

		Value	MoM	QoQ	YoY	
		8/25/16	7/25/16	5/25/16	8/25/15	
Pakistan Set to Become New Islamic Finance Heavyweight	2	<b>Equity</b>				
		Dow Jones Islamic Index	2979.52	▲ 1.33%	▲ 5.03%	▲ 13.39%
		Dow Jones Global Index	323.57	▲ 1.74%	▲ 4.53%	▲ 9.90%
Indonesia Launches Master Plan to Breathe New Life into Islamic Finance Sector	2	MSCI Islamic Index	1159.83	▲ 1.35%	▲ 4.79%	▲ 12.11%
		MSCI World Index	1731.17	▲ 1.60%	▲ 3.73%	▲ 9.30%
		MSCI Emerging Market Index	896.75	▲ 3.18%	▲ 12.14%	▲ 13.72%
		<b>Fixed Income</b>				
Rise in Malaysia's Islamic Banking Assets	3	LIBOR 6 Month	1.2290	▲ 0.169	▲ 0.253	▲ 0.706
		<i>Murabaha</i> USD 6 Month	0.8870	▼ -0.087	▲ 0.054	▲ 0.379
		Dow Jones <i>Sukuk</i> Index	104.90	▲ 1.17%	▲ 2.32%	▲ 2.86%
		Bloomberg Emerging Market Bond Index	160.02	▲ 1.68%	▲ 6.62%	▲ 13.36%
		<b>Insurance</b>				
		Bloomberg <i>Takaful</i> Index	125.21	▼ -4.32%	▼ -3.99%	▼ -1.75%
Bangladeshi Islamic Banks Increase Profitability and Investments but Excess Liquidity Remains an Issue	3					
Malaysian Banks get Broader Access to Indonesia's Fragmented Market	4					
JPMorgan Adds <i>Sukuk</i> to Emerging Markets Indices	4					
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\* Bloomberg

## Pakistan Set to Become New Islamic Finance Heavyweight

Islamic finance is expected to take off in Pakistan in the coming years due to new regulations on Shariah-compliant banking, newly launched industry-supporting regulatory bodies, as well as rising demand from foreign investors and the large unbanked Muslim population, experts suggest.



Photo Credit: insidefinancialmarkets.com

According to the Global Islamic Finance Report, growth of Islamic banking in Pakistan has been at a cumulated 30% in the last five years, which is above the average global growth rate of Islamic banking and finance. If this trend continues, it can be expected that by 2017, Islamic banking assets in the country reach a value of \$17.6bn, the report suggests.

This trend is supported by the strategy of the State Bank of Pakistan which seeks to double the number of Islamic banking branches from currently about 1,200 in coming years and to increase the market share of Shariah-compliant banking to at least 15% from currently 10% before the end of the decade.

Among the central bank's actions were the introduction of the Shariah Governance Framework

for Islamic Banking last year, which clarifies the roles and responsibilities of various units of Islamic banking institutions such as the board of directors, the executive management, the Shariah board and the Shariah compliance department. The central bank also announced the launch of a centre of excellence to groom highly-skilled staff the Islamic finance industry needs.

The Securities and Exchange Commission of Pakistan, set up a unit called Islamic Finance Department that regulates and oversees this Islamic capital market sector. The department's support in product development and promotion of market awareness has helped reorganizing the Islamic capital market and has been a boost for Islamic finance service providers, Islamic finance products and market instruments.

Microfinance has also experienced rapid growth in the recent past as scores of Pakistani households are turning to microfinance institutions providing interest-free loans based on Islamic law, with the majority of clients of microfinancing solutions being women.

**Source:** [Gulf Times](#)

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## Indonesia Launches Master Plan to Breathe New Life into Islamic Finance Sector

The Indonesian government has launched a national master plan to develop its Islamic finance industry, the latest effort aimed at awakening what is still a niche sector in the world's most populous Muslim country.

Islamic finance was introduced in Southeast Asia's largest economy more than two decades ago but it has managed only modest gains in the country of 250 million, despite multiple regulatory efforts and grassroots initiatives.

Indonesian Islamic banks hold roughly 5 percent of total banking assets, compared with more than 20 percent in neighboring Malaysia and about a third of total banking assets in several Gulf countries.

The government aims to drive its planned breakthrough via a range of initiatives, from mobilizing Islamic charitable funds to modernizing investments made by Indonesia's pilgrims' fund.

The initiatives include a government policy to increase use of Islamic bonds, or *Sukuk*, by issuing debt instruments related to infrastructure development, agriculture and education.

Under the policy, the government would increase its use of Islamic debt instruments to as much as 50 percent of total issuance in 10 years time.

Indonesia's pilgrims' fund would also see the establishment of a dedicated asset management arm to implement a more rigorous investment policy and attract external fund managers.

An additional layer of more complex measures, such as the merger of several state-owned Islamic banks, could help raise that figure to 30 percent

**Source:** [Reuters](#)



Photo Credit: dailytimes.com

## Rise in Malaysia's Islamic Banking Assets



Islamic banking assets in Malaysia now stand at more than a quarter, or 27 per cent, of the total banking system, surpassing the targeted 20 per cent under Bank Negara Malaysia's financial sector master plan.

According to the central bank, the country's Islamic finance industry has grown to become a key segment in the financial system.

According to a recent Thomson Reuters report on Islamic finance assets, Malaysia, Saudi Arabia and Iran hold almost 65 per cent of global Islamic assets last year.

However, the *Sukuk* market has been struggling in the past couple of years due to the global economic

uncertainty, which had caused lack of new players.

The *Sukuk* market dropped to US\$66 billion last year compared with US\$101.8 billion in 2014, a performance that was not anticipated by market players after ending 2014 on a strong note.

Bank Negara would form a steering committee made up of representatives from the industry and academia to undertake a review and strategic positioning of Islamic finance education and research organisations.

**Source:** [Salaam Gateway](#)

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## Bangladeshi Islamic Banks Increase Profitability and Investments but Excess Liquidity Remains an Issue

The Islamic banking industry of Bangladesh is registering double-digit yearly growth rates despite the lack of comprehensive dedicated Shariah banking legislation; however, it is not expanding as fast as the central bank would like.

“Despite the continuous growth of Islamic banking in the country, a large portion of the population remains unbanked, thus the full potential of the budding industry has not only to be unlocked but also the numbers of rural branches of fully-fledged Islamic banks have not increased as per expectation, and the activities of Islamic banking branches/windows as well are also not being expanded to the reach of the rural people,” noted Bangladesh Bank (BB) in its latest Shariah banking quarterly report.

Over one-fifth of total banking assets in Bangladesh is Shariah compliant – a commendable market share taking into consideration the limiting regulatory landscape. The eight fully-fledged Islamic banks and 16 conventional lenders offering Shariah compliant products on a branch and window basis captured

13.15% more deposits in the January-March 2016 period at US\$20.67 billion while increasing their Shariah investments by 17.9% year-on-year to US\$18.56 billion.

While the market share is relatively impressive, there are still gaps to be met and room for potential growth such as Shariah compliant micro-finance and SME financing.

The development of Islamic banking in Bangladesh for the most part has been pushed by market players; however to truly move forward, there needs to be a concerted drive from both participants and regulators. “As Shariah is the backbone of the Islamic banking industry, a comprehensive Islamic legal infrastructure with clear ground and commitment is necessary to help expedite [the] Islamic financial industry to spur as it intended for ensuring human welfare,” concluded BB.

**Source:** [IFN](#)



Photo Credit: [islamicbanker.biz](#)

## Malaysian Banks get Broader Access to Indonesia's Fragmented Market

The relaxed rules of the past relating to foreign acquisition were tightened, with the maximum ownership allowed for foreign bank acquirers set at 40 percent, but with an exemption for acquirers who bought two banks and merged them. Without the exemption, banks that did not already own a subsidiary in Indonesia faced an uphill battle to make the economics work because of how minority stakes are treated under Basel III capital requirements.

But some of these uncertainties will be overcome at least for Malaysia-based banks under a new agreement signed by Bank Negara Malaysia and Indonesia's banking regulator, the OJK. The agreement, which is part of the financial liberalization within the ASEAN region, allows three banks from each country to be treated like local banks in the other market.

The impact of the agreement is likely to facilitate somewhat faster growth in the Islamic banking

market by allowing institutions with Islamic windows to receive more favorable regulatory treatment.

However, without a change in wider banking regulations and infrastructure, Indonesia will find it difficult to develop its Islamic banking market to become as sophisticated as that of Malaysia. This would require the establishment of a large and liquid secondary market for *sukuk*, regulatory parity between Islamic and conventional banks, and perhaps incentives to make Islamic banking and finance more attractive.

The agreement could also give Malaysian banks a competitive edge by making it relatively more difficult for foreign banks from other countries to operate in Indonesia. For example, GCC-based banks which have acquired Indonesian banks would still be treated differently than the Malaysian banks which get 'local' treatment.

**Source:** [Zawya](#)



Photo Credit: cnbc.com

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## JPMorgan Adds *Sukuk* to Emerging Markets Indices

U.S. investment bank JPMorgan will include Islamic bonds, or *Sukuk*, in its emerging markets indices for the first time from later this year, widening the appeal of Islamic instruments among global debt investors.

JPMorgan, which runs the most widely used benchmarks of emerging market debt, will include eight *sukuk* across its index family starting Oct. 31.

The decision was taken after JPMorgan conducted an annual governance review it said in a research report to clients, and seen by Reuters.

Dollar-denominated *Sukuk* from Turkey, Malaysia and Indonesia will be included in JPMorgan's flagship EMBI Global Diversified index, against which an estimated \$313 billion in assets is benchmarked.

The move could help *Sukuk* break away from their

traditional buy-and-hold investor base.

While the inclusion of *Sukuk* will benefit the sector in the short term, the omissions of some names could also encourage regulators to address persistent weaknesses in the sector.

To be eligible *Sukuk* must be rated, have their liquidity assessed prior to inclusion in the JPMorgan indices and meet other criteria similar to conventional bonds. At the outset, however, not all issuers might meet such requirements.

**Source:** [Reuters](#)



Photo Credit: huffingtonpost.com



## Sri Lanka Issues First Corporate *Sukuk*; Dollar *Sukuk* in the Works

LOLC Finance has beaten the government at issuing *Sukuk*, raising LKR500 million (US\$3.37 million) from the domestic market and setting a precedent for corporate *Sukuk* issuances in the South Asian nation whose Islamic finance development has been held back largely due to the lack of enabling Shariah finance regulations and religious tensions.



Photo Credit: Samaa

Subscribed entirely by the Bank of Ceylon, the three-year *Ijarah* facility – proceeds from which will be used as the company's working capital – was nine months in the making. "As there has never been a *Sukuk* issuance in Sri Lanka, we had the challenge of drafting the agreements and arranging the parties," Krishan Thilakaratne, the general manager of LOLC Finance's Al-Falaah Islamic Business Unit, told IFN. The paper was priced at 11%, 100bps cheaper than conventional facilities. Thilakaratne also revealed that the firm is working on selling a dollar *Sukuk* next year, with the possibility of tapping the domestic market again this year if demand is there.

"We are building a fairly substantial *Ijarah* base and we have the capacity to go [with] a larger issue. Ideally, we would like to get overseas investors buying the paper but there are hurdles to overcome such as foreign exchange rates and what not," said Thilakaratne.

Despite recognizing Shariah compliant banking transactions, Sri Lanka still grapples with the absence of an effective and comprehensive Islamic finance regulatory infrastructure – the lack of documentation standardization and double taxation are some of the issues Islamic financial players have to face.

LOLC Finance circumvented the double taxation issue by backing the paper with mortgages and receivables with an undertaking for transfer, therefore bypassing the complete transfer of assets which would have incurred extra taxation

Source: [IFN](#)

## Islamic Finance Body IILM Auctions First Four-month *Sukuk*

Malaysia-based International Islamic Liquidity Management Corp (IILM) has lengthened maturities in its Islamic bond programme by auctioning \$500 million of four-month *Sukuk*, its first sale of that tenor.

Previously, the IILM has issued three-month and six-month paper, which were introduced to meet a shortage of liquid, investment-grade instruments Islamic banks could trade to manage short-term funding needs.

The IILM sold the four-month *Sukuk* at a profit rate of 1.37389 percent, attracting 17 bids worth a

combined \$1.3 billion, the Malaysian central bank's website showed.

It also sold \$840 million of three-month *Sukuk* at a profit rate of 1.24411 percent, attracting orders of \$1.6 billion via 14 bids. The issues were bought by 11 primary dealer banks.

The IILM, a consortium of central banks from Asia, the Middle East and Africa, began issuing *Sukuk* in 2013 under an issuance programme which permits maturities of up to one year.

Source: [Reuters](#)

## *Sukuk* Issuance in Key Markets Up 11% in H1

*Sukuk* issuance from key markets in H1, 2016 rose 11 percent compared to a year earlier, according to Fitch Ratings' analysis.

*Sukuk* as a proportion of total issuance in the GCC, Malaysia, Indonesia, Turkey and Pakistan were also slightly ahead of the same period a year ago but could not maintain the first quarter's very strong market share due to the return of sovereign issuance of conventional bonds by GCC members in recent months.

Total new *Sukuk* issuance, with maturity of more than 18 months, in these key markets rose to \$21.74 billion in H1, 2016 from \$ 19.54 billion in H1, 2015. Issuance was evenly spread across the first half of the year, with \$11.07 billion in Q1 and \$10.67 billion in Q2.

*Sukuk* represented 30 percent of total issuance in these countries in the first half, up from 28 percent in H1, 2015.

Among other sovereigns that could come to the market are Saudi Arabia and Kuwait, which are considering capital market funding.

*Sukuk* issuance should be supported in the medium to long term by the recent introduction and revamping of *Sukuk* laws in some countries, the growing Islamic finance industry in these countries and increasing sovereign funding needs.

Source: [Zawya](#)



Photo Credit: iilm.com



Photo Credit: report-

### Upcoming Events (Sep-Nov 2016)

International Joint Conference on Islamic Economics and Finance	Turkey, Istanbul	1-3 September	<a href="#">Conference Details</a>
9th IFSB-INCEIF Executive Forum: Promoting Sound and Effective Shari'ah Governance Practices	Malaysia, Kuala Lumpur	5 Oct	<a href="#">Conference Details</a>
11th International Conference on Islamic Economics and Finance (11th ICIEF)	Malaysia, Kuala Lumpur	11-13 October	<a href="#">Conference Details</a>
10th IFSB-INCEIF Executive Forum: Financial Inclusion and Islamic Finance - Aligning Objectives and Methodologies	Malaysia, Kuala Lumpur	16 November	<a href="#">Conference Details</a>

## Description of Data:

**Dow Jones Sukuk Index:** The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari'ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari'ah-compliant fixed-income investments. The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) Indices, which are monitored to ensure their continued adherence to Shari'ah principles.

**Bloomberg USD Emerging Market Composite Bond Index:** The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH. The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

**LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar.** The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

**Dow Jones Islamic Market World Index:** The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

**Dow Jones Global Index:** The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

**MSCI World Islamic Index:** The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

**MSCI World Index:** The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

**MSCI Emerging Markets Index:** The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

**Bloomberg Takaful Index:** Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognised companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009

**Murabaha Deposit Rates:** Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project whereby the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

## Glossary Of Key Terms

<i>Ijara</i>	This is a lease contract wherein the Bank (lessor) leases the property to the customer (lessee) in return for a rental payment for a specified financing period. The Bank promises to transfer the title of the property to the customer at the end of the
<i>Mudaraba</i>	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed.
<i>Murabaha</i>	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
<i>Musharaka</i>	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
<i>Shari'ah Board</i>	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of <i>Shari'ah</i> compliance.
<i>Sukuk</i>	An Islamic financial certificate, similar to a bond in Western finance, that complies with <i>Shari'ah</i> , Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a <i>sukuk</i> sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.
<i>Salam</i>	<i>Salam</i> is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of <i>Salam</i> creates a moral obligation on the <i>Salam</i> seller to deliver the goods. The <i>Salam</i> contract cannot be cancelled once signed.
<i>Takaful</i>	The term ' <i>takaful</i> ' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a <i>takaful</i> arrangement, the participants contribute a sum of money as wholly or partially <i>tabarru'</i> (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the <i>takaful</i> .
<i>Istisna'</i>	<i>Istisna'</i> is the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of <i>istisna'</i> comes into existence. But it is necessary for the validity of <i>istisna'</i> that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.
<i>Wakala</i>	<i>Wakala</i> is the agency contract which is used widely in Islamic Finance. The applications ranging from brokerages services in permissible activities, like certain stocks, as well as to be the agent in a <i>Murabaha</i> transaction. The client, who wants to be financed, acts as agent of the bank to acquire the asset, then sold to him on credit installments. Agents can be compensated for their assignment with a fixed, variable or performance model, which is frequently used to influence pay outs and cash flows in financial engineering.

### Contact Info:

Ayse Nur Aydin  
+90 212-385-3445  
aaydin@worldbank.org