



UK Islamic Finance Secretariat

UK Perspectives: The Islamic Finance
Market in 2012

IFN 2012 Issuers & Investors Europe Forum

TheCityUK; Established as the 'over-arching' body for the sector

'To champion the financial and related professional services sector at home and to promote the UK overseas as the world's pre-eminent financial business centre'



The UK Islamic Finance Secretariat

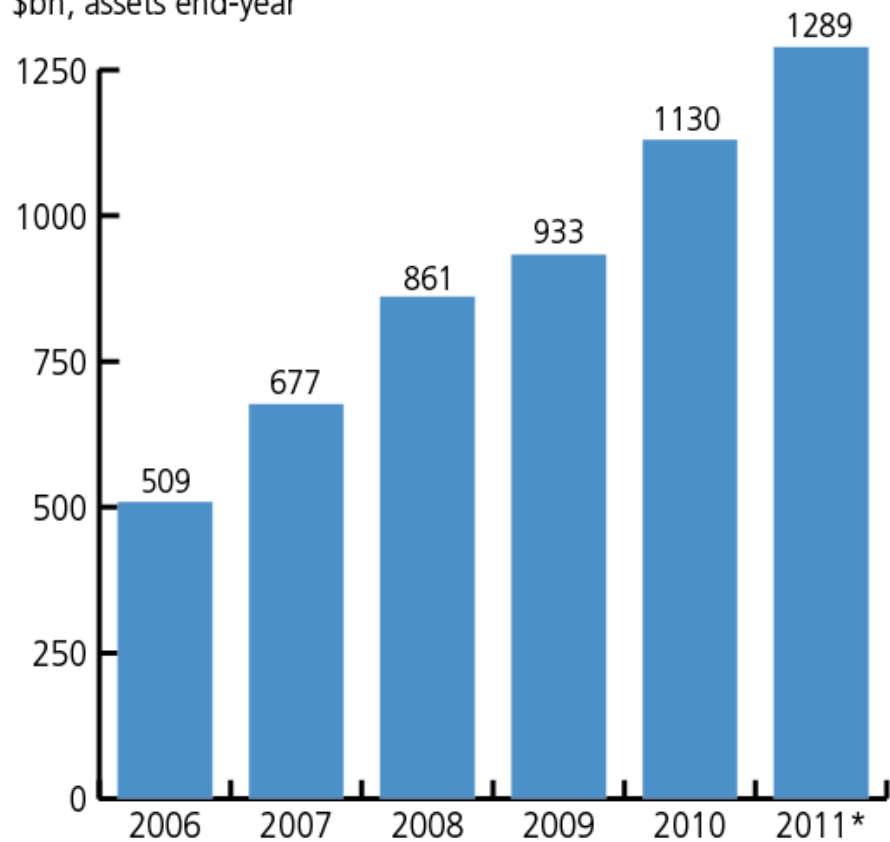
UK Islamic Finance Secretariat (UKIFS) was integrated into TheCityUK May 2011

- UKIFS is the leading cross-sectoral body promoting Islamic finance in the UK:
 - 2000 registered individuals across 450 corporates
 - International trade bodies and professional institutions
- Primary interlocutor with UK Government.
- UKIFS brings together Government and industry leaders through 6 practitioner-led working groups covering:
 1. Islamic Financial Institutions / Wholesale Banking: Bank of London and the Middle East
 2. Domestic / Retail Banking: Islamic Bank of Britain
 3. Accounting, Tax & Regulation: KPMG
 4. Commercial Real Estate: King & Spalding
 5. Legal: SNR Denton
 6. Education Training & Qualifications: CISI
- New Q1 2013: Insurance & Wealth Management.

Islamic finance is growing as a source of finance globally

Islamic assets now equivalent to 1% of the global financial market

\$bn, assets end-year



*UKIFS estimate

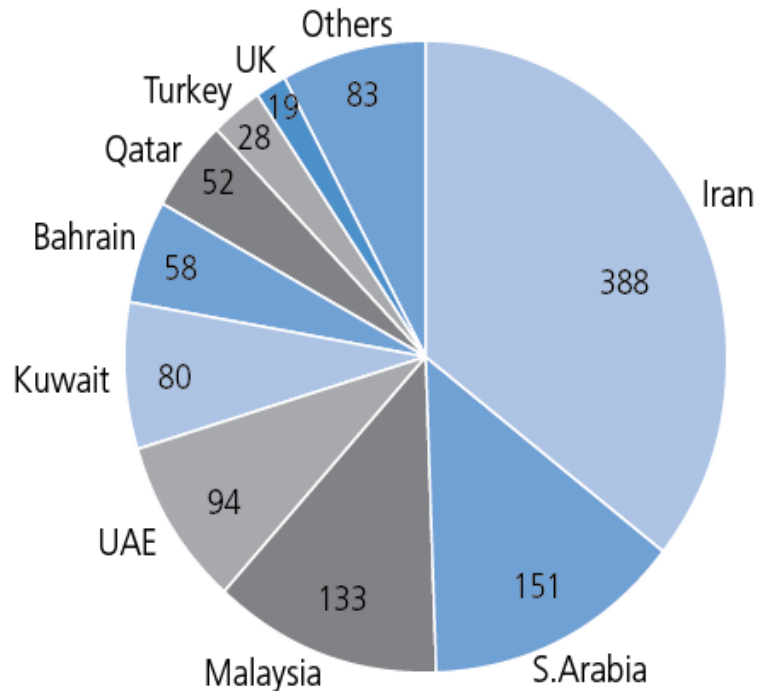
Source: The Banker, Ernst & Young

- Sharia compliant assets exceeded \$1.1trn (as at end 2010).
- 21% increase on 2009 values (£933bn).
- Assets estimated to have grown a further 14% in 2011 to reach \$1,289trn.
- Represents a rise of c150% from \$509bn in five years since 2006 equivalent to 1% of the global financial market.
- Islamic finance has shown resilience in past two years when global economic recovery has slowed.
- Continued steady growth of 10%-15% expected for 2012.
- Potential to sustain this rate of growth over coming years.

The geographical customer is broadening with scope for growth

Only 12% of Muslims worldwide use Islamic financial products

Banking, takaful & fund assets, \$bn, end-2010



Banking, takaful & fund assets end-2010 \$1,086bn

Source: The Banker

- Industry penetration varies substantially: in Bangladesh, Islamic banking accounts for 65% of total banking assets but only 4% to 5% in Turkey, Egypt and Indonesia.
- Market currently most developed in Malaysia, Iran and GCC region.
- Key Asian markets centre on Hong Kong, Singapore, Pakistan, China and India.
- New Sharia compliant institutions in Australia, Azerbaijan and Nigeria.
- Western Europe and North America; Ireland, Luxembourg, France and Germany.
- London/UK is seeking to consolidate its position as western Europe's premier centre and gateway to Islamic finance innovation and development globally.

Banking – showing continued market development

Five fully Sharia compliant banks established in the UK 2004 -2008

Fully Sharia compliant

Bank of London and The Middle East
European Islamic Investment Bank
Gatehouse Bank
Islamic Bank of Britain
QIB UK

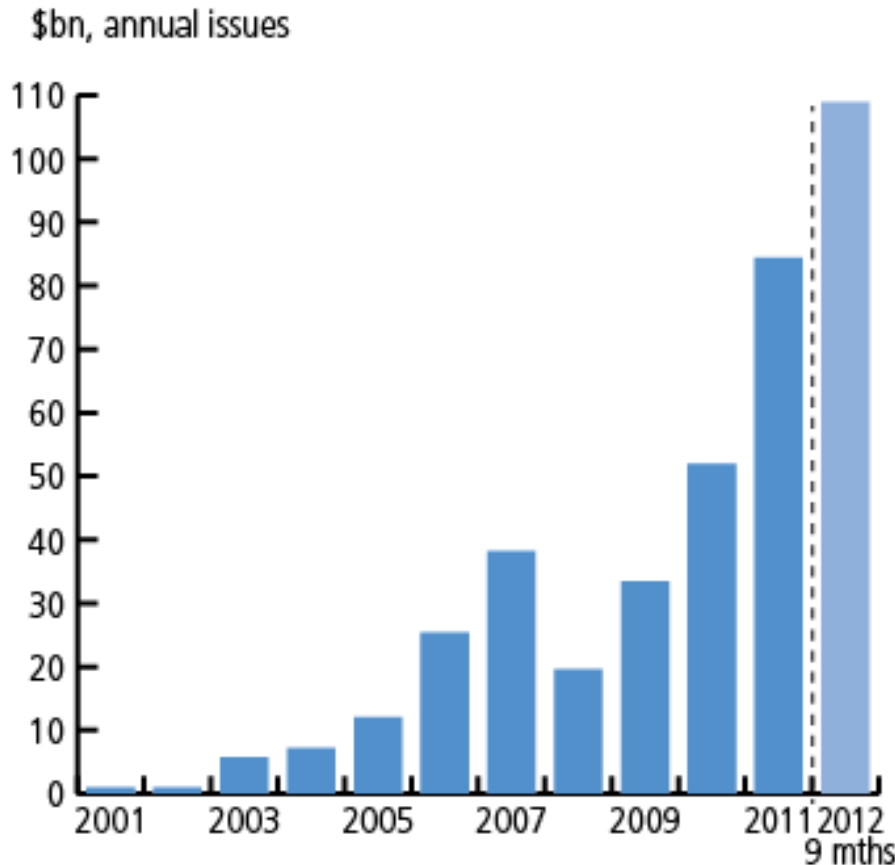
Islamic windows

ABC International Bank
Ahli United Bank
Bank of Ireland
Barclays
BNP Paribas
Bristol & West
Citi Group
Deutsche Bank
Europe Arab Bank
HSBC Amanah
IBJ International London
J Aron & Co.
Lloyds Banking Group
Royal Bank of Scotland
Standard Chartered
UBS
United National Bank

- Balance sheet assets of Sharia compliant banks rose by 22% from \$863bn in 2009 to \$1.048trn in 2010.*
- Commercial banks account for the majority of assets, with investment banks making up most of the remainder.
- Profitability of banks in the Middle East and North Africa stabilised in 2009 and 2010 having suffered in previous years due to higher provisions and operating costs.
- Retail banking recognised as key driver for growth in the Middle East.
- Significant opportunity for Islamic banks in SME and mid-corporate market.**
- Innovation focus in Private Equity & Wealth Management sectors – UKIFS to explore opportunity with member firms.

Sukuk global issues

Global sukuk issuance at a record high



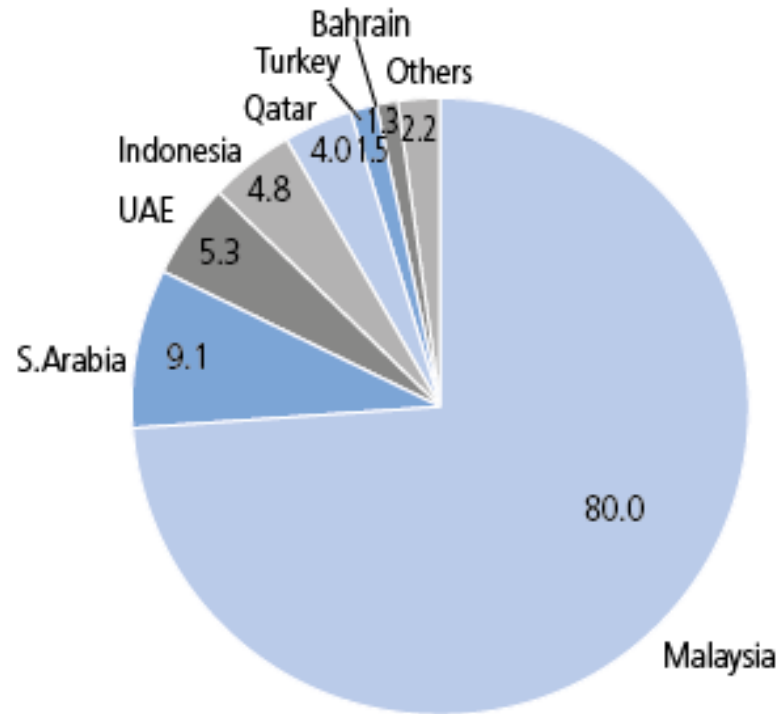
Source: Zawya Sukuk Monitor, Islamic Financial Information Service

- Sukuk issues have expanded strongly in past four years.
- Big rise in sukuk issuance to record \$109bn during first 9 months of 2012.
- Appetite for quality issuers of Sukuk from both Islamic and non Islamic investors.
- The UK has a strong interest in the development of the Sukuk market.

Sukuk issues by country

Increasing geographical footprint, sector expansion & new market entrants

Sukuk issues, \$bn, first nine months of 2012



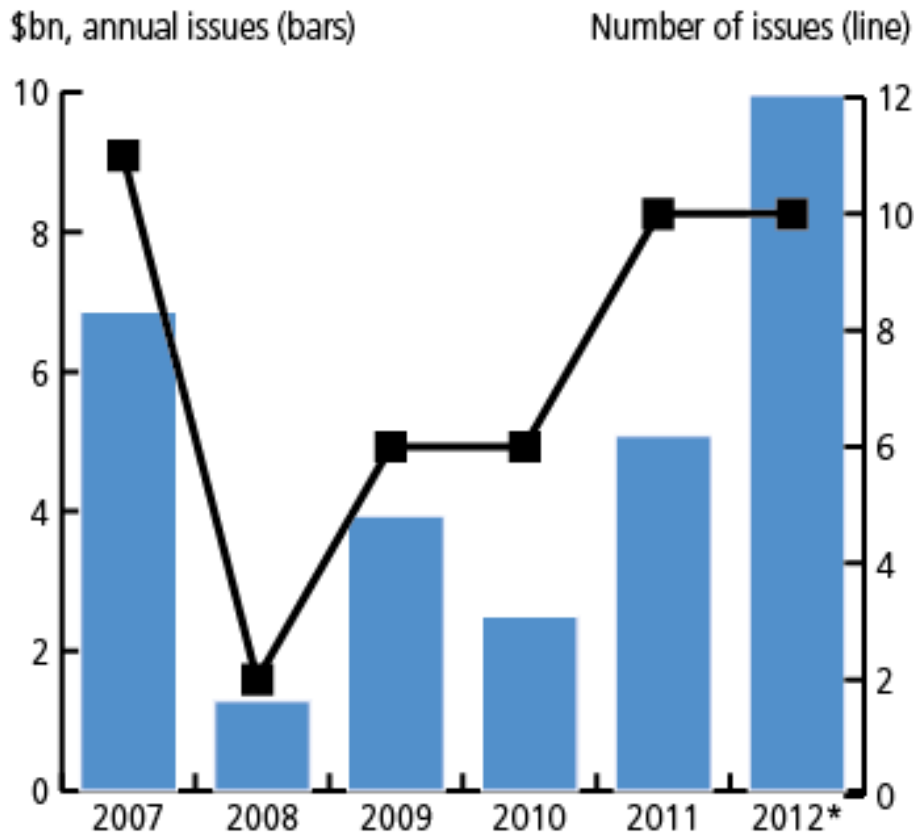
Sukuk Issues \$108.9bn

Source: Zawya Sukuk Monitor

- Malaysia is the dominant country in the global market:
 - Issuance totalling \$80bn in first 9 months of 2012.
- 86% of sukuk issued for domestic markets, so 14 % international.
- Government institutions accounted for 63% of issuance; \$68bn.
- Financial Services Sector; 9% share totalling \$10bn (17% valued at £15bn in 2011).

Sukuk listings at the London Stock Exchange

The UK demonstrates strong experience and increasing market attraction



*First nine months of 2012

Source: London Stock Exchange

- The London Stock Exchange has proven to be an attractive draw for sukuk issuance.
- 10 new listings in first 9 months of 2012 totalling \$10bn (total of 38 sukuk currently listed).
- Cumulative total of 45 sukuk listings raising \$32bn, including matured/delisted sukuk.
- The development of corporate and infrastructure sukuk is high on UKIFS agenda.

Developing the sukuk market and capturing opportunity

Sovereign sukuk

- Islamic finance industry still keen to see a UK sovereign sukuk.
- Strong cross-party consensus on need to develop Islamic finance.
- UK Government has reiterated position of previous government:

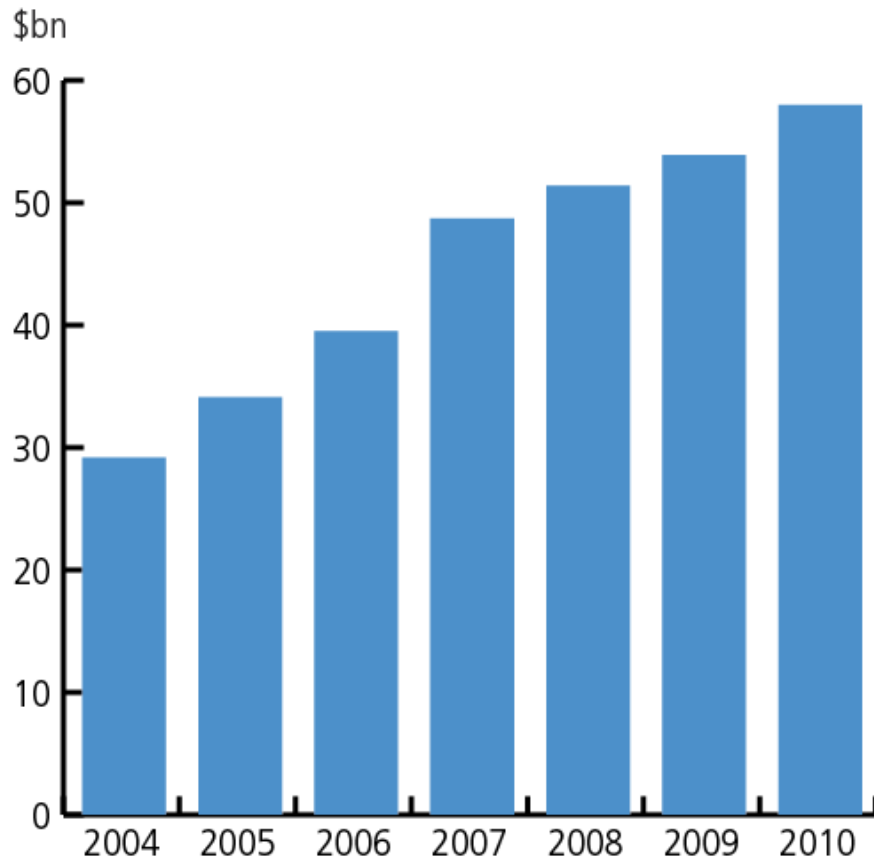
“...The issue of a sovereign sukuk not judged to provide value for money at the present time...”

The UKIFS ‘3-point-plan’

1. Review and develop a cross-sectoral policy position for submission to HMG:
 - Commercial Real Estate Work-stream chaired by King & Spalding
 - Islamic Financial Institutions Work-stream chaired by BLME
 - Accounting, Tax & Regulation Work-stream chaired by KPMG
2. Liaise with HMG (HMT) and IRSG* technical teams on regulatory developments.
3. Determine extent that UK focused infrastructure and corporate sukuk can have in market development and increase profile and awareness.

Islamic funds

Scope for more product innovation and market growth

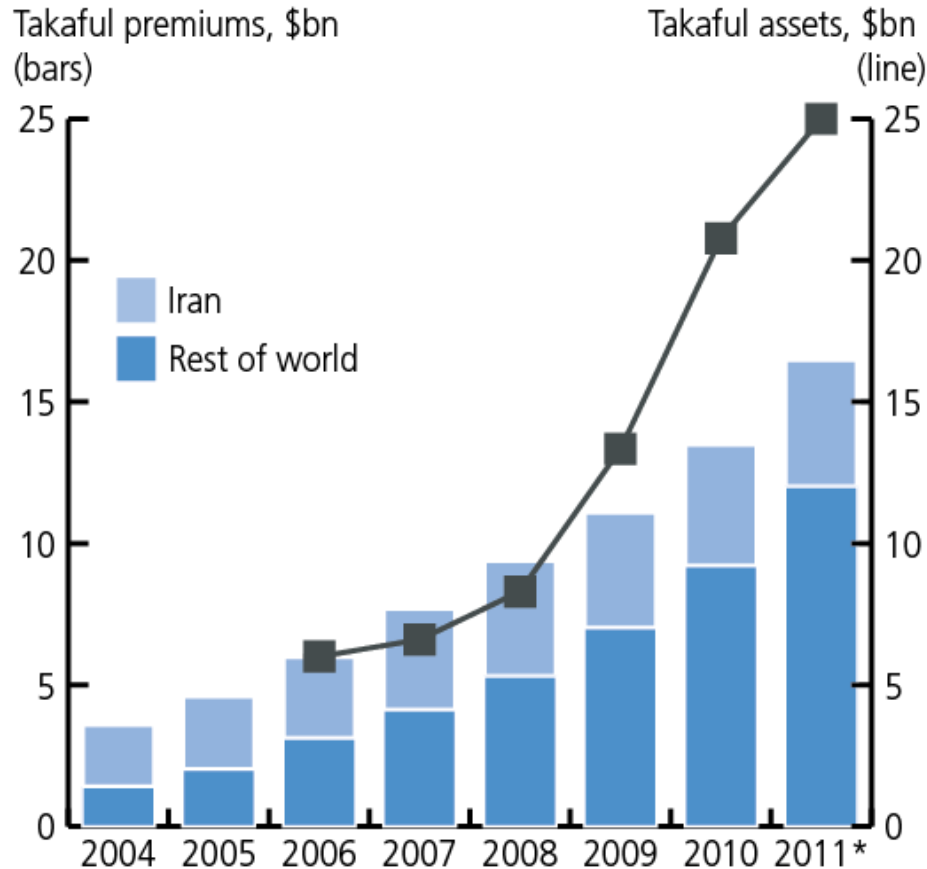


Source: Ernst & Young

- The market for Islamic funds worldwide rose by 8% to \$58bn in 2010 from \$54bn in 2009.
- The available pool for Islamic funds is over \$500bn and growing rapidly.
- Islamic funds under management currently represent c10% of the potential Islamic market.
- Equity funds account for the largest segment: 39%
Total number of funds stands at c800 (threefold increase since 2004; c250 funds).
- Bulk of Islamic funds are small;
 - 69% fund managers (139 out of 201) <\$100m AUM
 - 1/3 <\$25m AUM
- Fees have fallen from 1.5% in 2006 to 1.0% in Q1 2011, as a result of competitive pressures.
- The average return on Islamic equity funds fell from 9% in 2010 to -3% in 2011.

Takaful – still early stage global market

....but, strong growth opportunities through product innovation



*Estimates

Source: Ernst & Young

- E&Y findings suggest premiums reached \$16.5bn in 2011 (this includes an estimated \$4.5bn generated in Iran where takaful is the compulsory form of insurance).
- 80% of global market represented in Malaysia, Iran, Saudi Arabia and UAE.
- Takaful assets, reported in The Banker's survey, were \$20bn in 2010.
- Represents an increase from \$13bn in 2009.
- A further rise to \$25bn is likely for 2011.
- UK poised to take the lead in product innovation.
- UKIFS to form a new Insurance work-stream to address the opportunity by engaging:
 - Global insurers & major broking firms.

Legal, Professional Services, Education & Skills

A comprehensive 'ecosystem' supporting market development

UK law firms offering legal services in Islamic finance

Addleshaw Goddard LLP	Linklaters LLP
Allen & Overy LLP	Milbank, Tweed, Hadley & McCloy LLP
Ashurst	Nabarro LLP
Baker & McKenzie LLP	Norton Rose LLP
Berwin Leighton Paisner LLP	Pinsent Masons
Clifford Chance LLP	Shearman & Sterling LLP
DLA Piper	Simmons & Simmons LLP
Eversheds LLP	SJ Berwin LLP
Freshfields Bruchaus Deringer	SNR Denton
Herbert Smith LLP	Stephenson Harwood
Hogan Lovells International LLP	Taylor Wessing LLP
Ince & Co.	Trowers & Hamlins LLP
King & Spalding International LLP	
Latham & Watkins LLP	

Source: UKIFS

Law Firms

- The UK is a major global provider of specialist legal expertise required for Islamic finance.

Professional Services

- The Big Four professional services firms each have established Islamic finance teams in London.
- Represented through the UKIFS Accounting, Taxation & Regulation work-stream.

Education & Skills

- Increasing global demand for skills.
- UK at the forefront of providing qualifications for the industry.
- UKIFS ETQ advisory group engaging academia, business schools and professional intuitions to create an internationally recognised 'qualifications route map'.

The UK Islamic Finance Secretariat (UKIFS)

Thank you

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