

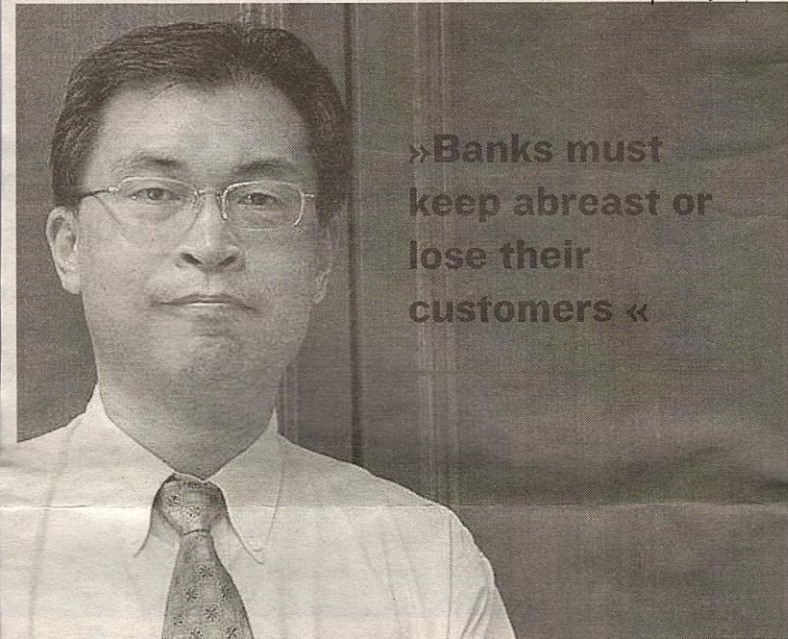
# Islamic banking rising but impact is minimal

Prospects good but it contributes only about 10% to earnings

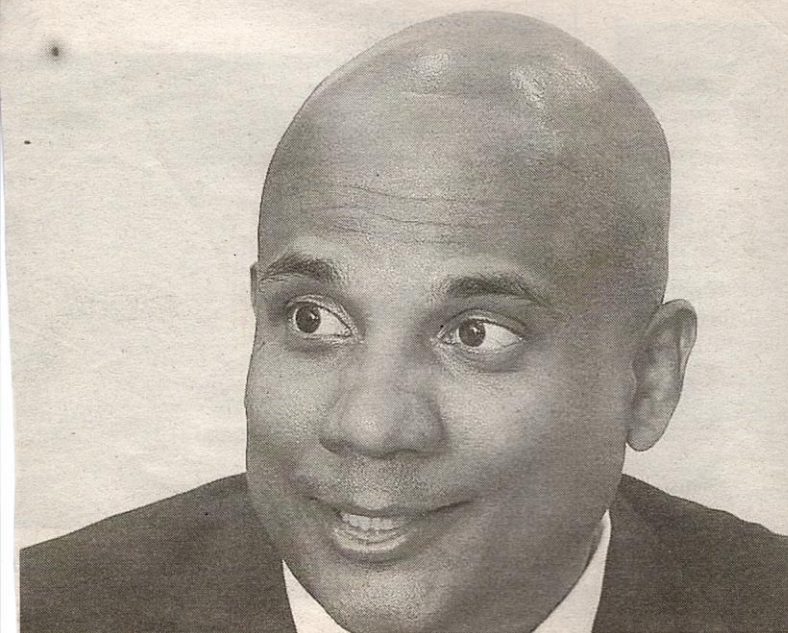
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By ELAINE ANG  
elaine@thestar.com.my

»Banks must keep abreast or lose their customers«



Pong Teng Siew



Promod Dass

**PETALING JAYA:** Although Islamic banking business is expected to remain on the uptrend, its contribution will have minimal impact on the total income of local banks, analysts said.

TA Securities noted that while prospects were still good for Islamic banking in the country, it contributed only 10% to 11% on average to the total income of the country's nine listed banks in the third quarter ended Sept 30, and 9% in the second quarter.

However, for the third quarter of 2008, Islamic banking income for these banks grew 3.7% versus the second quarter despite a 15.7% drop in the banks' total income.

"We expect the Islamic banking business to contribute an average of 10% to banks' total income for the current earnings reporting season (the three months ended Dec 31 to be released latest by end February)," said Wong Li Hsia, a banking analyst with TA Securities. "Going forward, we expect the Islamic banking business to slow down a little in line with the rest of the banking industry."

AMMB Holdings Bhd, which recently announced its third quarter results, recorded a net income of RM143.8mil from Islamic banking or a 16.2% contribution to its total income.

Hong Leong Bank Bhd's Islamic banking business registered a 6.8% contribution to total income for the fourth quarter ended Dec 31, while the Islamic banking business made up 11.56% of Public Bank Bhd's total income for the same period.

Jupiter Securities Sdn Bhd research head Pong Teng Siew also does not expect significant contribution from Islamic banking to banks' income.

"I don't expect very spectacular growth for Islamic banking this reporting season. Contribution from Islamic

## Islamic banking contribution

As a percentage of total income

	9-months ended Sept '07 (%)	9-months ended Sept '08 (%)
Public Bank	15.6	15.1
Maybank	26.5	31.6
EON Cap	5.3	4.9
AMMB	17.3	15.7
RHB Cap	10.6	7.7
BCHB	11.2	11.9
HLBB	5.2	4.8
Alliance	4.1	4.3
Affin	4.2	4.1

\* Based on total Islamic banking income of the 9 listed banks in Malaysia

Source: TA Securities

banking may be only 10% to 20% to total income on average," he said.

Nevertheless, he sees Islamic banking as a growth area for banks.

"Islamic banking is now a must for each bank to be able to remain competitive in the industry and to expand their customer base.

"Banks must keep abreast or lose their customers," he said.

RAM Rating Services Bhd financial institutions ratings head Promod Dass is confident that Islamic banking will continue to grow in the next five years.

His optimism is supported by the fact that nearly all the banking groups in the country are expanding their business via Islamic banking subsidiaries and Bank Negara is aggressively pushing the Islamic banking business by positioning the country as an Islamic financial hub.

"Although Islamic banking may not be so significant to banks in terms of income contribution now but I think it will change in future," he said.