

Dr M supports Petronas-backed mega Islamic bank
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By Mohd Farhan Dawis

KUALA LUMPUR, Jun 24 — Tun Dr Mahathir Mohamad has voiced his support for a proposal to set up a mega Islamic bank with Petronas and pension funds being used to underwrite some of the US\$1 billion (RM3.2 billion) in start-up capital.

The influential former prime minister insisted last night there would be nothing wrong should the government decide to go ahead with Bank Negara Malaysia's (BNM) proposal to use an injection from the cash-rich state oil firm as "Petronas money is government money."

Dr Mahathir said that should Petronas agree to fund the project this would mean the government could afford to back the plan. — file pic
"The idea is good but we need to see if others agree or not. Our country still does not have a mega Islamic financial institution.

"There is nothing wrong using Petronas funds. Petronas money is government money as well," said Dr Mahathir, who was PM for 22 years during which he weathered at least two financial crises.

The Petronas adviser said that should the company agree to fund the project, which The Malaysian Insider reported could be to the tune of US\$100 million, this would mean the government could afford to back the plan.

"If other parties agree, we can execute it. I am confident BNM will support it," said the former Umno president, who announced his retirement from active politics 10 years ago.

The Malaysian Insider reported yesterday the central bank's plan to set up a mega Islamic bank is causing disquiet in government circles and could set off opposition criticism over the use of public funds to underwrite part of the US\$1 billion capital.

The Malaysian Insider learnt that Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz surprised national oil firm Petronas and government pension fund Kumpulan Amanah Wang Pencen (KWAP) by making a personal pitch to them to invest US\$100 million each in the venture.

It is understood that the KWAP board declined to invest because it was not prepared to make such a commitment without due diligence.

While it is not Petronas' mandate to fund banks, the national oil company was previously directed by the Mahathir administration to bail out then Bank Bumiputera in 1985 with an injection of RM2.5 billion and also in 1991 with another RM1 billion.

When questioned about the matter on Friday, BNM declined to comment.

"With regards to your email, as a matter of policy the Central Bank does not comment on speculation," a spokesman replied by email to questions from The Malaysian Insider.

Government officials said when the idea of the Islamic mega bank was first mooted in 2010,

it was understood that foreign entities would fund the US\$1 billion entity.

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BNM had been due to issue two mega bank licences to spur Islamic banking but to date, neither has been materialised.

“It is strange that Malaysian institutions are being asked to bankroll this new bank. It was always meant to get funds from abroad,” a source said.

BNM had previously said in 2010 “the announcement of the licences will be made on completion of the assessment.”

Bankers say the bid to create a well-capitalised Islamic bank, which dates back to at least 2006, has been fraught with difficulties such as a struggle to raise sufficient capital and disagreement as to where the lender should be located.

One of the project’s main backers is Saudi Arabia’s Sheikh Saleh Kamel, founder and chairman of Bahrain-based Islamic bank Al Baraka, according to Reuters reports.

BNM has never disclosed the applicants for the licences but there was market speculation that the Islamic Development Bank and Al Baraka could be keen.

Earlier this year, Beirut-based Union of Arab Banks’s (UAB) magazine reported that a mega Islamic bank with a capital of US\$1 billion and headquartered in Bahrain might be launched this year.

It quoted UAB chairman Adnan Youssef as saying that some US\$600 million of the capital will be sourced from Islamic banks in the Middle East while the remaining capital will be subscribed to by local sovereign wealth funds and other financial institutions and investors.

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