

# Islamic Financial Services Forum

Frankfurt, Germany – 5 December 2007

## Recent Developments in Islamic Finance

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# Agenda

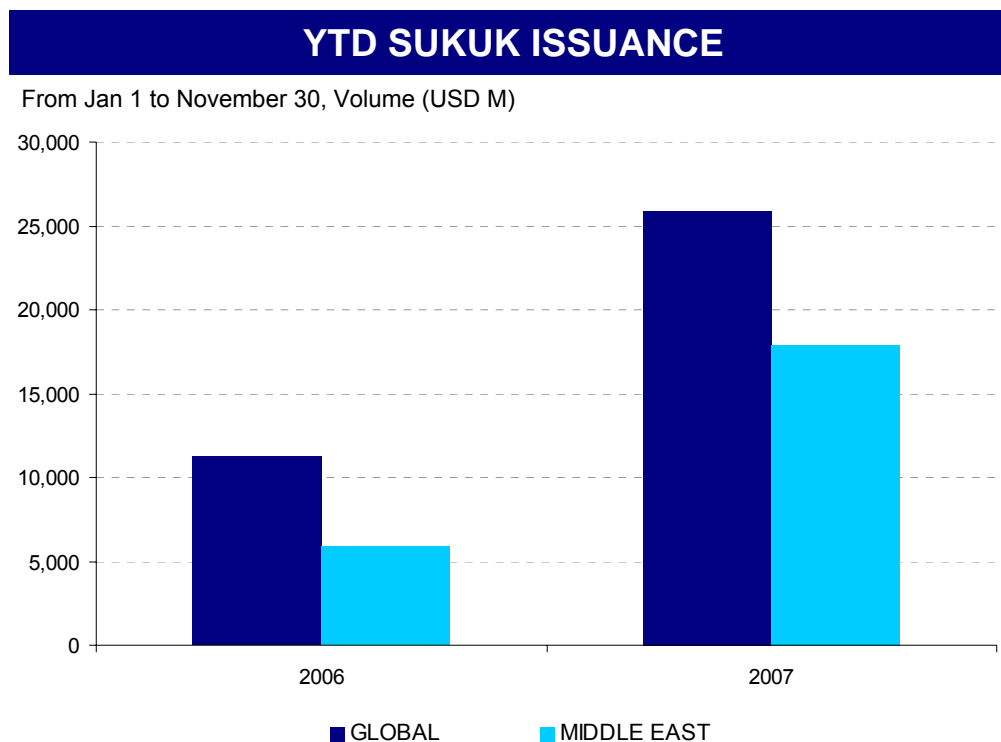
- 1. Issuing Sukuk** – Moving towards industry standardisation
- 2. Issuing Sukuk** – Recent talks among Islamic scholars
- 3. Islamic Private Equity & Acquisition Financing** – Overcoming the structural challenges
- 4. Islamic Derivatives** – Increased complexity in products and solutions
- 5. Islamic Money Markets** – Achieving more efficient structures
- 6. Other Structured Islamic Solutions** – Islamic Repos and Structured Financing

# Issuing Sukuk

## Moving towards industry standardisation

The market for Islamic debt securities is thriving

- Globally, the market for Sukuk is growing at a remarkably rapid pace, with issuance so far in 2007 (USD 25.9bn) having already exceeded the total issuance in 2006 (USD 16.7bn). The year-to-date figure for 2007 is actually more than double that of 2006 for the same period.<sup>1</sup>
- Year-on-year, 2007 Sukuk issuance originating from the Middle East more than tripled in value.<sup>1</sup>



From Jan 1 to November 30	GLOBAL		MIDDLE EAST	
	2006	2007	2006	2007
Total Issued Volume (USD M)	11,276	25,848	5,875	17,938
Total No of Issues	45	88	11	39

<sup>1</sup> Zawya Dow Jones – Sukuk Monitor – 30 November 2007

Source: Zawya Dow Jones – Sukuk Monitor

# Issuing Sukuk

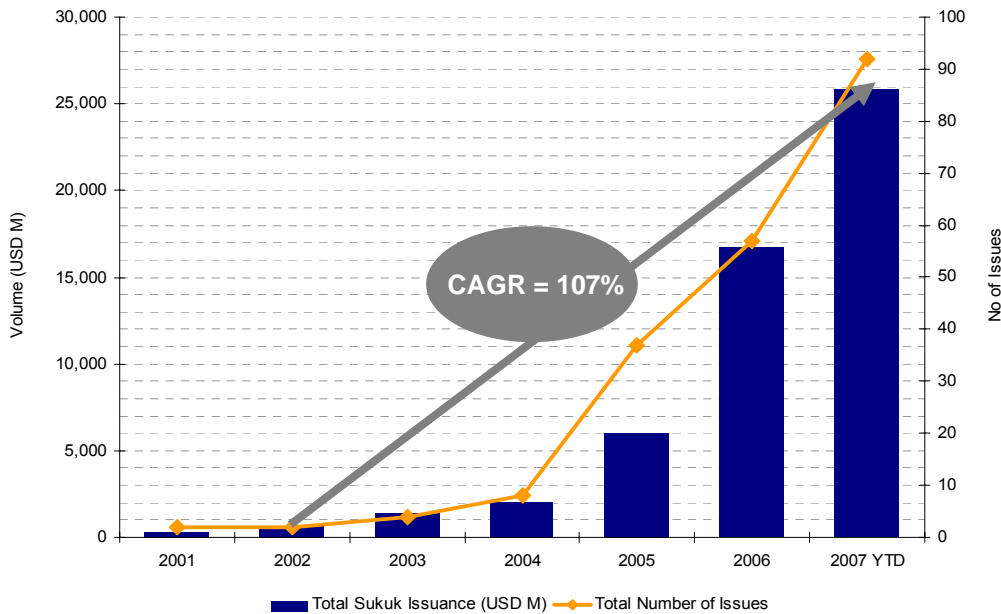
## Moving towards industry standardisation

The market for Islamic debt securities is thriving

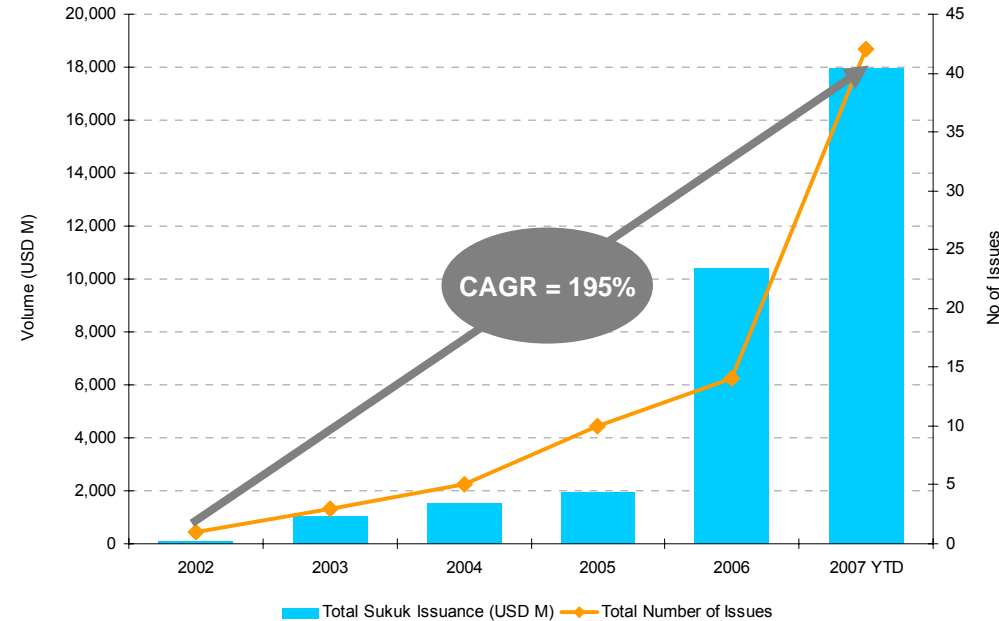
- Since 2001, total global issuance of Sukuk has reached USD 53bn, from almost nothing five years ago.
- Rapid growth in Sukuk issuance from the Middle East (195% CAGR over the past 5 years) is adding depth to the local capital markets.

<sup>2</sup> Zawya Dow Jones – Sukuk Monitor – 30 November 2007

### GLOBAL SUKUK ISSUANCE



### MIDDLE EAST SUKUK ISSUANCE



Source: Zawya Dow Jones – Sukuk Monitor

# Issuing Sukuk

## Moving towards industry standardisation

**In line with the growth in Islamic issuance, simple Sukuk structures have become standardised**

- Conventional banks have a great deal of experience with plain vanilla structures:
  - The process has become standardised and ready to enforce
  - Lawyers have the necessary legal templates in place
  - Since the structure is fairly simple, structurers have a limited role to play
  - The market has become familiar with such structures

**Though there is some room for further improvement**

- BUT there is limited precedent for:
  - Structured project Sukuk
  - Acquisition financing
  - Other complex “story” paper

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6. **Other Structured Islamic Solutions** – Islamic Repos and Structured Financing

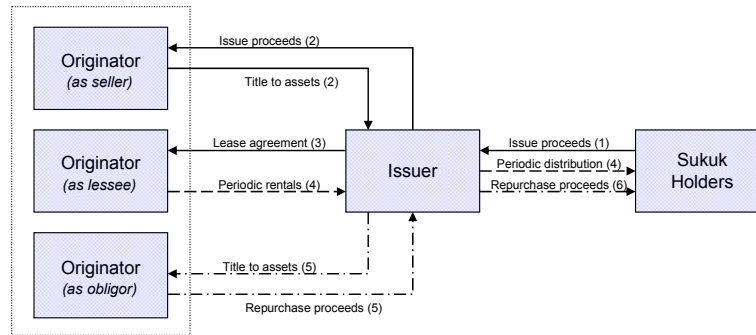
# Issuing Sukuk

## The Basic Sukuk Structures

Sukuk-al-ijara =  
sale and leaseback  
agreement

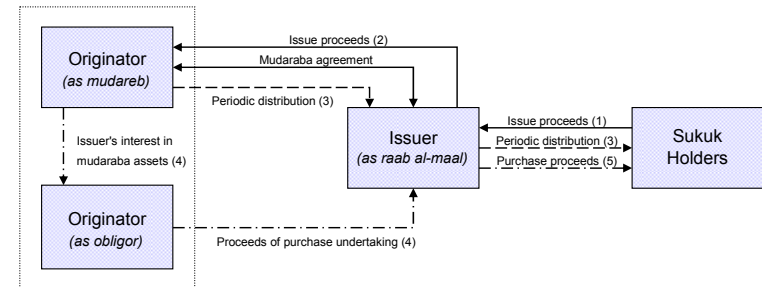
Sukuk-al-mudaraba =  
asset management /  
trust agreement

### SUKUK-AL-IJARA



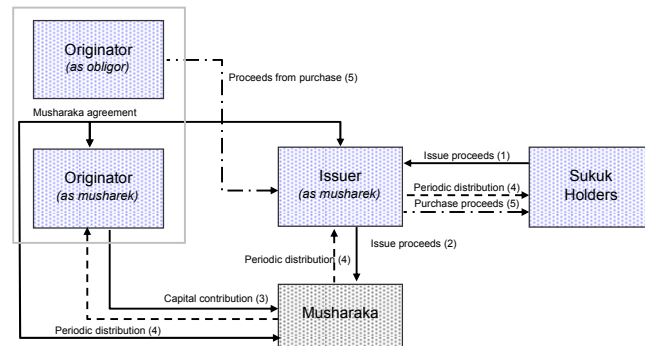
1. The issuer - usually an SPV - issues sukuk to sukuk holders in exchange for proceeds.
2. The issuer purchases title to assets from the originator
3. The Originator enters into a lease agreement with the issuer to lease the assets
4. The originator makes periodic rental payments on the lease to the issuer which the issuer passes on to the sukuk holders.
5. At maturity (or upon a *dissolution event*) the issuer sells the assets back to the originator (*purchase undertaking*)
6. The issuer passes the proceeds on to the sukuk holders and the SPV is dissolved.

### SUKUK-AL-MUDARABA



1. The issuer - usually an SPV - issues sukuk to sukuk holders in exchange for proceeds.
2. The issuer enters into a mudaraba agreement with the originator (acting as the 'mudareb')  
*Typical mudaraba agreement*  
The mudareb invests the proceeds in accordance with the agreed business plan.  
The profit generated by the business plan is shared between the issuer and the mudareb according to a pre-agreed schedule  
If the issuer's profit share exceeds the amount required for the periodic distribution, the mudareb retains the difference.  
If the issuer's profit share falls short of the amount required for the periodic distribution, the mudareb supplements the difference.
3. The mudareb makes periodic payments to the issuer which are passed on to the sukuk holders.
4. The originator (as obligor) purchases all of the issuer's ownership interest in the mudaraba assets
5. The issuer passes the proceeds on to the sukuk holders and the SPV is dissolved.

### SUKUK-AL-MUSHARAKA



1. The issuer - usually an SPV - issues sukuk to sukuk holders in exchange for proceeds
2. The issuer enters into a musharaka agreement with the originator
3. The originator (as musharek) makes contribution in cash or in kind to the capital of the musharaka  
*Typical musharaka agreement*  
The musharaka invests the proceeds in accordance with the agreed business plan (Shari'a compliant activities)  
The profit generated by the business plan is shared between the issuer and the originator in proportion to the capital contributions of each party
4. The musharaka makes periodic payments to the issuer, which are then passed on to the sukuk holders
5. The originator (as obligor) purchases all of the issuer's ownership interest in the musharaka assets
6. The issuer passes the proceeds on to the sukuk holders and the SPV is dissolved

### Note:

In all these structures, the redemption of Sukuk is achieved by means of a *purchase undertaking* by the obligor.

However, in the case of **Sukuk-al-mudaraba** and **Sukuk-al-musharaka** (i.e. trust-based Sukuk structures), the obligor purchases the issuer's ownership interest in the mudaraba or musharaka assets (rather than purchasing assets owned by the issuer, as with **Sukuk-al-ijara**).

# Issuing Sukuk

## Recent talks among Islamic scholars

Scholars are debating the use of a vital Islamic structural element

- Some of the most renowned Islamic scholars in the industry had met to discuss the industry in Ramadan 2007.
- Most importantly, significant criticism was voiced over the use of a **Purchase Undertaking Deed (PUD)** in combination with trust-based (as opposed to tangible asset-based) Islamic structures, i.e. **Mudaraba**, **Musharaka**, and **Wakala** agreements.

- A Purchase Undertaking is at the core of all current Sukuk.
- It is an essential contract issued by the obligor (akin to borrower in conventional finance) effectively crystallising the obligation to repay in the event of default and at maturity.

- Scholars are concerned about the type of Purchase Undertaking that can be issued by the managing partner of the Mudaraba / Musharaka / Wakala assets.
- This Purchase Undertaking typically involves the managing partner (as obligor) buying investors' ownership interests in the Mudaraba / Musharaka / Wakala assets **at par value** (i.e. for the principal amount), as opposed to market value.
- The current argumentation among scholars is about whether or not this pricing technique enables the managing partner to guarantee investor returns and whether or not this framework is Shari'a compliant.

# Issuing Sukuk

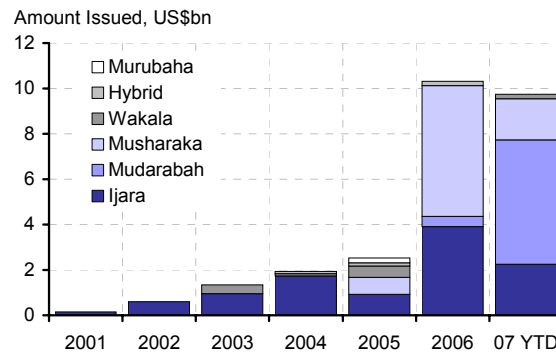
## Recent talks among Islamic scholars

The last few years saw the Purchase Undertaking spur a flight to flexibility

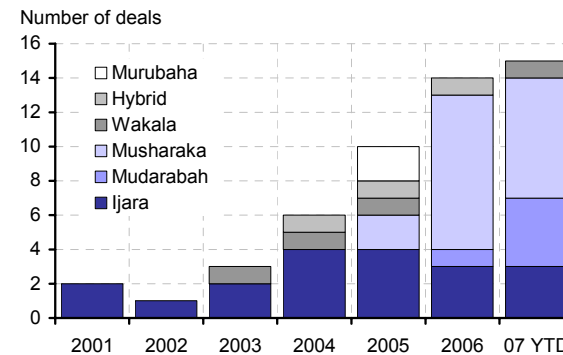
Trust-based Sukuk structures have dominated in the past 3 years

- Compared to ijara structures, trust-based Sukuk variants permit greater flexibility in the cash to be raised relative to the magnitude of asset transfer, as the amount of cash to be raised does not need to correspond to the assets available for transfer into the mudaraba / musharaka.
- Because of this lesser reliance on the use of assets, these Sukuk tend to be more feasible financing instruments for corporate borrowers to issue.
- Since 2003, international Sukuk issuance has increasingly been Mudaraba-, Musharaka-, and Wakala-based.

**ISSUANCE BREAKDOWN – By Amount**



**ISSUANCE BREAKDOWN – By No of Deals**



Source: DB Global Markets Research – August 2007

- To date, only 4 of the top 10 largest Sukuk are Ijara-based.

**TOP 10 LARGEST SUKUK**

Country	Sukuk Name	Year	Value (USD M)	Structure
UAE	Nakheel Sukuk	2006	3,520	Ijara
UAE	PCFC Sukuk	2006	3,500	Musharaka
UAE	Aldar Properties Sukuk	2007	2,530	Mudaraba
Saudi Arabia	Sabic Second Sukuk	2007	2,133	Ijara
UAE	JAFZ Sukuk	2007	2,042	Musharaka
Malaysia	Nucleus Avenue Berhad MTN Senior Sukuk	2007	1,647	Musharaka
UAE	DP World Second Sukuk	2007	1,500	Mudaraba
Saudi Arabia	Saudi Electricity Company Sukuk	2007	1,333	Ijara
UAE	DIFC Sukuk	2007	1,250	Mudaraba
Malaysia	PLUS Sukuk Series 3	2006	1,200	Musharaka
Saudi Arabia	Dar Al Arkan Sukuk II	2007	1,000	Ijara

Source: Zawya Dow Jones – Sukuk Monitor

# Issuing Sukuk

## Recent talks among Islamic scholars

Potential repercussions include:

Divergence of scholar opinion likely to grow

Sukuk spectrum likely to shrink

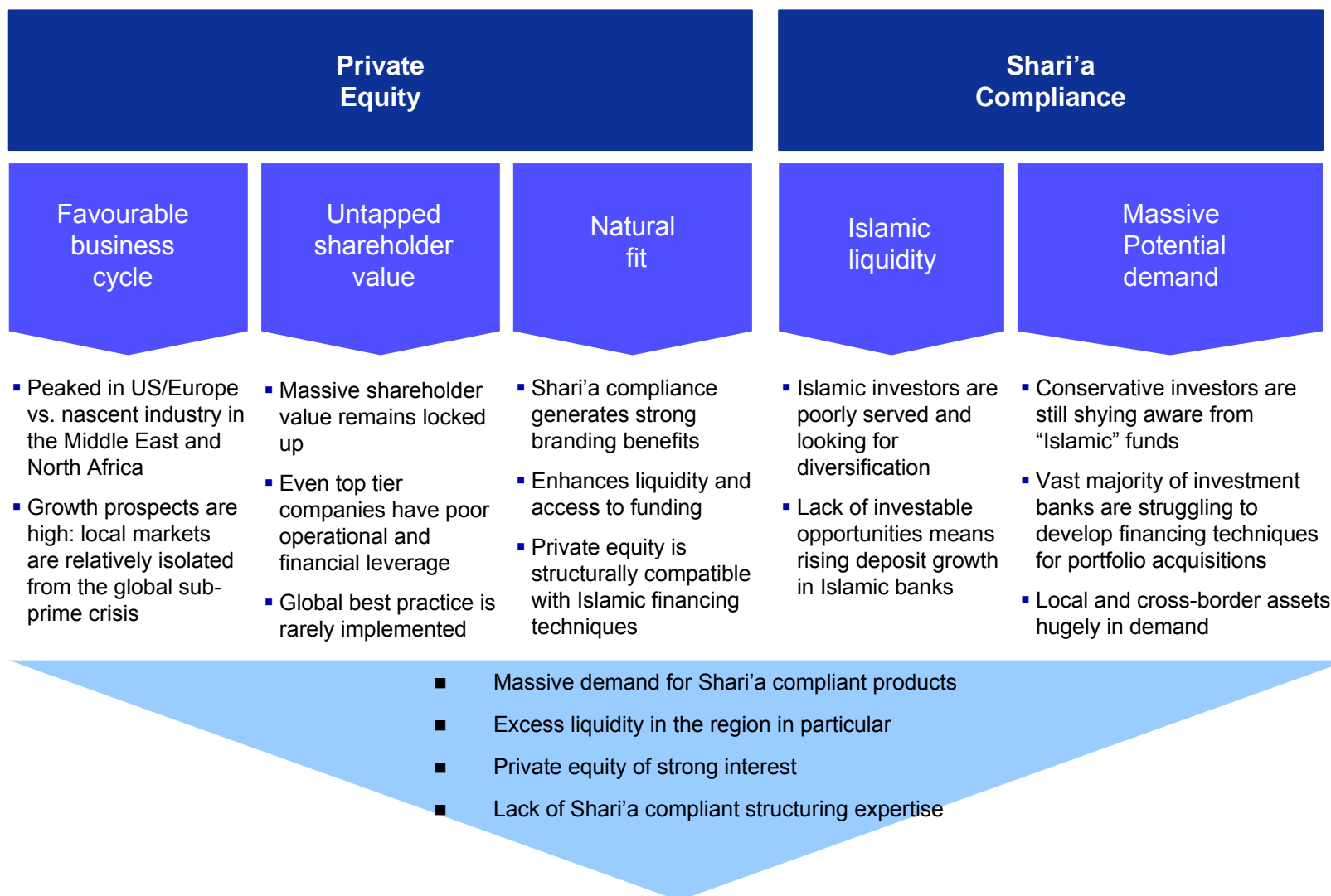
- This recent wave of scholar criticism could potentially:
  - Increase discrepancy among scholars (although the inevitable status quo would be that scholars will have to agree to disagree),
  - → Reduce the acceptability of trust-based Sukuk structures in Islamic markets, i.e. Sukuk-al-mudaraba, Sukuk-al-musharaka and Sukuk-al-wakala,
  - → Affect the growth in issuance of these types of Sukuk, and
  - → Impact the overall development of the Islamic Finance industry
  
- In response to these industry developments, Deutsche Bank is working closely with scholars to come up with alternative solutions that overcome the underlying Shari'a issues.
  
- A number of potential structures are currently under discussion and Deutsche Bank will soon announce the outcome.

# Agenda

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# Islamic Private Equity

Private Equity + Shari'a Compliance = The Next Big Boom



**A powerful driver for growth**

# Islamic Acquisition Financing

## Overcoming the structural challenges

A number of considerations need to be accounted for in the structuring exercise

- An acceptable and a successfully placed Shari'a compliant structure needs to have the following elements:
  - **wide Shari'a acceptance** – if the financing package is to be placed primarily with Islamic institutions, however conventional lenders would be less stringent as they do not necessarily have a separate Shari'a board auditing their transactions
  - **strong legal opinions** – indicating robustness and enforceability
  - **governing law** – most transactions are being governed by English Law except for documents that deal with local assets as form of security or in sale/leaseback 'Ijara' arrangements
  - **tax treatment** – mainly withholding, capital gains, and stamp duties
  - **accounting treatment** – IFRS debt-like treatment have been achieved for Islamic financing instrument
  - **credit/economic terms** – Achieving required subordination, covenants and intercreditor arrangements whilst maintaining compliance with Shari'a principles
  - **regulatory acceptance**
- We are seeing an increasing number of conventional/western financial institutions (funds, banks, insurance companies, etc..) participating in Islamic transactions, resulting in wider acceptance and greater liquidity
- The increased acceptability have resulted in convergence of pricing between conventional and Islamic pricing

# Islamic Acquisition Financing

## Overcoming the structural challenges

Possible structures offer some room for innovation

- The choice of Islamic structures depends on the nature of the business, the industry and industry life cycle of the target
- Structures include
  - **forward starting Ijara/procurement** – widely used for greenfield project finance or target companies with significant Capital Expenditure requirements
  - **forward sale agreements/Murabahas** – suits targets with a manufactured product which provide the major source of revenue
  - **standard Ijara** – sale/leaseback of assets and/or usufruct rights (assets could be tangible or intangible)
  - **Musharaka/Mudaraba** – naturally suitable for subordinated, equity linked instrument. These can also be used in situations where a senior/unsecured instrument (general corporate purposes) are required
- A combination of the above could be used to achieve the optimal objectives of the sponsor
- Recent financial structures used in Islamic format include:
  - Senior Bank Loan/Capital Markets Debt placement alternatives
  - Subordinated Debt alternatives – High Yield/PIK Notes/Toggles
  - Equity & Equity Linked instruments
  - Bridge Financing
- Given the recent innovation in Islamic financing structures, financial sponsors are able to achieve flexibility similar to that seen in conventional financing packages.

# Islamic Acquisition Financing

## Overcoming the structural challenges – Case Study

### Largest LBO in the MENA

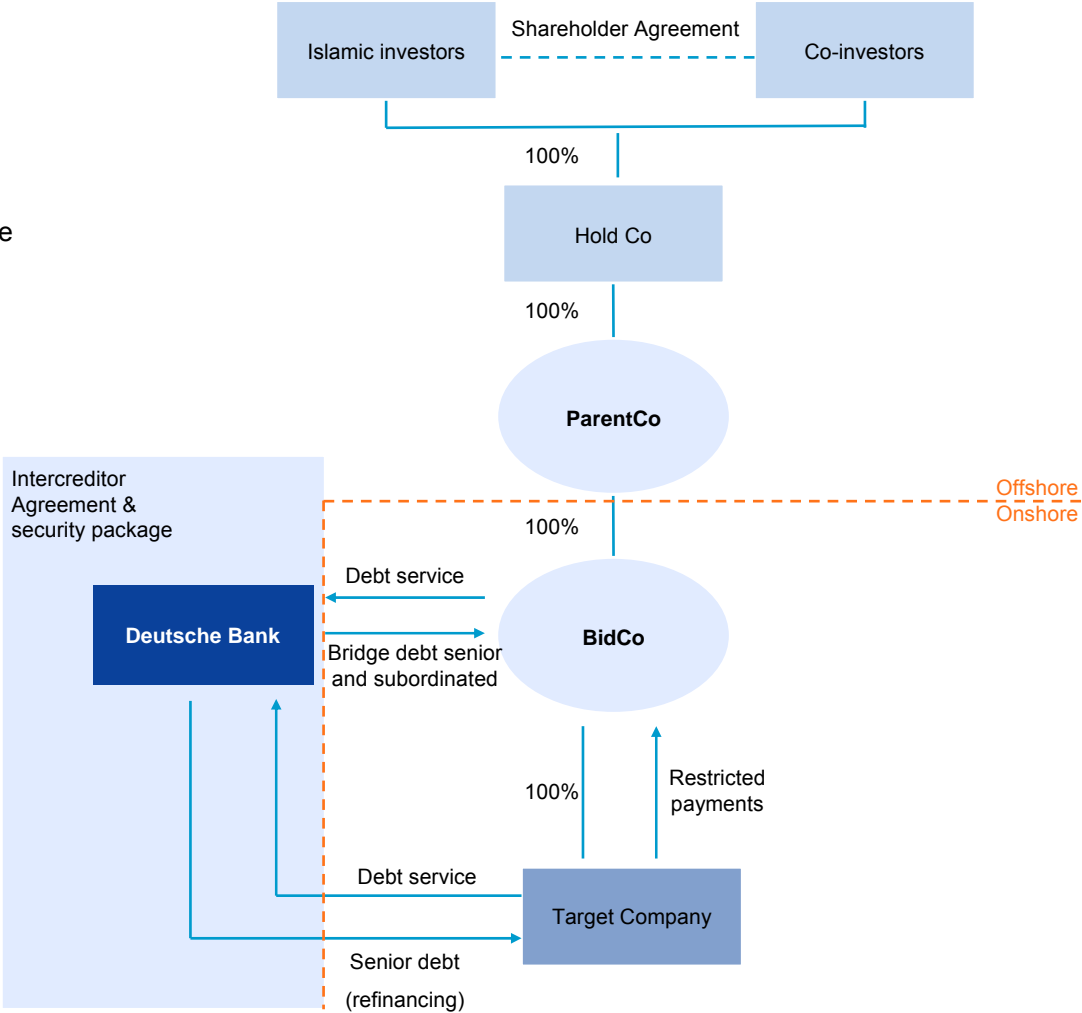
- Deutsche Bank has managed to overcome numerous structural complexities through innovative structuring and active dialogue with sponsors and Shari'a advisors, most notably in the following select cross-border acquisition:
  - Deutsche Bank acted as the sole arranger, structurer and underwriter for the largest LBO in the Middle East and North Africa to date
  - The transaction featured the first fully Islamic acquisition financing package
  - The target is a producer of a manufactured product
  - The structure included a mix of senior bank facilities and high yield capital market sukuku
  - Deutsche Bank fully funded a Bridge facility on a sole basis to enable the bidder to meet timing requirements
  - The transaction is as a clear testament of Deutsche Bank structuring capabilities in Islamic Finance and Emerging Markets. The structure was approved by a prominent Shari'a scholar known for his conservative stance
  - Deutsche Bank successfully addressed complex jurisdictional, Shari'a, tax, commercial and regulatory issues to structure the financing package
- The structure is explained in more detail in the following pages

# Islamic Acquisition Financing

## Overcoming the structural challenges – Case Study

### STEP 1

**Structure pre merger:**  
Assumes conventional financing is still in place  
Merger process takes 3-6 months

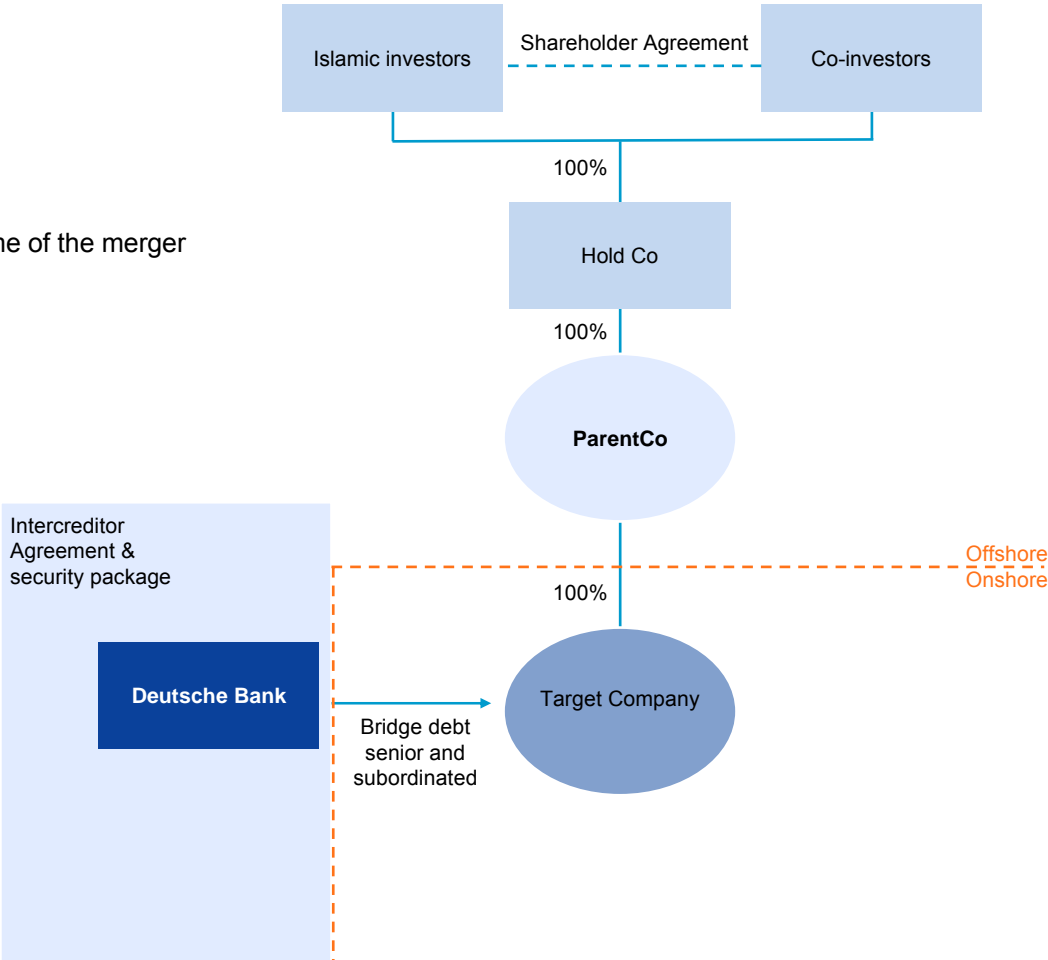


# Islamic Acquisition Financing

## Overcoming the structural challenges – Case Study

### STEP 2

**Structure post merger (1):**  
Conventional finance is still in place at the time of the merger

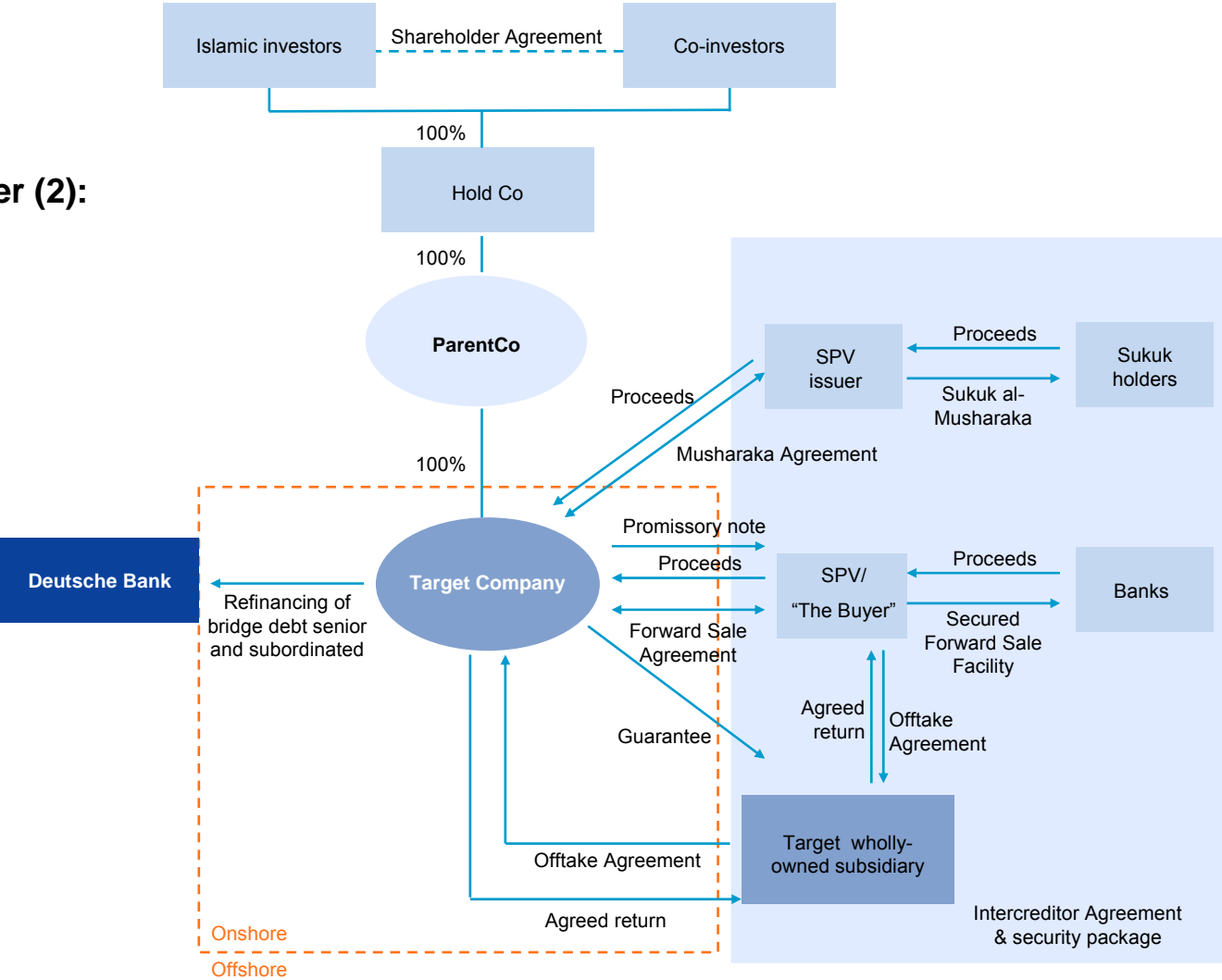


# Islamic Acquisition Financing

## Overcoming the structural challenges – Case Study

**STEP 3**

**Structure post merger (2):  
Shari'a compliant**



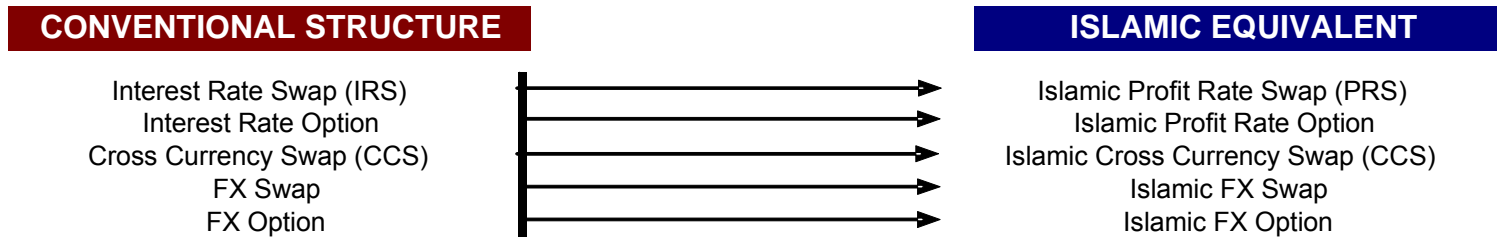
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# Islamic Derivatives

## Increased complexity in products and solutions

- Deutsche Bank has developed innovative ways to replicate most payoff structures in a Shari'a compliant way:



- These products have been approved by some of the most reputable Islamic scholars.

**Note** We can work around each of these Islamic structures in a variety of ways to offer more structured (sub-)versions of the latter.

Indeed, through such structures, we are capable of meeting client objectives in terms of exposures and thereby help them achieve their required risk/return profile.

# Islamic Derivatives

## Increased complexity in products and solutions

### Example of a Profit Rate Swap (1/4)

#### Outline

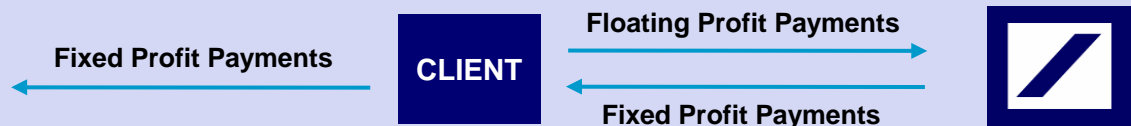
- Pioneering and widely accepted solution developed by Deutsche Bank
- Provides an OFF Balance Sheet, Shari'a compliant solution for hedging existing profit rate risk, i.e. it enables clients to "swap" one profit rate exposure for another in a Shari'a compliant way
- Like conventional swaps, this solution requires only the exchange of net payments
- As long as traded by Deutsche Bank, all types of profit rate swaps can be structured using this solution, subject to results of appropriate due diligence
- Potential applications of this solution include structured swaps and profit rate options

#### How is this Shari'a compliant?

- The Client does **not** receive/pay actual **interest (Rib'a)** cash flows
- There are **tangible assets** underlying the transaction
- Basket of tangible assets is **Shari'a compliant**
- Contracts used:
  - **Murabaha** Agreement
  - **Wa'd** Contract (unilateral Promise)
- Contracts have been **approved** (among others) by highly esteemed Shari'a Boards

#### Why conduct a Profit Rate Swap?

- Clients may have a fixed profit rate exposure which he wants to swap against a floating one



- Other motivating factors include expressing a profit rate view and the aspiration to refinance at lower profit rates

# Islamic Derivatives

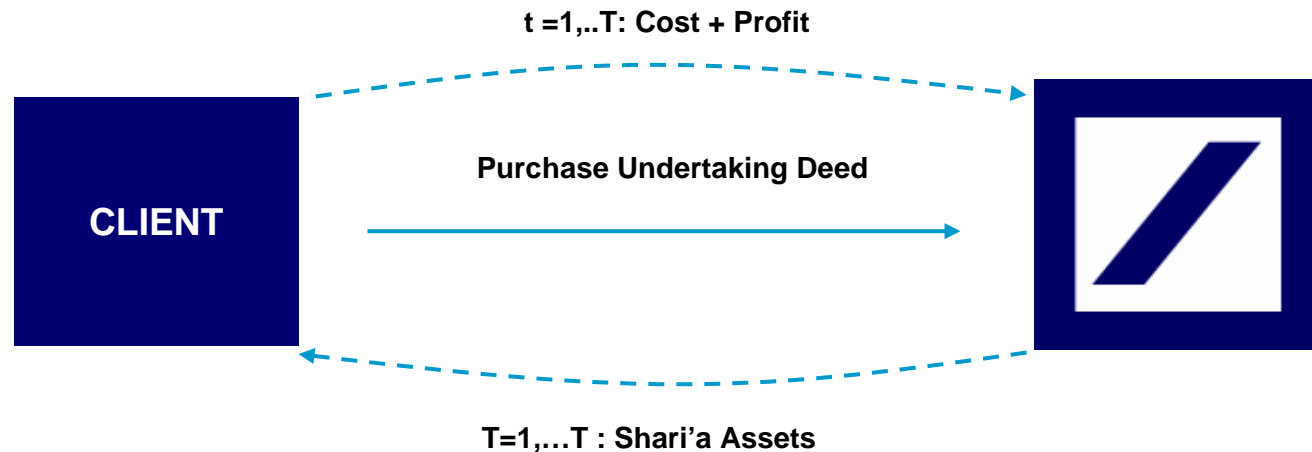
Increased complexity in products and solutions

## Example of a Profit Rate Swap (2/4)

### Purchase Undertaking Deed – Client as Promissor (PUD1)

#### Murabaha agreement:

- $t=0$ : CLIENT (as Promissor) and Deutsche Bank (as Promissee) enter into a **Purchase Undertaking Deed (PUD)** on a basket of Shari'a Assets
- $t=1,..T$ : In case Deutsche Bank chooses to hold client to his PUD, Deutsche Bank sends a notification (accepting the unilateral promise (**wa'd**)) to enter into an **instantaneous Murabaha agreement**. Client **pays value of Shari'a Assets ("Cost") + Notional \* Profit % ("Profit")** and receives Shari'a Assets in return



- **Profit%** is benchmarked against the **difference** between the **Swap Rate** of equal tenor **at inception and the then prevailing Libor Rate i.e. Swap (Fixed) Rate minus Libor (Floating) Rate**
- The Purchase Undertaking Deed grants the Promissee **irrevocably and unconditionally** the right - upon delivery of an **Exercise Notice** - to sell to the Promissor by means of a Murabaha Agreement a predefined number of Shari'a assets for a price calculated in accordance with a formula defined in the PUD agreement
- **Deutsche Bank** may be appointed as **Agent** by Client in the Murabaha Agreement

# Islamic Derivatives

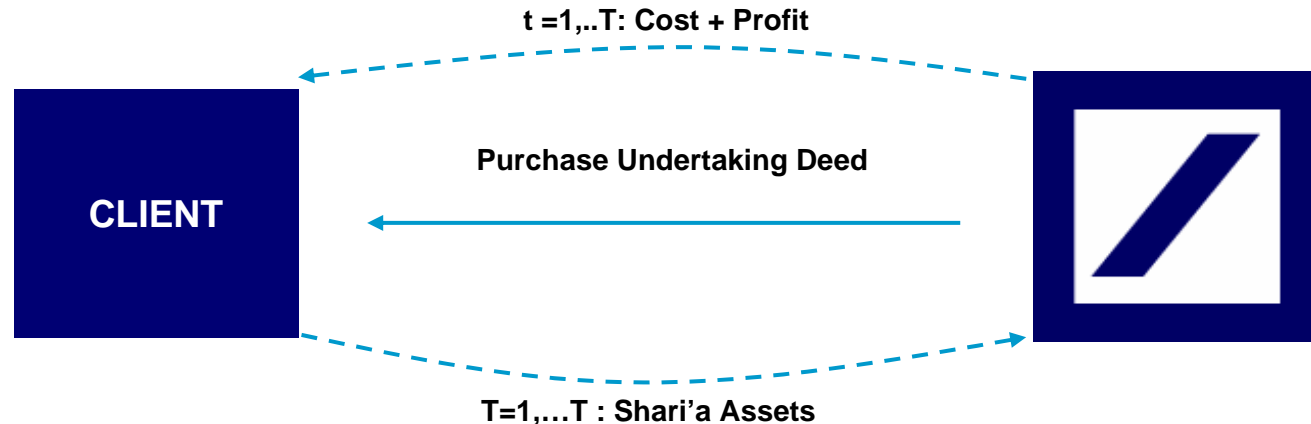
Increased complexity in products and solutions

## Example of a Profit Rate Swap (3/4)

### Purchase Undertaking Deed – Deutsche Bank as Promissor (PUD2)

#### Murabaha agreement:

- $t=0$ : Deutsche Bank (as Promissor) and Client (as Promissee) enter into a **Purchase Undertaking Deed** on a basket of Shari'a Assets
- $t=1,..T$  In case client chooses to hold Deutsche Bank to its PUD, client sends a notification (accepting the unilateral promise (**wa'd**)) to enter into an **instantaneous Murabaha agreement**. Deutsche Bank **pays value of Shari'a Assets** ("**Cost**") + **Notional \* Profit %** ("**Profit**") and receives Shari'a Assets in return



- **Profit %** is benchmarked against the **difference** between the **then prevailing Libor Rate** and the **Swap Rate** of equal tenor at **inception i.e. Libor ("Floating") Rate minus Swap ("Fixed") Rate**
- The Purchase Undertaking Deed grants the Promissee **irrevocably and unconditionally** the right - upon delivery of an **Exercise Notice** - to sell to the Promissor by means of a Murabaha Agreement a predefined number of Shari'a assets for a price calculated in accordance with a formula defined in the PUD agreement
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# Islamic Derivatives

Increased complexity in products and solutions

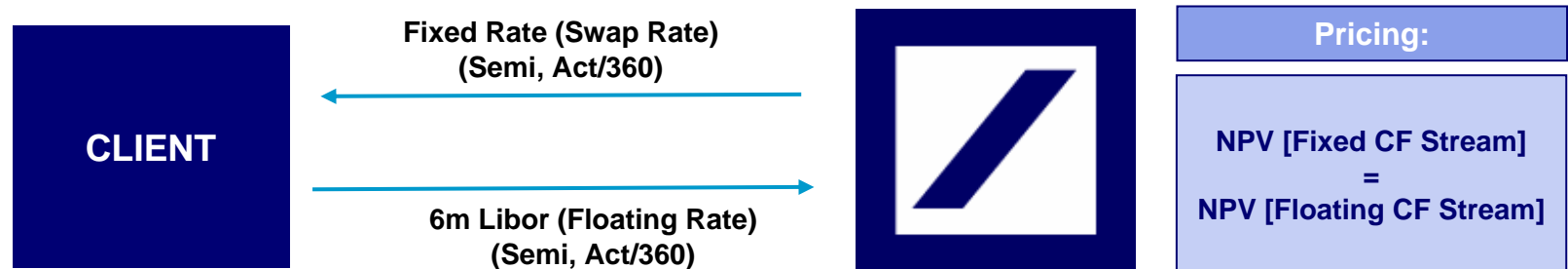
## Example of a Profit Rate Swap (3/4)

### Net Result

#### Only one Purchase Undertaking Deed is exercised

- Scenario 1: Floating Rate > Fixed Rate → Client exercises PUD2 as Promissee and receives net settlement
- Scenario 2: Fixed Rate > Floating Rate → Deutsche Bank exercises PUD1 as Promissee and receives net settlement

#### Net settlements are equivalent to those in conventional IRS



#### Note

**PROFIT RATE OPTIONS** work in exactly the same way except that PUD1 in which Client is Promissor and Deutsche Bank is Promissee only has one potential exercise date, on which a fixed profit (option premium) is payable. Whilst PUD2 shall remain unchanged with various potential exercise dates.

The solution is **OFF BALANCE SHEET** as each Murabaha is instantaneous

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# Islamic Money Markets

## Achieving more efficient structures

**Today's Islamic money markets suffer from inherent limitations**

- Currently, there is no Shari'a compliant Islamic money market (short dated, less than a week maturity) in local currency nor in USD
- The Islamic repo market has not developed (yet)
- The Islamic money market (>1 week) is mainly based on commodity Murabaha transactions via (in some cases) unreliable brokers with low credit-worthiness
- Islamic banks deposit their overnight money with their domestic Central Bank interest free (creating a competitive disadvantage compared to the conventional banks)
- The lack of liquidity, alternatives and competitive disadvantage hamper the local Islamic banks and can even create liquidity crises

# Islamic Money Markets

## Achieving more efficient structures

**The Wa'd based methodology is a more functional money market solution than the traditional commodity Murabaha technique**

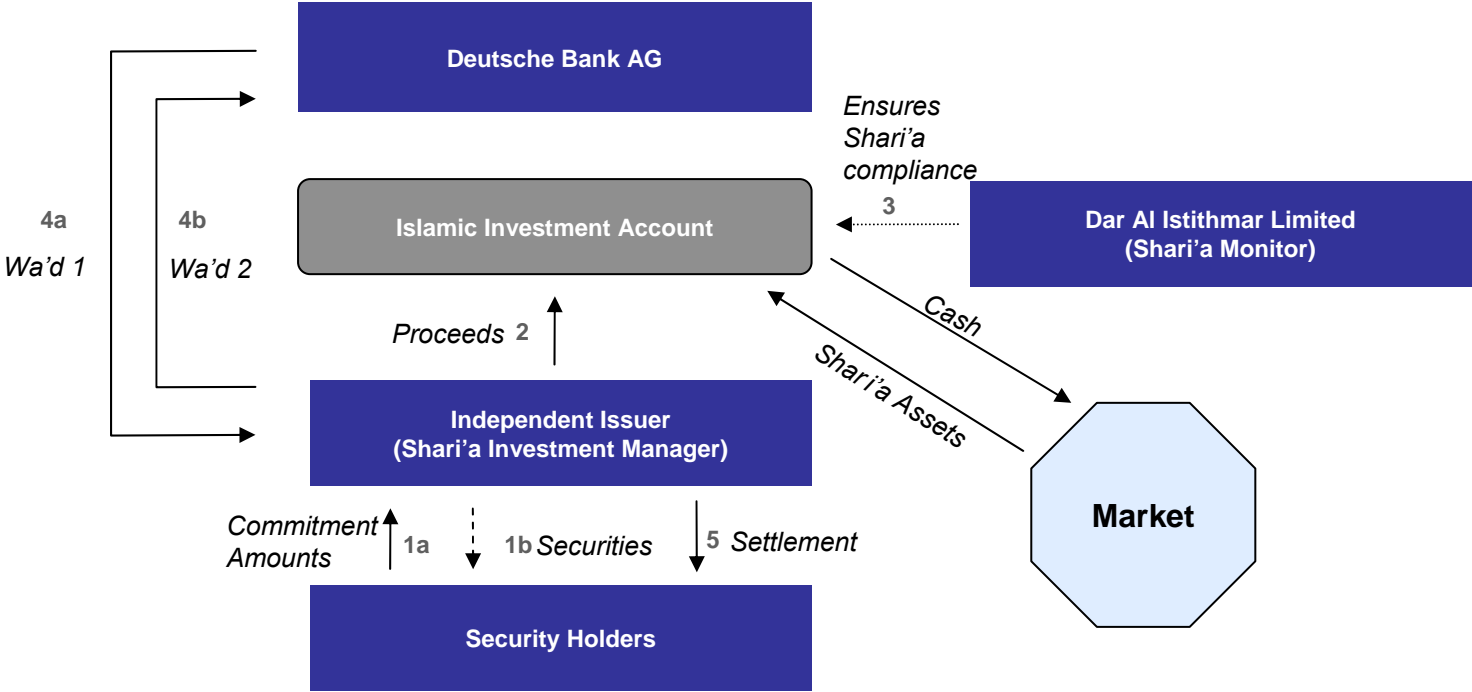
- The traditional commodity Murabaha:
  - Is in an illiquid (non transferable) instrument
  - Can be costly (move of assets)
  - Is set up within non regulated framework (no standardisation, control)
  - Involves sometimes low-credit worthy/unreliable brokers
  - Does not allow very short dated products (overnight)
  - Is calculated with reference to Libor
  - Is contested from a Shari'a point of view
  
- In contrast, the Wa'd based methodology:
  - Offers liquid / exchange traded paper
  - Is less costly (assets only move once)
  - Allows for listing, and therefore corporates / other institutions can participate more easily in the market
  - Can ensure transactions are executed within a controlled environment (stock exchange, approval to list)
  - Enables short term trades (overnight, tom/next) that are essential for efficient liquidity management
  - Allows for market making activity, therefore more liquidity in the market

# Islamic Money Markets

## Achieving more efficient structures

- The Wa'd structure / methodology is a perfectly valid Sharia compliant solution

### THE WA'D STRUCTURE



# Islamic Money Markets

## Achieving more efficient structures

### 1 The Issuance Process

- a- Independent Issuer issues the Securities to the Security Holders
- b- Independent Issuer receives the Commitment Amounts (“Par”)

2 Independent Issuer will credit the Islamic Investment Account in respect of each Structured Product with Shari’a compliant assets (the “Islamic Assets”), bought from the market, of value equal to the Commitment Amounts, and shall operate the Islamic Investment Account (holding full legal title to the assets) in its capacity as Shari’a Investment Manager pursuant to the *Investment Management Deed Poll*, all in accordance with the instructions of the Shari’a Monitor

3 Independent Issuer will appoint Dar Al Istithmar Ltd as its Shari’a Monitor in accordance with the *Shari’a Monitoring Agreement*

4a DB will in accordance with the terms of the *Undertaking to Purchase* (PUD 1/Wa’d 1), unconditionally and irrevocably promise the Shari’a Investment Manager to purchase the Islamic Assets in accordance with certain conditions and upon delivery to DB of a Relevant Notice\* (unilateral promise).

4b The Shari’a Investment Manager enters into a similar *Purchase Undertaking* (PUD 2/Wa’d 2) unconditionally and irrevocably promising DB, in accordance with a different set of conditions, to sell the Shari’a assets at a predefined price and upon delivery to the Shari’a Investment Manager of a Relevant Notice\* (unilateral promise).

NB: In these two unilateral Purchase Undertaking Deeds, the predefined purchase price is benchmarked to the performance of a reference asset (in this case the Overnight rate or short term Libor index)

5 DB, in its capacity as Calculation Agent, will compute any profit or loss to the Security Holders in accordance with the terms of the Securities and the relevant underlying asset (as set out in the *Prospectus*)

\* These two PUD’s are subject to different conditions therefore only one will ever be exercised.

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# Other Islamic Structures

## Islamic Structured Repos

### Outline

- A sizeable group of corporate and financial institutions in the Gulf are sitting on a large stockpile of static Sukuk and other Shari'a compliant assets  
→ There is solid demand for securitized liquidity within this segment
- Islamic repos utilize the Mudaraba contract to generate liquidity for the Client (the Mudarib) on the back of the Mudarib's existing portfolio of Sukuk

### Benefits

- Provides liquidity
- Low cost method of financing (i.e. reduced fixed profit rate)
- Complies with Shari'a

### How does an Islamic repo work?

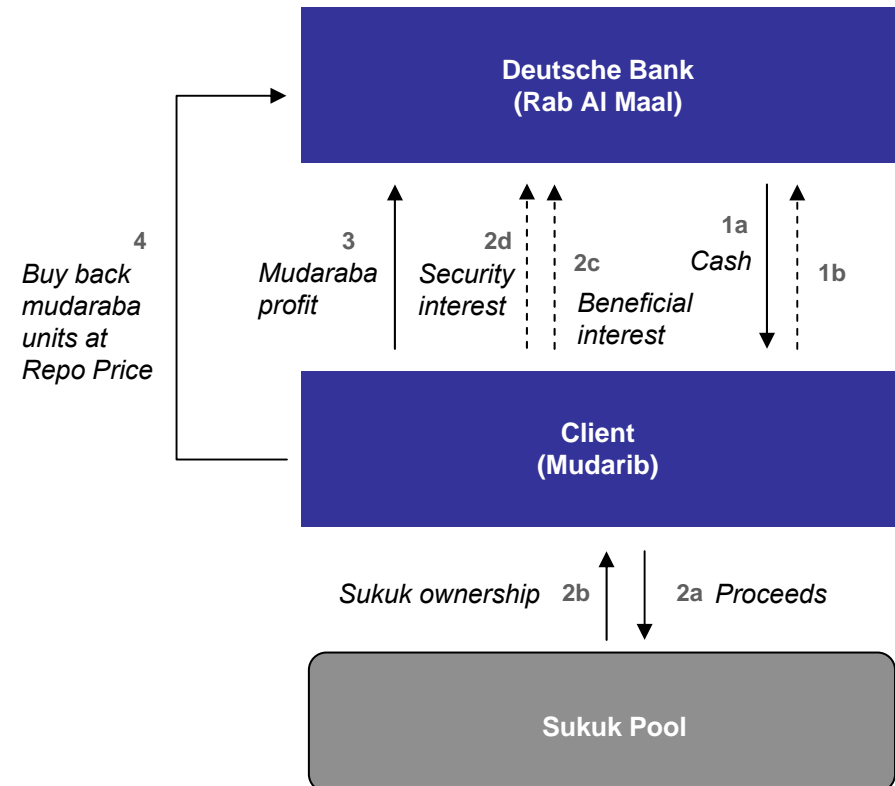
- CLIENT (the Mudarib) obtains capital from Deutsche Bank (the Rab Al Maal)
- The capital is invested into an underlying pool of sukuk, over which Deutsche Bank gains Shari'a-compliant beneficial ownership / security
- CLIENT (the Mudarib) agrees to generate an expected profit on a periodic basis and repurchase Deutsche Bank's rights at a pre-defined maturity date and pre-fixed price (Repo Price).

# Other Islamic Structures

## Islamic Structured Repos

### Transaction flow

- 1a Deutsche Bank (Rab Al Maal) enters into a Mudarabah with Client (Mudarib) whereby Deutsche Bank provides capital equal to the notional value of the Repo.
- 1b Client as “Promissor” grants a Purchase Undertaking to Deutsche Bank (Rab Al Maal) with respect to the future buy-back.
- 2a Client (as Mudarib) uses the proceeds from 1a to invest in a portfolio of Sukuk, the Sukuk Pool.
- 2b Client (Mudarib) retains legal ownership of the Sukuk Pool.
- 2c Deutsche Bank receives “beneficial interest” under Shari’a in the underlying Sukuk Pool.
- 2d Deutsche Bank also takes a Shari’a compliant security over the Sukuk Pool.
- 3 Client (Mudarib) will pay Deutsche Bank (Rab Al Maal) the fixed Mudaraba profit rate stipulated in the Mudaraba Agreement from the profit that is periodically generated by the underlying Sukuk Pool.
- 4 In accordance with the Purchase Undertaking, when the agreed-upon maturity date is reached, Client (Mudarib) will buy back Deutsche Bank (Rab Al Maal)’s beneficial interest in the Sukuk Pool at the relevant pre-defined price (Repo Price).



**Note:**

This same structure can be used to provide other more structured Islamic repo transactions. Examples would include interest rate reducing strategies (through a structured interest instead of the Repo rate on the cash portion) and transactions in various currencies.

# Other Islamic Structures

## Islamic Structured Financing

### Outline

- Deutsche Bank, in its capacity as liquidity provider, can act as Rab Al Maal in an Islamic structured financing based on Mudaraba
- The terms of the financing can be dynamic and versatile, e.g. based on a function of the return of an index or commodity (as with a conventional structured Financing), while remaining within the parameters of Shari'a
- The Client obtains access to an innovative Financing structure offering added potential for flexibility

### Benefits

- Provides liquidity
- Complies with Shari'a, as the Mudaraba Assets are tangible and Shari'a compliant themselves
- Adds flexibility in repayment

### How does Islamic structured financing work?

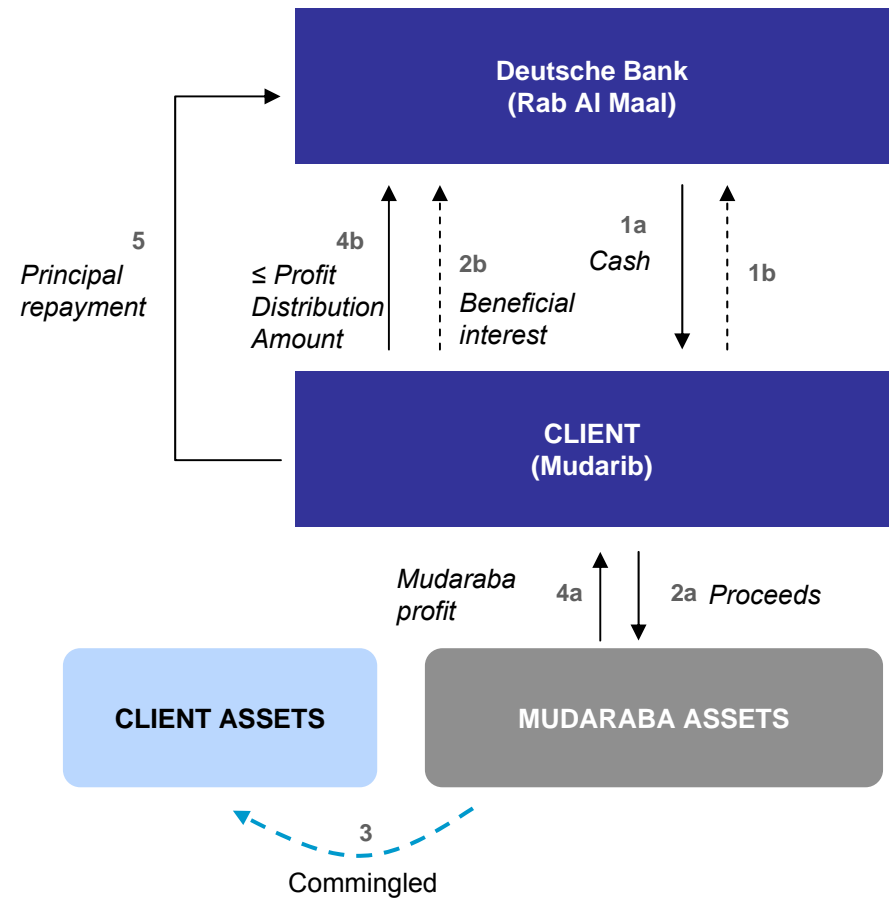
- CLIENT (the Mudarib) obtains capital from Deutsche Bank (the Rab Al Maal)
- CLIENT (the Mudarib) invests the capital in Shari'a compliant assets, that can be commingled with the client's own assets
- As outlined in the Mudaraba Agreement, the CLIENT agrees to pay out the Profit Distribution Amount to Deutsche Bank, as calculated by the Calculation Agent for all relevant Mudaraba Return Periods in the term of the financing
- The Profit Distribution Amount is referenced to the cumulative performance of the relevant Index specified in the Mudaraba Agreement

# Other Islamic Structures

## Islamic Structured Financing

### Transaction flow

- 1a Deutsche Bank (Rab Al Maal) enters into a Mudaraba with CLIENT (Mudarib) whereby Deutsche Bank provides capital.
- 1b CLIENT as “Promissor” grants a Purchase Undertaking to Deutsche Bank (Rab Al Maal) with respect to capital repayment at maturity.
- 2a CLIENT (as Mudarib) uses the proceeds from 1a to invest in a portfolio of Shari’a-compliant assets.
- 2b Deutsche Bank receives “beneficial interest” under Shari’a in the underlying pool of Mudaraba Assets.
- 3 CLIENT (Mudarib) may commingle the Mudaraba Assets with its own.
- 4a As determined by the Calculation Agent, CLIENT (Mudarib) generates a Mudaraba profit that is separated from the profit of the Mudarib from his commingled assets.
- 4b CLIENT (Mudarib) will allocate the Mudaraba profit according to pre-set distribution ratios.  
  
E.g. 99% to the Rab Al Maal (subject to the formula conditions of the FRB/Harvest index performance, and no greater than the Profit Distribution Amount); 1% to the Mudarib.
- 5 In accordance with the Purchase Undertaking, when the agreed-upon maturity date is reached, CLIENT (Mudarib) will return Deutsche Bank (Rab Al Maal)’s capital.



**Note:** This same structure can be used to provide other more structured Islamic Structured Financing services with various types of underlying as well as various index strategies (e.g. the DB Harvest Index)

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