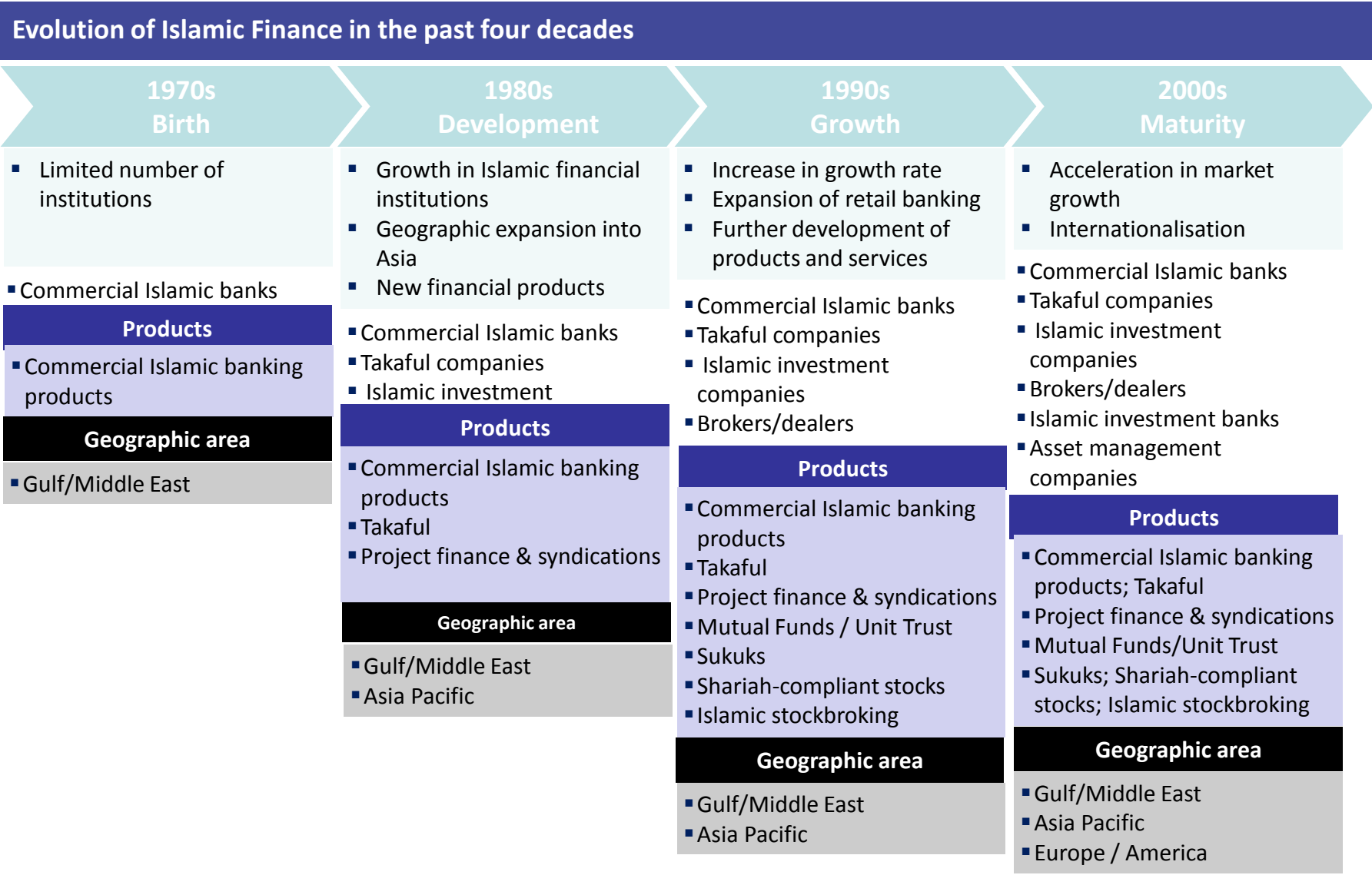




Development of Islamic banking

The evolution of Islamic Finance



Growth in Islamic Assets

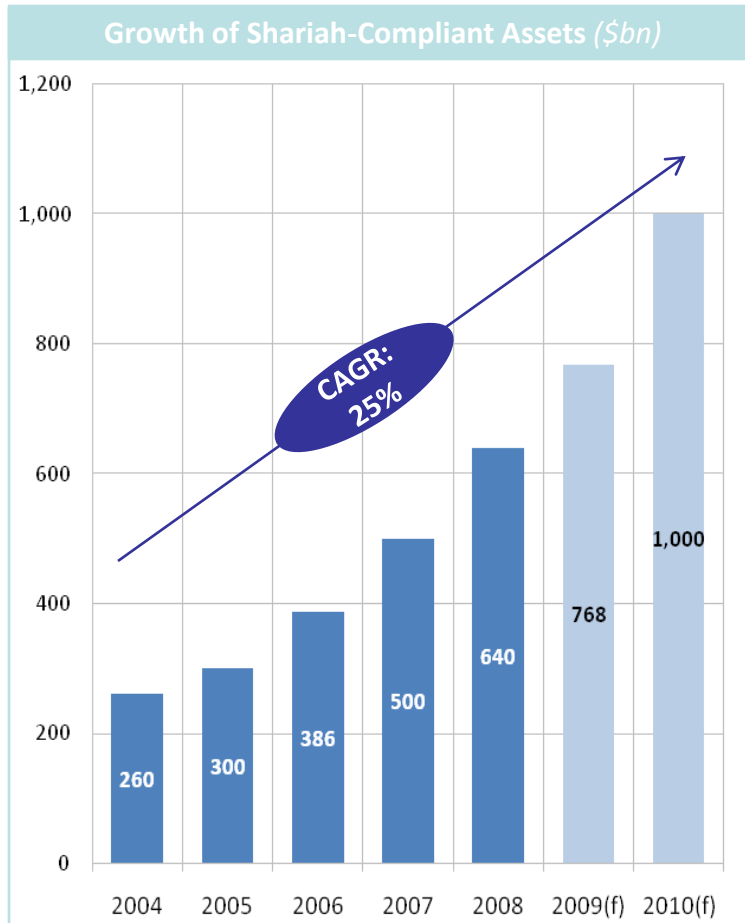
Shariah-compliant financial assets have grown considerably

Although numbers are difficult to estimate given the fragmented nature of the Islamic Finance sector, a conservative estimate is that Islamic Finance assets were worth c.\$650bn in 2008

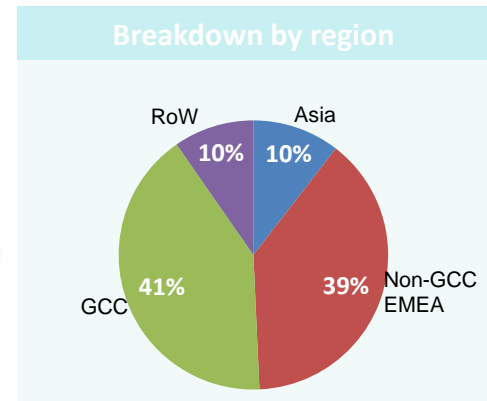
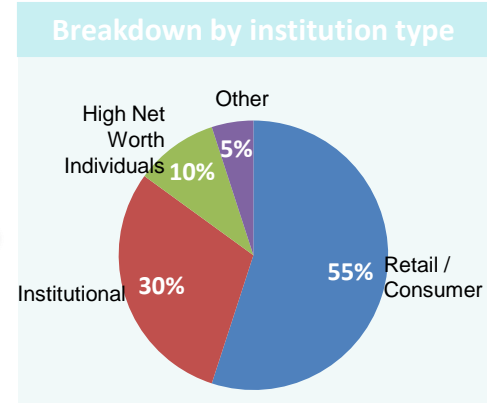
Islamic Finance assets have grown by 15 to 30% per annum in the past 5 years

Islamic Finance is no longer a single product business limited to one or two geographies

Assets are expected to grow by 15 to 20% in 2009 despite the current financial crisis, and reach approximately \$1tr in 2010

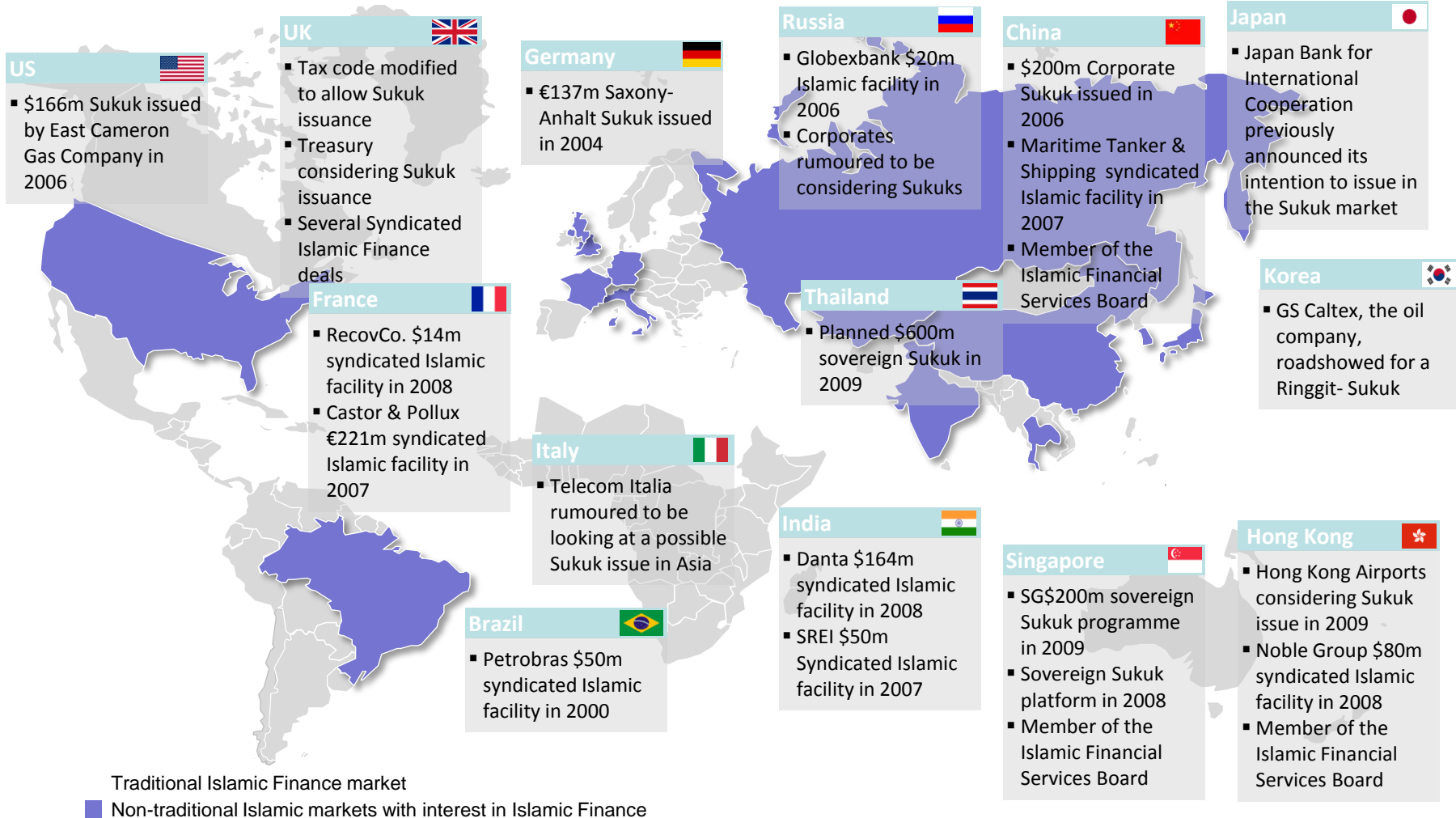


Source: The Banker, Celent, Moody's, Bloomberg



International Expansion of Islamic Finance

Islamic financing is spreading outside its traditional market

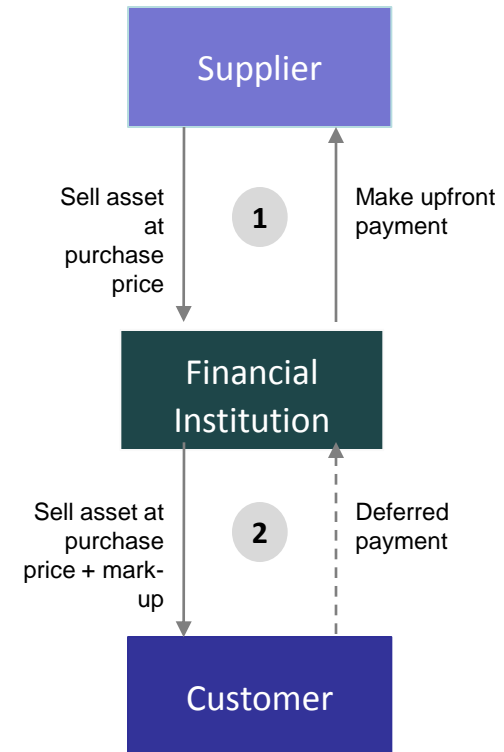


Overview of the Murabaha Transaction

Description of the transaction

- ❑ Murabaha is the sale of an asset with some mark-up added on the original cost
- ❑ The financial institution purchases an asset from a third party and sells it to the customer at a pre-specified profit on a deferred payment basis
- ❑ A Murabaha transaction has the following characteristics:
 - The cost price of the asset is known to both the buyer and seller
 - The buyer pays the seller at a fixed agreed time after receipt of the asset for an agreed mark-up
 - The mark-up may be a lump sum or a certain percentage of the purchase price
 - The mark-up can, and often does, relate to the prevailing LIBOR (or equivalent) rate
 - Payment default will require the buyer to cover the seller's stated cost of capital for this period
- ❑ A Murabaha transaction is a debt based transaction and is therefore not tradable (as Shariah forbids trading in debt) but can be transferred at par value

Transaction structure

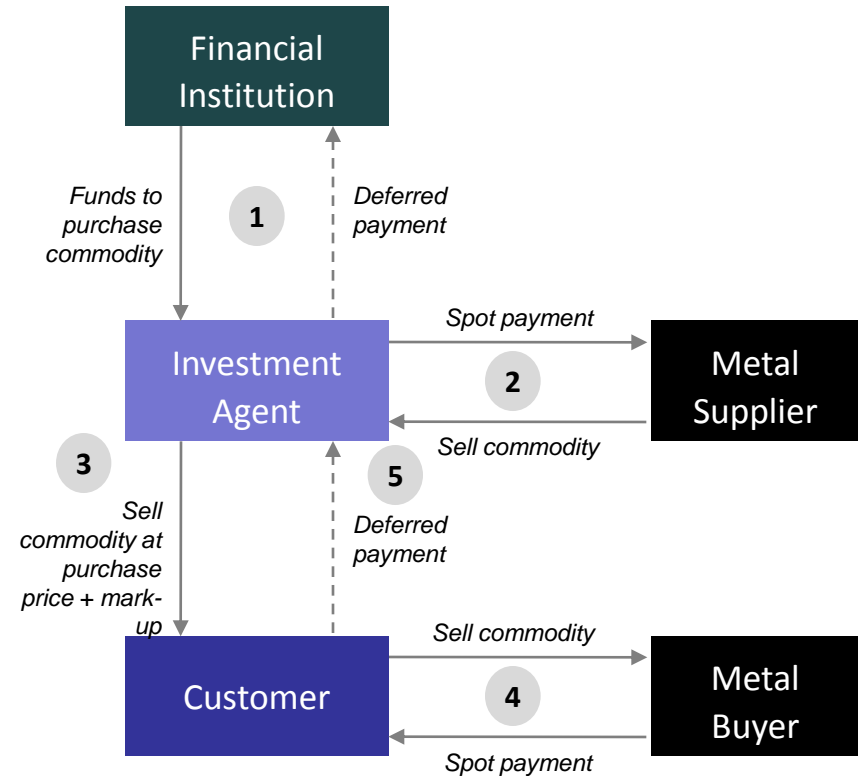


Overview of the Commodity Murabaha Transaction

Description of the transaction

- ❑ The entity requiring financing (the customer) purchases a commodity, often through an agent, on deferred payment terms
- ❑ The customer then immediately sells it at spot to a third party
- ❑ The customer has until the end of the deferred payment period to pay the original purchaser (the financial institution) the agreed cost-plus price
- ❑ Similar to a Murabaha, the commodity Murabaha transaction has the following characteristics:
 - The cost price of the asset is known to both the buyer and seller
 - The buyer pays the seller at a fixed agreed time after receipt of the asset for an agreed mark-up
 - The mark-up can, and often does, relate to the prevailing LIBOR (or equivalent) rate
 - Payment default will require the buyer to cover the seller's stated cost of capital for this period
 - A commodity Murabaha transaction is a debt based transaction and is therefore not tradable but can be transferred at par value
- ❑ This structure has been mainly used by financial institution for Islamic inter-bank liquidity

Transaction structure

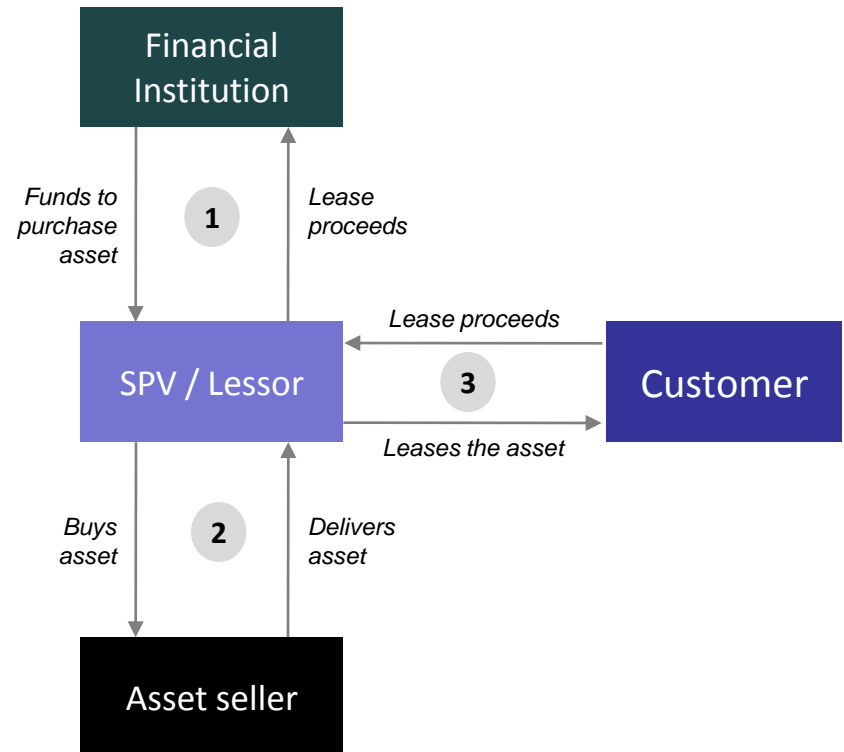


Overview of the Ijara Transaction

Description of the transaction

- ❑ An Ijara transaction closely reflects a conventional lease agreement, applicable for property and capital goods
- ❑ The financial institution purchases an asset and leases it to a customer for fixed periodic payments
- ❑ An Ijara may include an option / obligation for the lessee to buy the asset at the end of the lease
- ❑ An Ijara transaction has the following characteristics:
 - The financial institution and the customer agree on the terms of the lease.
 - The financial institution purchases the asset and leases it to the customer
 - Whilst title of ownership does not pass to the lessee, the usufruct does, and day to day maintenance is also the responsibility of the lessee
 - Ownership related risks and expenses are borne by the lessor, unless an independent Service Agreement is entered into between lessee and lessor
 - Subsequent to either a balloon or amortising payments, ownership can pass to the lessee at the end of the lease period (“Ijara muntahia bi tamleek”)

Transaction structure



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