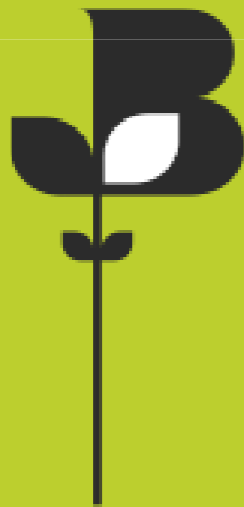


Islamic Finance Seminar

Wednesday 2 December



Greater Manchester
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Islamic Finance Seminar

Wednesday 2 December

Chris Fletcher
Greater Manchester Chamber
Policy & Marketing Director



Greater Manchester
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Sadiq Basha
Trustee
British Muslim Heritage Centre



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Islamic Finance Seminar

Wednesday 2 December

Maisam Fazal
Al- Rayan Bank



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AL RAYAN BANK

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)**



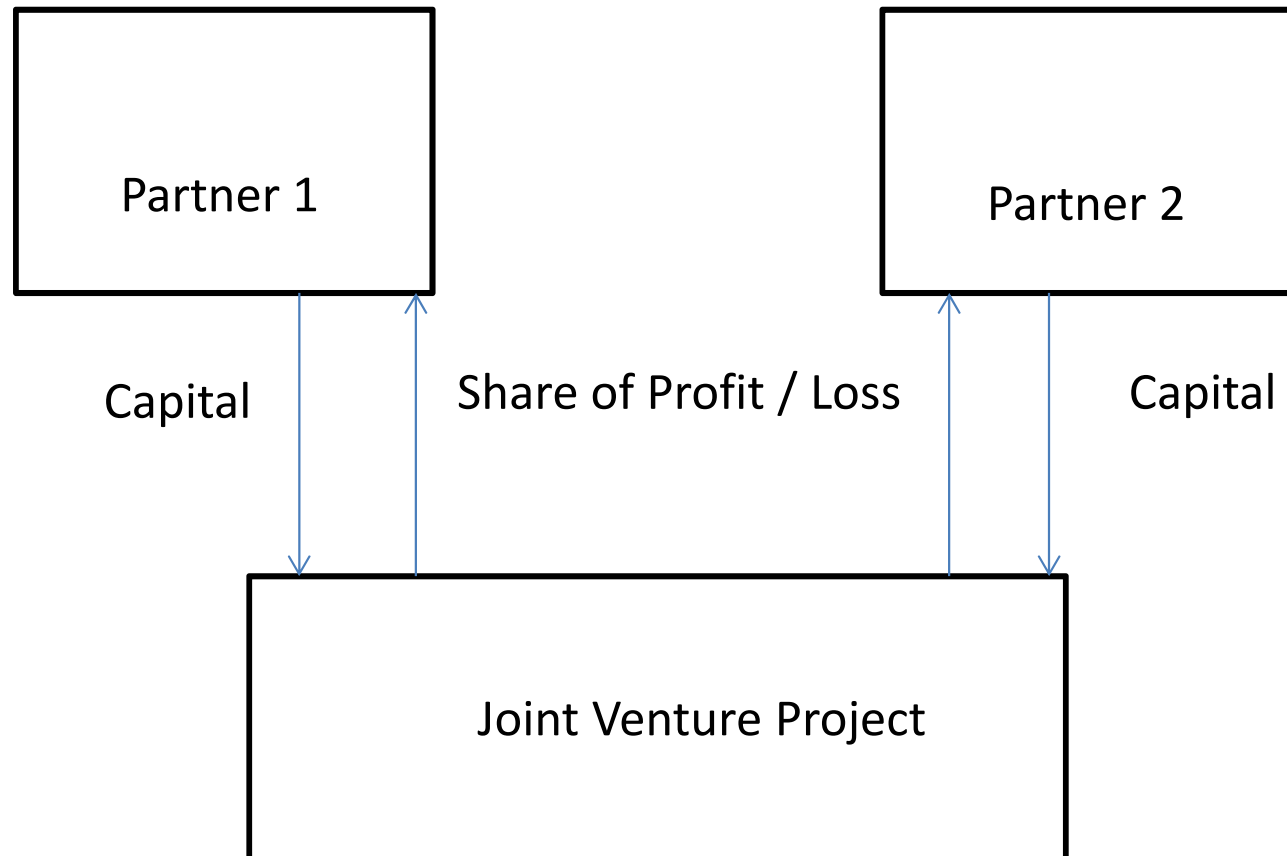
Musharaka (Partnership)

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)



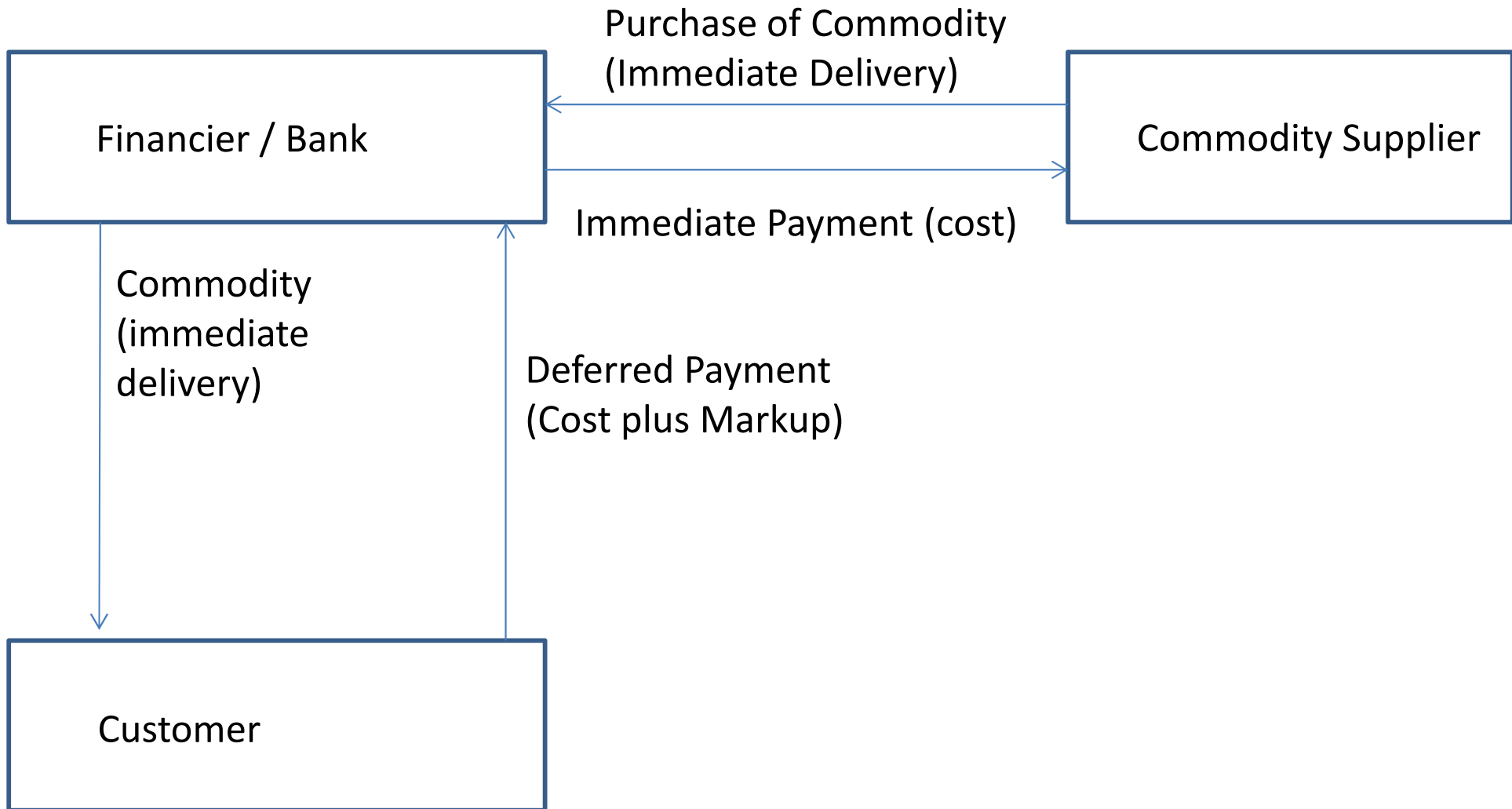
Murabaha (mark up / cost plus financing)

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



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

	Retail	Commercial
•AL RAYAN BANK	*	*
•Gatehouse		*
•BLME		*
•Ahli United bank	*	*
•QIB		*
•Banks offering Islamic Windows		*

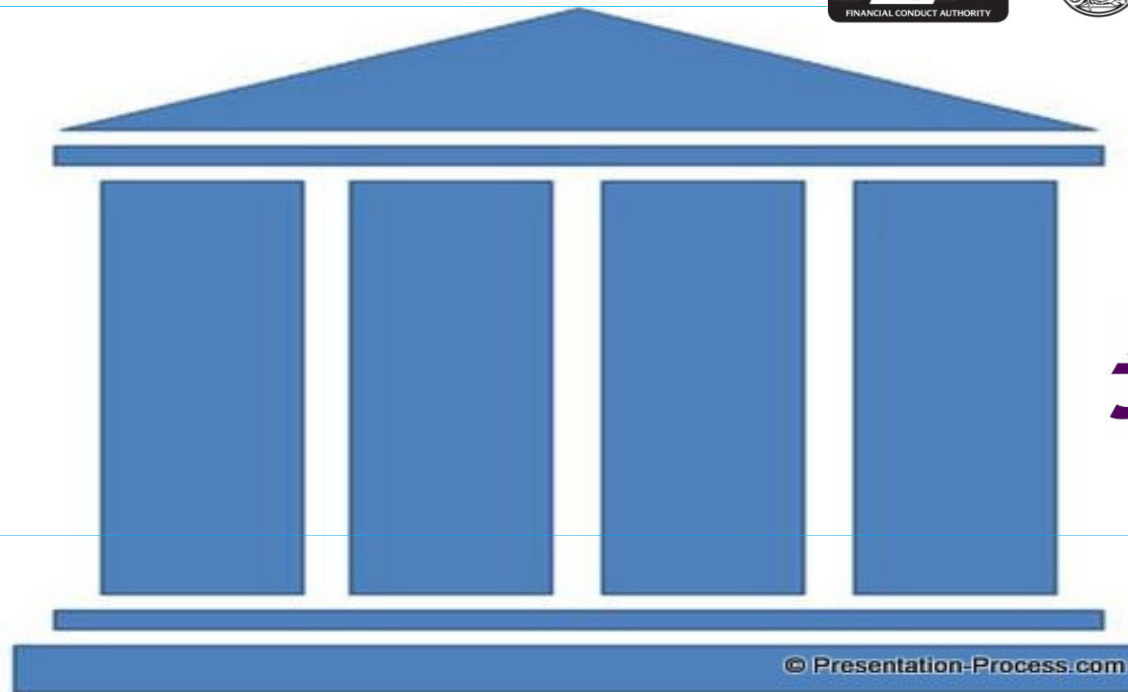
Growth of Islamic Finance

- 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



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

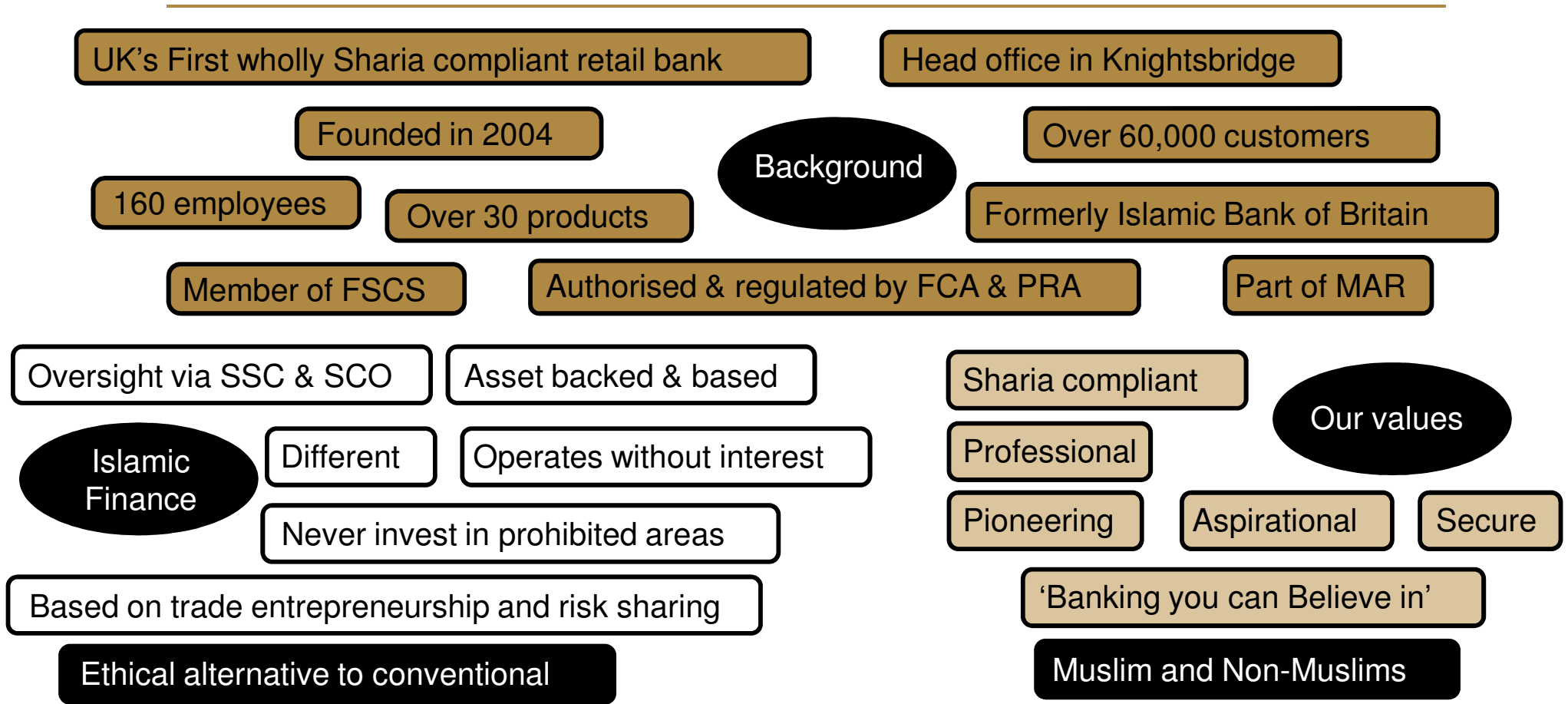


alrayanbank.co.uk

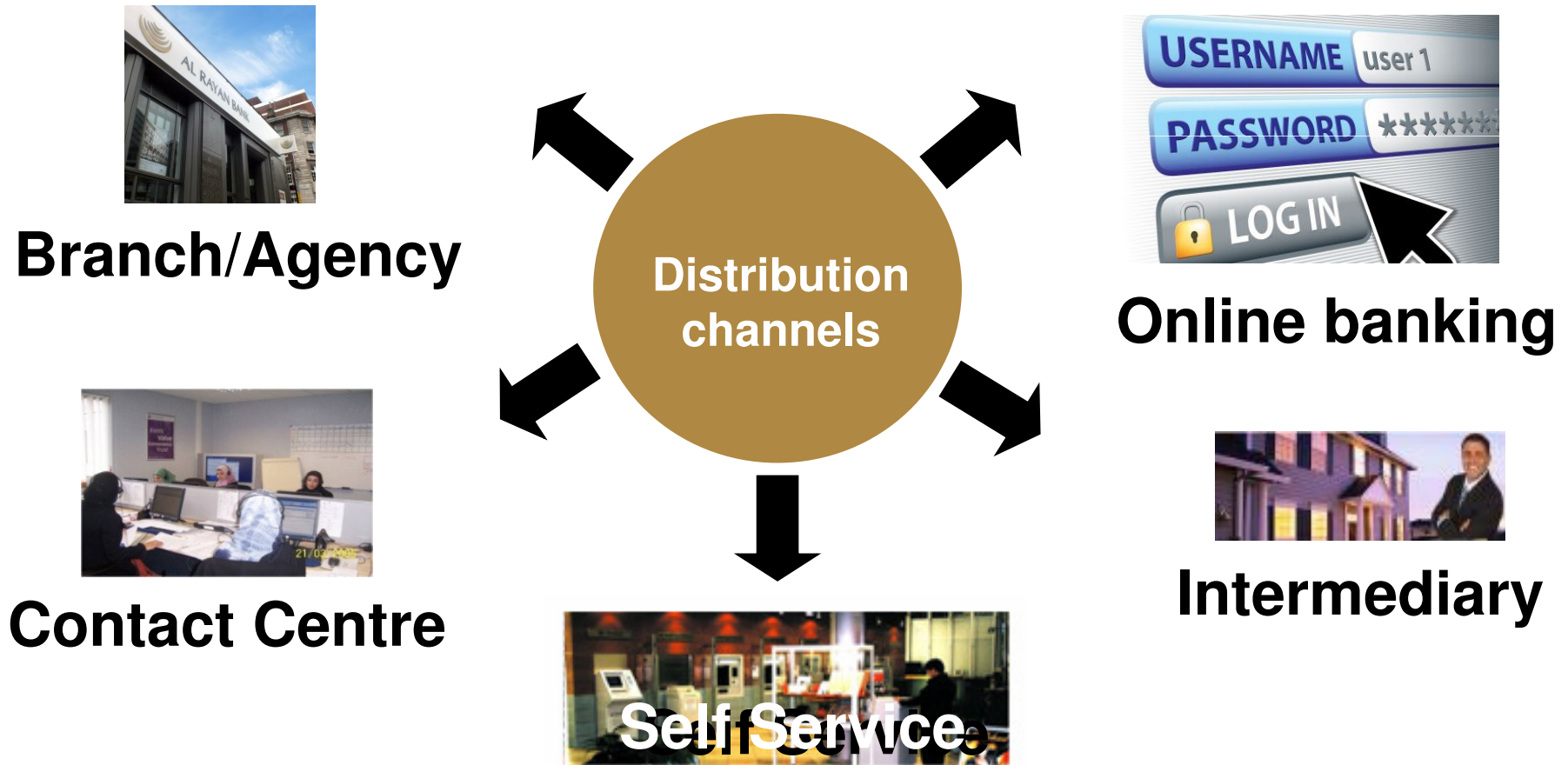
AL RAYAN BANK

Banking you can believe in

Introducing Al Rayan Bank



Distribution channels

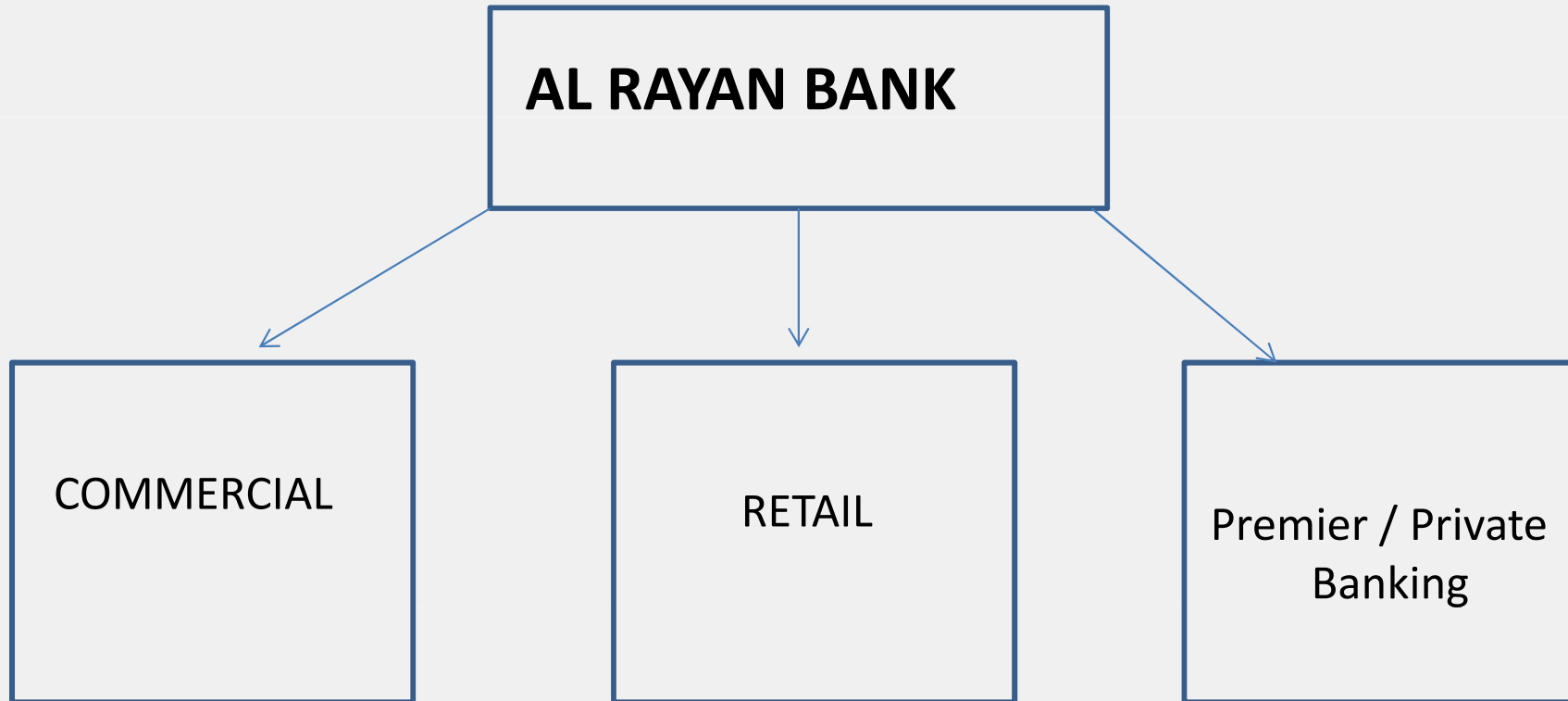


Al Rayan Bank - 2015

- ▶ 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 - 2015

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**



Al Rayan Bank - 2015

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



Al Rayan Bank - 2015

Business model

- ▶ Attract retail deposits to fund asset growth
- ▶ Attract new deposits through Private Banking
- ▶ Continued support from our parent - **MAR**



Al Rayan Bank - 2015

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



Al Rayan Bank - 2015

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 deposits

Fixed rate bonds | Comparison | moneyfacts.co.uk/savings/fixed-rate-bonds/

1 Year Fixed Rates						
	2.35%	18 Month Bond	£5000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.17% <small>expected rate See Details...</small>	18 Month Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.15%	1 Year Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.12%	1 Year Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.10%	18 Month Bond	£100	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	Go to Site
	2.10%	18 Month Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.10% <small>expected rate See Details...</small>	1 Year Bond	£10000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.10%	18 Month Bond	£20000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	Go to Site
	2.07%	1 Year Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.06%	1 Year Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	Go to Site

1 YEAR 2.25% AER* **2 YEAR 2.60% AER*** **3 YEAR 3.00% AER*** **5 YEAR 3.50% AER***

You risk losing capital should Castle Trust become insolvent. Early encashment is not permitted.

[Find out more](#)

If we cannot meet our obligations you can seek compensation of up to £50,000 under the FSCS, provided you are eligible for FSCS protection.

RCI Bank [Find out more](#)

The new 'best buy' easy access **Freedom Savings Account**
1.65% AER gross variable

- ✓ Unlimited access and withdrawals
- ✓ No penalties, fees or notice periods
- ✓ 7 day UK call centre. Quick application.

Authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Learn more at rcibank.co.uk/regulators. Available to UK residents aged 18 and over. Minimum deposit £100. Account terms apply.

Santander 123 Current Account

Earn up to **3% AER**
Variable on balances from £3k (maximum of £20k) with the Santander 123 Current Account [Apply here](#)

Moneyfacts – 24 months FTD

Fixed rate bonds | Comparison

moneyfacts.co.uk/savings/fixed-rate-bonds/

2 Year Fixed Rates						
	2.52% expected rate See Details...	24 Month Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.45%	2 Year Bond	£1000	Online ✓ Branch ✗ Postal ✓ Phone ✗	Details...	
	2.40%	24 Month Bond	£100	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	Go to Site
	2.35%	2 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	Go to Site
	2.35% expected rate See Details...	2 Year Bond	£10000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.35%	2 Year Bond	£20000	Online ✓ Branch ✓ Postal ✓ Phone ✗	Details...	Go to Site
	2.32%	2 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.30%	2 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.27%	2 Year Bond	£10000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	Go to Site
	2.26%	2 Year Bond	£10000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	

Trust

Fixed Rate Fortress Bonds

- 1 YEAR **2.25%** AER*
- 2 YEAR **2.60%** AER*
- 3 YEAR **3.00%** AER*
- 5 YEAR **3.50%** AER*

RCI Bank [Find out more](#)

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FlexDirect

9:35 AM 30-Nov-15

Moneyfacts – 36 months FTD

Fixed rate bonds | Comparison

moneyfacts.co.uk/savings/fixed-rate-bonds/

3 Year Fixed Rates						
	2.75%	36 Month Bond	£100	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	Go to Site
	2.73% expected rate See Details...	36 Month Bond	£1000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.70%	3 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.65% expected rate See Details...	3 Year Bond	£10000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.55%	3 Year Bond	£1000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.55%	3 Year Bond	£5000	Online ✓ Branch ✗ Postal ✗ Phone ✗	Details...	
	2.51%	3 Year Bond	£10000	Online ✓ Branch ✓ Postal ✓ Phone ✓	Details...	
	2.50%	3 Year Bond	£2000	Online ✓ Branch ✗ Postal ✗ Phone ✓	Details...	
	2.50%	3 Year Bond	£2000	Online ✗ Branch ✓ Postal ✓ Phone ✗	Details...	
	2.50%	3 Year Bond	£10000	Online ✓ Branch ✓ Postal ✗ Phone ✗	Details...	Go to Site

1 YEAR 2.25% AER* **2 YEAR 2.60% AER*** **3 YEAR 3.00% AER*** **3 YEAR 3.50% AER***

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Variable on balances from
£3k (maximum of £20k) with
the Santander 123 Current
Account [Apply here](#)

Windows taskbar: 9:35 AM, 30-Nov-15

Moneyfacts – Variable Cash ISA

The screenshot displays a web browser window with the URL moneyfacts.co.uk/isa/variable-rate-isa/. The page lists several Variable Cash ISA products. The table below summarizes the visible data:

Provider	Rate	Term	Min. Invest	Overseas	Online	Branch	Postal	Phone	Details
AL RAYAN BANK	2.02% <small>expected rate See Details...</small>	120 Day	£250	Yes	✓	✓	✓	✓	Details...
Virgin Money	1.56%	None	£1	Yes	✓	✗	✗	✗	Details...
the mansfield building society	1.55%	60 Day	£1	No	✓	✓	✓	✗	Details...
the West Brom	1.55%	None	£15000	Yes	✓	✓	✗	✗	Details... Go to Site
POST OFFICE Money	1.51% <small>Inc 0.86% bonus for 12 months</small>	None	£100	Yes	✓	✗	✗	✗	Details...
the COVENTRY PLC not PLC	1.50%	Instant	£1	Yes	✓	✓	✓	✓	Details...
monmouthshire building society	1.50%	Instant	£10	Yes	✓	✓	✓	✗	Details...
POST OFFICE Money	1.50% <small>Inc 0.85% bonus for 18 months</small>	None	£100	Yes	✗	✓	✓	✗	Details...
Teachers Building Society	1.50%	90 Day	£100	Yes	✗	✗	✗	✗	Details...
Co-operative	1.50%	40 Day	£9000	No	✗	✓	✓	✓	Details...

Below the table is a 'Sponsored Products' section. To the right of the main content area, there are advertisements for Santander 123 Current Account and Galvan Lloyds Share Offer.

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



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



VIDEO 1

VIDEO 1: HOW IS ISLAMIC FINANCE DIFFERENT

VIDEO 2: HOW ISLAMIC FINANCE WORKS





AL RAYAN BANK



Any questions?

Islamic Finance Seminar

Wednesday 2 December

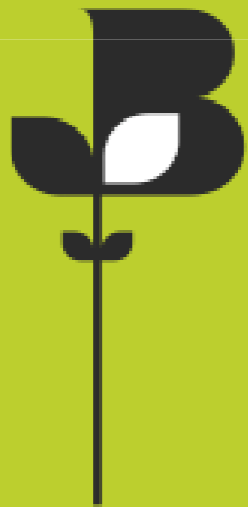
Dr Jonathan Ercanbrack
University of London



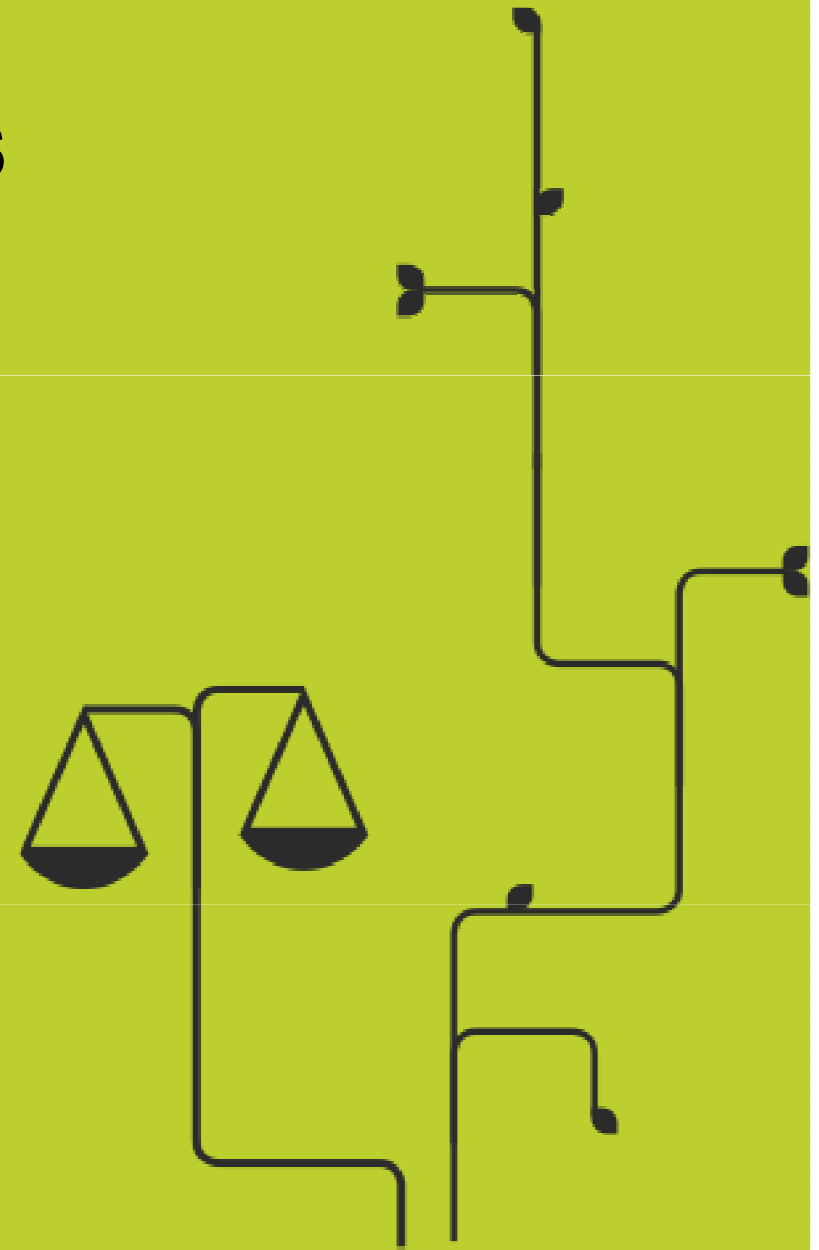
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Questions & Answers



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An Introduction to Islamic Finance

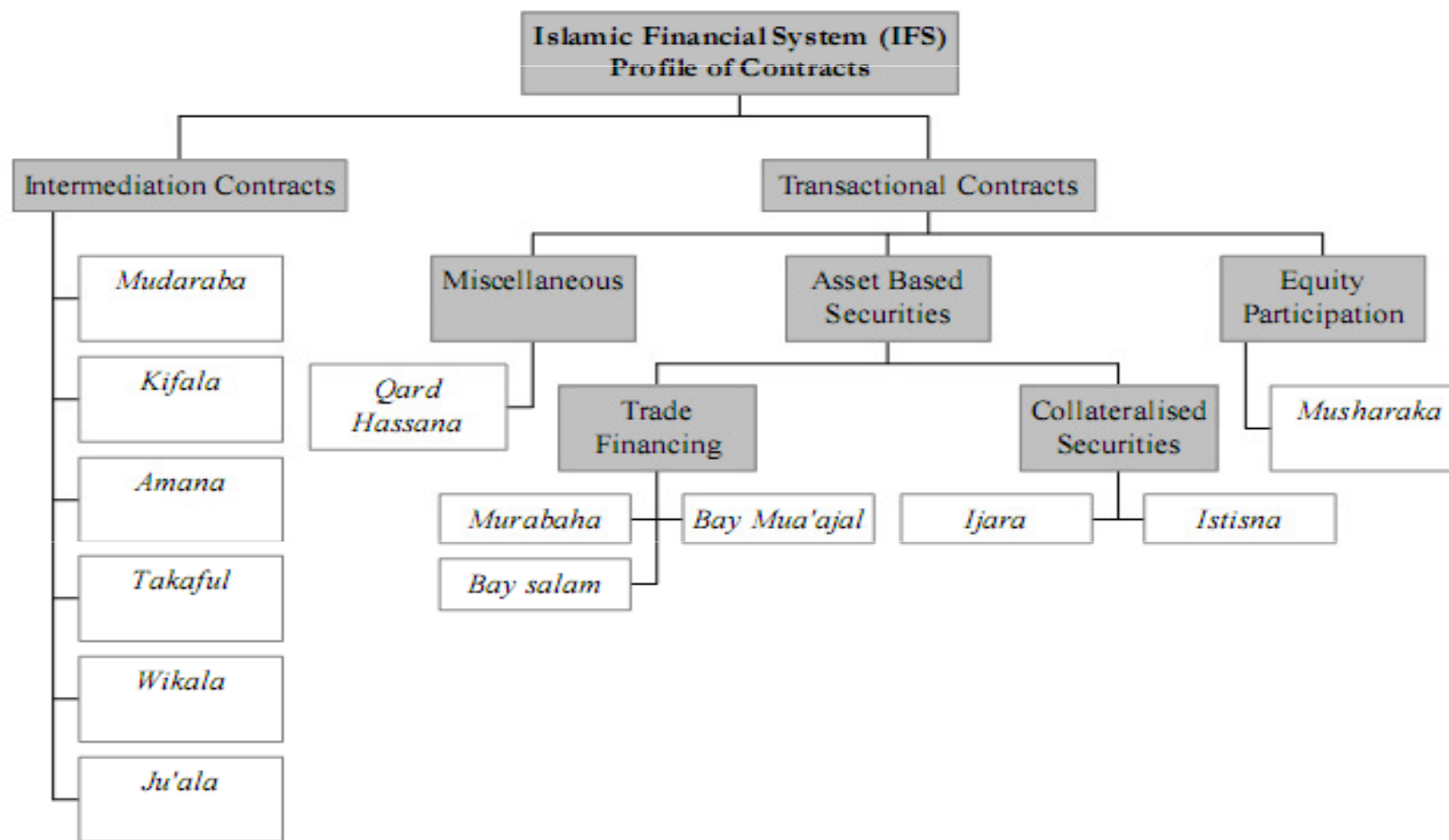
Dr. Jonathan Ercanbrack

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



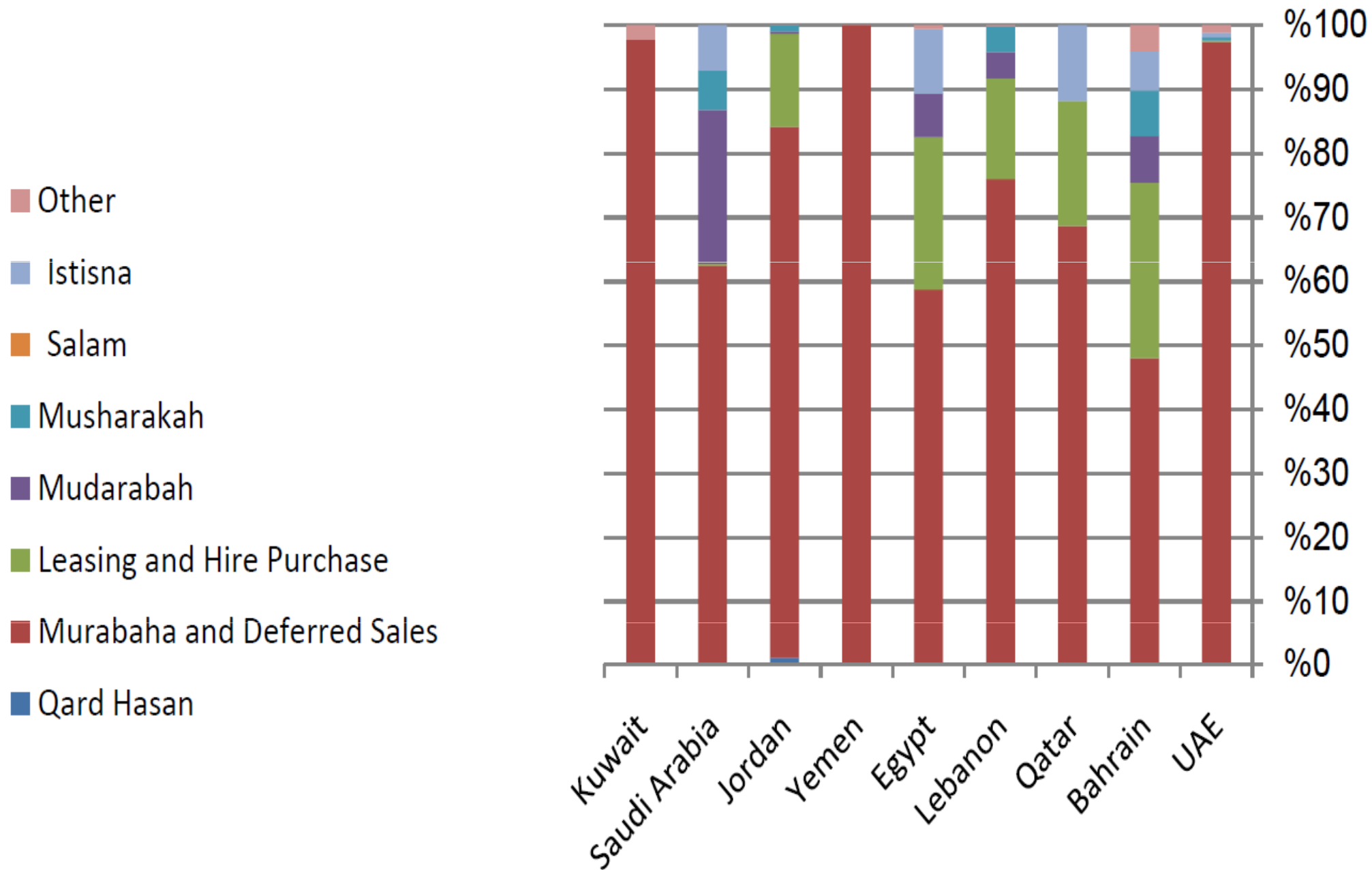
Transactional Contracts

- 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



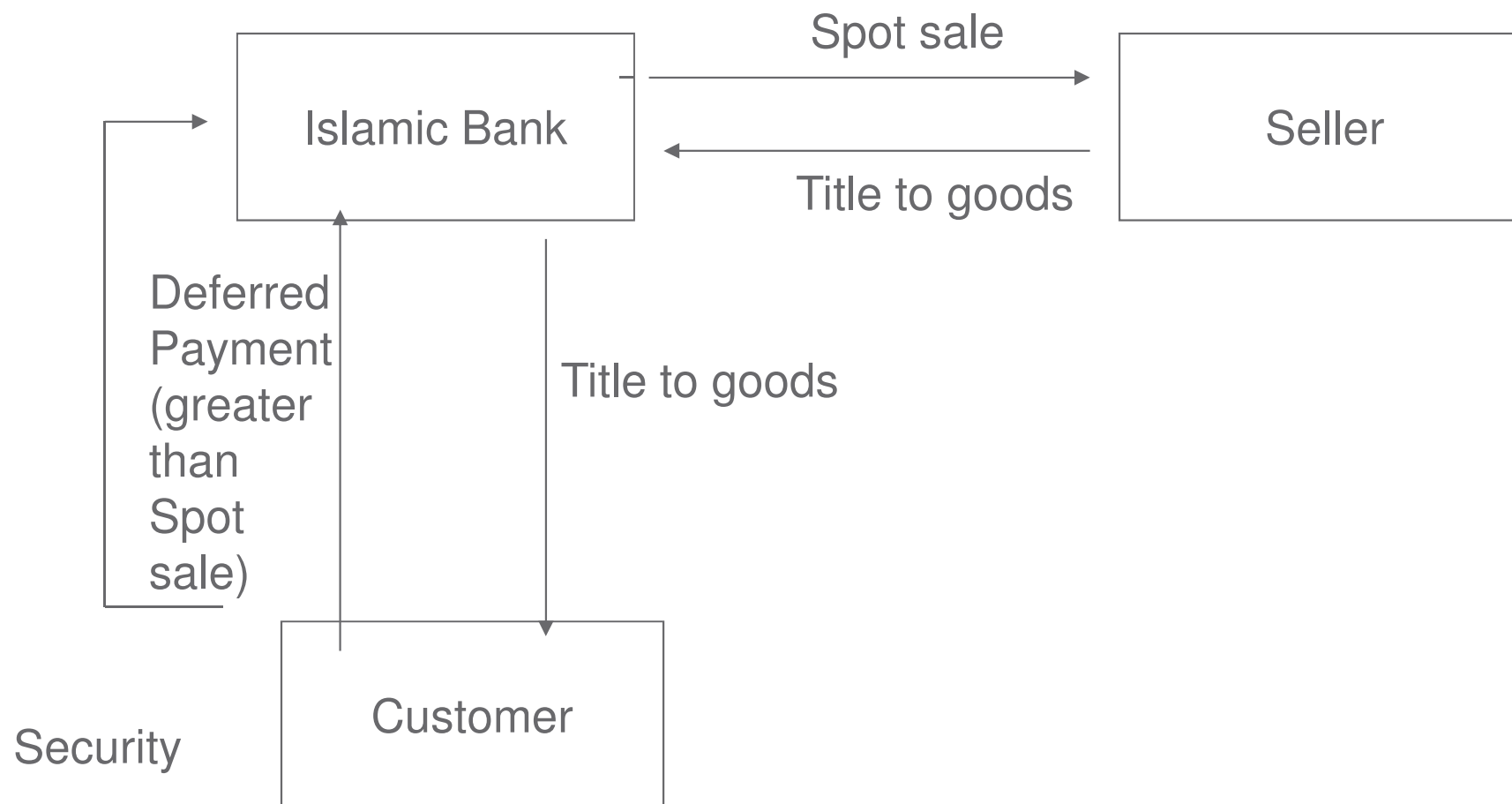
Defining Murābaḥa

- 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



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.



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