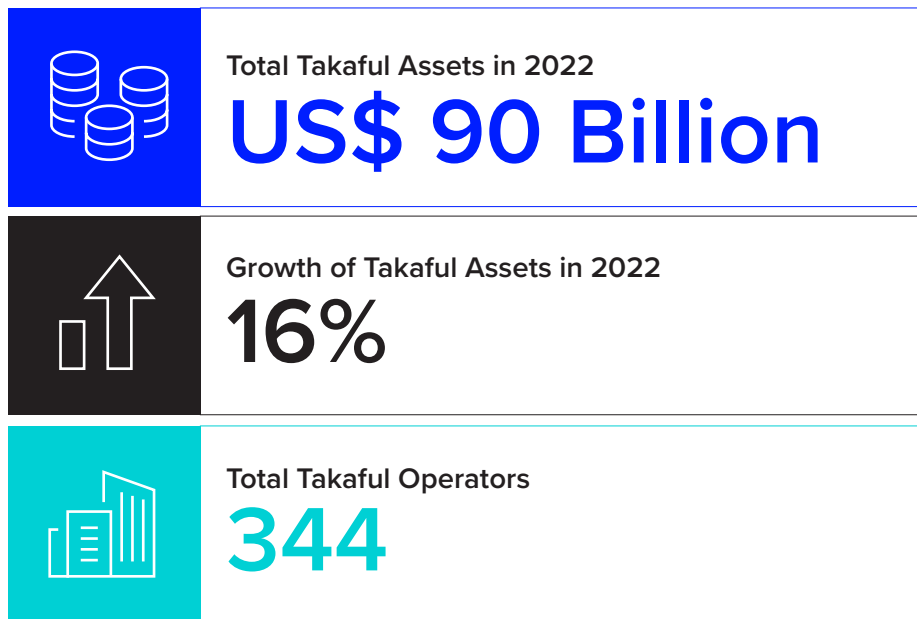
In other markets, consumer purchasing power improved in Southeast Asia on continued economic recovery, which supported banks' financing books and boosted business banking. At the same time, financing costs fell due to lower net financing loss provisions.

Uganda and Russia make moves to incorporate Islamic banking in their financial systems

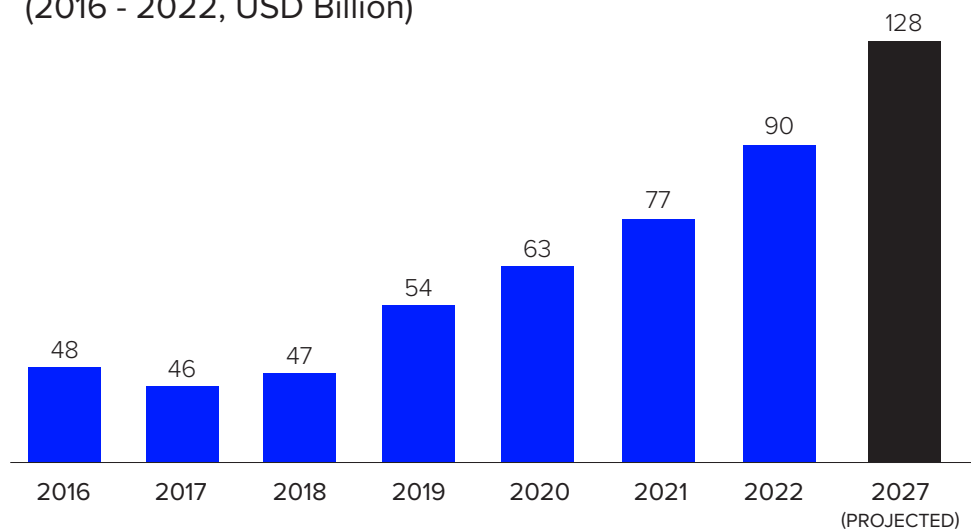
New markets are joining the global Islamic finance industry as they see demand for Islamic products. Uganda's Parliament started the work of removing legal roadblocks to incorporate Islamic banks through the enactment of the Income Tax Amendment Bill No.2 of 2023 in June 2023 that allowed for the first Islamic banking license to be issued in September 2023 to Salaam Bank Uganda.

Another country that also intends to include Islamic banking is Russia, which has a sizeable Muslim population. Its president, Vladimir Putin, introduced Islamic banking, or partner banking, in certain regions in the country through a law that was signed in August 2023 allowing pilot programmes. Regulations will be passed for the whole country if and when the programmes succeed.

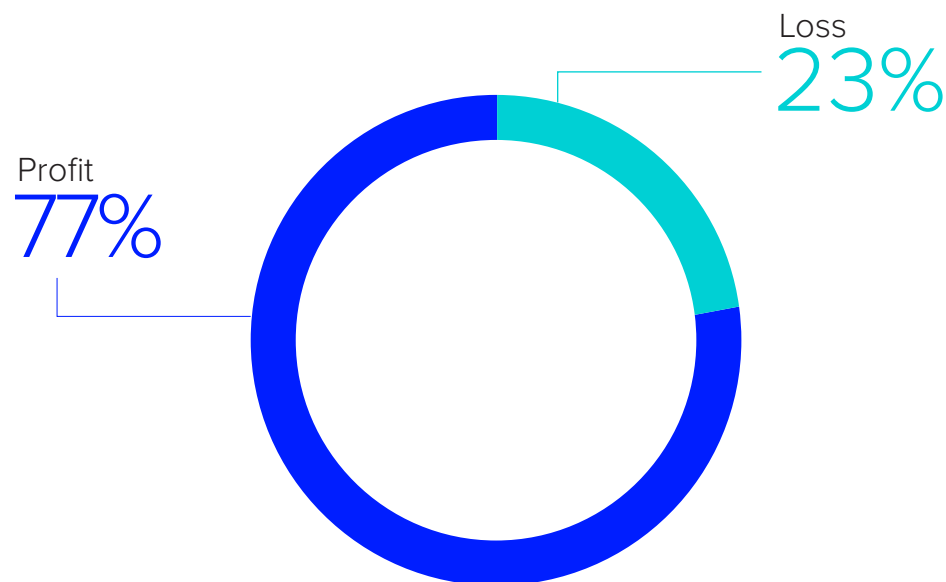
Takaful



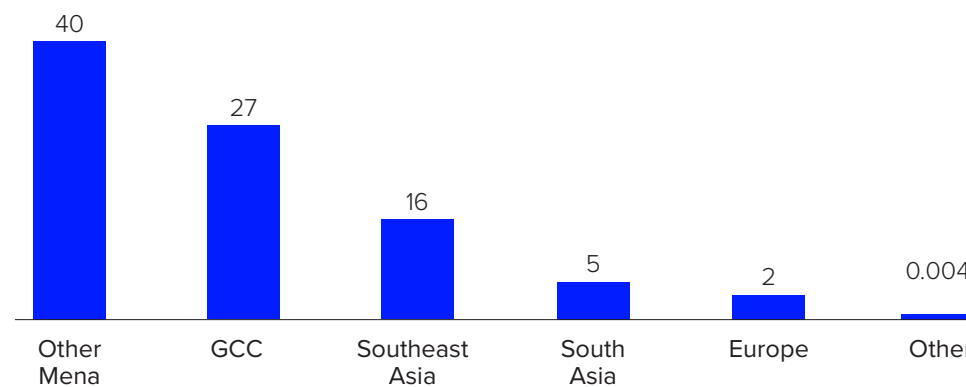
Takaful Assets Growth
(2016 - 2022, USD Billion)



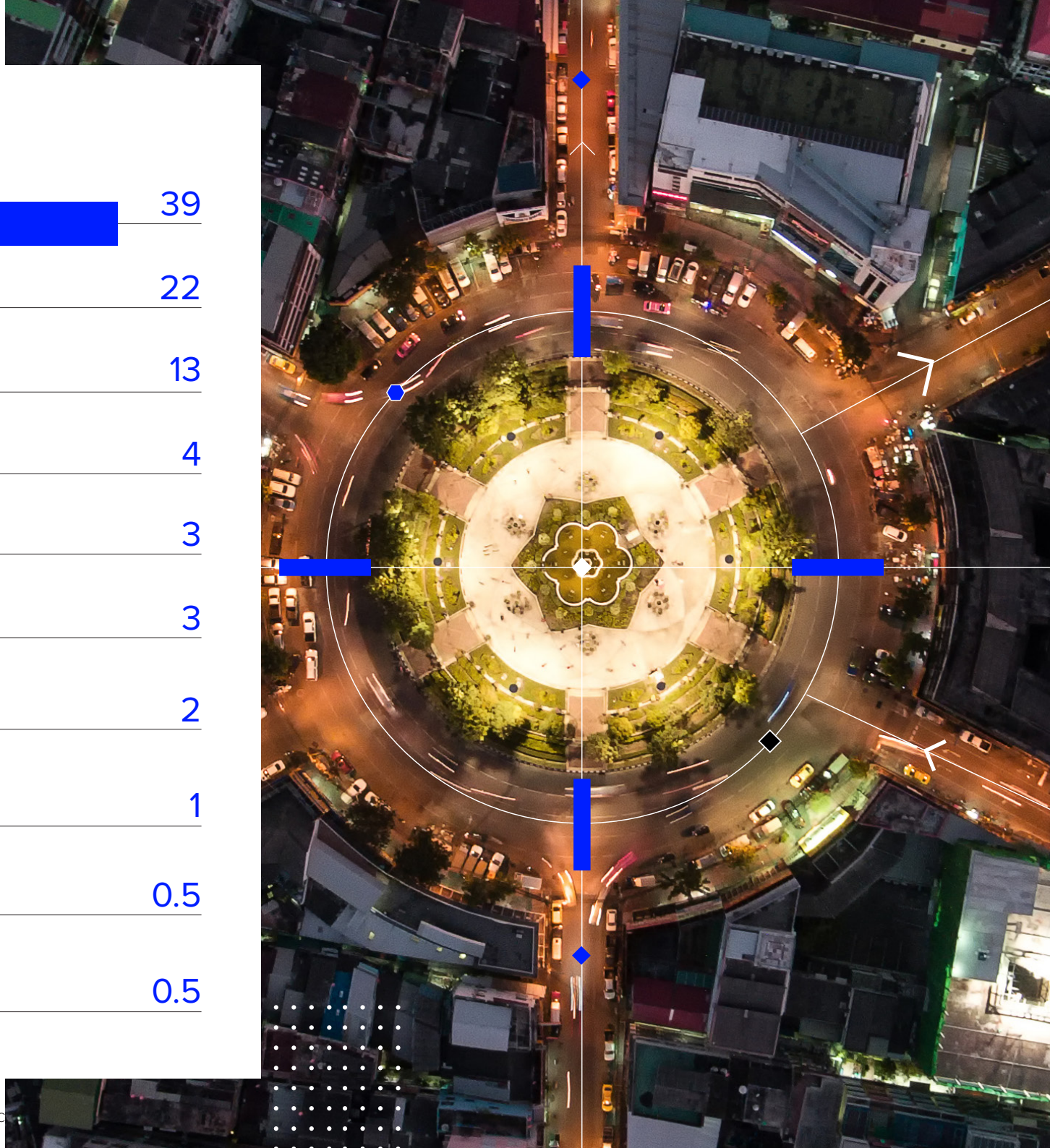
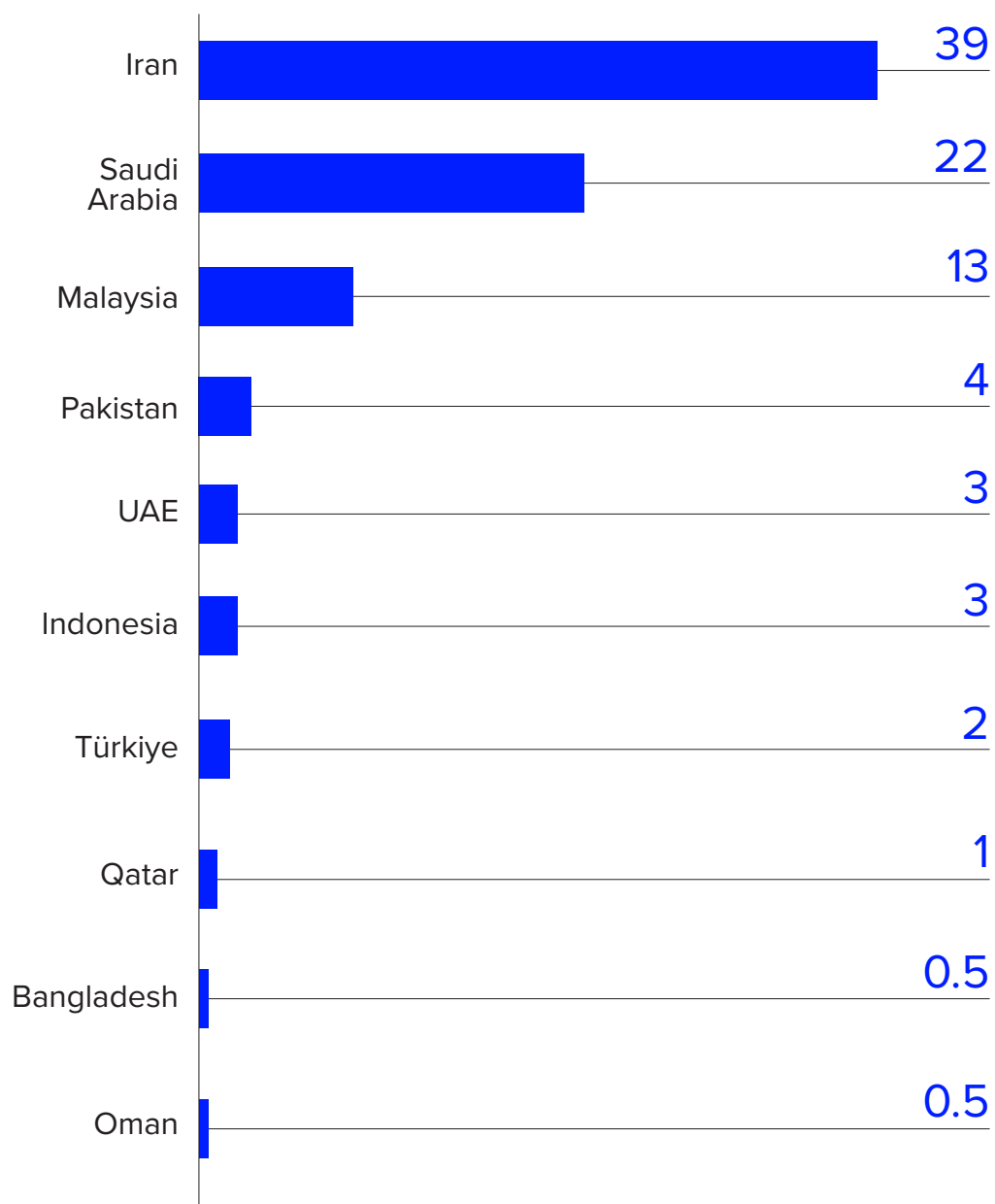
Reported Net Income by Takaful Operators (2022)



Takaful Assets by Region
(2022, USD Billion)



Top Countries in Takaful Assets (2022, USD Billion)



Several developments shaped the performance of the Takaful sector in 2022

The Takaful sector saw a continued double-digit growth trajectory of 16% to US\$90 billion in total assets in 2022. In terms of profitability, 77% of Takaful operators and windows reported profits in 2022.

While there was an increase in contributions—as reported by some operators with regards motor lines and family Takaful amid heightened awareness of the need for life and health protection in light of higher costs—Takaful companies also recorded higher claims payouts in some areas such as motor Takaful. In addition, the sector was marred by investment-related losses due to volatilities in financial markets. This is also reflected in lower demand for new business in investment-linked products as seen in Malaysia.

Digital Takaful expected soon in Malaysia

Malaysia's Takaful sector—home to 19 operators, including Islamic windows, and US\$13 billion in assets in 2022—is set for a digital revolution with the expected entrance of digital insurance and Takaful companies. In 2022, Bank Negara Malaysia (BNM), the central bank, published its exposure draft on Digital Insurer and Takaful Operators (DITOs) that detailed the requirements for interested applicants. The underlying value propositions for this framework are inclusion, competition and efficiency. The regulator is refining the framework by including other elements such as embedded insurance and insurance-as-service. The framework is expected to be introduced in the first half of 2024.

Up to five digital licenses are up for grabs and there will be an observation period of between three and five years. One TakaTech company, Ouch! launched its first digital Takaful product in August 2023. Ouch! is Malaysia's first digital Takaful operator in BNM's regulatory sandbox .

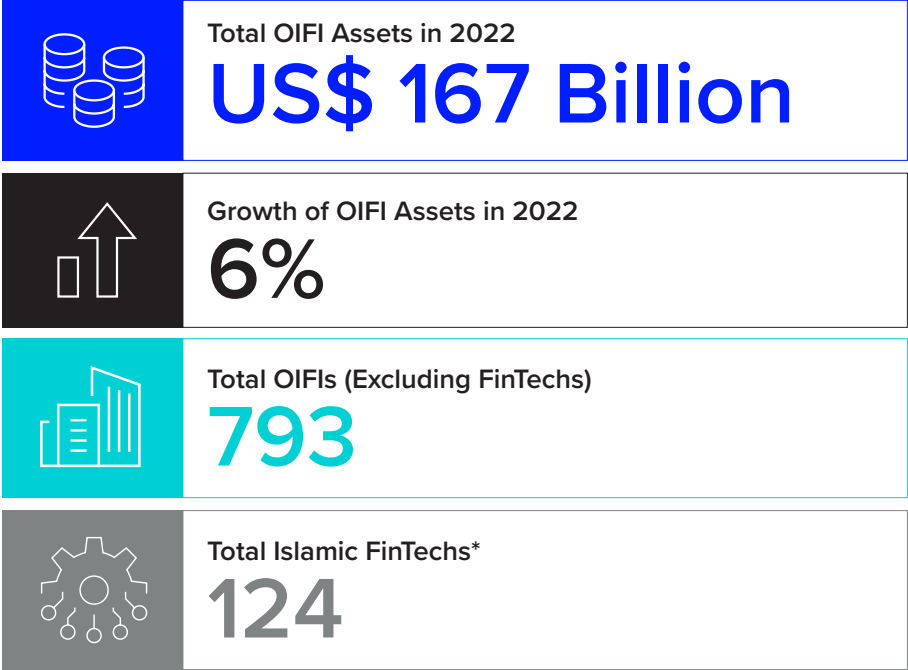
The inclusion of digital operators will help towards achieving BNM's Financial Sector Blueprint 2022-2026 target of 4.8% - 5% in insurance and Takaful penetration by 2026.

Saudi Takaful market braces for more changes

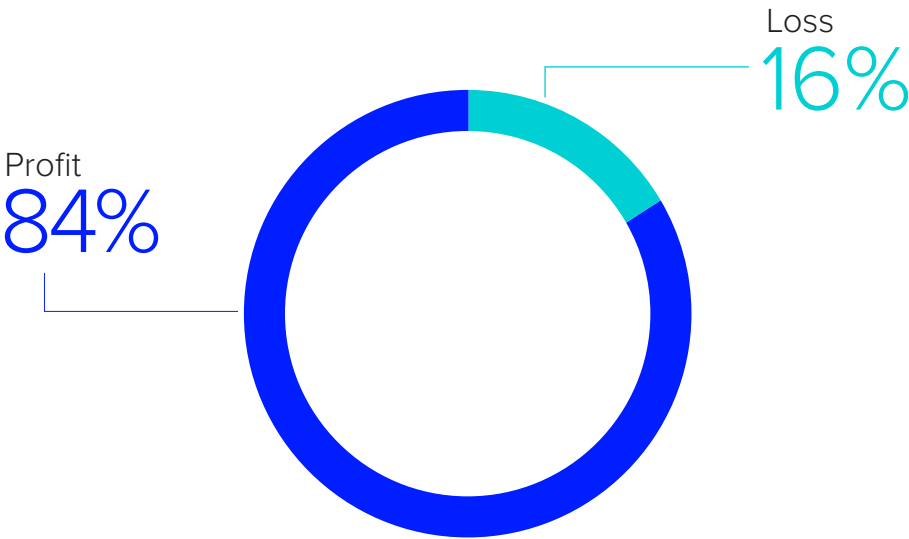
The Saudi Arabian government established the Insurance Authority in 2023 to spur the growth and development of the Takaful sector in the country and position it globally. This will also contribute towards achieving the Kingdom's Financial Sector Development Program (FSPD). Among its mandates are drafting of the National Strategy for Insurance Sector, revision of laws and regulations, and preparation of reviews and statistics on the sector.

Saudi Arabia's insurance sector has only recently emerged from a period of intense consolidation. The establishment of this new insurance regulator is expected to contribute to more consolidation activities, especially considering that some operators suffer from accumulated losses, among other issues, in a jurisdiction where two operators alone control over 50% of the market. The latest consolidation activity was between Arabian Shield and Alinma Tokio Marine that received approval for their merger from the Saudi Central Bank in September 2023. In addition, United Cooperative and Saudi Enaya also received approval for their merger in October 2023.

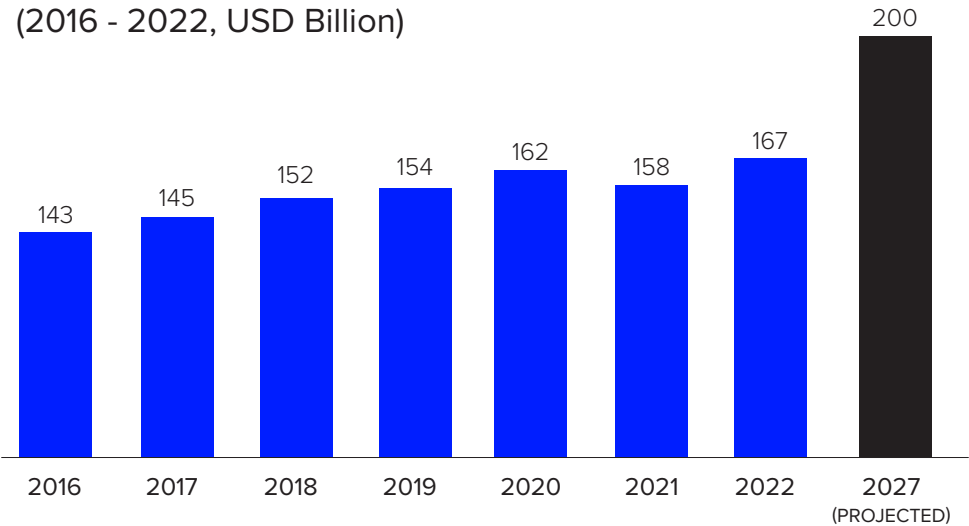
Other Islamic Financial Institutions (OIFIs)



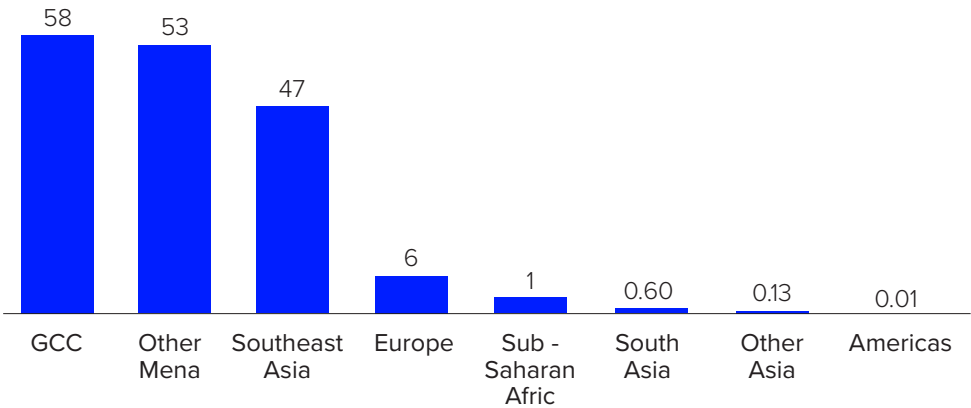
Reported Net Income by OIFIs (2022)



OIFI Assets Growth
(2016 - 2022, USD Billion)



OIFI Assets by Region
(2022, USD Billion)



52

43

30

13

9

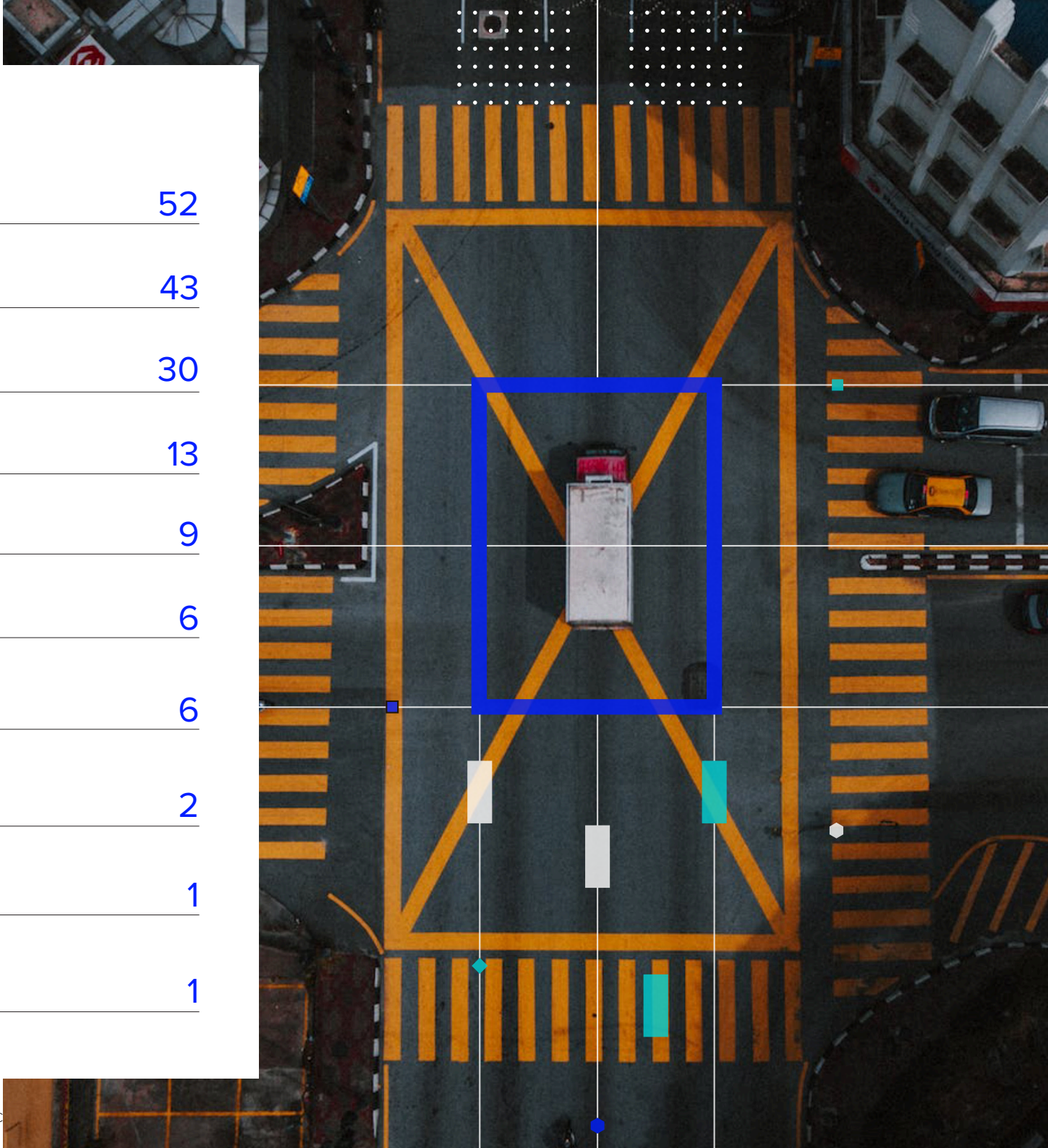
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Capital markets strategy to position Saudi Arabia as Islamic finance hub beyond Islamic banking and Takaful

Islamic financial institutions excluding Islamic banks and Takaful companies constituted 4%, or US\$167 billion, of total Islamic finance assets in 2022. This was up by 6% from 2021. There were 917 of Other Islamic Financial Institutions (OIFIs) during 2022 and they were mostly investment firms, financing companies, FinTech companies (that provide financing services and not technology) and microfinancing firms.

Iran was home to the biggest base of OIFI assets during 2022 (US\$52 billion) but Saudi Arabia had the highest number of such companies (182), most of which were capital market institutions with Islamic window operations. With the Saudi capital markets seeing more activity such as listings and Sukuk issuance, more companies, both local and foreign, are joining the Saudi market.

Saudi Arabia's Capital Markets Authority (SMA) is spurring this growth with regulatory procedures to enable financial institutions to operate in the Kingdom while protecting investors and dealers in the market. The procedures also cover some aspects of FinTech, such as the regulatory framework for equity crowdfunding and authorisation of FinTech experimental permits.

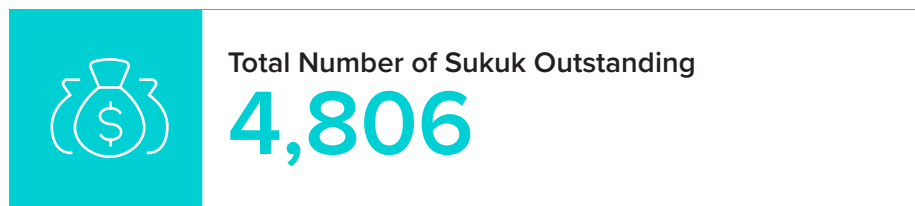
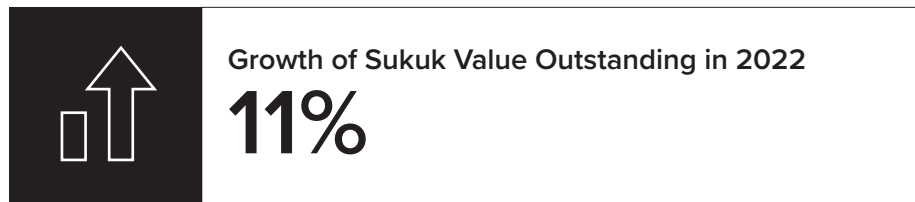
These efforts support the Saudi government's Capital Market Strategic Plan for 2021 – 2023 that was developed by the SMA. The strategy revolves around four pillars: facilitating funding, stimulating investment, fostering confidence and capacity building. It is also connected to the Financial Sector Development Programme, part of Saudi Vision 2030, which recognises that the Islamic finance industry in the Kingdom needs better Shariah governance. Addressing this, the CMA introduced the Instructions for Shariah Governance in Capital Market Institutions in mid-2022 that organises the work of Shariah committees, including Shariah compliance activities, tasks and internal Shariah oversight and audit in its regulated institutions.

Malaysia relying on FinTech to further develop its Islamic capital market and spur innovation

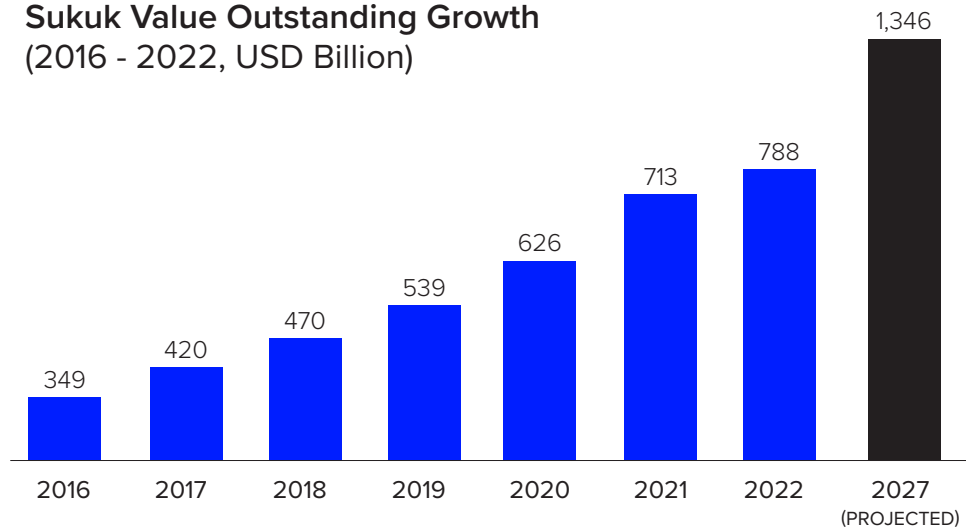
FinTechs that provide Islamic financial services accounted for 14%, or 124 companies, of total OIFIs globally in 2022. Malaysia has the capability to capitalise on its Islamic finance global hub status to sustain Islamic FinTechs. Apart from recent developments in Islamic digital banking and digital Takaful operators, Malaysia could expand into other aspects with the Securities Commission Malaysia (SC) launching FIKRA ACE in June 2023, the regulator's three-year Islamic Fintech accelerator programme. The programme is a continuation of the SC's inaugural FIKRA programme that was launched in 2021. FIKRA ACE's 2023 cohort has three focus areas: Islamic social finance, Islamic fund and wealth management, and Islamic sustainable and responsible investment.

Beyond this, the Labuan Financial Services Authority (Labuan FSA), is also focusing on combining Islamic finance pillars with FinTech solutions through digital Shariah governance in its Labuan IBFC Strategic Roadmap 2022 – 2026. It aims to attract Islamic digital assets and FinTech players and infrastructure to Labuan. One of the enabling initiatives is digitalising Islamic social finance such as Waqf and Zakat.

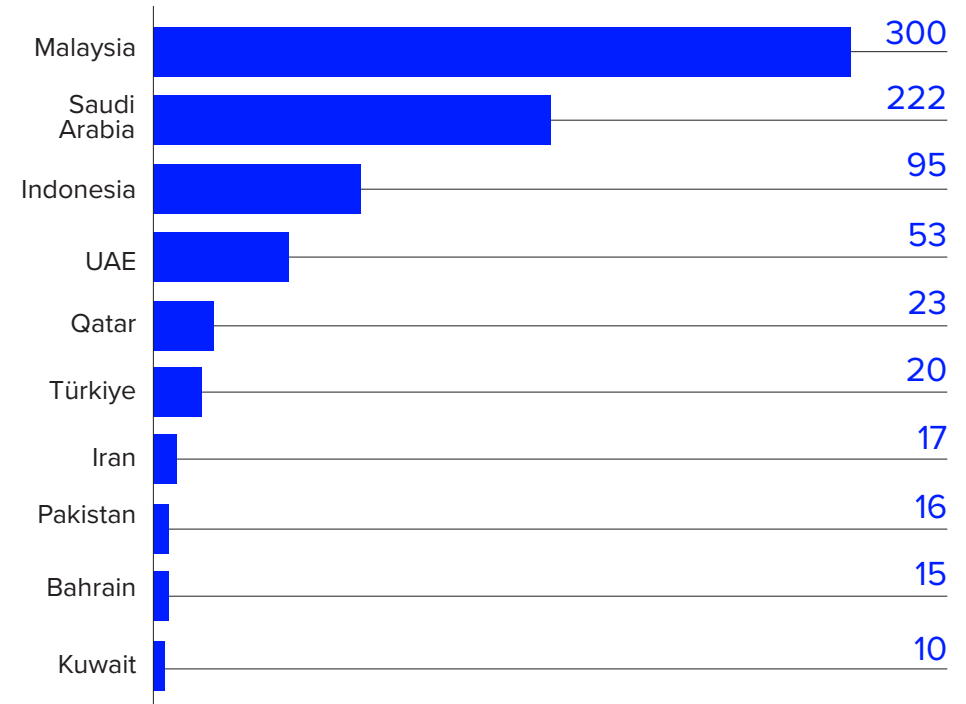
Sukuk



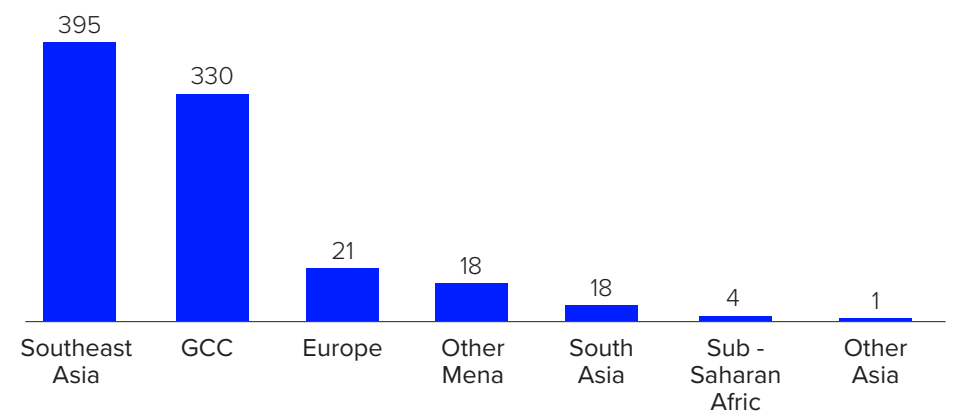
Sukuk Value Outstanding Growth
(2016 - 2022, USD Billion)



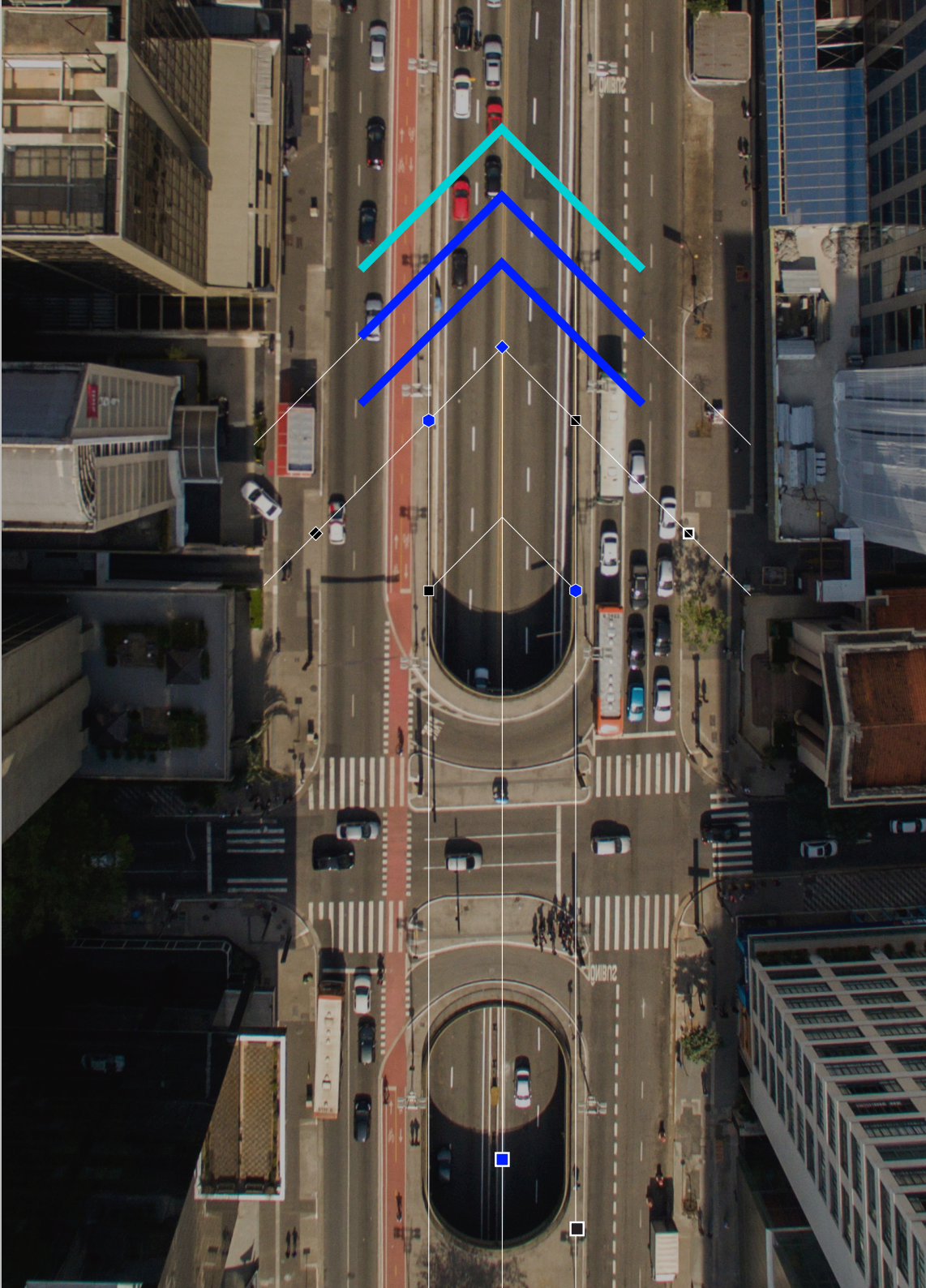
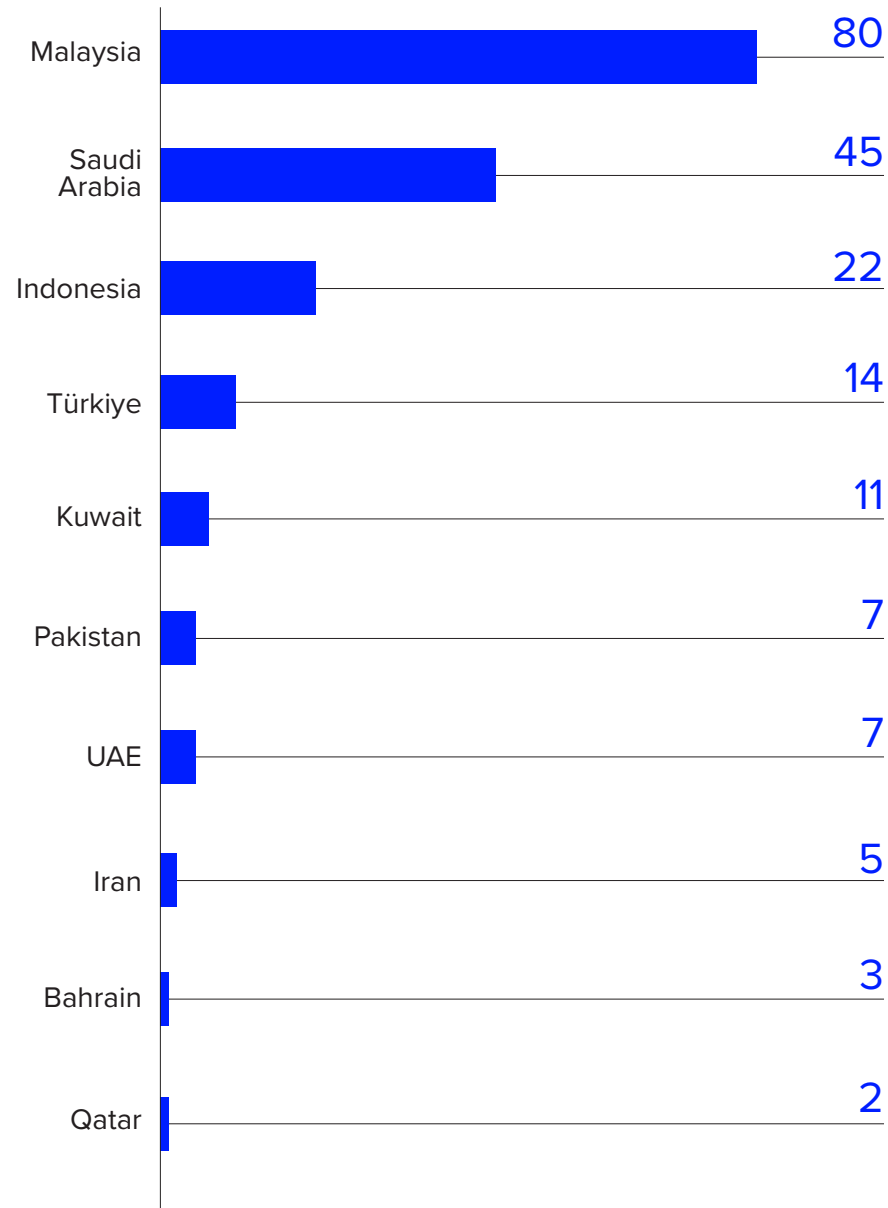
Top Countries in Sukuk Value Outstanding
(2022, USD Billion)



Sukuk Value Outstanding by Region
(2022, USD Billion)



Top Countries in Sukuk Value Issuance
(2022, USD Billion)



Sukuk issuance marginally lower than 2021 amid cost pressures

Global Sukuk issuance reached \$193.9 billion in 2022, down marginally by 1.3% from 2021 and halting a growth streak that lasted for over a decade. The slight drop reflects the resilience of the Sukuk market in light of multiple and consecutive rate hikes during the year that increased the cost of borrowing for issuers.

Malaysia maintained its lead, accounting for 41% of total Sukuk issued in 2022, followed by Saudi Arabia (23%) and Indonesia (11%). Sukuk issuance from Malaysia increased by 10% year-on-year to US\$80 billion, as corporate sales rose by 33.7% during the year. Issuances from GCC countries dropped by 14% due to lower funding requirements from sovereigns and state-backed companies as the surge in oil prices padded government budgets. The biggest drop in issuance in the region was in Saudi Arabia, where there was a 10.5% decline due to lower borrowing levels by state-backed companies.

The medium to long-term outlook for Sukuk is positive amid continued investor demand, issuer refinancing needs, and government support in core markets. While market conditions remain challenging as of this writing, the Sukuk pipeline continues to build, awaiting suitable windows with more favourable conditions. High oil prices have buoyed the fiscal profile of oil-exporting sovereigns like those in the GCC and Malaysia. However, their drive to diversify funding sources can propel Sukuk growth. On the other hand, issuing Sukuk could help oil importers like Indonesia, Türkiye and Pakistan plug funding gaps.

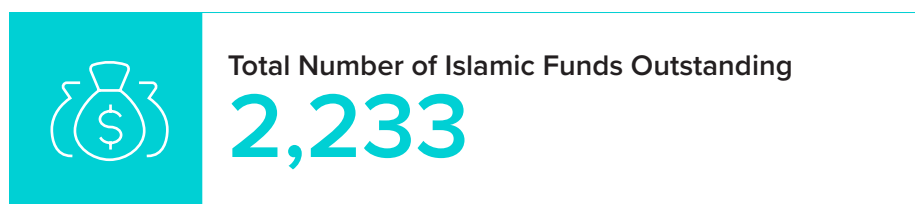
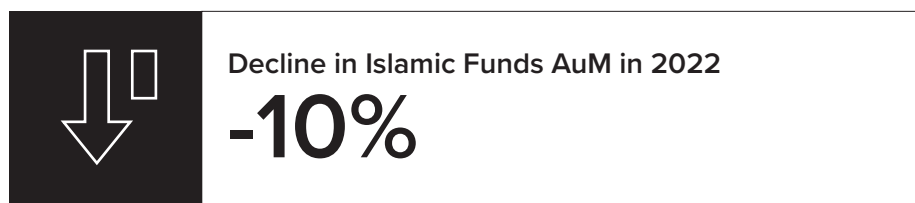
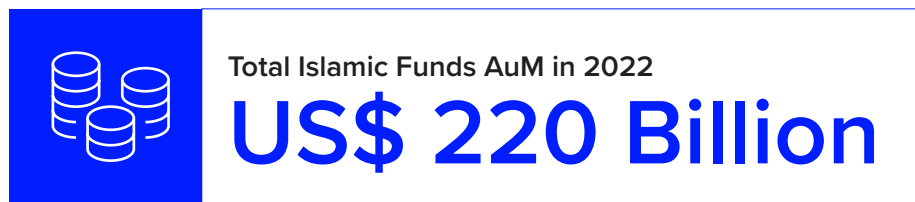
Sukuk comes into focus in African markets

While the environment for debt issuance has become less conducive than in previous years due mainly to rising borrowing costs, Sukuk have come under new focus in African markets since the onset of the pandemic. Total issuance from Africa-based issuers increased from a modest US\$22 million in 2019 to US\$1.8 billion in 2021 and US\$1.2 billion in 2022.

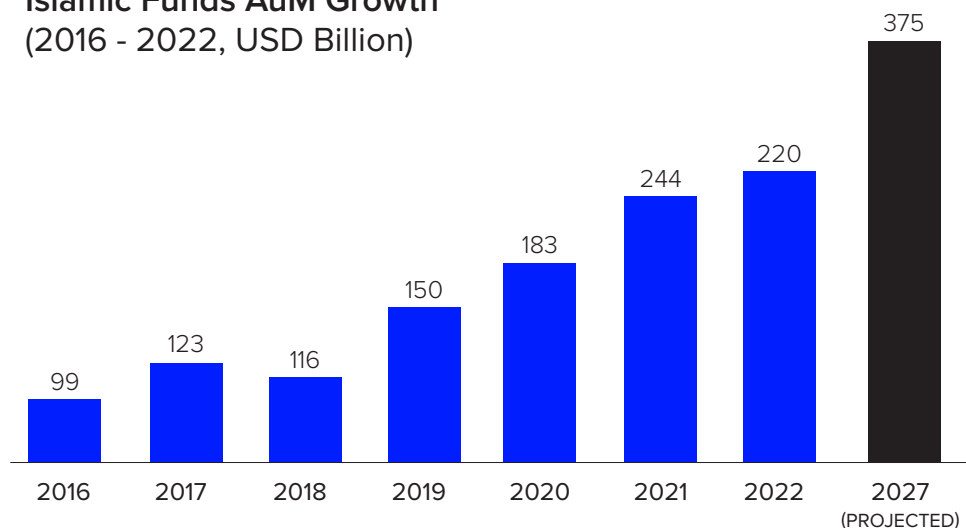
Tanzania became an increasingly active issuer in 2022, driven by financial institutions. Imaan Finance raised TZS16.32 billion (US\$5 million) from three issuances during the year as part of its Sukuk programme that debuted the previous year. KCB Bank launched its 'Fursa Sukuk', raising TZS 10 billion (\$4.4 million), and Amana Bank raised (\$2.9 million). While a sovereign Sukuk is yet to be issued by Tanzania, local reports point to the government planning to issue its debut Sukuk as part of economic reform plans and push Zanzibar as an investment destination.

Egypt is another recent participant in the Sukuk market. Following multiple postponements since 2020, the Egyptian government went to market with its debut Sukuk in Q1 2023, raising US\$1.5 billion. Elsewhere, Algeria's finance minister announced in 2022 that the government was working towards a regulatory framework for Sukuk in 2023. Ethiopia also aims to introduce Islamic capital market products including Sukuk, with the newly established Ethiopian Capital Market Authority finalising laws related to the country's upcoming capital market, including for Shariah-compliant products.

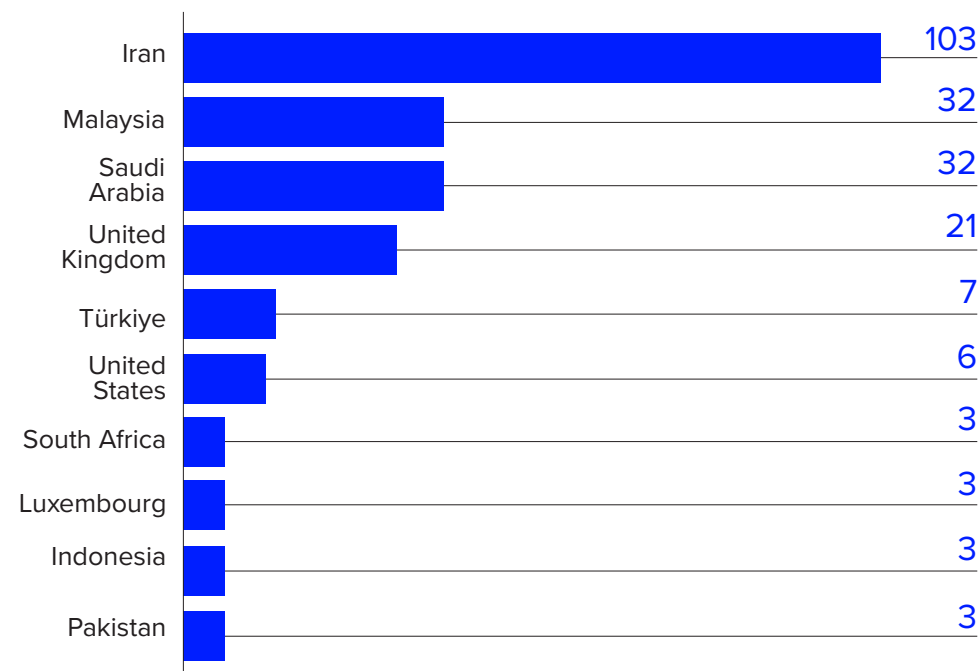
Islamic Funds



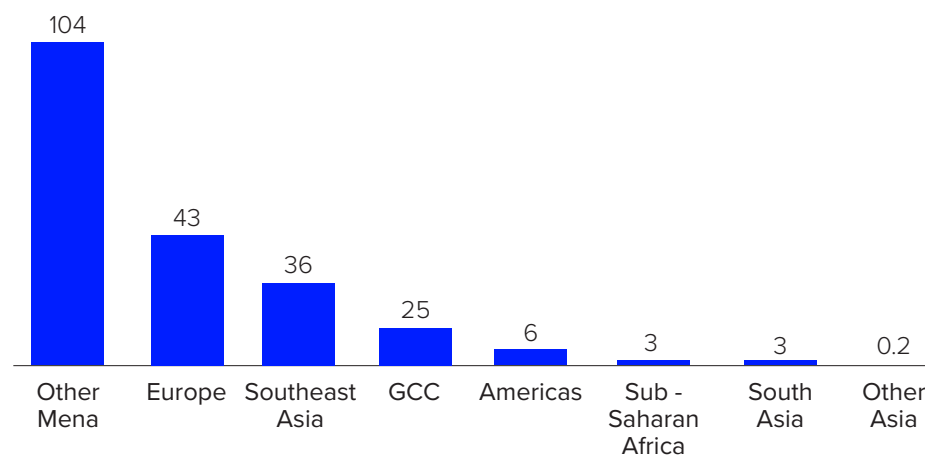
Islamic Funds AuM Growth
(2016 - 2022, USD Billion)



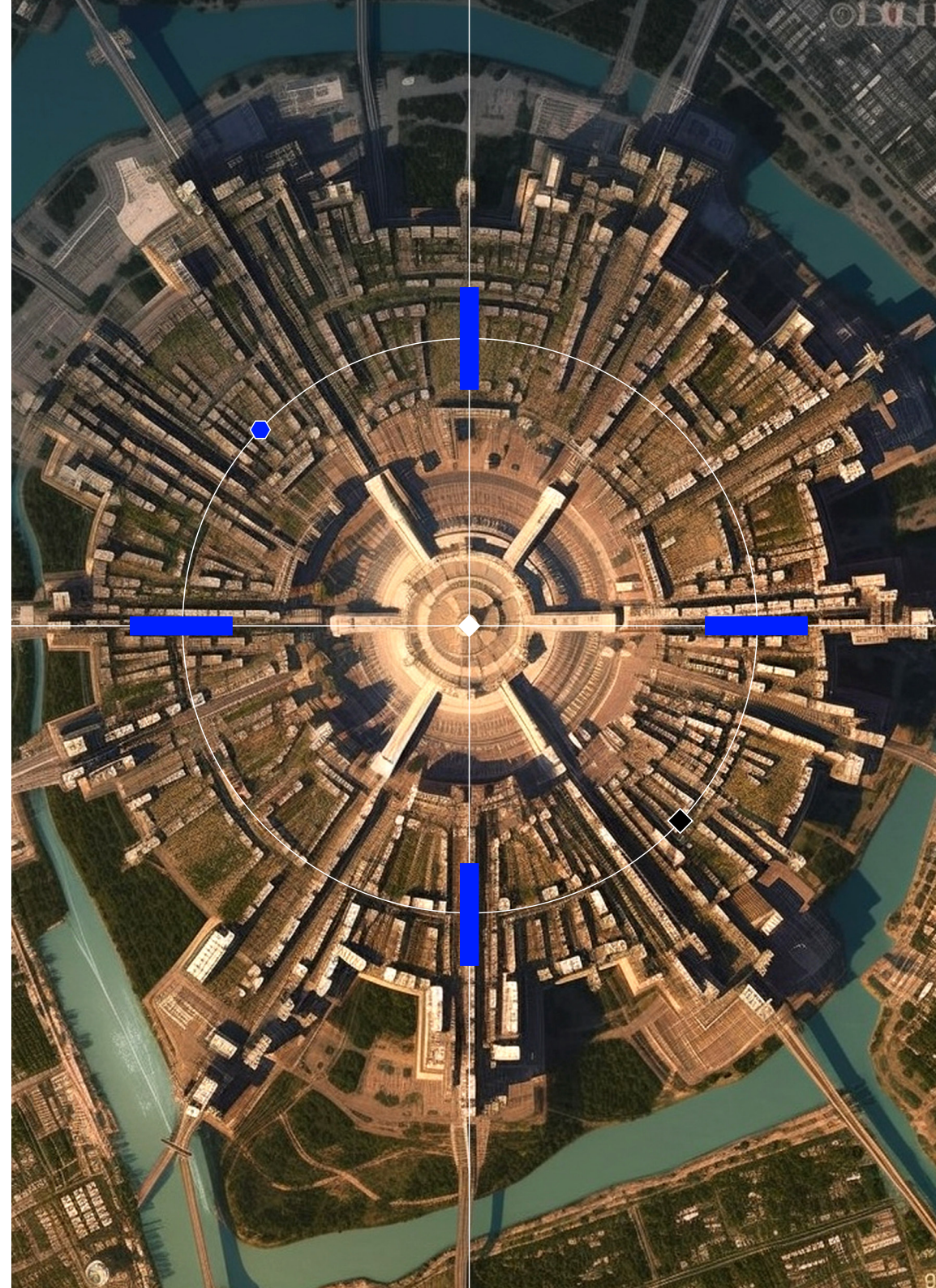
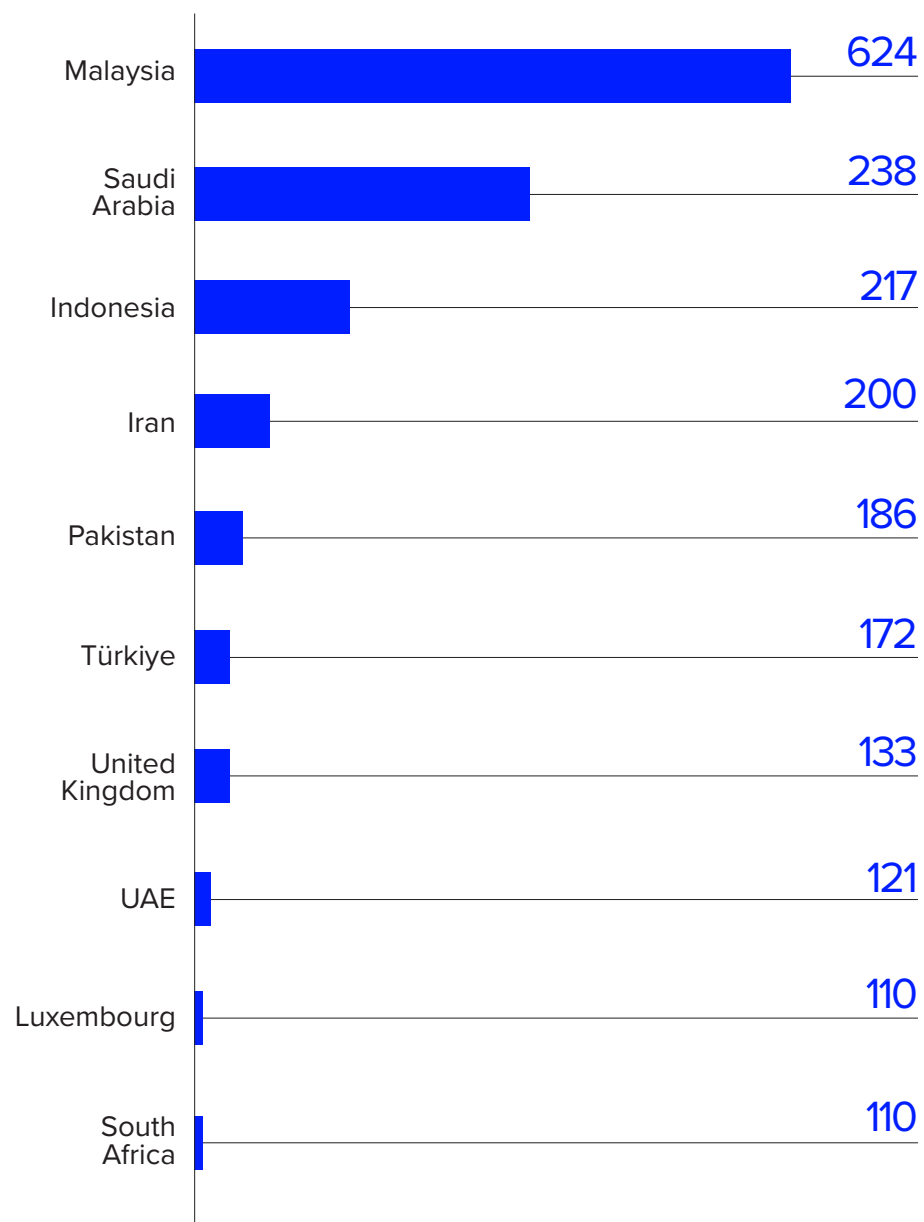
Top Countries in Islamic Funds AuM
(2022, USD Billion)



Islamic Funds Outstanding by Region
(2022, USD Billion)



Top Countries in Number of Islamic Funds Outstanding (2022, USD Billion)



Aggressive rate hikes weigh on Islamic fund valuations

Rising global interest rates, negative equity market performance and shrinking liquidity have all hit Shariah-compliant mutual funds. Following substantial growth of 71.8% in 2021, the assets under management (AuM) of Shariah-compliant funds totalled US\$219.7 billion in 2022, down by 10% year-on-year. In addition, the number of new funds launched during the year reduced significantly from 223 in 2021 to 71 in 2022.

The biggest losses stemmed from the poor performance in money markets, which lost 46% in value compared to 2021. Money market funds accounted for 12% of Islamic AuM in 2022, down from 20% in 2021. This was the result of the US Fed and other central banks pushing on with multiple rate hikes during the year, sending yields to their highest levels in more than a decade and causing an inverted yield curve.

Evolving investor preferences driving demand for ETFs

The evolving preferences of investors continue to disrupt the wealth management industry with Gen-X and Millennials increasingly seeking more sustainable, efficient and innovative investments. A Refinitiv survey of more than 1,000 retail investors found a contrast as younger investors turn to index-based funds, ETFs, cryptocurrency, ESG investments and hedge funds.

Among Shariah-compliant investment strategies, index investing has made significant inroads in this category over the past five years. By the end of 2022, there were 64 active Islamic ETFs covering a wide set of investment exposures from global, regional and country-specific core to more specialised investment themes such as factors and real estate.

Expanding Shariah-compliant investment universe in non-OIC markets

Half of active Islamic ETFs were launched after 2017 and they have become available in core Islamic finance markets in addition to non-OIC markets such as North America, Australia and Europe.

In January 2022, Invesco launched the Invesco Dow Jones Islamic Global Developed Markets UCITS ETF, a Shariah-compliant ETF in Europe that provides exposure to developed market equities. The ETF was introduced with around US\$100 million in assets and listed on the London Stock Exchange and the SIX Swiss Exchange. It is linked to the Dow Jones Islamic Market Developed Markets Index, which selects

its constituents from a universe of developed market companies with average daily trading volumes above \$20 million.

In October 2022, Hejaz Financial Services launched the first two Islamic ETFs listed on the Australian Securities Exchange (ASX) – the Hejaz Equities Fund and Hejaz Property Fund.

In September 2023, HSBC Asset Management launched the HSBC Global Sukuk UCITS ETF, Europe's first fixed income ETF providing targeted exposure to sukuk from Shariah-compliant issuers. Listed on the London Stock Exchange, the fund tracks the FTSE IdealRatings Investment Grade Index which covers fixed-rate, US dollar-denominated, investment-grade Sukuk with a minimum of US\$200 million outstanding and a minimum time to maturity of one year.

Leveraging Islamic finance-ESG synergy to attract non-Muslim investors

Several Islamic funds and ETFs are now attracting interest from non-Muslim investors seeking investments aligned with ESG principles. Shariah-compliant funds and their ESG counterparts often take similar exposures, with complementary investment screens that produce robust returns while minimising portfolio risk.

In January 2022, Wahed launched the Wahed Dow Jones Islamic World ETF (UMMA), Nasdaq's first Shariah-compliant and ESG ETF. The ETF is a collaboration between Wahed and the US Bank's Listed Funds Trust and Dow Jones. UMMA seeks long-term capital appreciation and looks to provide investors access to international, ex-US investments that seek to better align with Shariah and ESG values. It is benchmarked to the Dow Jones Islamic Market International Titans 100 Index. In November 2022, HSBC Asset Management launched five Shariah-compliant ESG ETFs targeting regional and world equity markets, labelled Article 8 under the Sustainable Finance Disclosure Regulation (SFDR). The first to be launched, the HSBC MSCI USA Islamic ESG UCITS ETF (HIUA), was listed on the London Stock Exchange. The remaining four ETFs are yet to be launched and target world, Europe, emerging markets and Asia-Pacific ex-Japan equities. HIUA tracks the MSCI USA CUST Islamic ESG Universal Screened Net USD index which applies Shariah exclusions, followed by norms-based exclusions, a socially responsible investment (SRI) screen for companies involved in nuclear weapons and producers of firearms, as well as tobacco and controversial weapons.

Turkish Participation Finance Sector Outlook



Ismail Vural
Secretary General
of the Participation Banks
Association of Türkiye (TKBB)

Mr. Vural started his career at Kuveyt Türk Participation Bank in 1997. Thereafter he served in various positions at Türkiye Finans Participation Bank.

He was appointed Deputy Vice President in charge of Retail Banking in 2016 and continued to serve in this position until March 2017.

Mr. Vural became the Deputy Secretary General of the TKBB in February 2018, served as the Acting Secretary General between February 2022 and April 2023 and took up the role of Secretary General in April 2023.

In today's world, a strong financial and banking system are the main pillars of the globalising and growing economic system. The activities that constitute the banking system are the utilisation of savings, providing the collected resources as financial support to the economy and mediating the realisation of financial transactions in the process of economic activities. Islamic financial institutions (IFIs) are an important alternative for individuals and societies that do not want to participate in activities that include elements of interest in the banking system, due to religious sensitivities or the distorting effects of interest on income distribution.

Participation banking, as Islamic banking is called in Türkiye, started one year after the establishment of «Special Finance Houses» that was authorised by the decision of the Council of Ministers in 1983. Participation banking gained momentum in the 1990s and was included in the scope of the Banking Law in 1999. In 2005, with the publication of the Banking Law No. 5411, Turkish IFIs, which had been operating in the sector as Special Finance Houses for more than 20 years, changed their names to become Participation Banks.

Participation banking, which underwent organisational and structural developments at both national and global levels in the 2000s, has reached a more strategic position with the expansion of participation finance activities to areas such as financial product development, portfolio management and private pensions. With the contribution of public initiatives since the mid-2010s, the participation banking sector has gradually gained a steady growth momentum.

The first participation bank in Türkiye was Albaraka Türk, established in 1984. Subsequently, Kuveyt Türk was established in 1989 and Türkiye Finans in 2005. The main shareholders of all three participation banks are foreign investors. In 2015, the public authority established Ziraat Katılım, the first public participation bank, in order to increase the share of participation banking in the sector. Subsequently, Vakıf Katılım was established in the same year, and its operating licence was granted in 2016. In 2019, a new public participation bank entered the sector and Türkiye Emlak Katılım was established to operate especially in the housing sector. In 2022, the Banking Regulation and Supervision Agency (BRSA) authorised the establishment of three new participation-based digital banks through the Regulation on the Operating Principles of Digital Banks and Service Model Banking published at the end of 2021, and two digital Islamic banks, T.O.M Bank and Hayat Finans joined the participation banking sector in March, 2023. With the inclusion of new participation banks in the system, the market share of participation banks in the Turkish banking sector is expected to increase. The rise is also expected to improve financial inclusion from the perspective of customers and distribution channels, as well as product and service diversity.

Participation Banks Statistics

As of September 2023, the total asset, deposit and loan size figures of participation banks and their sector shares have increased significantly from preceding years. As of September 2023, the total asset size of participation banks operating in Türkiye increased by 50.6% compared to the previous year and reached TL 1.79 trillion (US\$65 billion). As of September 2023, the net profit of participation banks increased by 82.6% to TL 38.165 billion (\$1.395 billion), while total shareholders' equity increased by 48.4% to TL 125.170 billion (\$4.5 billion).

The total number of domestic and foreign branches of the participation banks operating in Türkiye increased by 4.3% to 1,438 in 2023. The number of branches of participation banks constitutes 13% of the total branch network of the banking sector. Participation banks have continued its support to the labour market in the country. According to 2023 data, the total number of employees of participation banks increased by 8.8% compared to the previous year to reach 19,438 persons.

Contribution of Participation Banks to the Turkish Economy

Participation banks continued their contribution to economic growth in multiple ways in 2023. They have an increasing share in the development of the banking system with their role to bring in idle funds that cannot be included into the financial system, its regulatory effects on income distribution, recording unregistered economic activities, transferring resources to the real sector and increasing employment.

Participation banks continued their support to SMEs with cash and non-cash financing solutions. As of September 2023, the total number of SME customers of participation banks reached 413,516. According to the distribution of loans analysis, the share of commercial and corporate loans out of total loans was 46% with TL 375.142 billion, the share of SME loans was 43.3% with TL 351.924 billion, and the share of consumer loans (including credit cards) was 10.4% with TL 84.411 billion.

As part of the excellent financial infrastructure for the Islamic finance ecosystem, the Islamic Credit Guarantee Fund (KFK) was established on 29 March 2023 in partnership with the Ministry of Treasury and Finance, Participation Banks Association of Türkiye (TKBB) and six participation banks in order to provide access to financing for small and medium-sized enterprises (SMEs) within the framework of participation finance principles and to provide such enterprises with competitive advantage in the sectors in which they operate. Aiming to announce new packages that will create a financing volume of TL 900 million by the end of 2023, KFK will contribute to the strengthening of the participation ecosystem by meeting the surety needs of the sector for accessing the financing.

Sukuk Issuance Performance of Participation Banks

Turkish participation banks have performed well with Sukuk issuances in domestic and international markets. The total amount of Sukuk issuances in Turkish Lira by participation banks in Türkiye since 2013 has reached TL 359 billion. The banks issued TL 83 billion in Sukuk in 2022, and issued approximately TL 50 billion of Sukuk in the first ten months of 2023.

Under the thematic Sukuk issuances, Kuveyt Türk issued «Global Sustainable Tier 2 Subordinated Sukuk» for the first time in Türkiye and in the world in line with the principles of participation finance. In addition, Emlak Katılım received the «Best Sukuk Issuance of the Year Award» in the world on a sector basis at the Islamic Finance News Awards with Türkiye's first green Sukuk issuance based on labour-capital partnership carried out through the Private Fund Pool Participation Account. Albaraka Türk became the first participation bank to be included in the Borsa Istanbul (BIST) Sustainability Index and achieved one of the highest ratings in the banking sector with its efforts within the scope of the Carbon Disclosure Project (CDP).

Additionally, the Development and Investment Bank of Türkiye issued the country's first social Sukuk amounting to TL 50 million to be used in the agricultural sector. Further, Ziraat Katılım Participation Bank, which signed the first international Sukuk issuance carried out by a public participation bank in Türkiye, successfully completed its first international Sukuk issuance and issued US\$500 million.

On the global scale, Türkiye has taken its place among the top five countries in the global Sukuk issuance league with Malaysia, Saudi Arabia, the United Arab Emirates and Kuwait, as of 2023. In terms of volume of Sukuk issuance by the public sector, various studies are being carried out by the Republic of Türkiye Ministry of Treasury and Finance in order to diversify the financing instruments and expand the investor base. While the total TL-denominated Sukuk issuance between 2012 and 2023 was approximately TL 286 billion, approximately 233 Tonnes of gold-based Sukuk issuance was made between 2017 and 2022, and US\$3 billion in USD and EUR4 billion in EUR Sukuk issuance was carried out.

Borsa Istanbul and Participation Index

Borsa Istanbul and the Participation Banks Association of Türkiye (TKBB) launched the Participation Indices in 2021 by evaluating the companies whose shares are traded on Borsa Istanbul according to participation principles. For the evaluation process of the companies to be included in the indices, the Advisory Board takes as basis the «Standard for Issuance and Trading of Equity Securities» (Standard) and the «Guidelines for Determining Companies Operating in Compliance with Participation Finance Principles» (Guideline) prepared by the Central Advisory (Shariah) Board.

Participation Banking and Digitalisation

Increasing technological and financial know-how in order to enable customers to access financial services through digital channels has become a common goal of institutions. The technological and legal infrastructure for customer acquisition through remote access using up-to-date technologies was prepared and put into operation by banks as of May 2021, providing a significant impetus to the development of customer portfolios and service efficiency. Participation banks have considered the possibility of remote customer acquisition as a very productive opening with their digital equipment and organisational preparations, and have succeeded in continuously increasing the number of customers they have registered through this channel since the implementation began.

Thanks to innovation-friendly regulations, the FinTech ecosystem in Türkiye has grown every year, and as of March 2023, the number of active FinTechs reached 629, the number of licensed payment and electronic money institutions reached 74, the number of crowdfunding platforms reached eight, and the payments space stood out with 255 FinTechs. Contrary to the global downward trend, FinTech investments in Türkiye broke a record in 2022, reaching an all-time high with US\$89 million invested in 37 FinTech companies.

The effective use of increasing digital opportunities by participation banks and the expansion of open banking applications with the support of the FinTech ecosystem is an important threshold in the development of the sector.

While FinTech investments in Türkiye reached a record high in 2022, the support and guidance of the government and regulatory bodies are also important for the development in this field. The "National FinTech Strategy Document" prepared by the Finance Office of the Presidency of the Republic of Türkiye is expected to serve as a roadmap for the Turkish FinTech ecosystem to stand out in the international arena and take its rightful place.

Development of Standardisation

The Central Advisory Board was established under the umbrella of TKBB in 2018 with the decision of the BRSA as a standard-setting institution with the aim of improving Islamic finance practices in Türkiye. The Board has been in operation for five years with seven board members and six experts. To date, the Advisory Board has taken 78 Shariah decisions and published five Shariah standards, and all standards can be accessed publicly on the Advisory Board's website in Turkish, English and Arabic. These standards are Share Certificate Issuance and Trade Standard, Murabahah Standard, Tawarruq Standard, Suretyship Standard and Mudarabah Standard. While one standard is in the process of publication: Non-Compliant Incomes with the Participation Finance Principles and their Elimination Standard, two more standards are in the process of being drafted, namely the Musharakah Standard and the Wakalah Standard.

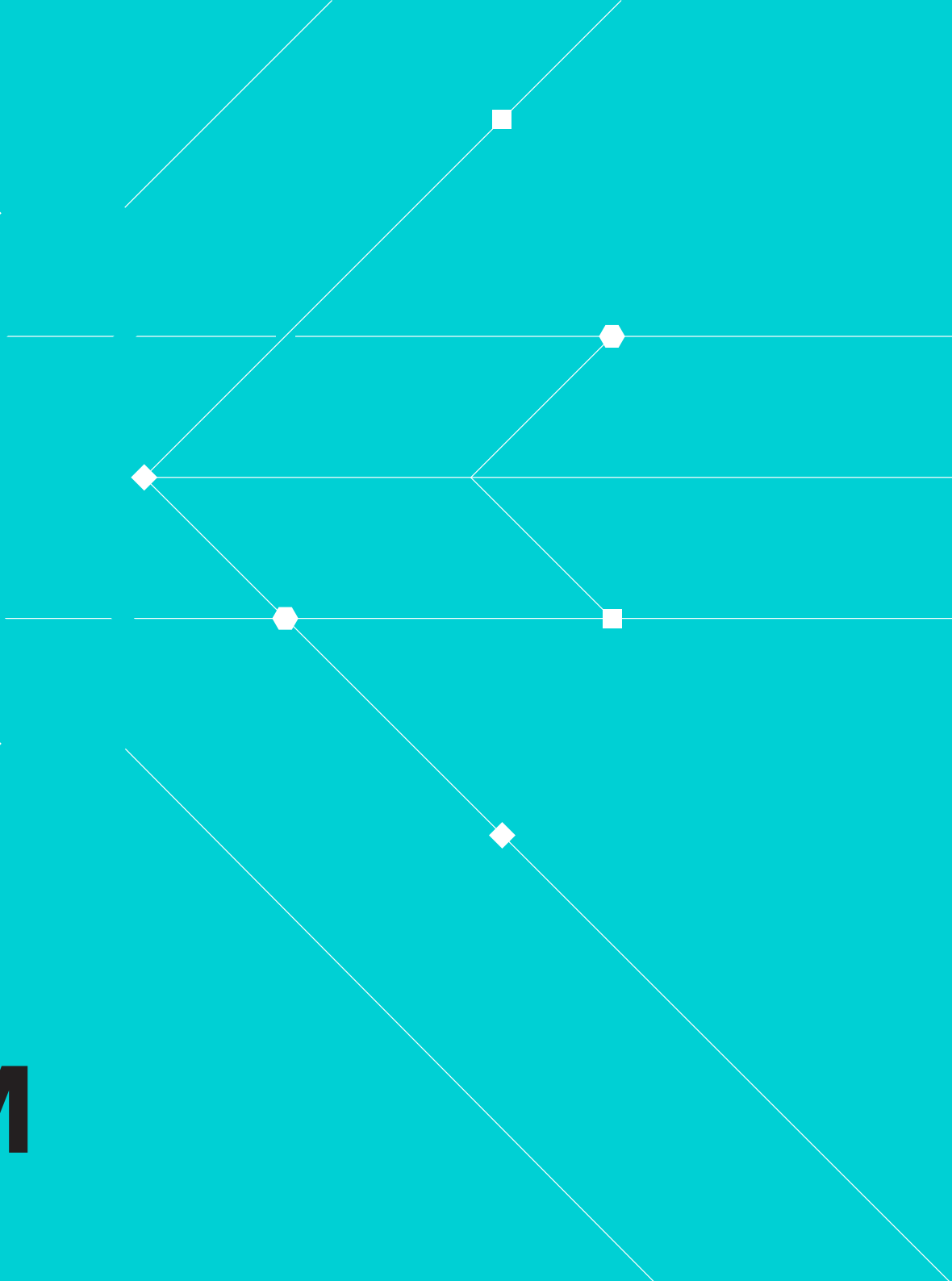
15% Market Share Target for 2025

The Istanbul Finance Centre project aims to make Türkiye one of the world's leading financial centres. With the right steps to be taken and a sound institutional structure to be established in this context, Istanbul is expected to become not only a financial centre but also a centre of interest-free finance. The Participation Finance Strategy Document, which is Türkiye's first national strategy document in the field of participation finance, is a roadmap to position Türkiye as a leading country in participation finance. In addition, the strategic roadmap of the banking sector covering the 2021-2025 period published by TKBB has been updated and 6 main strategic targets have been determined as "communication", "ecosystem", "product diversity", "standards and governance", "digital" and "competence building".

The main focus of participation banking until 2025 will be to expand services with the driving force of digital transformation and to achieve gains in the number of customers by upgrading the customer experience, effectively using remote customer acquisition and increasing financial literacy.

With the inclusion of digital participation banks in the participation banking ecosystem, the sector's market share is expected to reach double digits and rise to 10.6% in 2023. The sector's target for 2025 is to reach a market share of 15% and an asset size of TL 1.77 trillion.

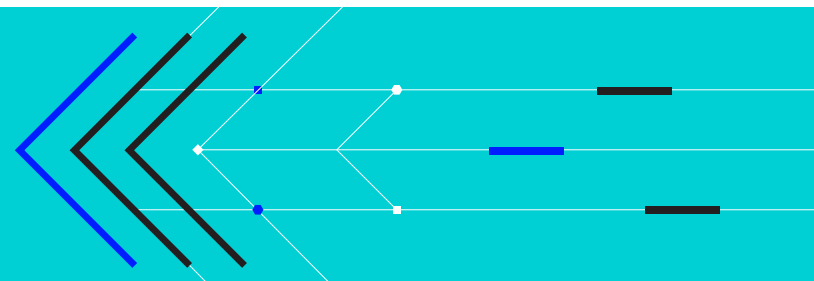
In the Turkish participation finance industry, which has effectively completed its financial architecture, a separate law for participation finance institutions, which is expected to enter into force in the coming period, will be an important catalyst for the holistic governance of the ecosystem and to ensure both financial development and customer expansion. The participation finance sector, which aims to increase its market share with the inclusion of new participation banks in the sector, is expected to achieve a tremendous growth momentum with the development of insurance, capital markets and non-banking financial institutions.



ISLAMIC FINANCE ECOSYSTEM



Governance

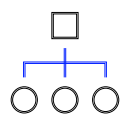


Number of Countries with Regulation on



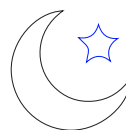
52

Islamic Banking



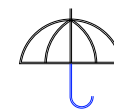
32

Specific
Accounting/Auditing



36

Specific Shariah
Governance



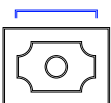
37

Takaful



1,325

Number of Shariah
Scholars with Institutional
Representation



31

Sukuk



13

Islamic Funds



55

FinTech Sandbox



20

Centralized Sharia
Committee Presence



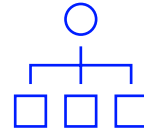
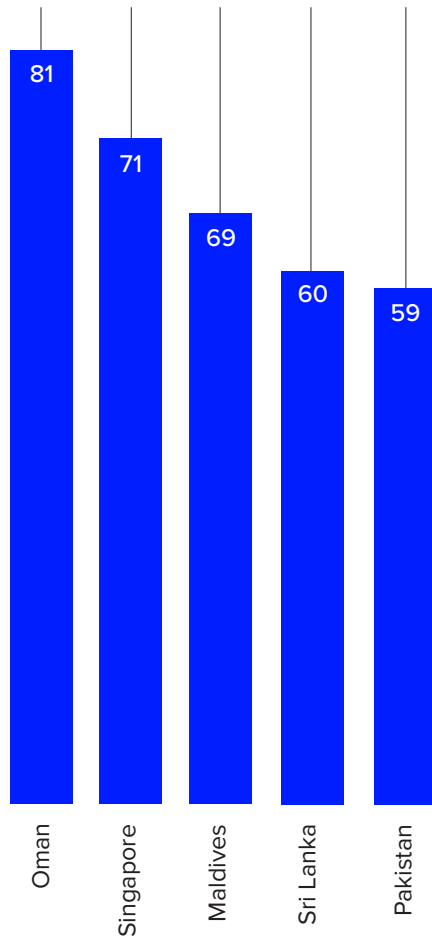
28%

Average
Disclosure Index

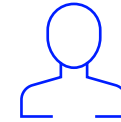
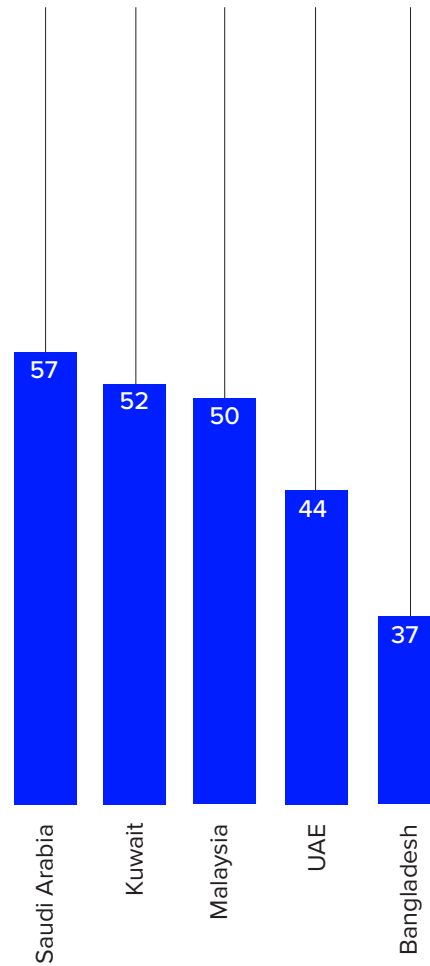
Top Countries (2022)



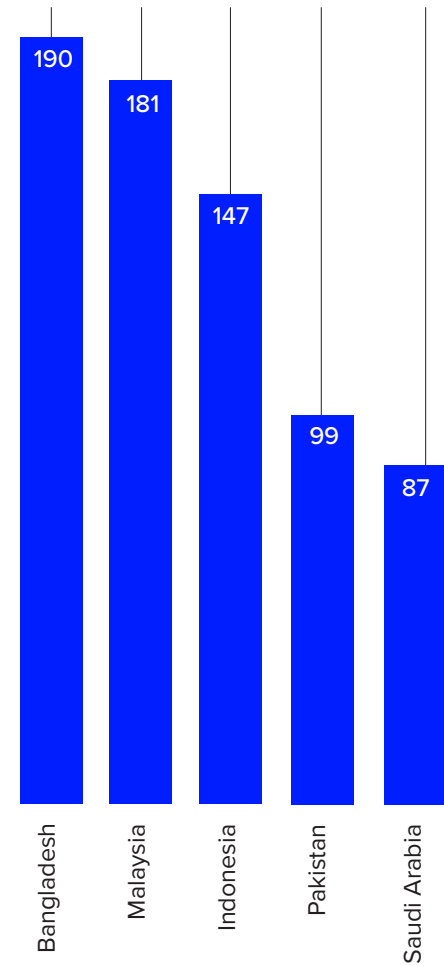
Average Disclosure Index Scores (%)



Number of IFIs with Shariah Boards



Number of Shariah Scholars



Commercial laws amended to accommodate Islamic finance

There are a handful of countries that have regulations covering the full suite of Islamic finance sectors, asset classes and other aspects, as identified by the IFDI methodology, and some of those jurisdictions further strengthened their regulations due to recent economic and financial sector developments.

The UAE introduced its Commercial Transactions Law (Federal Law 50 of 2022) that considers many developments that affect commerce and commercial transactions, such as industrial and technological developments. Among the aspects covered by the law is Islamic finance, making it the first commercial law to recognise and govern Islamic financial transactions.

Areas impacted by the Federal Law include concepts, deposits, investment accounts, Takaful and other transactions that fall under Islamic finance. For instance, under Article 477 of the Law, Islamic financial institutions and Islamic windows will bear risk and rewards of ownership of property. They will also bear the burden of maintenance of the leased property and the insurance costs. Further, under Article 495, Islamic financial institutions will maintain the leased property. Any agreement opposing this will make the contract null. With these characteristics, such contract is no longer classified as a sale or loan by court.

The Law also requires reference to resolutions by the Higher Shariah Authority for interpreting articles in the law. This ensures the protection of rights and interests of different parties involved.

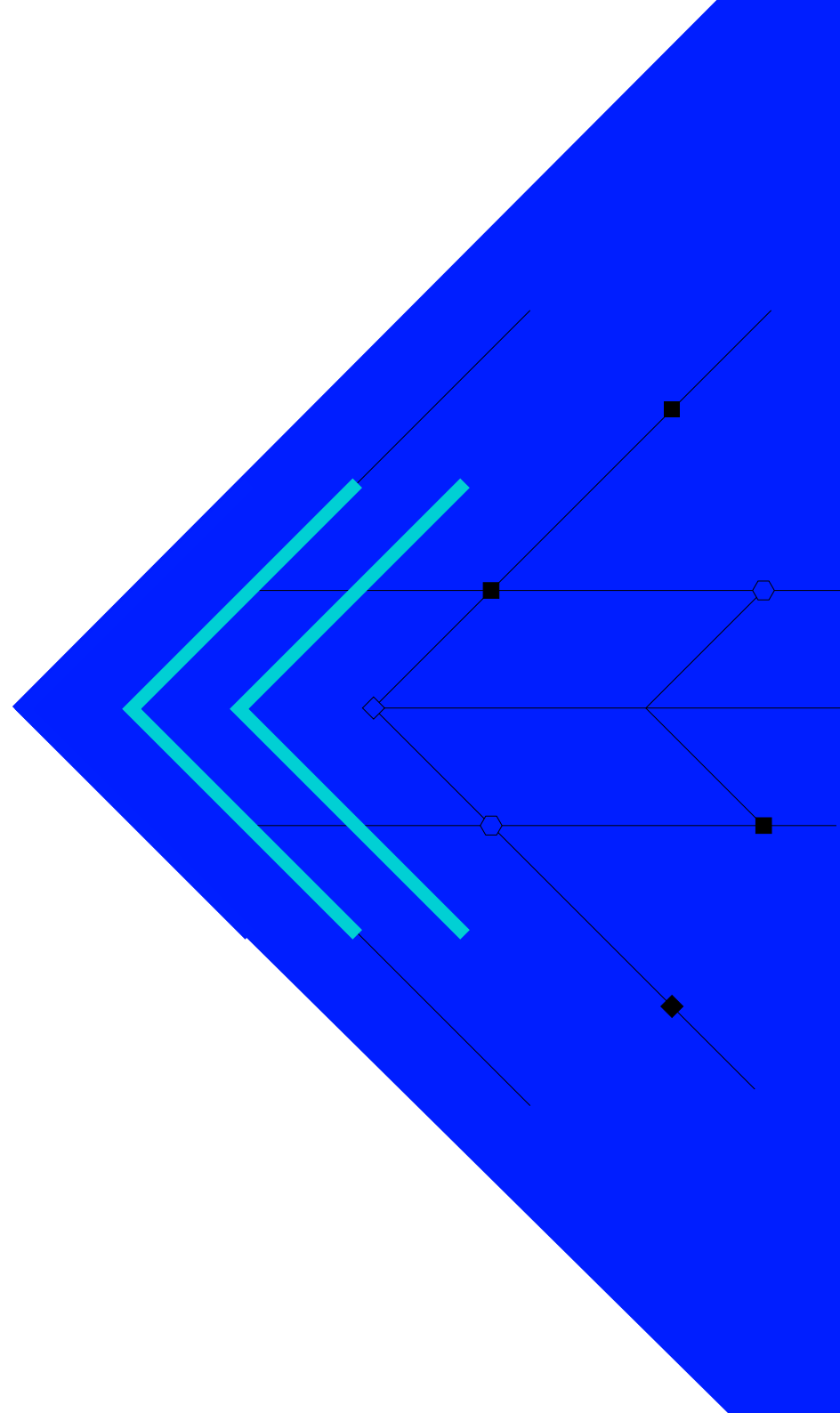
Another country expecting to see changes in its commercial laws to accommodate Islamic finance is Pakistan where the Federal Shariat Court (FSC) ruled Riba as prohibited in April 2022, prompting the total conversion of the country's economy to become interest-free by end-2027.

According to the State Bank of Pakistan (SBP), the country's central bank, there are key challenges that need to be addressed in order to meet the deadline. Among them is the need for reformation of laws, contracts and the judicial system. This is because the banking sector is interconnected with several business and commercial laws. The FSC judgment states that there is a need for changes in 15 laws to align with Islamic requirements. The government has created a high-level steering committee to guide the implementation of the judgment.

Regulators other than central banks paying attention to Shariah governance

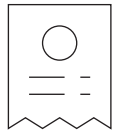
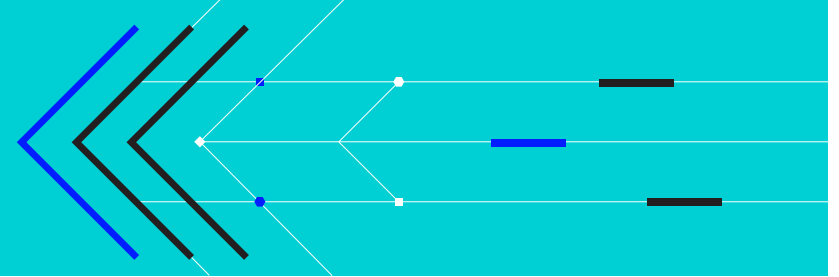
Regulators other than central banks are also paying attention to Shariah governance requirements. For instance, Pakistan's Securities and Exchange Commission (SECP) issued its Shariah Governance Regulations in September 2023. It includes the requirement to have a Shariah compliance certificate from the Commission before claiming to be a Shariah-compliant company. It also sets requirements for Shariah screening criteria for Shariah-compliant companies and securities.

Saudi Arabia's Capital Market Authority in 2022 issued Shariah governance instructions for its capital market participants, be they full-fledged Islamic or Islamic windows. Among them is the requirement to form Shariah committees, their responsibilities, and meetings.



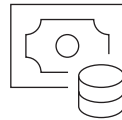


Sustainability



24,409

Total Value of ESG
Sukuk Outstanding
(USD Million)



6,558

Total Value of ESG
Islamic Funds
Outstanding
(USD Million)



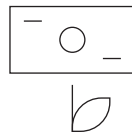
42

Number of Countries
with Sustainability
Guidelines



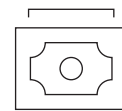
18%

Average ESG
Reporting Index



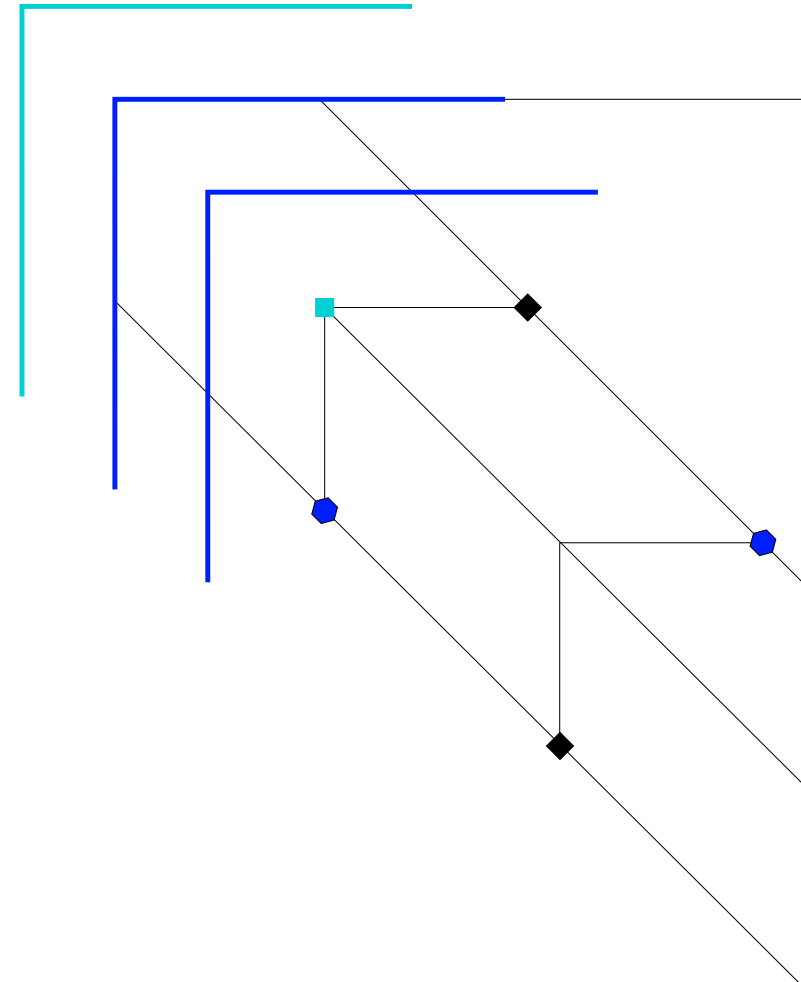
14%

Average CSR
Reporting Index



1,524

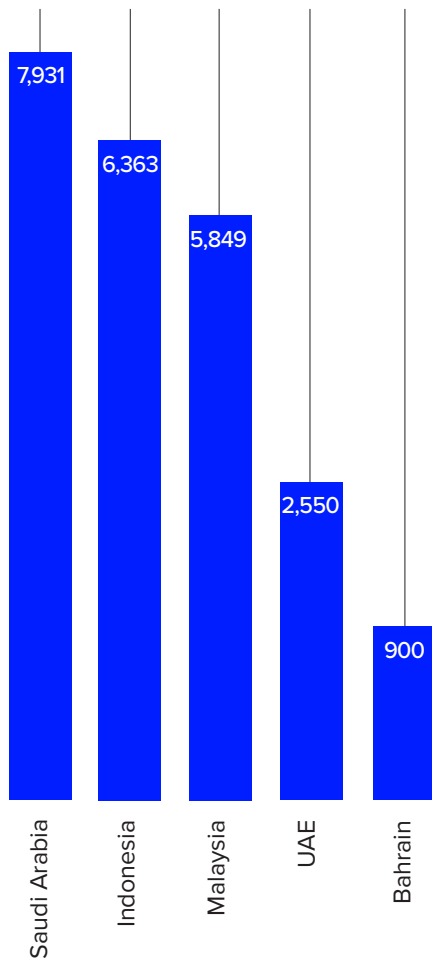
Total CSR Funds
Disbursed (USD Million)



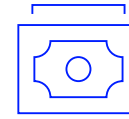
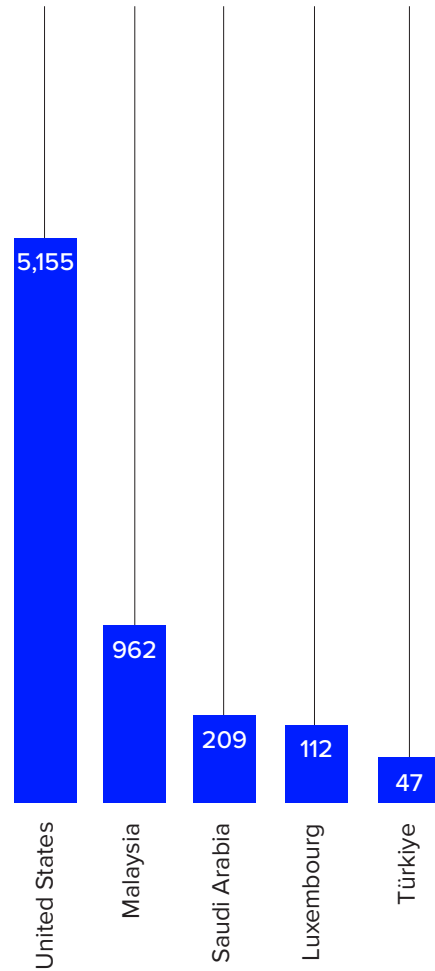
Top Countries (2022)



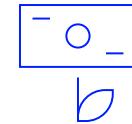
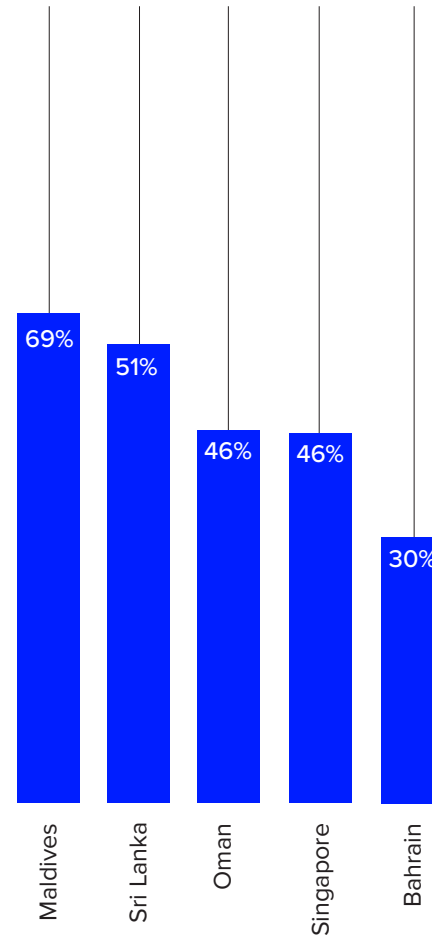
**ESG Sukuk Outstanding
(USD Million)**



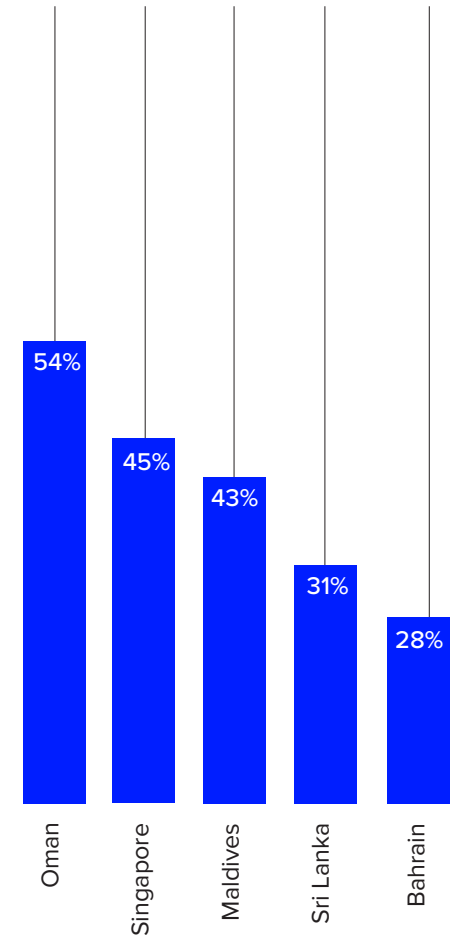
**ESG Islamic Funds
Outstanding (USD Million)**



ESG Reporting Index



CSR Reporting Index



ESG Sukuk continues growth momentum

Global ESG Sukuk issuance totalled US\$8.4 billion in 2022, marking yet another record year and maintaining its rapid growth since the first of such Sukuk was issued in 2017. ESG sukuk issuance grew 37% in 2022 year-on-year, despite a series of US Federal Reserve rate hikes and amid less favourable conditions for issuers. The growth has been driven mainly by demand from mostly non-traditional Sukuk investors with ESG-centric mandates. According to Refinitiv's Green and Sustainability Sukuk Report 2022, demand for ESG Sukuk was higher than for other types of Sukuk, with the former racking up orders valued at 4.4 times their offerings, on average, compared with 3.3 times for comparably sampled 'traditional' Sukuk.

ESG Sukuk issuance growth is expected to continue through 2023, despite expectations for borrowing costs to remain high for the foreseeable future. Issuance in the first half of 2023 alone reached US\$7.5 billion as interest from potential issuers continued to mount. Several governments have shown their intent to rebuild their economies more sustainably post-Covid, generating the need for sustainable infrastructure and address environmental and social issues. Moreover, green and sustainability Sukuk will be a key theme at COP28 in Dubai, which could be a catalyst for growth in sustainability projects and ESG Sukuk issuance across developing countries.

ESG bank financing emerges as new alternative to Sukuk

Green and sustainability financing facilities from banks have emerged as a new solution for corporates seeking small-ticket funding for their ESG initiatives and projects. Potential issuers with small ESG portfolios would be more likely to choose green bank financing for their projects than to issue Sukuk due to the latter's high issuance costs for minimum size requirements. Although Islamic ESG financing is still in its early stage with the first facility issued in 2021, this market is growing rapidly and is expected to outpace growth in the ESG Sukuk market in the near term.

Bahrain's Ahli United Bank (AUB) closed the first Islamic green financing deal by a financial institution in July 2022, a US\$1.1 billion dual-tranche, Murabaha financing facility. One of the tranches complies with AAOFI Shariah principles, while the other follows a traditional commodity Murabaha

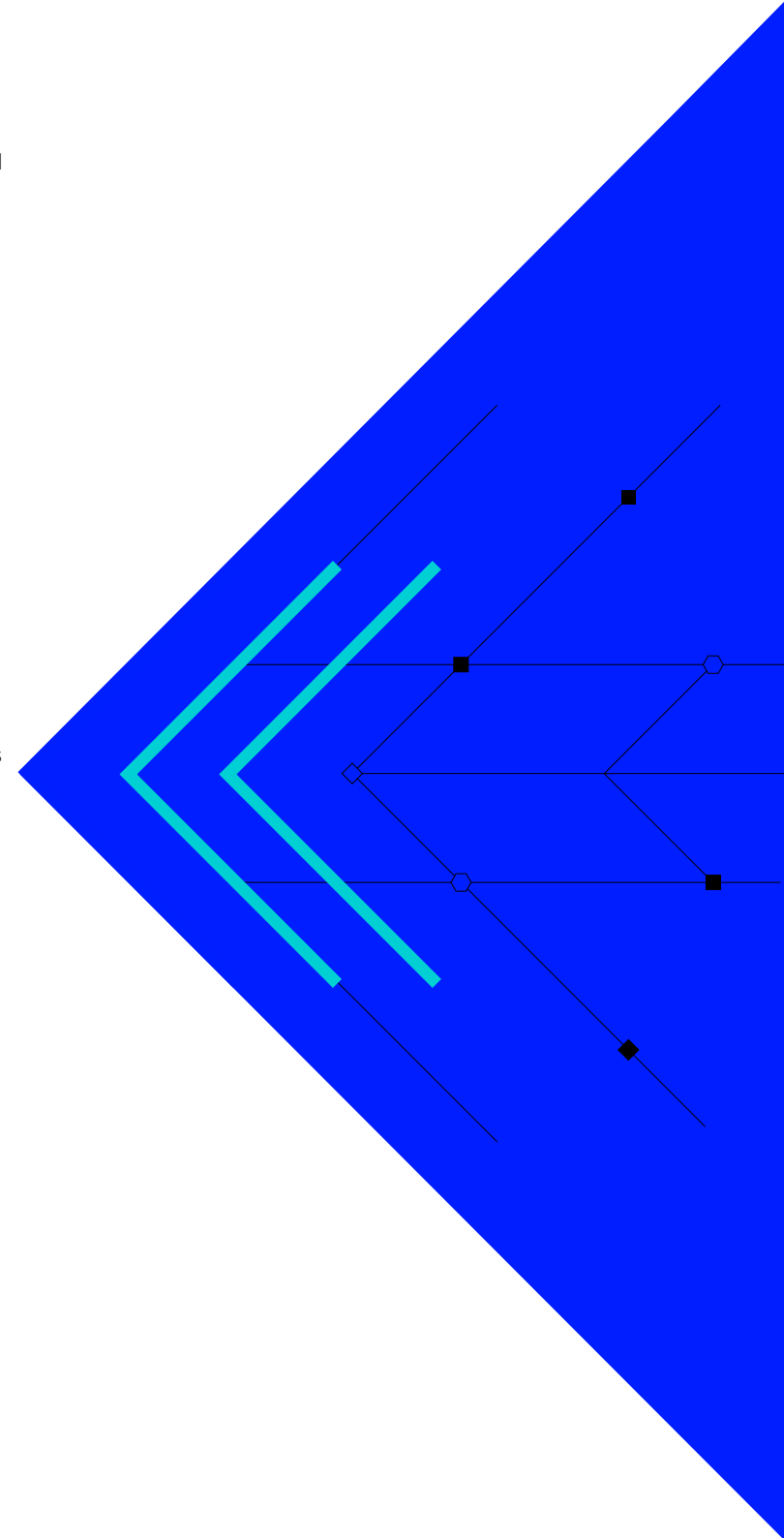
structure. Its pricing was linked to key performance indicators for green financing, social housing financing, and ESG governance integration. It was launched with an original target size of US\$750 million, but was later upsized to meet high demand.

In September 2022, Al Rajhi Bank became the first Islamic financial institution to conclude a Shariah-compliant sustainability financing facility, considered the largest Islamic syndication in the Middle East to comply with ESG practices. The sustainability commodity Murabaha facility raised more than US\$1 billion and was met with high demand and interest from regional and international investors.

Despite the decline in Islamic ESG funds value, outlook remains positive

After gaining strong momentum during the Covid-19 pandemic, Shariah-compliant ESG funds were hit by a downturn in 2022 due to the underperformance of technology stocks impacted by economic headwinds that arose during the year. ESG funds tend to over-weight technology stocks in their portfolios as they typically score highly in ESG metrics. By the end of 2022, Islamic ESG funds amounted to US\$6.6 billion in value outstanding, down 14% from their peak of US\$7.6 billion in 2021.

Malaysia has been leading the development of ESG Islamic funds, driven largely by Securities Commission Malaysia's (SC) commitment to sustainable investment. The country's Islamic ESG asset management industry has been boosted by the launch of the FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Shariah Index (FBM100LS) in August 2022, which targets a reduction in fossil fuel reserves and carbon emissions intensities by 30% and an ESG uplift of 20%. This will help Malaysia to attract the investments needed to achieve its 2050 Net Zero targets, which are estimated to be around RM300 billion to RM400 billion (\$64 billion to \$86 billion). Another important milestone for the Islamic ESG asset management industry was the launch in 2022 of the first Shariah-compliant ETF incorporating ESG evaluations - the Wahed Dow Jones Islamic World ETF (UMMA).



ISLAMIC FINANCE DEVELOPMENT INDICATOR

Your gateway to over 1,600 Islamic financial institutions data

LSEG, the world's leading provider of intelligent information for businesses and professionals, provides access to an **exclusive islamic finance database** that includes data on over 1,600 Islamic financial institutions, through its leading LSEG Workspace platform, which provides insights to over 400,000 financial professionals around the world.

Islamic Finance Development Indicator (IFDI) is composite weighted index that measures the overall development of the Islamic finance industry. The information is comprehensively gathered from a universe of 136 countries and measured across more than 10 key metrics, including Knowledge, Governance, Sustainability and Awareness.

The database provides Islamic finance markets stakeholders with:



10+ years

Islamic finance
industry financial data



560+

Islamic banks profiles
across 76 countries



330+

Takaful operators
data across 47 countries



12,000+

Sukuk issuances data from
over 24 countries and in
more than 12 structures



1,900+

Islamic funds data
from 29 jurisdictions



1,200+

Shariah scholars data and
their board representation



880+

Islamic finance
education providers



1,000+

Islamic finance
events information

To access the IFDI page and the global Islamic finance database in Workspace, visit <http://bit.ly/IFDI-Eikon>

New users can contact IFG@lseg.com to request access.

For more information, please visit the LSEG Islamic finance website: <https://lseg.com/en/islamic-finance>.



LSEG DATA &
ANALYTICS

Interview with Standard Chartered Bank



Khurram Hilal

Chief Executive Officer and Head, Group Islamic Products at Standard Chartered Saadiq – the Global Islamic Banking business of Standard Chartered Bank (SCB)

Khurram has more than two decades of core Islamic banking experience across consumer, wealth management, private banking, transaction banking and financial markets. He has led the development and roll out of the bank's Islamic banking proposition across SCB footprint in Asia, Africa, Middle East, Europe and North America. He has been an active contributor to the Islamic banking industry and regularly provides advice to regulators and industry bodies. Khurram have worked alongside some of the top scholars in the Islamic finance industry.

Khurram holds an MBA from Institute of Business Administration (IBA), Pakistan and successfully passed the CFA examination from the CFA Institute, Charlottesville, USA. He is currently pursuing advanced studies in classical Islamic jurisprudence.

The Islamic sustainable finance landscape continues to evolve across different jurisdictions. What is the current state of the industry in Standard Chartered Saadiq footprint markets?

Sustainable Finance remains a key area of focus and the industry is making steady progress on it. However, different markets may be at varying stages of development owing largely to regulatory focus, enabling infrastructure and the general level of awareness around the subject in each market.

This is evident in Malaysia with its pioneering Value-Based Intermediation or VBI initiative, aimed at banking beyond profit. VBI strategically attempts to realign Islamic banking towards the higher objectives (or Maqasid) of Shariah. It does so through a focus on generating positive and sustainable impact, which is consistent with shareholders' sustainable returns and long-term interests. To me, this captures the essence of Islamic banking and at Standard Chartered Saadiq, we are very proud to be an active member of this initiative. Beyond VBI, the Malaysian financial sector continues to be guided by blueprints and masterplans released by Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC), to address sustainability and climate issues.

Also, here in the Middle East, stakeholders are keen to push forward the sustainability agenda. The UAE, for example, is one of the main drivers of change within the GCC region. It was the first GCC country to join the 'Race to Zero', committing to achieve Net Zero by 2050 and pledging to invest around US\$163 billion in clean energy. To encourage the adoption of sustainable finance, the UAE Sustainable Finance Working Group (SFWG) was formed at the national level.

SFWG issued UAE's first set of Guiding Principles on Sustainable Finance. The principles set the expectations for sustainability-related disclosures, addressing topics that include internal reporting systems and communication, qualitative parameters for disclosed information, minimum governance, strategy, risk management and sustainability-related product disclosures. For its part, the CBUAE has launched consultation on the proposed principles with the aim of obtaining industry feedback. It may be fair to say that the UAE's hosting of COP28 has provided a golden opportunity to accelerate the readiness of the industry.

Sustainability is also at the heart of Saudi Arabia's Vision 2030. The country's sustainability agenda was further advanced with the launch of the Saudi Green Initiative and the Middle East Green Initiative in 2021. It was taken to a new level in 2022 with the establishment of the Regional Voluntary Carbon Market (VCM) by the Public Investment Fund, in collaboration with Tadawul, the Saudi stock exchange.

In Pakistan, despite challenges, the sustainable finance framework sets out expectations for integrating sustainability, through the State Bank of Pakistan's (SBP) Green Banking Guidelines (2017) and the Securities and Exchange Commission of Pakistan's (SECP) national guidelines for green bonds and Sukuk (2021), among others. SBP's initiatives to subsidise renewable energy projects have been particularly standard setting.

Clearly, steps are being taken everywhere to promote the sustainability agenda. The list is by no means exhaustive. And while it took some time for Islamic financial institutions (IFIs) to really incorporate sustainability in a meaningful way, adoption is underway, and it could be the much-needed impetus that can help Islamic banks readjust their course towards a banking model that makes a meaningful positive contribution to the society at large.

When considering Islamic finance and sustainability, what opportunities does Islamic finance provide in further accelerating the sustainability agenda?

Probably the most popular aspect of sustainability is environmental sustainability, where efforts have been solicited collectively to reduce environmental damage, minimise wastage and the race to net zero. The latter is an area that we can support with, because I do believe that finance in general and Islamic banking specifically, can be the enabler of a just transition to net zero, while delivering returns and building long-term resilience for business and communities. We recognise the unique role we play and the opportunity we have to help clients transition to a low-carbon economy through the provision of transition finance, while bringing the perspective of our market footprint to global discussions on climate, ensuring that capital moves to where it's needed most.

On the other hand, while the role of Islamic finance in mobilising much-needed funds towards climate action is well-established, it is its ability to uplift societies and contribute to social sustainability, through Islamic social capital, that can be a game-changer. This is the "S" in the ESG.

Sadaqah, Zakat and Waqf are powerful tools available to Islamic finance. Humanitarian and social projects may not necessarily meet the risk-return profile of private capital and investors. Harnessing Sadaqah, Zakat and Waqf flows, however, can ensure that more financial resources are mobilised towards underfunded humanitarian and social needs. While Zakat and Waqf funds exist today, their impact is limited. This is not due to any ill intent but merely poor management of social institutions in the informal sector. By bringing these flows under the umbrella of the Islamic financial system not only will it improve outreach but also improve trust and impact. This could be attributed to the highly regulated nature of IFIs and strict compliance and governance culture. This could be achieved through partnerships between existing charitable foundations and IFIs or by IFIs coming forward and establishing such foundations of their own or adopting an existing foundation.

Such integration may be instrumental in bridging the SME and microfinance funding gap, among others. It will also require close collaboration between the Islamic financial community, Shariah scholars and regulators, perhaps through a sandbox that would allow piloting of such initiatives.

What is Standard Chartered Saadiq doing in this space?

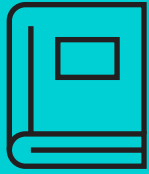
Standard Chartered is uniquely positioned as a core-enabler for meeting SDGs via traditional and alternate Islamic instruments, as the only international bank offering Islamic banking across Asia, Africa and the Middle East, with a bank-wide commitment of mobilising US\$300 billion by 2030, aligned to our Green and Sustainable Product Framework and Transition Finance Framework.

We are particularly fortunate to be able to leverage the Bank's sustainable finance expertise, resulting in a full suite of Islamic sustainable finance products and propositions. Some of these include:

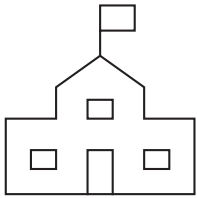
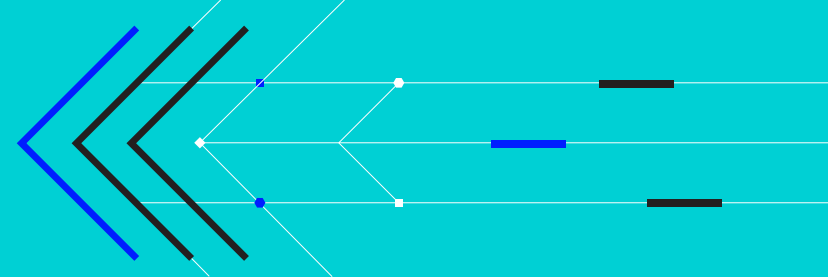
- The world's first ESG Repo (US\$250 million with CIMB Islamic).
- The world's first Additional Tier 1 Sustainability Sukuk (Riyad Bank's US\$750 million AT1)
- Malaysia's first Sustainable Supplier Finance facility (Malaysia Airports)
- Bahrain's first ESG-linked syndicated facility (US\$710 million for Aluminium Bahrain (Alba))
- Saadiq Sadaqah Account for retail clients in Bangladesh, where clients can donate earned profits to a social cause
- Islamic Sustainable Deposit account for Corporate, Commercial and Institutional Banking clients.
- Sustainable finance framework advisory for leading Islamic banks in the region

If we are to zoom into COP28, those who have been following the science will know that the global stocktake will highlight challenging numbers in relation to global emissions during this year's session happening in the UAE. In response, there will be a call for greater ambition and accelerated delivery in our work to combat climate change. For us, this once again means a renewed commitment to our net zero roadmap and sustainable social and economic development through our business, operations and communities.

Against this backdrop, we will take every opportunity at COP28 to talk to clients and stakeholders about what's working across our market footprint as a foundation for future progress. This includes our strong sustainable advisory, finance and transition propositions, with more than 40 related products across CCIB and CPBB, including Sustainable Trade Finance, Sustainability-linked deposits and Structured Sustainability solutions. We should be hugely proud of our offering that delivers finance across our markets, supports sustainable growth, and represents the innovation and expertise that exists across our footprint.

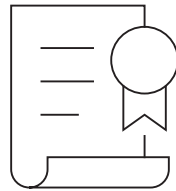


Knowledge



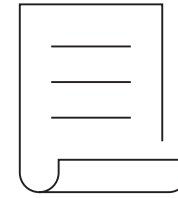
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Islamic Finance
Education
Providers



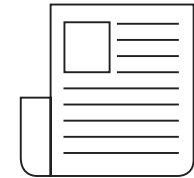
488

Islamic Finance
Degree Providers



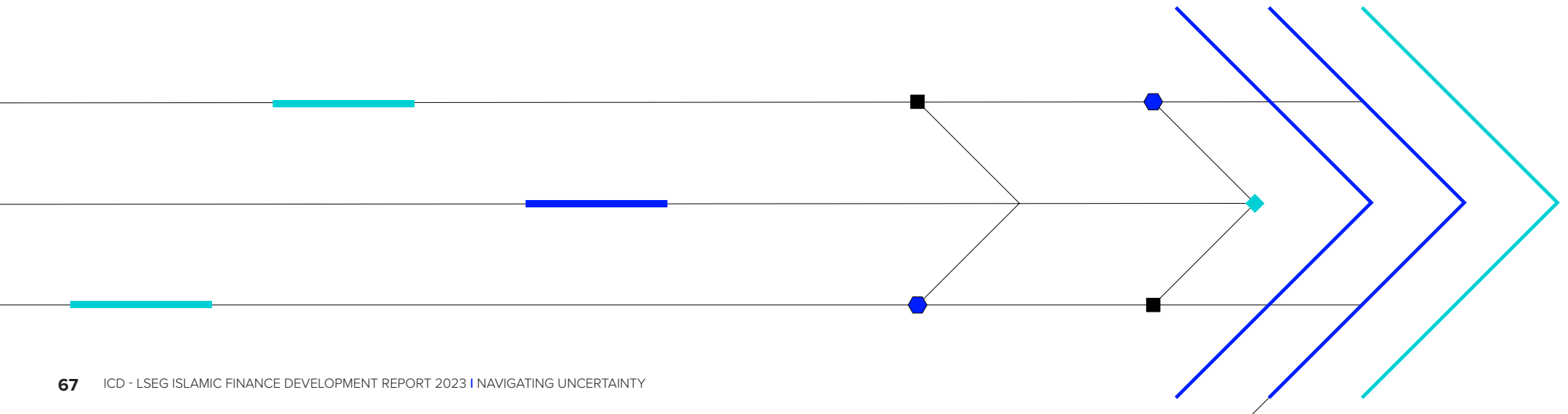
3,831

Islamic Finance Research
Papers Produced

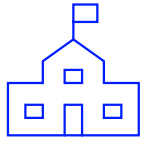


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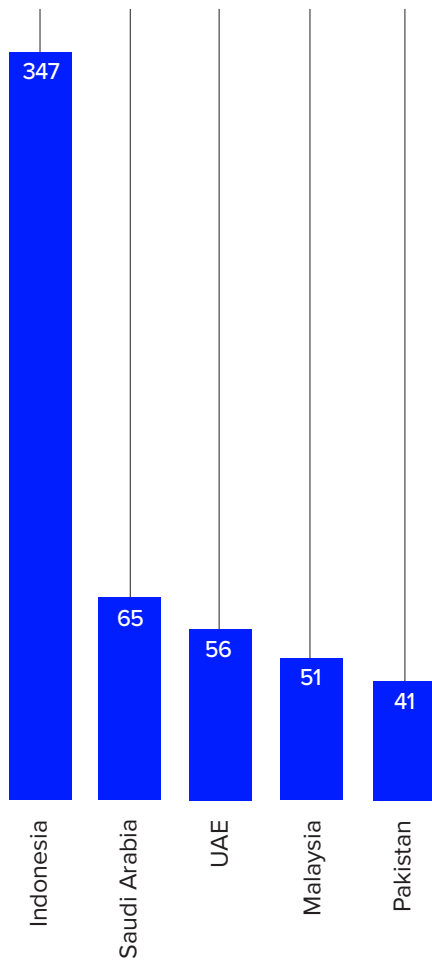
Islamic Finance
Journals



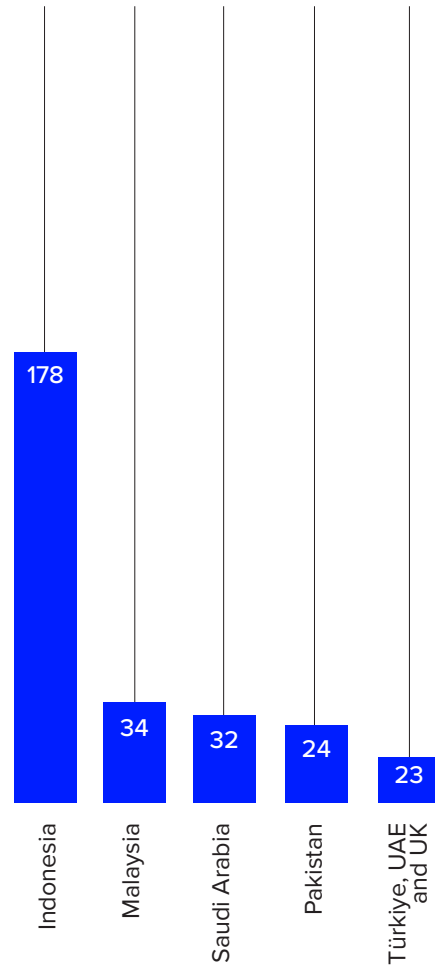
Top Countries (2022)



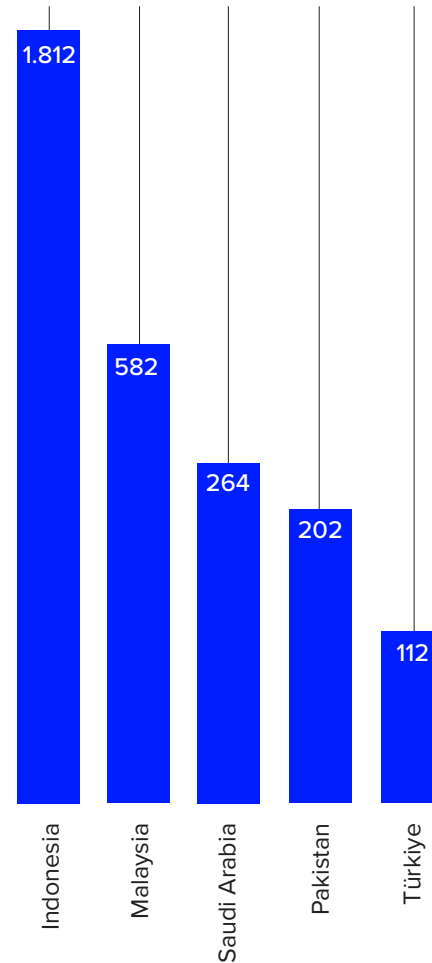
Islamic Finance Education Providers



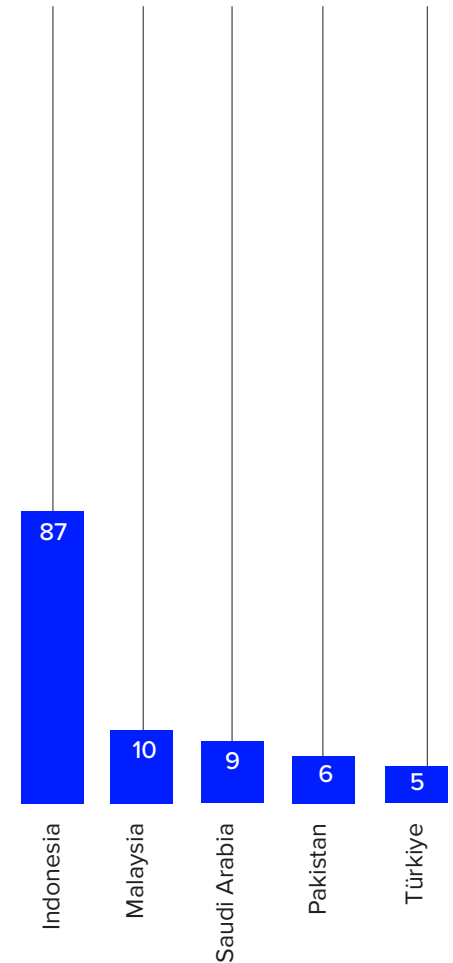
Islamic Finance Degree Providers



Islamic Finance Research Papers Produced



Islamic Finance Journals



Shariah qualifications in the spotlight

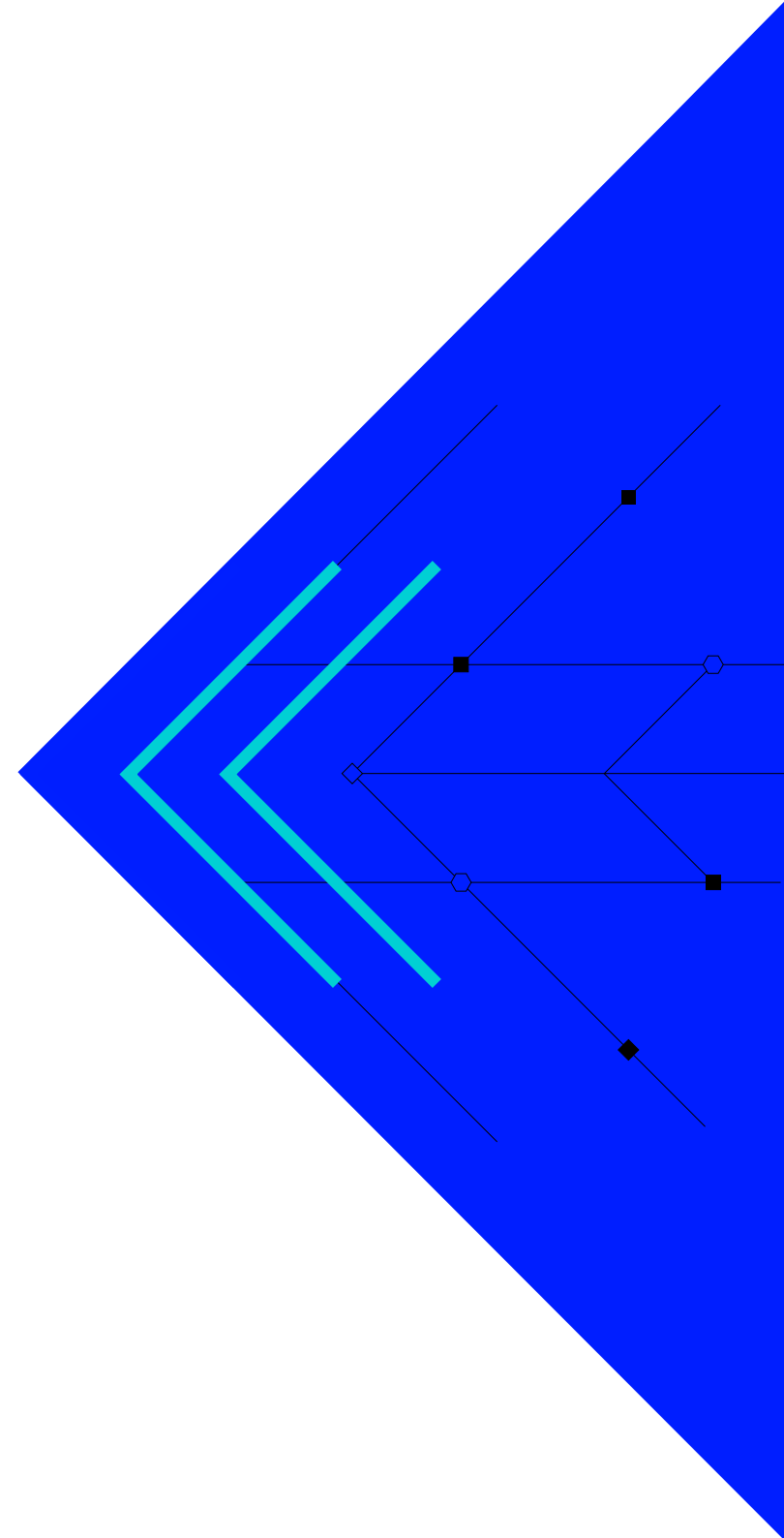
A few markets dominate the IFDI Islamic finance Knowledge indicator, given the high correlation between the number of education providers and journal articles of such providers. For instance, Indonesia tops all the Knowledge metrics and the country accounts for 39% and 36% of course and degree providers globally in 2022, and 47% for Islamic finance research papers and journal articles produced between 2020 and 2022 as well as 87% of Islamic finance journals in 2022.

The UAE, among the top countries in Islamic finance education globally, is taking a step further towards enhancing the role of its nationals in the Shariah governance of its Islamic financial institutions. The Central Bank of UAE's Higher Shariah Authority (HSA) issued a resolution in 2022 encouraging Islamic financial institutions to appoint UAE nationals as trainee members of their Shariah boards. The specified qualifications for trainee members include a minimum of a masters' degree or equivalent in Islamic Shariah, specifically in jurisprudence of transactions that is obtained from a recognised university in Shariah studies. Otherwise, the trainee would need to have experience of five years in financial transactions jurisprudence. In addition, the resolution by the HSA requires the Islamic financial institutions to have a training and development plan for the trainees, which includes a number of professional certificates that are issued by certain international organisations.

These requirements by the UAE authorities are intended also to boost Emiratisation in the Islamic finance industry in the UAE, specifically in terms of Shariah governance. According to the CBUAE, the Emiratisation in Shariah control and Shariah audit departments in Islamic banks in the UAE stands at 29%. The new requirements will also increase the demand for Shariah governance qualifications in the UAE.

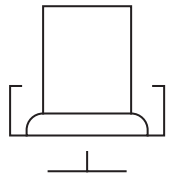
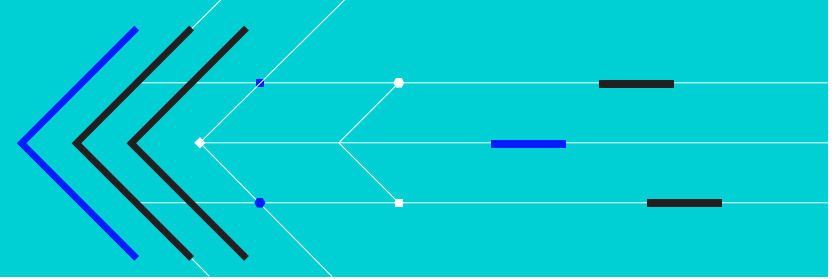
The move by the UAE is an example of regulatory intervention or recommendation for a minimum level of education to serve Shariah governance functions in Islamic financial institutions. With more regulators around the world enforcing Shariah governance requirements in their Islamic financial systems, there will be a greater need for scholars with a minimum level of education and expertise. With the requirement to avoid multiple Shariah board representations, this will increase the need for scholars with Islamic jurisprudence degrees.

For instance, Bank Negara Malaysia, in its Shariah Governance Framework, requires a Shariah qualified person to have a minimum bachelor's degree in Shariah that includes Islamic jurisprudence and Islamic transactions jurisprudence as well as solid knowledge in Shariah with Islamic finance knowledge and experience. Bahrain also requires a minimum bachelor's degree or equivalent in Islamic Shariah with a certified degree in Islamic commercial jurisprudence along with at least seven years of experience in Shariah scholarly pursuits such as research and teaching.



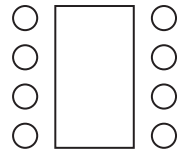


Awareness



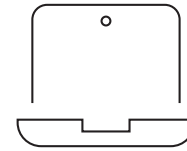
107

Number of Islamic Finance Seminars



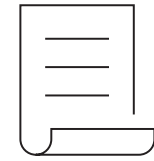
88

Number of Islamic Finance Conferences



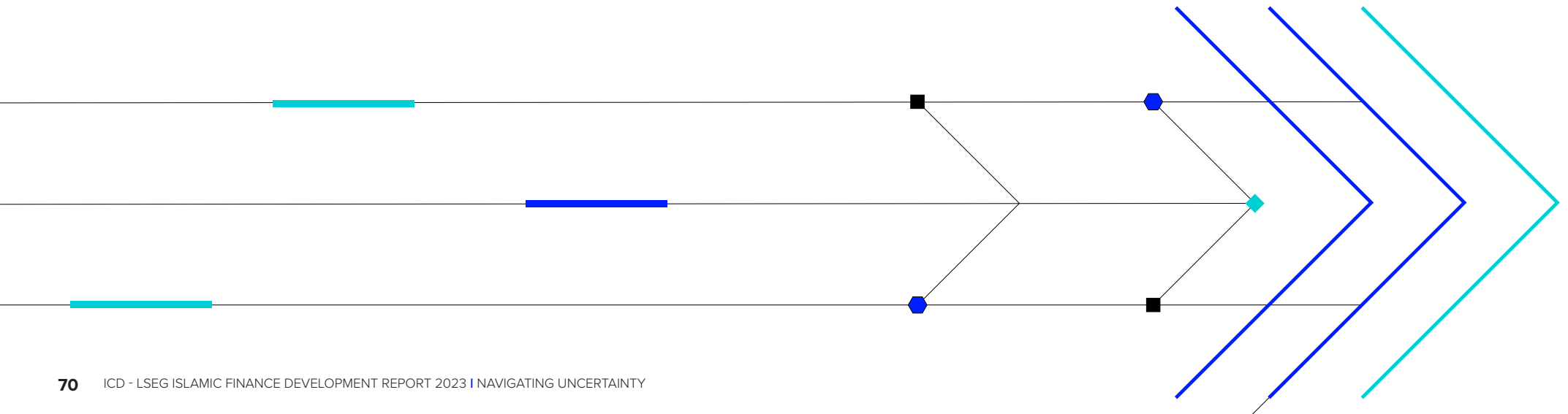
698

Number of Islamic Finance Virtual Events

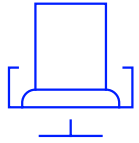


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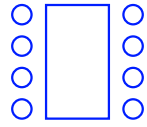
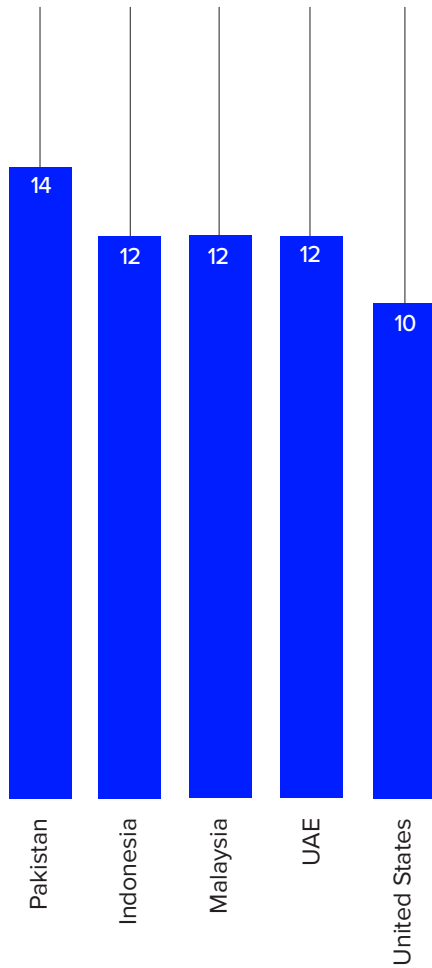
Number of Islamic Finance News



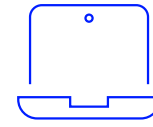
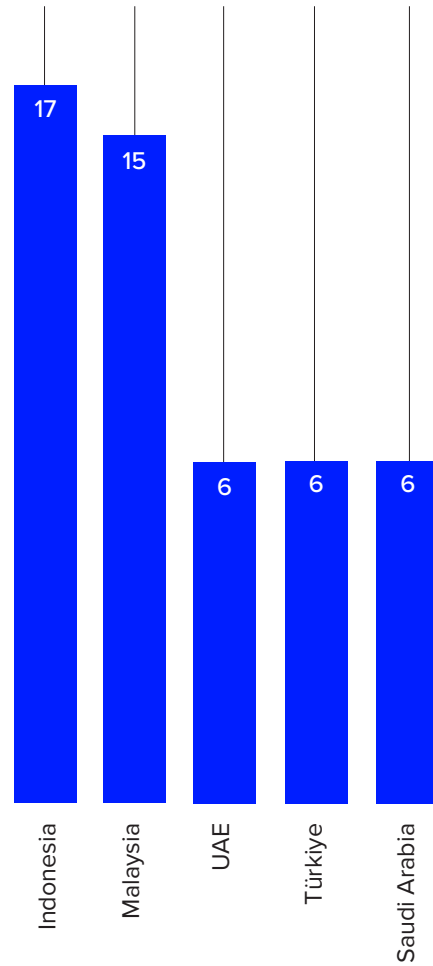
Top Countries (2022)



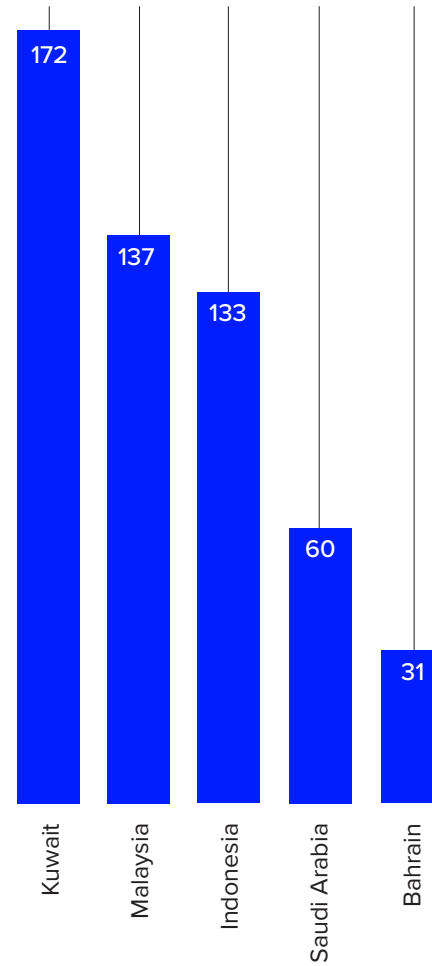
Islamic Finance Seminars



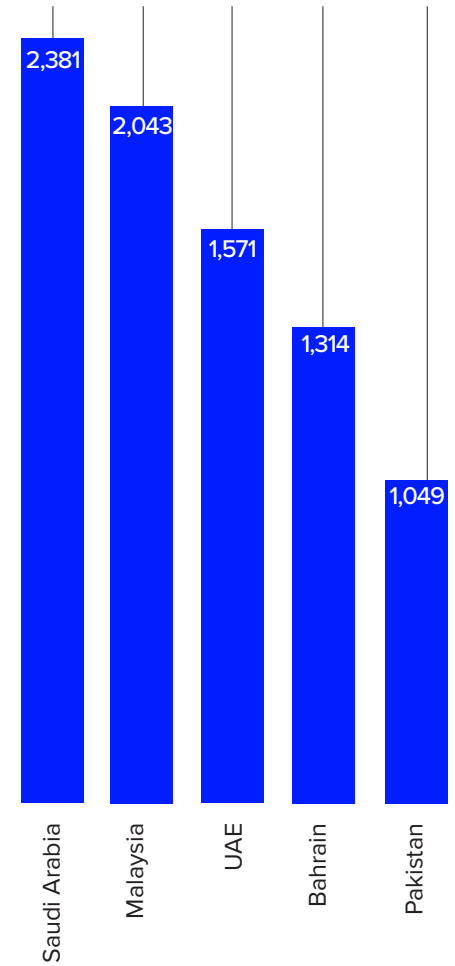
Islamic Finance Conferences



Islamic Finance Virtual Events



Islamic Finance News



Indonesia continues to lead Islamic finance awareness by example

The number of Islamic finance events reached 895 in 2022, most of which were hosted virtually. Most of the Islamic finance events centred around general Islamic finance topics. Some of these events—whether summits, conferences, or virtual equivalents—take place annually and cover wider aspects of the Islamic finance industry such as Shariah issues, the impact of the wider economy on the industry, Islamic sustainable and social finance. Some of these events also covered the basics or introduction to Islamic finance.

The second most covered topic in Islamic finance events was the different governance aspects of Islamic finance such as Shariah governance, accounting and Islamic commercial jurisprudence. These events were held in countries with strong Islamic finance presence such as Kuwait, Malaysia, Bahrain and the UAE.

Indonesia continues to organise on a widespread basis public campaigns and initiatives to boost awareness and understanding of Islamic finance in alignment with the Otoritas Jasa Keuangan's (OJK) 2021-2025 National Strategy on Indonesian Financial Literacy. The events include podcasts, radio talk shows, social media messaging and others. Among the entities supporting this initiative are the National Board of Zakat, the Indonesia Stock Exchange, Islamic Economic society, universities and others.

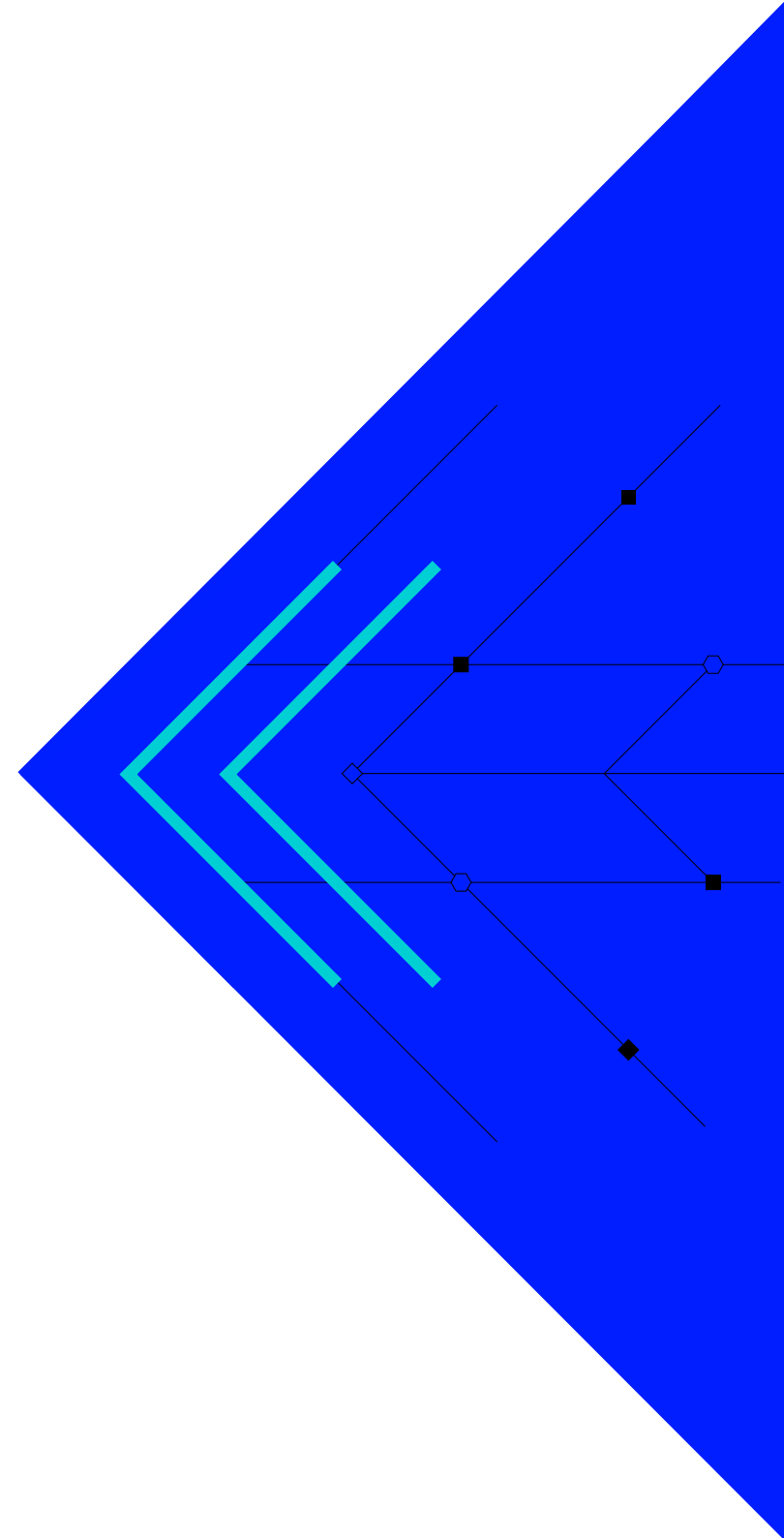
The outreach and educational activities focused on Islamic banking, Islamic capital markets and Islamic non-banking financial institutions. According to the OJK, around 4.9 million people were able to benefit from the different Islamic finance awareness and education activities that it organised in 2022.

Different developments reported in niche markets for Islamic finance during 2022

In terms of Islamic finance news, a few countries made more headlines in 2022. Australia, for instance, saw a bigger buzz on Islamic finance with the launch of its first Islamic bank as well as the launch of its first exchange traded fund, apart from activities from its other Islamic financial institutions. In

the Philippines, regulatory moves on Islamic finance made headlines in 2022, such as the ease of Islamic banking capital requirements, Takaful rules, and the creation of a centralised Shariah supervisory board.

In Africa where the appetite for Islamic finance is growing, there is an increasing interest in Sukuk in Tanzania, with the issuance of its first public Sukuk by KCB Bank Tanzania. Additionally, the country's insurance authority opened the door to Takaful after releasing guidelines for the sector. These developments complement Tanzania's Islamic banking sector. Another African country that saw more Sukuk headlines is Nigeria where issuers include TAJ Bank, Pomegranate Nigeria and the Federal government.



Methodology and Appendix

Concept and Background

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

The Islamic Finance Development Indicator is the definitive barometer of the state of the industry across its fundamentals. It introduces a new way of measuring development by combining data on different elements of the industry into a single, composite indicator. The index assesses the performance of each of the industry's key areas in line with its inherent faith-based objectives, with data for their national and industry-level components. The different components that make up the Indicator – Financial Performance, Governance, Sustainability, Knowledge and Awareness – are of fundamental importance to the development of a global industry. The optimal level of development in any of the indicators or sub-indicators is pegged to a maximum score of 200.

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

Key Objectives

The indicator is a product of a number of key indicators and sub-indicators measuring particular aspects of the industry. Breaking down the data into these different areas reveals the disparities and movements that are less visible in the wider-ranging, aggregated numbers.

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

Country List

IFDI 2023 covers 136 countries and dependencies with a presence in Islamic finance either directly or in other metrics such as news, education or events on the industry. These countries are divided into eight broad regions.

GCC (Gulf Cooperation Council)

Bahrain
Kuwait
Oman
Qatar
Saudi Arabia
United Arab Emirates

Southeast Asia

Brunei Darussalam
Cambodia
Indonesia
Malaysia
Myanmar
Philippines
Singapore
Thailand

South Asia

Afghanistan
Bangladesh
India
Maldives
Nepal
Pakistan
Sri Lanka

Other MENA (Middle East and North Africa Excluding GCC)

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

Europe

Albania
Austria
Belgium
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Finland

France
Georgia
Germany
Greece
Guernsey
Hungary
Ireland
Italy
Jersey
Latvia
Liechtenstein
Luxembourg
Macedonia
Malta
Netherlands
Norway
Poland
Portugal
Romania
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Türkiye
Ukraine
United Kingdom

Other Asia

Australia
Azerbaijan
China
Hong Kong
Japan
Kazakhstan
Kyrgyzstan
New Zealand
Russia
South Korea
Taiwan
Tajikistan
Turkmenistan
Uzbekistan
Vietnam
Americas
Bahamas
Bolivia
Brazil
Canada
Cayman Islands
Chile
Guyana
Mexico
Suriname
Trinidad and Tobago
United States

Sub-Saharan Africa

Angola
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Chad
Comoros
Djibouti
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Ivory Coast
Kenya
Liberia
Malawi
Mali
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
Senegal

Seychelles
Sierra Leone
Somalia
Somaliland
South Africa
Tanzania
Togo
Uganda
Zambia
Zimbabwe

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DEVELOPMENT REPORT 2023

NAVIGATING UNCERTAINTY



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