World Islamic Banking **Competitiveness Report** 2014-15 Participation Banking 2.0 Building a better working world

About MEGA

MEGA is the leading international information firm focused on achieving business results for the Islamic banking and finance industry since 1993. Our exclusive focus on Islamic finance has enabled us to create significant value for the leading players in the Islamic banking, finance and investment markets. The portfolio of MEGA brands represents the landmark industry conferences and our clients are the leading players in the international financial markets.





Dear Banking and Finance Leader,

It is with great pleasure that we present to you the 11th annual edition of the World Islamic Banking Competitiveness Report 2014/15, which has been developed by EY's award winning Global Islamic Banking Center and is exclusively launched onsite at the 21st annual edition of the World Islamic Banking Conference (WIBC 2014) – the world's largest and most influential annual gathering of international leaders in the global Islamic banking and finance industry. WIBC 2014, held under the patronage of HRH Prince Khalifa Bin Salman Al Khalifa, The Prime Minister of the Kingdom of Bahrain and supported by the Central Bank of Bahrain, gathered more than 1,300 industry pioneers, thought leaders, key regulators and leading industry players from over 50 countries to engage more than 90 speakers across 3 days in Bahrain on issues focused on transforming the industry to improve stability, competitiveness and global growth.

The global Islamic finance industry can point to many significant achievements over the past several years as it continues to mainstream its capabilities in core markets as well as further expanding its reach into new geographies. However much still needs to be done if the industry is to truly come of age and play its part on the world stage as a

powerful form of ethical finance – and the EY World Islamic Banking Competitiveness Report 2014/15 points towards these key strategic priorities. We would like to express our sincere gratitude to EY and their internationally acclaimed Global Islamic Banking Center for investing their considerable talent and resources in developing the EY World Islamic Banking Competitiveness Report 2014/15. The Report, titled "Participation Banking 2.0", analyzes the industry's future potential as major players undergo a transformation process and also studies customer sentiments across key Islamic finance markets. Established as a critical reference resource for key industry players, thought leaders and policy makers in the global Islamic banking and finance industry, we hope that the analysis in this year's Report will provide practical, constructive and valuable insights which will be useful in your own strategic planning activities and will assist your organization in its quest for success as the Islamic banking and finance industry seeks to take the next steps to improve global competitiveness.

Yours sincerely,

David McLean Chief Executive



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Foreword



Abdulaziz Al-Sowailim Regional Managing Partner, MENA Region

Emerging markets have been the principal driver of global growth over the last five years. And despite recent turbulence, we expect them to remain central to global growth over the next decade. A group of 25 rapid-growth markets (RGMs) are reshaping the world economy; and 10 of these 25 RGMs have large Muslim population. Our clients remain confident that Bahrain and six of the RGMs – Qatar, Indonesia, Saudi Arabia, Malaysia, the UAE and Turkey (QISMUT) – will continue to drive future internationalization of the Participation banking industry.

QISMUT commanded 80% of the international Participation banking assets in 2013, at US\$625b, and is expected to continue to grow at a five-year CAGR of 19%. Perhaps the most significant development is the mainstreaming of the industry in several core markets. Market share of Participation banking assets in Saudi Arabia, Kuwait, Qatar, Malaysia, the UAE and Bahrain is now between 20% and 49%. There are 21 Participation banks around the world with more than US\$1b in equity, and at least 1 Islamic bank with more than US\$10b.

But mainstreaming comes at a price. This year, EY analyzed user experience with regard to Participation banks. We looked at 2.2 million comments on social media across nine markets. It is quite obvious from the results that customers want more and better. And they are vocal and ready to switch should they not get their desired banking experience. Banks therefore need to listen, respond and adapt. You are welcome to connect with our teams and get more specific details on user experience in individual markets or with specific banks.

There is another very significant opportunity in the making. The rebalancing of the global trade flows in favor of RGMs has put payment solutions at the heart of Participation finance. But trade flows are concentrated in specific "corridors", and trade services are complex and costly, in part, due to Basel III and know your customer (KYC) requirements. Hence, it is important for Participation banks to choose where to play, and where to deploy trade platforms that simplify supply chain process and reduce costs. Through our discussions with industry executives, we realized that trade finance and cross-border payment business still remains a much smaller part of their revenue model. Unless this is addressed on an urgent footing, Participation banks risk losing out on this once-in-a-15-year opportunity. Our teams are helping banks build trade finance business structures. So, do reach out to them for any queries.

You would have noted that EY is leading yet another bold initiative. Taking cue from successes in Turkey, the report attempts to re-label the industry as "Participation" finance. This shift in brand and communication strategy is visible throughout the report. It may sound different at first, but we sincerely hope that this will contribute in its own way to the mainstreaming of the industry.



Ashar Nazim
Partner – Global Islamic Banking Center

Participation banking assets with commercial banks in Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey (QISMUT) are set to cross US\$753b in 2014 and will represent 82% of the international participation banking assets. Mainstreaming of the industry across core markets is certainly good news, but it has also ushered in new challenges for Participation banks. EY monitored and analyzed feedback from more than 2 million customers. And the results tell a story.

On a positive note, three factors have a significant impact on the industry's performance. These are trade finance, mobile payment solutions and regulatory compliance. They would help narrow the performance gap that currently exists between Participation and traditional banks.



Executive brief



Robert Abboud Financial Services Advisory Leader, MENA



Jan Bellens Global Emerging Markets Leader, Banking and Capital Markets

The global profit pool of Participation banks is set to triple over the next five years. For the first time in history, the combined profit of Participation banks crossed the US\$10b mark (2013). By 2019, collective profits would touch US\$37b as the industry continues its double-digit annual growth.

But this is only half the story. The ROEs of Participation banks remain c.19% lower when compared to traditional banks in the same markets. This performance gap could cost its shareholders, and to some extent the investment account holders, between US\$16b to US\$18b in forgone profit over the next five years. Mainstreaming, and building the value-seeker customer book, has not been easy for Participation banks. Bridging the performance gap requires listening to customers. This year, EY studied 2.2 million customer sentiments dispersed across countless online sources in nine key markets (Saudi Arabia, Bahrain, Kuwait, the UAE, Malaysia, Indonesia, Turkey, Qatar and Oman). Results show that for many Participation banks, customer satisfaction is, at best, mediocre.

There were several more messages from users. Transformation of customers' banking experience across channels and all touch points is going to be crucial. Social banking and customer expectations continue to evolve. Understanding and analyzing changing customer patterns can help anticipate needs, and encourage desired behaviors. Most importantly, user experience conversations have to be an ongoing activity and not a discrete project. Institutionalizing these core capabilities require boards and executives to skillfully move cost from running the bank to developing the bank. For this transformation to happen, they will need to acquire sufficient capacity first.



Key findings

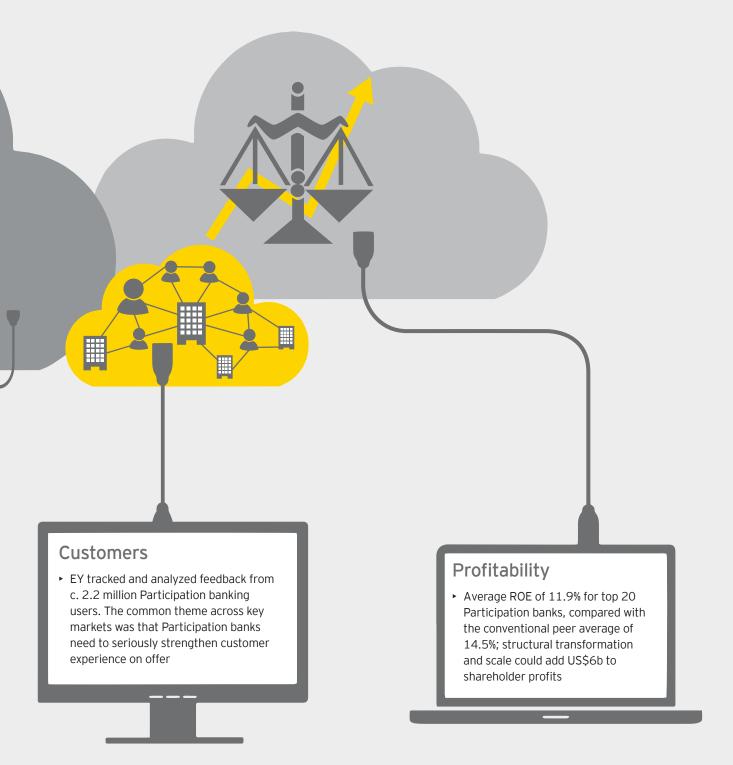


Sources:

Central banks, company financial reports, EY analysis *International Participation banking assets exclude Iran which has a unique domestic industry.

Customers: is anyone listening?

- Customers of Participation banks are showing tremendous interest for digital banking. They are also quite vocal.
- To "listen, respond, learn from each customer engagement and apply in future customer interactions" is the key. This requires a fundamental shift in customer interface at most Participation banks.



Going mainstream: Participation Banking 2.0

- Away from the "Islamic" label, mainstream customers consider service excellence and capabilities to be the most differentiating factors. A different audience requires a different (and high impact) brand and communication strategy.
- Eliminating operational silos and leveraging customer insights to improve channel performance and risk management is the key to mainstream profitability.





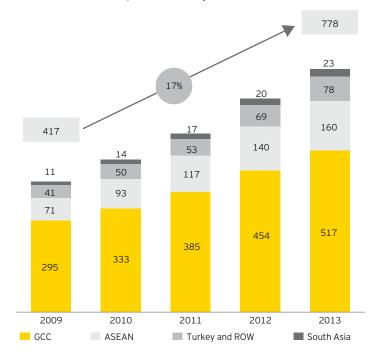
overview

International Participation banking assets*

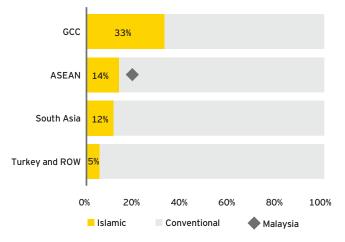
The Participation banking industry has gone mainstream in several markets (Saudi Arabia, Kuwait and Bahrain with more than 48.9%, 44.6% and 27.7% share of markets, respectively) and has made considerable progress in a number of emerging markets (Indonesia, Turkey and Pakistan with 43.5%, 18.7% and 22.0% CAGR, respectively, over 2009-2013).

Participation banking assets with commercial banks maintained strong growth in 2013 and with improving macroeconomic outlook of core markets, the growth journey is set to continue.

International Participation banking assets* (US\$b)



Share of international Participation banking assets*



Sources:

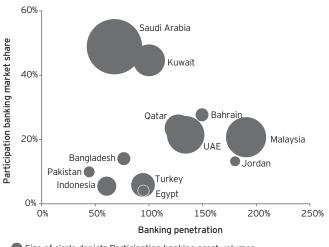
Central banks, EY analysis

*International Participation banking assets exclude Iran which has a unique domestic industry.

Going mainstream

The Participation banking industry is preparing to go mainstream. Banks are already competing more and more for value seekers in key markets such as Saudi Arabia.

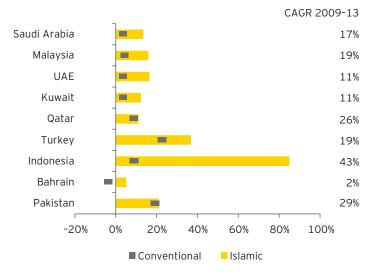
Banking penetration and Participation assets market share



Size of circle depicts Participation banking asset volumes

Note: For the Bahraini market, analysis is based on domestic banking assets.

Growth rate of assets YOY 2013 (in local currency)

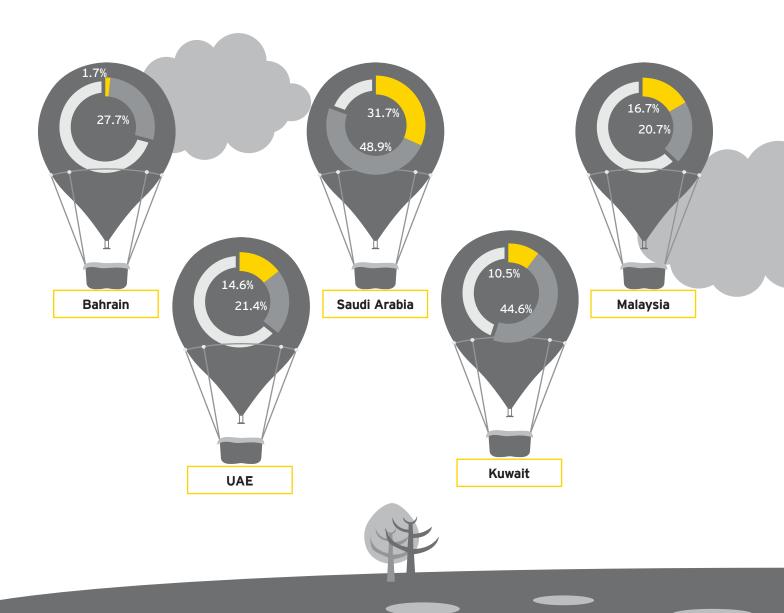


Sources:

Central banks, EY analysis

On average, Participation banking growth in core markets over 2009-13 has been 1.9 times higher than that for conventional.

Participation industry footprint



Approximately 95% of international Participation banking assets* with commercial banks are based out of nine core markets.

National market shares for Participation banking

- Participation banking market shares in six countries have crossed the 20% threshold. Participation banks are now acquiring not just Sharia-sensitive customers, but also the value seekers.
- In Saudi Arabia specifically, majority retail and corporate assets are now Sharia compliant. Kuwait is another important market where Participation banking is fast becoming the dominant system, with another large bank announcing transformation to Participation banking.

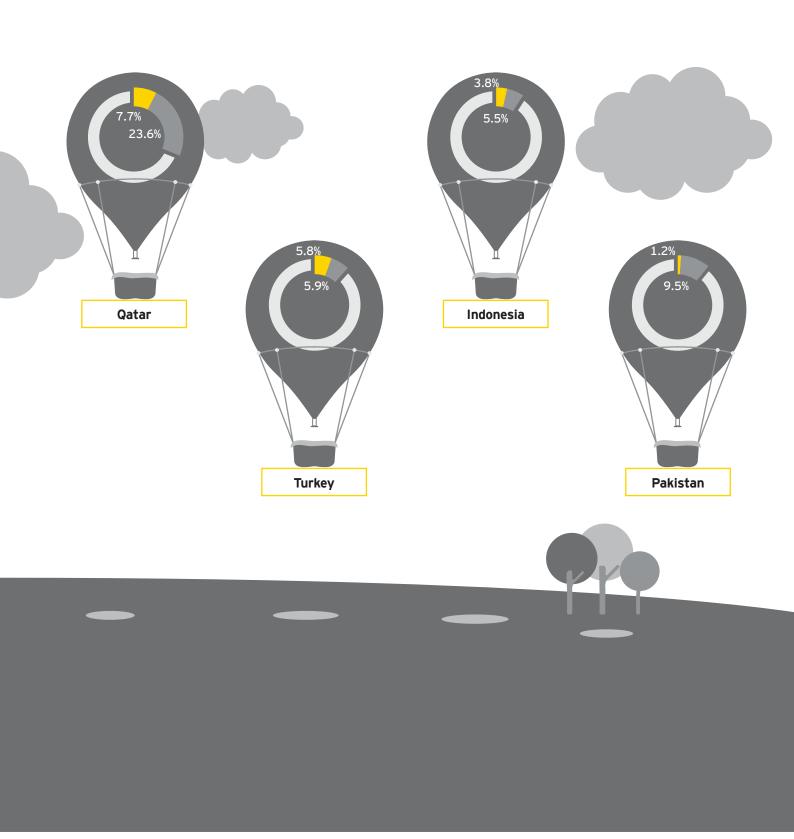
Global distribution of Participation banking assets*

- QISMUT markets continue to form the backbone of the Participation banking industry and hold 80% of global Participation banking assets.*
- QISMUT's share of assets is expected to strengthen further with populous markets of Indonesia and Turkey recording impressive growths (2009-13 CAGR of 44% and 19%, respectively) and widely anticipated to be the industry's growth engine over the next decade.

Sources:

Central banks, EY analysis

 $^{^{}st}$ International Participation banking assets exclude Iran which has a unique domestic industry.



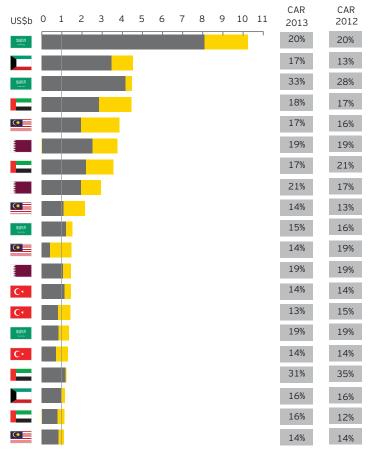
Leading 20 Participation banks by capitalization

Strengthening of capital base

- 21 Participation banks now have US\$1b or more in capital as opposed to 19 in 2012. Of these 21 Participation banks, 19 are based out of QISMUT.
- The first Participation bank with US\$10b capital is headquartered in Saudi Arabia.

Risk profile continues to improve. On average, the leading 20 Participation banks have improved capitalization by 14.4% over 2011-13.

Capitalization of top 20 banks



2010 2011-13

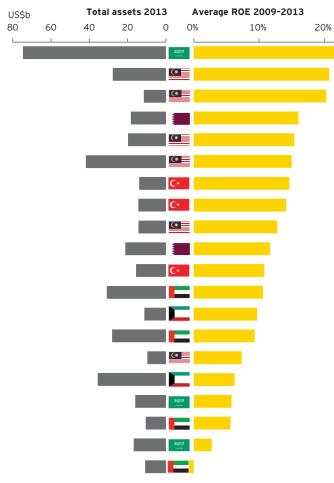
Sources:

Company financial reports, EY universe, EY analysis
Note: Top 20 Participation banks data excludes Iran and country flags
represent the home market of the Participation bank.

Profitability in focus

Legacy cost structures, resultant choice of business mix and operational silos are the primary contributors to the performance gap between conventional and Participation banks.

Top 20 Participation banks



- Profit pool of 20 of the largest Participation banks increased by US\$0.5b to reach US\$6.7b in 2013.
- Current performance gap compared to conventional may have cost the shareholders US\$1.4b in forgone profit.

	Average ROE	Average assets	Average growth 2009-13
Leading Participation banks by assets	11.9%	US\$22b	17%
Comparable conventional average	14.5%	US\$87b	15%

Sources:

Company financial reports, EY universe, EY analysis Note: Top 20 Participation banks data excludes Iran and country flags represent the home market of the Participation bank.

Ten-year industry framework

Future direction, opportunities and priorities for Participation banking

Immediate sector priorities

- Engagement with newly opened markets
- Demonstration of the sector's distinctive value proposition

Initiatives to support implementation

- ► Formation of a "technical assistance network"
- Formation of regional working group
- Regular reviews of KPIs
- Formation of product development programs

Challenges ahead

- Enabling job creation
- Depoliticizing the enablement of Islamic finance
- ► Re-engaging global banks



Impact of macro and environmental shifts

- ► Eastward shift in economic "center of gravity"
- Ongoing financial crises
- ► Fundamental reviews of financial regulations
- Reform and regime change in key markets
- ► Internet and mobile technology platforms
- ► Deep distrust of the banking sector

Opportunities ahead

- ► Tapping the demographic dividend
- Serving newly opened markets
- Connecting emerging markets, the new growth centers
- Contributing to the global dialogue

Sources

"Islamic Financial Services Industry Development: Ten-Year Framework and Strategies" March, 2007

KPIs for measuring progress

Facilitate and encourage the operation of free, fair and transparent markets in the Islamic financial services sector

Enhance capitalization and efficiency of Islamic financial institutions (IFIs) to ensure adequate capitalization, resilience and parity with international best practices

Enhance access by the majority of the population to financial services (and enhance access to funding by SMEs and entrepreneurs)

Enhance Sharia compliance, effectiveness of corporate governance and transparency

Develop the required pool of specialized, competent and high-caliber human capital, and ensure utilization of state-of-theart technology

-6 Promote development of standardized products through research and innovation

7 - Comply with the international prudential, accounting and auditing standards applicable to IFIs

Develop an appropriate legal, regulatory and supervisory framework as well as an IT infrastructure that would effectively cater for the special characteristics of the IFIs and ensure tax neutrality

Develop comprehensive and sophisticated interbank, capital and derivatives market infrastructures for the IFIs, (and strengthen interbank lines and capital flows with emerging economies that are key centers of global economic growth)

Promote public awareness of the range of Islamic financial services

Strengthen and enhance collaboration among the international Islamic financial infrastructure institutions

Foster collaboration among countries that offer Islamic financial services

Conduct initiatives and enhance financial linkages to integrate domestic IFIs with regional and international financial markets

Foster and embrace innovative business models, including new technologies and delivery channels, in delivering Islamic financial services

Contribute meaningfully to the global dialogue on financial services, offering principles and perspective to enhance the global financial system

Sources

[&]quot;Islamic Financial Services Industry Development: Ten-Year Framework and Strategies" March, 2007

Question marks remain on the state of the industry's infrastructure

	Financial market infrastructure challenges	Challenge scale*
1	Development and implementation of microprudential regulatory standards	•••••
2	Financial stability platform	••••••
3	Financial stability analysis	•••••••
4	Potential policy response	••••••
5	Financial stability institutional architecture	••••••
6	Development and implementation of accounting and auditing standards	••••••
7	Standards and guidelines oversight framework	••••••
8	Standards and guidelines reporting framework	••••••
9	Sharia standards development	••••••
10	Corporate governance and transparency infrastructure	••••••
11	Ratings infrastructure	••••••
12	Systemic liquidity infrastructure	••••••
13	Industry-owned Islamic finance education providers	••••••
14	Institutional framework for Sharia governance	••••••
15	Sharia scholar development	••••••
16	Islamic finance research and innovation	••••••
17	Product innovation	••••••
18	Education standards body	••••••
19	Approved education provider network	••••••
20	Coordinated training and development	••••••
21	Dispute resolution platform	••••••
22	Advocacy platform	••••••
23	Financial ombudsman	••••••
24	Consumer financial literacy	••••••
25	Branding and marketing platform	••••••
26	New market development	••••••

State of readiness

EY analysis, discussions with industry stakeholders

 $\mbox{*Scale}$ attempts to assess the current state of industry infrastructure compared to requirements over the next decade.







The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2003

of over \$2 billion, including those cases Wo

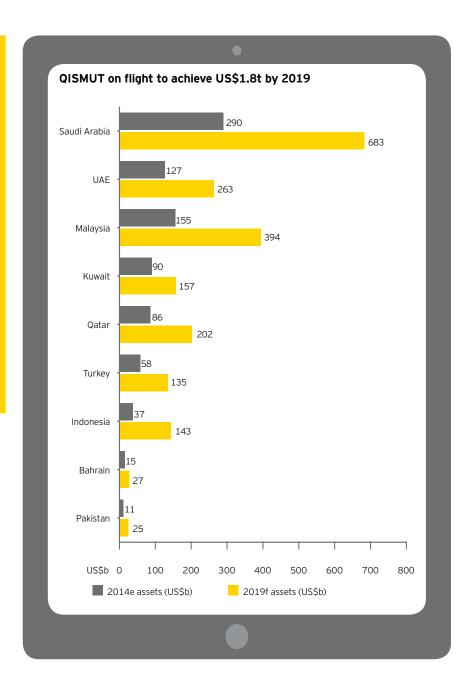
World Islamic Banking Competitiveness Report 2014-15

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Industry in 2019 a potential scenario

QISMUT Participation banking assets are set to touch US\$753b in 2014. Expect a CAGR of 19% through 2014-19, with total assets reaching US\$1.8t across these six markets.

Key driving markets will continue to be Saudi Arabia and Malaysia, with Turkey and Indonesia also establishing themselves as populous Participation banking centers.



Sources: Central banks, IMF, BMI, EY analysis

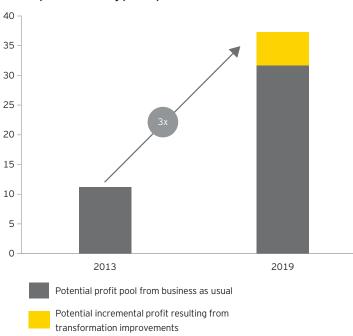
Participation banking profit pool across QISMUT estimated at US\$10.2b in 2013

By 2019, Participation banking profit pool would reach US\$36.9b, out of which US\$35.1b is expected to come from the QISMUT markets.

The industry is expected to strengthen with the emergence of several medium-sized players and with at least five additional banks crossing the US\$10b mark in shareholders equity.

With increasing market size and greater propensity for the adoption of technology-based, customer-centric solutions, the industry can be expected to further reduce its profitability gap with respect to conventional.

Participation banking profit pool





Sources: Central banks, IMF, BMI, EY analysis

Top initiatives at leading Participation banks

Participation banking is gearing up to target a wider customer base in direct competition with conventional peers and is evolving toward technology-based, service-driven value propositions.

Digitization

Transformation programs are underway at a number of leading regional Participation banks to address the ongoing shift from a cash to digital payment economy for the greater share of wallet. Opportunities exist for expanding the range of products and capturing a greater share of transactions, as well as improving the customer experience to drive adoption, usage and retention.











Your talking customers

Moment of truth for Participation banks

Today's financial services customers demand the companies they do business with to listen, respond and offer solutions through social media. Outside of the financial services industry, consumers already are connecting with many of their preferred brands via social media. For banks, simply establishing a presence on social media is no longer sufficient – consumers increasingly expect banks to deliver faster and more effective service and customized financial advice through these channels.

As part of this initiative, EY has attempted to understand how well Participation banks are addressing the needs and expectations of their customers. We took a deeper look at how social media is being adopted within the banking sector as a whole by monitoring and analyzing a record 2.2 million (plus) customer sentiments on their experiences of banking with select Participation banks. Nine key markets were

covered, including Saudi Arabia, Bahrain, Malaysia, UAE, Kuwait, Qatar, Oman, Turkey and Indonesia. The Crimson Hexagon, a leading customer analytics tool, was used to track customer voices in English and other regional and local languages.

The lessons are uniquely valuable. We have leading experts on social media and banking, sharing their experiences and insights into how banks are taking advantage of social and collaborative platforms. We have also identified six key steps to ensure your transformation is "experience led". You are welcome to connect with our teams to understand more specifically, your bank's online presence in comparison with peers, and how you can identify quick operational wins and transformational initiatives to exceed customer expectations.



More than

2.25 million

comments were tracked and analyzed on social media across 9 markets



Half of the banks surveyed did not have a Twitter account and only 1 in 18 banks offered full customer engagement on social media.



Negative perception online for passive Participation banks



Key message

It is not about establishing a digital presence. It is more about enabling experiences centered around customer's lifestyle, relationships and connections. Participation banks are at a watershed moment in their digitization journey. Reputations are being enhanced or are declining, depending on how these banks are engaging with customers.

	Relevant posts (000)	Products and services	Customer service	Branch experience	Online and phone banking	Other general sentiments
Malaysia	212	•				•
Saudi Arabia	523		•			
Bahrain	22		•		•	
UAE	44				•	
Qatar	25		•			
Kuwait	184		•		•	
Oman	47			•		
Turkey	905		•	•		
Indonesia	375	•			•	•

Note: Bubble size represents size of comments in category for the country.

- Negative comments outnumber positive comments for category by more than 5%.
- Variance between positive and negative comments is less than 5%.
- Positive comments outnumber negative comments for category by more than 5%.

Moment of truth

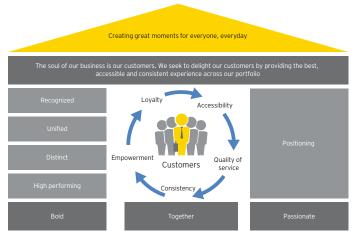
Results show great anticipation among users for digital Participation banking. We also noted initial exuberance on the launch of new services and products, but in many instances this was frequently followed by general disappointment as banks failed to live up to customers' service expectations.

With the knowledge of customer patterns, you can anticipate their needs and accelerate behaviors that you want to encourage.
Transformation needs to be "experience-led".

Six steps to become experience led ...

1

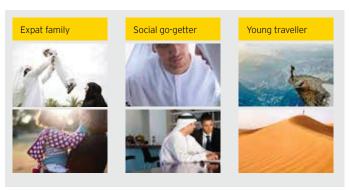
Purpose and ambition



Take a fresh look at business goals, keeping in mind the banking customers of tomorrow

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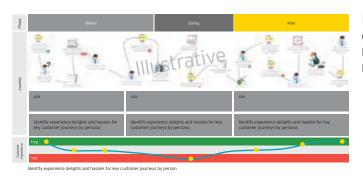
Personas



Bring users to life with rich insights on your customers' experiences, journeys and pain points

3

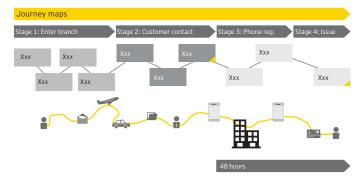
Hassles and delights



Identify experience delights and hassles for key customer journeys by persona

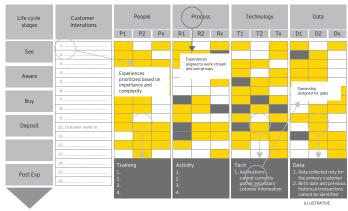
... to help bridge the performance gap

Intentional journey maps



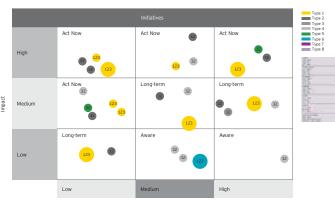
Create journey maps to communicate future experience and identify areas for improvement

Capability needs and gaps



Build future-state, multichannel customer experience across talent, process, data, tools and technology

Experience calculator and road map



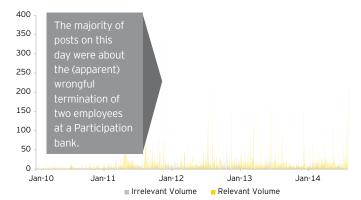
Prioritize initiatives on the basis of their value to customer and complexity to implement

Customer experience Bahrain





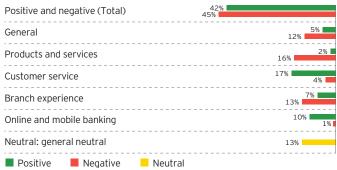
Total post and relevant post - daily volume



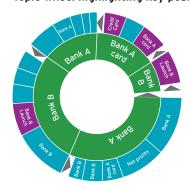
Customers who spoke appear to have mixed emotions on their Participation banking experience in Bahrain, and they are keen on digital banking offering.

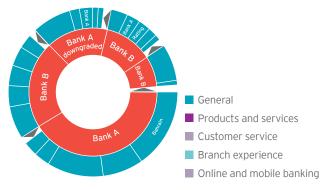
Overall, the sentiments are in balance and require close monitoring across key elements of brand advocacy, product offering and branch experience.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- More than one third positive sentiments relate to customer service.
- One in four positive sentiments are on online and mobile banking.
- One in three negative sentiments is on products and services, related charges and complaint handling.

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Call to action

Changing the *status quo* is critical to profitability. A fresh retail banking experience would attract sizeable majority of customers to switch banks.

Regulatory intervention in product design can help to protect consumers.



Abid Shakeel Executive Director

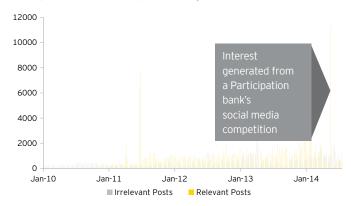


Customer experience Malaysia





Total post and relevant post - daily volume

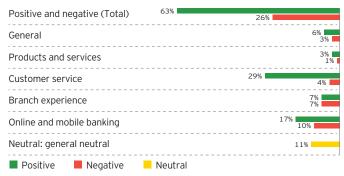


There is a general positive response on the state of the Participation banking industry. It is good to see customers voting positively on service experience.

However, the attempt to move customers away from branches (to digital) is not going so smooth for some banks.

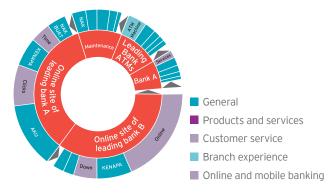
Participation banks should not waste their money by being selectively digital. Customers are asking for more on digital.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- Approximately, 50% of positive sentiments are on customer service.
- The jury is still out on customer experience relating to banking across channels.
- Bank performance varies significantly on mobile and online offerings.

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Call to action

Invest in analytics to personalize user experience. Use information to smartly break down operational silos.

Enable customers to continue processes across channels.

Use channel strengths intelligently.



Mohd Husin
Executive Director

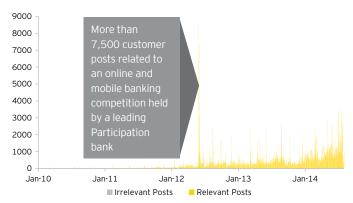


Customer experience Saudi Arabia





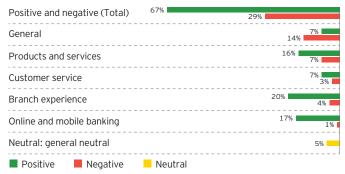
Total post and relevant post - daily volume



Saudi retail banking customers like the fact that some banks are investing to improve the branch experience. The fact that much of retail banking in Saudi Arabia is Sharia compliant is taken well. There appears to be a healthy take-up of digital banking on offer, and there is anticipation for more.

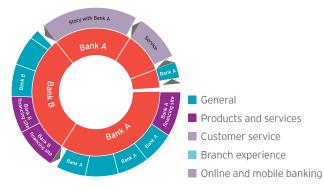
But Participation banks fall short on the quality of service they provide. The same is true for complaint handling and after-sale service.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- Branch experience represent one in three positive sentiments.
- One in four positive sentiments expressed is about the introduction of online and mobile banking services.
- 50% of negative sentiments were on the general experience of dealing with Participation banks.

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Call to action

Decide on shifting the expenditure from running the bank to developing the bank.

Map out and learn from your customer's journey, and then apply these learnings.

Be comprehensive in digital adaptation.



Ashar Nazim
Partner – Global Islamic Banking Center

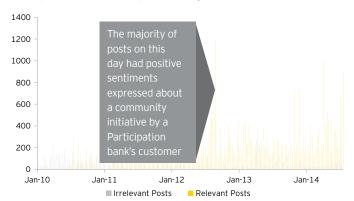


Customer experience UAE





Total post and relevant post - daily volume

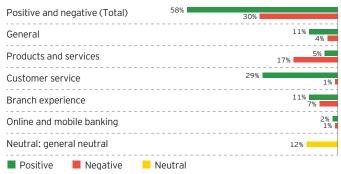


UAE banking customers, who expressed their views, like the service they get from their Participation banks. Good reviews from these loyal customers further accentuate Participation banking.

However, branch experience received mixed feedback and so did online and phone banking.

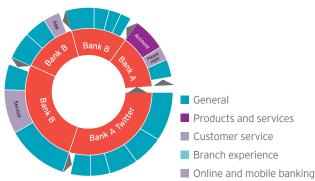
Importantly, UAE customers appeared more demanding on new product launches and disappointed with post-launch/after-sales service.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

One in two positive sentiments mentioned is on complaint handling/customer service.

One in five positive sentiments relate to positive branch experience. However this is partially neutralized with the sizeable count of negative experiences.

Half of the negative sentiments are about disappointing experience with product and service offering.

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Call to action

Time is right for analytics – build rich insights into customers' delights and pain points, and break operational silos.

Challenge your channel capabilities.

Regulatory intervention on product design can help to protect consumers.



Karan Ran Manager



Customer experience Qatar





Total post and relevant post - daily volume

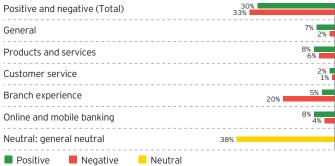


Most customers appear to have mixed emotions about their experience of dealing with Qatari Participation banks. This leads us to believe that they could swing between Participation banks or even return to conventional, if offered a more rewarding experience.

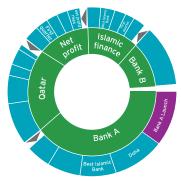
Social banking does not appear to be a trend yet.

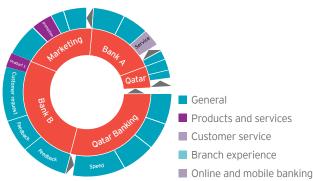
Branch experience is the most talked about on social media.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

One in four positive customer experience is on introduction of online and mobile banking, but is partially offset by one in eight negative sentiments.

One in four positive sentiments relates to introduction of new products. This is partially neutralized with one in five negative sentiments on post launch experience.

Majority of negative sentiments is on disappointing branch experience.

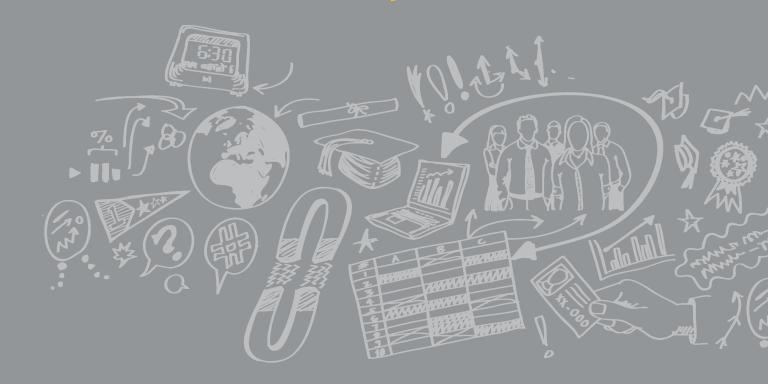
Call to action

Consolidate your wins. Invest in developing your customer insights. Transforming customer interface is critical.

Redesign branch working model to minimize customer wait time. Digitize simpler transactions.



Houssam Itan

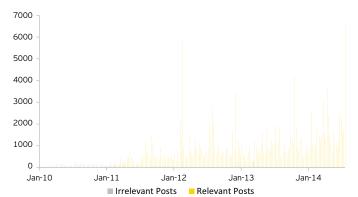


Customer experience Kuwait





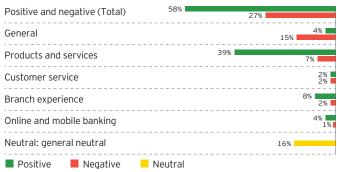
Total post and relevant post - daily volume



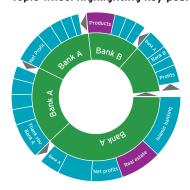
Kuwaiti banking customers are relatively active on social media. They appear quite receptive to Sharia-compliant products and services.

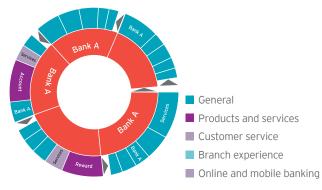
Given the competitive domestic market, the opportunity is to target the unhappily banked segment (27%) and those with a neutral view of their banking experience (16%).

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- Two third of positive sentiments are on the availability of Shariacompliant products and services.
- One in seven positive sentiments is on branch experience (specifically, opening of new branches).
- General sentiments reflect that sizeable customer pool would consider switching for better experience.

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Call to action

Challenge the *status quo*. Provide a banking experience that is built around the connections and relationships that matter to the customer.

Empower customers to personalize and define the products they choose.



Maged Fanous
Partner

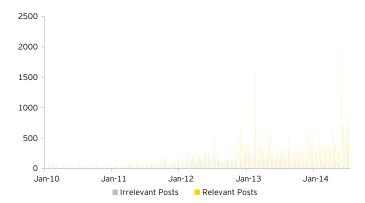


Customer experience Oman





Total post and relevant post – daily volume

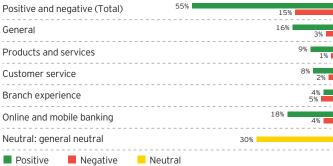


There is a positive response to the introduction of Participation banking in Oman. Customers are familiarizing themselves and engaging with Participation banks through different channels.

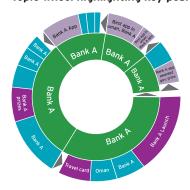
But a sizeable 30% of customers who spoke have reserved their judgment. Test for Participation banks would be if they can keep these customers engaged beyond the initial exuberance.

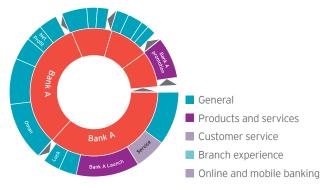
An early worry is the mediocre branch experience.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- One in three positive sentiments is about online and mobile banking.
- One in four positive sentiments is on the general upbeat views on the Participation banking experience.
- One in three negative sentiments is on customers' branch experience.

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Call to action

Customers' perception of brands change over time. Understand and analyze these patterns to accelerate behaviors you want to encourage.

Challenge and transform branch working model.

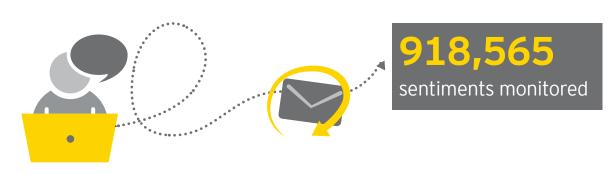


Noman Mubashir Manager

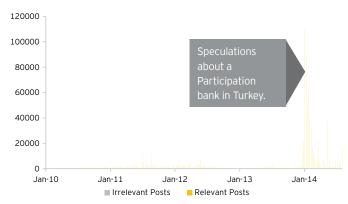


Customer experience Turkey





Total post and relevant post - daily volume

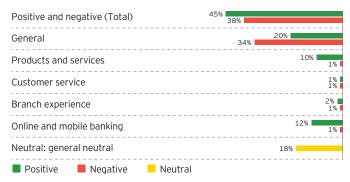


Battle is on for brand advocacy in Turkey as Participation banks progressively gain market share. Customer loyalty will be the differentiator.

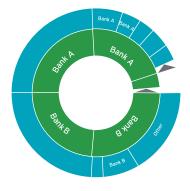
The introduction of Participation banking services and products has been well received, although banks are struggling to keep pace with pent-up demand.

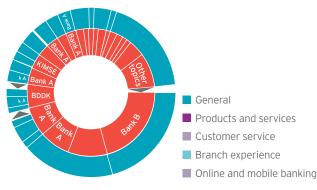
Customers are showing great propensity for digital offering. Social banking could be next.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- More than one-fifth of positive sentiments are on the products and services experience.
- Approximately, one-fourth of positive sentiments are on online and mobile banking experience.
- Almost half of the positive sentiments are on customers' trust in Participation banking.
 This is largely neutralized with the majority of negative sentiments.

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Call to action

Provide a banking experience that is built around the connections and relationships that matter to the customer.

Encourage customers to submit ideas, and reward and communicate the best ideas.

Introduce social banking.



Murat Hatipoglu Executive Director

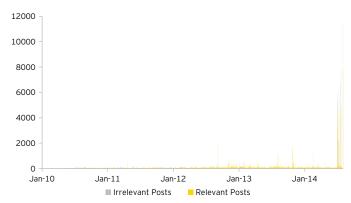


Customer experience Indonesia





Total post and relevant post - daily volume

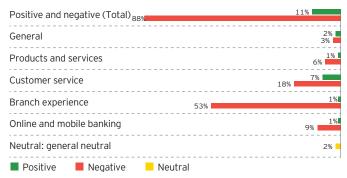


Customers do not look too happy. But these are Shariasensitive customers, the "captive segment," and will stay loyal to the industry.

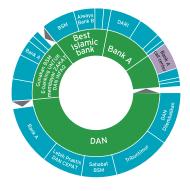
Branch experience, customer service, product design and availability are all at the very basic level. But with super-growth and decent profitability, where is the incentive for banks to respond?

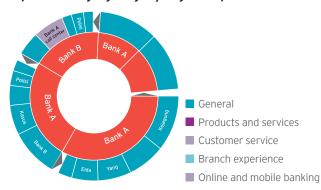
Clearly, Participation banking is a "quick win" opportunity for windows of global banks as well as new entrants to differentiate by replicating their international offering.

Positive and negative opinion breakdown



Topic wheel highlighting key positive opinions*





^{*} Topic wheel was generated for a sample data pool of 5,000 posts.

- There are some positive sentiments on the introduction of new products, but general disappointment with after-sales service.
- 20% of negative sentiments relate to customer service.
- More than half of the overall sentiments relate to disappointing branch experience.

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Call to action

Regulators to consider a more hands-on approach for consumer protection.

Take the opportunity to redefine the face of Participation banking through improved customer interface, specially at branches.



Yasir Yasi Partner







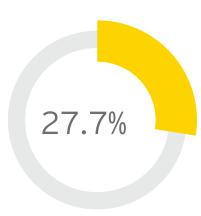
Country outlook

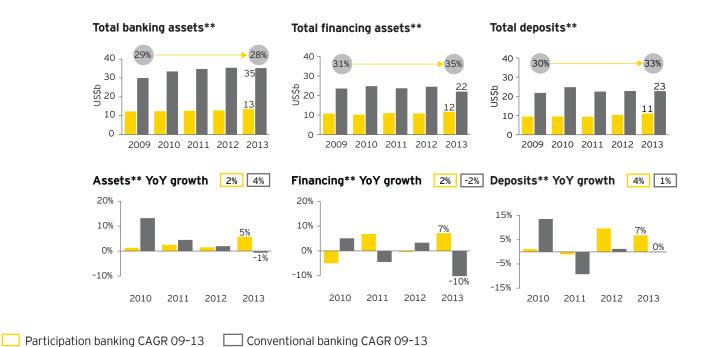
Bahrain

- Unlike populous Participation banking markets, Bahrain is differentiated for its role in connecting emerging markets. It continues to rank high in Corporate Governance Index and the regulatory track record helps maintain investor confidence.
- As Participation finance goes mainstream in Bahrain and other financial markets, the opportunity is to drive industry evolution in mobile payments and emerging trade corridors.
- Approximately one-third of financing and deposits are now Sharia compliant. Profitability of Participation banks is also stabilizing.

Participation banking penetration in Bahrain

The industry is stabilizing at the current level.





Participation banking

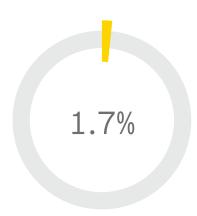
Sources:

Central banks, company financial reports, EY Universe, EY analysis of selective banks

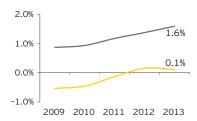
Conventional banking

**Domestic data used to the extent possible

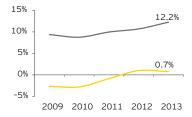
x% Participation banking share



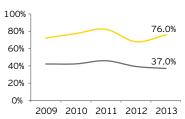
Return on assets



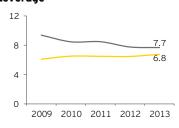
Return on equity



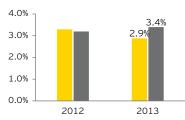
Cost to income ratio



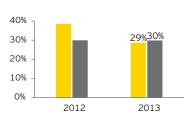
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

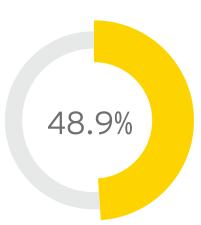
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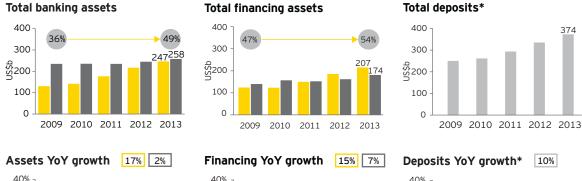
Saudi Arabia

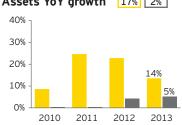
A strong demand from customers, both retail and corporate, has led to significant growth in Participation banking resulting in 54% of all financing being Sharia compliant in 2013. Overall, the size of Participation banking assets has nearly doubled during 2009-13.

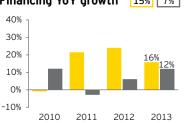
Participation banking penetration in the Saudi Arabia

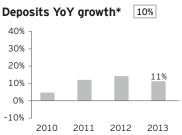
Participation banking is fast becoming the dominant financial system in the Kingdom, and 2019 may see as much as 70% of the industry being Sharia compliant.







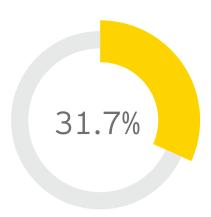




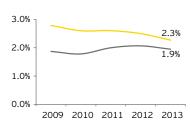


Sources:

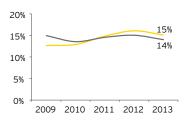
Central banks, company financial reports, EY Universe, EY analysis of selective banks *Saudi Arabia deposits are for the entire banking sector as the split is not available.



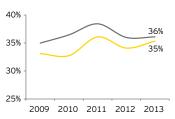
Return on assets



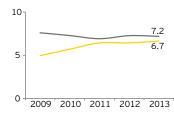
Return on equity



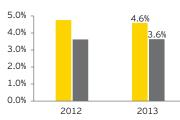
Cost to income ratio



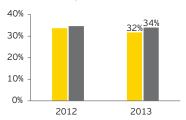
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

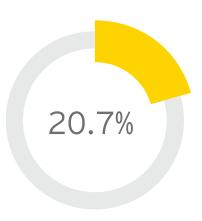
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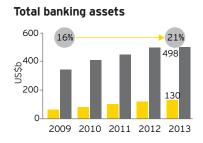
Malaysia Malaysia

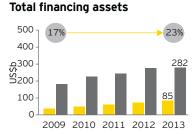
- Bolstered by meaningful legislative reforms, the next step for Malaysian Participation banks is to get internationalized. Participation subsidiaries also need to be empowered.
- Participation banking deposits crossed US\$100b for the first time. However, mainstreaming of the industry requires a relook at the subsidiary operating model and customer engagement.

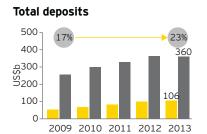
Participation banking penetration in Malaysia

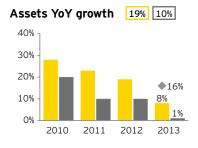
Participation banking is still growing approximately two times faster than conventional counterparts.

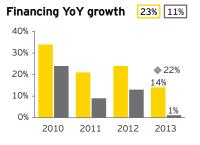


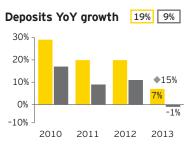












Participation banking CAGR 09-13 Conventional banking CAGR 09-13

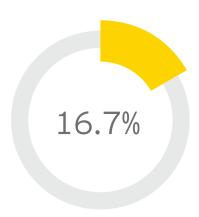
M Participation banking share Conventional banking

Participation banking

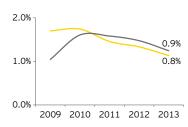
x% Local currency growth

Sources:

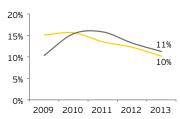
Central banks, company financial reports, EY Universe, EY analysis of selective banks



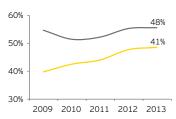
Return on assets



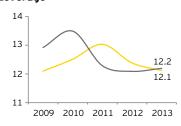
Return on equity



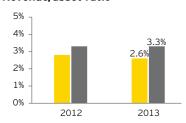
Cost to income ratio



Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

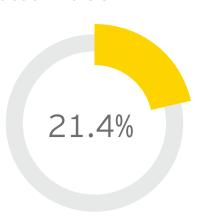
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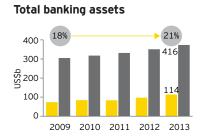


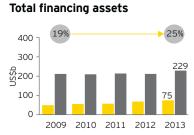
- UAE Participation banks are eyeing revenue growth through experience-led transformation of their domestic business. Stronger capital position is also driving international expansion. Initiatives in mobile payments is likely to cause positive disruption to banks' traditional operating model.
- Sharia-compliant assets crossed US\$100b milestone for the first time. Pressure is on efficiency as more Participation banks attempt to go mainstream.

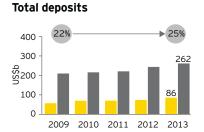
Participation banking penetration in the UAE

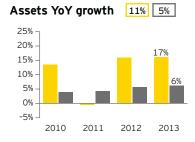
Participation banking is growing at more than twice the rate as compared to conventional.

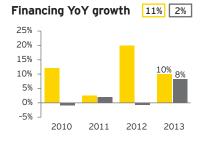


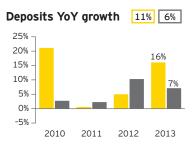












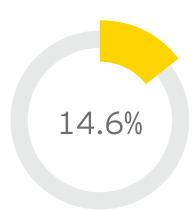
Participation banking CAGR 09-13 Conventional banking CAGR 09-13

M Participation banking share Conventional banking

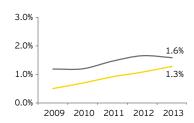
Participation banking

Sources:

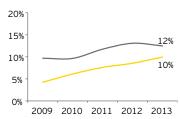
Central banks, company financial reports, EY Universe, EY analysis of selective banks



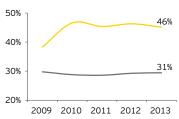
Return on assets



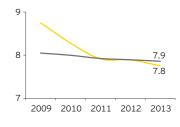
Return on equity



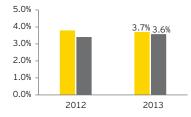
Cost to income ratio



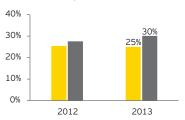
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

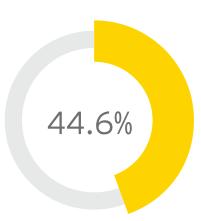
Sources:

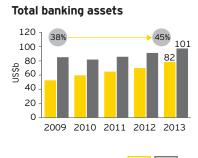


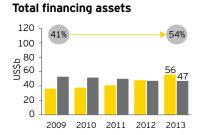
- A resurgent banking sector has seen major leadership shake-up at Participation banks and mainstreaming of Sharia-compliant banking means that Participation banks are challenged to demonstrate value-add beyond the "Islamic" label. This may sound basic, but improvements in technology deployment could deliver significant performance improvement.
- It is an impressive comeback by the Participation banks after a few difficult years. Sharia-compliant financing now accounts for a 54% market share.

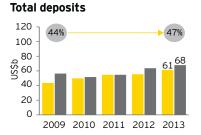
Participation banking penetration in Kuwait

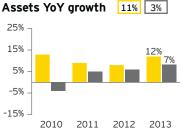
Participation banks command a 45% market share and are growing by more than three times their conventional peers.

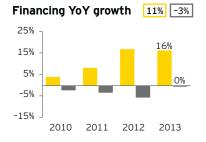


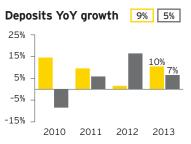










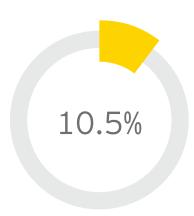


Participation banking CAGR 09-13 Conventional banking CAGR 09-13

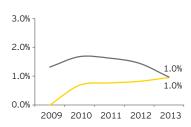
Participation banking share Conventional banking Participation banking

Sources:

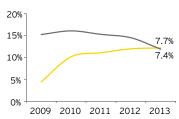
Central banks, company financial reports, EY Universe, EY analysis of selective banks



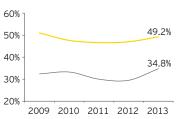
Return on assets



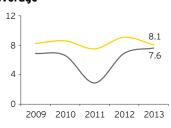
Return on equity



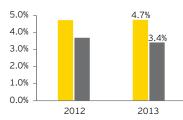
Cost to income ratio



Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

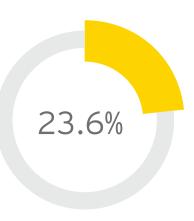
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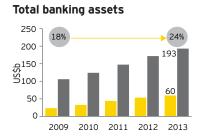


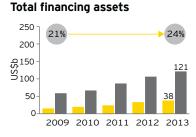
- Sovereign support and favorable economic environment provides for a strong business platform. However, analysts believe that transforming from the status quo is critical to sustainable growth.
- One-fourth of the banking system in Qatar has transitioned to being Sharia compliant. The jury is still out on how scalable is the current operational infrastructure and if 15%-20% growth rate is sustainable for Participation banks

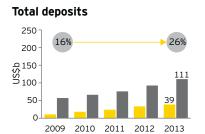
Participation banking penetration in Qatar

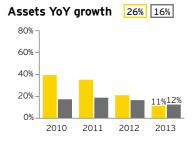
Participation banks in Qatar are mainstreaming, with potentially 34% market share by 2018 (2013:24%).

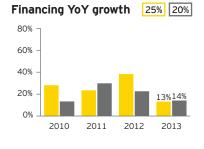


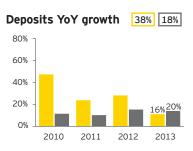










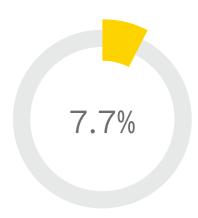


Participation banking CAGR 09-13 Conventional banking CAGR 09-13

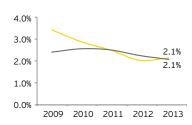
*** Participation banking share Conventional banking Participation banking

Sources:

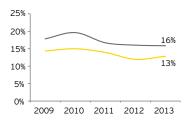
Central banks, company financial reports, EY Universe, EY analysis of selective banks



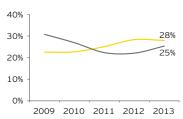
Return on assets



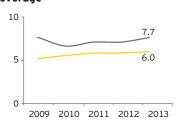
Return on equity



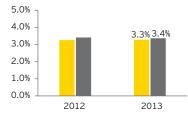
Cost to income ratio



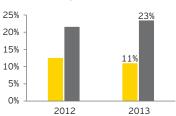
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

Sources:

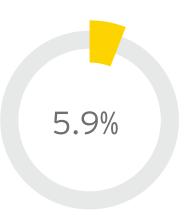


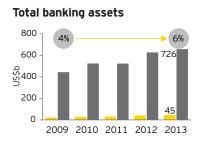
Turkey

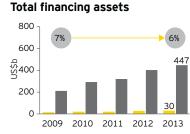
- The tremendous opportunity is only held back by a limited supply of Participation banking solutions. This may soon get addressed with the launch of two additional Participation banks. Pent-up demand for takaful, wealth management and pension schemes cannot be ignored as well. However, prerequisites are meaningful regulatory reforms.
- Sharia-compliant assets worth U\$\$45b have doubled over last five years. Yet an opportunity exists for super-growth play; prerequisite for which is regulatory clarity, a non-ordinary channels strategy and a well-thought-out customer engagement plan.

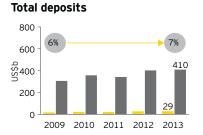
Participation banking penetration in Turkey

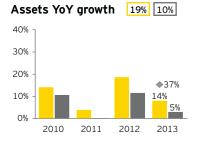
Turkey is aspiring to build a 15% market share by 2023. This would imply an industry size of US\$180b.

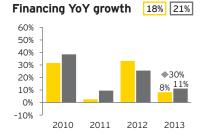


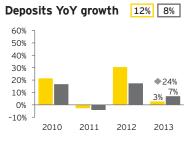








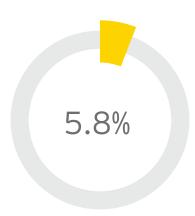




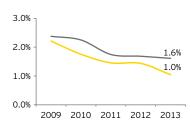
- Participation banking CAGR 09-13
- Conventional banking CAGR 09-13
- x% Participation banking share
- Conventional banking
- Participation banking
- x% Local currency growth

Sources:

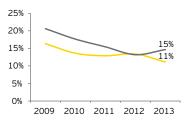
Central banks, company financial reports, EY Universe, EY analysis of selective banks



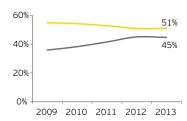
Return on assets



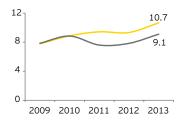
Return on equity



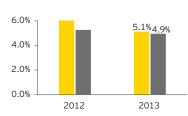
Cost to income ratio



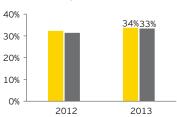
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

Sources:

Indonesia

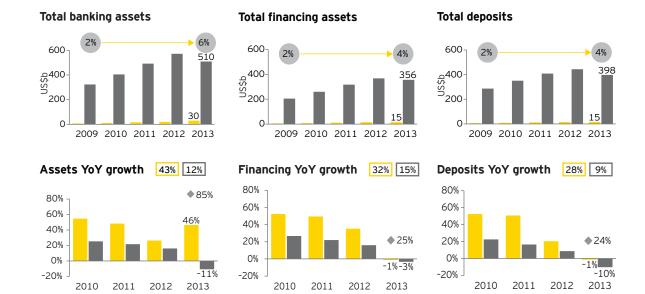
- Huge pent-up demand (in a market of 250 million people) has led Participation banks to switch to a rather basic play and still enjoy super-normal growth. Subsidiary model limits the attention they attract from board of directors.
- The practical impact of the current level of market penetration is that there is a mismatch between the efforts needed to drive the industry to the next stage of development, and time and resources that regulatory authorities can realistically allocate to Participation banks.
- Industry posted a 43% CAGR (in US\$) for the period 2009-13. In local currency terms, this is even higher. Focus remains more on building scale and acquiring market share and less on profitability, at the moment.

Participation banking penetration in Indonesia

Participation banking sector is currently in its infancy but growing at super-normal speed.



Local currency growth



Participation banking

Conventional banking CAGR 09-13

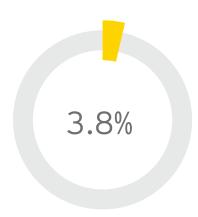
Conventional banking

Sources:

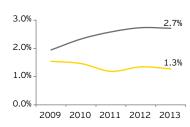
Central banks, company financial reports, EY Universe, EY analysis of selective banks

Participation banking CAGR 09-13

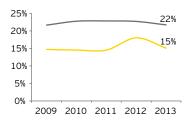
x% Participation banking share



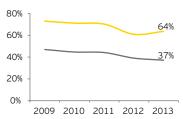
Return on assets



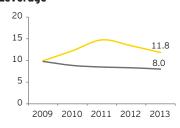
Return on equity



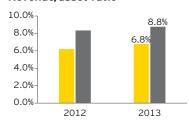
Cost to income ratio



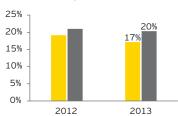
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

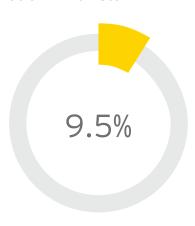
Sources:



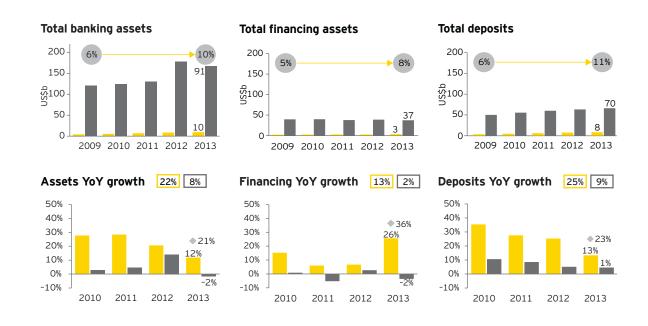
- We are seeing a re-energized Participation finance industry in Pakistan. The central bank has launched a five-year plan that includes legislative changes, product innovation and instructions to market participants. Leading conventional banks are also planning significant transformation in Shariacompliant space, encouraged by strong demand and successful pilot over the last decade. Of course a healthy talent pool helps and appears visible at both domestic and international levels.
- Participation finance assets and deposit are growing at a consistently high CAGR, despite geopolitical conditions. Banks are implementing significant expansion plans to achieve economies of scale and new entrants will further raise the industry's profile.

Participation banking penetration in Pakistan

The Participation banking sector holds around 10% of the total banking system assets and is aspiring to reach 15%.



Local currency growth



Participation banking

Conventional banking CAGR 09-13

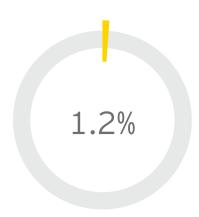
Conventional banking

Sources:

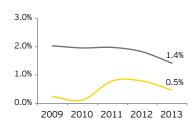
Central banks, company financial reports, EY Universe, EY analysis of selective banks

Participation banking CAGR 09-13

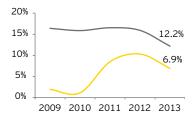
x% Participation banking share



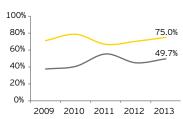
Return on assets



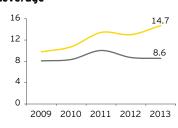
Return on equity



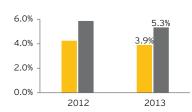
Cost to income ratio



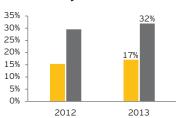
Leverage



Revenue/asset ratio



Non-financing income ratio



Conventional banking

Participation banking

Sources:

References and acknowledgments

Our industry awards



Euromoney Islamic Banking Award



8th International Takaful Summit 2014



20th Annual World Islamic Banking Conference Awards, Bahrain



1st Annual Global Islamic Economy Summit, Dubai



10th international Real Estate Finance Summit Awards – London



3rd International Takaful Summit, London



World Islamic Banking Awards, Bahrain



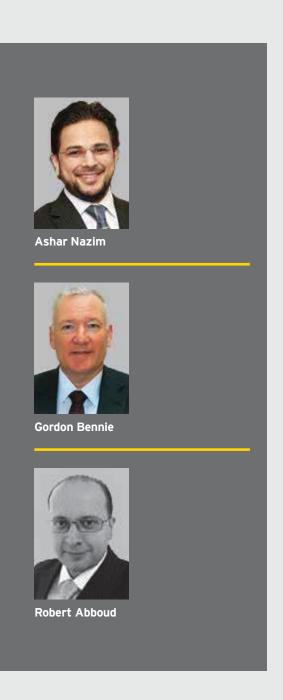
World Islamic Banking Awards, Bahrain

Report methodology and tools

- Global Participation banking assets are estimated based on publicly available data from 16 Participation banking markets.
- The research and insights are primarily based on EY Participation Banking Universe (EY Universe), which is proprietary, based on sample and is not meant to be fully exhaustive.
- The EY Universe analysis covers 70 Participation banks and 44 conventional banks across Participation banking markets.
- ► For the purpose of this report, the analysis excludes the Iran market because of its unique characteristics.
- ► EY Universe covers approximately 80% of the estimated international Participation banking assets (excluding Iran market).
- Insights are also based on interviews with banking executives and industry observers, to identify key trends, risks and priorities.
- Limited disclosures on Participation banking windows, subsidiary operation and offshore businesses were the limiting factors.
- ► The EY Universe is categorized as follows:
 - QISMUT Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey
 - GCC Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE
 - ASEAN Malaysia and Indonesia
 - SOUTH ASIA Pakistan and Bangladesh
 - ► Turkey and rest of the world Egypt, Jordan, Turkey, South Africa, Sudan, etc.

- ► The breakdown of banks for each country is as given below:
 - ► Qatar 3 Participation and 3 conventional banks
 - ► Indonesia 6 Participation and 4 conventional banks
 - ► Saudi Arabia 4 Participation and 5 conventional banks
 - ► Malaysia 13 Participation and 4 conventional banks
 - ► UAE 8 Participation and 4 conventional banks
 - Turkey 4 Participation and 5 conventional banks
 - ► Bahrain 7 Participation and 4 conventional banks
 - ► Kuwait 4 Participation and 3 conventional banks
 - ► Pakistan 5 Participation and 3 conventional banks
 - ► Bangladesh 5 Participation and 2 conventional banks
 - ► Egypt 2 Participation and 4 conventional banks
 - ► Jordan 2 Participation and 3 conventional banks
 - ► South Africa 1 Participation bank
 - ► Sudan 2 Participation banks
 - ► UK 3 Participation banks
 - ► Brunei 1 Participation bank

Our leadership team







Nader Rahimi (Bahrain)



Imitiaz Ibrahim (Qatar)



Abid Shakeel (Saudi Arabia)



Nida Raza (Dubai)



Muzammil Kasbati Noman Mubashir (Bahrain)



(Bahrain)



Karan Rana (Dubai)



Wajih Ahmed (Bahrain)



Sarvesh Ramachandran (Dubai)



Adnan Setaih (Bahrain)



Umair Yousaf (Bahrain)



Houssam Itani (Qatar)



Murat Hatipoglu (Turkey)



Mohd Husin (Malaysia)



Ken Eglinton (UK)



Merisha Kassie (South Africa)



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