

# Islamic bank expands in western way

## News analysis

### Digby Lidstone on the ambitious plans of the untypical founder of Unicorn, a Bahrain-based finance house

Close your eyes, and Majid al-Refai sounds like a typical businessman from the Deep South. The US-born banker has a habit of punctuating his sentences with "You get it?" and phrases such as "Isn't that the damndest thing?"

But his appearance tells another story. Dressed in a white thobe and sandals and sporting a luxuriant chest-length beard, Mr Refai is every inch the Islamic banker.

"I'm a Muslim brought up in a Christian world, and my aim is to put that western thinking to good use in this market," says the founder and chief executive of Unicorn Investment Bank, an Islamic finance house based in Bahrain. "Everyone in the Gulf is focused on trading and real estate. Our task is institution-building."

While many banks have reined in their growth plans since late last year, Unicorn has been on an aggressive expansion drive.

The unlisted bank has made a string of acquisitions in the Gulf this year, from financial institutions to energy companies, and last month was granted a licence to operate in Saudi Arabia.

"In terms of investment we're looking at some local banks [in the kingdom]. We're talking alliances rather than acquisitions as most Saudi banks are big, powerful and well entrenched," says Mr Refai.

Unicorn plans to spend \$1bn on acquiring other institutions in the Gulf, Europe and Asia and has raised about \$220m of capital to this end. It is preparing to launch a *sukuk*, or Islamic bond, in Saudi Arabia in the fourth quarter.

Details of the latest *sukuk* have yet to be worked out, says Mr Refai, though he was reported in April as saying that the bank was planning a \$425m *sharia*-compliant bond to fund its expansion plans. Some \$110m of fresh capital was raised through a private placement in August 2008, shortly before the global

financial crisis made itself felt in the Gulf.

Since it was set up in 2004, Unicorn has established a presence in Malaysia, Turkey, the United Arab Emirates and the US, where it maintains a portfolio of private equity deals worth between \$300m and \$400m, says Mr Refai. Though US transactions have been shelved since the

### **'I'm a Muslim brought up in a Christian world, and aim to use that western thinking'**

financial crisis, the bank plans to expand elsewhere.

Unlike numerous Islamic banks, Unicorn has shown little appetite for real estate or listed equities, a policy that stood it in good stead when regional markets tumbled in late 2008. "When the crisis hit, we had only three baby pieces of real estate, we had zero listed shares, we had zero investments in Dubai and we had a 39 per cent debt-to-equity ratio," says Mr Refai.

That said, the bank has

struggled to maintain profitability.

Unicorn turned a net profit of \$35m in 2008, a 29 per cent drop on the previous year, though marginally ahead of its performance in 2006.

"Our first priority is survival, and we'd be happy to break even this year and next," says Mr Refai.

The longer-term strategy is to turn Unicorn from an investment bank into a broad-based financial services group – "like HSBC, potentially, for the Muslim world" – based on five business lines: asset management; private equity; corporate finance; capital markets; and treasury.

Mr Refai says it was with this diversity in mind that he resigned as chief executive of First Islamic Bank, since renamed Arcapita, which he helped found in Bahrain in 1997. Other members of the board wanted to focus solely on private equity, he says, a remit he found restricting.

He speaks with reformist zeal about changing attitudes towards finance in the Middle East.

"It's not the money. Arabia is loaded with money. It's the short-term trader mentality," he says.