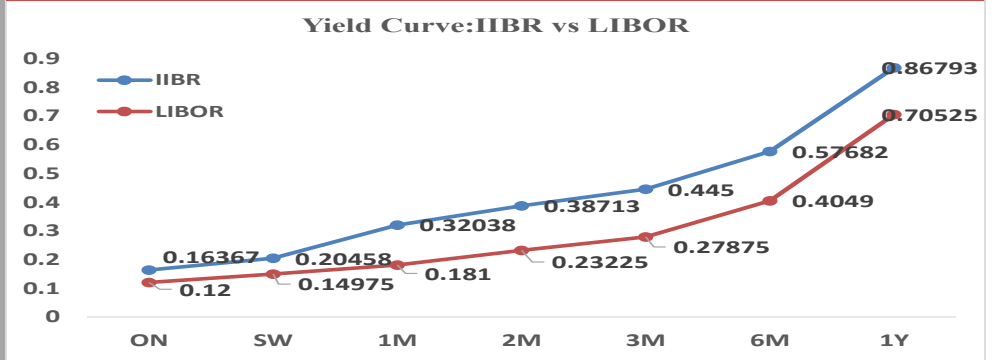


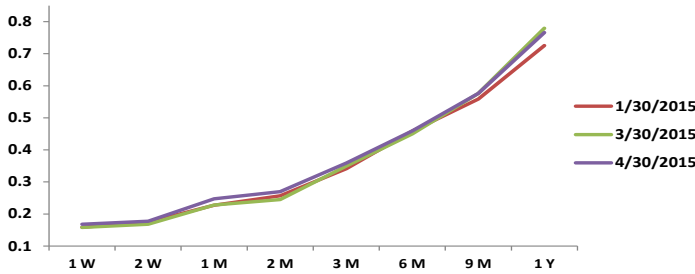
Market Analysis: G20 Initiatives and Islamic Finance	2
IMF: Islamic finance could promote financial stability and inclusive economic growth, but warns it must be implemented better	2
Bahrain launches <i>wakala</i> liquidity tool for Islamic banks	3
Islamic banking industry in KSA set to reach \$683 billion by 2019	3
IFSB adds financial inclusion to Islamic banking's to-do list	3
The Government of Malaysia sold the world's first 30-year sovereign <i>sukuk</i>	4
Khazanah to launch Malaysia's first social impact <i>sukuk</i>	4
IFSB guidance for Islamic banks may spur <i>sukuk</i> issues, deposit insurance	4
Lloyd's of London targets Islamic insurance market	5
Islamic finance body IFSB launches industry indicators	5
The Securities and Exchange Commission of Pakistan (SECP) takes measures for Islamic finance promotion	5
Upcoming Events & Publications	6
Glossary	7

Issue 3, May 2015

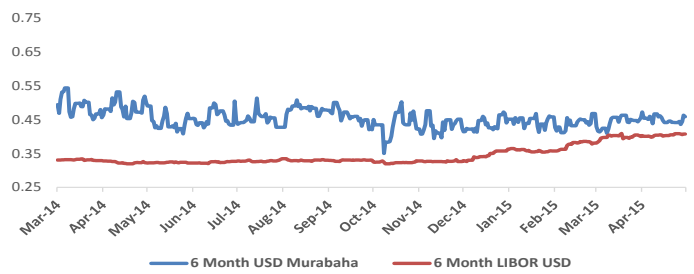
	4/30/2015	3/30/2015	1/30/2015	4/30/2014
	Value	MoM	QoQ	YoY
Equity				
Dow Jones Islamic Index	2983.26	▲ 1.03%	▲ 5.36%	▲ 6.53%
Dow Jones Global Index	336.41	▲ 1.93%	▲ 6.40%	▲ 5.62%
MSCI Islamic Index	1193.48	▲ 1.42%	▲ 4.54%	▲ 1.11%
MSCI World Index	1778.40	▲ 1.20%	▲ 6.01%	▲ 5.37%
MSCI Emerging Market Index	1047.78	▲ 8.14%	▲ 8.96%	▲ 5.27%
Fixed Income				
LIBOR 6 Month	0.4079	▲ 0.005	▲ 0.051	▲ 0.085
<i>Murabaha</i> USD 6 Month	0.4591	▲ 0.009	▲ 0.001	▼ -0.041
Dow Jones <i>Sukuk</i> Index	103.97	▲ 0.14%	▼ -0.63%	▲ 1.67%
Bloomberg Emerging Market Bond Index	146.24	▲ 1.77%	▲ 3.16%	▲ 5.40%
Insurance				
Bloomberg <i>Takaful</i> Index	153.53	▲ 7.79%	▲ 17.59%	▲ 14.69%



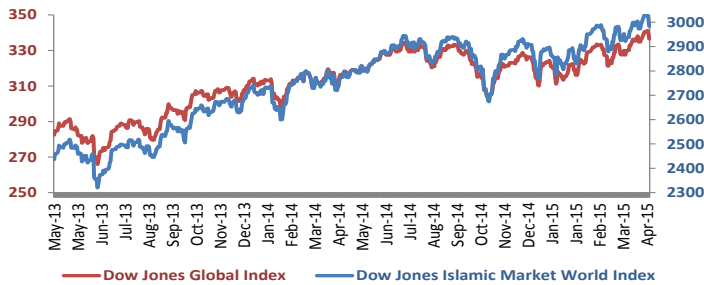
Mark-up *Murabaha* USD Rates



Murabaha Rate vs LIBOR



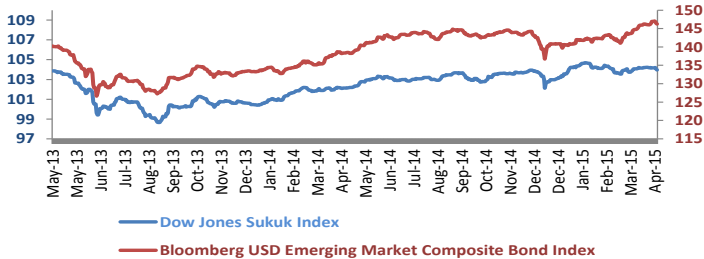
Dow Jones Global vs Dow Jones Islamic Indices



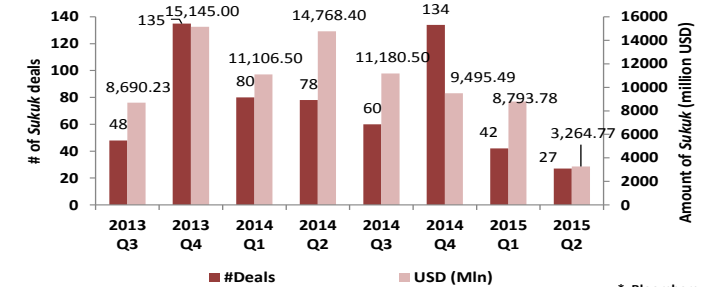
Bloomberg *Takaful* Index



Dow Jones *Sukuk* Index vs Bloomberg Emerging Market Composite Bond Index



Amount and Number of Deals of *Sukuk* Issuances*



* Bloomberg

Market Analysis: G20 Initiatives and Islamic Finance

The Turkish Presidency for G20 is prioritizing stable and sustainable economic development. The objective is to speed up economic growth and enhance the welfare of the society. This is to circumvent the negative externalities and systemic risks of debt driven growth strategies that triggered the recent global financial crisis. Recent literature provided evidence that low growth periods can be induced by excessive debts. Further investigation showed that higher inequality poses systemic risks, specially when proceeds of economic growth are not shared. Addressing these vulnerabilities require a comprehensive strategy that embrace sustainability and stability. This pushed long-term investments, asset based instruments, equity finance and inclusive economic growth strategies are to the forefront on G20's agenda for 2015.

The key pillars for this agenda are very much in line with core tenants of Islamic finance. *Shariah* compliant financial instruments are known to substitute debt based finance and risk shifting with asset-backed financing and risk-sharing. The Asset-backed nature of Islamic finance reflects on real economic activities. Accordingly investments spur growth in the real sector and creates jobs. This mode of financing simultaneously mitigates social and financial risks. It empowers the middle class through offering employment opportunities and prohibits excess monetization of the economy. G20 leaders have shown special interest in asset-based and equity finance especially to mobilize resources towards long term infrastructure

projects. The World Bank Group and IMF are working with various working groups to support pursuing this agenda.

The current G20 agenda also emphasize the importance of equitable sharing of returns of higher growth across all segments of the society. Islamic finance offer many tools for wealth redistribution and hence promote social stability and deepen the gains of growth and development.

The GFMDR's Islamic finance team is playing a pivotal role in supporting the G20's agenda on asset based financing. The team's support includes a wide range of activities that span policy guidance, knowledge sharing and convening services. The team is continuously providing policy advise and background notes on the role of Islamic finance in achieving universal access and financing SME in addition to mobilizing resources for long term financing for infrastructure. The knowledge activities will anchor events on SME financing to discuss "Leveraging Islamic Finance for SME Financing" as well as a high level policy discussion on long term investment for infrastructure to discuss the role of "Sukuk: An Alternative To Finance Infra-structure Investment". The team is also delivering conferences as part of G20 outreach on areas relating to "Islamic finance for SMEs", "Role of Takaful in Enhancing Financial Inclusion" and "Long term Investments and Sukuk".

Contact Info:
 Rasim Mutlu
 +90 212-385-3442
 rmutlu@worldbank.org

IMF: Islamic finance could promote financial stability and inclusive economic growth, but warns it must be implemented better

The International Monetary Fund has endorsed the principles of Islamic finance, saying it could prove safer than conventional finance, but the multilateral lender warned Islamic bankers that they must tighten rules and follow them more consistently.

The IMF's report noted that because Islamic banking forbids pure monetary speculation and stresses that deals should be based on real economic activity, it could pose less risk than conventional banking to the stability of financial systems.

This claim has long been made by proponents of Islamic finance seeking to drum up business; the IMF's endorsement is likely to add weight to their arguments.

"Islamic finance may...help promote macroeconomic and financial stability. The principles of risk-sharing and asset-based financing can help promote better risk management by both financial institutions and their customers, as well as discourage credit booms," the IMF said.

However, the industry could fail to achieve its promise - and even have a destabilizing effect - if it does not design its rules more carefully and implement them more consistently, the report added.

https://www.zawya.com/story/IMF_endorses_Islamic_finance_warns_it_must_be_implemented_better-TR20150407nL6N0X4021X2/

In addition IMF stated that Islamic finance has potential to spur inclusive growth

"Because of the risk-sharing feature of Islamic finance, it is a less risky type of investment, which has potential to increase financial inclusion and spur growth," IMF added.

<http://www.imf.org/external/pubs/ft/survey/so/2015/car041915a.htm>



"Islamic finance may...help promote macroeconomic and financial stability. The principles of risk-sharing and asset-based financing can help promote better risk management by both financial institutions and their customers, as well as discourage credit booms," the IMF said.

Islamic Finance Bulletin

Bahrain launches *wakala* liquidity tool for Islamic banks

The one-week *wakala* contracts, offered to Islamic retail banks every Tuesday, will allow the banks to deposit excess funds with the central bank, which will invest their money in portfolios containing *sukuk*.

The contracts mean Islamic banks can invest liquidity with the central bank in a similar way to conventional banks, Sheikh Salman al-Khalifa, the central bank's executive director for banking operations, said in a statement on Wednesday.

In the past, Islamic banks in Bahrain have focused on managing their short-term liquidity through the

central bank's monthly issues of 91- and 182-day *sukuk*.

Islamic banking has been growing faster than conventional banking in the Gulf, but it has been hampered by the fact that sharia-compliant money markets are not as developed as conventional ones, limiting options and raising costs for banks.

<http://www.reuters.com/article/2015/04/01/bahrain-islam-financing-idUSL6NOWY1SQ20150401>



Bahrain's central bank has launched a new liquidity management tool for Islamic banks, part of efforts by the Gulf Arab economies to put sharia-compliant finance on a level playing field with conventional banking.

Islamic banking industry in KSA set to reach \$683 billion by 2019

Saudi Arabia has been a key market for growth in the Islamic banking industry. The first Islamic bank with equity in excess of \$10 billion is headquartered in Saudi Arabia.

A strong demand from customers, both retail and corporate, has led to significant growth in Islamic banking in Saudi Arabia resulting in 54 percent of all financing being *Shariah*-compliant in 2013. Overall, the size of Islamic banking assets in Saudi Arabia has nearly doubled from 2009-2013.

In the study, EY monitored 567,071 Islamic banking customer sentiments in Saudi Arabia on social

media as part of a wider study, which looked at 2.2 million customer sentiments dispersed across various online sources in nine key markets (Saudi Arabia, Bahrain, Kuwait, the UAE, Malaysia, Indonesia, Turkey, Qatar and Oman).

<http://www.arabnews.com/economy/news/738221>

The Islamic banking industry in Saudi Arabia is set to achieve \$683 billion of Shariah-compliant assets by 2019, according to EY's World Islamic Banking Competitiveness report.

IFSB adds financial inclusion to Islamic banking's to-do list

The Islamic Financial Services Board (IFSB) is adding financial inclusion to the industry's to-do list, launching initiatives aimed at widening the reach of sharia-compliant banking to include poorer people.

After years of rapid growth, Islamic finance is under pressure from some scholars to build stronger credentials for social responsibility. One criticism is that it has neglected farmers, small traders and poor households.

Guidance from the Kuala Lumpur-based IFSB, one of the main standard-setting bodies for Islamic finance globally, could help address this

issue in majority-Muslim countries where less wealthy people have stayed out of the formal banking system for religious reasons, such as Islam's ban on interest payments.

The programme will cover the preparation of new guidelines and policy advice for regulatory authorities, Ahmed said. The IFSB's strategic plan is to be discussed next Sunday at a closed-door meeting in Abu Dhabi.

<http://www.reuters.com/article/2015/04/14/islam-financing-ifsb-idUSL5N0XB03C20150414>



According to a February report by the International Monetary Fund, the share of adults citing religious reasons for not having a bank account is as high as 34 percent in Afghanistan, 26 to 27 percent in Iraq and Tunisia, and 23 to 24 percent in Djibouti and Saudi Arabia.

Islamic Finance Bulletin

The Government of Malaysia sold the world's first 30-year sovereign *sukuk*

The Government of Malaysia sold the world's first 30-year sovereign *sukuk* yesterday and, in the process, shrugged off domestic woes to establish a long-dated benchmark Islamic curve for other sovereigns to follow.

The 30-year was part of a two-tranche offering of US\$1.5bn in Islamic 144A/Reg S bonds to the international markets at a time when 1MDB's M\$41.9bn debt woes threaten to derail the government's bid to rein in its fiscal and budget deficits.

The issue also set a landmark pricing level for

other sovereigns. The sovereign priced inside the outstanding conventional bonds of quasi-sovereign Petronas. This is seen as an outstanding feat as Islamic bonds often price wider than conventional paper and the fact that Petronas is rated a notch higher than the sovereign.

<http://www.reuters.com/article/2015/04/16/asia-bonds-idUSL4N0XD36520150416>



The deal was well distributed among the various investor groups and geographically as well, with the US investors crowding into the 30-year tranche with a 29% share.

Khazanah to launch Malaysia's first social impact *sukuk*

Khazanah Nasional is set to issue Malaysia's first social-impact *sukuk*, in a boost to the country's ambitions as a centre for socially responsible investment.

Local agency Ram Ratings said the M\$1bn (US\$282m) *Sukuk* Ihsan programme, to which it assigned a AAA rating last week, was the first social-impact bond to be rated globally. Proceeds will go towards educational projects.

Socially responsible investment is catching on slowly in Asia, but issuers in South Korea, India and Taiwan have sold so-called Green bonds and interest from investors is growing.

The Asian Development Bank launched its first Green bond in March, raising US\$500m.

Among the projects deemed eligible for the SRI *sukuk* are environmentally friendly ones that promote renewable energy or reduce greenhouse gas emissions, or improve the quality of life for society. Educational projects fall under the community and economic development category.

<http://www.reuters.com/article/2015/04/29/asia-bonds-idUSL4N0XQ2A420150429>

"Although the global SRI market is still nascent, we see tremendous growth potential given Malaysia's leadership in the global Islamic finance market, as well as the increasing global and domestic demand for greater governance and ethical investments," said Ram Ratings CEO Foo Su Yin

IFSB guidance for Islamic banks may spur *sukuk* issues, deposit insurance

The Kuala Lumpur-based Islamic Financial Services Board (IFSB) has released final guidance on liquidity risk management for Islamic banks, which may spur national authorities to issue more *sukuk* and establish *sharia*-compliant deposit insurance schemes.

The guidance note, known as GN-6, clarifies the tools that Islamic banks can use to meet Basel III regulatory requirements, now being phased in for both conventional and *sharia*-compliant banks around the world.

It defines the types of high-quality liquid assets (HQLA) that Islamic banks can hold and the weights that should be assigned to Islamic

deposits, which can be more volatile than conventional ones for various reasons, including the fact that they have relatively short maturities.

HQLA must have low correlation with risky assets, an active secondary market and low volatility. The highest level of HQLA includes *sukuk* (Islamic bonds) issued by sovereigns, multilateral development banks and the Malaysia-based Islamic Liquidity Management Corp.

<http://www.reuters.com/article/2015/04/20/islam-banking-deposits-idUSL5N0X60QV20150420>



"Based on the size of the Islamic finance industry, its composition, and its growth trajectory, we estimate the need for high-quality liquid assets (HQLA) to reach about \$100 billion in the next few years," S&P added.

Islamic Finance Bulletin



Lloyd's of London has set its sights on Islamic insurance, known as *takaful*, to strengthen its push into emerging markets and is in talks with regulators to set up shop in Malaysia.

Lloyd's of London targets Islamic insurance market

Lloyd's of London has set its sights on Islamic insurance, known as *takaful*, to strengthen its push into emerging markets and is in talks with regulators to set up shop in Malaysia.

The plans are part of the venerable London insurance market's strategy to expand in fast-growing regions where insurance penetration remains low.

It has already opened an office in Dubai's financial free zone and is a founding member of the Islamic Insurance Association of London (IIAL) being launched this month in support of efforts to establish Britain as a Western hub for Islamic finance.

"You can see the Dubai launch really as part of that effort to be close to those markets, understand the customers, understand their needs," Vincent Vandendael, director of global markets at Lloyd's, told Reuters.

Takaful is based on the concept of mutuality and follows religious guidelines that can prove challenging in the financial sector because they ban the likes of interest and pure monetary speculation.

<http://www.reuters.com/article/2015/04/19/britain-lloyds-of-london-islamicinsuranc-idUSL5N0XD3QU20150419>

The Islamic Financial Services Board (IFSB) has launched a databank of industry indicators covering 15 member countries, helping shed new light on the size and shape of the sharia-compliant banking sector.

Islamic finance body IFSB launches industry indicators

The Kuala Lumpur-based IFSB, one of the main standard-setting bodies for Islamic finance, is supporting a range of initiatives to improve supervision of the sector as it achieves greater prominence in several Muslim-majority countries.

The 188-member IFSB added financial inclusion to the industry's agenda this month and released final guidance on liquidity management for Islamic banks.

The IFSB collected data directly from regulatory bodies and plans to update figures on a quarterly basis, while adding more countries and sectors, it said in a statement.

For the initial 15 countries, a total of 207 Islamic banking institutions were identified, which held a combined \$1.18 trillion in assets and had 10,711 branches as of 2013.

Country-specific data also provides a rare insight into Islamic banking practices in Saudi Arabia and Afghanistan, where official figures are hard to come by.

https://www.zawya.com/story/islamic_finance_body_IFSB_launches_industry_indicators-TR20150428nL8N0XP016X2/



The Chairman SECP Zafar Hijazi is very keen to work for the growth and promotion of Islamic financial industry and Shariah compliant companies in the country.

The Securities and Exchange Commission of Pakistan (SECP) takes measures for Islamic finance promotion

The Securities and Exchange Commission of Pakistan (SECP) has envisaged a roadmap for restructuring and reorganizing of the Islamic capital market. The initiative aims at the promotion of *Shariah* compliance in the capital market of Pakistan.

The roadmap entails centralisation of the *Shariah* related capital market activities, introduction of uniform *Shariah* Regulation for the *takaful*, modarabas, Islamic mutual funds, Islamic pension funds, Islamic REITs, other Islamic financial

institutions (other than banking), *Shariah* compliant (Non-financial) Companies, Islamic products and instruments.

The Islamic Finance Department in consultation with the Securities Market Division of the SECP is working to introduce an All-Share *Shariah* Compliant Companies' Index at the Karachi Stock Exchange.

<http://nation.com.pk/business/06-Apr-2015/secp-takes-measures-for-islamic-finance-promotion>

Upcoming Events (May-June 2015)

<u>Name</u>	<u>Location</u>	<u>Date</u>
<i>The World Islamic Funds & Financial Markets Conference (WIFFMC)</i> https://www.megaevents.net/islamic_funds/registration_secure.php	Bahrain, Manama	18-19 May
<i>12th Islamic Financial Services Board (IFSB) Summit</i> http://ifsb.org/s12_index.php	Kazakhstan, Almaty	19-21 May
<i>IFSB- FIS Workshop Series (Turkey)</i> http://www.ifsb.org/register_online.php?act=addnew&e_id=245	Turkey, Istanbul	25-26 May
<i>Bonds, Loans & Sukuk Middle East</i> http://www.globalfinancialconferences.com/bonds-loans-middle-east	UAE, Dubai	02-03 Jun
<i>The World Islamic Banking Conference: Asia Summit</i> http://megaevents.net/wibcasia/	Singapore	2-4 Jun
<i>IFN Europe Forum 2015</i> http://redmoneyevents.com/main/event.asp?IFN=Europe2015&	Luxembourg	10 Jun

Recent Publications On Islamic Finance

<u>Name</u>	<u>Link</u>
<i>Is Islamic Banking Good for Growth?</i>	http://www.imf.org/external/pubs/ft/wp/2015/wp1581.pdf
<i>Islamic Finance: Opportunities, Challenges, and Policy Options</i>	http://www.imf.org/external/pubs/ft/sdn/2015/sdn1505.pdf

Islamic Finance Bulletin

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-recognized 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 where by 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

Mudaraba	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.
Murabaha	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
Musharaka	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
Shari'ah Board	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of Shari'ah compliance.
Sukuk	An Islamic financial certificate, similar to a bond in Western finance, that complies with Shari'ah, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a sukuk 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
Takaful	The term 'takaful' 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 takaful arrangement, the participants contribute a sum of money as wholly or partially taburru' (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 takaful.
Wakala	Wakala 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 Murabaha 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.