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Bank opens the door to Europe

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At first glance, the launch of a bank in London last July - one month before the most severe credit squeeze in decades - looks like poor timing.

But the Bank of London and the Middle East is not an ordinary bank - it deals in Islamic finance, a corner of the British market that is still growing strongly, in contrast to the sharp contraction in the conventional financial sector, which has recorded billions of dollars in losses since the summer.

Total assets of the BLME have expanded to £450m today, a 150 per cent increase since the Financial Services Authority, the City regulator, granted it a licence to operate.

The reason for this growth in the face of a financial crisis, which has been likened by some analysts to the Wall Street crash of 1929, is down to the price of oil, which has tripled in value since 2002, providing more wealth and prosperity to Middle Eastern investors.

These investors, who want to put their money to work without compromising religious laws, are increasingly searching for regions outside the Middle East to channel their cash. At the same time, western companies are looking to tap this wealth in the Gulf. These factors explain the success of the BLME.

Under *sharia* law, investors have to rely on profits and rent to make money, as interest payments are considered by many authorities to be sinful. Certain industries, such as tobacco and gambling, are also banned as investments.

Humphrey Percy, BLME's chief executive, says: "We act as a gateway for Middle Eastern capital into the European market. Middle Eastern investors are increasingly looking to diversify. There is a great deal of wealth in the Middle East and these investors are looking further afield for suitable places to put their money."

London is the obvious destination for Middle Eastern funds to invest because of its highly developed, regulated market place and skilled workforce. The British government has also introduced financial reforms that have helped the market grow, such as paving the way for the only licensed Islamic banks in the European Union. As well as the BLME, these include the Islamic Bank of Britain, the European Islamic Investment Bank and the European Finance House.

The wave of licence approvals is a departure for the British authorities. In 1993, the Bank of England revoked the licence of Albaraka Islamic Bank in a regulatory dispute that arose following the collapse of the Abu Dhabi-registered Bank of Credit and Commerce International. Although BCCI did not engage in Islamic banking, it did have a substantial number of Muslim depositors and traded on its status as an institution that championed the developing world.

Mr Percy says: "London is a key financial centre. The government and regulatory bodies, such as the FSA, have embraced Islamic finance, introducing reforms to help the market. London continues to have a huge cachet . . . We also have the advantage of a growing pool of labour in London with expertise in this field."

The British government has also taken steps to bring the estimated 2m Muslim population into the formal banking sector by licensing Islamic mortgages and considering issuing debt that conforms to Islamic principles.

Mr Percy adds that there are more western companies and institutions wanting to raise money using Islamic finance as they look to diversify or invest in a more ethical manner. It is seen as an increasingly competitive alternative to conventional fund-raising as well.

"Only five years ago, it would have been close to impossible for an Islamic investor to access *sharia* -compliant financial services in London. Now it is possible to invest in property, Islamic bonds and a growing range of other financial instruments. The market has expanded significantly in the last two or three years," he says.

The BLME has been involved in a number of *sharia* -compliant deals recently. These have included the development of apartments in Bayswater and Kensington, and the purchase of a language school in south London. Even a garden centre in Peterborough, a small market town north of London, has used the bank's services to finance its redevelopment in a *sharia* -compliant way.

The bank, which is predominantly owned by Kuwaiti investors - the emirate's Boubyan Bank holds the largest stake of 15 per cent - has seen growth across all departments.

The markets division, where money can be raised using commodity *murabaha* , the Islamic alternative to the short-term interbank market, or through *sukuk* , the Islamic bond market, have been highly successful, while Islamic exchange rate contracts that enable foreign currency trading have increasingly brought in business. Trade finance, used to help manufacturers buy materials, and project finance, which provides customers with advice on infrastructure deals and public-private partnerships, have also attracted a growing number of clients.

The bank also plans to set up an asset management division and launch money market and equity funds. "Islamic finance is a growing market segment and the outlook is positive," Mr Percy says. "BLME has experienced such demand that we continue to feel very optimistic about the opportunities for the Islamic finance sector."