



THE DYNAMICS ON ISLAMIC BANKING IN M'SIA

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SECTION 1

PRIMER TO ISLAMIC FINANCE

Shariah Basis

The origin and basis of Islamic finance is Shariah i.e. Islamic laws and sometimes referred to Islamic jurisprudence

Primary Sources

The primary sources used in conducting research on the Islamic finance are the Quran and the Sunnah.

This is based on the fact that Islam urges its followers to refer to these sources in solving problems that occur in their daily lives as commanded by Allah s.w.t.

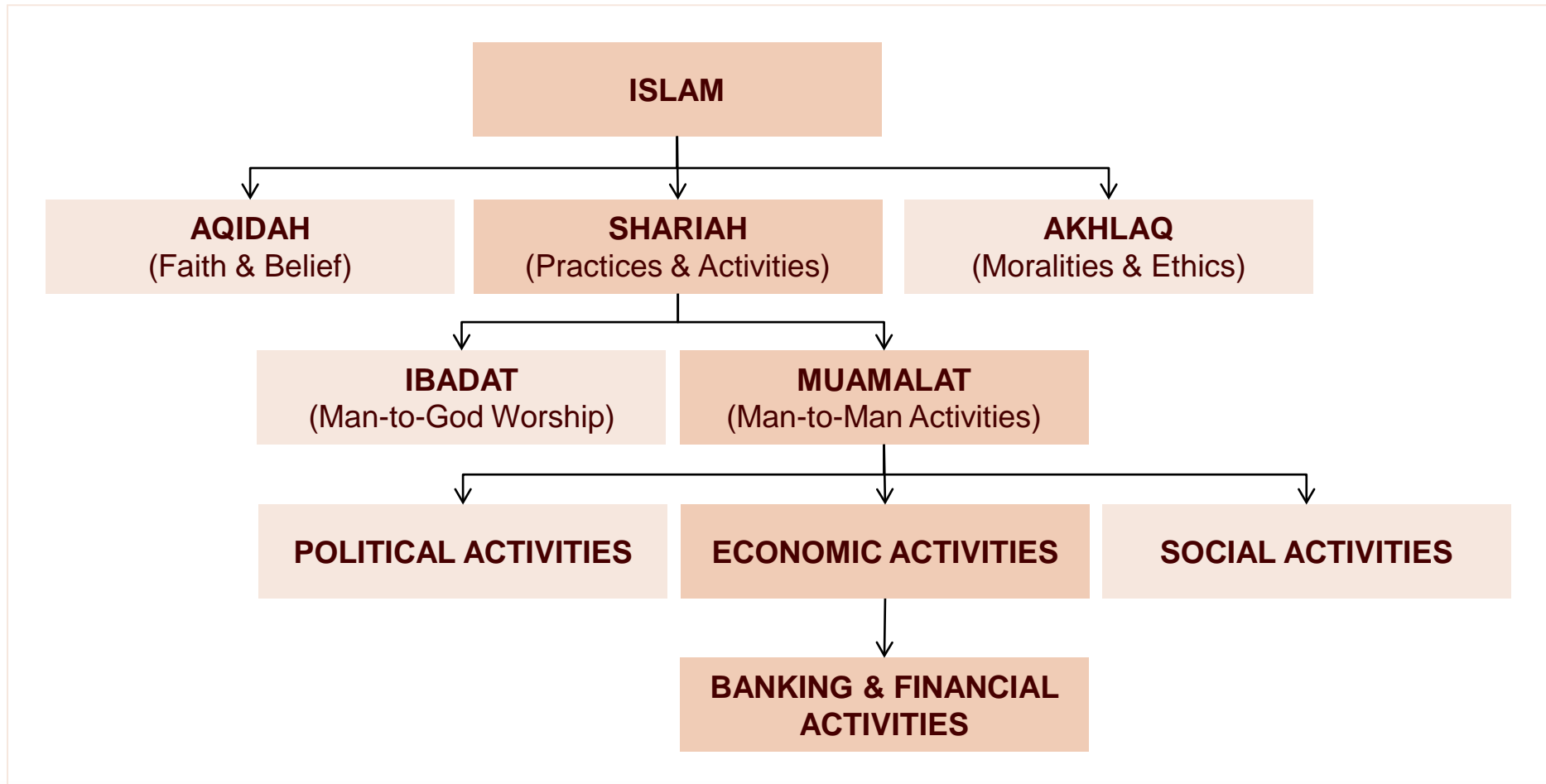
Secondary Sources

Apart from the two primary sources i.e. the Quran and the Sunnah, the use of secondary sources and other Islamic jurisprudence manhaj, such as;

ijmak, qiyas, maslahah, istishsan, istishab, sadd zari`ah, `urf, maqasid syari`ah, siyasah syar`iyyah, ta`wil, istiqla', talfiq and others which have already been applied in Islamic jurisprudence.

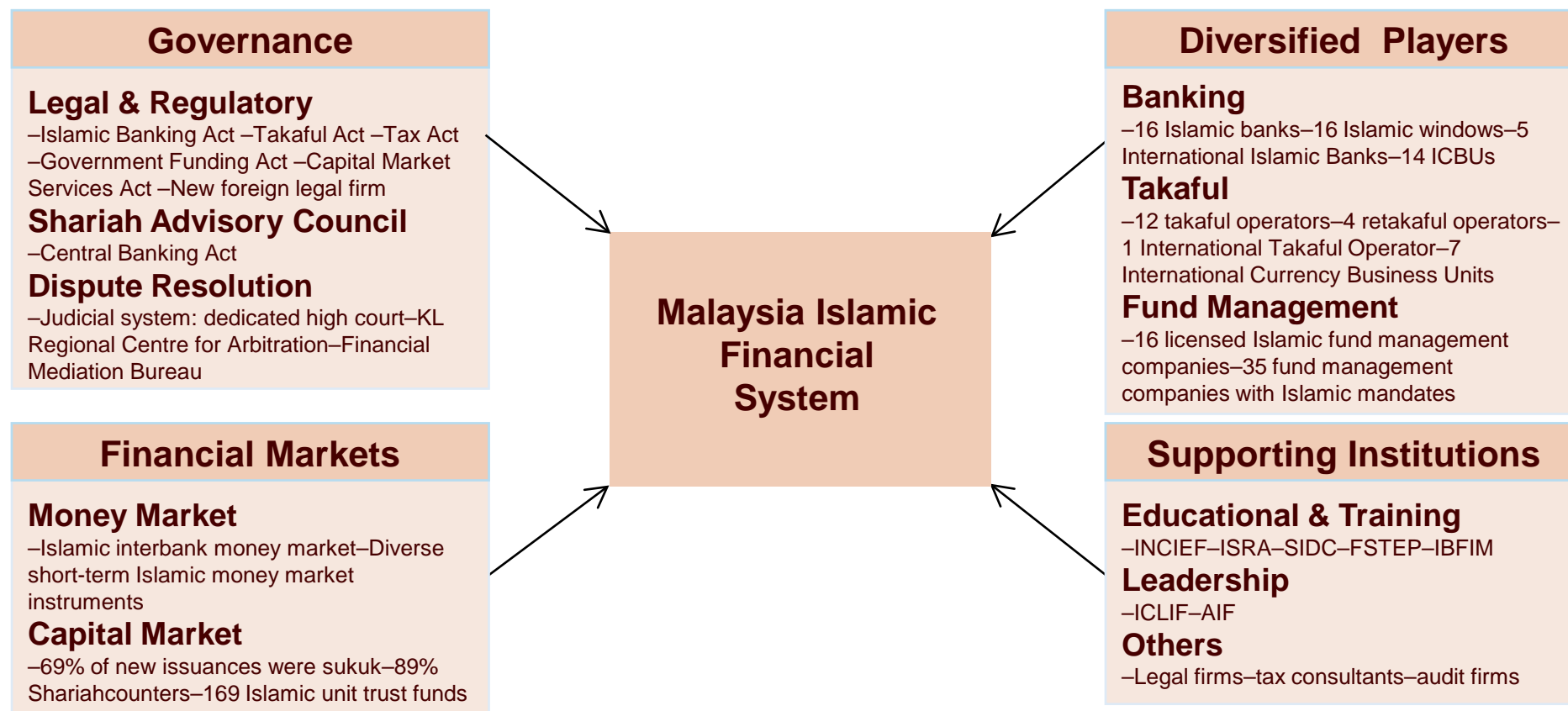
Scheme of Shariah Laws

Under the ambit of Muamalat, Islamic finance should be available to all Muslims and non-Muslims



Framework of Islamic Financial System

A comprehensive Islamic financial system in Malaysia supported by Shariah, legal and regulatory framework

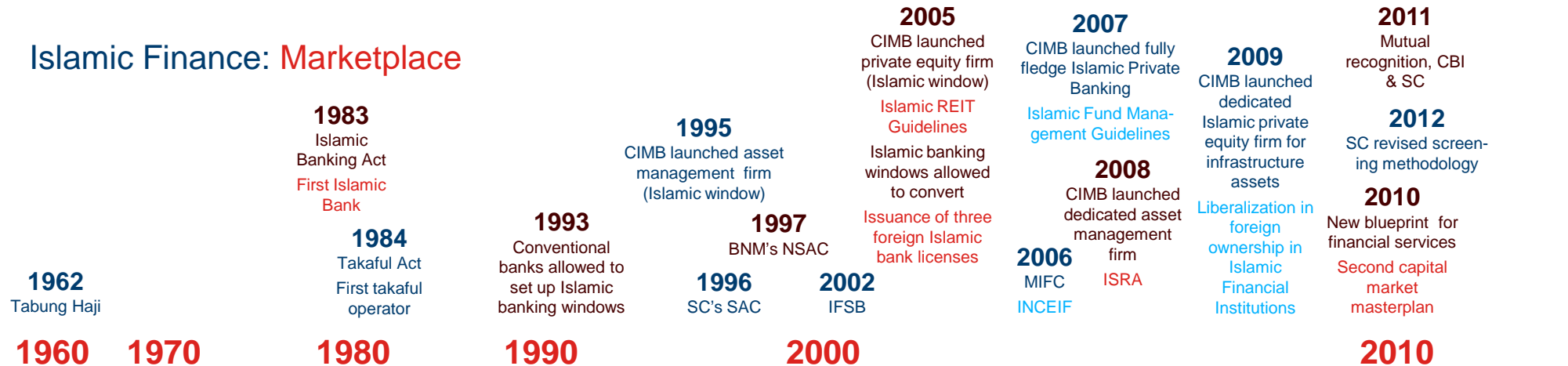


Source: Bank Negara Malaysia, Securities Commission

Islamic Finance Milestone

The exponential growth started when the regulators established and centralized the Shariah Advisory Council

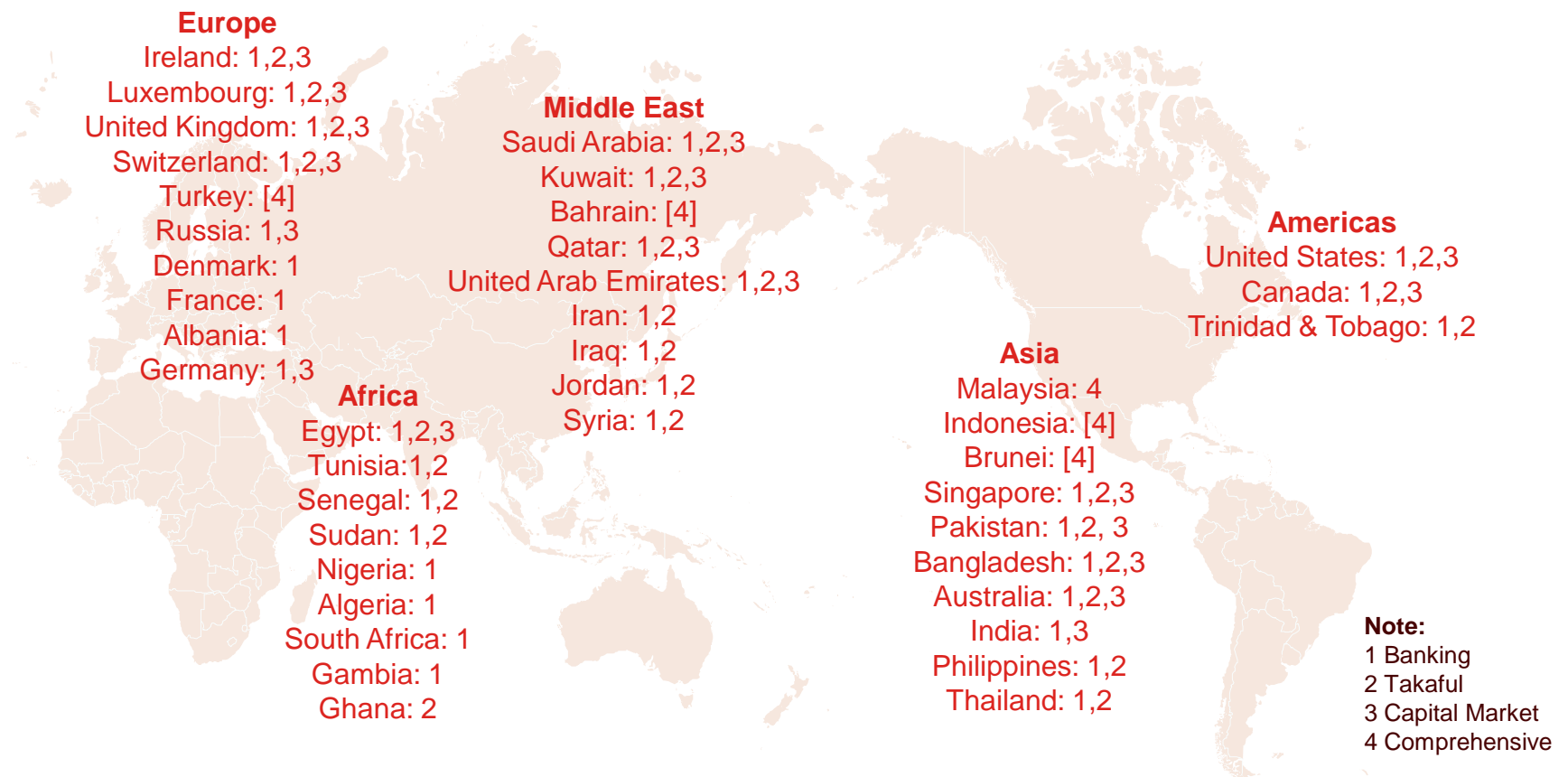
Islamic Finance: Marketplace



Islamic Finance: Innovations

Global Landscape

The interests in Islamic finance have expanded all over the world with governments changing laws to accommodate the transactions



Source: IOSCO Task Force on Islamic Capital Market_Islamic Capital Market Fact Finding Report and CIMB Islamic analysis

Global Statistics and Figures

We have seen a healthy growth around the globe and we anticipate it to continue in the future

- One potential scenario shows global Islamic banking assets with commercial banks to reach \$1.8 trillion in 2013, representing average annual growth of 17%... (Ernst & Young, 2013)
- The top 50 by AUM have combined assets of \$72.9 billion, split fairly evenly between equities and fixed income/money market/sukuk, with the remaining 10% or less in Islamic private equity and other alternatives. (Asian Investor, 2013)
- The value of new sukuk (Islamic bond) issuance worldwide will once again surge to more than \$100 billion this year... (Trade Arabia, 2013)
- The total free-float market capitalization of Dow Jones Islamic Market Index universe is US\$19.2 trillion. (DJIM Index, 2012)
- The global takaful market could reach US\$4.3 billion in the next five years spurred by the strong growth in family takaful. (Business Times, 2012)
- The combined wealth of 450,000 Middle East millionaires rose 0.7 per cent in 2011 over 2010 to reach US\$1.7 trillion. (Capgemini RBC World Wealth Report, 2012)
- Globally as matured markets press forward with banking reforms, many others are keen to explore an alternative Islamic finance option. (Ernst & Young, 2012)

SECTION 2

INDUSTRY DEVELOPMENT

The Need for Islamic Wealth Management

...Shariah defines five necessities as necessary and basic for human existence. It is the duty of every society to preserve and protect the five necessities; otherwise human life would be harsh, brutal, poor and miserable here and in the hereafter... (Islamic Divine Law (Shariah), The Objectives of The Islamic Divine Law – Mashhad Al Allaf)

The five necessities are;

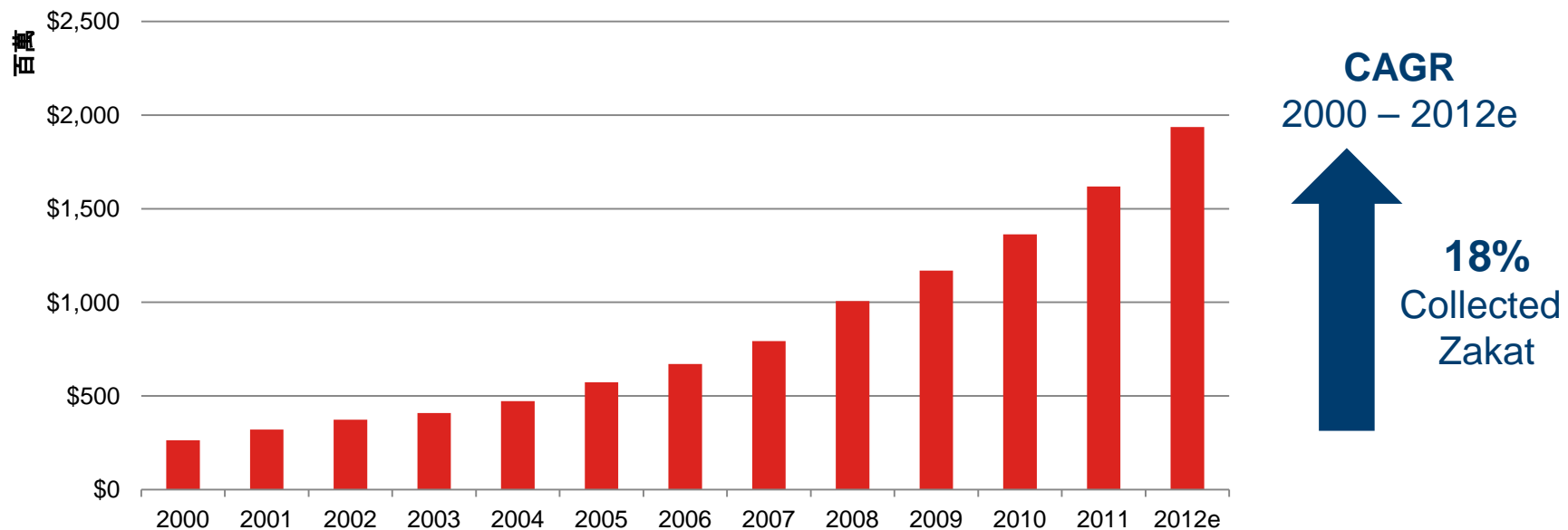
- Religion (Deen),
- Life (Nafs)
- Intellect (Aqal)
- Progeny (Nasal)
- Property (Maal)

Hence, the need to manage wealth in accordance to Shariah.

Zakat: Growing awareness

There were increasing numbers of discerning Muslims more concerned with how their monies are spent and kept

Zakat Collection in Malaysia

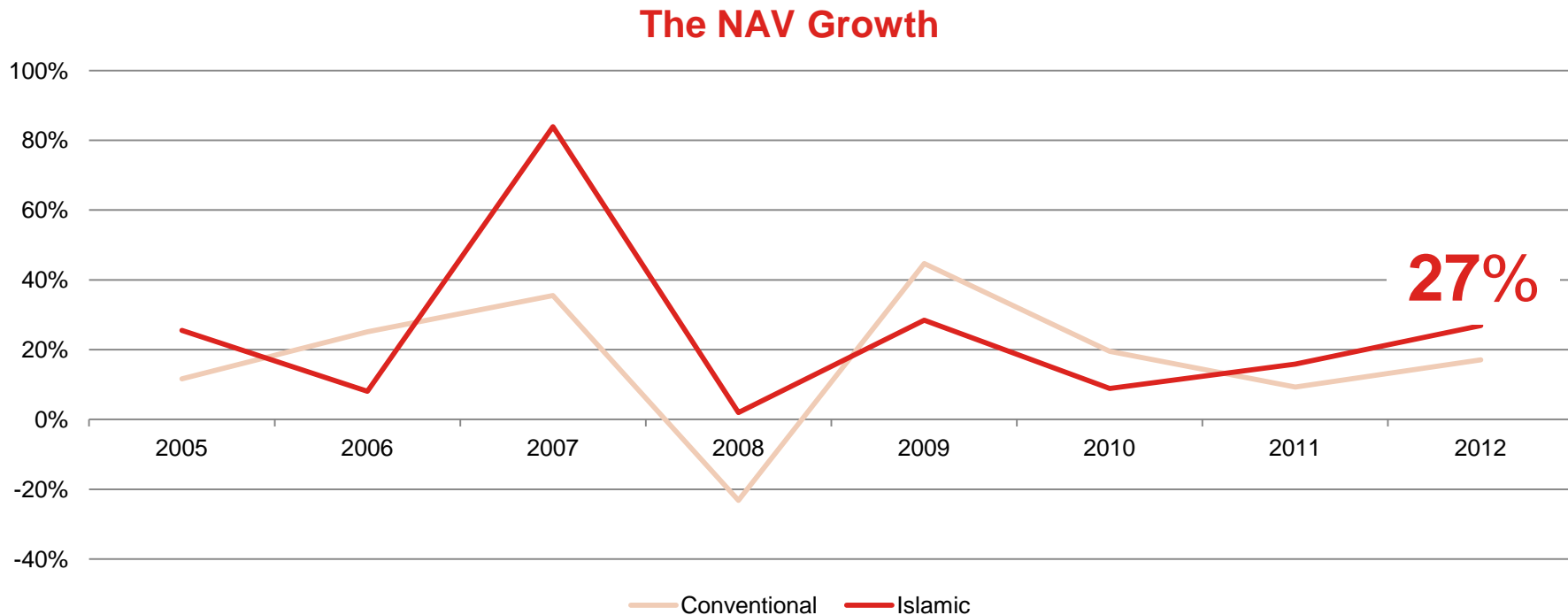


Zakat on personal income and zakat on savings represents more than 2/3 of zakat collected; approximately 50% of zakat collected is by way salary deduction.

Source: Jabatan Zakat, Wakaf dan Haji, Prime Minister Office, CIMB Islamic analysis

Islamic Funds: Gaining momentum and sizeable

The growth in Islamic funds has been remarkable with industry expanding due strong demand post GFC recovery...



The total NAV of Islamic funds by end 2012 stood at some \$35.6 billion or 12% of total outstanding industry net asset value.

Source: Securities Commission, CIMB Islamic analysis

Islamic Equity Index: Comparable returns if not better

The Islamic equity indices had performed better in most markets for the mid-term to long-term investments

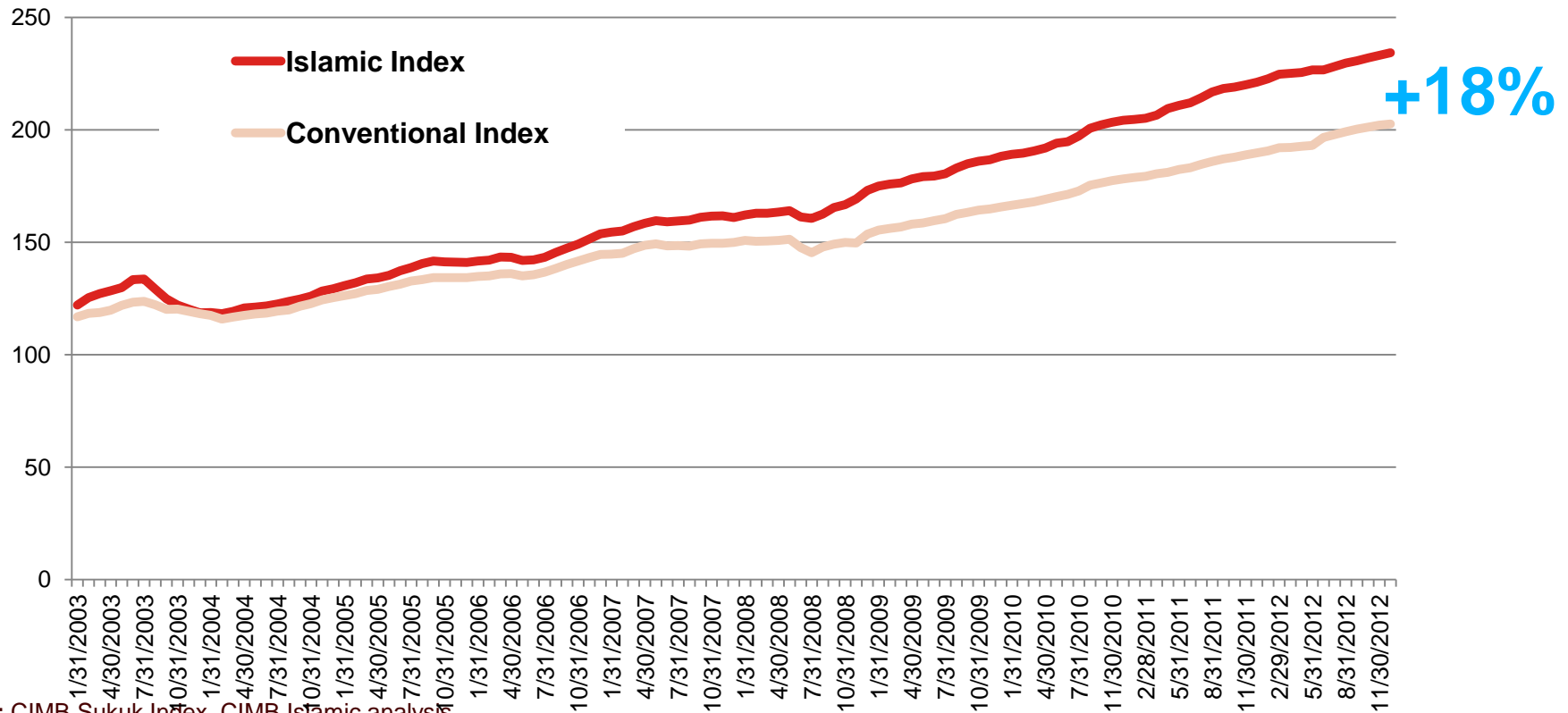
	2011	1 Year	3 Years	5 Years	10 Years
Dow Jones Islamic Market World Index	-7.12	11.07	5.19	-0.98	6.75
Dow Jones Global Index	-9.91	13.72	4.66	-2.87	6.35
Dow Jones Islamic Market Global Large-Cap Index	-6.47	10.46	4.09	-1.82	5.81
Dow Jones Global Large-Cap Index	-9.51	13.10	3.75	-3.71	5.33
Dow Jones Islamic Market Asia/Pacific ex-Japan Index	-19.67	14.95	3.06	-1.67	10.73
Dow Jones Asia/Pacific ex-Japan Index	-19.21	18.54	3.95	-2.12	10.93
Dow Jones Islamic Market Europe Index	-9.18	15.15	3.52	-3.76	6.76
Dow Jones Europe Index	-14.15	16.31	0.70	-6.90	5.87
Dow Jones Islamic Market U.S. Index	1.53	11.18	8.18	1.29	6.72
Dow Jones U.S. Index	-0.65	13.84	8.98	0.03	5.76
Dow Jones Islamic Market ASEAN Index	-6.33	16.74	11.04	0.37	12.16
Dow Jones Asia/Pacific – South Asia Index	-16.38	18.51	7.77	2.23	10.83

Source: Dow Jones, as of 31 December 2012

Sukuk Index: Comparable returns if not better

Since the last ten years, sukuk index with maturities of 1-yr and above had outperformed it's conventional peer

Sukuk/Bond Index – 1yr and above maturities

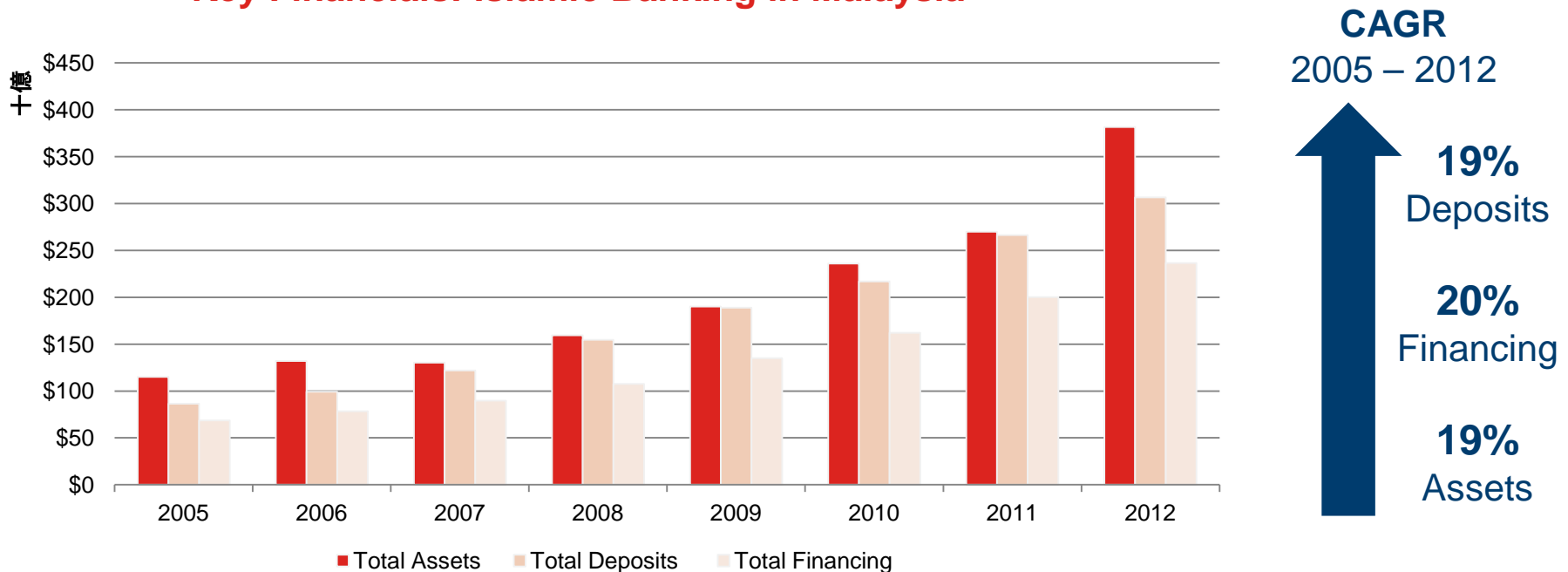


Source: CIMB Sukuk Index, CIMB Islamic analysis

Banking: Growing trajectory

...industry has shown significant growth since 2005, with assets tripling, ample liquidity and financing capacity

Key Financials: Islamic Banking in Malaysia



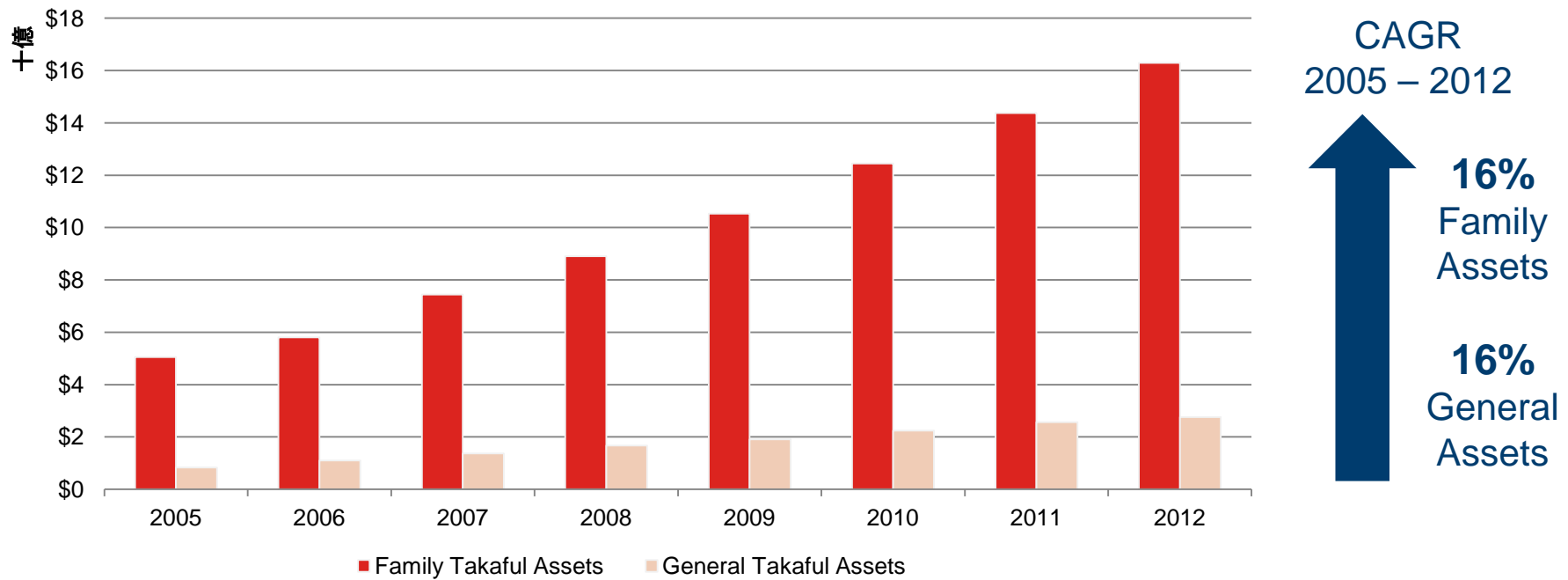
Islamic banking representing about 30% of total financial assets in the financial system in Malaysia and expected to grow further.

Source: Bank Negara Malaysia, CIMB Islamic analysis

Takaful: Untapped, small and fast growing

The takaful industry has been growing rapidly, appealing to both Muslims and non-Muslims

Key Financials: Takaful in Malaysia



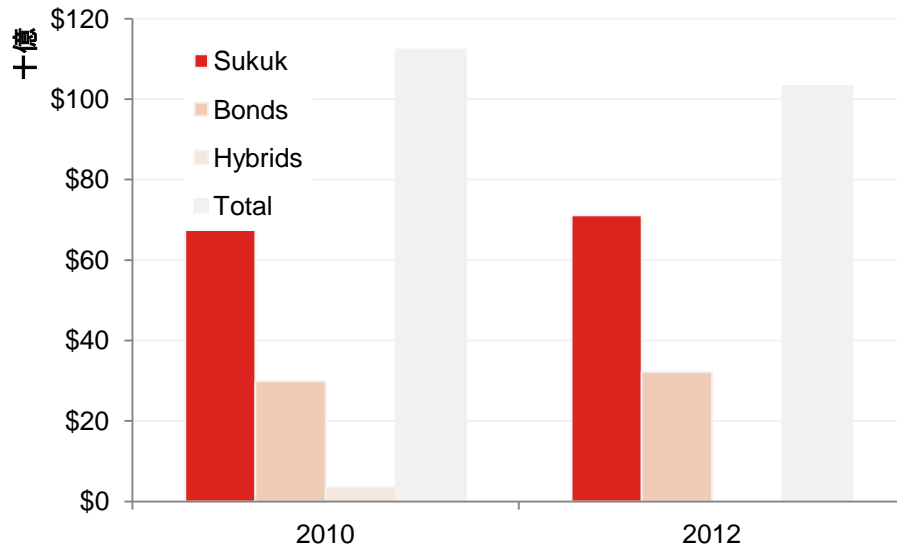
Interesting fact, Family Takaful business in Malaysia had a larger share as compared to Middle East markets where General Takaful dominated.

Source: Bank Negara Malaysia, CIMB Islamic analysis

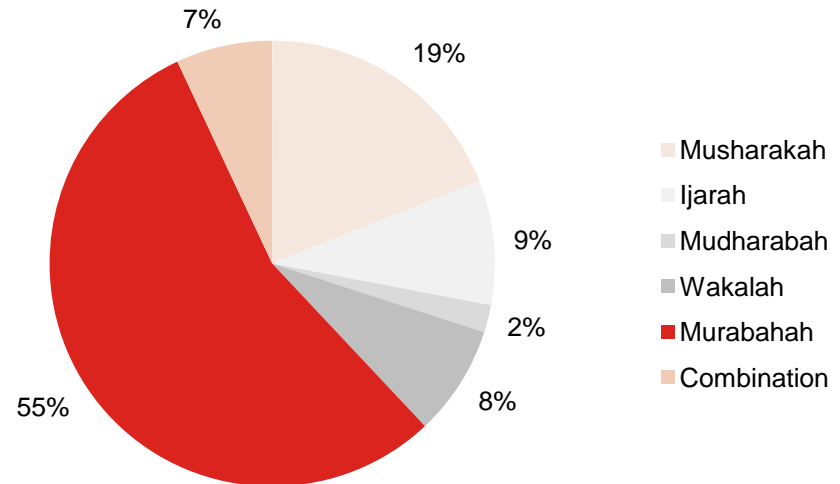
Sukuk: Active and innovative

...market players have also originated innovative sukuk instruments with many world's first issues cemented by sizeable amount

Sukuk Approved by issues size



Sukuk Approved by Shariah principles



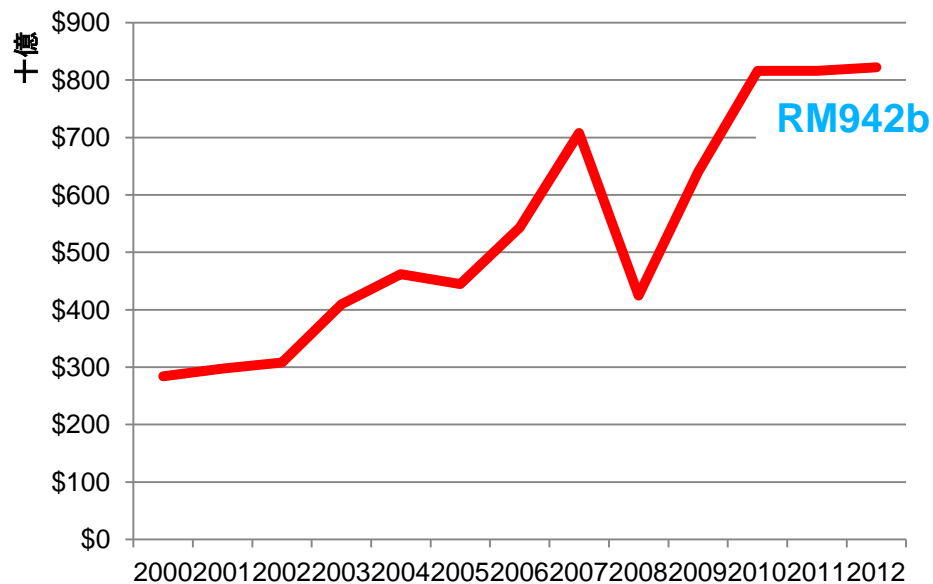
Approximately, more than 2/3 of new Islamic securities globally were issued in Malaysia and the remaining global issues were from the Middle East/GCC and offshore jurisdictions.

Source: Securities Commission, MIFC

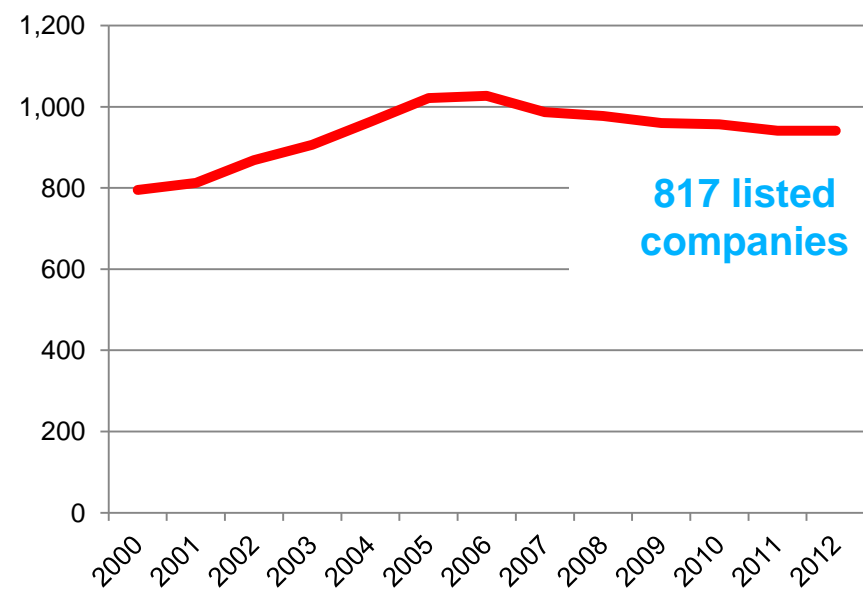
Equity: Large and diversified

...developing new Islamic equity products in which provides a vibrant environment for Shariah conscious investors

Islamic ECM: Market Capitalization



Islamic ECM: Listed Companies



89% of Bursa comprises of Shariah-compliant stocks and the market capitalization of Shariah-compliant stocks accounted for 64% of total domestic market capitalization.

Source: Bursa Malaysia, CIMB Islamic analysis

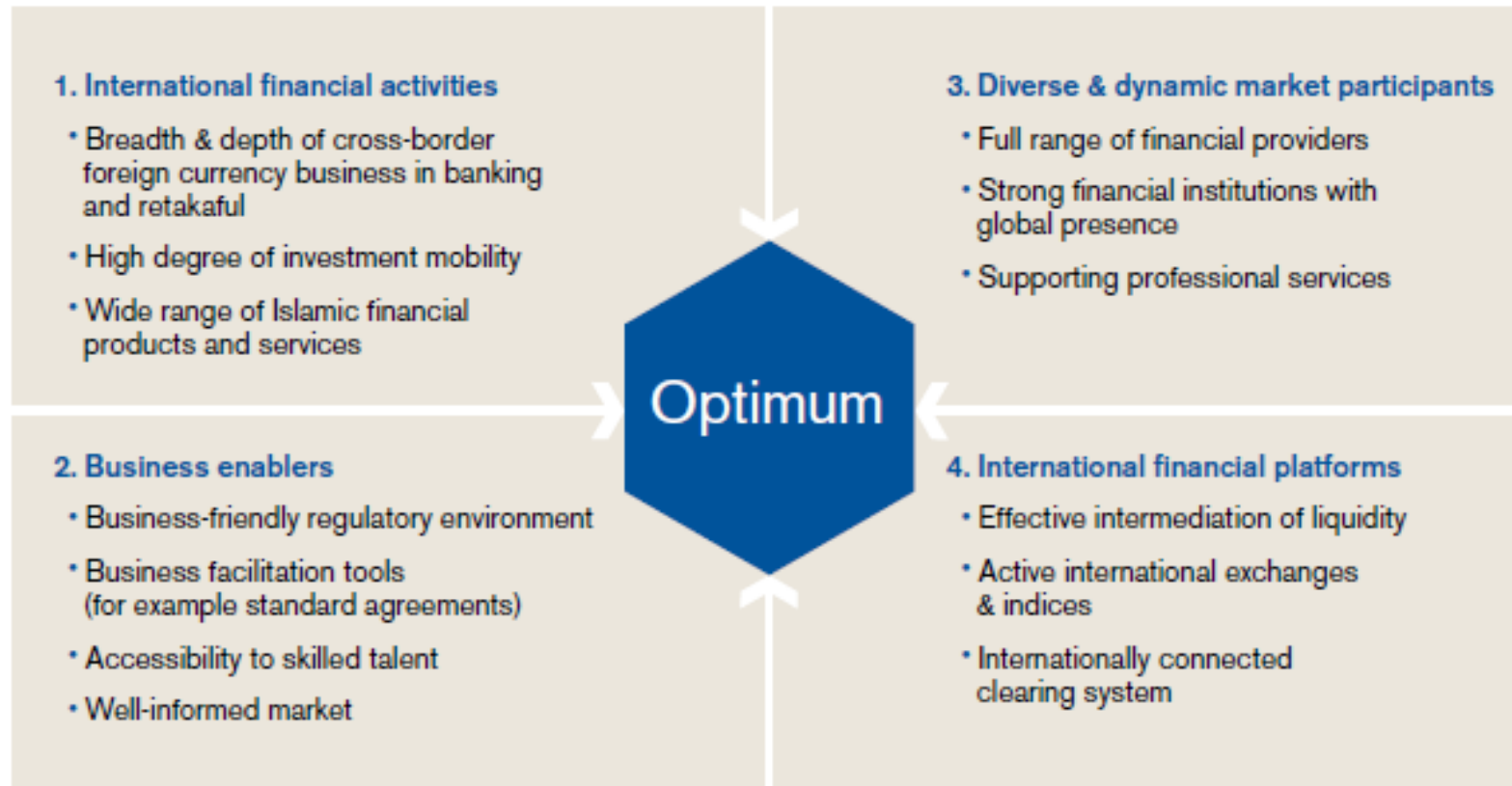
SECTION 3

OPPORTUNITIES AHEAD

Financial Sector Blueprint

The progressive development of the Islamic financial system in the initial years has led to the launch of the national agenda to position Malaysia as an international Islamic financial centre

Key spectrums of an effective International Islamic financial centre



Source: Bank Negara Malaysia _Financial Sector Blueprint 2011–2020

Key Recommendations: Internationalization of Islamic Finance

1. Increase the diversity of players in the domestic Islamic financial industry to support a wider range of financial products and services that serves the best interest of Malaysia

2. Support the growth of the Islamic fund and wealth management industry in collaboration with relevant authorities

3. Enhance the dynamics of the Islamic money, foreign exchange and capital markets

4. Increase market efficiency by facilitating the use of standard documents and agreements among financial market players

5. Promote active participation in issuance and trading of sukuk

6. Enhance the depth and vibrancy of the Islamic financial markets by providing a conducive regulatory and tax environment

Source: Bank Negara Malaysia _Financial Sector Blueprint 2011–2020

Key Recommendations: Internationalization of Islamic Finance (Cont'd)

7. Position Malaysia including Labuan IBFC as an international retakaful centre

8. Continue to enhance financial linkages between different jurisdictions

9. Optimize the potential of existing Islamic financial market platforms

10. Develop Malaysia as a reference centre for Islamic financial transactions

11. Enhance Islamic finance knowledge propositions supported by a comprehensive talent development programme

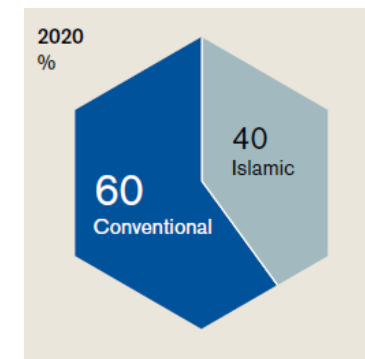
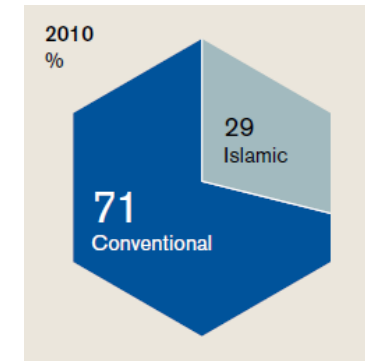
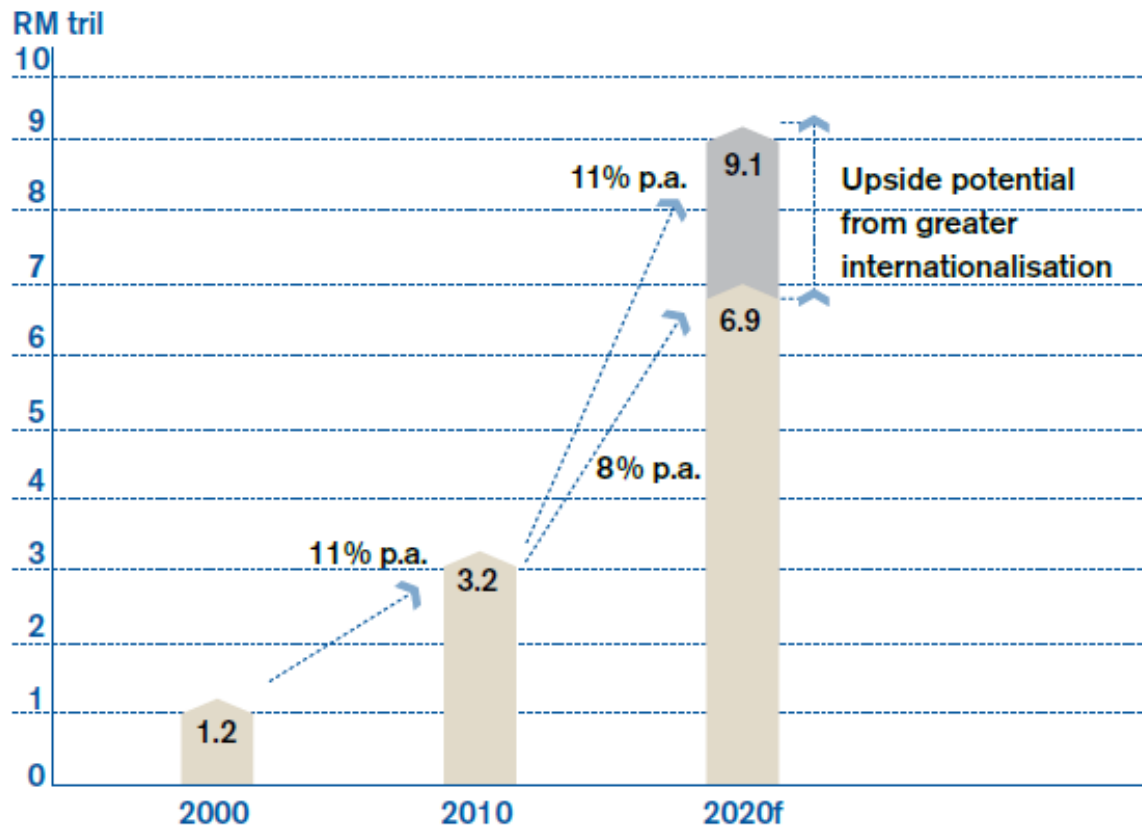
12. Promote greater global engagement and alliances in the development of the Islamic finance industry

Source: Bank Negara Malaysia _Financial Sector Blueprint 2011–2020

Share of Islamic Finance in 2020

The share of Islamic finance of total domestic financing to grow further to 40 percent from 29 percent currently

Size of the financial system*



Source: Capital Market Masterplan 2, 2011–2020, Bank Negara Malaysia

Capital Market Masterplan

Greater internationalization of the capital market is a critical aspect of the strategy to strengthen Malaysia's positioning as a global ICM hub

... The **sukuk market**, where Malaysia is a global leader, represents an attractive international value proposition. There is a need to strengthen the capacity to structure multi-currency and cross-border transactions...

... Malaysia has a strong base in equity and **equity-related products** and services. In this regard, the SC will collaborate with industry players to expand the range of Shariah-compliant stockbroking and portfolio products and services...

... The development of a significant **Islamic fund management industry** is critical to build domestic take-up capabilities for innovative domestic and international Islamic products. In this regard, widening the range of Shariah-compliant products – in the form of collective investment schemes, indices, ETFs and REITs...

... **A seeding strategy** will be developed to increase the diversification of Islamic investment strategies and styles. Priority will be placed on nurturing Islamic fund management services with high value-add such as the Shariah-compliant VC and PE...

Source: Securities Commission _Capital Market Masterplan 2, 2011–2020

Growth Prospects for Islamic Capital Market to 2020

Over the decade, the ICM is expected to sustain double-digit growth to almost US\$1 trillion in 2020 with CAGR of 10.6%

Market segments	2000 (RM bil)	2010 (RM bil)	CAGR % (2000–2010)	2020 (RM bil)	CAGR % (2010–2020)
Market cap of Shariah-compliant companies	254.1	756.1	11.5	1,551.1	7.4
Sukuk	39.6	294.0	22.2	1,331.5	16.3
Total ICM	293.7	1,050.1	13.6	2,882.6	10.6
Shariah-compliant unit trust NAV	1.7	24.0	30.3	158.0	20.7

Source: Securities Commission _Capital Market Masterplan 2, 2011–2020

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