

ISLAMIC FINANCE

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IRAS Seminar

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THE ISLAMIC BANK OF ASIA

البنك الإسلامي الآسيوي

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Agenda

1. Growth of Islamic Finance Industry
2. Singapore in the Big Picture
3. Islamic Finance versus Conventional Finance
 - a. Structure Comparison
 - b. Tax Implications
4. Current Tax Incentives Strengthen Singapore's Role in the Islamic Finance Market



Global View

- Islamic Banking – no longer a niche market ?
- Over 300 institutions in 75 countries.

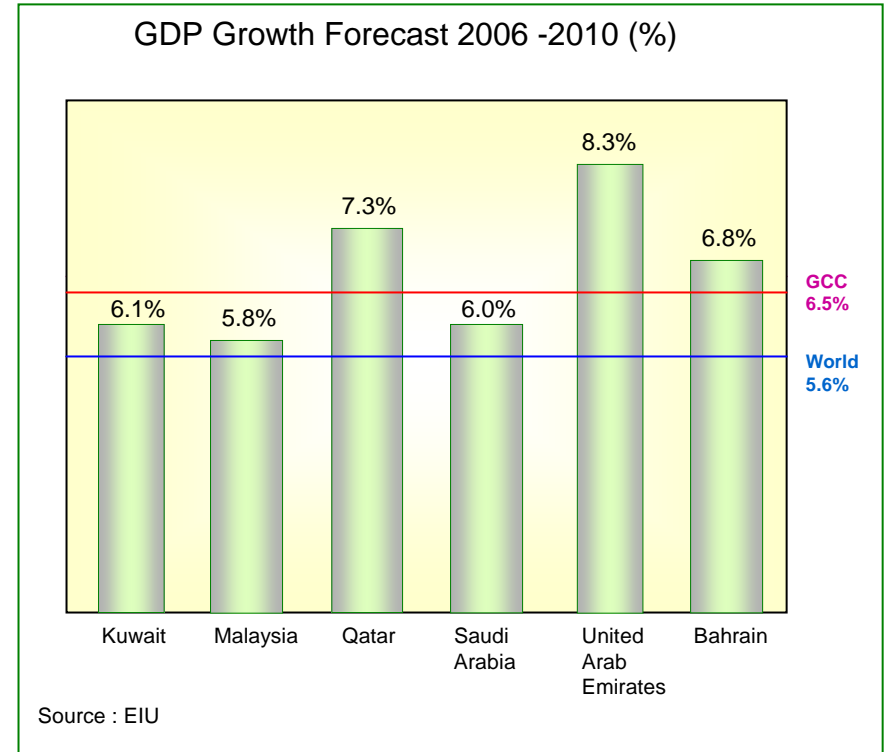
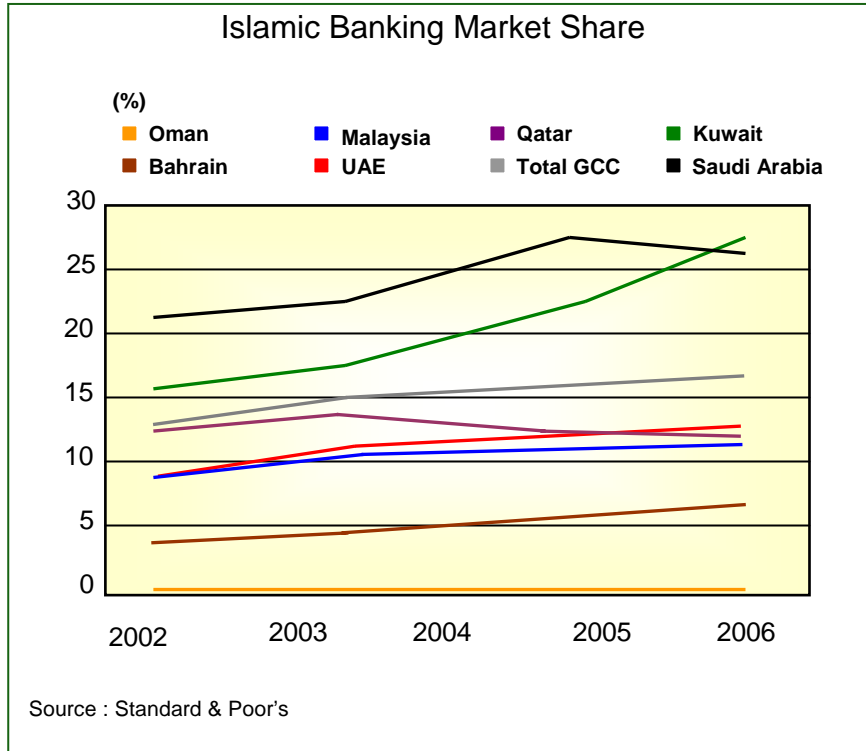


Source: IIBI



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Principal Markets



Source : Qatar Financial Centre Authority, Apr 2007

Principal Products

■ Commercial Banking

Continues to grow at 10-15% p.a. in the principal markets and since 2001 has consistently outpaced growth in the conventional banks within these markets. Global assets now estimated to exceed \$500bn.

■ Sukuk

Islamic “bond” issuance now exceeds \$70bn, although growth is still patchy. Traditionally, Malaysia accounted for the majority of issues, but Moody’s recently reported the Gulf had raised \$13.2bn to Malaysia’s \$9.7bn in 2007.

■ Takaful

Significant growth seen since 2000, with over \$2.5 bn in annual premiums and the arrival of AIG, Prudential, Allianz, Aviva etc. and for retakaful: Hanover Re. Muchich Re..

■ Asset Management

Approx. 400 sharia compliant funds now exist with over \$200bn in AUM. To date, these are principally equity linked with some notable exceptions including a small number of hedge funds.

ISLAMIC BONDS	JAN - SEPT 2007	
Managers	US\$ m	Market Share
HSBC	3,642	14.6%
CIMB	3,603	14.5%
Malaysian Govt. Bond	2,863	11.5%
Citigroup	1,668	6.7%
Barclays Capital	1,593	6.4%
Deutsche Bank	1,393	5.6%
Riyad Bank	1,066	4.3%
BNP Paribas	845	3.4%
Abu Dhabi Investment	843	3.4%
Credit Suisse	843	3.4%
Top 10 total	18,359	
Top 20 total	24,884	

ISLAMIC BONDS	JAN - SEPT 2007	
Country	US\$ m	Market Share
Malaysia	11,184	44.9%
UAE	6,384	25.7%
Saudi Arabia	5,716	23.0%
Kuwait	775	3.1%
Qatar	300	1.2%
Pakistan	210	0.8%
Top 10 total	24,884	

Source: Dealogic

Reasons for Recent Growth – Macro Issues

- Oil prices.
- Geo-political factors (?).
- De-regulation in regional market.
- Greater effort towards standardisation and improved standards of governance.
- New markets beginning to open.
- Growing understanding of the principles and that the industry is open to everyone not just Muslims.

Source of Islamic Jurisprudence

- Islam is a complete way of life and provides guidance in the conduct of one's private, social, political, moral and economic affairs (including banking affairs).
- The law and jurisprudence that governs the complete way of life is known as Shari'a.
- Shari'a is derived from two primary sources of knowledge, the Quran and the Prophet Muhammad's (PBUH) Sunnah.



Principles of Islamic Banking and Finance

- One of the bedrock requirements of Islamic Banking and Finance is the prohibition of Riba' and Gharar.
- Riba' means usurious practice; the modern financial process is considered Riba.
- Gharar is defined as uncertainty and ambiguity that will lead to deceitful actions.
- Islamic banking is not about lender-borrower relationship.
- Islamic banking gets into 3 types of contracts
 - Trade based (Buyer-Seller relationship)
 - Rental based (Lessor- Lessee relationship)
 - Equity based (Partnership relationship)



Singapore in the Big Picture

- What are the intentions and aspirations of Singapore ?
- Ability
- Prowess

Products

- Murabaha
- Ijara
- Istisna
- Salam
- Musharaka
- Mudaraba

Murabaha

- Sale between two parties
- Cost plus disclosed profit
- Payment can be immediate or deferred

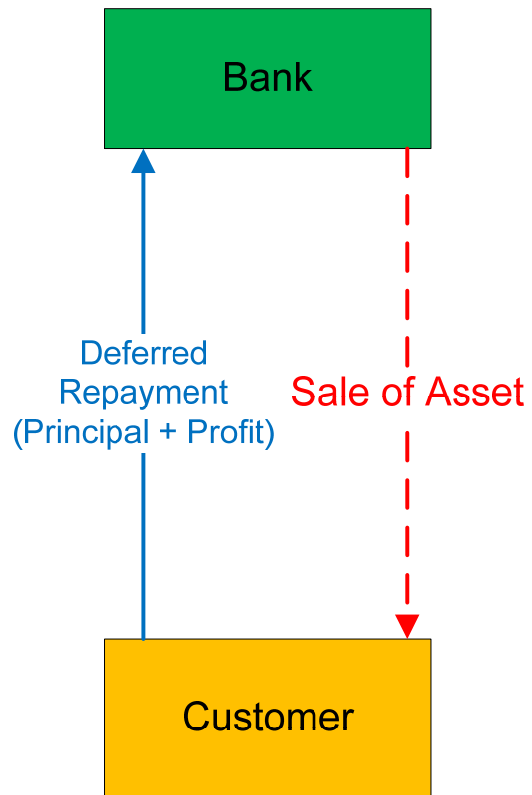
Constituents of Murabaha

- Seller
- Buyer
- Original Price
- Sale Price



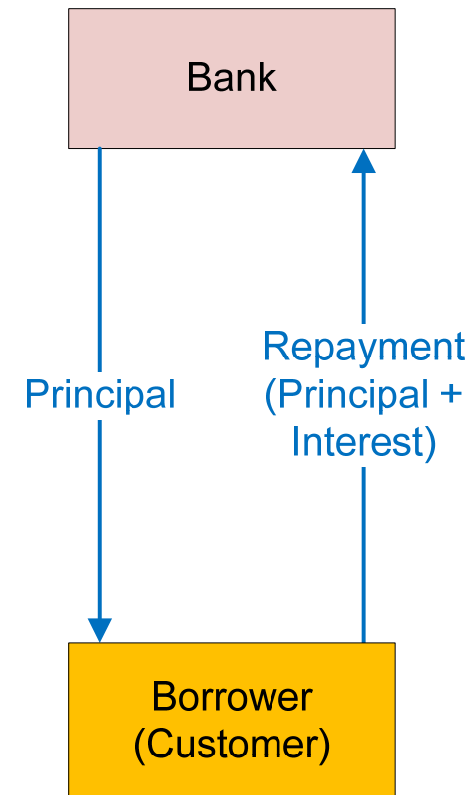
Murabaha Contd.

Sharia Compliant Financing



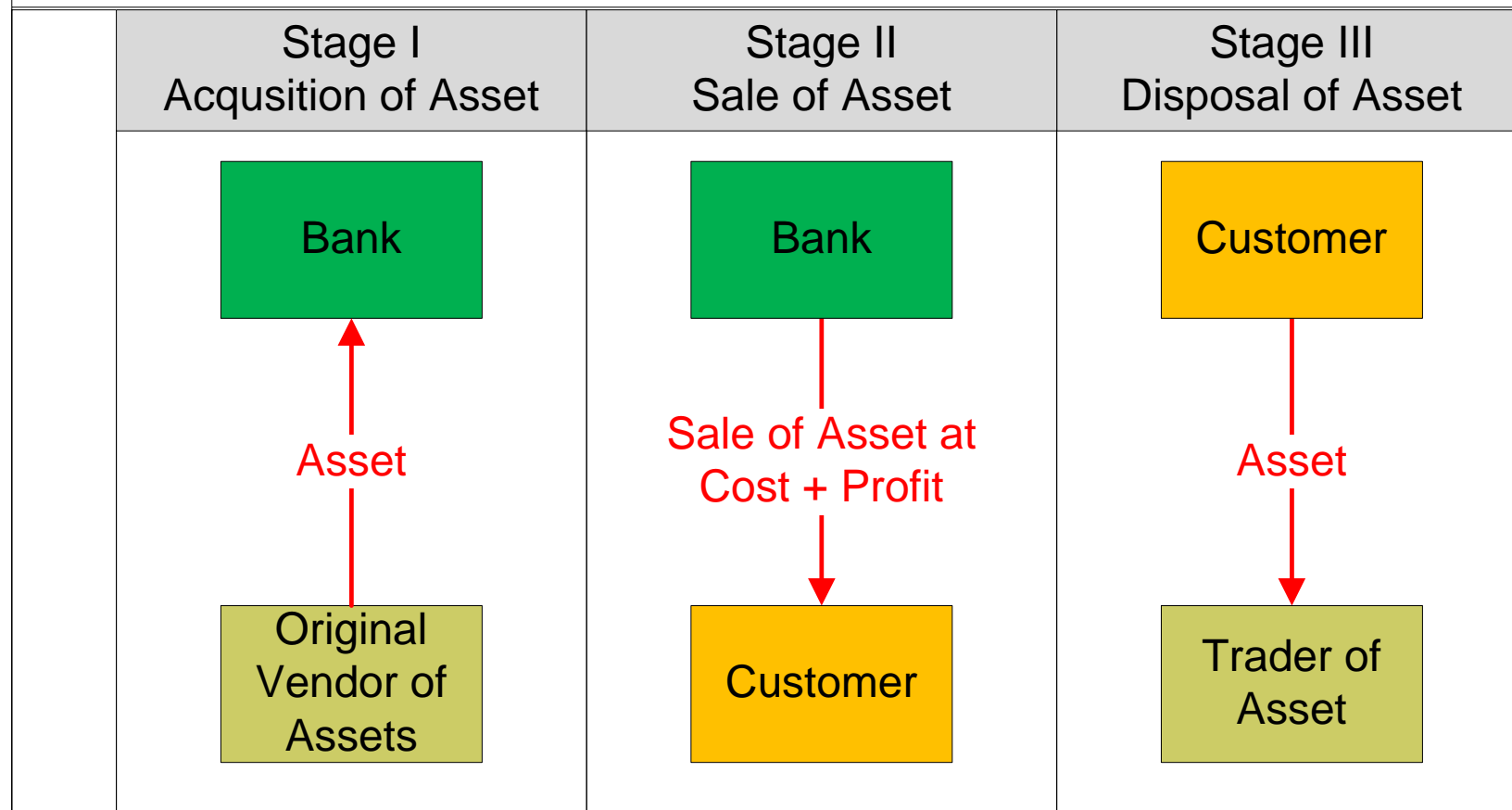
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Conventional Lending



Murabaha Contd.

Examining each Stage



Istisna

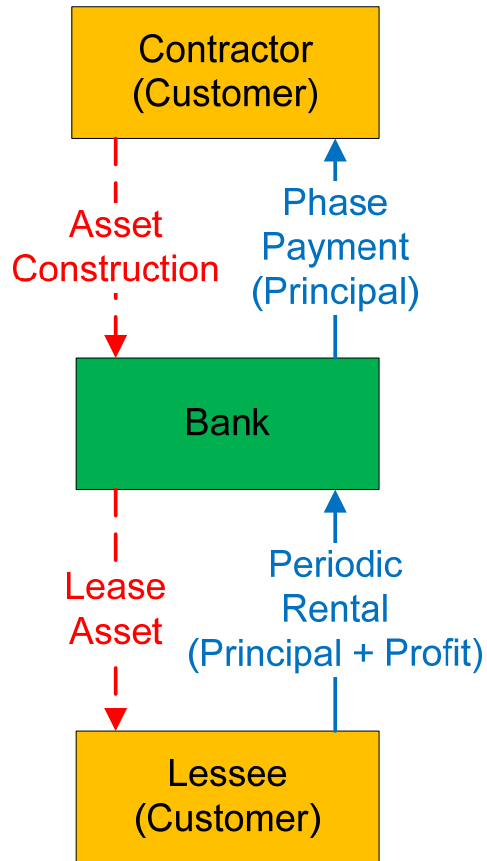
Istisna means contract for works.

Simply said, one party buys goods that the other party undertakes to manufacture according to specifications.



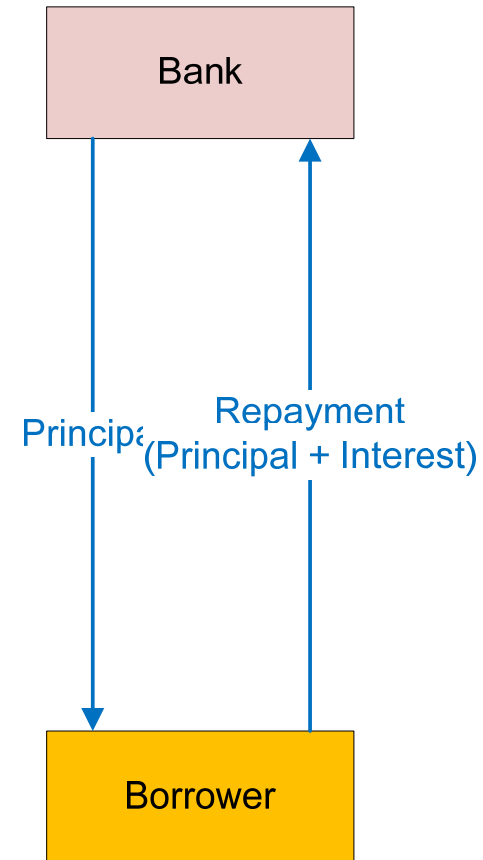
Istisna Contd.

Sharia Compliant Financing

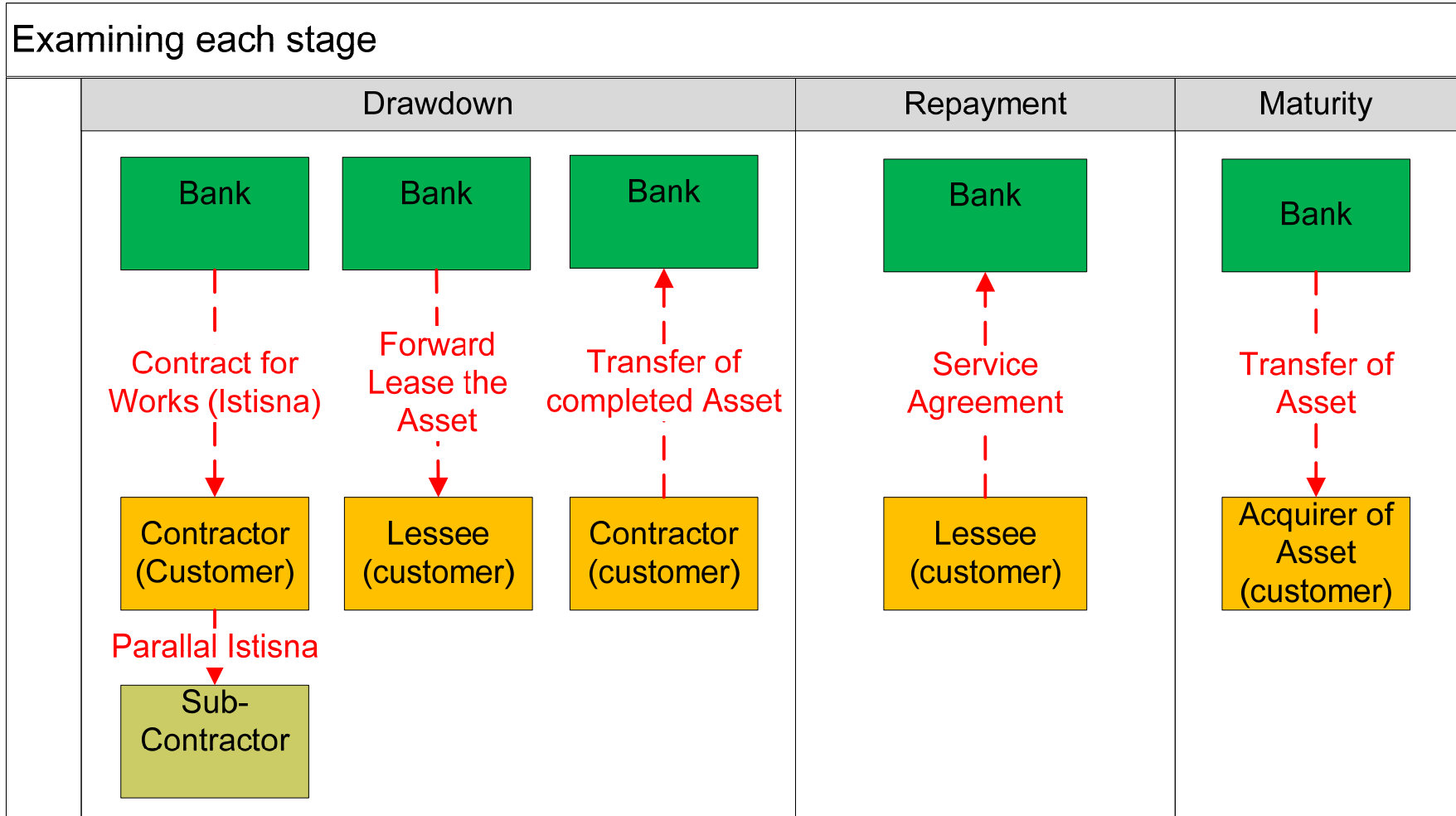


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Conventional Lending



Istisna Contd.



Some Differentiating Factors

Main factors:

- **Structure**
- **Fatwa from a Sharia Board/Scholars**
- **Documentation**
- **Maintaining memo records of various assets**
- **Physical delivery of asset 'manifested' through transfer of ownership documents**



Latest Tax Incentives

- **Enhancement of Financial Sector Incentive (“FSI”) Schemes**
 - To give a 5% concessionary tax rate on income derived from performing Sharia compliant activities relating to lending, fund management and other investment advisory.
 - The incentive is for 5 years.
- **Qualifying debt securities (QDS) scheme.**
 - Islamic bonds or *sukuks*, subject to the condition that any amount payable by the issuer to the investors of *sukuks* is not deductible against any income of the issuer accruing in or derived from Singapore, and the proceeds from the issuance are used outside Singapore.
 - 5 years.

Day to Day Challenges

- Sharia Scholars
- Accounting
- Regulatory
- Compliance
- Operations
- New Customers
- Risk Management
- The Monetization Process
- Documentation
- IT

Thank You

