Moody's Global
Banking

Special Comment

March 2008

Islamic Finance Explores New Horizons in Africa

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Summary Opinion

Modern Islamic finance originated in the mid-1970s, and for three decades remained focused on two core markets – the Middle East (and especially the wealthy oil-exporting Gulf countries) and Southeast Asia (with Malaysia being by far the unchallenged leader in this industry). In recent years, the expansion of Islamic banking and finance has accelerated, with the industry diversifying out of pure lending into new business lines and new territories beyond the natural borders of the Muslim world. Initiatives on Shari'ah-compliant investment and financing are mushrooming across the board, with countries as economically significant as Japan, the UK and China seriously considering some form of Shari'ah-compliant finance for their domestic market, thereby providing even more credibility to the phenomenon.

Africa is no exception to this trend. Although a country such as Egypt has been familiar with Islamic finance since the 1960s, overall Shari'ah-compliant banking is a recent phenomenon on the continent, discovered by most Muslim Africans only over the past decade. Today, 37 Islamic financial institutions (IFIs) operate in Africa,[1] serving a Muslim population of 412 million inhabitants. As reported in Figure 1 below, the average per capita GDP on the continent was a low US$1,137 in 2007, but given the fact that Africa is host to the second largest Muslim population in the world, the absolute size of its economic production reached US$469 billion last year. This is not insignificant, as it is on par with the combined GDP of Saudi Arabia and the United Arab Emirates, two of the dominant economies of the Muslim world.

1 Refer to Appendix 1 for a list of African IFIs as well as the most relevant recent initiatives in terms of Shari'ah-compliant finance across a range of African countries. Financial data on some of the African IFIs are reported in Appendix 3.

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Conservatively assuming that banking entrenchment in Africa represents an average 50% of its total GDP, the Islamic finance market on the continent is potentially worth close to US$235 billion. As shown in Figure 1, the actual depth of Shari'ah-compliant financial intermediation in Africa was only US$18 billion as of year-end 2007, equating to a market share of less than 8%. In addition, the industry is very much concentrated at this stage of its development in Africa: more than half its assets are located in Sudan, with Egypt – unsurprisingly – ranking second, but with a much lower share of around one-fifth. Provided that the continent continues to grow at its current pace – the fastest in decades – incremental wealth creation will make it easier for the Islamic financial services sector, including Islamic commercial banking but also Shari'ah-compliant insurance (Takaful), investment and microfinance, to develop.

The purpose of this article is to summarise the key trends driving the increasing emergence of Islamic finance in each of the three sub-regions of the continent – namely North Africa, sub-Saharan Africa and Southern Africa. In addition, given its very special status within the African Islamic finance landscape, a specific focus is made on Sudan, whose government issued the first-ever African Sukuk (Islamic bond) in 2007. Finally, we also try to identify the fields where Islamic finance can positively contribute to the development of maturing financial markets, in view of the continent's stronger integration into the global economy. In particular, Sukuk may be viewed as a powerful tool for African sovereigns – but also corporates at a later stage – to tap current Islamic liquidity, which has reached historical highs.

Figure 1:

Key Islamic Economic and Financial Statistics Across Regions*

Region	Shari'ah-Compliant Financial Assets (US$ Billion, as of Year-End 2007)**	Muslim Population (Million)	Islamic Assets per Muslim Capita (US$, Year-End 2007 Estimates)	GDP per Capita (US$, Year-End 2007 Estimates)
Gulf Co-operation Council (GCC)	178	34	5,235	17,639
Non-GCC Middle East (excl. North Africa)	173	213	812	4,095
Africa, of which:	18	412	43	1,137
North Africa	6	156	38	2,334
Other Africa	12	256	46	883
Asia-Pacific	119	780	153	3,056
Rest of the world	21	42	500	21,917
TOTAL	**509**	**1,481**	**344**	**7,634**

* *This table is extracted from the detailed economic data reported in Appendix 2, which include relevant statistics for each country where a Muslim population is identified.*

** *Includes banking and Takaful assets, but excludes investment and mutual funds.*

Sources: Maris Strategies, The Banker, Moody's, World Bank, Wikipedia.

North African Countries Welcome Islamic Financial Intermediation, Albeit Still Cautiously

Islamic finance used to be limited to niche players in North African (Maghreb) countries. Only Egypt, and to lower extent Tunisia and Algeria, were hosts to small Islamic banking players, especially the domestic subsidiaries of Albaraka Banking Group (ABG; not rated). As reflected in Appendix 1, ABG's subsidiaries in North Africa include Banque Albaraka d'Algérie (not rated) in Algeria, The Egyptian Saudi Finance Bank (not rated) in Egypt and Bank Et-Tamweel Al-Tunisi Al-Saudi (not rated) in Tunisia. ABG's total assets in Africa are estimated to be close to US$3 billion, with the majority concentrated in Egypt. This makes ABG the dominant Islamic commercial bank in Africa. In Tunisia, ABG's subsidiary is the sole Islamic bank operating in the country. In Algeria, Al Salam Bank Algeria (not rated) has just been licensed and is expected to start operations by mid-2008. In Egypt, only two other Islamic banks occupy the market. At this stage of the evolution of the Islamic financial industry globally, North Africa appears to be a more attractive environment for Shari'ah-compliant investment, and a more mature place to enhance onshore Islamic banking.

Islamic Finance Explores New Horizons in Africa

There are at least two reasons to explain the low market share of Islamic banking and finance in Maghreb countries to date.

On the one hand, business incentives have been lacking for financiers to actively market Islamic financial services. This stems from the fact that customers have not been actively requesting Shari'ah-compliant banking products. Households in the Maghreb have never really felt uncomfortable with the concept of interest or "riba", supposed to be banned under more conservative interpretations of financial Islam. Nevertheless, interest rates are tolerated in Maghreb countries. This is evidenced by the opinion (fatwa) pronounced in 2005 by the prestigious Al-Azhar University, which states that interest cannot be considered as riba per se, but would be viewed unlawful only if it became "excessive" or "usurious". In contrast, religious authorities in other parts of the Muslim world have clearly stated that interest, in all its forms, is deemed illicit from the perspective of Shari'ah. In addition, a profitable Islamic financial offering would as a priority target mass-market segments, which are more sensitive to religious aspects but also riskier within the context of relatively underdeveloped North African countries. The business features of Islamic banking in North Africa would be materially different from those in Gulf countries, where retail banking is more profitable, less risky and more stable.

On the other hand, governments have not been strong advocates of Islamic banking and finance in North Africa and, contrary to Gulf and Malaysian central authorities, have not acted as the main driving forces behind the emergence of such practices. The relatively limited entrenchment of Islamic finance in the Maghreb can certainly be explained to some extent by the less favourable perception of this alternative model by the countries of the region. Islamic financial intermediation has been viewed as a model largely imported from the Mashreq (the eastern part of the Arab world). Political and regulatory authorities in North Africa have therefore been relatively reluctant to heavily support the development of Islamic finance on their own territories, continuing to perceive this mode of financing as being too heavily loaded, both politically and symbolically. In other words, the political choices that have slowed down the emergence of Islamic finance in North African countries have cultural and religious dimensions.

Therefore, the current and future development of Islamic banking and finance in North Africa hinges upon two series of conditions: first, regulators, political leaders and the public at large should continue to have a more proactive, less suspicious attitude towards such an alternative model in order for it to become more entrenched; and second, there needs to be a business case for Islamic banking and finance in North Africa, which must be perceived as a more attractive option for both Islamic onshore banking and Shari'ah-compliant investment banking. Without either of these conditions, Islamic finance would remain a niche practice.

North African regulators' approach to Islamic banking and finance has been gradually evolving in recent years. Regulators and banking practitioners alike have started to identify the benefits of Islamic financial intermediation from both the perspective of attracting foreign direct investment (FDI) and bringing additional citizens into the banking system. The benefits in terms of FDI were put into perspective in 2006, when Bahrain-based, Shari'ah-compliant investment bank Gulf Finance House (GFH; not rated) signed a US$1.4 billion deal with the government of the Kingdom of Morocco for two mixed-use development projects in the tourism/leisure sector. This was the starting point of a series of transactions across North African countries where GFH was involved as the dominant Islamic investment bank in the Maghreb:

- In 2007, GFH announced the launch of its US$3 billion Tunis Financial Harbour project, North Africa's first offshore financial centre; and
- In 2008, GFH unveiled its US$3 billion Economic Development Zone project in Algiers, and its Energy City Libya project in a US$3.8 billion deal with the Economic and Social Development Fund of Libya.

Shari'ah-compliant investment banks such as GFH, Millennium Capital – the non-rated, Dubai-based investment banking arm of Dubai Islamic Bank PJSC (A1/P-1/D+, stable), Bahrain-based Arcapita Bank (not rated) and Bahraini Unicorn Investment Bank (not rated) have a genuine interest in the alternative asset classes offered by North African economies as potential investments for their clients. Asset-based sectors such as tourism, real estate and infrastructure are naturally eligible for Shari'ah compliance, while there is a cultural, religious and language proximity between investors from the eastern reaches of the Arab world and investee economies of its Western borders. The rise of Islamic investment banks makes it possible to recycle Gulf excess liquidity into profitable – although riskier – asset classes compatible with financial Islam, in a region considered both promising and underexploited. In this respect, we understand that Kuwait-based, Shar'iah-compliant universal bank Kuwait Finance House (Aa3/P-1/C-, stable) is exploring the opportunity to launch a finance company in Morocco specialising in real estate, as well as the possibility of establishing a subsidiary or branches for commercial banking in Algeria. Recently, Abu Dhabi Islamic Bank (A2/P-1/D, stable) led a consortium of investors to acquire control of Egypt-based National Bank For Development (not rated), in order to convert it into the third fully fledged Islamic bank in the country. Amlak Finance (not rated), the Dubai-based, Shari'ah-compliant provider of long-term refinancing solutions for commercial and residential properties, has started branching out into Egypt, and received permission from the Algerian regulator in 2006 to establish the second fully fledged IFI in the country, Al Salam Bank Algeria, which should start operating in the first half of 2008. In this regard, it is no surprise that regulators and political as well as business leaders have been willing, in recent years, to consider opening up their markets to Islamic finance.

Such a shift in regulators' sentiment towards Islamic banking and finance was further evidenced by the fact that the central bank of Morocco, Bank Al-Maghrib, joined the International Financial Services Board (IFSB) 18 months ago. Headquartered in Kuala Lumpur (Malaysia), the IFSB is a standard-setting entity providing suggestions and recommendations for best-practice prudential rules to regulators for the supervision of the Islamic financial institutions operating in their respective jurisdictions. This was followed in 2007 by Bank Al-Maghrib's announcement that Moroccan banks are now allowed to supply Shari'ah-compliant banking products to their clients, but only in the form of ijara (leasing), murabaha (buy-and-sale contract) and musharaka (co-ownership financing). In the same year, Tunisia passed a law allowing an international Islamic institution to be established, which would be involved in trade finance. The Islamic Development Bank (Aaa/P-1, stable) is expected to retain a 51% shareholding in this entity, the authorised capital of which will be up to US$3 billion. The mandate of this new institution is precisely to give impetus to business relations between Arab economies across Maghreb and Mashreq countries.

Sub-Saharan Countries with Large Muslim Communities Eye Sovereign Sukuk and Niche Shari'ah-Compliant Banking

Muslim communities in sub-Saharan Africa (excluding Sudan and Southern African countries, which are discussed below) are often large. To date, African Muslims have had limited access to Islamic banking services. So far, seven countries – i.e. Mauritania, Gambia, Senegal, Guinea, Niger, Liberia and Djibouti – have licensed fully fledged IFIs on their territory. Some of these IFIs have been operating in these countries for a number of years – such as Banque Al-Wava Mauritanienne Islamique (not rated), part of the Dallah Albaraka Group – but most of them have been established recently. In most cases, sub-Saharan IFIs are newly established entities rather than established conventional entities that have crossed over to Islamic finance. In addition, IFIs in sub-Saharan countries have taken the form of joint ventures whose shareholders are a combination of domestic owners and Gulf Arab owners willing to diversify their portfolios, but also eager to explore new horizons for Islamic banking and finance.

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Contrary to North African supervisors, sub-Saharan regulators have been more flexible in granting banking licences to onshore, deposit-taking, fully fledged Shari'ah-compliant banks. So far, licensing has been in most cases limited to one IFI per country. In none of the seven sub-Saharan countries reviewed here has a second Islamic player been set up. It appears that onshore Islamic banking in the region is still in the testing phase, with niche players enjoying a first-mover advantage and making all possible efforts to serve a still-latent demand emerging from corporate and retail customers. Consequently, it is difficult at this stage to draw clear conclusions as to the relative success of Shari'ah commercial banking in this part of Africa, despite the significant potential impact of this burgeoning field of finance in these countries as well as beyond their borders. Islamic investment banking has not established a material presence so far in sub-Saharan Africa, as it is still considered fraught with investment, country and legal risks that make it relatively less attractive to Gulf institutional and high-net-worth investors, despite robust economic growth in recent years. Likewise, Takaful has not expanded materially in sub-Saharan Africa, with very few exceptions in Senegal and Mauritius. This is in contrast to North Africa where B.E.S.T. Re, one of the oldest and most established re-Takaful companies, has been operating out of Tunisia to serve the whole region for years.

Another area where Islamic finance could be of high added value is in the issuance of Sukuk. The market was tested in 2007 when Sudan-based Berber Cement Co. issued the first-ever African Sukuk in a US$130 million transaction for the financing of a cement project on the River Nile. So far, this is the only Sukuk launched by an African issuer, but funding will be required going forward –especially for African sovereigns– in light of: (i) current growth; (ii) active debt repayments by a number of African states (especially those with material oil reserves) contributing to reducing their risk profiles; and (iii) populations' tremendous needs for housing, infrastructure and jobs across the region. As liquidity on global markets has been relatively tighter in recent months in the aftermath of the global sub-prime credit crisis, investable liquidity is now concentrated in more distinct, identified and concentrated geographies. One of these is the Middle East, and more precisely the Gulf region, where we estimate that around 20% of investors would naturally opt for Shar'iah-compliant investment vehicles with risk-return features equivalent to similar conventional products. Sovereign Sukuk issued out of Africa may find a range of buyers in the Middle East, especially those with an appetite for higher-yielding non-investment-grade Islamic paper.

So far, the Sukuk market outside Malaysia (dominated by ringgit-denominated issuances) has mainly comprised investment-grade paper issued by Gulf-based sovereigns, banks and industrial firms, thus considerably limiting investors' capacity to diversify their Sukuk portfolios across underlying asset classes, geographies, sectors and rating levels. Although average investment-grade Sukuk portfolios carry relatively low credit risks, they tend to be weakened by the high volume of issuers operating in the same economic environment, and are therefore prone to cyclicality. Accordingly, Sukuk issuances by African sovereigns, and subsequently by African corporates, might fit investors' diversification strategies, while bringing further depth and liquidity to the Islamic capital markets. In particular, Nigeria appears to be a promising market for both Islamic banking and Sukuk issuances. In oil-exporting Nigeria, the Muslim community is large (estimated at 68 million inhabitants or roughly half the country's total population), the banking system is well developed and relatively advanced by African standards and financial institutions have started to tap the Eurobond market more frequently, sometimes with ratings assigned to such bond issuances. In this regard, one desirable prerequisite to issuing Sukuk out of Africa is the wider use of credit ratings by African issuers, be they sovereigns or corporate entities.

Another area where Islamic finance appears to have a promising capacity to add value in Africa overall, and especially in sub-Saharan countries, is microfinance. Microfinance tends to adequately meet the financing needs of relatively less wealthy populations (the average GDP per capita is less than US$900 in sub-Saharan Africa), but also fits particularly well with the "ethical" nature of Islamic finance since it is by definition asset based and is socially responsible, two critical aspects of the conceptual and moral objectives pursued by this industry. As such, it is not surprising that the early years of modern Islamic finance were characterised by the almost simultaneous emergence of two Shari'ah-compliant microfinance institutions out of very distant locations: Tabung Haji (not rated) in 1962 from Malaysia; and Mit Ghamr Savings Bank (not rated) in 1963 from Egypt. Today, African microfinance business is estimated to have reached volumes in excess of US$500 million in total credit outstanding, although only a small portion is handled in a manner formally compliant with Shari'ah. This is undoubtedly a field that Islamic finance could further explore, all the more so as this approach to financing the least wealthy and combating poverty has received tremendous support from a vast number of international organisations, including the World Bank, the United Nations and the International Monetary Fund.

Sudan is the African Exception

Since the government of Southern Sudan refused to authorise the Islamic banking system to operate in the semi-autonomous southern provinces, stating that this would breach the Comprehensive Peace Agreement (CPA) signed in 2005, the Sudanese banking system is now divided into two clearly distinct groups. The south, where populations are mainly Christian and Animist, has adopted a conventional banking system, whereas in the north, where the vast majority of inhabitants are Muslims, only Islamic banks are allowed to operate. The north comprises 22 IFIs and concentrates the bulk of the country's banking system assets, estimated to be worth SDD2.8 trillion, equivalent to SDG28 billion in new currency or around US$14 billion, as of year-end 2007. In contrast, the south is host to eight conventional banks. With a total of almost US$10 billion of Shari'ah-compliant banking assets, the Sudanese financial system is by far the heavyweight of Islamic intermediation on the African continent, concentrating about 56% of Africa's Islamic banking market.

Sudan's banking history has not been linear, but rather composed of recurring periods of hesitancy as to which banking model to adopt. The idea of establishing Islamic banking in the country was considered feasible in the mid-1970s. Prince Mohamed Al Faisal Al Saud, a member of the Saudi royal family, established the first IFI in Sudan – Faisal Islamic Bank (not rated), still operational today – in partnership with domestic Muslim investors. The rest of the system was traditional. Some 30 years ago, the Sudanese central bank, Bank of Sudan, was still relatively reluctant to license IFIs on a large scale. Less than a decade later, the banking landscape dramatically changed, as in September 1983 riba was prohibited and Shari'ah was adopted. Subsequently, the 1984 Civil Act was passed, requiring the Sudanese economy and banks to be fully compliant with Shari'ah rules. The emergence of Islamic banks helped attract considerable additional funds to the banking system, whose customers had previously shied away from riba-based conventional banking services, perceiving them as unlawful.

At the same time, the south insisted on continuing to operate banks under a traditional framework. Under the 2005 peace deal to end decades of civil war between the Islamic government in Khartoum and the non-Muslim south, it was agreed that only conventional banking would be used in the south, while in the north Islamic banking would be solely applied. However, at that stage it was still unclear whether, under such a dual system, each of the two banking models would be allowed across the religious border – i.e. whether Islamic banks would be allowed to operate branches in the south and, conversely, whether the north would make it possible for conventional banks to extend business there. In an attempt to gain greater clarity on this subject, the Bank of Sudan recently asked the Southern Sudanese government to allow the branches of Islamic banks operating in the south to continue transacting in compliance with Shari'ah in a conventional context. The government's answer was clear: in the south, the whole banking system should be conventional, with no possibility for Islamic banks to control branches or subsidiaries. In other words, Islamic banking was banned in the south. Islamic banks' branches and/or subsidiaries in the south were given the option last year to close up or adopt only conventional banking by the end of February 2008. Some 15 Islamic banks will have to cease operating in the south and liquidate their assets in this part of the country, as it is not expected that any of them would convert to conventional banking.

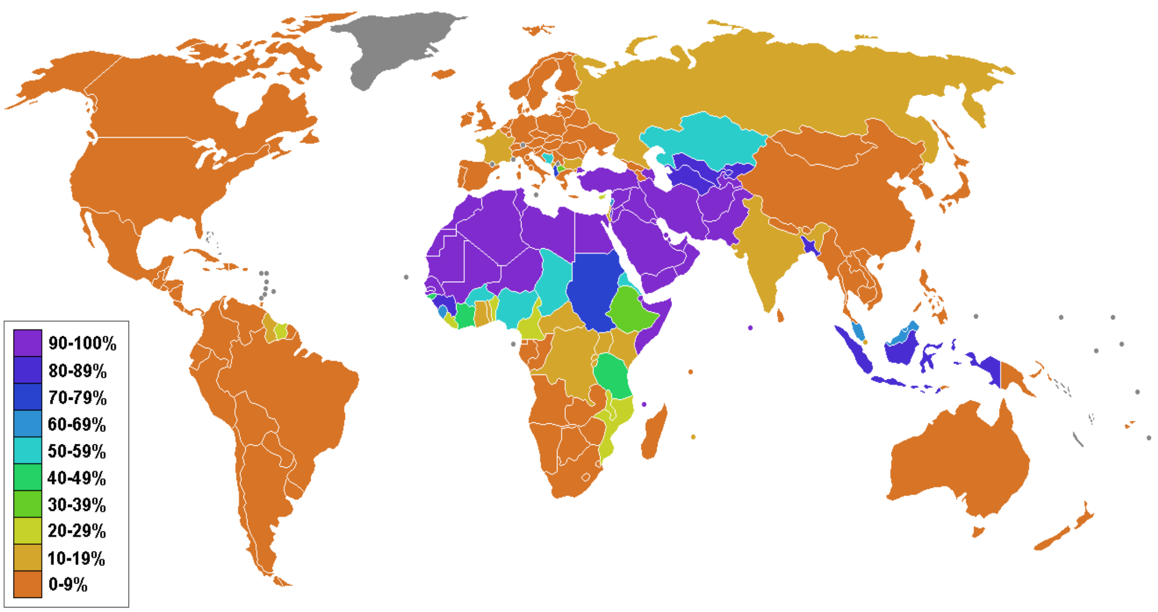
The decision of the Southern Sudanese government towards Islamic banking is unsurprising, given that the north will not allow traditional banks to operate on its own territory. As a matter of fact, the terms of the CPA set in 2005 were quite clear: there would be two different economic systems and, therefore, two different banking systems.

Opportunistic Approach to Islamic Finance in Southern Africa

With very few exceptions, Muslim communities in the southern part of Africa constitute a minority. As shown in Figure 2 below, Muslims constitute less than 10% of the total population in most countries south of Sudan. Therefore, Southern Africa represents a far less attractive marketplace for IFIs, despite the fact that, in absolute terms, Muslim communities may appear large, with a total of almost 30 million inhabitants, half of whom are concentrated in Tanzania.

Figure 2:

Proportion of Muslims in Total Population Across Countries



At this stage, Islamic financiers have approached the Southern African region in an opportunistic and pragmatic manner, identifying Kenya and South Africa as the most promising markets. Unsurprisingly, ABG, through its South African subsidiary Al Baraka Bank Ltd., intends to serve the Muslim population estimated at between 700,000 and one million people. Conventional banks in South Africa have also started offering products designed to attract those customers willing to remain in compliance with Shari'ah requirements. Interest in Islamic banking and finance has also gone beyond serving the domestic Muslim communities, as some South African conventional banking groups have expressed intentions to issue Sukuk. This comes as part of a broader strategy to diversify funding sources away from the domestic market, raise US dollar-denominated debt and tap liquidity where it exists (namely in the Middle East). Although most South African banks enjoy investment-grade ratings, two constraints have emerged when exploring the Sukuk option: on the one hand, a prerequisite remains to build enough underlying Shari'ah-compliant assets to back the Sukuk transactions, which Southern African banks might not have already achieved; and on the other hand, such Sukuk would still be subject to foreign exchange risks, as banks in South Africa generate the bulk of their returns from domestic rand-based businesses. Hedging rand-dollar foreign exchange (FX) risk is possible through derivatives, but as these instruments (FX swaps in particular) are riba based, the whole Sukuk structure might be weakened, from a Shari'ah perspective, by the lack of Islamically acceptable risk-mitigating instruments.

The other key market where Islamic banking has enjoyed recent success is Kenya. With the support of Gulf-based shareholders, two new IFIs – Gulf African Bank (not rated) and First Community Bank (not rated) – were established in 2007 in Kenya, which is host to almost four million Muslims, principally in coastal regions. This sets Kenya apart in Africa, making it the fourth country after Sudan, Egypt and Algeria with more than just one IFI operating under its jurisdiction. As First Community Bank's name suggests, Islamic banking in the country appears to differentiate itself by way of being perceived as community banking. Such an explicit differentiation strategy would be, on the contrary, very difficult to implement in South Africa, given its modern history and the very sensitive nature of any perceived distinction between groups. In Kenya, it is expected that IFIs will remain pocket banks for some time, growing in a balanced, prudent and selective way. New to this market, foreign partner shareholders would likely encourage operational care and credit rigour while expanding their Islamic franchise, to avoid both tarnishing the image of Islamic finance in the country and beyond and jeopardising the industry's prospects on the continent.

Finally, both Mauritius and Tanzania merit closer attention. Here, we classify Mauritius as part of wider Africa, although technically the island belongs geographically to the Indian Ocean area. A range of Islamic trusts has already been issued on the island, whereby trustees allocate managed funds on behalf of Muslim investors. In 2004, the law was amended in order to allow both Islamic windows and fully fledged Shari'ah-compliant commercial banks or, in other words, traditional Islamic financial intermediation. Driven by political authorities as well as by the regulators themselves, the existing banking regulation is also being adapted to the specificities of Islamic banking. It appears that Islamic windows will be allowed initially, before paving the way for fully fledged IFIs.

The Mauritian central bank has recently become a member of the IFSB, and a number of its representatives have established relationships with potential partners in both Malaysia and the GCC. Previous experience in Malaysia, North Africa and the Gulf region shows that whenever both regulators and political leaders share the same wish to enhance the entrenchment of Islamic finance in the domestic market, the chances are higher that Shari'ah-compliant banking and finance will subsequently expand rapidly. Mauritian Muslim consumers of financial services appear to have the full backing and support of both their government and regulator, which means that 2008 might be the year when the first Islamic banking windows are opened.

No such mindset exists (yet) in Tanzania, despite the fact that it is home to the largest Muslim community in Southern Africa, comprising more than 14 million people or 37% of the country's population. At this stage, demand from customers for Islamic banking products has not formally emerged. One possible explanation is the very low GDP per capita, not exceeding US$360, one of the lowest on the continent. Under such circumstances, although Muslims are relatively more numerous than in neighbouring countries, access to banking products and services is still very limited, and therefore customers' need for an Islamic financial offering is at this stage irrelevant, with perhaps the exception of Islamic microfinance. Going forward, and assuming further economic momentum, Tanzania might emerge in the long term as a new horizon for Islamic banking to explore in Africa.

Appendix 1: Islamic Banks and Selected Recent Initiatives in Islamic Finance Across African Countries

Country	Islamic Banks	Selected Recent Islamic Finance Initiatives
Algeria	1. Banque Albaraka d'Algérie (Albaraka Banking Group) 2. Al Salam Bank Algeria	In 2008, Bahrain-based Shari'ah-compliant investment bank Gulf Finance House unveiled its US$3 billion Economic Development Zone project in Algiers.
Djibouti	1. Saba Islamic Bank (branch)	Not meaningful.
Egypt	1. The Egyptian Saudi Finance Bank (Albaraka Banking Group) 2. Faisal Islamic Bank of Egypt	- In 2006, Islamic International Bank for Investment and Development was merged with Nile Bank and United Bank of Egypt to form The United Bank, a conventional financial institution offering an Islamic window. - Abu Dhabi Islamic Bank has recently acquired control of National Bank for Development, and is expected to convert its Egyptian subsidiary into an Islamic financial institution.
Gambia	1. Arab Gambian Islamic Bank	Not meaningful.
Guinea	1. Banque Islamique de Guinée	Not meaningful.
Kenya	1. Gulf African Bank 2. First Community Bank	In 2007, the Central Bank of Kenya granted licences to two fully fledged Islamic banks to serve the Muslim community in the country. A number of conventional banks, including Barclays Bank of Kenya and Kenya Commercial Bank have started offering Islamic windows.
Liberia	1. African Arabian Islamic Bank	Not meaningful.
Libya	None	In 2008, Gulf Finance House pioneered Energy City Libya in its US$3.8 billion deal with the Economic and Social Development Fund of Libya.
Mauritania	1. Banque Al Wava Mauritanienne Islamique	Not meaningful.
Morocco	None	- In 2007, the Moroccan central bank, Bank Al-Maghrib, allowed banks to offer three Shari'ah-compliant banking products, as "alternative" services: ijara, murabaha and musharaka. - In 2006, Gulf Finance House signed a US$1.4 billion deal with the Government of the Kingdom of Morocco for two mixed-use development projects.
Niger	1. Banque Islamique du Niger pour le Commerce et l'Investissement	Not meaningful.
Senegal	1. Banque Islamique du Sénégal	Not meaningful.
South Africa	1. Al Baraka Bank Ltd. (Albaraka Banking Group)	Several banks have contemplated issuing US dollar-denominated Sukuk to diversify their funding base with Middle Eastern issuers willing to comply with Shari'ah.

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Country	Islamic Banks	Selected Recent Islamic Finance Initiatives
Sudan	1. Al-Baraka Bank (Sudan) Limited (Albaraka Banking Group) 2. Agricultural Bank of Sudan 3. Algharb Islamic Bank 4. Al-Salam Bank 5. Al Shamal Islamic Bank 6. Animal Resources Bank 7. Bank of Khartoum 8. Arab Bank for Economic Development in Africa, Khartoum 9. El-Nilean Industrial Development Bank Group 10. Emirates and Sudan Bank 11. Faisal Islamic Bank 12. Farmers & Rural Development Bank 13. Financial Investment Bank 14. Gadarif Investment Bank 15. Islamic Co-operative Development Bank 16. Ivory Bank 17. National Bank of Sudan 18. Omdurman National Bank 19. Savings & Social Development Bank 20. Sudanese Islamic Bank 21. Tadamon Islamic Bank 22. Workers Bank	Sudan was the first African country out of which Sukuk were issued: in 2007, Sudan-based Berber Cement Co. tapped the market with a US$130 million Sukuk transaction to finance a cement project on the River Nile. This is the only Sukuk launched by any African issuer so far.
Tunisia	1. Bank Et-Tamweel Al-Tunisi Al-Saudi (Albaraka Banking Group)	- In 2006, a law was passed authorising the creation of an Islamic bank for foreign trade in conjunction with the Islamic Development Bank. Authorised capital was set at US$3 billion. - In 2007, Gulf Finance House announced the launch of its US$3 billion Tunis Financial Harbour project, North Africa's first offshore financial centre.

Appendix 2: Demographic and GDP Statistics of Countries With Muslim Communities

Country	Population	% Muslim	Muslim Population	GDP per Capita (US$)	GDP (US$ Billion)	Region
Afghanistan	31,889,923	99.00%	31,571,024	335	11	Asia-Pacific
Albania	3,844,841	70.00%	2,691,389	3,093	12	Rest of the world
Algeria	33,333,216	99.00%	32,999,884	3,340	111	North Africa
Angola	12,263,596	0.70%	85,845	3,093	38	Other Africa
Argentina	40,301,927	1.50%	604,529	5,959	240	Rest of the world
Armenia	2,971,650	2.00%	59,433	2,499	7	Asia-Pacific
Australia	20,434,176	1.70%	347,381	37,884	774	Rest of the world
Austria	8,199,783	4.20%	344,391	41,163	338	Rest of the world
Azerbaijan	8,120,247	94.00%	7,633,032	2,784	23	Asia-Pacific
Bahrain	708,573	85.00%	602,287	20,348	14	GCC
Bangladesh	150,448,339	89.00%	133,899,022	458	69	Asia-Pacific
Belarus	9,724,723	0.10%	9,725	3,692	36	Rest of the world
Belgium	10,392,226	4.00%	415,689	38,787	403	Rest of the world
Belize	294,385	0.60%	1,707	4,053	1	Rest of the world
Benin	8,078,314	22.00%	1,777,229	617	5	Other Africa
Bhutan	2,327,849	0.50%	11,639	1,444	3	Asia-Pacific
Bolivia	9,119,152	0.00%	912	1,297	12	Rest of the world
Bosnia and Herzegovina	4,552,198	40.00%	1,820,879	3,136	14	Rest of the world
Botswana	1,815,508	0.20%	3,631	6,302	11	Other Africa
Brazil	190,010,647	0.00%	30,402	6,394	1,215	Rest of the world
Brunei	374,577	64.00%	239,729	32,501	12	Asia-Pacific
Bulgaria	7,322,858	12.20%	893,389	4,453	33	Rest of the world
Burkina Faso	14,326,203	53.00%	7,592,888	467	7	Other Africa
Burundi	8,390,505	10.00%	839,051	110	1	Other Africa
Cambodia	13,995,904	3.50%	489,857	562	8	Asia-Pacific
Cameroon	18,060,382	21.00%	3,792,680	1,054	19	Other Africa
Canada	33,390,141	2.00%	667,803	38,480	1,285	Rest of the world
Central African Republic	4,369,038	17.00%	742,736	376	2	Other Africa
Chad	9,885,661	51.00%	5,041,687	694	7	Other Africa
Chile	16,284,741	0.00%	3,257	8,392	137	Rest of the world
China	1,321,851,888	1.50%	19,827,778	2,224	2,940	Asia-Pacific
Colombia	44,379,598	0.00%	10,651	3,073	136	Rest of the world
Comoros	711,417	98.00%	697,189	669	0.5	Other Africa
Republic of the Congo	3,800,610	2.00%	76,012	595	2	Other Africa
Dem. Republic of Congo	65,751,512	8.00%	5,260,121	146	10	Other Africa
Costa Rica	4,133,884	0.10%	4,134	5,261	22	Rest of the world
Côte d'Ivoire	18,013,409	37.00%	6,664,961	993	18	Other Africa
Croatia	4,493,312	1.30%	58,413	11,141	50	Rest of the world
Cuba	11,394,043	0.00%	912	3,958	45	Rest of the world
Cyprus	788,457	18.00%	141,922	24,240	19	Rest of the world
Czech Republic	10,228,744	0.10%	10,229	14,284	146	Rest of the world
Denmark	5,468,120	3.50%	191,384	52,297	286	Rest of the world

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Country	Population	% Muslim	Muslim Population	GDP per Capita (US$)	GDP (US$ Billion)	Region
Djibouti	496,374	96.00%	476,519	1,050	1	Other Africa
Dominican Republic	9,365,818	0.00%	1,873	3,912	37	Rest of the world
East Timor	1,084,971	1.00%	10,850	1,100	1	Asia-Pacific
Ecuador	13,755,680	0.00%	275	3,155	43	Rest of the world
Egypt	80,335,036	92.00%	73,908,233	1,444	116	North Africa
El Salvador	6,948,073	0.00%	2,084	2,590	18	Rest of the world
Eritrea	4,906,585	54.00%	2,649,556	271	1	Other Africa
Estonia	1,315,912	0.40%	5,264	13,061	17	Rest of the world
Ethiopia	76,511,887	40.00%	30,604,755	203	16	Other Africa
Fiji	918,675	7.00%	64,307	3,101	3	Asia-Pacific
Finland	5,238,460	0.40%	20,954	41,651	218	Rest of the world
France	63,718,187	8.00%	5,097,455	37,515	2,390	Rest of the world
Gabon	1,454,867	1.00%	14,549	6,372	9	Other Africa
Gambia	1,688,359	93.00%	1,570,174	290	0.5	Other Africa
Georgia	4,646,003	9.90%	459,954	1,724	8	Asia-Pacific
Germany	82,400,996	3.90%	3,213,639	37,207	3,066	Rest of the world
Ghana	22,931,299	15.60%	3,577,283	579	13	Other Africa
Greece	10,706,290	1.30%	139,182	25,424	272	Rest of the world
Grenada	89,971	0.30%	270	4,984	0.4	Rest of the world
Guatemala	12,728,111	0.00%	1,018	2,567	33	Rest of the world
Guinea	9,947,814	85.00%	8,455,642	345	3	Other Africa
Guinea-Bissau	1,472,780	45.00%	662,751	260	0.4	Other Africa
Guyana	769,095	7.20%	55,375	1,215	1	Rest of the world
Haiti	8,706,497	0.00%	1,741	638	6	Rest of the world
Honduras	7,483,763	0.00%	2,994	1,271	10	Rest of the world
Hungary	9,956,108	0.10%	9,956	12,226	122	Rest of the world
Iceland	301,931	0.10%	302	54,696	17	Rest of the world
India	1,129,866,154	13.00%	146,882,600	858	969	Asia-Pacific
Indonesia	234,693,997	87.00%	204,183,777	1,561	366	Asia-Pacific
Iran	65,397,521	98.00%	64,089,571	3,435	225	Non-GCC Middle East (excl. North Africa)
Iraq	27,499,638	97.00%	26,674,649	2,016	55	Non-GCC Middle East (excl. North Africa)
Ireland	4,109,086	0.50%	20,135	55,083	226	Rest of the world
Israel	6,426,679	14.00%	899,735	21,345	137	Non-GCC Middle East (excl. North Africa)
Italy	58,147,733	1.40%	814,068	32,968	1,917	Rest of the world
Jamaica	2,780,132	0.20%	5,560	3,718	10	Rest of the world
Japan	127,433,494	0.10%	127,433	36,030	4,591	Asia-Pacific
Jordan	6,053,193	95.00%	5,750,533	2,506	15	Non-GCC Middle East (excl. North Africa)
Kazakhstan	15,284,929	47.00%	7,183,917	5,096	78	Asia-Pacific
Kenya	36,913,721	10.00%	3,691,372	657	24	Other Africa
Korea, North	23,301,725	0.20%	46,603	1,007	23	Asia-Pacific
Korea, South	49,044,790	0.10%	34,822	18,254	895	Asia-Pacific
Kuwait	2,505,559	80.00%	2,004,447	29,081	73	GCC
Kyrgyzstan	5,284,149	78.00%	4,121,636	549	3	Asia-Pacific
Laos	6,521,998	0.10%	6,522	571	4	Asia-Pacific
Latvia	2,259,810	0.00%	452	9,621	22	Rest of the world

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Country	Population	% Muslim	Muslim Population	GDP per Capita (US$)	GDP (US$ Billion)	Region
Lebanon	3,826,018	57.00%	2,180,830	5,833	22	Non-GCC Middle East (excl. North Africa)
Lesotho	2,125,262	1.00%	21,253	740	2	Other Africa
Liberia	3,195,931	20.00%	639,186	222	1	Other Africa
Libya	6,036,914	97.00%	5,855,807	8,457	51	North Africa
Lithuania	3,575,439	0.10%	2,682	9,078	32	Rest of the world
Luxembourg	480,222	2.00%	9,604	89,718	43	Rest of the world
FYR Macedonia	2,055,915	32.00%	657,893	3,319	7	Rest of the world
Madagascar	19,448,815	7.00%	1,361,417	314	6	Other Africa
Malawi	13,603,181	17.00%	2,312,541	200	3	Other Africa
Malaysia	24,821,286	60.40%	14,992,057	5,897	146	Asia-Pacific
Maldives	369,031	99.40%	366,854	2,842	1	Asia-Pacific
Mali	11,995,402	90.00%	10,795,862	493	6	Other Africa
Mauritania	3,270,065	1.00%	32,701	754	2	Other Africa
Mauritius	1,250,882	17.00%	212,650	5,640	7	Other Africa
Mexico	108,700,891	0.30%	282,622	7,898	859	Rest of the world
Moldova	4,328,816	0.10%	3,030	894	4	Rest of the world
Mongolia	2,951,786	5.00%	147,589	1,255	4	Asia-Pacific
Montenegro	684,736	19.50%	133,524	3,873	3	Rest of the world
Morocco	33,757,175	99.00%	33,419,603	2,098	71	North Africa
Mozambique	20,905,585	20.00%	4,181,117	369	8	Other Africa
Myanmar	47,373,958	4.00%	1,894,958	208	10	Asia-Pacific
Namibia	2,055,080	1.00%	20,551	3,029	6	Other Africa
Nepal	28,901,790	4.00%	1,156,072	315	9	Asia-Pacific
Netherlands	16,570,613	6.00%	994,237	41,499	688	Rest of the world
New Caledonia	221,943	4.00%	8,878	19,500	4	Asia-Pacific
New Zealand	4,115,771	0.60%	23,871	26,716	110	Asia-Pacific
Nicaragua	5,675,356	0.00%	454	955	5	Rest of the world
Niger	12,894,865	92.00%	11,863,276	289	4	Other Africa
Nigeria	135,031,164	50.00%	67,515,582	762	103	Other Africa
Norway	4,627,926	1.80%	83,303	69,160	320	Rest of the world
Oman	3,204,897	92.70%	2,969,658	12,290	39	GCC
Pakistan	164,741,924	97.00%	159,799,666	788	130	Asia-Pacific
Panama	3,242,173	0.30%	9,727	5,526	18	Rest of the world
Papua New Guinea	5,795,887	0.00%	2,029	895	5	Asia-Pacific
Paraguay	6,669,086	0.00%	534	1,489	10	Rest of the world
Peru	28,674,757	0.00%	860	3,284	94	Rest of the world
Philippines	91,077,287	5.00%	4,553,864	1,511	138	Asia-Pacific
Poland	38,518,241	0.00%	3,852	10,200	393	Rest of the world
Portugal	10,642,836	0.30%	35,121	18,719	199	Rest of the world
Qatar	907,229	77.50%	703,102	54,077	49	GCC
Romania	22,276,056	0.20%	44,552	5,632	125	Rest of the world
Russia	141,377,752	10.00%	14,137,775	8,131	1,150	Rest of the world
Rwanda	9,907,509	4.60%	455,745	262	3	Other Africa
Saudi Arabia	27,601,038	89.00%	24,564,924	13,184	364	GCC

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Country	Population	% Muslim	Muslim Population	GDP per Capita (US$)	GDP (US$ Billion)	Region
Senegal	12,521,851	95.00%	11,895,758	779	10	Other Africa
Serbia	10,150,265	3.20%	324,808	4,571	46	Rest of the world
Seychelles	81,895	0.20%	172	8,296	1	Asia-Pacific
Sierra Leone	6,144,562	60.00%	3,686,737	249	2	Other Africa
Singapore	4,553,009	15.00%	682,951	31,237	142	Asia-Pacific
Slovakia	5,447,502	0.10%	2,724	11,066	60	Rest of the world
Slovenia	2,009,245	2.40%	48,222	20,416	41	Rest of the world
Solomon Islands	566,842	0.00%	227	695	0.4	Asia-Pacific
Somalia	9,118,773	99.90%	9,109,654	272	2	Other Africa
South Africa	43,997,828	1.50%	659,967	5,342	235	Other Africa
Spain	40,448,191	2.30%	930,308	29,362	1,188	Rest of the world
Sri Lanka	20,926,315	7.00%	1,464,842	1,385	29	Asia-Pacific
Sudan	39,379,358	70.00%	27,565,551	1,178	46	Other Africa
Suriname	470,784	18.00%	84,741	3,668	2	Rest of the world
Swaziland	1,133,066	6.00%	67,984	2,228	3	Other Africa
Sweden	9,031,088	3.00%	270,933	44,434	401	Rest of the world
Switzerland	7,554,661	4.30%	324,850	53,905	407	Rest of the world
Syria	19,314,747	90.00%	17,383,272	1,745	34	Non-GCC Middle East (excl. North Africa)
Taiwan	22,858,872	0.30%	68,577	16,260	372	Asia-Pacific
Tajikistan	7,076,598	90.00%	6,368,938	422	3	Asia-Pacific
Tanzania	39,384,223	37.00%	14,572,163	351	14	Other Africa
Thailand	65,068,149	4.60%	2,993,135	3,277	213	Asia-Pacific
Togo	5,701,579	16.00%	912,253	368	2	Other Africa
Trinidad and Tobago	1,056,608	5.80%	61,283	15,477	16	Rest of the world
Tunisia	10,276,158	98.00%	10,070,635	3,221	33	North Africa
Turkey	71,158,647	99.00%	70,447,061	5,843	416	Non-GCC Middle East (excl. North Africa)
Turkmenistan	5,097,028	89.00%	4,536,355	3,486	18	Asia-Pacific
Uganda	30,262,610	12.10%	3,661,776	326	10	Other Africa
Ukraine	46,299,862	1.70%	787,098	2,351	109	Rest of the world
United Arab Emirates	4,444,011	67.00%	2,977,487	34,842	155	GCC
United Kingdom	60,776,238	2.70%	1,640,958	41,608	2,529	Rest of the world
United States	301,139,947	1.00%	3,011,399	45,136	13,592	Rest of the world
Puerto Rico	3,944,259	0.10%	5,128	4,980	20	Rest of the world
Uruguay	3,460,607	0.00%	346	5,659	20	Rest of the world
Uzbekistan	27,780,059	88.00%	24,446,452	610	17	Asia-Pacific
Vanuatu	208,900	0.10%	209	1,824	0.4	Asia-Pacific
Venezuela	26,023,528	0.40%	91,082	7,120	185	Rest of the world
Vietnam	85,262,356	0.10%	67,357	721	61	Asia-Pacific
West Bank and Gaza	4,018,332	83.70%	3,363,344	380	2	Non-GCC Middle East (excl. North Africa)
Western Sahara	382,617	99.80%	381,852	660	0.3	Other Africa
Yemen	22,230,531	99.00%	22,008,226	874	19	Non-GCC Middle East (excl. North Africa)
Zambia	11,477,447	0.50%	57,387	786	9	Other Africa
Zimbabwe	12,311,143	0.50%	61,556	672	8	Other Africa
TOTAL	6,589,688,908	22.50%	1,481,248,769	7,634	50,304	

Appendix 3: Selected Summarised Publicly Available Data on African IFIs

	Bank	Country	Date of Financial Data	Total Assets (US$ Million)*	Total Equity (US$ Million)*	Comments
1	Omdurman National Bank	Sudan	YE2007	2,713	180	Established in 1993
2	Faisal Islamic Bank of Egypt	Egypt	YE2006	2,160	512	The oldest, largest, and most entrenched IFI in Africa. Was established in 1979.
3	Emirates and Sudan Bank	Sudan	YE2007	2,119	193	Established in 2004 by Dubai Islamic Bank.
4	National Bank of Sudan	Sudan	YE2007	1,380	115	One of the oldest financial institutions in the country.
5	The Egyptian Saudi Finance Bank (Albaraka Banking Group)	Egypt	YE2006	1,281	101	Established in 1980 as one of the two "historical" Islamic banks in Egypt, along with Faisal Islamic Bank. Operates through 15 branches.
6	Bank of Khartoum	Sudan	YE2007	1,142	95	Established in 1913.
7	Sudanese Islamic Bank	Sudan	YE2007	781	71	None.
8	Tadamon Islamic Bank	Sudan	YE2007	638	54	None.
9	Banque Albaraka d'Algérie (Albaraka Banking Group)	Algeria	YE2006	626	57	Founded in 1991, and has established itself as one of the leading banks in the Algerian retail segment.
10	Faisal Islamic Bank	Sudan	YE2007	463	38	Established in 1977.
11	Al Shamal Islamic Bank	Sudan	YE2007	432	48	Founded in 1990.
12	Islamic Co-operative Development Bank	Sudan	YE2007	314	25	None.
13	Al-Salam Bank	Sudan	YE2007	302	29	None.
14	Animal Resources Bank	Sudan	YE2007	274	22	None.
15	Bank Et-Tamweel Al-Tunisi Al-Saudi (Albaraka Banking Group)	Tunisia	YE2006	254	61	Offshore bank established in 1983, allowed to collect up to 1% of the whole banking system deposits, as per special authorisation of the Tunisian regulator.
16	Al-Baraka Bank (Sudan) Limited (Albaraka Banking Group)	Sudan	YE2006	234	32	Established in 1984 but acquired by Albaraka Banking Group in 2005.
17	Savings & Social Development Bank	Sudan	YE2007	220	27	Specialised bank.
18	Al Baraka Bank Ltd. (Albaraka Banking Group)	South Africa	YE2006	209	29	Established in 1989 and intends to remain a pocket "community" bank.
19	Agricultural Bank of Sudan	Sudan	YE2007	173	18	Government-owned specialised bank, established in 1957.
20	Financial Investment Bank	Sudan	YE2007	148	12	Specialised bank.
21	Banque Al Wava Mauritanienne Islamique	Mauritania	YE2007	112	34	Established in 1985 by the Dallah Albaraka Group, subsequently diluted to minority stakes.
22	Al Salam Bank Algeria	Algeria	YE2007	100	100	Shareholders, namely Amlak Finance and Emaar Properties, received agreement from the Algerian regulator to establish Al Salam Bank Algeria in 2006 and should start operating in the first half of 2008.
23	Arab Gambian Islamic Bank	Gambia	YE2006	29	4.7	Established in 1997. Islamic Development Bank is the largest shareholder.
24	Gulf African Bank	Kenya	YE2007	25	25	Established in April 2007 by BankMuscat International and Istithmar.
25	Banque Islamique de Guinée	Guinea	YE2007	23	2.5	Same shareholders as Banque Islamique du Sénégal, namely Dar Al Maal Al Islami and Islamic Development Bank.
26	First Community Bank	Kenya	YE2007	15	15	Established in June 2007 by Kuwait-based Al Madina Investment and Finance.

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	Bank	Country	Date of Financial Data	Total Assets (US$ Million)*	Total Equity (US$ Million)*	Comments
27	Farmers & Rural Development Bank	Sudan	N/A	N/A	N/A	None.
28	Algharb Islamic Bank	Sudan	N/A	N/A	N/A	None.
29	Arab Bank for Economic Development in Africa, Khartoum	Sudan	N/A	N/A	N/A	None.
30	El-Nilean Industrial Development Bank Group	Sudan	N/A	N/A	N/A	None.
31	Gadarif Investment Bank	Sudan	N/A	N/A	N/A	None.
32	Ivory Bank	Sudan	N/A	N/A	N/A	None.
33	Workers National Bank	Sudan	N/A	N/A	N/A	None.
34	Banque Islamique du Sénégal	Senegal	N/A	N/A	N/A	Used to be called Masraf Faisal Al Islami when established in 1983. Like its sisters, Faisal Islamic Bank of Egypt and Faisal Islamic Bank of Sudan, Banque Islamique du Sénégal's main shareholder is Dar Al Maal Al Islami (DMI), Prince Mohamed Al Faisal Al Saud's trust based in Geneva. Islamic Development Bank is second-largest shareholder.
35	African Arabian Islamic Bank	Liberia	N/A	N/A	N/A	Not meaningful.
36	Banque Islamique du Niger pour le Commerce et l'Investissement	Niger	N/A	N/A	N/A	None.
37	Saba Islamic Bank (branch)	Djibouti	N/A	N/A	N/A	A branch of Yemen-based Saba Islamic Bank. The Djiboutian branch was established in 2006.

* *Up-to-date financial data may not be always fully available. Whenever deemed relevant and necessary, Moody's included its own estimates in this table.*

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Report Number: 108071

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