

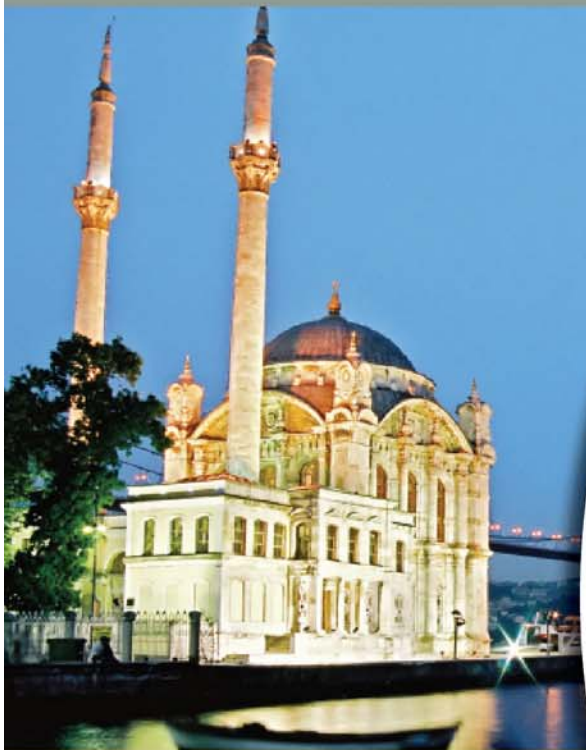
THE INTERNATIONAL



**ISLAMIC FINANCE
FORUM**

New Markets

The Growth Imperative



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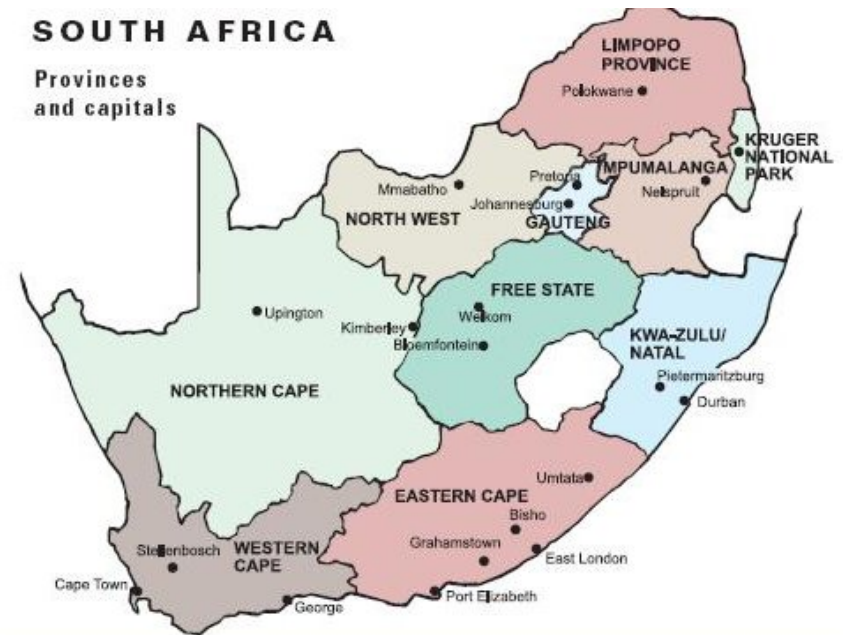
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Agenda

- The South African experience
- South Africa as the driver for Islamic finance
- Expansion into the rest of Africa
- Role of regulators in promoting Islamic finance
- Shariah compliant instruments and its role in developing Africa
- Opportunity for established players in this region



The South African Experience

- Population of over 2 million Muslims – strong affluent market base and significant contributors to the economy
- Growing demand for Islamic finance
- Islamic windows available via ABSA Bank and FirstRand Bank
- International banks offering HNW services via Dubai and London
- Dedicated Islamic banking offered by Albaraka Bank established in 1988
- Growing takafol offering
- Numerous mutual funds
- Limited retail offering
- Focus primarily on the Muslim market
- Very little or no attention on the business and corporate market

South Africa as the driver for Islamic finance

- South Africa matters – engine of growth in the region
- Most regional businesses succeed in SA first and use it as a base to expand
- Largest economy in Africa, world class infrastructure
- 55 locally controlled banks, 12 foreign controlled banks and 5 mutual banks
- Top 20 in the world in the banking sector
- World largest gold and platinum reserves
- Increased investment in infrastructure by government
- Makes Islamic finance an opportunity
- Use of Islamic instruments to support growing demand for funding from government
- Opportunity to use liquidity in the GCC countries to support investment needs and have increased returns

Expansion opportunity in the rest of Africa

- The African continent the 2nd largest Muslim population – 400m people
- Conservatively assuming that banking entrenchment in Africa represents an average 50% of the total GDP produced by African Muslims, the Islamic finance market on the continent is potentially worth close to USD235 billion (*Moody's Investor Services*)
- 37 Islamic financial institutions currently exist in Africa – with transaction size of \$18billion as at 2007 – but potentially worth \$235billion (*Moody's Investor Services*)
- The growing demand for infrastructure and basic services make Islamic finance a natural fit
- A South African base provides increased access to opportunities in Africa

Expansion opportunity in the rest of Africa

- Requires a very different approach to that of say GCC. Taking Islamic products to 400m individuals is very different to a Sovereign backed billion dollar markets supported by 70% of the world's oil reserves.
- Need for Islamic organizations such as AAOIFI to further enhance relationships with banks and regulators to lead to harmonization of framework and consistent roll out in the region
- Banking the unbanked is the biggest prize on the continent - the barrier to this is the literacy level. Islamic Banking being faith based could prove to be the key to unlocking this value
- Middle East investors are understanding the role and opportunity Africa presents – Dubai World purchasing V&A waterfront and following with over 6 large acquisitions in the region
- African expansion provides sizeable number and greater scale than just South African

The role of regulators

- Need for Islamic financial organizations to understand exactly what changes are needed
- Cannot repeat the mantra of regulatory impediments continuously without really understanding what changes are needed
- In South Africa, National Treasury has put a framework to understand the Islamic industry requirements and then accordingly see what changes need to be made to banking, tax and other trade related legislation
- The regulators are more favorable to Islamic finance in comparison to 10 years ago
- Central banks are realizing that for there own economies to be tapping into Middle Eastern liquidity by way of Islamic placements / sukuk offerings, an enabling environment towards Islamic retail/commercial banks is a must
- Promote Inter-bank placements between Islamic banks
- An improved Islamic capital market which remains vibrant must fuel the growth for placement and short term liquidity instruments for Islamic banks – the regulator plays an important role in facilitating this

Shariah compliant instruments and products

- In an adoption phase of Islamic finance – customers expect the entire spectrum of products - people expect the entire value chain of products from a business and personal banking perspective – you cannot bank your business Islamically but have your personal banking on a conventional basis
- The industry needs to move away from debt ridden instruments and move towards a more equity approach of Islamic financing
- Emphasis on Mudarabah, Musharakah instruments – Africa is still in its growth phase where institutional and consumer expectations can be met and driven towards a true Islamic finance model – which is underpinned with an equity emphasis
- The need to understand that a sukuk offering without real adherence to shariah principles will in the long run affect the growth and consumer confidence
- The need for inter-bank products to provide an alternative besides commodity murabaha

Opportunity for established Islamic banks

- Meet the growing market demand with growing consumer confidence in Islamic banking
- Work with local banks to provide them support in converting services and products on an Islamic basis – knowledge capital
- Ability to look at certain customer segments and or industry sectors which offer you better returns and improved placement security
- Access to a growing emerging market and large region
- A foundation exists already with numerous banks organizations to partner to gain effective and quick entry into the market of South Africa and beyond
- Africa offers an excellent investment alternative from a risk perspective to the conventional European and North American markets
- Natural resources supply provides a real opportunity for oil rich countries to diversify

Thank you and questions
