



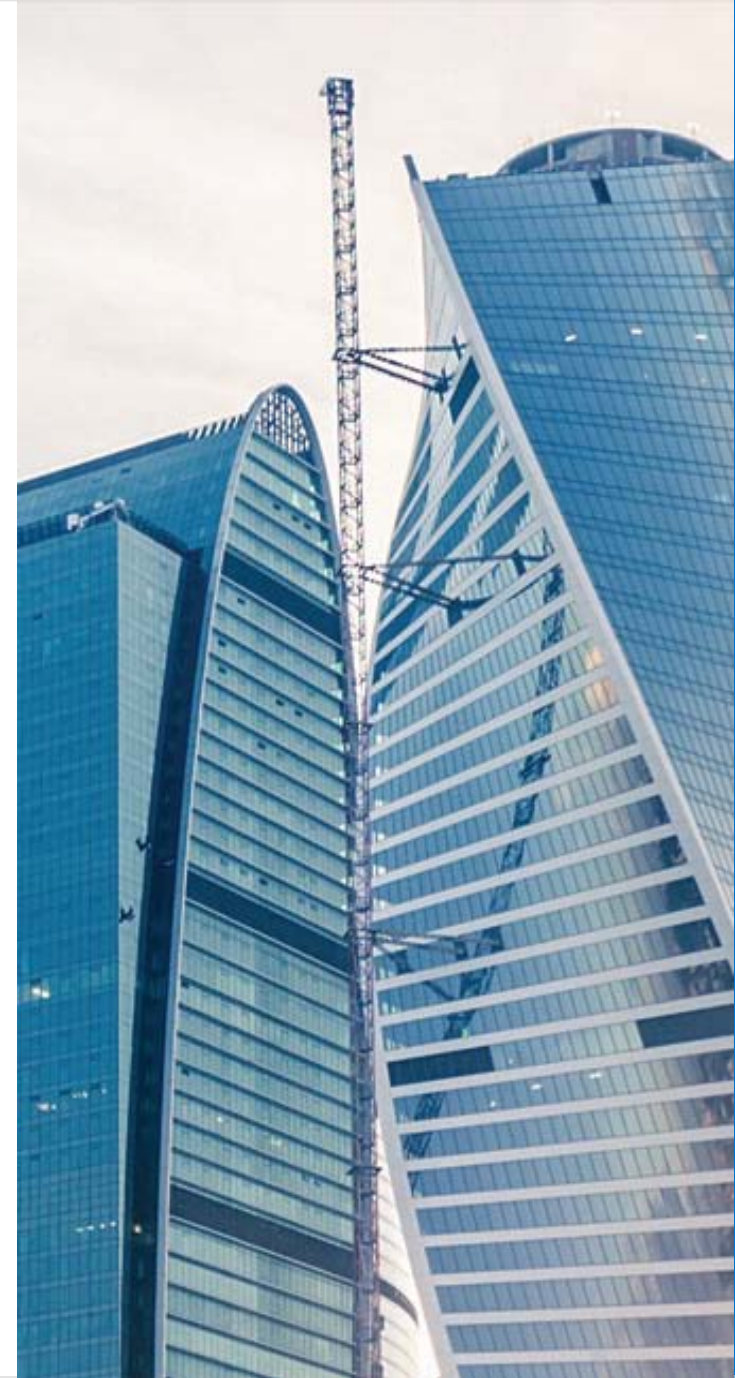
CAPTURING THE OPPORTUNITY

What can Russia and CIS learn from the growth of Islamic finance around the world?



Agenda

- 1** Putting these opportunities into context
- 2** What are the opportunities for Russia and CIS in the current economic climate?
- 3** How have tax and regulatory hurdles been overcome in other 'new' geographies?
- 4** Structuring around some of the challenges
- 5** Concluding remarks



The industry in context

- Financial system tied to the basic tenets of Islam (going back centuries), but core of the industry's development can be traced back to 1975
- According to theory, Islamic finance should serve as a 'pure' economic system
- However, Islamic finance accounts for less than 2% of the global financial services industry
- Hubs in South East Asia and the Middle East, but now broadening geographically into Europe, the United States and Africa

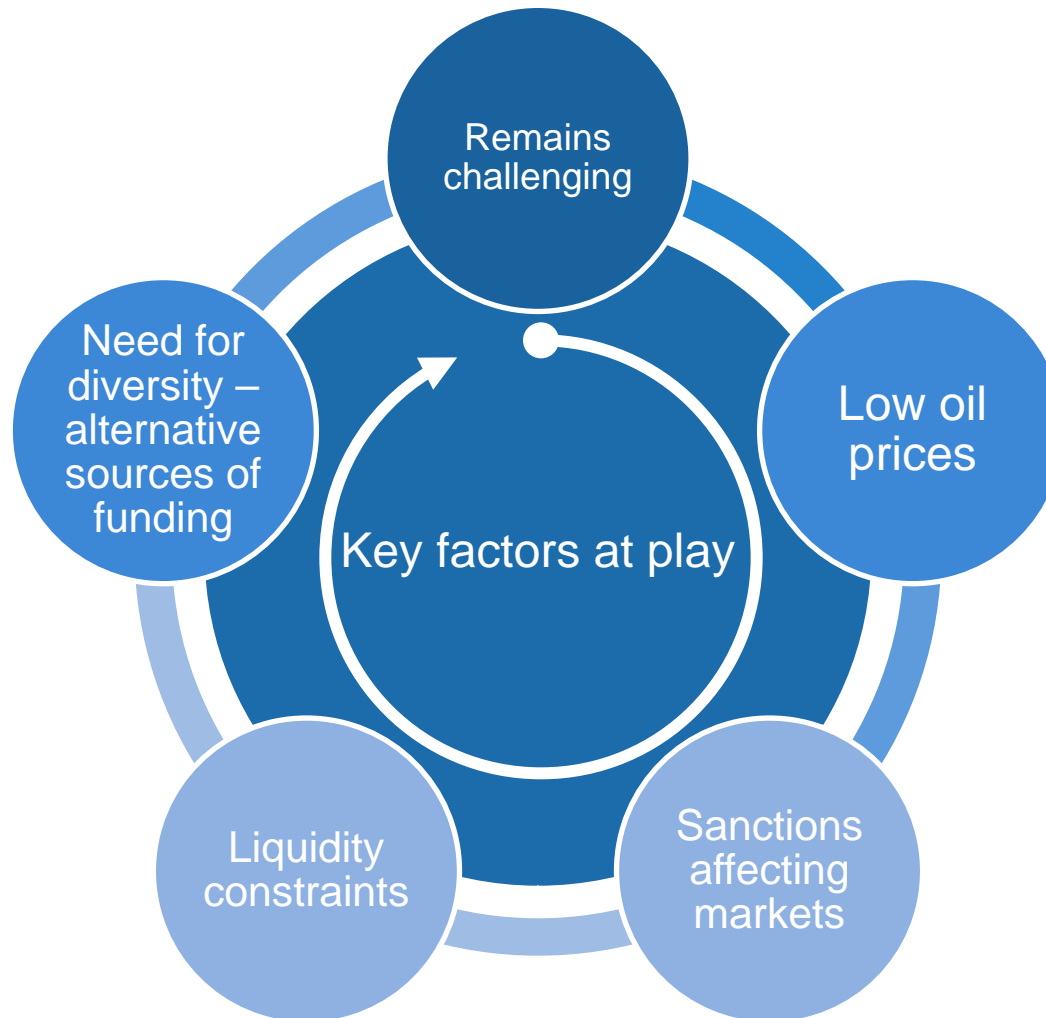
Steady growth (double-digit) year-on-year

Currently estimated to have assets of over **US\$ 2 trillion**

Opportunities for Russia and CIS

- New geographies / new markets / diversity
- Cater for ethical / religious preferences
- Stronger ties with key trading partners, trade finance
- Infrastructure and transportation sectors could benefit more from Islamic funding
- Corporate finance / SMEs
- Alternative source of funding
- Demand for quality assets and/or strong credits
- Real estate markets have helped drive global growth

Russia and CIS current economic environment



The concept of riba

The prohibition of interest on money, but covers other things too...

Underlying concept: money has no intrinsic value – it is only a measure of value (or means of exchange) and there should be no charge (i.e. interest) for its use:

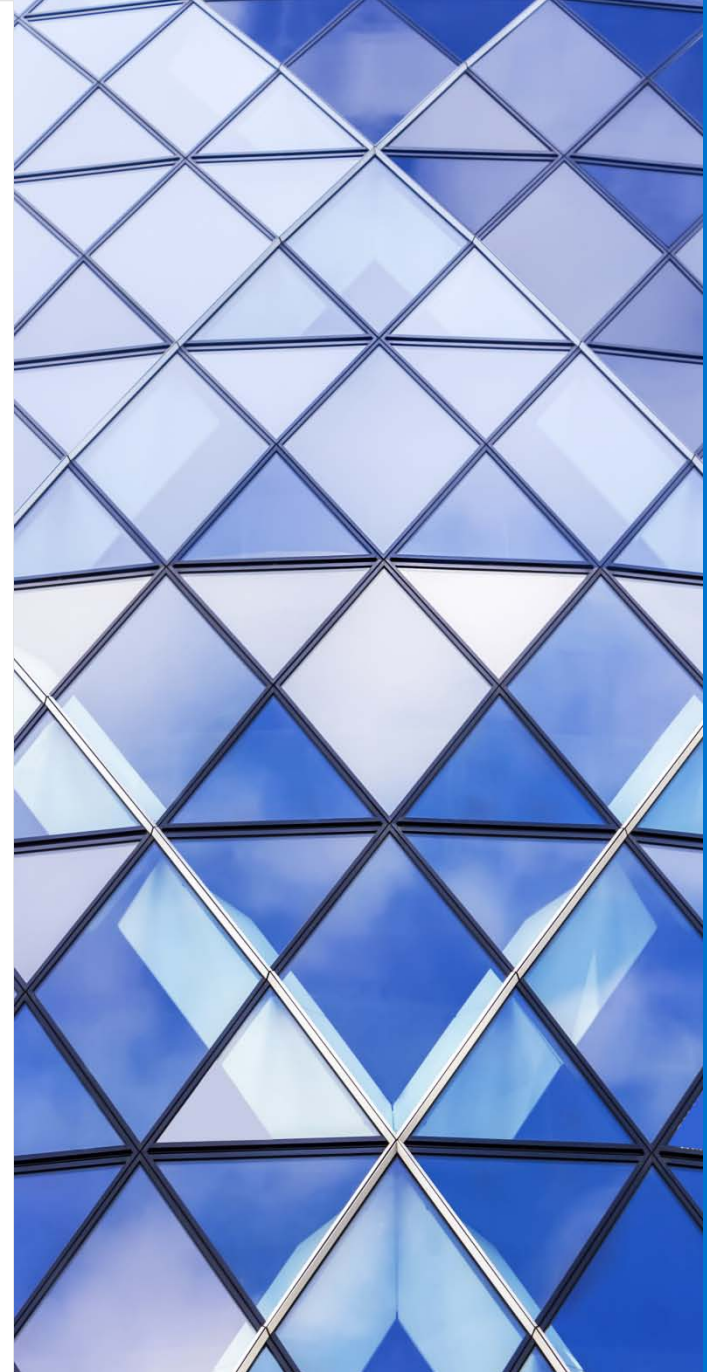
trade

investment

The prohibition of riba does not preclude a rate of return on a trade or an investment (usually in the form of a profit or a rental)

Key premise of Islamic finance

Islamic finance is sometimes said to be **asset-based** instead of currency-based and trades or investments are structured on ownership / exchange of assets (where money is just a payment mechanism)

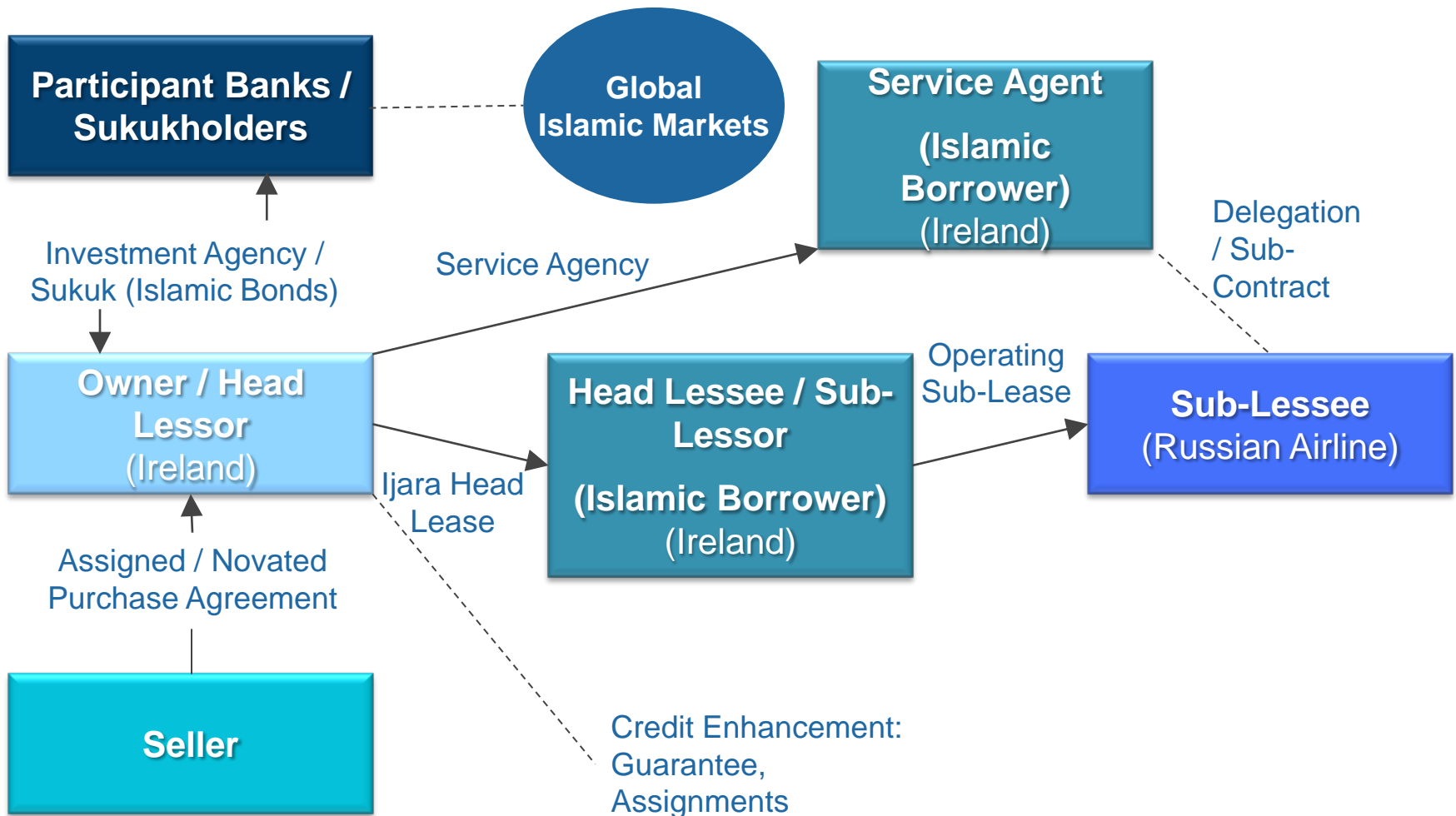


Which of these structures / products can be realistically implemented?

- **Murabaha** (cost-plus financing)
- **Tawarruq / Commodity Murabaha** (murabaha financing)
- **Ijara** (leasing)
- **Sukuk** (Islamic bond)
- **Istisna'a** (construction financing)
- **Bai Salam** (forward financing)
- **Mudaraba** (participation financing)
- **Musharaka** (equity financing)
- **Wakala** (agency)
- **Qard Al-Hasan** (interest free loan)
- **Takaful** (co-operative form of insurance)



Offshore ijara (Irish registration)



Key points to note

Commercial and operating arrangements need to be considered on a **case-by-case basis**

Typically involves **transfer of legal / registered title**, but beneficial ownership interests (or trust arrangements) can sometimes be considered

Structures heavily **tax-driven**

Bank debt (bilateral, club or syndicated) versus **debt capital markets** (sukuk)

Delivery options / jurisdiction-shopping for **registration** etc.

Size of issuance / facility is restricted by the value of the assets which are transferred under this kind of Ijara structure

Concluding remarks

- Already developments across CIS, support of Central Bank
- Islamic Corporation for the Development of the Private Sector (ICD)
– IDB Group
- Islamic Business and Finance Development Fund (IBFD Fund)
- Foreign relations and support from trading partners in GCC, Iran and Malaysia will be key
- Tax and regulatory challenges remain, particularly with cross-border deals, which means that assets or equipment located in offshore jurisdictions can be attractive for Islamic structuring purposes
- Nomura (Japan) and GE (US) sukuk issuances are good examples of structures that made use of underlying aircraft assets located in tax / regulatory favourable jurisdictions
- Awareness and education important: including looking at what hasn't worked well for other countries

