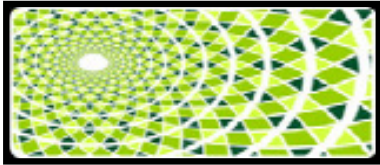


JUNE 2010

INTRODUCTION TO GLOBAL ISLAMIC FINANCE

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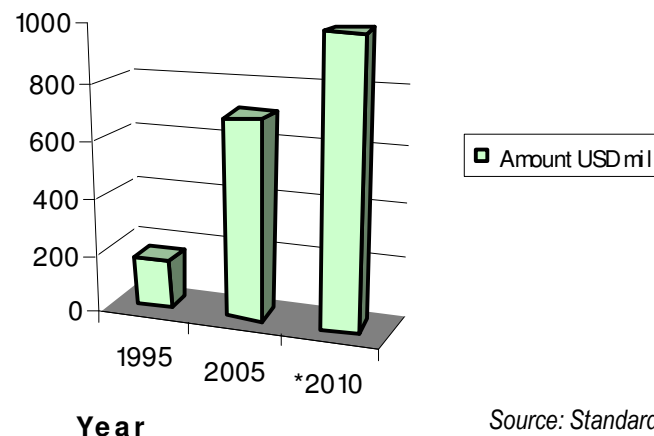
SECTION 1

OVERVIEW OF THE ISLAMIC FINANCIAL MARKET

Global: Growth of Islamic Finance

- Islamic finance **grew at a compounded annual rate of 15-20% (some estimate 25% p.a.)** over the past decade (*souce: Financial Insights*).
- Catering for a growing **Muslim population of 2.5 billion** worldwide by 2020
- Islamic banking **presents in over 75 countries**
- Total **Shariah-compliant assets is expected to exceed USD1 trillion by 2010**, according to various sources:
 - *McKinsey & Company estimates : USD750 billion in 2006 and exceeding USD1 trillion by 2010.*
 - *Ernst & Young : USD2 trillion by 2010, on the back of sustained high oil prices.*
 - *Zawya.com estimates the Islamic financial assets to be around USD1.4 trillion by 2010.*

Global Islamic Assets to exceed USD1 trillion by 2010



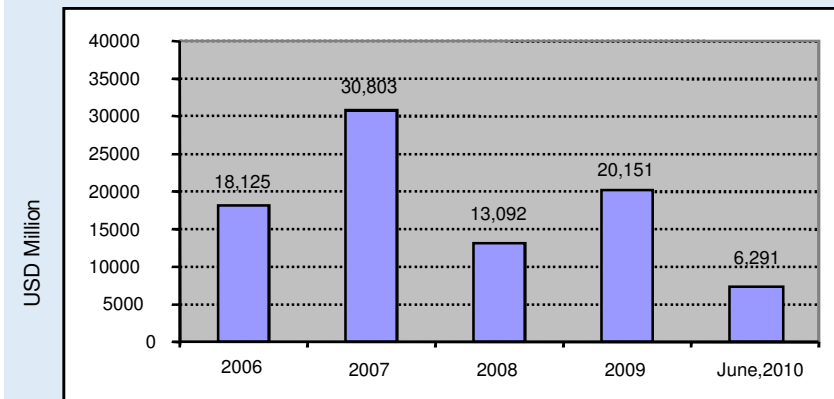
Source: Standard & Poor's, McKinsey Company

Global : Analysis of Sukuk Market

- Global Sukuk market boom spurred by:
 - global demand
 - advantages offered by Sukuk over conventional bonds.
- Global Sukuk issues reached a height of USD30.8bn in 2007**, growth momentum maintained with USD20.1 billion in 2009, with equal participation from Islamic and conventional investors.
- Sovereign Sukuk** issuance prevalent in **Malaysia, UAE, Bahrain, Qatar and Pakistan**
- Major **infrastructure-based Sukuk** financing include:
 - acquisition by **Port Authority** in Dubai
 - toll road** expansions in Malaysia
 - water projects** in Pakistan and Malaysia
 - real estate** projects in Dubai.
- In June 2010 alone, **CIMB Group had arranged 22.4% of the Global Sukuk**, topping the Global Islamic League Table.

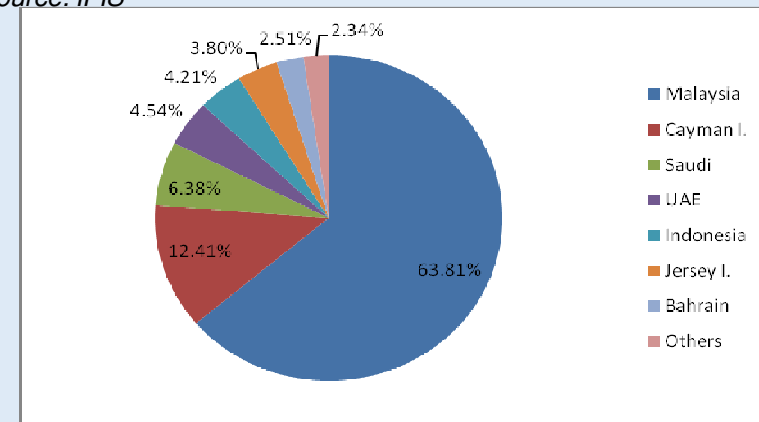
New Global Sukuk Issues

Source: Bloomberg



April, 2010 Global Sukuk amount (By Country)

Source: IFIS



SECTION 2

THE POTENTIAL OF ISLAMIC FINANCE IN ASIA

Sneak Preview – Developments of Islamic Banking & Finance in Asia

In 2008, the market share of Islamic banks in Pakistan grew tenfold to **5%** from a mere **0.5%** in 2003. The central bank wants to see the market share increase further to **12%** by **2012**.

Muslims make up **13.4%** of India's population, with Islamic coming second to the nation's official religion of Hinduism. 265 out of 1,269 stocks listed on the National Stock Exchange were Shariah compliant.

With a large banking sector (assets of **US\$ 290 billion**), Saudi Arabia is one of the more prominent players in Islamic finance, by virtue of its sheer size. At present, the kingdom has 4 full-fledged Islamic commercial banks.

During 2007, the total amount raised in Hong Kong was **US\$ 75.6 billion**, thus making Hong Kong the fifth largest fund-raising center in the world (and second in Asia). Hong Kong has put the development of the Islamic finance platform as a key priority in 2008/2009.

The Bank of Thailand may grant new licenses for restricted services including microfinance, Islamic banking and trust banks in **2011**.

Islamic banking assets in Malaysia have risen by **23%** to US\$ 66.3 billion, compared with 2007. The Shariah compliant assets now stood at **17%** of total assets in the industry.



Asia: Time to Seize the Moment

Developed Market

- The industry remains largely fragmented, with different levels of sophistication and acceptance in different markets.
- Malaysia, Bahrain, UAE, Qatar and Kuwait, for example, are countries where Islamic finance is at an advance stage. There are special regulatory regimes and tax concessions in place to address the various structures of Islamic finance solutions.

Development Stage

- Countries in Asia Pacific such as Indonesia, Thailand and Singapore are currently at developmental stages. Other countries like Hong Kong, Japan and South Korea have also taken initial steps in developing the Islamic capital market.
- There are untapped opportunities in Asia Pacific, specifically “blue-chip” corporates, multi-lateral development institutions, Sovereigns, State-owned enterprises and the likes – looking to tap Islamic finance as an alternative source of funding.

Exploring

- Philippines, Vietnam and Taiwan are examples of countries that put Islamic finance on top of its “To-do” list and are in the midst of exploring how Islamic finance works and is still an on-going process.

CIMB Group's Role in Developing Islamic Finance in Asia

	Features
Malaysia	<ul style="list-style-type: none"> CIMB's contribution in the development of the Islamic financial framework in Malaysia include: <ul style="list-style-type: none"> ➤ New innovative financial instruments – e.g. Islamic Private Debt Securities (debenture equivalent). CIMB liaised with the relevant authorities, including Securities Commission, Inland Revenue, MOF and Central Bank for the framework of Sukuk issuance; ➤ Tax neutrality – push for a tax neutrality environment for Islamic financing structures; ➤ Education / awareness – conducted briefings, seminars and trainings to promote a better understanding of the mechanics of Islamic finance; and ➤ Continuous consultation with regulators – to overcome various issues the industry is facing. Today, CIMB continues to participate in the development of Islamic finance as well as promoting Malaysia as the International Islamic Financial Centre.
Indonesia	<ul style="list-style-type: none"> Islamic finance & Sukuk framework – appointed as adviser and member of the working committee for the overall development of the Islamic financial market, including the drafting of the Sukuk Law which governs the sovereign Sukuk issuance. The Sukuk Law was recently endorsed by Indonesian House of Representatives on 9 April 2008.
Thailand	<ul style="list-style-type: none"> Sukuk framework – working closely with IBank to establish strategic communications with the Public Debt Management Office (PDMO) which focuses on spearheading the development of Sukuk market. Also appointed adviser and member of the working committee assisting and advising on the overall development of Sukuk market in Thailand. First Sukuk issue – entrusted by Islamic bank of Thailand (IBank) to work on its maiden Sukuk issuance

CIMB Group's Role in Developing Islamic Finance in Asia (Cont'd)

	Features
Singapore	<ul style="list-style-type: none"> Recognising the growing prominence of Sukuk issuance, the Monetary Authority of Singapore became a full member of the Islamic Financial Services Board in April 2005. To promote Islamic financing, the MOF of Singapore introduced tax neutrality (including waiver & concessionary rates) for Shariah-compliant fundraising exercises Development of Islamic products offering – CIMB has been in strategic communications with the authorities to widen the range of Islamic products offered as Singapore revises its banking framework to accommodate Islamic-compliant financial offerings.
Hong Kong	<ul style="list-style-type: none"> Development of Islamic finance framework – following CIMB-GK being accepted as an institutional member of the Treasury Markets Association (“TMA”), it was subsequently appointed in May 2008 a representative for the development of Islamic finance in Hong Kong. The Hong Kong authorities have shown keen interest to cooperate with CIMB to develop the Islamic capital market in Hong Kong.
Others	<ul style="list-style-type: none"> Development of Islamic capital markets – Assumed advisory role for potential Sukuk issuances by government-owned entities and corporations from Japan, Vietnam and Philippines – to spearhead the development of Islamic capital markets in these countries.

SECTION 3

ISLAMIC FINANCE IN THAILAND

Making Islamic Transaction Effective, Efficient & Attractive in Thailand

Maintain best practice in terms of policies and procedures	To identify and adopt the policies and procedures together with financial guidelines that are shariah compliant to reduce any ambiguity amongst onshore and offshore issuers, investors and other financial market players
Provision of Tax Neutrality	To make the necessary amendments to the tax legislation to allow for tax neutrality in order to achieve parity with conventional bonds in terms of cost to ensure a level playing field.
Effective Regulation for Shariah Advisory	Shariah Advisory at regulatory level acts as the sole authoritative body to advise on Sukuk transaction and other Islamic financial operations.
Introduction of Incentives to Issuers and Investors	To allow incentives such as tax breaks to issuers/investors in order to issue/invest in Sukuk.
Broadening the Investor Base	Broadening the local investors base to invest in local Sukuk issuances by the Thai government, government linked agencies, state owned enterprises and corporates.

The Current Status of Sukuk Market in Thailand

Public Debt Management Office (Government of Thailand)	Establishment of the Sub-Working Group Committee under the Debt Capital Market Committee of Thailand to focus on the development of Islamic capital markets in Thailand.
Securities Exchange Commission (SEC) of Thailand	Ongoing research at SEC to understand the characteristic and feature of Sukuk. SEC has issued the SEC notification to govern the Sukuk issuance under the Trust Certificate framework, currently pending finalization of tax treatment.
Revenue Department (RD) and Land Department (LD) Thailand	RD and LD are currently considering providing tax neutrality for Sukuk Transactions in Thailand.
Islamic Bank of Thailand (IBank) and State-owned Enterprises (SOEs)	Proposed issuances by Thai issuers, including Sovereign, IBank and SOEs will support the initiative by the Government of Thailand to develop the Islamic capital markets in Thailand and to set a new pricing benchmark for future Islamic Sukuk issuances in Thailand.

Section 4 **CONCLUSION**

Islamic Finance: The Uncharted Territory

The geopolitical and demographic characteristics of Asia that constitute a small to medium percentage of Muslim population shows there is a greater opportunity to explore and implement Islamic banking and finance in the near future.

Not only Asia's major financial centers such as Japan, Hong Kong and Singapore declared their intention to develop themselves as Islamic financial centers, but traditional centers of Islamic finance industry such as Malaysia, UAE and Saudi Arabia, have also seen escalating levels of innovation and activity.

Islamic banking will form the cornerstone of Asia's banking growth in the coming years. The fact that two sovereign Sukuk were launched recently by Singapore and Indonesia, bode well for Islamic finance in Asia.

