بيت التمويل الكويتي
Kuwait Finance House
KFH Research Ltd

Islamic Finance 1Q2014 Performance Review

30 June 2014

Highlights

- **The total Islamic finance assets around the globe reached approximately USD1.8tln as at end-2013**
- **The Islamic banking sector is forecasted to amount to more than USD1.7bln by end-2014 and to surpass the milestone USD2tln mark by the end of 2015**
- **The number of Islamic funds globally increased to 1,057 with 8 new funds having been set up during the first quarter of 2014**

Overview

The total Islamic finance assets around the globe reached approximately USD1.8tln as at end-2013. Islamic banking and sukuk sectors continue to dominate the industry, with respective 80% and 15% shares in aggregate assets. The first quarter of 2014 has been broadly positive for the industry as some countries – such as Bahrain and Pakistan – have launched initiatives aiming at reviving their Islamic finance sectors; meanwhile, others – such as Indonesia, Qatar and the UAE's Dubai – have set off on campaigns promoting their jurisdictions as international Islamic finance centres, with their bids supported by strong economic prospects and numerous developmental programmes in their respective territories. Multinational stakeholders – such as the Islamic Development Bank (IDB) and the Islamic Financial Services Board (IFSB) – have also stayed active. For instance, the standard-setter IFSB, together with the Islamic Research and Training Institute (IRTI), has recently released the revised version of its benchmark 10-year roadmap for the Islamic finance industry. Moving forward, prospects for the global Islamic finance industry remain auspicious in the rest of 2014 and beyond as many more developments are underway across major sectors of the industry.

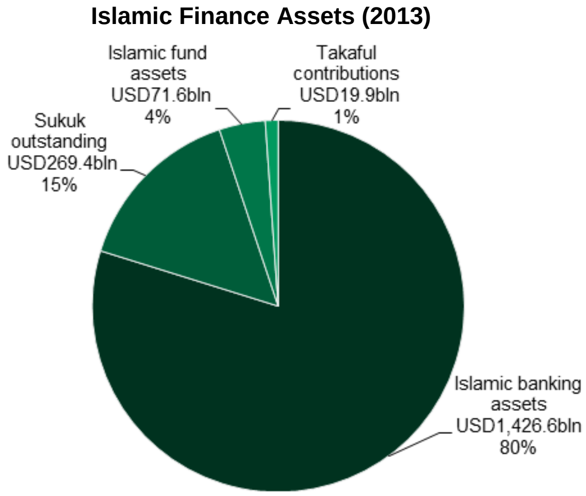
Islamic banking. Over the last decade, Islamic banking has gained increasing acceptance amongst market participants as rising awareness of Shari'a compliant propositions has prompted more countries and entities to join the global cohort of Islamic finance stakeholders. The value of global Islamic banking assets reached approximately USD1.427tln by end-2013, having recorded a CAGR of 17.4% between 2008 and 2013. On a y-o-y basis, the figure grew by 18.6%. The largest Islamic banking markets are in the Middle East and North Africa (MENA) region – with the Gulf Cooperation Council (GCC) in focus – and in Asia: MENA (excluding GCC) accounts for 45% of the total Islamic banking assets worldwide, the GCC on its own has a 37% share in the aggregate, while Asian jurisdictions cumulatively make up the third largest domicile area for Shari'a compliant banking assets with a 13% share as at end-2013. While continuous progress is being made in the sector in Asia and the GCC – in terms of regulation, supervision, standardisation, risk management, product innovation, and talent development – Islamic banking is soon set to penetrate newer and previously niche markets, most imminently, in North Africa, on the back of recent encouraging government steps witnessed in Egypt, Libya, Morocco and Tunisia. Based on the current growth momentum, the Islamic banking sector is forecasted to amount to more than USD1.7bln by end-2014 and to surpass the milestone USD2tln mark by the end of 2015.

Sukuk. The primary market sukuk issuances volume reached USD44.5bln as at end 4M14 and this volume is 1.6% higher than the USD43.8bln volume in 4M13. The issuances were led by sovereign and quasi-sovereign issuers who collectively accounted for approximately 82% or USD36.5bln of the total issuances. The issuance momentum has varied m-o-m with a generally slow start in 2014 on account of higher funding costs stemming from the US Fed's tapering exercise that sent yields on fixed income instruments spiralling upwards, particularly in emerging markets. In Mar-14, corporate sukuk issuances notably slowed down on account of an absence of GCC-based issuers following an intra-GCC diplomatic dispute. Finally, April's monthly issuance volume of more than USD13.4bln marks it as the most performing month for 2014 YTD and the third most performing month in the last 12 months. Overall, the performance of the primary market in 2014 YTD has set an optimistic outlook for the remainder of this year and with a healthy and diverse pipeline in place for 2014, which includes debut issuances from the UK, Luxembourg, South Africa, Hong Kong and Tunisia, the prospects are bright moving forward with annual issuances expected to once again exceed the USD100bln mark this year.

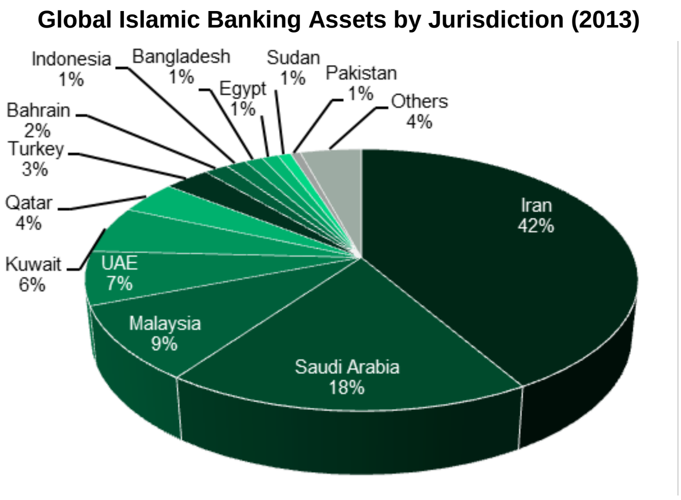
Islamic Funds. As at 17 March 2014, the global Shari'a compliant asset management industry has reached USD73.8bln in assets under management (AuM), up 3.0% from end-2013's USD71.6bln and 10.3% from USD66.9bln at end-2012. The number of Islamic funds globally increased to 1,057 with 8 new funds having been set up during the first quarter of 2014. These new funds brought almost USD168.1mln in additional assets. Consistently, the top two domiciles by asset size for Islamic funds have been Saudi Arabia and Malaysia – the two jurisdictions are host to a total of 468 Islamic funds and account for 59.7% of global Shari'a compliant AuM, as at 17 March 2014. Moving forward, Islamic fund managers are well-positioned to take advantage of the global economic recovery, while also capitalising on Islamic finance specific growth opportunities in both developed and emerging markets around the globe. The sustained progress of Shari'a compliant capital markets and Islamic banking will continue to fuel developments in the Islamic funds sector.

Takaful. The takaful sector is unlikely to witness any major growth-related changes in 2014 and should remain a nascent sector of the global Islamic finance industry. Even though the growth in the gross takaful contributions is expected to stay in double digits (forecasted to be over 15% in 2014), the share of the takaful sector in total Islamic finance assets – between 1.1% and 1.2% – is unlikely to change substantially. Nonetheless, total gross takaful contributions are expected to surpass the USD20bln mark this year. Saudi Arabia and Malaysia are the two largest takaful markets: as at end-2013, Saudi Arabia generated an estimated USD6.4bln in gross takaful contributions, while Malaysia – an estimated USD2.29bln. The growth will mainly stem from emerging regions such as Southeast Asia (ex-Malaysia) and the GCC (ex-Saudi) where fast expanding economies, including Indonesia, the UAE and Qatar, are driving the Islamic financial sector to new growth trajectories. Furthermore, the entry of new jurisdictions like Oman and the expected entry of the Philippines are also bound to boost the gross takaful contributions in these regions.

The total value of global Islamic finance assets in 2014 is widely projected to surpass USD2tln as early as by the third quarter of this year, given a promising momentum in the first quarter and a range of initiatives planned for the upcoming periods by public and corporate stakeholders alike involved in Islamic finance. The industry's future advancement is expected to be reinforced by growing economic prominence of traditional Muslim jurisdictions, increasing international stakeholder awareness of Islamic finance value propositions, as well as facilitative regulatory initiatives in aid of Shari'a compliant financial structures in various parts of the world.



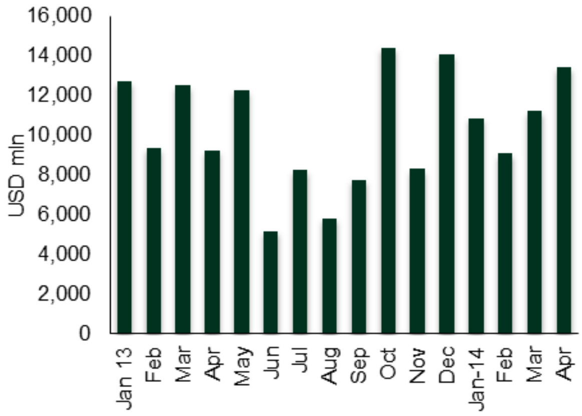
**Takaful contributions figure is an estimate.*
Source: Various, KFHR



Source: Central banks, annual reports, KFHR

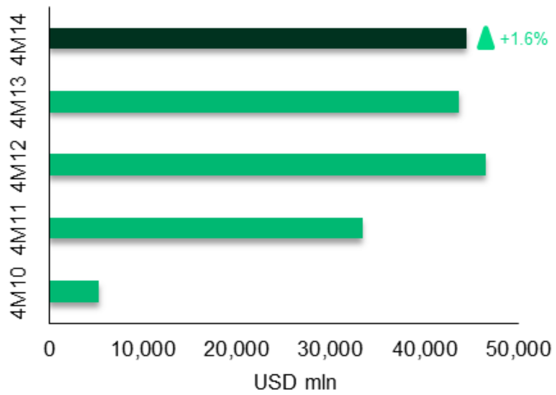
Global Primary Sukuk Market Issuances Trend

Monthly (Jan13-Apr14)



Source: IFIS, Zawya, Bloomberg, KFHR

4MYTD (Apr10-Apr14)



Source: IFIS, Zawya, Bloomberg, KFHR