Islamic Finance Seminar
Wednesday 2 December
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Chris Fletcher
Greater Manchester Chamber
Policy & Marketing Director

Greater Manchester Chamber of Commerce
Islamic Finance Seminar
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Sadiq Basha
Trustee
British Muslim Heritage Centre

Greater Manchester Chamber of Commerce
ISLAMIC FINANCE
Introduction to Al Rayan Bank

Maisam Fazal
Head of Commercial Finance
Islamic Finance

- Islam prohibits
  - Interest (Riba)
  - Uncertainty (Gharar)
  - Gambling (Mayser)

- Principles of Islamic Banking
  - Sharia compliant
  - Sharing of profit and loss
  - prohibition of the collection and payment of interest.
What are the main instruments?

- Musharaka (Partnership)
- Mudaraba (Special type of partnership)
- Murabaha (Special type of sale)
- Ijara (Lease)
- Qard (Loan without any benefit)
- Wakala (Agency agreement)
Musharaka (Partnership)

Definition: Musharaka is a partnership between two people or more with the objective of making profit

Main conditions:

• The business activity should be Sharia compliant

• Need to agree a profit sharing ratio in advance

• Loses must be shared according to capital ratio

• Capital can take the form of cash, goods or property

• Product type: Home Purchase Plan (HPP)
Musharaka Model (Contractual Partnership)

- Partner 1
- Partner 2
- Capital
- Share of Profit / Loss
- Joint Venture Project

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Definition: Murabaha is a special type of sale where the seller has to disclose the cost and the profit when making the sale

Main conditions:

• The subject matter of the sale must be Sharia Compliant

• Commodity must be described, quantified, and priced clearly

• You cannot sell what you don’t own

• Product type: Personal Finance / Commercial Property Finance
Murabaha Model

- **Financier / Bank**
  - Purchase of Commodity (Immediate Delivery)
  - Immediate Payment (cost)
  - Commodity (Immediate delivery)

- **Commodity Supplier**
  - Deferred Payment (Cost plus Markup)

- **Customer**

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Murabaha Model

• the Commodity must exist at the time of contracting;
• be clearly identified prior to the purchase;
• the goods must be in the physical or constructive possession of the financier before they are on-sold to the customer, thus ensuring the financier assumes the risks of ownership;
• the cost price must be known at the time of sale and declared to the customer; and
• the time of delivery of the goods and the time of payment must be specified.
### Islamic Banking providers - Players in the market

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL RAYAN BANK</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Gatehouse</td>
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<td>BLME</td>
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<td>Ahli United bank</td>
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<tr>
<td>QIB</td>
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</table>

- Banks offering Islamic Windows

Banking you can believe in
Growth of Islamic Finance

- Double Digit growth during last decade
- US$200 billion in 2003 to US$1.8 trillion in 2013 (Ernst & Young 2014, IFSB 2014). KFH figures recently come out suggest it has reached $2.1 trillion by end of 2014.
- However growth restricted to GCC countries, Iran, Malaysia and represent only 1% of global financial assets.
- UK issued first Sovereign Islamic Bond for US$298.08 million last year, which was 10 times over subscribed.
- 275: The number of Islamic financial institutions in the world.
- 75: The number of countries where they have a presence.
- US$4 trillion: The projected value of the global Islamic finance services industry by 2020.
Introducing Al Rayan Bank

First wholly Sharia compliant retail bank

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Banking you can believe in
Introducing Al Rayan Bank

UK’s First wholly Sharia compliant retail bank
Founded in 2004
160 employees
Over 30 products
Member of FSCS
Oversight via SSC & SCO

Head office in Knightsbridge
Over 60,000 customers
Formerly Islamic Bank of Britain
Authorised & regulated by FCA & PRA
Part of MAR

Background

Oversight via SSC & SCO
Asset backed & based
Islamic Finance
Different
Operates without interest
Never invest in prohibited areas
Based on trade entrepreneurship and risk sharing

Our values

Sharia compliant
Professional
Pioneering
Aspirational
Secure

‘Banking you can Believe in’

Ethical alternative to conventional

Muslim and Non-Muslims

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Distribution channels

- Branch/Agency
- Contact Centre
- Online banking
- Intermediary
- Self Service

Banking you can believe in

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Renamed Al Rayan Bank in Dec 2014
- Capital base now at £100m
- Assets to exceed £1billion before year-end
- 2014 was the first year of full profitability
- Within 4 years assets to exceed £2billion
- New, highly experienced board
OUR 3 OFFERINGS

AL RAYAN BANK

COMMERCIAL

RETAIL

Premier / Private Banking
Asset growth

- Retail:
  - Owner occupier, Home Purchase Plans
  - Investment property; Buy to Let
  - Help to Buy Scheme (backed by the UK Government)
- GCC: Residential finance to non-UK buyers in the UK
- Commercial property finance (UK and non UK investors)
  - Commercial Investment property
  - Residential investment property
Business model

- Grow existing retail banking business for UK nationals.
- Develop Private Banking for HNW clients
- Build UK real estate asset book
- Expansion into Europe, Paris, Germany and Italy
- Significant growth in the balance sheet over the next 5 years
Business model

- Attract retail deposits to fund asset growth
- Attract new deposits through Private Banking
- Continued support from our parent - MAR
A modern fast growing bank

- Modern systems with on-line banking
- Soon to be launched mobile banking platform
- Cloud based sales and marketing platform
- Contact less payment cards
Modern relevant products

- Selection of table topping savings products that frequently offer the highest returns available in the UK
- ISA savings accounts for tax free saving
- Help to Buy scheme supported by the government
- Children’s savings accounts
- Discretionary Portfolio Service
Moneyfacts – 12 months fixed term deposit options

<table>
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<tr>
<th>Bank</th>
<th>Rate</th>
<th>Term</th>
<th>Min Amount</th>
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<tbody>
<tr>
<td>Shawbrook</td>
<td>2.35%</td>
<td>18 Month</td>
<td>£5000</td>
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<tr>
<td>AL RAYAN BANK</td>
<td>2.17%</td>
<td>18 Month</td>
<td>£1000</td>
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<tr>
<td>FirstSave</td>
<td>2.12%</td>
<td>1 Year</td>
<td>£1000</td>
</tr>
<tr>
<td>Fidor</td>
<td>2.10%</td>
<td>1 Year</td>
<td>£1000</td>
</tr>
<tr>
<td>Charter Savings Bank</td>
<td>2.10%</td>
<td>1 Year</td>
<td>£1000</td>
</tr>
<tr>
<td>Milestone Isuzu</td>
<td>2.10%</td>
<td>1 Year</td>
<td>£1000</td>
</tr>
<tr>
<td>Harwood Bank Limited</td>
<td>2.10%</td>
<td>1 Year</td>
<td>£20000</td>
</tr>
<tr>
<td>Charter Savings Bank</td>
<td>2.07%</td>
<td>1 Year</td>
<td>£1000</td>
</tr>
<tr>
<td>RCI Bank</td>
<td>2.06%</td>
<td>1 Year</td>
<td>£1000</td>
</tr>
</tbody>
</table>

**RCI Bank**
- **1.65% AER gross variable**
- Unlimited access and withdrawals
- No penalties, fees or notice periods
- 7 day UK call centre, Quick application

**Santander 123 Current Account**
- Earn up to 1.35% AER
- Variable rate on balances from £150 (minimum of £2500) with the Santander 123 Current Account

**AL RAYAN BANK**
Banking you can believe in
<table>
<thead>
<tr>
<th>Bank</th>
<th>Rate</th>
<th>Minimum Investment</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>AL RAYAN BANK</td>
<td>2.62%</td>
<td>£1000</td>
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<tr>
<td>Shawbrook</td>
<td>2.46%</td>
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</tr>
<tr>
<td>Fidor Bank</td>
<td>2.40%</td>
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<tr>
<td>RCI Bank</td>
<td>2.35%</td>
<td>£1000</td>
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</tr>
<tr>
<td>Milestone</td>
<td>2.35%</td>
<td>£10000</td>
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<tr>
<td>Harrods Bank Limited</td>
<td>2.35%</td>
<td>£20000</td>
<td></td>
</tr>
<tr>
<td>Charter Savings Bank</td>
<td>2.32%</td>
<td>£1000</td>
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<tr>
<td>Paragon Bank</td>
<td>2.30%</td>
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<tr>
<td>Axis Bank</td>
<td>2.27%</td>
<td>£1000</td>
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</tr>
<tr>
<td>National Counties</td>
<td>2.26%</td>
<td>£1000</td>
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</tbody>
</table>
Moneyfacts – 36 months FTD
Real Estate Deals by Al Rayan Bank (CPF) Commercial Deals in the last 2 years

- Development of Hotel in Islington - £7 million
Commercial Deals in the last 2 years

Conversion of office into Resi in Luton - £8 million
Commercial Deals in the last 2 years

Houses in Knightsbridge £30.5 million
Commercial Deals in the last 2 years

Serviced Apartments in London - £82 million

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Commercial Deals in the last 2 years

• Offices in Warwick - £11 million

• Industrial portfolio (Tamworth/Doncaster/Glasgow) £12 million

• Student accommodation in Manchester & Leicester- £7 million
Commercial Deals in the last 2 years

Affordable Housing – Forest Gate & Ilford £21 million

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Banking you can believe in
VIDEO 1: HOW IS ISLAMIC FINANCE DIFFERENT

VIDEO 2: HOW ISLAMIC FINANCE WORKS
Islamic Finance Seminar
Wednesday 2 December

Dr Jonathan Ercanbrack
University of London
An Introduction to Islamic Finance

Dr. Jonathan Ercanbrack

Islamic Finance Breakfast Seminar
Greater Manchester Chamber of Commerce
2 December 2015
Principles

- Prohibition of Riba (Interest)
- Avoidance of Unjustified Returns
- Prohibition of Gharar (Risk)
- Avoidance of Zero-Sum Outcomes
- Profit- and Loss-Sharing
- Pursuit of Fair and Equitable Outcomes
- Profit Legitimate but requires: ownership and assumption of risk
Figure 1

Islamic Financial System (IFS) Profile of Contracts

Intermediation Contracts
- **Mudaraba**
  - Kifala
  - Amana
  - Takaful
  - Wikala
  - Ju’ala

Transactionnal Contracts
- Miscellaneous
- Asset Based Securities
- Equity Participation
  - **Musharaka**

Trade Financing
- **Qard Hassana**
  - **Murabaha**
  - Bay Mua’ajal
  - Ijara
  - **Istisna**

Collateralised Securities
- Bay salam
Transactional Contracts

• Similar to modern day asset-backed securities (claim against a pool of assets v claim against individual assets).

• Conventional debt securities characterised by a pre-determined pay-off
  - Islamic instruments are collateralised against a real asset.

• Financial claim is created against a real asset with a short-term maturity and relatively low-risk.
Intermediation Contracts

• Wakala, Musharaka and Mudaraba

• Solicit surplus funds and transform these into investment projects and/or transactional contracts (different maturities, risk)

• Islamic financial intermediation similar to investment bank

  Two tier mudaraba structure
Percentage Composition of Islamic Financial Structures Across a Range of Islamic Banks in MENA Countries in 2008

Defining Murābaḥa

- Cost-plus sale (*bay’ al-murābaḥa*): the object is sold at the price at which it was obtained plus a stated profit margin

- Costs: expenses can be added (AAOIFI No 8)
  
  Transportation expenses

  Storage expenses

  Fees for letters of credit

  Insurance premiums

- Usages: bank funding (reverse murabaha), trade finance, asset finance and interbank lending
Murābaḥa: Steps

1. Promise to Purchase/Sell Agreement:
2. Agency Agreement:
3. Purchase of Good from Supplier
4. Purchase by Buyer
5. Acceptance of the Offer
6. Debt created
Murābaḥa

- Spot sale
- Title to goods
- Deferred Payment (greater than Spot sale)
- Title to goods
- Security
Background

- Double stamp duty abolished (2003 Finance Act):
- 2003 HSBC launched its *amanah* current account and home financing products
- 2005 Lloyds TSB also introduced a range of Islamic retail banking products.
- 2004 Financial Services Authority (FSA) licensed the Islamic Bank of Britain
Islamic Finance in the UK

• Tenth largest country in terms of the size of its Islamic assets, valued at $19 billion in 2014

• 21 sukuk issues listed on the London Stock Exchange: total funds of over $25 billion

• Only Dubai’s NASDAQ is able to exceed these figures worldwide

• First western country to issue sovereign sukuk (£200 million)
  • Orders totalling £2.3 billion

• Commodity murabaha money flows
Other Highlights

• Six sharia compatible Islamic financial institutions
• Numerous conventional institutions offering Islamic finance products
• Over 25 law firms supply Islamic finance legal services
• Islamic finance and infrastructure:
  The Shard
  The Olympic Village
  Chelsea Barracks
  Battersea Power Station
Thank you for attending.