



“Islamic Investment Bank of the Year (2007 & 2006)” – The Banker

“Best Sukuk House (2007)” – Euromoney

“Best Islamic Bank in Asia (2007)” – Euromoney

MAY 2008

INTEGRATING ISLAMIC FINANCE IN THE FAR EAST – THE STORY SO FAR

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Section 1

History Forgotten

History Forgotten..

It was the only financial system of the known world

It is a system which has existed for the last 1,426 years

It prospered under the great Islamic empires in Andalusia (Spain) until the year 1031, in Granada until the year 1492 and in the Ottoman (Turkey) until the year 1918

Via the Silk route, it prospered in this part of the world under the Aceh Empire until the 8th century and the Malaccan Sultanate until 1511

The conventional (interest based) financial system only developed in Holland during the 16th century

We are only relearning what is available under the system in the last 30-40 years

Now we have a comprehensive financial system that adheres to Islamic principles.

Section 2

The Global Islamic Financial Market Today

Global Islamic Financial Markets Today

Total assets of the Islamic financial system are estimated to exceed US\$1 trillion. It is among the fastest-growing financial segments in the world with an estimated annual growth in the region of 15% to 20%

Source: Islamic finance news – “Far East Embraces Islamic finance” 12 October 2007

High net worth individuals in the Middle East currently control assets worth in excess of an estimated US\$1.1 trillion, while globally their wealth is estimated to reach US\$44.4 trillion by 2010.

In 2004–05, Saudi Arabia’s HNWIs wealth grew by 13.5% and the UAE’s grew by 11.8%.

Source: Islamic finance news – “Superb Performance of Islamic equities” 3 August 2007

The proportion of Islamic assets in GCC countries’ to total banking assets has reached 30 percent.

Source: Article from European CEO – 18 September 2007

Islamic funds are still young with assets under management between US\$50 and US\$70 billion

Source: Islamic Finance News – “Key Trends in Islamic funds” 17 August 2007

Islamic equity markets are thriving with estimated assets under management of US\$250 billion, almost three times the current Sukuk market

Source: Islamic Finance News – “Islamic equity markets ” 12 October 2007

Over USD83 billion worth of outstanding Sukuk globally

Source: Islamic Finance News – “Asian Sukuk Poised for Growth” August 2007

Section 3

Malaysia's success in Islamic finance

Malaysia – Islamic retail banking



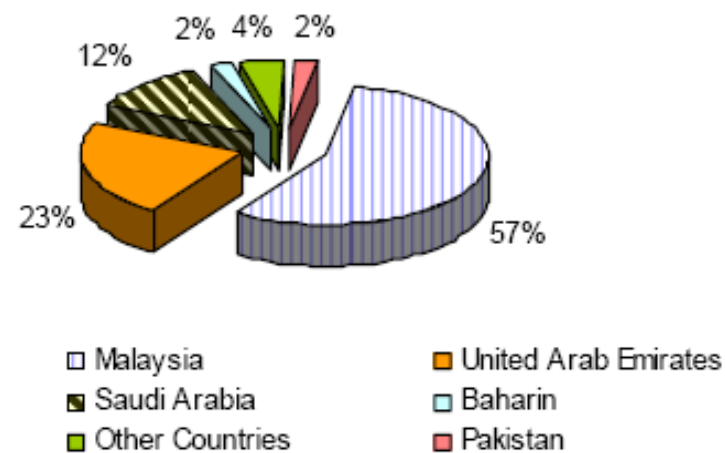
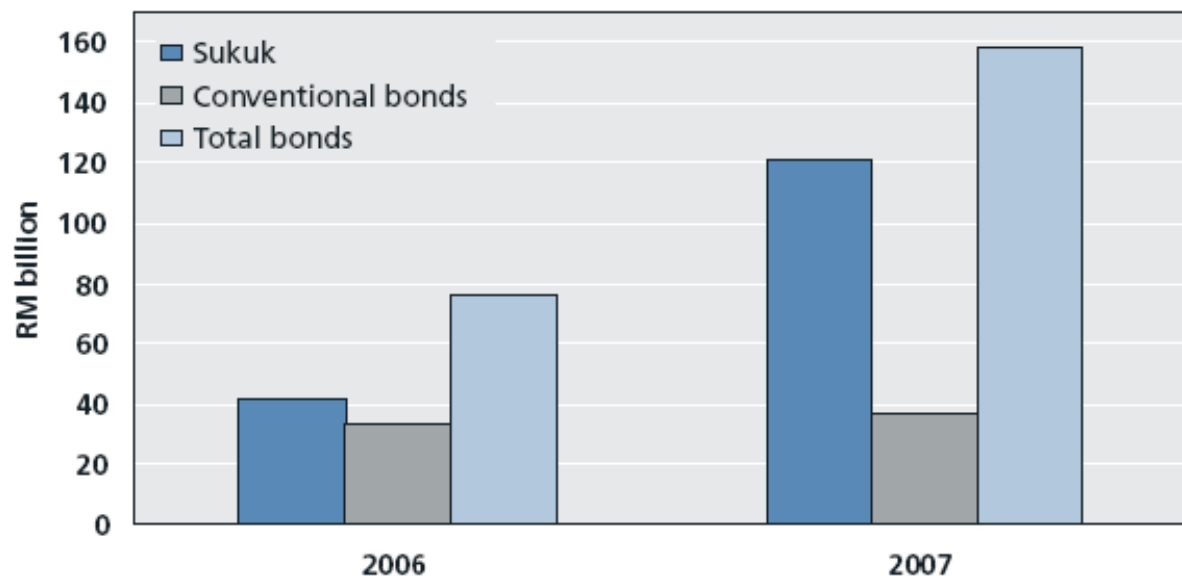
	2001	2002	2003	2004	2005	2006	2007
Islamic Banking Institutions - Assets, Financing and Deposits							
(RM million)							
Total Assets	58,929	68,070	82,196	94,565	111,824	133,031	157,125
• Islamic Banks	17,328	20,160	20,955	24,854	43,433	73,809	94,894
• Commercial Banks	26,750	29,110	36,824	53,912	59,698	53,080	56,229
• Investment Banks / Merchant Banks	1,353	1,429	1,716	2,551	1,466	3,964	6,002
• Finance Companies	9,749	12,623	17,875	7,764	1,254	n.a	n.a
• Discount Houses	3,749	4,748	4,826	5,484	5,973	2,178	n.a
→ % of total banking system	8.22	8.93	9.72	10.45	10.99	12.18	12.80
Total Financing	28,201	36,717	48,616	57,868	67,364	78,513	89,857
• Islamic Banks	7,561	9,158	9,765	11,449	20,627	39,476	49,108
• Commercial Banks	12,256	16,706	22,324	38,803	45,398	38,833	40,655
• Investment Banks / Merchant Banks	771	803	781	793	268	204	94
• Finance Companies	7,613	10,050	15,746	6,823	1,071	n.a	n.a
• Discount Houses	n.a	n.a	n.a	n.a	n.a	n.a	n.a
→ % of total banking system	6.53	8.13	10.27	11.30	15.06	12.37	13.96
Total Deposits	47,106	53,182	60,213	72,859	83,874	99,181	121,975
• Islamic Banks	14,375	16,421	17,584	20,756	35,625	58,469	75,116
• Commercial Banks	22,031	23,353	26,519	39,775	42,775	36,867	42,027
• Investment Banks / Merchant Banks	673	684	852	1,527	797	2,572	4,832
• Finance Companies	7,664	9,094	10,966	5,952	684	n.a	n.a
• Discount Houses	2,963	3,630	4,292	4,849	3,993	1,273	n.a
→ % of total banking system	9.51	10.13	10.41	11.16	11.24	12.19	14.02

- Malaysia's Islamic banking system operates in parallel to the conventional banking system
- There are 25 Islamic financial institutions in Malaysia
- Islamic assets account for 13% of total assets in the Malaysian banking system. The target is for this figure to reach 20% by 2010.

Source: Islamic banking statistics - www.mifc.com



Malaysia – Islamic Debt Capital Market



- Our Sukuk market has witnessed exponential growth since 2002
- 2002 was a significant year as we witnessed more Islamic bonds being issued than conventional bonds for the first time by RM2.6 billion.
- After the tax neutrality announcement in 2004, the Sukuk market in 2005 shot up to represent 71.4% of total bonds. This figure was 48% in the previous year.
- The trend of RM Islamic being more than RM conventional continued in 2005, 2006 and 2007
- In 2007, Malaysian Islamic bond issues represented 57% of the total global issues.

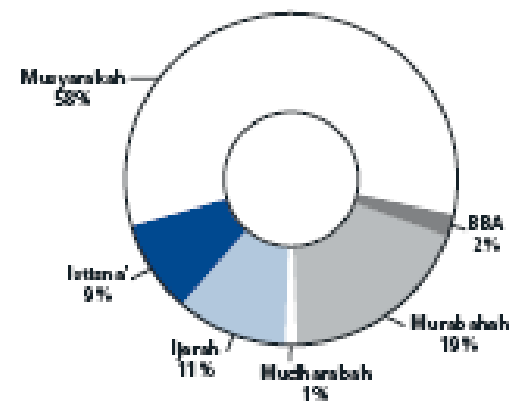
Source: January 2008 Islamic Capital Market Report by the Securities Commission of Malaysia and 2007 Sukuk report by Islamic Finance Information Service



Malaysia – Islamic Debt Capital Market (cont'd)

	2006	2007
Size of outstanding sukuk (exclusive of Government sukuk)	RM 105.2 bln	RM 135.8 bln
% of outstanding sukuk to total outstanding bonds	47.75 %	56.0 %
Sukuk approved by the SC		
Number of sukuk	64	59
Size of sukuk	RM 42.02 bln	RM 121.30 bln
Size of total bonds approved	RM 75.83 bln	RM158.80 bln
% of size of sukuk to total bonds approved	55.41 %	76.4 %

Sukuk approved based on various Shariah principles⁺⁺



- 56% of all outstanding bonds in Malaysia are Islamic bonds
- Islamic bonds accounted for 76% of all the Malaysian bonds approved in 2007
- Due to tax incentives, there is a drive to widen the range of Sukuk products

Source: January 2008 Islamic Capital Market Report by the Securities Commission of Malaysia

Malaysia - Islamic Equity Capital Market

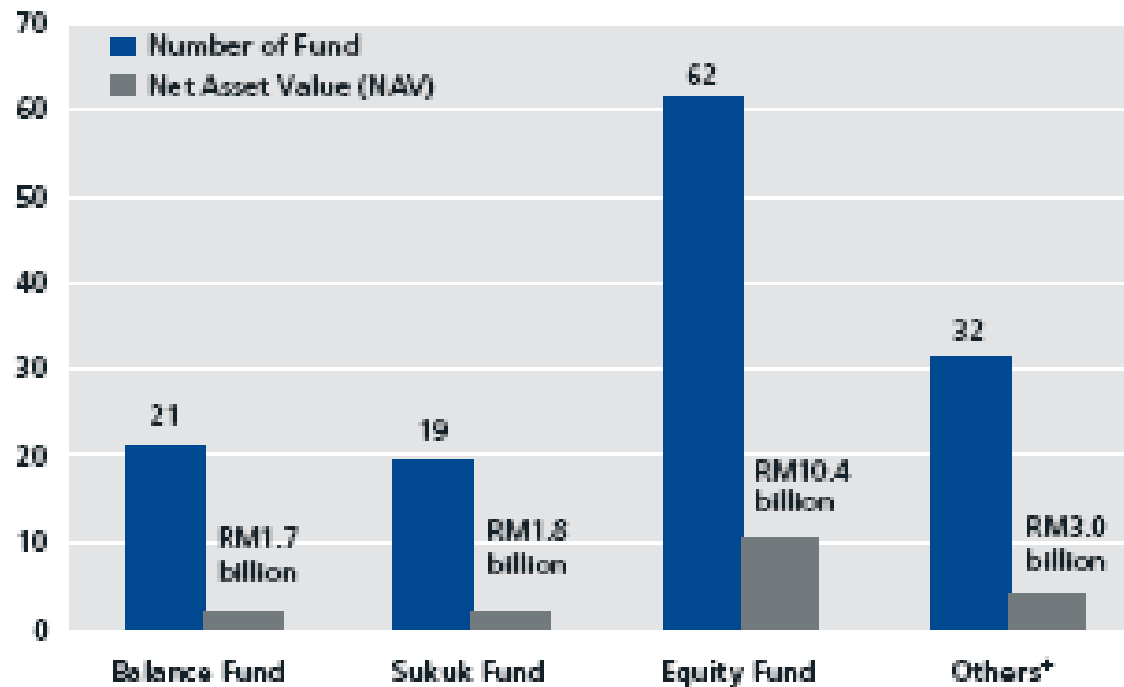


Number of Shariah-compliant securities - Nov 2007 ⁺		853 securities	
% to total listed securities		86 %	
Latest Market capitalisation – Dec 2007		(RM billion)	
Shariah-compliant		705.05	
Total market		1,106.15	
% of Shariah-compliant securities to total market		63.74%	
Equity market indices	30 Nov 07	31 Dec 07	% change
KL Composite Index (KLCI)	1,396.98	1,445.03	3.4%
FBM EMAS Shariah	10,038.5	10,533.10	4.9%
FBM Hijrah Shariah [®]	10,974.37	11,660.06	6.3%

- 853 Shariah compliant equities or 86% of total listed equities on Bursa Malaysia
- The market capitalization of Shariah compliant equities stood at 64% of the total amount

Source: January 2008 Islamic Capital Market Report by the Securities Commission of Malaysia

Malaysia - Islamic Asset Management Market



- In 2007, there were 134 Shariah compliant funds in Malaysia (100 Islamic funds in 2006)
- The bulk of Islamic stocks in Malaysia are listed on the Main board of Bursa Malaysia
- The NAV of Islamic funds increased from RM9.2 billion in 2006 to RM16.9 billion in 2007

Source: Source: January 2008 Islamic Capital Market Report by the Securities Commission of Malaysia

Malaysia – The Most Established Regulatory Framework



Most Comprehensive Regulatory Framework, including ...

Enactment of Islamic Banking Act 1983

Enactment of Government Investment Act 1983

Enactment of Takaful Act 1984

Amendments to Banking and Financial Institutions Act 1989

Enactment of Labuan Offshore Laws 1990

Guidelines on the Offering of Islamic Securities 2004

Guidelines on the Management of Shariah Committees

Guidelines for Islamic Real Estate Investment Trusts 2005

Guidelines on Foreign Fund Management Policies (Islamic)

Effective Regulation for Shariah Advisory

National Shariah Advisory Council acts as the sole authoritative body to advise BNM on Islamic banking and Takaful operations

SAC List of Shariah Compliant Securities was introduced in June 1997

All appointments of Shariah Advisors on committees of licensed Islamic financial institutions is subject to stringent due diligence and approval by BNM

Section 4

Islamic finance in the Far East

Singapore – Potential powerhouse in Islamic finance



- Total population of 4.6 million with Muslim population accounting for 14.9% of the country's population
- Prior to 2005, the only Islamic banking product available was Wadiah deposit accounts. Currently Islamic banking products and services are offered in a few conventional banks via Islamic “windows”

Recent Developmental Efforts to facilitate growth...

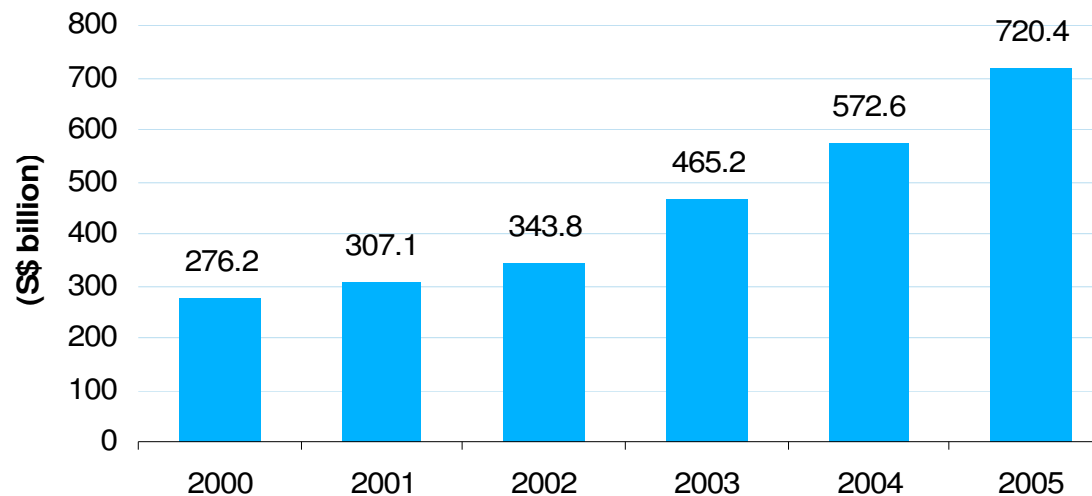
- In April 2005, Singapore was granted full membership on the Islamic Financial Services Board.
- In September 2005, Singapore allowed banks to offer Murabaha financing.
- In February 2006, Singapore stock exchange developed its first index of stocks that comply with Shariah called the 'FTSE SGX Asia Shariah 100 index'. The index consists of companies in Singapore, Japan, Hong Kong, South Korea and Taiwan.
- Waived the stamp duty on transfer of Singapore properties into REITs, as well as lowering the tax rate on income derived by the REIT and paid to foreign investors
- Waived the imposition of double stamp duties in Islamic transactions involving real estate
- Accorded the same concessionary tax treatment on income from Islamic bonds, that presently applies to conventional bonds
- In May 2007, DBS Bank, together with 22 Middle East investors set up Singapore's first Islamic bank called the Islamic Bank of Asia



Singapore – Asset Management: The Promising Potential

- Singapore has the potential to be particularly strong in Islamic Asset Management
- Singapore has more than 30 of the top 50 U.S. and European fund houses and over 200 global fund managers
- There are over 1,000 investment professionals in Singapore
- There are approximately SGD 2 billion, or USD1.32 billion, worth of Shariah-compliant property funds and SGD 500 million dollars of Islamic insurance funds in the market

Asset Under Management (AUM)



Source: Monetary Authority of Singapore, 2005 SINGAPORE ASSET MANAGEMENT INDUSTRY SURVEY

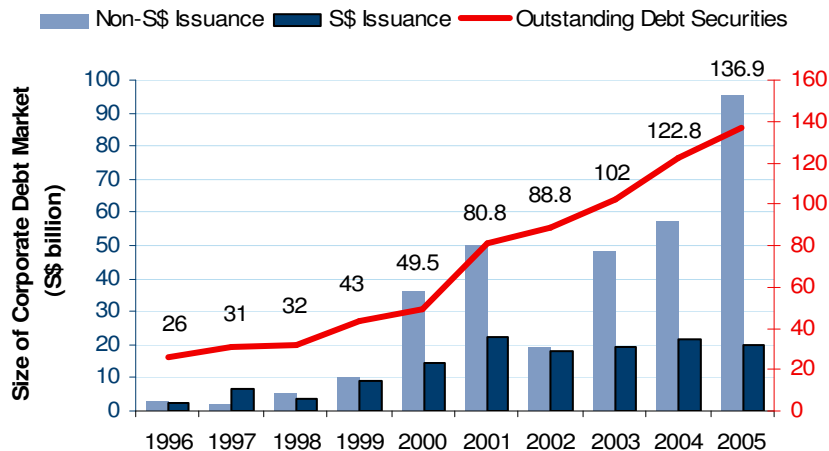


Singapore – Islamic Capital Market

Islamic Debt Capital Market

- Majlis Ugama Islam Singapore, a sovereign agency, became the first statutory body to issue Sukuk in Singapore. The 5 year SGD25 million Musharaka bond was issued in 2001. ABN Amro and UOB arranged the sale
- Corporate and sovereign Sukuk have yet to be issued in Singapore.

Conventional Debt Capital Market



- Singapore has a booming bond market
- Outstanding volume of corporate debt displayed an increasing trend growing by 11% from 2004 to SGD137 billion as at the end of 2005

Source: Monetary Authority of Singapore THE SINGAPORE CORPORATE DEBT MARKET REVIEW 2005

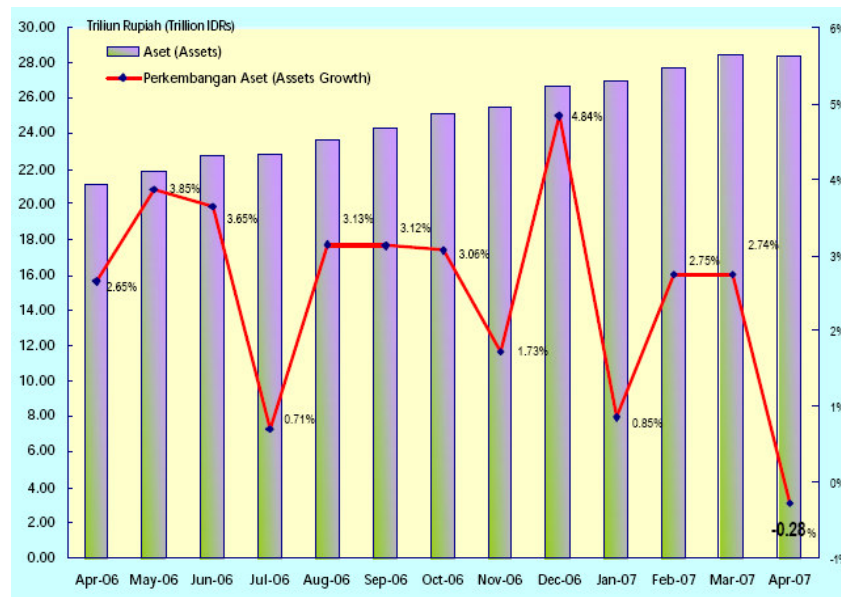
Islamic Equity Capital Market

- After the successful launch of the FTSE SGX Asia Shariah 100 index, the Government is in the midst of developing their own Islamic index which will consist of all the Shariah compliant securities in Singapore.

Indonesia – The Awakening Giant



- The future of Islamic finance in Indonesia is huge considering 86% of its total population of 235 million people are Muslims.
- The ratio of the share of business volume of Islamic banking is still small relative to the Muslim population



Source: "Islamic Banking Statistics" - Bank Indonesia, April 2007

- The asset size of Shariah financial industry has been growing steadily. The compounded annual growth rate from 1999 to 2006 is 157%. As of April 2007, the asset size of Shariah financial market stood at IDR28 trillion.

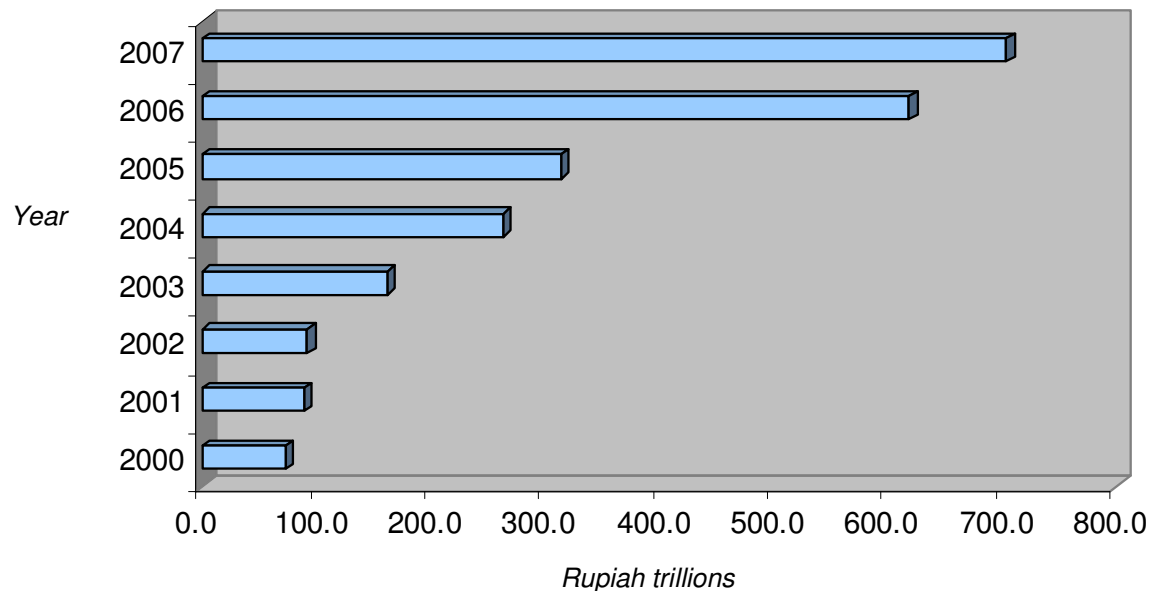
Indonesia – Islamic Equity Capital Market



Jakarta Islamic Index (JII)

- The Shariah stock market in Indonesia was introduced on July 3 2000.
- The Jakarta Islamic Index consist of 30 stocks in accordance with Shariah law.

Performance of the JII measured by market capitalization



- The JII has experienced steady growth since it's inception.
- Market cap of JII increased by 97% from RP314 trillion in 2005 to RP 619 trillion in 2006.

Source: Bloomberg as of 8 June 2007

Indonesia – Islamic Debt Capital Market



Salient Features

- 22 Sukuk issues since 2002
- Islamic bond market size of RP2.8 trillion
- Small compared to Malaysian market
- Only Ijarah and Mudharabah Sukuk so far
- Maximum Sukuk tenure of 10 years

Source: Bloomberg as of 11 June 2007



Japan – The Rising Sun of Islamic finance

- ❑ ***Japan has a small Muslim population***
 - 128 million people where 0.14% (179,200) of the total population are Muslims.
- ❑ ***Only small entry by Japanese firms into Islamic Finance***
 - Islamic financiers have struggled for years to break into Japanese Market.
 - Challenges are due to conservative nature of markets and large language barrier between the Arab Islamic world and Japanese product takers.
 - Recently, Daiwa, Japan's second largest securities house, announced plans to list an exchange traded fund based on Japanese equities and screened by Islamic investment principles on the Singapore exchange market.
- ❑ ***Japan's effort to develop its Islamic financial market***
 - Japan attempts to attract Middle Eastern oil money, as global fuel prices continue to soar.
 - Government-backed Japan Bank for International Co-operation (JBIC) has established a new advisory board consisting of four leading Islamic legal scholars to examine possible ways of entering the Islamic financial services market.
 - JBIC is also teaming up with Sumitomo Mitsui Banking, Mizuho Corporate Bank and Bank of Tokyo-Mitsubishi to study the Islamic banking market.
 - Japan Asia Investment has created its own advisory panel of Islamic legal scholars to access its Shariah Asian Investment fund.

Hong Kong – The next major financial centre to tap the market..



- In July 2007, the Hong Kong Monetary Authority formed an Islamic finance working group
- In November 2007, Hong Kong's first Islamic retail fund offering investors exposure to the Shariah compliant equity markets of Hong Kong and China was launched and by December it had attracted USD45 million worth of orders.

- Hong Kong will be using their close proximity to China to their advantage:-
 - Mainland China enterprises have raised about USD240 billion since 1993 via Hong Kong
 - Now over 440 mainland China companies have listed on the Hong Kong Stock Exchange
 - This represents a third of total listings representing 60% of total market capitalization
 - Their turnover accounts for 70% of the daily equity turnover of the Hong Kong Stock Exchange
 - 10 largest IPO's in Hong Kong have all been by mainland China enterprises

- Gulf investors seeking to diversify their portfolios would be keen to buy Sukuk issued by Chinese companies as a way of gaining exposure to a country that is expected to expand 11% in 2008
- In April 2008, Hong Kong's Securities & Futures Commission signed an Islamic finance pact with the Dubai Financial Services Authority to facilitate cross-border marketing and distribution of Islamic funds
- In May 2008, the Hong Kong Monetary Authority and the IFSB organized an Islamic finance seminar to raise awareness of Hong Kong's serious intentions to develop an Islamic financial market. 280 delegates attended the event.

Source: Article – April 2008 – Islamic business and finance magazine

Other budding Islamic finance jurisdictions..



➤ To begin an Islamic debt capital market



➤ To begin an Islamic debt capital market

➤ Growing interest in Shenyang



➤ Huge potential for Islamic wealth management



Section 5

What next in the Far East and the rest of the world?

Malaysia to lead the way..

- Islamic finance has the potential to strengthen international financial linkages between countries
- Excess liquidity and the tidal wave of petrodollars flooding into the Middle East are causing a surge of interest in Islamic finance globally
- Islamic financial institutions are hungry for Islamic assets
- Far East region is joining the Islamic finance bandwagon faster than any other region in the world
- Malaysia will persist to advise its neighbours near and far on all components of the Islamic financial system
- Malaysia is continuously looking into ways to further improve the sector and thus Malaysia will continue to spearhead Islamic finance in the region
- Islamic finance will gain momentum right across the globe
- A lot more work needs to be done..

Section 6

Contact Details

Contact Details

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No territory will be left uncharted.

At CIMB Islamic, we constantly challenge conventions to create value for our clients. An in-depth understanding of Islamic Banking principles and an acute appreciation of our clients' commercial needs has enabled us to deliver innovative solutions with commendable results. Our efforts have earned us the Islamic Investment Banking House of the Year Award - a testament to our ability to take you further.

Now, we have expanded our business into retail banking. So whether you're starting your own business or thinking of moving to the next level, we are here to take you further.

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HOUSE OF THE YEAR

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