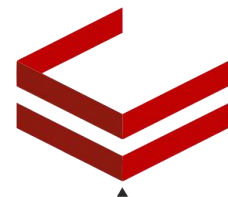




*Development of Non-Interest Capital Market:
The Journey so far*



LOTUS CAPITAL
HALAL INVESTMENTS

Outline

1.

Snapshot of Non-interest Finance in Nigeria

2.

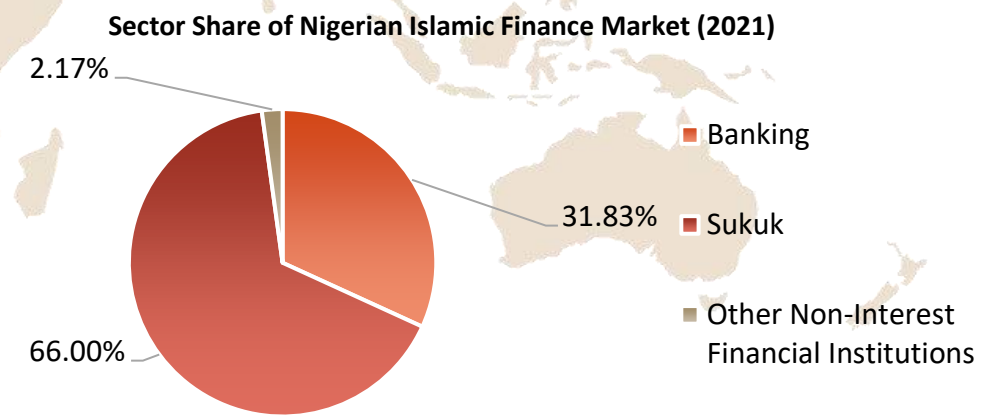
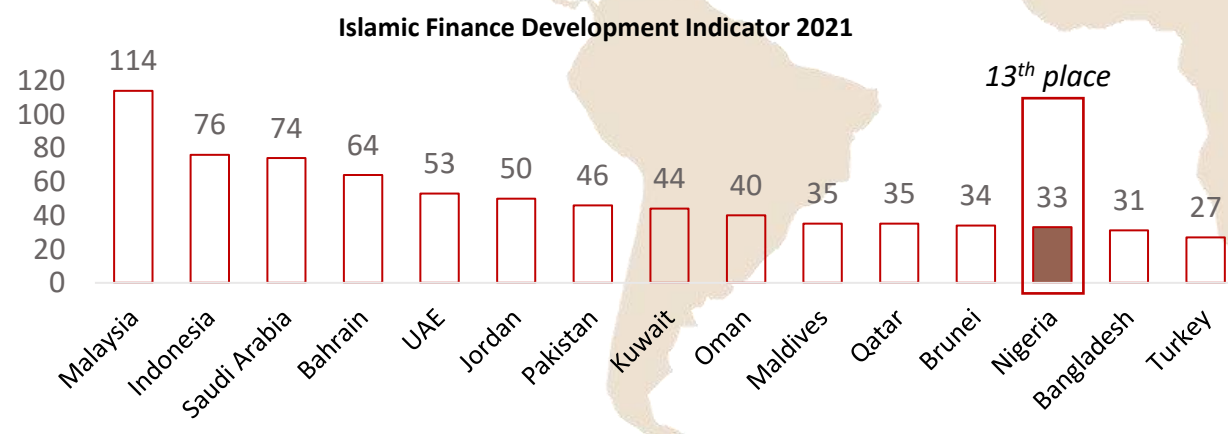
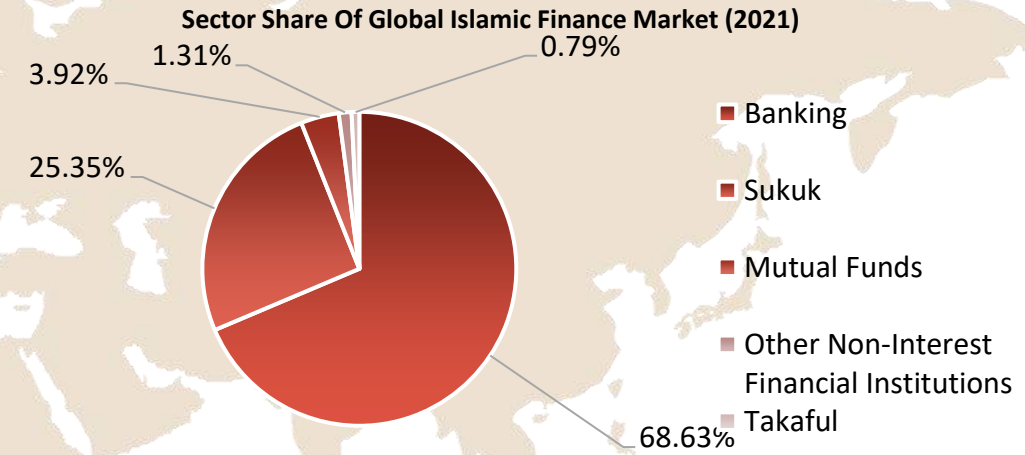
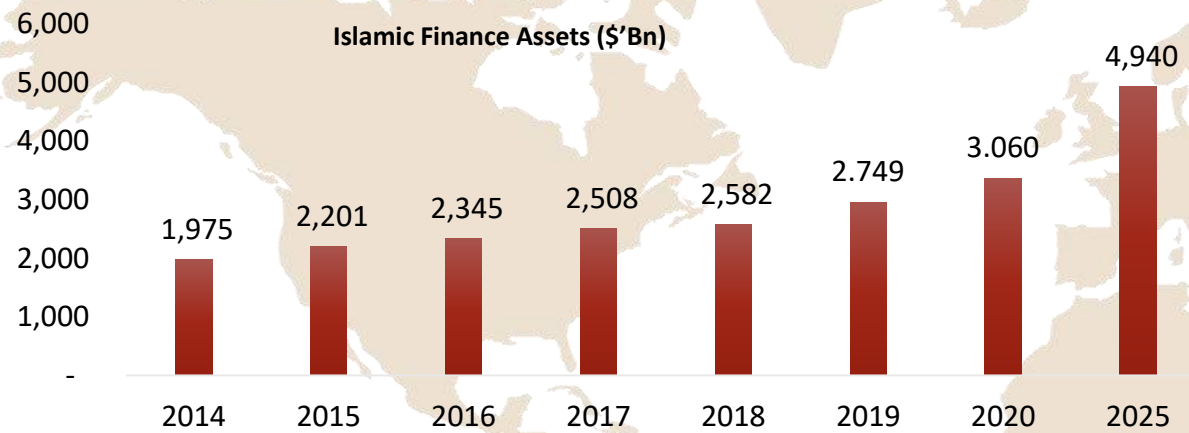
The Journey so far: Developments and Achievements of Non-interest Finance

3.

Non-interest Finance in the Mortgage Sector

1. Snapshot of Non-Interest Finance

The global non-interest finance industry is expected to exceed \$4.94trn by 2025 – an average growth of 8% yearly with a heavy concentration in banking, similar to conventional finance (*IFDI, 2021*). The Nigerian non-interest finance market is valued at \$2.30billion at the end of 2021, ranking 13th on the Islamic Finance Development Indicator. Nigeria’s non-interest Finance Market significantly lags behind peers, representing just 0.075% of the global Islamic Financial market which was valued at \$3.06trillion at the end of 2021.



Source: IFDI (2021), IFSI SR (2022)

1.
Snapshot of Non-Interest Finance

- The Nigerian Non-Interest Finance market valued at \$2.3 Billion represents just about 0.52% of Nigerian 2021 GDP. Nevertheless, the Nigerian non-interest finance market is coming of age with participants operating in most segments of the financial market. The market has demonstrated that it can support significant financial intermediation in various segments of the economy including Commodities.

5
Banking

There are currently three full-fledged non-interest banks and two conventional banks operating non-interest windows

4
Insurance

Takaful (non-interest insurance) firms operating in Nigeria are four at the moment. NAICOM indicates that some more are seeking licensing

Nigerian Gross Domestic Product:

USD440.8 Billion

NBS (2021)

Nigerian Finance Sector:

USD13.2 Billion

NBS (2021)

Nigerian Islamic Finance Industry:

USD2.3 Billion

Fitch Ratings (2021)

Sukuk

Sukuk issuance by the DMO in excess of N612 billion has set the stage for further issuances by other entities including corporates

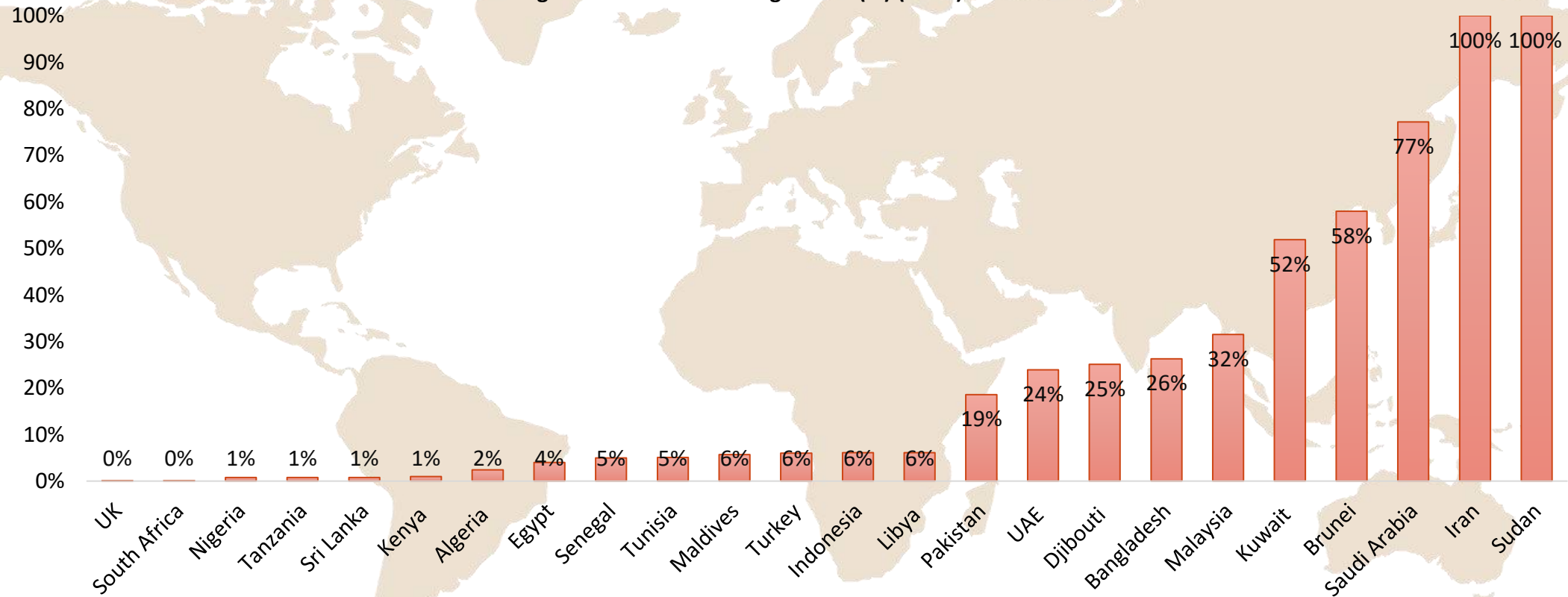
Asset Management
10

There are 10 SEC-registered mutual funds, up from 5 a year ago.

Pension Funds

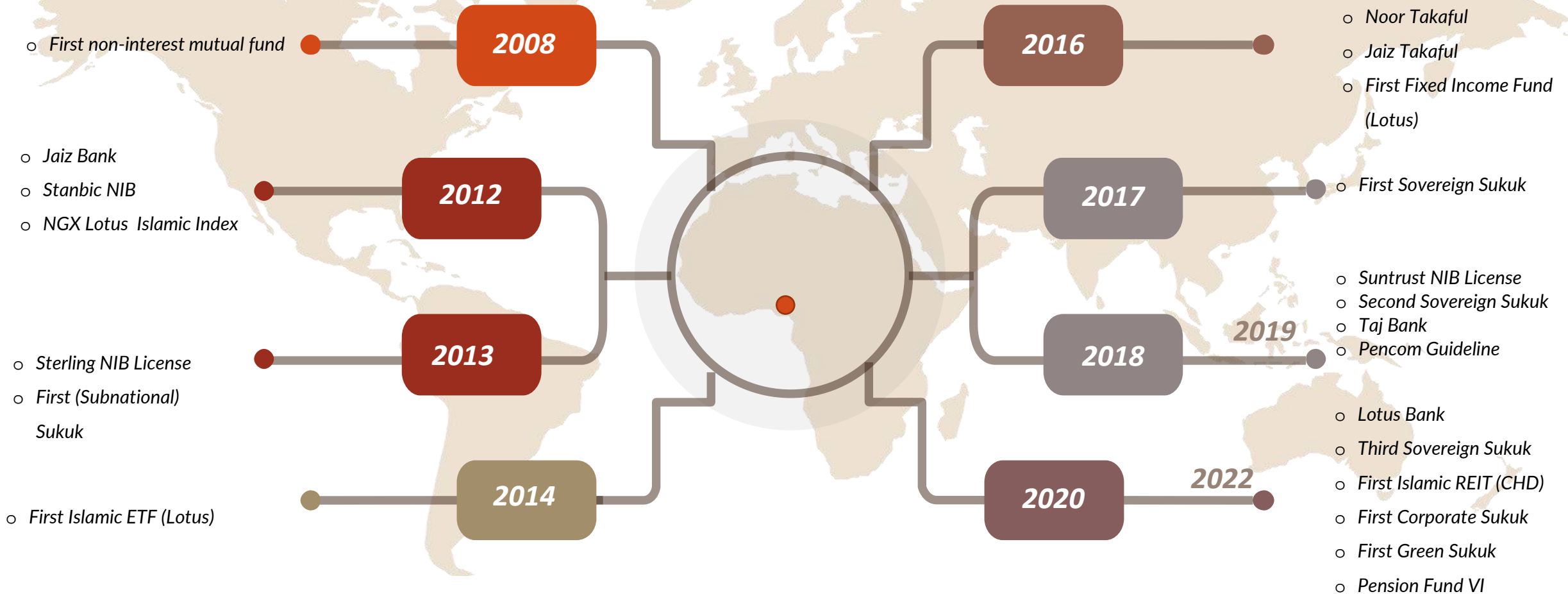
Since the operationalization of Fund VI, some of the largest PFAs have actively commenced investing in non-interest instruments in their dedicated portfolios

- Nigeria's Islamic Banking Assets – valued at USD732million – as a share of Total Banking Assets is estimated at just 1%, the same level as Sri Lanka and Tanzania. This is relatively low compared to others like Bangladesh: 26.30%, Pakistan: 18.60%, Libya: 6.10%, Senegal: 5.00%, Egypt: 4.00%, Kenya: 1.00% etc.

Islamic Banking Share in Total Banking Assets (%) (2021)


Source: IFSI SR (2022)

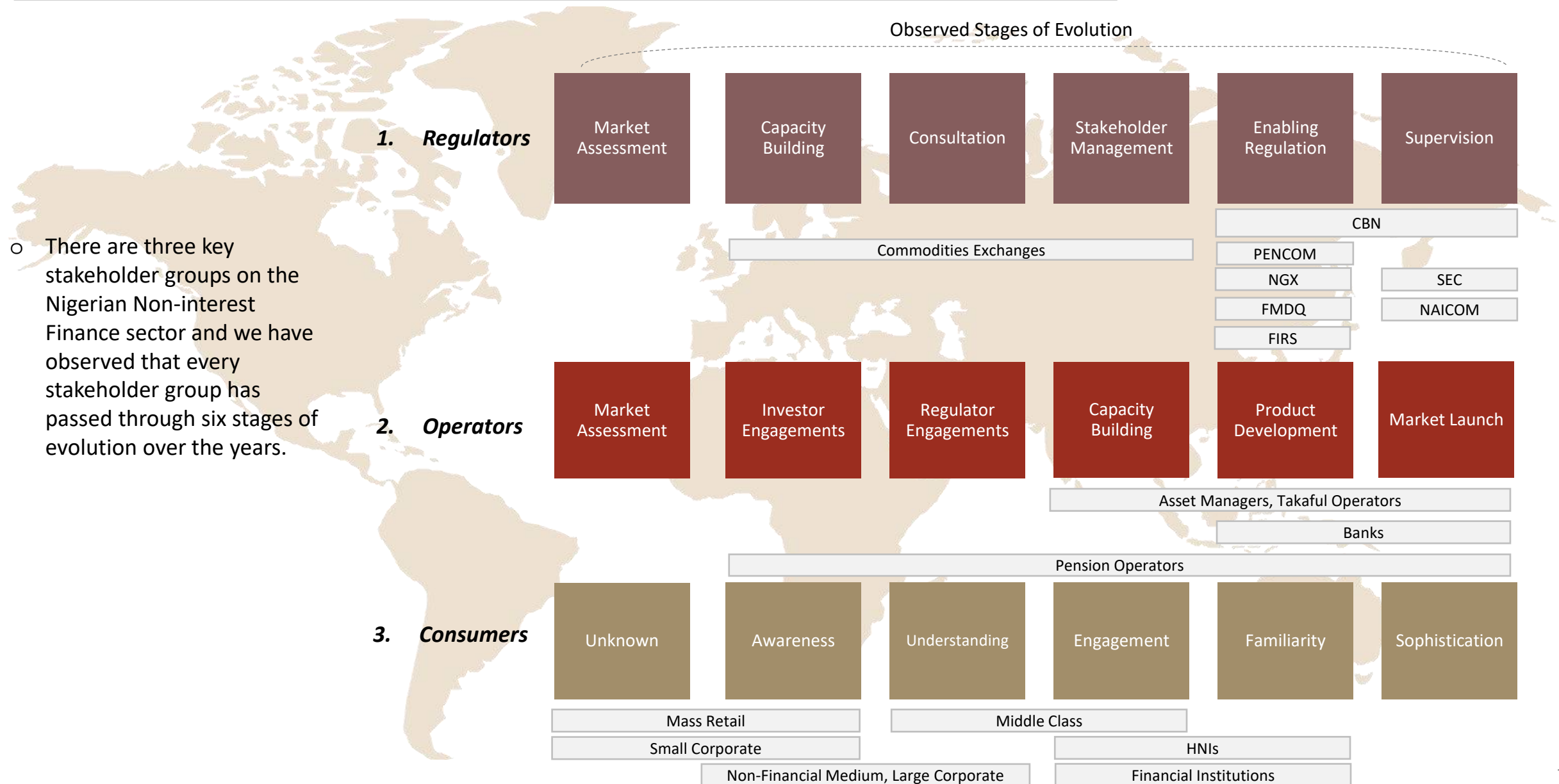
- For over a decade, the non-interest finance industry in Nigeria has grown from strength to strength supported by good demand, increased awareness, capacity building and regulatory support.



Since 2017, the Federal Government has raised N612 billion Sukuk for road construction and is going for more!



The Federal Debt Management Office has issued Sukuk four times to fund the construction and rehabilitation of highways across the country



- Without timely regulatory guidance and frameworks, the success recorded in non-interest Finance would have been limited.

SEC Non-interest Capital Market Master Plan

CBN Banking Regulations, ACEs and FRACE

Capital Market Regulations

Takaful Guidelines

Pension Regulations

Tax Clarifications

Secondary Market Rules (NGX and FMDQ)

Non Interest Finance Institutions Association (NIFIAN)

Across the world, Non-interest finance has contributed to deepening the real estate Sector

Nakheel issued Sukuk for Palm Jumeria, Dubai

Nakheel Development Limited is one of the largest real estate developers in Dubai and has issued a series of Sukuk for real estate projects on the basis of Ijara



- Due to the asset-backed nature of non-interest finance transactions, the sector has decent exposure to the real estate sector. This can be harnessed to resolve some of the challenges in mortgage penetration; and consumers' disinterest in commercial financing opportunities due to faith-based concerns on interest.



Source: BOI (2022), Lotus Capital Research (2022)

- Non-interest finance instruments have been deployed globally by Governments and Corporates to finance construction projects and asset/property – acquisition. Among many other instruments, Ijarah Sukuk contracts stand out.

Issuer Name	Amount	Structure	Sukuk Assets/uses	Issue Date
Family Homes Funds Limited	N10 billion	Ijarah	Development of affordable homes for low-income earners	06-Jul-21
Jubail Island	AED500 million	Ijarah	Construction of 453 villas and 133 townhouses in Phase I development of Jubail Island	25-Apr-22
The Republic of Senegal	XOF 330 billion	Ijarah	Acquisition of administrative office buildings	08-Jun-22
GFH and Big Sky Medical	\$200 million	Murabaha	Purchase of 13 medical office buildings and healthcare facilities across 7 states in the US	28-Jul-22
Bangladesh Export Import Company	BDT 30 billion	Istisna'a	Construction of Solar projects as well as financing expansion	31-Aug-21

- Non-interest finance contracts can be used to develop;

Islamic mortgages for faith conscious home buyers

Islamic financing for property development

Partnerships between NIFI and mortgage institutions for liquidity management to build corporate resilience

Source: Lotus Research

Family Homes Funds Limited has raised successive Sukuk to enhance home ownership in Nigeria



The Family Homes Fund Sukuk is the first SEC-registered Corporate Sukuk



*Continuous **COLLABORATION** between regulators and market participants is needed for Non-interest Finance to continue to record great strides.*

Thank You!