Islamic Finance news Awards

Deals of the Year 2007 Handbook

THANKS TO OUR CLIENTS AND SHAREHOLDERS…

Investment Dar has won Deals of the Year 2007: United Kingdom

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Best Islamic Investment House Award
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Our pursuit for excellence started back in 1994 with a vision to grow and a commitment to succeed. Over the years, our vision has been realized and our commitment has been achieved.

Investment Dar witnessed a worldwide expansion and diversified extensively to become the largest Islamic Investment Company in the Middle East and one of the most prominent regionally and globally.

By remaining dedicated to our vision and commitment, and with the continued valuable support of our employees and shareholders, we look forward to more successes and achievements in the future.

Deal of the Year 2007: United Kingdom
Islamic Finance News Awards 2007

دار الاستثمار
Investment Dar

Innovate Develop Commit

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Note from the editor

It won't be long before Islamic banking and finance becomes part of the mainstream. Despite being in existence for less than 40 years, Islamic finance is already estimated to be worth US$700 billion globally and has grown by 15% in each of the past three years. It has proven itself to be a valid and viable form of financing for all.

The industry has developed various Shariah compliant structures that provide investment opportunities and meet the financing needs of businesses and investors who want to comply with the Shariah.

In the Islamic capital market, we see more and more deals being structured in a unique manner within the ambit of the Shariah but whose returns are as lucrative as those offered by conventional deals. The Islamic finance deals in 2006 set great precedents but industry players worked hard to set new benchmarks in 2007.

Once again, Islamic Finance *news* presents the Deals of the Year 2007 handbook featuring case studies on the industry's most successful and innovative deals written by leading players including lawyers and bankers. We stress that these case studies are not meant to be expert advice. Rather, they aim to provide unique insights into the challenges and opportunities faced by practitioners in structuring the deals.

Case studies this time around include Khazanah's US$850million Sukuk, to date the largest equity deal in Malaysia, Tamweel's US$210 million securitization (which is the first UAE-rated Islamic mortgage alternative instrument) and the massive US$6.1 billion license financing by MTC Saudi.

We would also like to thank all the contributors for sharing their experiences in structuring the award-winning deals. Congratulations to all winners of Islamic Finance *news* Deals of the Year 2007.

Kind regards,

Arfa'eza A Aziz
Editor

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Khazanah US$850 million Sukuk: Largest Equity-Linked Deal in Malaysia

Last year, Khazanah Nasional (Khazanah, the investment holding arm of the Government of Malaysia), via Cherating Capital, issued a benchmark deal that was reported to be the largest exchangeable Sukuk globally at the time and the largest equity-linked deal out of Malaysia to date.

CIMB Investment Bank, JPMorgan and Deutsche Bank acted as joint bookrunners and joint lead managers for the US$850 million exchangeable Sukuk for Khazanah into PLUS Expressways (PLUS).

The deal was significantly upsized by 42% from US$600 million to US$850 million due to market demand, and thereby surpassed Khazanah's maiden US$750 million exchangeable Sukuk issued last year.

Khazanah is the investment arm of the government of Malaysia, with investments in over 50 major companies in various sectors such as banking, transportation, telecommunications and power, both locally as well as overseas in countries like China, India and Saudi Arabia.

PLUS, which is 66% controlled by Khazanah, is the ninth-largest toll road operator globally, and the largest in Southeast Asia.

CORE OBJECTIVES

The issuance of the US$850 million exchangeable Sukuk underlined two core objectives for Khazanah and the government of Malaysia.

The deal aligned with Khazanah's long-term mandate to reduce its stake in the companies in its portfolio as well as contribute to the Malaysian government's objective to develop the Islamic bond market.

The proceeds from the issuance will be used as additional working capital for Khazanah as well as for other general corporate purposes related to its principal business activities locally and overseas.

The deal was structured such that the certificate holders will receive a periodic payment of 2% per annum for five years — above the 1.25% paid by the first exchangeable Sukuk — and contains an option to be exchanged for ordinary shares of PLUS.

The periodic payment is based on the dividends paid by PLUS and is not a guaranteed payment. However,

continued...

Khazanah US$850 million Sukuk *(continued...)*

to protect the certificate holders from any potential reduction of the dividend yield, a significant buffer has been included in the structure between the 2% periodic payment and the current 4% PLUS dividend yield.

The excess will be retained in a "sinking fund" for future payments if required.

The certificates were priced to achieve a yield to scheduled dissolution of 4.58% and an exchange premium of 23% over RM3.21 (US$1), being the volume weighted average price of PLUS shares on the 27th June 2007.

On the exercise of the exchange rights under the certificates, the holders will be entitled to receive an aggregate of approximately 751 million ordinary shares of PLUS, which represent approximately 15% of PLUS' current share capital.

AGGRESSIVE PRICING

Compared to Khazanah's first deal, the issuance achieved significantly more aggressive pricing, with terms fixed at the tight end of all the marketing ranges. The yield was LIBOR-90 bps as compared to LIBOR+4 bps in the first deal. The premium, which marketed at a range of 19% to 23%, achieved 23% as compared to 19% in the first deal.

The order book was covered over 13 times with sizeable demand of US$$7.8 billion coming from over 200 international investors with no pricing sensitivity.

This is especially impressive, given that the bookrunners capped each investor's initial order to 10% of the base deal, i.e. US$60 million.

Although marketed as a Shariah compliant structure, this did not deter conventional investors who were drawn to the rarity of the value of the Khazanah credit and also the value of the equity linkage to a major Malaysian company.

Compared to the first deal in 2006 — which had a 70%:30% allocation between conventional: Middle East/Islamic accounts — the Khazanah into PLUS exchangeable Sukuk allocated over 50% to Middle East/Islamic accounts.

In summary, the transaction was labeled a "blowout success" (FinanceAsia) and surpassed the award-winning maiden exchangeable Sukuk in being multiple times oversubscribed, achieving significantly more aggressive pricing and breaking the trend in placing over 50% of the overall allocation with Middle East/Islamic accounts.

This case study was written by Atia Riaz, an Islamic finance structurer at JPMorgan Securities in London

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مصرف أبوظبي الإسلامي
Abu Dhabi Islamic Bank
PJSC ش.م.ع

Khazanah Nasional Exchangeable Sukuk

INSTRUMENT	US dollar denominated periodic payment exchangeable Sukuk
ISSUER	Cherating Capital
OBLIGOR	Khazanah Nasional
SECURITIES OFFERED	US dollar denominated periodic payment exchangeable trust certificates due 2012, exchangeable into ordinary shares of PLUS Expressways (PLUS) offered and sold in reliance on Regulation S only
DATE OF LISTING	27th June 2007
ISSUE SIZE	US$850 million
ISSUE PRICE	100%
DATE OF CLOSING	Expected to be on the 5th July 2007
MATURITY	Five years
SCHEDULED DISSOLUTION AMOUNT	114.14%
PAYMENT SCHEDULE	The payment will be 2% per year, payable on an annual basis in arrears. Periodic payments will be funded by the dividend income received in respect of the exchange property and payable up to the maximum periodic payment of 2% per year. Periodic payments will not be guaranteed by the issuer or the obligor. Periodic payments are cumulative (but if the dividend income received in respect of the exchange property is insufficient to fund the periodic payments in full, this will not constitute a dissolution event). Any excess dividend income received in respect of the exchange property will be accumulated in a sinking fund (subject to the order of priority set out in the offering circular) up to the total maximum periodic payment and the aggregate shortfall amounts, if any, and shall be applied by the issuer to pay the periodic payments.
BASE DEAL SIZE	US$600 million
INCREASE OPTION	US$250 million, which has been exercised in full
DENOMINATION	US$100,000 and integral multiples thereof
EXCHANGE PROPERTY	Ordinary shares of RM0.25 (US$0.07) par each of PLUS listed on Bursa Malaysia Securities
BOOKRUNNERS/MANAGERS	CIMB, Deutsche Bank and JPMorgan
GOVERNING LAW	English law
TRUSTEES	HSBC (international trustee) and CIMB Trust (Labuan trustee)
SHARIAH ADVISER	CIMB Bank's Shariah Advisory Board
LISTING	Application has been made to list on the Hong Kong Stock Exchange, the Labuan International Financial Exchange and the Dubai International Financial Exchange
EXCHANGE RIGHT	Exchangeable into shares at the election of the certificate holders at any time on or after the 40th day after the closing date, until the close of business on the date which falls 10 business days prior to the scheduled dissolution date, unless previously called for dissolution prior to the scheduled dissolution date, and then up to close of business on the 10th business day prior to the date fixed for dissolution.
PURPOSE OF ISSUE	Khazanah Nasional intends to use the proceeds as additional working capital and for other general corporate purposes relating to its principal business activities
RATINGS	The certificates will not be rated as the issuer is not rated

Tamweel US$210 million Shariah Compliant Securitization

In July 2007, Morgan Stanley successfully priced the Tamweel US$210 million Shariah compliant securitization amid volatile and choppy market conditions.

The Tamweel transaction represents the first internationally rated, Shariah compliant, true sale residential asset backed securitization from the Middle East. It is also the first deal to incorporate multiple tranches within a Shariah compliant structure.

DEAL STRUCTURE

The asset portfolio consisted of residential property leases relating to properties in Dubai structured on a lease-to-buy basis. As originator, Tamweel sold legal title to its Ijarah assets to a special purpose vehicle, or SPV (Tamweel Properties), which in turn assigned its rights to the issuer SPV, Tamweel Residential ABS. Tamweel continues to act as originator and servicer of the Ijarah assets.

Morgan Stanley acted as joint bookrunner for the transaction in addition to providing a series of Shariah compliant currency hedging solutions for the transaction, in order to guarantee the current AED-USD peg rate.

SHARIAH COMPLIANT TRANCHING

Under the Shariah, the acquisition of properties and other assets and rights can be made in tranches as contemplated under the acquisition agreements with payment being made after the acquisition.

The Shariah basis for payment on the notes being prioritized was based on the consent of the noteholders such that:

(a) Noteholders of a class of Notes may agree to dispose of their right to receive payments under the Notes (including payments of principal which are derived from the rental payments) as they wish;

(b) Noteholders of another class of Notes (being co-investors) may receive payments of a higher or lower rate of variable return, as the case may be; and

(c) In the disposition of such rights to receive payments, the Noteholders of one class of Notes may agree that their rights to receive payments under the Notes and the payments when made (but only such rights and

continued...

Tamweel US$210 million Securitization *(continued...)*

payments) are reserved and can be used to enable the Noteholders of another class or classes of Notes to receive payments under the Notes (including payments derived from the rental payments) in priority to them.

Within each class of notes, the Noteholders of that class rank *pari passu* without preference or priority among themselves.

TRANSACTION SUMMARY

Shariah approval of the tranche as described above enables various classes of bonds to be issued on the same asset pool. The Class A bonds that were distributed received a rating of Aa2 from Moody's and AA from Fitch, and are among the highest international ratings achieved to date in the Middle East and North Africa region.

This case study was written by the Islamic finance team in Morgan Stanley based in Dubai.

TERMSHEET

Tamweel

INSTRUMENT	Islamic residential mortgage backed securities		
ISSUER	Tamweel		
PRINCIPAL ACTIVITIES	Tamweel is a joint venture between Dubai Islamic Bank and Istithmar. The company, which was established in March 2004, provides a wide suite of Shariah compliant products in home financing. Having financed property worth over AED7 billion (US$1.9 billion), Tamweel has recently moved to a PJSC structure with overwhelming demand subscriptions exceeding the required amount by 485 times. Tamweel currently has branches in Dubai, Sharjah and Abu Dhabi and over 235 partners.		
BOARD OF DIRECTORS	Sheikh Khaled bin Zayed (chairman), Khaled Al Kamda (vice-chairman), Saad Abdul Razzaq, Wassim Saifi, Ahmed Butti Al Mehairi and Ahmed Sultan Sulayem		
ISSUE SIZE	US$210 million	DATE OF ISSUE	End-July 2007
PAYMENT SCHEDULE	Lessees were notified about the sale of properties to Tamweel Properties Limited (TPL), and were given a three-month leeway for any defaults. Under the structure, TPL is required to register as the new owner of the property with the Dubai Land Department. Currently, approximately 54% of the properties in the pool have been registered and sold to TPL.		
IDENTIFIED ASSETS	Residential properties located within Dubai. The true sale of the assets to TPL is governed by UAE and DIFC law.		
STRUCTURING AGENT	Emirates National Securitization Corporation		
BOOKRUNNER/ MANAGER	Morgan Stanley International and Standard Chartered Bank. Morgan Stanley also acted as a provider of foreign exchange hedging solutions, while StanChart provided liquidity for the transaction.		
LEGAL COUNSEL	Allen & Overy (to issuer), Denton Wilde Sapte (to manager & securitization structurer)		
METHOD OF ISSUE	This is the first transaction related to residential properties located within Dubai. It securitizes lease payments that arise under Shariah compliant, long-term real estate lease agreements. The lease agreements were initially originated by Tamweel, one of the major home finance companies within the UAE via a two-tier structure. The transaction benefits from a foreign exchange hedge provided by Morgan Stanley, and a liquidity facility by StanChart at an initial amount of 5% of the notes' balance.		
PURPOSE OF ISSUE	Proceeds from the issuance relating to unregistered properties are held in an escrow account until registration is finalized, or the account is released at the end of 2007 for redemption		
RATINGS	The notes four classes were rated as such by Fitch Ratings: Class A: AA/Stable; Class B: BBB+/Stable; Class C: BB/Stable; Class D: Not rated		

RSGT US$453 million Ijarah Mawsufah Fi Al Dhimmah Structure

Red Sea Gateway Terminal Company Limited (RSGT), which is implementing the development of the third container terminal project at the Jeddah Islamic Port on a build-operate-transfer basis, signed Islamic financing agreements worth SAR1.7 billion (US$454 million) with Al Rajhi Bank last December. Al Rajhi Bank and The Standard Bank of South Africa jointly provided the financial advice for the Islamic financing for the project and acted as mandated lead arrangers. Al Rajhi structured the Ijarah facility on a forward lease structure known as Ijarah Mawsufah Fi Al Dhimmah.

The container terminal to be built at an estimated cost of about SAR1.7 billion is to be funded in a debt-to-equity ratio of 69:31. The equity for RSGT would be provided by the project's founding shareholders, including SISCO, Xenel Industries, Tusdeer and City Island Holdings Limited, a subsidiary of the Malaysian company MMC International.

THE DEAL

The SAR1.7 billion Islamic financing facilities for RSGT have been fully underwritten by Al Rajhi, and include a SAR1.27 billion (US$339 million) Ijarah facility to cover most of the equipment- and construction-related costs to be incurred during the three-year construction period. Al Rajhi will provide SAR900 million (US$240.3 million) out of the SAR1.27 billion Ijarah facility. The balance of SAR425 million (US$113.48 million) in Islamic facilities being provided by Al Rajhi for RSGT would include a stand-by facility, a working capital facility and a letter of credit for equipment supply.

IJARAH STRUCTURE

The Ijarah facility has been structured as a forward lease known as "Ijarah Mawsufah Fi Al-Dhimmah". Under this structure, the Islamic banks would appoint RSGT (the project company) as their agent (wakeel) during the construction period of three years for procurement of the Ijarah assets, and provide the Ijarah financing for procurement of these Ijarah assets. After construction, the banks would own the Ijarah assets and lease these assets to RSGT. Hence the term forward or specified lease (so named due to the lease of specified asset).

The banks are entitled to receive fixed advance rentals during the construction period and lease rentals linked to benchmark indices like SAIBOR or LIBOR during the lease period.

PRINCIPAL DOCUMENTS

The Ijarah Mawsufah Fi Al-Dhimmah structure uses the following five principal documents: (i) asset participation agreement; (ii) agency agreement; (iii) specified lease agreement; (iv) wakalah agreement and (v) service agency agreement.

(i) Asset participation (Musharakah) agreement

Under the asset participation agreement, the participating banks (in RSGT's case, Al Rajhi and another bank) agree to participate in the procurement, financing, owning and leasing of specified assets to RSGT. The percentage of participation of each bank is recorded and agreed by both banks.

"The specified lease fixed element represents the principal amount and the specified lease variable element represents the profit amount calculated on the basis of outstanding principal and linked to a benchmark index such as LIBOR or SAIBOR"

(ii) Agency agreement

Under the agency agreement, one of the participating banks is appointed as the facility agent to deal with the procurement, financing, owning and leasing specified assets to RSGT, on behalf of the participating banks.

(iii) Specified lease agreement

On behalf of the participating banks, the facility agent (as lessee), enters into the "specified lease agreement" to lease the specified assets to RSGT (the lessor) for a 16-year lease known as specified lease period. This specified lease period starts from an agreed future date, known as the specified lease commencement date (which is 36 months from the date of the specified lease agreement) and terminates at the end of this 16-year period. The specifications and description of these assets required by RSGT for its operations are agreed upon by either party and documented in this agreement.

During the specified lease period, the lessee would pay the lessor at the end of every six months — the specified lease rental period — lease rentals known as the specified Lease rentals. The specified lease rentals comprise two elements — the specified lease fixed element and the specified lease variable element. The specified lease fixed element represents the principal amount and the specified lease variable element represents the profit amount

continued...

RSGT Ijarah Mawsufah Fi Al Dhimmah Structure *(continued...)*

calculated on the basis of outstanding principal and linked to a benchmark index such as LIBOR or SAIBOR. In order to minimize any uncertainty, the benchmark index is subject to a floor and a cap and the specified lease rentals are agreed between the lessee and the lessor at the beginning of each specified lease rental period.

During the 36-month procurement period, where the lessee would make phase payments for procurement of these specified assets, the lessee is entitled to receive periodic advance rental payments. These advance rentals are to be fixed and agreed by both the lessee and the lessor at the time of executing the specified lease agreement. The payment of advance rentals has been allowed on the basis that, in case the lessee is unable to lease the specified assets to the lessor, the lessor is entitled to full refund of the advance rental payments made.

"In case the wakeel fails to deliver the specified assets or fails to transfer the title of these assets to the facility agent, the wakeel shall refund all the phase payments it has received from the facility agent (on behalf of the participating banks)"

At the end of the specified lease period or on full pre-payment of the specified lease fixed elements any time before the expiry of the specified lease period, the title to these specified assets is transferred to RSGT.

(iv) Wakalah agreement

Under the Wakalah agreement, the facility agent, on behalf of the participating banks, appoints RSGT (the project company) as its wakeel to arrange for procurement of the specified assets, which would include arranging for preparation of designs, appointing contractors for construction, appointing consultants for supervision of the works and so on.

The facility agent, on behalf of the participating banks, would make periodic phase payments to the wakeel as per the phase payment schedule to be agreed and documented in this agreement. The wakeel would use the phase payments to make payments to the design consultants, contractors, supervisors, and so on. The participating banks would pay the facility agent their share of each phase payments as per the percentage of participation agreed in the asset participation agreement.

The wakeel will hold title of the specified assets during the procurement period and, deliver the specified assets and transfer the title of these assets to the facility agent (on behalf of the participating banks) on completion of procurement/construction (to be certified by a technical adviser). In case the wakeel fails to deliver the specified assets or fails to transfer the title of these assets to the facility agent, the wakeel shall refund all the phase payments it has received from the facility agent (on behalf of the participating banks).

RSGT, acting as the wakeel of the participating banks, would be liable for losses only in cases where gross negligence and willful misconduct lead to such losses. The wakeel is entitled to a fee for the services rendered to the facility agent.

(iv) Service agency agreement

As per Shariah principles, the facility agent who owns the specified assets (on behalf of the participating banks) is obliged to maintain and insure these assets. However, these obligations can be passed to a service agent. The facility agent (as lessee) appoints RSGT as its service agent to undertake maintenance and insurance of these assets, under the service agency agreement.

As RSGT will enter into long-term maintenance contracts and procure insurance for the operations period, the cost of maintenance and insurance is usually known. This estimated cost of maintenance and insurance to be paid periodically by the facility agent to RSGT is agreed and documented in this agreement.

Since the facility agent incurs additional cost of maintenance and insurance of these assets, the facility agent is entitled for additional lease rentals. For this purpose, the specified lease fixed element is increased by an amount equal to maintenance and insurance charges paid by the facility agent to RSGT. This increased specified lease fixed element can be offset against the maintenance and insurance charges paid by the facility agent to RSGT.

The Ijarah Mawsufah Fi Al Dhimmah structure has been used by Al Rajhi in several project financing transactions and it has been accepted by several banks that have co-participated with Al Rajhi in these transactions. This unique structure is an alternative to the Istisna structure for financing long-term capital intensive projects.

Al Rajhi Bank مصرف الراجحي

Hidayathullah Baig, head of project finance, has been with Al Rajhi Bank for over three years, structuring and executing several project financing transactions in the Kingdom of Saudi Arabia. He worked closely with Al Rajhi's Shariah Board in developing this structure. He can be contacted via email at mhbaig@alrajhibank.com.sa

RED SEA GATEWAY TERMINAL

INSTRUMENT	Ijara Mawsufah Fi Al Dhimmah (forward lease)
ISSUER	Red Sea Gateway Terminal Red Sea Gateway Terminal Company Limited ("RSGT"), which is a special purpose limited liability company incorporated under the laws of the Kingdom of Saudi Arabia ("KSA") as a joint venture between Xenel Industries Limited, The Saudi Trade and Export Development Company, Saudi Industrial Services Company and City Island Holdings Limited ("CIHL")
PRINCIPAL ACTIVITIES	Container handling
SHAREHOLDERS	Xenel Industries, SISCO, Tusdeer and City Island Holding
DATE OF IJARAH AGREEMENT	3rd December 2007
ISSUE SIZE	SAR900 million (US$240 million)
TENOR	16 years (door to door)
MARGINS	Construction (three years) — SIBOR +125 bps Post-construction — SIBOR + 100 bps
RENTAL PAYMENT SCHEDULE	Six monthly sculpted payments
IDENTIFIED ASSETS	Fixed assets, including RTG cranes, quayside cranes, terminal buildings and facilities
MANDATED LEAD ARRANGER	Al Rajhi Banking and Investment Corporation and The Standard Bank of South Africa
LEAD ARRANGERS	Banque Saudi Fransi
LEGAL COUNSEL (ARRANGER)	Allen & Overy
LEGAL COUNSEL (ISSUER)	(a) Linklaters: Counsel for RSGT, (b) The Alliance of Abbas F. Ghazzawi & Co. and Hammad & Al-Mehdar: Local counsel for RSGT (c) Albar & Partners: Malaysian counsel for CIHL
FINANCIAL ADVISER	Al Rajhi Banking and Investment Corporation and The Standard Bank of South Africa
SHARIAH ADVISER	Shariah Board of Al Rajhi Bank
PURPOSE OF ISSUE	Procurement of capital assets The purpose of the Islamic Facility is to fund the proposed third Container Terminal Project in Jeddah Islamic Port which is implemented under the Build-Operate-Transfer (BOT) basis at an estimated cost of the SAR 1.9 billion.
METHOD OF ISSUE	The Ijarah facility structured as a forward lease would have a tenor of 16 years. The banks would appoint RSGT as their agent during the construction period of 3 years for procurement of the Ijarah assets and they would provide the Ijarah financing for procurement of these Ijarah assets. After the construction period, the banks would own the Ijarah assets and lease these assets to RSGT. After the end of the lease period, the ownership of the Ijarah assets would be transferred to the RSGT.

Aldar Properties US$2.53 billion Exchangeable Sukuk

ISSUER

Aldar Properties is one of the largest listed UAE property development companies by market value (US$6.4 billion as at December 2007). Its substantial shareholders are predominantly drawn from Abu Dhabi institutions, founder-shareholders and individual investors — including Mubadala Development Company, The National Investor, Abu Dhabi Investment Company, Abu Dhabi National Hotels Company, and the National Corporation for Tourism and Hotels.

Aldar was incorporated as a private joint stock company in October 2004, and subsequently listed on the Abu Dhabi Securities Market (ADSM) on the 4th April 2005. It is a leading real estate developer in Abu Dhabi by virtue of the size of its land bank (it owns over 30 million sq m of land valued at US$10.4 billion) at strategic locations across the city of Abu Dhabi.

Its planned developments, worth approximately US$60 billion, include the construction and management of offices, residential properties, retail sites, hotels, tourist attractions, leisure facilities, luxury resorts and schools.

OBJECTIVES FOR THE ISSUER

The objectives of Aldar's maiden Sukuk issuance were to:

- Raise funds via the Islamic capital markets at a competitive rate
- Achieve flexibility in the management of the proceeds
- Tap a wider investor base
- Increase the profile of the company regionally and internationally.

TRANSACTION HIGHLIGHTS

National Bank of Abu Dhabi (NBAD), Barclays Capital and Credit Suisse were mandated by Aldar in November 2006 to arrange its maiden Sukuk issuance. On the 20th February 2007, via its global roadshow, Aldar announced the final terms for its 4.75-year, US$2.53 billion exchangeable Sukuk (including a 15% increase option) from a special purpose vehicle, or SPV, into its ordinary shares.

The profit rate used to calculate the periodic distribution amount is 5.76% per annum on a quarterly basis, equivalent to a margin of 0.65% above the five-year US dollar mid-swap rate at the time of pricing. The exchange price was set at US$1.55, reflecting an initial exchange premium of 37% above the arithmetic average of the volume weighted average price (VWAP) of Aldar's ordinary shares on each trading day from the 4th February 2007 to the pricing date, the 20th February 2007.

The Sukuk issuance entrusted Aldar to act as Mudarib (Islamic investment manager) for investors in the Abu Dhabi property sector. The exchangeable Sukuk issuance was well received by regional and international investors, and was about 10 times oversubscribed at the initial transaction size of US$1.3 billion. The order book exceeded US$13 billion. Favorable response and strong demand resulted in improved terms for Aldar's exchangeable Sukuk, where periodic profit distribution was set 10 basis points (bps) below the initial price guidance of 75 to 85 bps, and premium set at the top end of the range at 37%.

The proceeds from the transaction were utilized to invest with the Mudarib, which formed the Mudarabah capital in

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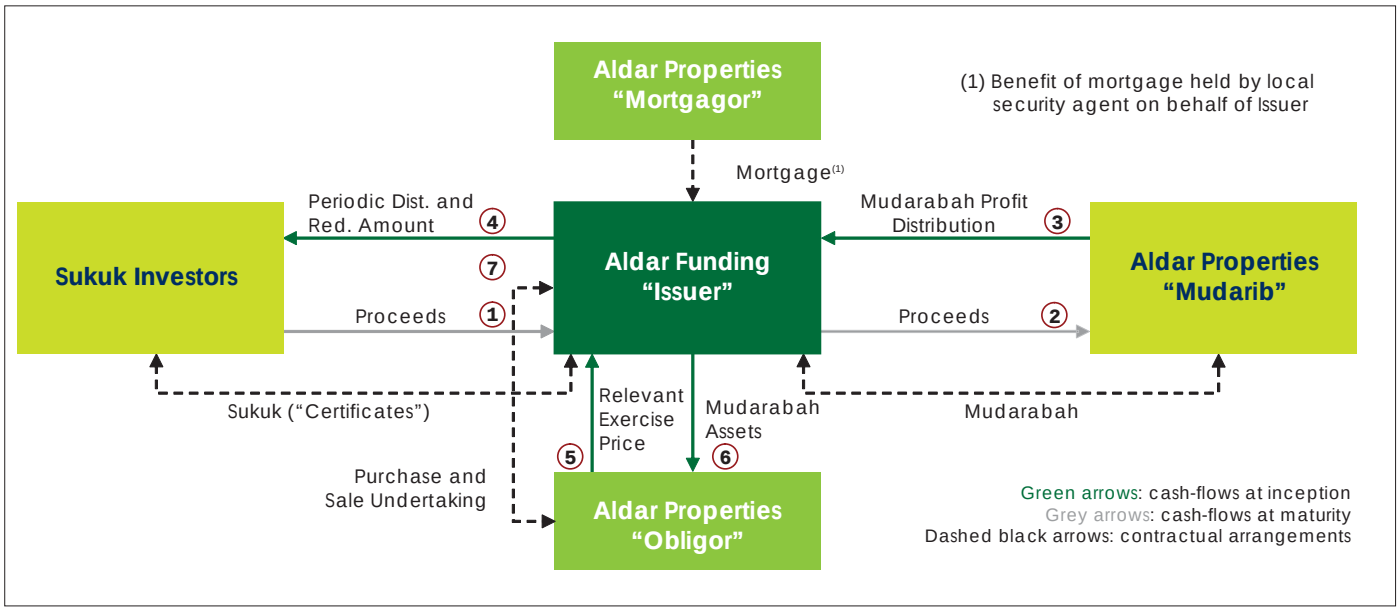


Aldar Properties Exchangeable Sukuk *(continued...)*

accordance with the term of the Mudarabah agreement. The aforesaid is utilized to part finance Aldar's ambitious development program, which includes Al Raha Beach and Yas Island, soon to be the home of the newly announced Formula 1 racing circuit.

OFFERING STRUCTURE

At inception, the proceeds of the Sukuk provide the capital of the Mudarabah which are invested according to a Shariah compliant investment plan. Under the Mudarabah, the Mudarib is allowed to commingle its own assets with those of the Mudarabah. Aldar (acting in its corporate capacity and not as Mudarib) has agreed to give an undertaking to purchase the Mudarabah assets from the issuer.

Aldar provides the purchase undertaking, having evaluated the nature of, and anticipated the return on, the Mudarabah assets and the commercial benefit it will receive in acquiring the Mudarabah assets at the relevant redemption amount. The redemption amount is either paid in cash or shares. The mortgage secures Aldar's obligations under the purchase undertaking and has a minimum value of 120% of the aggregate principal amount of the Sukuk.

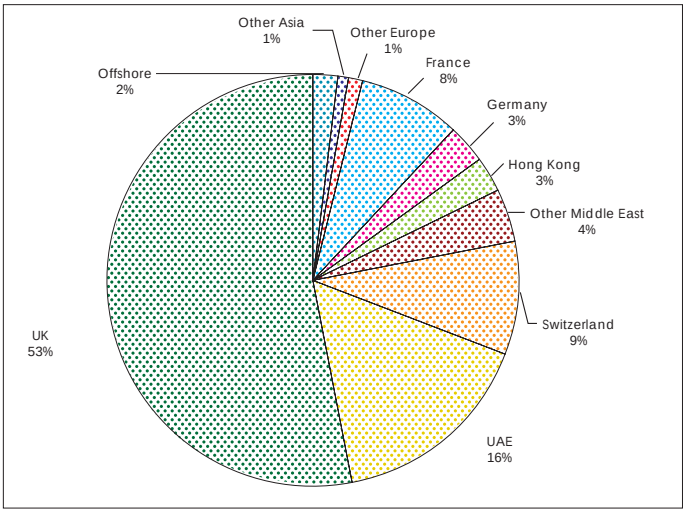
In respect of each quarterly Mudarabah return period, 99% of the profit will be distributed to the issuer and 1% to the Mudarib. The Mudarib is entitled to any additional profit by way of an incentive payment.

The Mudarib does not guarantee a return for the issuer but is entitled to provide Shariah compliant liquidity funding to ensure payment of the full profit distribution amount to the investor. The Mudarib has no recourse to the Mudarabah assets or the issuer, except that the Mudarib shall be entitled to apply all or any of the incentive payments it received in or toward the repayment of such Shariah compliant funding.

DISTRIBUTION

The Sukuk attracted a well-diversified global investor base with demand exceptionally strong from Europe and the Middle East region.

Significant demand was generated from the GCC region, the UK, continental Europe and Asia, where the majority of the total Middle East demand was placed through NBAD.



SHARIAH ADVISERS

The structure and documentation of the Sukuk issue were approved by two well-known Shariah scholars, Sheikh Nizam Yaquby and Dr Abdul Sattar Abu Guddah.

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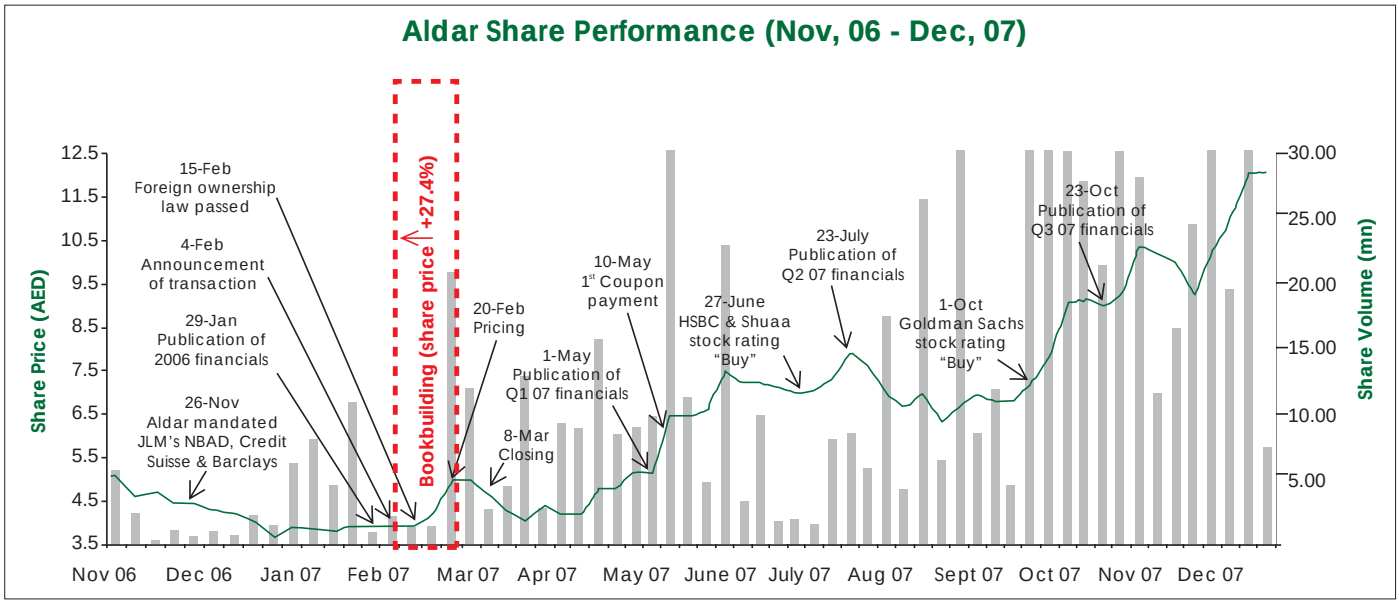

Aldar Properties Exchangeable Sukuk *(continued...)*

CHALLENGES ADDRESSED

Some of the key challenges addressed were:

- Structuring an appropriate Shariah compliant structure to meet the Issuer's objectives
- Providing a cash settlement option to address the restrictions on foreign ownership
- Exchange process (Sukuk to Aldar shares) on the ADSM

KEY ACHIEVEMENTS

- Deal upsized from US$1.3 billion to US$2.53 billion (including 15% increase option)
- Spread tightened from 75-85 bps to 65 bps
- Highest conversion premium of all precedents
- Quality order book over subscribed by 5.2 times
- Actively traded in the secondary market

PIONEERING TRANSACTION

The deal was unanimously perceived as a highly successful transaction breaking many records:

- First Sukuk to be listed on the London Stock Exchange's Professional Securities Market
- Largest exchangeable Sukuk offering globally
- Attracted international attention to Abu Dhabi real estate and equity market

بنك أبوظبي الوطني
NATIONAL BANK OF ABU DHABI
The Number One Bank البنك الرائد PJSC ش.م.ع

This case study was written by Hitesh Asarpota and Stuart Henrickson, CFA, of the National Bank of Abu Dhabi. The views expressed herein are those of the writers and not the bank's.

Aldar Funding

ISSUER/TRUSTEE	Aldar Funding		
OBLIGOR	Aldar Properties		
SECURITY TYPE	Trust Certificates (Sukuk Mudarabah)		
RATING OF THE SUKUK	Not rated		
ISSUE SIZE	US$2.53 million		
USE OF PROCEEDS	Issuer will use proceeds of the issue of the certificates to invest with the Mudarib as the Mudarabah capital		
BOOKBUILDING PERIOD	4th February 2007-19th February 2007		
PRICING DATE-CLOSING DATE	20th February 2007-8th March 2007		
ISSUE PRICE	100%	REDEMPTION PRICE	100%
MATURITY/SCHEDULED REDEMPTION DATE	10th November 2011		
COUPON	5.767% (nominal rate)		
FIRST PERIODIC DISTRIBUTION DATE	10th February, 10th May, 10th August and 10th November of each year; or if any such day is not a business day, the following business day		
EXCHANGE PREMIUM	37% above the reference price	EXCHANGE PRICE	US$1.55
EXCHANGE RATIO	645.161 shares per US$1,000 principal amount		
GOVERNING LAW	UAE and English law		
FORM	Global registered		
CLEARING AND SETTLEMENT	Euroclear and Clearstream	LOCK UP	90 days
CALL FEATURE	Callable from the 27th August 2009 @ 140% hurdle Callable from the 3rd December 2009 @ 125% hurdle		
LISTING	London Stock Exchange		
ROADSHOWS			
SELLING RESTRICTIONS	Reg S		
PRINCIPAL PAYING, CALCULATION, TRANSFER AND EXCHANGE AGENT	Deutsche Bank, London branch		
SECURITY AGENT	National Bank of Abu Dhabi	REGISTRAR	Deutsche Bank Luxembourg
LEGAL COUNSEL FOR ISSUER	Clifford Chance, Simmons & Simmons (laws of Abu Dhabi), Bedell Cristin Jersey Partnership (laws of Jersey)		
LEGAL COUNSEL FOR ARRANGERS	Denton Wilde Sapte		
SHARIAH ADVISERS	Sheikh Nizam Yaquby and Dr Abdul Sattar Abu Guddah		
JOINT GLOBAL COORDINATORS, LEAD MANAGERS AND JOINT BOOKRUNNERS	National Bank of Abu Dhabi, Barclays Capital and Credit Suisse		

Abu Dhabi	4th February 2007	Paris	15th February 2007
Dubai	5th February 2007	Zurich & Geneva	16th February 2007
Bahrain	6th February 2007	Singapore	13th February 2007
London	8th-9th February 2007	Hong Kong	14th February 2007

Kuala Lumpur Sentral US$225 million Sukuk Musharakah

HSBC Bank Malaysia and Kuwait Finance House (Malaysia) (KFHM) acted as joint lead managers and joint lead arrangers for Kuala Lumpur Sentral (KLS)'s RM720 million (US$225.4 million) Sukuk Musharakah. In addition, KFHM was the Shariah adviser and credit enhancement provider, whereby it undertook to buy certain project lands under a put option contract (POC) for the transaction. The Sukuk were issued on the 6th April 2007.

BACKGROUND OF THE ISSUER

KLS was incorporated on the 7th November 1994 as a joint venture company to carry out the design and construction works in respect of the Kuala Lumpur Sentral Station Complex (KL Sentral). The joint venture partners are Malaysian Resources Corporation, Keretapi Tanah Melayu and Pembinaan Redzai.

The concession agreement was signed on the 18th August 1997, pursuant to which KLS was required to build an integrated railway station and hand it over to the government of Malaysia. The construction of KL Sentral Station has been completed.

In return for constructing the KL Sentral Station, KLS was granted the development rights over the remaining site for commercial property development, which makes up approximately 62 acres surrounding the KL Sentral Station.

Pursuant to a supplementary agreement signed by KLS, the government of Malaysia and Syarikat Tanah dan Harta on the 10th March 1999, the government of Malaysia was to transfer such lands to KLS based on the progress of construction works. To date, all such lands have been transferred to KLS.

RATING

Rating Agency Malaysia (RAM) has assigned a rating of AA2(s) to KLS, which indicated high safety for timely payment of profit and principal. The rating is a much improved rating from the former Al-Bai Bithaman Ajil Islamic Debt Securities (BaIDS), which was accorded a rating of A+ID(s).

UTILIZATION OF PROCEEDS

KLS was to utilize the proceeds to repurchase and cancel its outstanding BaIDS. The transaction also involved negotiation with the existing BaIDS holders for the early redemption of the BaIDS at a price acceptable to the BaIDS holders as well as KLS.

THE MUSHARAKAH STRUCTURE

KLS will enter into a Musharakah agreement for the purpose of undertaking a Musharakah venture (see chart below)

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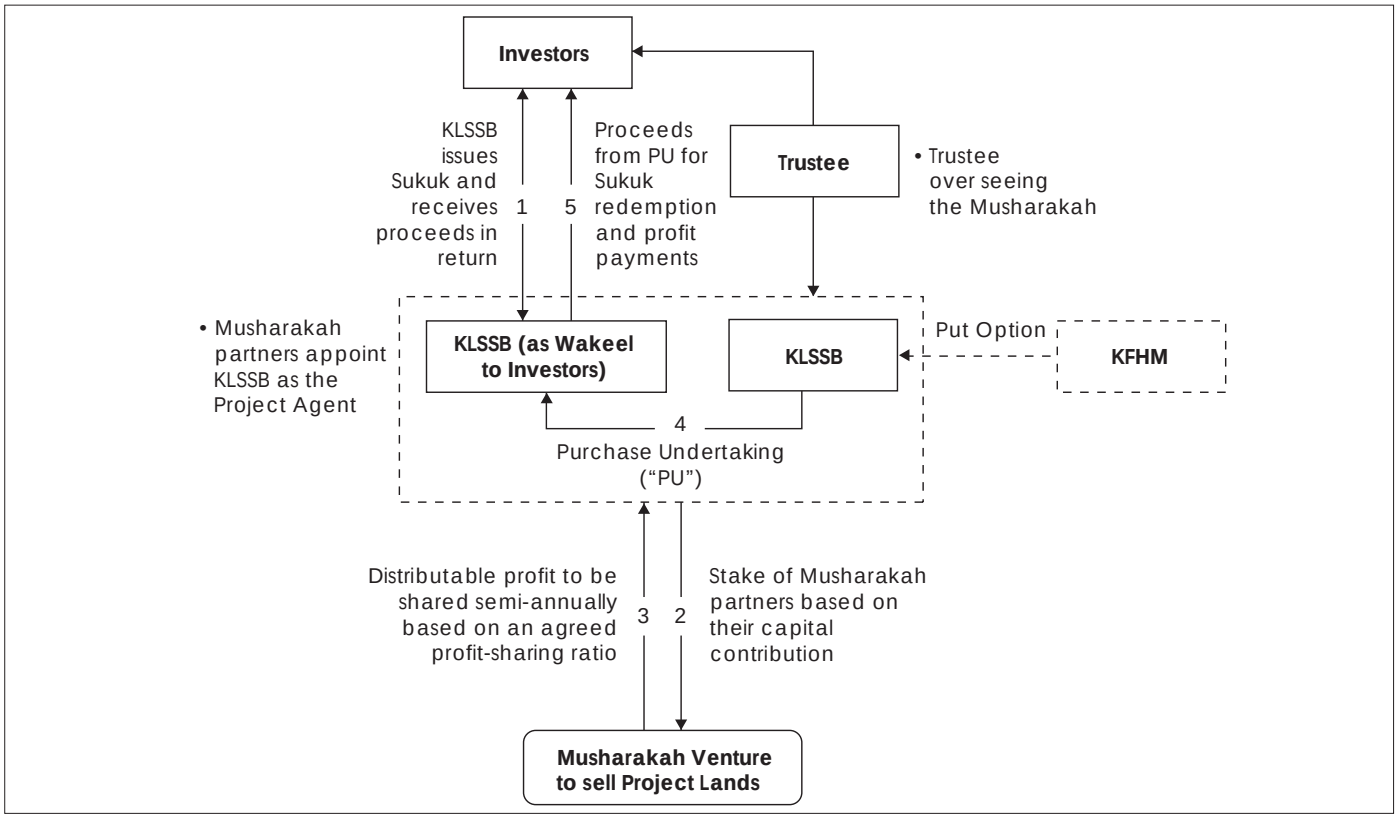

Kuala Lumpur Sentral Sukuk Musharakah *(continued...)*

with eligible investors (the investors) invited to provide capital contribution through subscription of the Sukuk. In this respect, interests of the investors in the Musharakah venture are represented by KLS in its capacity as agent (wakeel) and initial trustee for the investors.

The Musharakah venture is a business venture entered into between KLS and the investors (through the issuer). The Musharakah venture involves the acquisition of part of the project lands from KLS and the sale of all the project lands (those purchased from KLS and those contributed by KLS to the Musharakah venture).

This arrangement is effected via the Shariah approved financing concept of Musharakah whereby the investors and KLS will provide their respective capital required to the Musharakah venture. Contribution in kind from KLS is in respect of such part of the project lands while capital contribution from the investors will be utilized by the Musharakah venture to purchase the project lands based on the market price as valued by CH Williams Talhar & Wong (the valuers).

The respective stakes of Kuala Lumpur Sentral and the investors in the Musharakah venture are based on their respective capital contribution (Musharakah Capital) of 26% and 74%, respectively.

Simultaneously with the execution of the Musharakah agreement, KLS as agent of the investors will issue Sukuk to the investors (in such capacity, Sukuk holders). The Sukuk represent the investors' undivided proportionate interest in the Musharakah venture. The Sukuk holders will be entitled to the proceeds of the Musharakah venture. The term "issuer" refers to KLS in its capacity as the agent (wakeel) of the investors and issuer of the Sukuk.

The issuer shall declare a trust (declaration of trust) in favor of the Sukuk holders over all of the issuer's interest in the Musharakah venture (including not limited to the issuer's rights under all agreements relating to the Musharakah venture) (Sukuk assets). The trust deed for the Sukuk will provide that the Sukuk holders appoint the trustee as the trustee of each Sukuk holder for the purposes of holding and administering the Sukuk assets.

KLS will be appointed as the project manager (project manager) for the Musharakah venture pursuant to a management agreement. As project manager, KLS is responsible for, among others, managing the sale of the project lands, opening and maintaining the bank accounts designated for the Musharakah venture and procuring the payment of all income, damages, compensation or any other sums received by it from the Musharakah venture to be paid into a revenue account, and shall undertake to pay all transaction expenses incurred/to be incurred in relation to the Musharakah venture.

Distributable profits generated by the Musharakah venture shall be calculated and distributed at the end of every six-month interval commencing from the issue date of the Sukuk (distributable profit determination date).

KLS will then use its portion of the distributable profits and/or repayment proceeds of its advances to the Musharakah venture to purchase the Sukuk holders' share in the Musharakah venture in accordance with a six-monthly schedule (each installment payable by KLS is referred to as a share installment). Such obligation of KLS will be evidenced by a deed of undertaking to be executed by KLS in favor of the issuer and trustee (purchase undertaking).

If losses are incurred, they shall be allocated in accordance with the outstanding capital contribution ratio, which is on a diminishing basis pursuant to the share installment schedule. Nevertheless, any losses incurred by the Musharakah venture do not remove KLS's obligation to pay the share installments.

THE SUKUK

The Sukuk was issued in seven series with tenor ranging from one to seven years. KLS had assigned all its rights under the project lands valued at more than the Sukuk nominal value. The Sukuk was further enhanced by the POC, hence providing certainty in the price and take-up source of the project lands even if there were a downturn in the real property market.

CONTRIBUTORY FACTORS TO THE SUCCESS OF THE ISSUANCE

i. Internationally compliant Sukuk issuance, of which the Sukuk represented ownership of tangible assets comprising vacant lands within the KL Sentral Development (KL Sentral Lands) and any proceeds therefrom which are channeled to designated accounts for the Sukuk holders;

ii. The structure was approved by the Shariah Committee of Kuwait Finance House in Kuwait, which was considered to be more stringent than others in terms of Shariah requirement; and

iii. The Sukuk was structured such that there was a ready buyer for the land, a financial institution willing to share the risk in property development. The third party buyer had undertaken to the Sukuk holders (via trustee) to purchase the KL Sentral Lands at an agreed price, ensuring certain protection to the value of the Sukuk.

Kuwait Finance House
بيت التمويل الكويتي

This case study was written by the Islamic capital market department of Kuwait Finance House (Malaysia). Enquiries may be sent to nora.mohdsalim@kfh.com.my

Kuala Lumpur Sentral

INSTRUMENTS	Serial Sukuk of RM720 million (US$225.4 million) in nominal value under the Islamic principle of Musharakah
ISSUER	Kuala Lumpur Sentral (KLS)
PRINCIPAL ACTIVITIES	The proceeds from the Sukuk issuance will be utilized as investors' capital contribution to the Musharakah venture, and used to purchase project lands from KLS, which will then utilize a portion of the sale's proceeds to redeem KLS's outstanding Bai Bithaman Ajil Debt Securities (BaIDS) worth RM920 million (US$266.62 million) in 2001, with a 10-year tenure.
BOARD OF DIRECTORS	Dr Roslan A Ghaffar (chairman), Chan Chee Meng (CEO), Shahril Ridza Ridzuan, Dr Mohd Shahari Ahmad Jabbar, Dr Haji Noordin Haji Abd Razak, Ahmayuddin Ahmad, Haji Hilmi Mohamad, Azman Ahmad Shaharbi, Mohd Nasir Noordin and Mohd Nor Abdul Karim
DATES OF ISSUE	RM720 million
MATURITY	6th April 2007
ISSUE SIZES	The Sukuk will be issued in series with tenors ranging from one to seven years from the issue date
MATURITY	Shares in investment companies

PAYMENT SCHEDULE

Series	Nominal value (RM'000)	Tenor from issue date (year)	Coupon
1	100,000	1	4,440,000
2	120,000	2	10,968,000
3	120,000	3	16,920,000
4	100,000	4	19,320,000
5	100,000	5	24,800,000
6	80,000	6	24,432,000
7	100,000	7	36,540,000
Total	720,000		137,420,000

AUTHORIZED PAID-UP CAPITAL	RM50 million (US$14.5 million)
LEAD ARRANGERS	HSBC Bank Malaysia and Kuwait Finance House (Malaysia)
LEGAL COUNSEL	Zaid Ibrahim & Co
FINANCIAL ADVISER	Newfields Advisors
GUARANTOR	Credit enhancement provider — KFHM
TRUSTEE	Malaysian Trustees
TENOR	Five years, to be issued in one tranche per year
SHARIAH ADVISER	KFHM
PURPOSE OF ISSUE	Proceeds from the Sukuk will be used to fund the investment bank's medium-term strategic investment portfolio, comprising of its investments in the equity of Khaleeji Commercial Bank in Bahrain and QInvest in Qatar
METHOD OF ISSUE	The Sukuk is issued by way of private placement without prospectus. The transaction entails sale of identified plots of land worth RM380 million (US$110.12 million) by KLS, and a put option for KLS to sell plots of land to KFH for up to RM562 million (US$162.87 million). Sukuk holders are expected to benefit from the tight ring-fencing of cashflow.
RATINGS	The Sukuk holds a long-term rating of AA2(s) by Rating Agency Malaysia with a stable outlook. KFHM has general bank ratings of AA2/P1 with a stable outlook.

RAKIA Sukuk: Benchmark Issue from the Emirate of Ras Al Khaimah

On the 26th November 2007, Ras Al Khaimah Investment Authority (RAKIA) priced and launched its debut five-year Sukuk. The US$325 million Sukuk were backed by a guarantee from the government of Ras Al Khaimah (the government). The Sukuk are listed on the Dubai International Financial Exchange and the London Stock Exchange.

Formed in 2005, RAKIA was placed under the direction of HH Sheikh Saud bin Saqr Al Qasimi, the crown prince and deputy ruler of Ras Al Khaimah. The primary purpose of RAKIA is to develop the economy of the emirate. In line with this objective, the emirate intends to attract local and international investors to its industrial and free zones, and also to participate in its real estate and tourism developments. At present, RAKIA operates a total of 17.4 million sq m of industrial and free zones and is in the midst of developing another 25.3 million sq m, which will be fully completed within the next three years.

THE TRANSACTION STRUCTURE

A special purpose vehicle (the issuer) was established to act as the agent and trustee for the investors. The issuer issued the Sukuk and raised the issue amount from the investors. The issuer used part of the proceeds of the Sukuk issue to purchase from RAKIA areas of land off the coast of Ras Al Khaimah; the development is known as the Al Marjan Islands (the project land). Al Marjan Islands have been designated for the construction of residential and commercial properties. The development will comprise a series of man-made islands in shallow waters south of Ras Al Khaimah and is expected to be completed by 2009.

As part of the transaction, the issuer and RAKIA entered into a management agreement where RAKIA was appointed as the managing agent. Under this capacity, RAKIA received the remaining part of the Sukuk proceeds from the issuer for the completion of all infrastructure, including transportation and communication systems, water and power lines, as well as public areas on the project land (the works).

In addition to the completion of the works, the managing agent is responsible for the marketing and selling of the project land to third party developers. The proceeds from the disposal of the project land will be invested, on behalf of the issuer, in Shariah compliant investments. The managing agent will use the returns generated from the sale of the project land and from the investments to pay the issuer, who will use the money received to fund the quarterly profit payments payable to the investors. If the returns generated are greater than the required profit payment, the managing agent may retain the excess to fund the next profit payment. The excess will be held on account of the investors throughout the life of the Sukuk. Any excess remaining at maturity of the Sukuk will be given to the managing agent as incentive fees.

On the other hand, if the returns fall short of the required profit payment and the excess held on account is insufficient to cover the shortfall, the managing agent may provide a Shariah compliant financing facility to the issuer in order for the latter to fulfill the required profit payment. The said facility is repayable by the issuer, either at maturity or redemption of the Sukuk.

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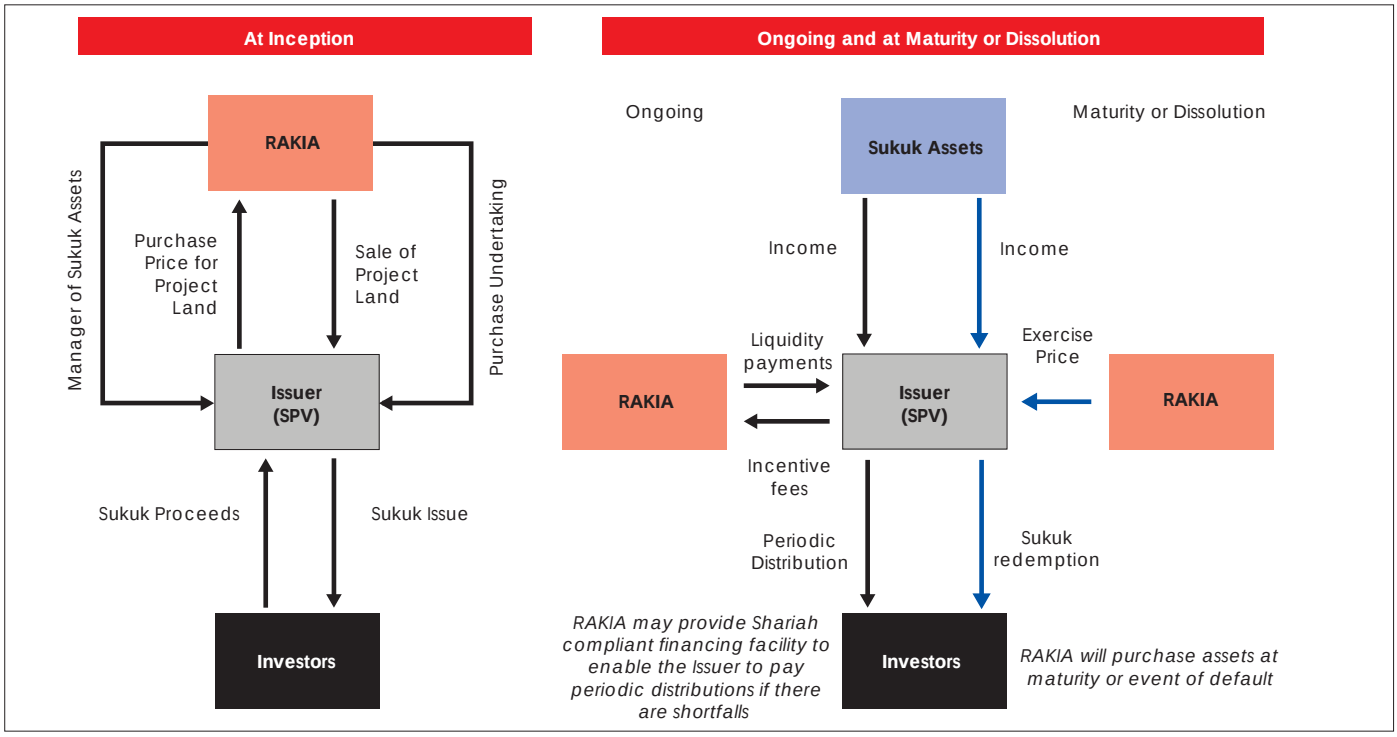


RAKIA Sukuk *(continued...)*

The trust will be dissolved at maturity or at the occurrence of an event of default. At maturity, RAKIA in its capacity as obligor will purchase the works from the issuer at a pre-agreed price, i.e. US$125 million being the value of the works.

Meanwhile, on the occurrence of an event of default prior to maturity of the Sukuk, RAKIA will purchase any remaining unsold project land, together with the works from the issuer, at a pre-agreed price. Since only a part of the face value of the Sukuk will be redeemed through the purchase undertaking, RAKIA in its independent corporate capacity has provided a guarantee that will cover the payments from the third party developers to the issuer for the remaining face value of the Sukuk.

PRINCIPAL TRANSACTION DOCUMENTS

The Islamic structure used in the Sukuk combines the principles of: (i) Bai' (Sale), (ii) Wakalah (agency) and (iii) Waa'd (promise). The principal transaction documents used in the Sukuk structure are as follows:

(i) Sale and purchase agreement

Pursuant to the SPA, the seller (RAKIA) sold to the issuer, rights, interest and title over the project land. The issuer used part of the proceeds from the Sukuk issue to pay the purchase price for the project land.

(ii) Management agreement

The agreement was entered into between RAKIA and the issuer, where the issuer appointed RAKIA as the managing agent to, among others, procure the completion of the development of the project land and the works, and administer the sale of the project land to a third party developer.

The managing agent is also responsible for the collection and investment of the sales proceeds and to ensure that the issuer fulfills the profit payment obligations to the investors. Under this agreement, the managing agent may provide a Shariah compliant financing facility to the issuer in the event that the returns generated from the assets fall short of the required periodic profit payment.

(iii) Purchase undertaking

This undertaking was given by RAKIA in favor of the issuer. It is a key document from a credit perspective because it allows the investors to be paid either on early termination

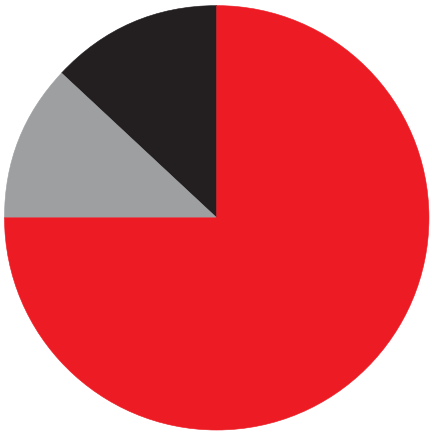
continued...

RAKIA Sukuk *(continued...)*

or on the redemption of the Sukuk. Under the purchase undertaking, RAKIA agrees to purchase the issuer's rights, interest and title over the assets at a specified price on a specified date following the issue of a notice from the issuer. The notice will be served by the issuer either upon the occurrence of an event of default or immediately before the maturity date of the Sukuk, and the assets will be sold to RAKIA under a separate sale agreement.

(iv) Sale undertaking

This undertaking was given by the issuer in favor of RAKIA. Under the sale undertaking, the issuer agrees to sell its rights, interest and title over the assets at a specified price if there are changes in the taxation laws in the issuer's and RAKIA's jurisdiction.



(v) Sales contract undertaking

This undertaking was given by RAKIA in favor of the issuer, where RAKIA in its own independent capacity guarantees that the works will have a value of US$125 million following its completion. In addition, RAKIA also guarantees the payment performance of the third party developers for at least US$200 million. This will ensure that the full amount of the Sukuk will be recoverable at maturity, given that RAKIA will only acquire the works pursuant to the purchase undertaking at maturity.

The terms of this undertaking are designed to ensure that the investors will receive the outstanding principal amount in a manner that fits into the Sukuk structure.

(vi) Guarantee deed

The guarantee was issued by the government in favor of the issuer, where the government irrevocably and unconditionally guarantees RAKIA's payment obligations under the transaction.

DISTRIBUTION ANALYSIS

Despite the difficult market conditions brought on by the international liquidity crunch during the time of closing, the transaction was oversubscribed beyond the issue size. The final distribution achieved investor diversification with banks comprising 53% of the investors, while corporates, private banks and fund managers made up the remaining 47%.

RAKIA managed to establish new investor relationships while maintaining balanced distribution between traditional fixed-income and buy-and-hold investors. The transaction was an important test of investor appetite for Sukuk from the Middle East in light of the credit crisis which began in mid-2007, a test that RAKIA passed.

HSBC Amanah

This case study was written by Iza Sheryl Kamaludin, a senior associate at HSBC Amanah. She can be contacted via email at iza.kamaludin@hsbc.com

RAKIA Sukuk

INSTRUMENTS	Sukuk
ISSUER	RAKIA Sukuk Company Limited
PRINCIPAL ACTIVITIES	Established for the purpose of issuing the Certificates and entering into the transaction
DATE OF LISTING	5th December 2007 (UKLA and DIFX)
ISSUE SIZES	US$325 million
DATES OF ISSUE	5th December 2007
MATURITY	5th December 2012
PROFIT	3 month LIBOR + 150 bps
PAYMENT SCHEDULE	Bullet
SHARE CAPITAL	US$50,000 (divided into 50,000 shares of a par value of US$1.00 each)
IDENTIFIED ASSETS	Land and infrastructure works
LEAD MANAGERS AND BOOKRUNNER	Credit Suisse, HSBC, NBD Investment Bank
SENIOR CO. LEAD MANAGERS	Boubyan Bank, Gulf International Bank, Qatar National Bank Al Watani
CO. LEAD MANAGER	Daiwa Securities SMBC Europe
LEGAL COUNSEL	Allen & Overy (Legal Counsel to Lead Arrangers) and Lovells (Legal Counsel to Issuer)
FINANCIAL ADVISOR	N/A
GUARANTOR	Government of Ras Al Khaimah
DELEGATE	HSBC Trustee (C.I.) Limited
PRINCIPAL PAYING AGENT/ REGISTRAR	HSBC Bank plc
SHARIAH ADVISOR	Central Shariah Committee of HSBC Amanah and Shariah Advisory Board of National Bank of Dubai Investment Bank
PURPOSE OF ISSUE	The proceeds from the Sukuk issue will be used in part to purchase the Project Land and in part for the completion of the Works
RATINGS	Not Rated
DIVIDEND PER UNIT	N/A

Al-Hadharah Boustead REIT: World's First Islamic Plantation-Based REIT

The Al-Hadharah Boustead REIT, which was listed on the main board of Bursa Securities Malaysia (the Malaysian Stock Exchange) on the 8th February 2007, is the first Islamic plantation-based real estate investment trust (REIT) launched in Malaysia and in the world, and was also the second Islamic REIT issued in Malaysia. To date, the Al-Hadharah REIT has issued up to 490,001,000 units of the Al-Hadharah Islamic REIT units.

The Al-Hadharah Boustead REIT is undertaken by Boustead Holdings, one of Malaysia's oldest diversified conglomerates that was founded in 1828. The Al-Hadharah Boustead REIT created a platform for the Boustead group of companies to realize the fair value of the plantation assets while retaining productive use of such assets.

ISSUER

The issuer, the Al-Hadharah Boustead REIT, is a Shariah compliant REIT that was formed to own and invest primarily in plantation assets that are permitted under the Guidelines on Real Estate Investment Trusts and the Guidelines on Islamic Real Estate Investment Trusts (REIT Guidelines) to generate investment income based on Islamic principles.

Al-Hadharah Boustead REIT is administered by CIMB Trustee acting as its trustee (the trustee) and is managed by Boustead REIT Manager (the manager).

DIFFERENCE BETWEEN CONVENTIONAL AND PLANTATION REIT

Unlike other REITs, the yield for plantation REIT is dependant on the crops planted on the land and not based on the building and rental yield. Investment in plantation assets brings with it the benefits of profit sharing which are pegged to the price of the crude palm oil (CPO) and fresh fruit bunches (FFBs) (regulated by the Malaysian Palm Oil Board).

THE PLANTATION ASSETS

The plantation assets of the Al-Hadharah Boustead REIT — comprising eight oil palm estates and two palm oil mills located in Malaysia (collectively, the plantation assets)

continued...

Al-Hadharah Boustead REIT *(continued...)*

valued at RM472 million (US$148 million) — were purchased from Boustead Properties, Boustead Plantations and Boustead Heah Joo Seang (collectively, the vendors).

Oil palm, being a favored product as a feedstock in biodiesel production, and with the strong demand for oil palm in the market which will sustain CPO prices, is seen as a more attractive alternative investment to savvy investors monitoring the sky-rocketing oil prices. The Al-Hadharah Boustead REIT provides stable earnings and income growth. Risk is minimized with the support of the value of the plantation assets as well as the yields offered, providing the investor with some degree of capital protection.

To fund the purchase consideration for the plantation assets, the Al-Hadharah Boustead REIT issued units to the vendors as part of the purchase consideration and the balance of the purchase consideration was satisfied in cash, based on the proceeds raised from the initial public offering (IPO).

THE DEAL

The units issued by the Al-Hadharah Boustead REIT, together with the proceeds from the IPO and Islamic financing facility, were utilized by the Al-Hadharah Boustead REIT to finance the purchase of the plantation assets and to finance the listing expenses and working capital of the Al-Hadharah Boustead REIT.

Al-Hadharah Boustead REIT's purchase of the plantation assets is primarily to facilitate the REIT exercise involving the arrangement to lease those assets back to the vendors pursuant to several Ijarah agreements.

The income of the Al-Hadharah Boustead REIT is derived, among others, from a stable distribution of returns of fixed fee rentals and a variable fee which introduced performance-based profit sharing, which is accustomed to providing a yield dependent on the growth of the plantation assets acquired and the palm oil industry.

The Al-Hadharah Boustead REIT offered a profit sharing of at least 98% of its distributable earnings to be paid to its unit holders in the first three financial years.

INSTRUMENTAL DOCUMENTS

The Al-Hadharah Boustead REIT is governed by the REIT Guidelines issued by the Securities Commission of Malaysia (SC). The transaction was complex as it involved the transfer of ownership of land which had various restrictions in interest. Hence, the transaction documents for the acquisition and

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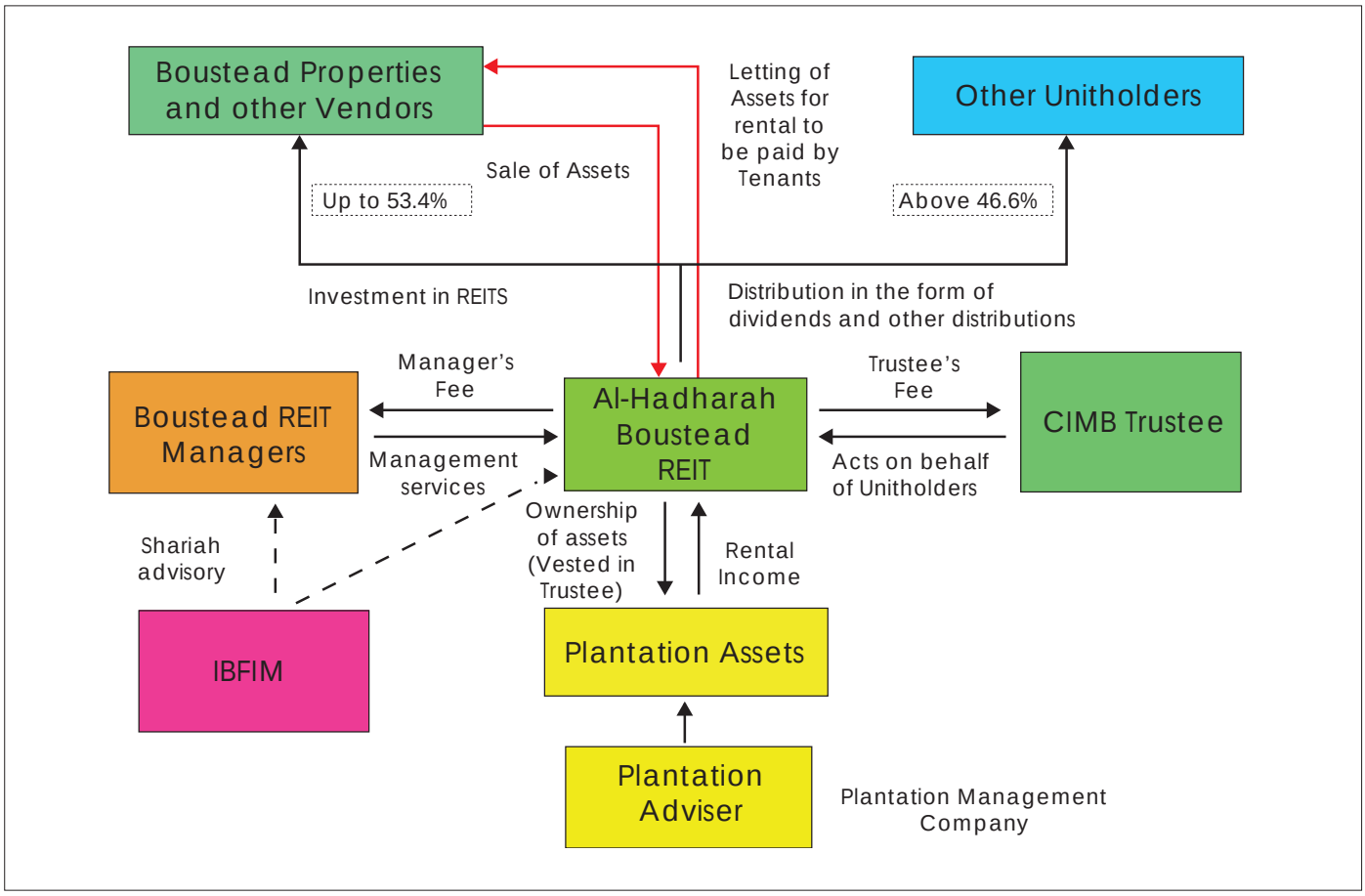


Al-Hadharah Boustead REIT *(continued...)*

lease/tenancy agreements and arrangements were not the standard ones.

THE TRUST DEED

In compliance with the REIT Guidelines, a trust deed was entered into by the manager and the trustee to constitute the Al-Hadharah Boustead REIT, to manage and administer the fund and to ensure and determine the role, power and duties of the manager and the trustee respectively to ensure that they act for the benefit of the unit holders at all times.

"The trustee and manager are authorized by the trust deed to make investments which allows the REIT to invest in other real estates and other related assets of real estates"

The REIT Guidelines also impose certain restrictions on REITs established in Malaysia, including a general limit on their level of financing (up to a maximum of 50% of the total asset value of the REIT at the time the financing is incurred) and restrictions on the type of investments that a REIT may hold and with respect to transactions with related parties.

Under the trust deed, the trustee takes into its custody or under its control, the assets of the REIT and holds those assets for the unit holders. Both the trustee and manager are authorized by the trust deed to make investments within the limits set out in the trust deed and the REIT Guidelines, which allows the REIT to invest in other real estates and other related assets of real estates, among others. The plantation assets are insured by the manager who obtained and maintained the Takaful scheme coverage on the plantation. The trust deed shall terminate upon either the occurrence of termination events as set out in the trust deed, or 88 years after the date of registration of the trust deed with the SC or such other date as the law may permit.

SALE AND PURCHASE AGREEMENTS

The trustee, on behalf of the Al-Hadharah Boustead REIT, had entered into sale and purchase agreements (SPAs) with the vendors for the purchase of all rights, title, interests and benefits relating to the ownership of the plantation assets from the vendors at a pre-determined agreed purchase consideration. The SPAs were structured and crafted to ensure the ownership of the assets was transferred accordingly, taking into account the various issues in relation to the restrictions on interest in the titles.

THE IJARAH AGREEMENTS

Upon completion of the acquisition of the plantation assets, the Al-Hadharah Boustead REIT leased the plantation assets to the respective vendors for agreed rental payments and for agreed tenancy periods.

Under the Ijarah agreements, the plantation assets are leased back to the vendors as tenants for a cumulative tenure of up to 30 years. The Ijarah agreement for each of the estates and mills shall take the form of a three-year tenancy, which are automatically renewable four times up to 12 years, and thereafter renewable for up to an additional 15 years, comprising five additional terms of not more than three years.

At the end of every three years, the fixed rental shall be renewed and a new rental will be agreed upon between the trustee (on the manager's recommendation) and the tenants. The new rental will be agreed upon with reference to the historical CPO prices, the prevailing and expected future CPO prices, the cost of production, the extraction rates, the yield per hectare and the mature area of the plantation assets as referred to in the relevant Ijarah agreement(s).

The performance of the REIT is correlated to the performance of CPO and FFB prices realized and the actual FFB and CPO productions of the plantation assets as provided for in the Ijarah agreements.

Albar & Partners
Advocates & Solicitors

This case study was written by Lily Tan Chea Li, senior partner of the Corporate & Capital Markets team in Albar & Partners. She can be contacted at +603 2078 5588 or via email at albar@albar.com.my.

Boustead REIT Manager

INSTRUMENT	The initial public offering exercise of the units of the Shariah compliant real estate investment trust known as the Al-Hadharah Boustead REIT, constituted by a trust deed between Boustead REIT Manager and CIMB Trustee acting as trustee of the fund formed to own and invest primarily in plantation assets and assets as permitted under the Guidelines on Real Estate Investment Trusts and the Guidelines on Islamic Real Estate Investment Trusts issued by the Malaysian Securities Commission to generate investment income based on Islamic principle of Ijarah.
ISSUER	Al-Hadharah Boustead REIT acting through CIMB Trustee & Boustead REIT Manager
PRINCIPAL ACTIVITIES	The issuer, a Shariah compliant REIT, was formed to own and invest primarily in plantation assets and assets as permitted under the REIT Guidelines to generate investment income based on Islamic principles. The issuer issued units through the manager. The principal activity of the manager is to manage and administer Al-Hadharah Boustead REIT.
BOARD OF DIRECTORS	Lt Gen (R) Dato' Mohd Yusof Din Datuk Azzat Kamaludin Dato' (Dr) Megat Abdul Rahman Megat Ahmad Tuan Hj Johari Muhamad Abbas Gen (R) Tan Sri Dato' Mohd Ghazali Hj Che Mat Tan Sri Dato' Lodin Wok Kamaruddin.
DATE OF LISTING	8th February 2007
ISSUE SIZE	US$138 million
DATE OF ISSUE	15th January 2007
LEAD ARRANGERS	Affin Bank Berhad, MIMB Investment Bank, Pacific Alliance Capital, Affin Securities
LEGAL COUNSEL	Albar & Partners
FINANCIAL ADVISER	Affin Bank, Pacific Alliance Capital
UNDERWRITERS	Affin Bank, MIMB Investment Bank
TRUSTEE	CIMB Trustee
SHARIAH ADVISER	Islamic Banking and Finance Institute Malaysia
METHOD OF ISSUE	Public offerings of 220 million comprising: (i) Retail offering of 22 million (ii) Institutional offering of 198 million 252 million units of the Al-Hadharah Boustead REIT issued to the vendors as consideration for the purchase of the plantation assets by the fund from the vendors 1,000 units issued to the promoters (i.e. managers) prior to the listing of the Al-Hadharah Boustead REIT
PURPOSE OF ISSUE	The Al-Hadharah Boustead REIT was undertaken by Boustead Group to realize the fair value of the plantation assets while retaining productive use of the plantation assets. The REIT will also allow Boustead Group to participate in the local real estate investment market through its proposed holding in the units of the Al-Hadharah Boustead REIT as well as its involvement together with LTAT in the management of the Al-Hadharah Boustead REIT. Al-Hadharah Boustead REIT will use the units to be issued, proceeds from the proposed public offering and Islamic financing facility to finance the purchase of the plantation assets and to finance the listing expenses and working capital of the fund. The purchase of the plantation assets is primarily to facilitate the REIT exercise involving the arrangement to lease the plantation assets back to the vendors pursuant to the Ijarah agreements. Under the Ijarah, the plantation assets are leased back to the vendors as tenants for a cumulative tenure of up to 30 years.
RATING	NA

PT Krakatau Steel (Persero) US$50 million Murabahah Syndication

"TRADE FINANCE DEAL OF THE YEAR"

— Islamic Finance news 2007 Deal of the Year Awards

In May 2007, HSBC Amanah Syariah acted as mandated lead arranger and sole bookrunner for a US$50 million international Murabahah syndication for PT Krakatau Steel (Persero) (KS).

KS is an Indonesian state-owned enterprise and the largest integrated steel manufacturer in the country. The company plays an important role in the development of the nation, holding a leading market share in the domestic steel industry.

Its steel products are used in the manufacturing, infrastructure and construction sectors of the economy.

"The KS Murabahah syndication is the only international Islamic financing transaction to originate from Indonesia since the Pertamina Islamic syndications in 2004 and 2006"

LANDMARK ISLAMIC TRANSACTION FOR INDONESIA

The KS Murabahah syndication is the only international Islamic financing transaction to originate from Indonesia since the Pertamina Islamic syndications in 2004 and 2006, which were also arranged by HSBC Amanah.

Over recent years, there have been attempts by Indonesian corporates to tap the Middle Eastern Islamic capital markets, but only a few have succeeded.

The KS Murabahah syndication is therefore another milestone in Indonesia's efforts to tap the global Islamic investor base and reinforced these investors' interest in the country.

PIONEERING SPIRIT

The transaction enabled KS to diversify its funding base from the local banking market and introduced a whole new set of investors to the company.

KS had previously never tapped the international syndicated debt markets. For its debut international financing, KS opted to tap the offshore Islamic finance market rather than the regional conventional debt market, which has been the more popular avenue for Indonesian corporates intending to tap the international capital markets.

INNOVATIVE STRUCTURING

The syndication provided competitively priced financing for the company's purchase of raw materials from overseas, during a period of rising steel prices in the international market.

Due to the nature and terms of KS' purchases from its suppliers, HSBC had to structure the timing of the Murabahah trades by taking into consideration the local tax constraints whie strictly complying with Shariah principles.

In addition, the facility was structured to allow for utilization by either KS or several of its subsidiaries, and for a renewal of the facility for another set of purchases by KS.

SUCCESSFUL DISTRIBUTION

The deal was highly oversubscribed despite being distributed to only a select number of banks in the Middle East and Asia.

The syndication amount was capped and the transaction closed at the intended US$50 million, considering KS' actual funding requirement and the company's trade cycle. Final distribution was 52% in Asia and 48% in the Middle East.

BOOST FOR LOCAL SHARIAH MARKET

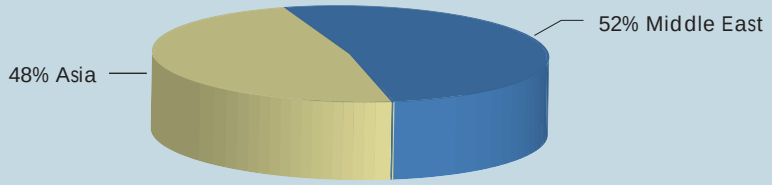
The transaction again showcased the ability of Indonesian state-owned enterprises to tap the offshore capital markets, particularly the Islamic investor base.

It has set another example for other Indonesian corporates. The KS Murabahah created a much-needed profile for the Shariah banking industry in Indonesia and supported the Indonesian government's efforts to grow the local Shariah finance industry.

Indeed, we are now seeing increasing efforts to arrange other Islamic financing syndications among Shariah banks in the local market.

This case study was written by Gahet Ascobat, HSBC Amanah Syariah. He can be contacted at +622 1524 6658 or via email at gahetascobat@hsbc.co.id

KRAKATAU STEEL

FACILITY	Syndicated Murabahah facility
FACILITY SIZE	US$50 million
PURCHASER	PT Krakatau Steel (Persero)
SELLER	Hongkong and Shanghai Banking Corporation (HSBC) acting as investment agent of financiers
FINAL DISTRIBUTION	
PRINCIPAL ACTIVITY OF PURCHASER	Krakatau Steel is an Indonesian state-owned enterprise which is the largest integrated steel manufacturer in Indonesia and Southeast Asia. It plays a significant role in the development of the nation as its products are used in the manufacturing, infrastructure and construction sectors of the economy.
PURPOSE	To finance the purchase of raw materials
EFFECTIVE DATE	4th July 2007
PURCHASE PRICE	The purchase price for the commodity payable by the purchaser to suppliers
PROFIT MARGIN	The Murabahah profit margin is determined based on a spread over 6-months LIBOR as reference rate
TENOR	180 days
PAYMENT	The payment of each purchase of commodity by the purchaser from the seller consists of the purchase price for each disbursement and the agreed profit margin
LEGAL COUNSEL	Denton Wilde Sapte, Dubai office (English law) Hanafiah Ponggawa & Partners (Indonesian law)
MANDATED LEAD ARRANGER	HSBC Amanah
SHARIAH ADVISER	HSBC Amanah
BOOKRUNNER	HSBC Amanah
RATINGS	N/A

Mada Leletisalat US$2.5 billion Islamic Financing Facility (Arranger's Perspective)

Early last year, the Saudi government — through the Communications and Information Technology Commission (CITC) — opened an international tender for the third global system for mobile communications (GSM) license in the country. Of the nine bids received, the consortium led by Mobile Telecommunications Company in Kuwait emerged tops with a bid of SAR23 billion (US$6.11 billion). The consortium led by MTC comprised the following institutions.

- Mobile Telecommunications Company
- Saudi Plastics Factory
- Faden Trading Contracting Establishment
- Almarai Company
- Rakisa Holding Company
- Al Jeraisy Development Company Limited
- Architectural Elite Est for General Contracting
- Ashbal Al-Arab Contracting Est
- Al Sale Al Sharkiyah

The subject license was granted for a fee of US$6.11 billion in accordance with the following terms:

- 25-year license (renewable for same term)
- Technology neutral — can deploy 2G and 3G network infrastructure
- International gateway and national transmission
- Substantial spectrum allocation
  — 900MHz–2x10 MHz
  — 1,800MHz–2x10 MHz
  — 3G band–2x10 MHz + 5MHz
- Mobile number portability now active
- Foreign ownership in the Saudi entity limited to 51%
- Three-year lock-in period for founding shareholders
- Revenue sharing with the government: 5% in the first year, 10% in the second and 15% in subsequent years
- 15% minimum operator ownership mandated by CITC
- Permits operator to apply for ISP and/or broadcasting licenses

Several other consortia took part in the tender including Samawat-Bharti (which offered SAR17.25 billion, or US$4.6 billion), Tawasul-Digicel (SAR16.13 billion (US$4.3 billion)), Oger Telecom (SAR15 billion (US$4 billion)), Kingdom Turkcell (SAR11.25 billion (US$3 billion)), Abdullah Abdul Aziz Al-Rajhi-Reliance (SAR11.25 billion) and MTC Saudi Arabia (SAR8.4 billion; US$2.24 billion). Although the difference between MTC Saudi and the second-ranked Samawat-Bharti consortium is relatively high, this would have been lower without the disqualification of Orascom's bid for technical reasons. Orascom's bid was very close in value to MTC's.

The new company formed to obtain and operate the third GSM license was named Mada Leletisalat LLC. A joint stock company is to be formed, after the completion of the inital public offering (IPO) and other regulatory formalities.

THE MARKET

Saudi Arabia has the largest Middle Eastern population of 26 million inhabitants as per 2006 statistics, with 58% of them under the age of 25. The country also enjoys the highest GDP in the Middle East and Africa (US$350 billion in 2006) with GDP growth of 7% in 2007.

The Saudi telecom market is by far the largest telecoms market in the GCC with a penetration rate of 70% and only two mobile operators, while the average rate for other GCC countries is around 118%. Fixed-line penetration is extremely low with only 16% while the airtime per unit, or Arpu, is around US$35 and higher than the GCC average. The low broadband penetration (only 0.4% of the population in 2006) suggests substantial uptake potential for 3G services.

The Saudi market is also characterized by a unique feature — it sees five to six million visitors every year for the Hajj and Umrah. For example, during the Hajj period last year, over 400 millions calls were made over the Saudi Telecom (STC) network in addition to over one billion SMSes.

FINANCING PLAN

The total financing plan for Mada Leletisalat is as below:

Sources	Amount (US$ mil)	%
Sponsor's cash equity	2,155.2	28.3
IPO/GOSI/PPA funding	1,866.7	24.6
MTC shareholder financing	288.5	3.7
MTC undertaking (other financing)	783.6	10.4
Non-recourse bridge facility	2,500	33
Total	**7,594**	**100**
Uses		
License fee	6,109.3	80.4
Net peak funding requirement	1,484.7	19.6
Total	**7,594**	**100**

FINANCING STRUCTURE

Stage I — Initial license fee payment

As per CITC requirements, three weeks post-receipt of the CITC confirmation letter, Mada Leletisalat was required to provide cash or a financial guarantee issued by Saudi banks (guarantee banks) to CITC for 80% of the license fee (US$4.89 billion). The guarantee was issued by three Saudi banks (the guarantee banks), backed by guarantees from the other MLAs (comprising Saudi as well as non-Saudi banks), for the other MLAs' pro-rata share of the guarantee facility amount.

continued...

Mada Leletisalat Islamic financing facility *(continued...)*

The guarantee facility was made available in one drawdown to meet the initial funding commitment of 80% of the license fee in accordance with the licensing schedule and procedures set out in the CITC documents.

The subject guarantee was secured by cash collateral of US$2.15 billion by the sponsors and shareholder loan of US$288.5 million, deposited into an escrow account in favor of the security agent acting on behalf of the financiers.

The structure of the guarantee facility is summarized below:

Sources' initial license fee payment	Amount (US$ mil)	%
Non-recourse guarantee facility	2,443.7	50
MTC shareholder loan	288.5	5.9
Sponsor cash equity	2,155.2	44.1
Total	**4,887.5**	**100**
Uses		
Financial guarantee (80% of license fee)	4,887.5	100
Total	**4,887.5**	**100**

*Until the joint stock company (JSC) that ultimately would own the license is incorporated, a Saudi limited liability company, Mada Leletisalat LLC was established, owned by the sponsors. Upon establishment of the JSC, the payment obligations of the LLC will be transferred to the JSC.

Stage II — IPO and final license fee payment

The payment of the residual 20% of the license fee would become due two weeks after the incorporation of the JSC. The license fee would be deposited into escrow accounts. At the time of license issuance, the guarantee facility would terminate and be replaced by a bridge facility.

The bridge facility would be available for drawdown on the basis that such drawdown will trigger the release of the guarantee in favor of the CITC and the cancellation of the liability of the guarantee banks under the guarantee in accordance with the terms and conditions of the escrow agreement. The security package for the bridge facility includes the following:

- A pledge of the shares of the obligor (both LLC and JSC) held by the sponsors
- An assignment of all shareholder loans
- A pledge and assignment of the obligors' assets including receivables, bank accounts and insurance contracts.

The bridge facility will have a tenor of two years with bullet repayment and a pricing of LIBOR + 125 bps for the first 12 months, and LIBOR + 150bps for the remaining period, in addition to a front-end fee of 70bps. The subject bridge will be taken out in two years' time via a six-year syndicated facility.

The breakdown of the total cash license payment to CITC is as per the table below:

Sources' final license fee payment	Amount (US$ mil)	%
Non-recourse bridge facility	2,443.7	37.8
IPO/GOSI/PPA funding	1,866.7	28.9
Sponsor cash equity	2,155.2	33.3
Total	**6,456.6**	**100**
Uses		
License fee	6,109.3	94.5
Surplus cash funds post-IPO	356.3	5.5
Total	**6,456.6**	**100**

Update on the IPO for Mada Leletisalat

The IPO for the company was successfully concluded in February 2008.

The offering was hugely oversubscribed and the total IPO proceeds, including participation by Public Pension Authority of Saudi Arabia was SAR7 billion (US$1.87 billion).

GOSI did not participate and hence their portion was also offered to the general public. The ownership of the company, post-IPO, is as follows:

Name	% of ownership
• Mobile Telecommunications Company	25
• Saudi Plastics Factory	25
• Faden Trading Contracting Establishment	
• Almarai Company	
• Rakisa Holding Company	
• Al Jeraisy Development Company Limited	
• Architectural Elite Est for General Contracting	
• Ashbal Al-Arab Contracting Est	
• Al Sale Al Sharkiyah	
• Saudi Arabia Public Pension Authority	5
• General public through an IPO (scheduled for October/November 2007)	45*

This case study was written by Bahrain-based ABC Islamic Bank

MTC Saudi Arabia US$6 billion License Financing (Counsel's perspective)

In July 2007, a consortium led by Mobile Telecommunications Company (MTC) won a bid to become the third mobile telecommunications operator in the Kingdom of Saudi Arabia (KSA). The bid was for SAR22.91 billion (US$6.12 billion) (the license fee), of which 80% was required to be put in place (either by way of cash or bank guarantee) within 21 days of notification by the Communications and Information Technology Commission (CITC), the KSA telecoms body. The remaining 20% was to be provided following the initial public offering of half of the shares in Mobile Telecommunications Company Saudi Arabia (the company).

MTC itself is the largest listed company on the Kuwait Stock Exchange, with a market capitalization of over SAR100.5 billion (US$26.84 billion). It is part of the MTC Group, the fourth-largest telecoms operator worldwide by coverage presence. The remaining consortium members are all based in Saudi Arabia — Saudi Plastics Factory, Faden Trading Contracting Establishment, Rakisa Holding Company, Ashbal Al Arab Contracting Establishment, Almarai Company, Al Jeraisy Development Company Limited, Architectural Elite Establishment for General Contracting and Al Sale Al Sharkiya.

THE DEAL

The initial 80%, or SAR18.33 billion (US$4.89 billion)), of the license fee was put in place by way of conventional bank guarantees. The guarantee facility involved several KSA, regional and international banks. It was backed by a SAR9.37 billion (US$2.5 billion) Tawarruq facility, with Banque Saudi Fransi as Mudarib (investment agent) and onshore security agent and Calyon as offshore security agent. The remaining syndicate investors were ABC Islamic Bank, Al Rajhi Banking Corporation, Arab National Bank, BNP Paribas, Calyon, Citibank, Gulf International Bank, National Bank of Kuwait and SAMBA Financial Group.

Further collateral support was provided by the consortium members. Certain shareholder loans (totalling SAR2.16 billion (US$577 million)) made by the consortium members to be used to fund the company's operation post-incorporation were secured in favor of the investor group. Similarly, capital contributions totalling SAR7 billion (US$1.87 billion) were provided by the consortium members to subscribe for shares in the company, and this amount was also held in secure escrow accounts with the investors, pending release of the bank guarantees.

The structure for the license fee financing was similar to that used for the financing of the second GSM license (awarded to Mobily in 2004), on which Clifford Chance acted for the investor group. Tawarruq structures now are commonly used in the banking markets and widely recognized as being one of the most expedient ways to raise large amounts of corporate finance in a Shariah compliant manner, particularly for a new start-up where the asset base of the proposed obligor may be very limited.

The Tawarruq structure involves an investor (or, on a syndicated transaction, the Mudarib), purchasing Shariah compliant commodities (such as copper, zinc or aluminum) from a broker for a value equal to the amount of financing required to be raised on a spot payment and spot delivery basis. These commodities are then sold to the corporate entity wishing to avail the financing (the purchaser) with spot delivery but on deferred payment terms.

The schedule of deferred payments incorporates a proportion of the purchase price of the goods, together with a profit element payable to the investor for allowing the purchaser such deferred payment terms. The profit element is calculated, as on conventional transactions, using LIBOR as a benchmark. The final step in the process is for the purchaser to on-sell the commodities to another broker for spot payment and spot delivery. Both brokers receive a fee for their role in the process and the net effect is that the purchaser receives the funds required and is under an obligation to pay the purchase price for the commodities (plus the profit element) back to the investor on the terms agreed in the Tawarruq/Murabahah documentation.

One of the key issues on Tawarruq structures relates to the risk profile of such transactions. Even where the investor appoints the purchaser as its (disclosed or undisclosed) buying agent with respect to the commodities, there is still a certain period during which title to the commodities rests with the investor.

As a result, in addition to the risk being borne by the investor in relation to the purchaser (i.e. customer/credit risk), the investor also takes the commodity risk that the commodities will not be saleable (or only saleable at a reduced price) or that other losses may arise from ownership of the commodities. These two risks are normally reflected in the profit rate charged by the investor for the transaction and, more importantly, the full transaction (i.e. initial purchase/sale/resale) is required to be completed on the same day to limit the investor's exposure.

If same-day completion is not possible — for example, the purchaser fails to deliver the notice of offer to purchase (see diagram) to the investor and the contract of sale has therefore not been concluded — there is normally an obligation on the purchaser to resell the commodities on the investor's behalf for the original cost price. Any price difference between the cost and resale price is for the account of the purchaser. To mitigate some of the cash settlement risk, settlement or netting letters are commonly used, whereby the parties agree to "net off" any mutual obligations between the supplier (or broker A), purchaser, investor and the buyer (or broker B). Under the terms of such a letter, the parties agree that the only funds movement is from the investor to the purchaser.

In addition, to mitigate the commodity settlement risk, the purchaser and the investor will be required to have a com-

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C L I F F O R D

C H A N C E

MTC Saudi Arabia license financing *(continued...)*

modity account with the supplier. As a result, each initial purchase, delivery of commodities and on-sale will be effected by the commodity account of the relevant seller being debited and the commodity account of the relevant purchaser being credited.

PRINCIPAL ISLAMIC DOCUMENTATION

Murabahah facility agreement

The Murabahah facility agreement or MFA sets out the main terms of the commodity purchase and deferred payment for the duration of the Tawarruq facility. The MFA contains the representations, covenants, provisions relating to prepayments and events of default. The MFA is a bilateral agreement. It therefore only governs the relationship between one investor (in this case, the Mudarib) and the purchaser. There are typically a number of schedules attached to any Murabahah agreement, setting out the various documents that need to be completed at the time of each purchase (or "drawdown"). Broadly, these include:

(1) A purchase order (with promise to purchase) — this document is submitted by the purchaser and addressed to the Mudarib, requesting the Mudarib to purchase commodities and detailing the supplier, commodity, quantity of commodity to be purchased and settlement (i.e. funding) date. The document should also include a promise by the purchaser to purchase the commodities from the Mudarib once the initial purchase has been completed;

(2) A confirmation of terms — this document is addressed to the purchaser and sent by the Mudarib to confirm the purchase requested in step (1) above has been completed. The purchaser is required to acknowledge this document in writing (counter-signature is normally sufficient);

(3) Notice of offer to purchase — the next step in the process ensures that there is a contractual agreement between the parties for the sale of the commodities — offer and acceptance. Referring to the confirmation of terms, this document expresses the purchaser's intention to purchase the commodities from the Mudarib (whereas the document in step (1) above simply contains the "promise" to purchase); and

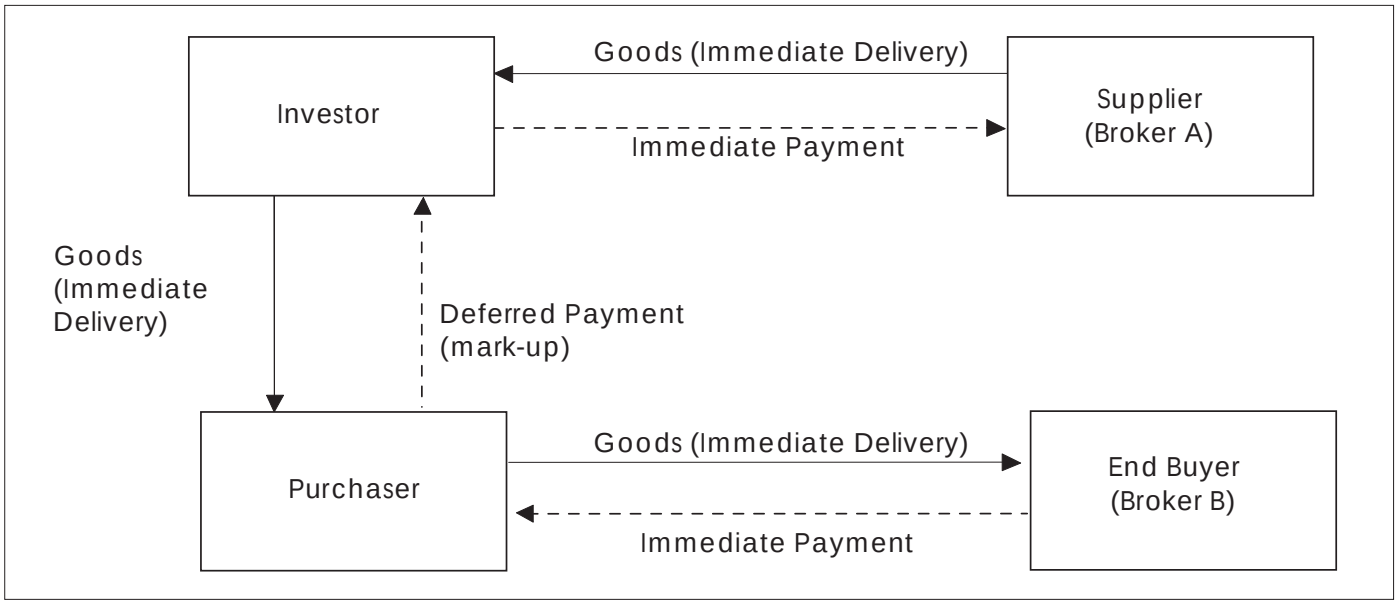
(4) Notice of acceptance of sale — this step concludes the contract between the purchaser and the Mudarib, with the Mudarib accepting the purchaser's offer.

Mudarabah agreement

The Mudarabah agreement binds the investor group together and documents the relationship between the Mudarib and the other investors (including the funding mechanics). The purchaser is also commonly included as a party to the Mudarabah agreement, although this is normally to grant the purchaser the benefit of transfer provisions where the purchaser has a right to consent to any transfers. Importantly, any transfers made under the Mudarabah agreement are usually only permitted to be made at par value (i.e. one cannot trade "commitments" in the conventional sense).

Clifford Chance was awarded "Tawarruq Deal of the Year" at the 2007 *Islamic Finance news* Awards for the above transaction, in addition to being named "Best Law Firm in Islamic Finance". Clifford Chance advised on more than US$25 billion of Islamic finance transactions in 2007 across various asset classes.

CLIFFORD CHANCE This case study was written by Sandeep Puri, a senior associate in the banking and finance practice at Clifford Chance



Mada Letetisalat

INSTRUMENT	Murabahah financing facility (Tawarruq)
BORROWER (ISSUER)	Initially, Mada Leletisalat Limited Liability Company. Upon establishment of the joint stock company (JSC) that will own the license, the JSC will substitute the payment obligations of Mada Leletisalat LLC and become the new borrower (or obligor).
PRINCIPAL ACTIVITIES	Mobile-telephone operation and sevices
DATE OF SIGNING	27th July 2007
ISSUE SIZE	US$2.5 billion
DATE OF ISSUE	Guarantee Issuance on 28th July 2007. The Murabahah facility on 10th March 2008.
MATURITY	Initially one year. On maturity, can be rolled over for another year, at the option of the borrower.
PROFIT MARGIN (COUPON)	For the Murabahah facility Year 1: LIBOR +125 bps Year 2: LIBOR + 150 bps For the guarantee facility 5 bps p.a. payable on the portion of the guarantee facility amount that is secured by cash collateral. 60 bps p.a. payable on the portion of the guarantee facility amount that is secured by MTC commitment to provide the MTC loans. 125 bps payable on the portion of the guarantee facility amount that is not secured.
REPAYMENT SCHEDULE	Bullet
MANDATED LEAD ARRANGERS AND UNDERWRITERS	ABC Islamic Bank (EC) Al Rajhi Banking Corporation Arab National Bank Banque Saudi Fransi BNP Paribas Calyon Citibank Gulf International Bank National Bank of Kuwait Samba Financial Group
LENDERS' LEGAL COUNSEL	White & Case LLP Law Office of Mohammed Al-Shaikh
ARRANGER'S LEGAL COUNSEL	Al-Jadaan & Partners Law Firm (Saudi Arabian Law) Bakar & McKenzie (English Law)
PURPOSE OF ISSUE	To partially fund the US$6.11 billion (the license fee) acquisition of the third mobile operator's license in the Kingdom of Saudi Arabia
AUTHORIZED PAID-UP CAPITAL	SAR2 million (US$534,345) for Mada Leletisalat LLC
IDENTIFIED ASSETS	Borrower's receivables, bank accounts and insurance contracts
SHARIAH ADVISER	Dr Mohamed Ali Elgari
RATING	N/A

GFH US$1 billion Sukuk Certificate Issuance Programme

Any leading investment banker will tell you that the key criteria for establishing a successful Sukuk issuance programme are:

a) the programme must enable the issuer to issue quickly and efficiently when market conditions are right;

b) issues under the programme must not be overly document-intensive; and

c) the programme must have a flexible structure that enables the issuer to use a variety of Shariah compliant asset classes for any issue of Sukuk and also enable the issuer to substitute assets backing the issue efficiently.

The above requirements are a tall order, especially as most stand-alone Sukuk issuance structures are document-intensive and have a relatively long timeline compared to conventional bond issues. Fortunately, the Sukuk programme established by Gulf Finance House (GFH) in July 2007 meets such requirements.

MECHANICS OF GFH STRUCTURE

The programme enables GFH Sukuk Limited, a Cayman Islands special purpose vehicle (the issuer), to issue Sukuk trust certificates in series from time to time. On the occasion of each issuance of Sukuk, the issuer will apply the proceeds to acquire from GFH a beneficial interest in certain Shariah compliant assets pursuant to a master purchase agreement and a supplemental purchase agreement.

Those assets must consist of a pool of Shariah compliant income-generating assets, interests or contracts, which may include, inter alia, Ijarah, real estate, Murabahah contracts, Istisna contracts, shares and/or other Shariah compliant assets. The composition of the pool of assets for each series must be approved by the GFH Shariah board.

The issuer appointed GFH as the managing agent to manage the Sukuk assets of each series on its behalf pursuant to a management agreement. Profits and returns received in respect of the Sukuk assets of each series will be applied to pay periodic distribution amounts in respect of such series of Sukuk on the relevant periodic distribution dates.

Any amount corresponding to the principal amounts received in respect of the Sukuk assets of each series of Sukuk will be reinvested by the issuer in, inter alia, acquiring additional Sukuk assets (as the master purchase agreement and master purchase trust deed contemplate and allow for this), which will form part of the Sukuk assets of the relevant series.

GFH has further agreed to make a Shariah compliant liquidity facility available to the issuer to cover any liquidity shortfalls and any costs and expenses incurred by the issuer in having an interest in the relevant Sukuk assets. No interest is payable in respect of any advances made pursuant to this liquidity facility.

The liquidity facility is repaid from Sukuk asset proceeds. The terms of the master purchase agreement and the master purchase trust deed also enable the issuer to replenish the pool of assets from time to time, as and when necessary, and allow for substitution of assets (if certain Shariah tests are met).

GFH has undertaken to acquire the Sukuk assets of the relevant series of Sukuk on the relevant maturity date or, as the case may be, on the relevant dissolution date arising from the occurrence of specified dissolution events pursuant to a purchase undertaking deed poll made by GFH in favor of the issuer.

Pursuant to a sale undertaking deed poll, the issuer has also undertaken to sell the relevant Sukuk assets to GFH (at GFH's option) in certain early dissolution circumstances only. The purchase price payable by GFH for such assets will be an amount equal to the sum of:

a) the aggregate nominal amount of the relevant series of Sukuk;

b) the amount of accrued but unpaid periodic distribution amounts on such date; and

c) any outstanding amounts due to GFH under the liquidity facility.

"Those assets must consist of a pool of Shariah compliant income-generating assets... the composition of the pool of assets for each series must be approved by the GFH Shariah board"

EFFICIENCY AND ADVANTAGE OF PROGRAMME ARCHITECTURE

Pursuant to a master trust deed which is supplemented, on the occasion of the issue of each series, by a supplemental trust deed in respect of the relevant series, the issuer will declare a trust over the relevant Sukuk assets. Each

continued...

GFH US$1 billion Sukuk *(continued...)*

such trust will be declared for the benefit of the relevant certificate holders of the relevant series.

The issuer will only act upon the instructions of the certificate holders in carrying out the activities of the trust. To facilitate the giving of such instructions by the certificate holders, it is a term of the Sukuk that a transaction administrator is appointed pursuant to a transaction administration deed between the issuer and the transaction administrator to act as agent for the certificate holders and be solely entitled to provide instructions to the issuer on their behalf.

The key advantages of the Sukuk programme structure are:

(1) the flexibility it provides to GFH by allowing the bank to inject different kinds and classes of Shariah compliant assets into the structure (including Shariah compliant shares);

(2) it allows for extraction and substitution of assets in a Shariah compliant manner;

(3) it enables GFH to go to market very quickly compared to having to structure, implement and list one-time Sukuk issues; and

(4) due to the modular master/supplemental structure of the documentation, going to market is not a document-intensive process compared to one-off Sukuk issues.

Given the advantages that the programme structure can offer issuers in the Islamic finance market, it is only a matter of time before more Sukuk programmes are introduced.

RECENT SHARIAH DISCUSSIONS ON SUKUK STRUCTURES

Despite recent discussions by Shariah scholars on Sukuk structures and the recent statement released by the Accounting and Auditing Organization for Islamic Financial Institutions on Sukuk, law firms such as Dechert are developing structures to meet the recent requirements enunciated by leading Shariah scholars that will still allow for the same flexibility and advantages of Sukuk programme structures.

Dechert LLP

This case study was written by Abradat Kamalpour, a partner at Dechert in London

Gulf Finance House Sukuk

INSTRUMENT	Sukuk certificates
ISSUER	GFH Sukuk, with the benefit of a liquidity facility provided by Gulf Finance House
PRINCIPAL ACTIVITIES	The issuer is a limited liability special purpose vehicle (SPV) established in the Cayman Islands
BOARD OF DIRECTORS	SPV company directors
DATES OF ISSUE	9th July 2007
DATE OF LISTING	Admission of the program: 12th July 2007. First issue of Sukuk certificate: 26th July 2007 at US$200 million
ISSUE SIZES	Up to US$1 billion
IDENTIFIED ASSETS	Shares in investment companies
LEAD ARRANGER	Dresdner Kleinwort and HSBC Bank
DEALERS	Dresdner Kleinwort, HSBC Bank, Emirates Islamic Bank and Emirates Bank International
LEGAL COUNSEL TO ISSUER	Lovells
LEGAL COUNSEL TO ARRANGER	Al-Sarraf & Al-Ruwayeh (Bahrain Law), Dechert (English Law), Walkers (Cayman Islands Law)
TRUSTEE	HSBC Trustee (CI)
METHOD OF ISSUE	Euroclear/Clearstream
PURPOSE OF ISSUE	General corporate purposes
LISTING	London Stock Exchange
TENOR	Five years, to be issued in one tranche
PAYMENT SCHEDULE	The Sukuk is a trust over a floating pool of assets and is priced competitively. The initial price guidance given by GFH was not widened, reflecting the strong investor confidence in the bank's Sukuk issue.
PURPOSE OF ISSUE	Proceeds from the Sukuk will be used to fund the investment bank's medium-term strategic investment portfolio, comprising its investments in the equity of Khaleeji Commercial Bank in Bahrain and QInvest in Qatar.
STATUS OF SUKUK	The Sukuk issue follows the success of GFH's secondary listing of US$275 million of global depositary receipts (GDR) on the London Stock Exchange. Although no new shares have been issued, the GDR exercise has allowed international investors to invest in a liquid instrument backed by GFH shares. The transaction was completed despite Middle Eastern banks withdrawing Sukuk issuances due to shaky US subprime markets.
RATINGS	Rated BBB- with a stable outlook by Standard & Poor's

Doraleh Container Terminal US$263 million Project Finance Facility

Despite the rapid growth and interest in the Islamic finance sector, until now there has not been a firmly accepted structure for project financing that can satisfy the requirements of all stakeholders.

In January 2008, however, Standard Chartered Bank, WestLB AG and Dubai Islamic Bank (DIB) closed a unique and innovative Islamic project finance structure, developed in consultation with DIB's Shariah board and Lovells as legal adviser, which it is anticipated will set the precedent for future project financings.

This syndication was the first major Islamic project financing in Africa and represents the first ever World Bank Group political risk cover for a Shariah compliant deal. The container port project is meant to help Djibouti improve its role as a gateway port to East Africa.

BACKGROUND

The project company, Doraleh Container Terminal SA, a Djibouti-registered company, was granted a 30-year concession to construct and operate the Doraleh Container Terminal in Djibouti to service predominantly landlocked Ethiopia and adjourning countries.

Doraleh Container Terminal SA is a joint venture between DP World of Dubai and the Djibouti government.

The financing for the project, which won *ProjectFinance* magazine's 2007 African Infrastructure Project Finance Deal of the Year award, was settled on the basis of a Musharakah/Istisna/Ijarah structure, with the structure working as follows.

The participating banks, represented by DIB as investment agent, and the project company entered into a Musharakah agreement to implement the project, whereby both parties agreed to contribute capital for the purposes of the Musharakah.

For the investment agent, this capital contribution is the funding provided by the participating banks and for the project company the contribution is its rights, benefits and entitlements in and to the concession agreement and the project generally as well as the equity investment.

Simultaneous to this, though standing conceptually as an independent arrangement, the project company and the Musharakah partners entered into an Istisna agreement.

Under this agreement, the project company sells and the Musharakah partners (as purchaser) buy the project, and at the time of a Musharakah contribution, an equal value stage payment of the purchase price is made to the project company (as seller).

The final key component of the structure was the project company and investment agent entering into a forward lease or Ijarah, whereby the project company leases the investment agent's interest in the project (acquired by the investment agent under the Istisna agreement).

The forward lease requires the payment of advance rental during the construction phase and actual rental during the operating phase.

DOCUMENTATION

Other important documentation included a sale undertaking and a purchase undertaking to accommodate early repayment and acceleration respectively, with the sale undertaking also being the mechanism, whereby title to the project is returned to the project company at the end of the forward lease period.

A servicing agency agreement was also an important component of the arrangement as major maintenance and repair must be undertaken by the lessor.

Under this document, the investment agent appoints the project company as the servicing agent.

This is the first Islamic project financing which benefits from a multilateral investment guarantee agency (MIGA) political risk guarantee.

During the negotiation process, MIGA showed a great deal of flexibility in structuring its policy to fit in with the complex nature of the Musharakah/Istisna/Ijarah financing structure.

While the formulation and negotiation of the structure were lengthy to achieve an appropriate project financing model that was completely Shariah compliant, it is anticipated that this model will be embraced by financiers seeking an Islamic project financing structure that does not affect their usual expectations under a conventional financing.

As Islamic finance had not previously been adapted to project finance in such a successful way, this deal showcases not only the dynamic and flexible nature of Islamic finance but that its underlying structures can be viewed with confidence by the market.

Lovells

This case study was written by Shibeer Ahmed, a partner in Dubai-based Lovells.

DORALEH CONTAINER TERMINAL

CLIENT	Doraleh Container Terminal
PRINCIPAL ACTIVITIES	Ports and terminals
ISSUER	NA
INSTRUMENT	Project finance facility
METHOD OF ISSUE	Syndication
PURPOSE OF ISSUE	Capex plan to set up a new port terminal in Doraleh, Djibouti
ISSUE SIZE (IN US$)	US$263 million
PRICING	Profit payments benchmarked to LIBOR
RATING	NA
DATE OF ISSUE	December 2007
GUARANTOR	NA
TRUSTEE	NA
ARRANGERS AND BOOKRUNNERS	Standard Chartered Bank, Dubai Islamic Bank and WestLB
LEGAL COUNSEL (CLIENT)	Allen & Overy
LEGAL COUNSEL (ARRANGER)	Lovells
SHARIAH ADVISERS	Dubai Islamic Bank and Standard Chartered Bank
ROADSHOWS	NA
INVESTORS	Standard Chartered Bank, Dubai Islamic Bank and WestLB

Adhi Karya US$13.6 million Sukuk Mudarabah

TRANSACTION DESCRIPTION

In June 2007, Mandiri Sekuritas acted as sole lead underwriter for the Sukuk Mudarabah bond issue of Adhi Karya, an Indonesian-owned construction company.

The Sukuk, which were oversubscribed, raised IDR125 billion (US$13.6 million) and were issued with a maturity of five years. The money raised was used for working capital needs and ongoing and future projects financing.

The deal is considered one of the few attractive Sukuk Ijarah issues deals in 2007 amid several other corporate bonds issued within the same period as PLN Bonds and the downtrend of the interest rates.

The success of Mandiri Sekuritas' lead in Islamic financing is an example of innovation in a rapidly growing market.

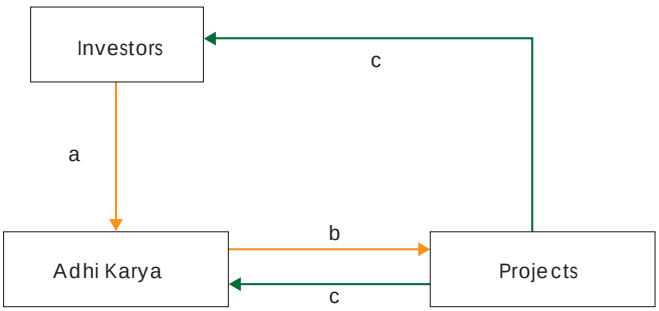
"The deal is considered one of the few attractive Sukuk Ijarah issues deals in 2007 amid several other corporate bonds issued within the same period as PLN Bonds and the downtrend of the interest rates"

TRANSACTION OVERVIEW

The Adhi Karya Sukuk Mudarabah transaction is a landmark transaction in many respects:

- The first Sukuk Mudarabah by one of the leading construction companies that's government-owned
- The Sukuk Mudarabah of Adhi Karya were specially structured to effect a profit-sharing principle in order to do away with the interest-bearing coupons that are prohibited by Islamic law. The successful execution of this Sukuk has set a platform for future Islamic construction company financings in the country.
- The Sukuk Mudarabah of Adhi Karya was not only one of the attractive Islamic financings in the country during 2007, the issue was structured and executed with intensive interactions with local regulators and Shariah boards.
- The transactions introduced Adhi Karya to the Islamic investor base, and enabled the company to diversify its funding to a new investor base, which was a key objective of Adhi Karya's management.
- The offering was competitively priced in comparison with others at that time, and has set a new benchmark for the company's subsequent financings.

TRANSACTION STRUCTURE



a. Investors purchased the Sukuk from Adhi Karya

b. Adhi Karya used the monies received for working capital include financing ongoing and future projects

c. Profit shared

- The transaction was structured as Mudarabah, a profit-sharing arrangment between investors and issuer where the ratio is 76.39% for investors and 23.61% for Adhi Karya
- The profit shared will be paid quarterly and taken from "Gross Profit After Joint Venture Project" whereas the amount is not lower than IDR4.5 billion (US$489,391) quarterly. In case the amount exceeds IDR4.5 billion, the excess will go to the company.
- The Sukuk is secured with existing or future company receivables from projects handled by companies with a minimum value of 125% from the Sukuk fund.

mandiri sekuritas

This case study was written by Juni Hendry of Mandiri Sekuritas. For more information, he can be contacted at +6221 1526 3445 or via email juni.hendry@mandirisek.co.id

Adhi Karya

INSTRUMENT	Sukuk Mudharabah Adhi I 2007
ISSUER	PT Adhi Karya (Persero) Tbk.
ISUER PRINCIPAL ACTIVITIES	PT Adhi Karya (Persero) Tbk and its subsidiaries provide construction services, including general civil engineering, building, and mechanical and electrical services in Indonesia. Its activities include construction works, such as civil work for development sector; building construction; and mechanical and electrical works, including network, radio telecommunication, and instrumentation. The company provides repair/maintenance/renovation of the construction works. It designs and supervises construction work, as well as engages in measuring, drawing, calculating, and determining construction cost for civil work, buildings, mechanical, and electrical works. PT Adhi Karya also provides industrial fabrication, including fabrication of materials and finished components for constructions, mechanical, and electrical for industrial structures and buildings, electronics, and communication. In addition, the company offers construction equipment on rent, as well as provides management consulting and industrial engineering services. Further, it undertakes as supplier, in agency services, import and export handling services, and courier/land transport services. The company also engages in property and realty development; construction materials and equipment trading services; and building and site management services. PT Adhi Karya was founded in 1960 and is headquartered in Jakarta Selatan, Indonesia.
ISSUE SIZE & PRICING	IDR 125 billion (US$13.6 million)
DATE	June 2007
BOOKRUNNER	Mandiri Sekuritas
LEGAL COUNSEL FOR ISSUER	Priyadi & Co
TRUSTEE	Bank Mega
METHOD OF ISSUE	Public Offering
PURPOSE OF ISSUE	Working Capital
RATING	idA-(Sy)
SUBSCRIPTION	1.24x
INVESTORS	Banking Sector

BTA Bank US$250 million Syndicated Wakalah

Last July, the largest Islamic syndicated financing facility in Kazakhstan to date was signed by way of a syndicated Wakalah restricted with commodity Murabahah financing facility.

The Shariah compliant documentation, approved by Abu Dhabi Islamic Bank's Shariah and fatwa supervisory boards, represented by its executive committee, was used in BTA Bank (the purchaser's) US$250 million syndication.

Abu Dhabi Islamic Bank acted as Shariah adviser, documentation agent as well as wakeel/facility agent. The proceeds raised from this facility were deployed to promote Islamic financings for the benefit of the purchaser's clients.

The purchaser is one of the leading banks in Kazakhstan. It again pioneered the use of Islamic finance in Central Asia being the first bank to raise two-year Islamic financing.

THE DEAL

The syndication was structured as a Wakalah restricted with Commodity Murabahah financing facility. The purchaser used the proceeds from selling the commodities (purchased under the facility) to finance its client's Islamic trade finance activities.

The syndication was limited to a group of investors primarily from the Middle East and Malaysia. A total of 14 financiers joined the facility, four of which were new names to Kazakhstan.

The commodity Murabahah structure of the facility is standard and well-tested as a financing tool. Financiers accessed the facility via a Wakalah agreement which is a standard type of agency agreement that reflects the "facility agent" concept more closely than the Mudarabah format sometimes associated with this type of financing.

WAKALAH STRUCTURE

The financiers' involvement was documented via an investment agency/Wakalah agreement between the wakeel and financiers (together with the master Murabahah agreement and the power of attorney agreement, collectively, the facility documents).

When the purchaser had identified commodities it wished to acquire and desired to utilize the facility, the purchaser sent the seller a notice of identification of commodities (NIC) not less than five business days before it required utilization of the facility (the "D" date).

The NIC specified, inter alia, the commodity details, cost price and proposed deferred payment date. The NIC further specified that the purchaser was irrevocably bound to purchase the commodities from the wakeel.

On D-3, the wakeel notified the financiers that a Murabahah transaction was to be made on day D.

On D-2, the relevant LIBOR fixing was determined. On D (value/settlement date), the wakeel purchased commodities on a cash basis from a supplier.

Upon delivery of the commodities to the wakeel's account with the supplier, the wakeel sent a seller offer to the purchaser, amending if necessary the commodity details and clearly specifying the cost price, profit margin, the sale price and the deferred payment date.

Upon receipt of the seller offer, the purchaser was irrevocably bound to send a purchaser acceptance to confirm that an agreement to purchase and sell commodities had been entered into (the purchase agreement").

Once the wakeel received the purchaser acceptance, delivery to the purchaser was effected by debiting the purchaser's account held with the wakeel.

The purchaser had the full right to require physical delivery of the commodities. Immediately and irrevocably after delivery had been effected to the purchaser's account, based on the terms of the purchase agreement, the purchaser had the right to sell the commodity to any other party.

The purchaser may have appointed the wakeel as the purchaser's agent to immediately sell the commodities, once they are sold and delivered to the purchaser, to the second supplier on a cash basis at the cost price.

The wakeel, after having received payment from the second supplier, then paid proceeds from this sale to an account specified by the purchaser for value D. The sale price in respect of each Murabahah transaction was payable by the purchaser on the relevant deferred payment date (see next page for an illustration of the above structure).

In the Wakalah, financing is going from from the investor and ending up in a commercial venture with the profits of the commercial venture being shared between the investor and the wakeel in agreed proportions. Wakalah is an agency contract, which usually includes in its terms a fee for the expertise of the agent.

Under the principles of Shariah for the Wakalah, the purchaser is not liable for any actual cost, expense, loss or liability incurred by any negligence or willful misconduct caused by the wakeel. In this instance, the loss will be borne by the wakeel.

continued...

BTA Bank US$250 million Wakalah *(continued...)*

From a Shariah perspective, the fact that under the Mudarabah the provider of capital has no control over the management of the project is considered detrimental to the position of the financiers/participants.

This situation is also in conflict with the terms of the syndicate documentation as seen in the market which provides for any action taken by the investment agent under or in relation to the finance documents with requisite authority, or on the basis of appropriate instructions, received from the participants.

The Wakalah/agency structure also allows for the direction of the wakeel to take appropriate action via the approval of majority or all participants.

According to the Shariah, under the Wakalah structure all the profit is for financiers/participants with the wakeel entitled for agency fees (if agreed upon), otherwise the wakeel can provide this service for free.

In this instance, agency fees are payable from the Muwakkil as individual participants to the wakeel who is managing their investment. Note that this term is different from the facility agent services fee as outlined in syndicate transactions which is a separate fee payable by the purchaser for the services of the wakeel.

According to Shariah, under the Mudarabah structure, part of the profit should go to the Mudarib and hence, a notional payment of profit share computed at the rate of [0.00001%] of the profit portion is included in Mudarabah transactions. Under the Wakalah structure, this additional payment is obviated.

USE OF PROCEEDS STRUCTURE

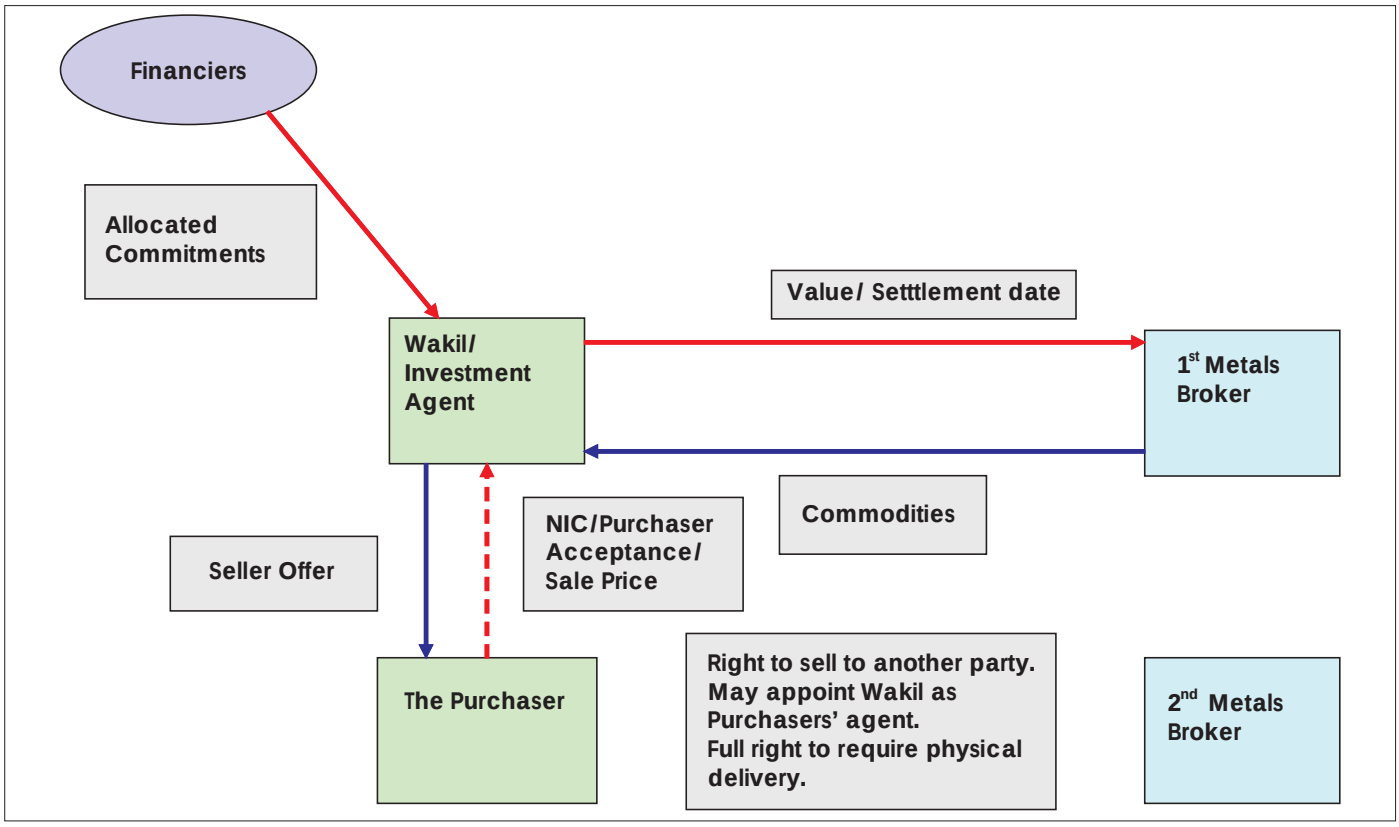
The purchaser used the proceeds from selling the commodities (purchased under the facility) to finance its client's Islamic trade finance activities. The use of proceeds structure used under the syndicated Wakalah restricted with commodity Murabahah financing facility combined the use of: (i) business finance facility; (ii) business finance facility terms and conditions; and (iii) power of attorney.

The business finance facility was entered into between the customer of the purchaser and the purchaser. This covered, inter alia, the description of the goods, any property pledges, third party guarantees and/or repayment holidays. Under the principles of Shariah, this would be subject to no increase in the purchase price.

The business finance facility terms and conditions and the power of attorney were both entered into between the customer of the purchaser and the purchaser.

مصرف أبوظبي الإسلامي
Abu Dhabi Islamic Bank
PJSC شمع

This case study was written by Michael Clarke, assistant vice-president financial institutions at Abu Dhabi Islamic Bank



BTA Bank Syndicated Wakalah

FACILITY	Syndicated Wakalah restricted facility with commodity Murabahah financing
PURCHASER	BTA Bank
FACILITY AMOUNT	US$250 million
PRINCIPAL ACTIVITIES	BTA Bank is a leading commercial bank in Kazakhstan, offering a full range of traditional banking products and services. Its business areas include corporate banking, retail banking, trade finance, credit and debit card services, currency and securities trading, trust activities, international banking, pension fund services and insurance activities. As at the 1st April 2007, its assets increased by 18.5% since the beginning of the year and made up US$19.4 billion, growing BTA's market share to 24.6% in terms of assets. The main growth was due to the growth of the bank's loan portfolio, which made up 66.5% of the assets at the end of the first quarter of 2007. Loans provided to SMEs and retail loans made up 40% of the whole loan portfolio.
BACKGROUND	The transaction was launched for US$150 million with syndication being limited to a group of investors primarily in the Middle East and Malaysia. It was signed on the 10th July 2007. The syndication was successful, having closed oversubscribed. As such, BTA Bank elected to increase the facility amount to US$250 million.
MATURITY	Two years
INITIAL MANDATED LEAD ARRANGERS	Abu Dhabi Islamic Bank, Barclays Capital (the investment banking division of Barclays Bank) and CIMB Bank. The initial mandated lead arrangers were joined at the senior stage by Abu Dhabi Commercial Bank.
LEAD ARRANGERS	Arab Bank, Commercial Bank of Kuwait, Dubai Bank and ICICI Bank UK
ARRANGERS	Burgan Bank of Kuwait and Maybank
MANAGERS	National Bank of Dubai, National Bank of Oman, The Saudi National Commercial Bank and The Arab Investment Company
BOOKRUNNER	Barclays Capital
INVESTMENT AGENT/WAKEEL	Abu Dhabi Islamic Bank
SHARIAH ADVISER	Abu Dhabi Islamic Bank
DOCUMENTATION	Master Murabahah agreement and investment agency agreement
PURPOSE OF SYNDICATION	To finance BTA Bank's Islamic trade finance activities
WAKALAH STRUCTURE	The commodity Murabahah structure of the facility is standard and well-tested as a financing tool. Participants will access the facility via a Wakalah agreement, which is a standard type of agency agreement that reflects the "facility agent" concept closely.
RATINGS	BTA Bank has a long-term foreign currency rating of Ba1 from Moody's and a credit rating of BB from Standard & Poor's.

National Industries Group US$1.5 billion Sukuk

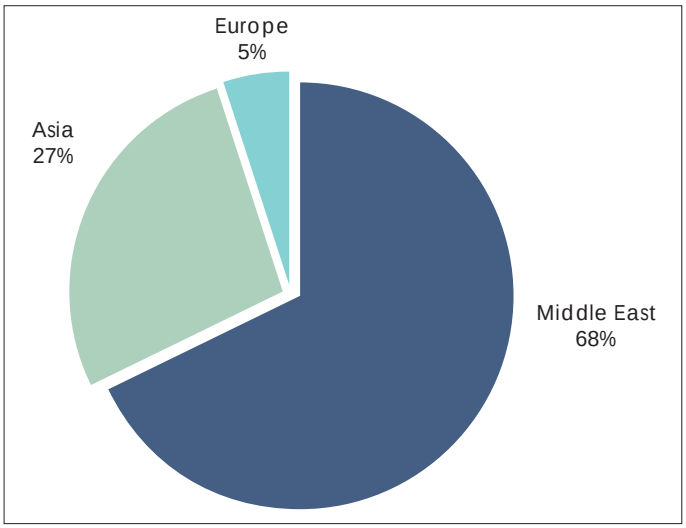
In August 2007, the first Sukuk program in Kuwait was established for National Industries Group Holding Company (NIG), one of the largest publicly traded companies listed on the Kuwait Stock Exchange and the second-largest conglomerate in the Middle East.

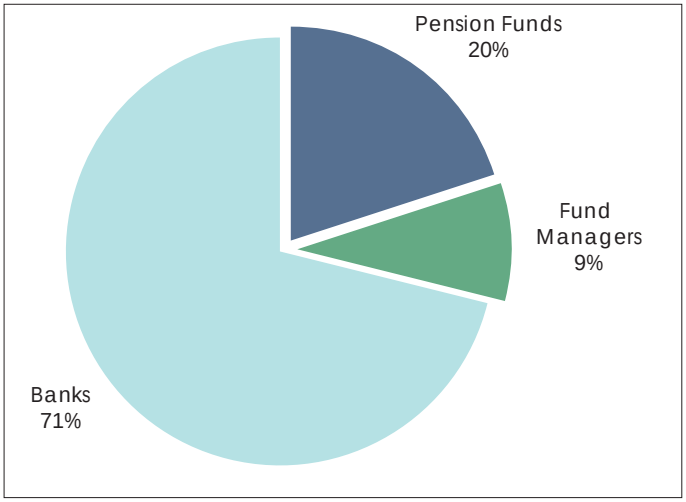
The US$1.5 billion program was structured in compliance with Shariah principles. The inaugural issuance under the program was for US$475 million and carried a five-year tenor.

Standard Chartered Bank acted as joint program arranger, joint lead manager and joint bookrunner for the US$475 million Sukuk issuance under the program.

In addition, Standard Chartered Bank also performed the role of joint documentation and structuring bank for the program. The Sukuk was issued on the 16th August 2007.

The US$475 million issuance was launched in highly volatile market conditions where a number of similar deals were being delayed or pulled out. The transaction was ultimately oversubscribed at the pricing of LIBOR + 105bps.





Roadshows for the NIG Sukuk issue were held in Dubai, Bahrain, Hong Kong, Kuala Lumpur, Singapore and London.

The issuance attracted strong investor response from banks (71%), pension funds (20%) and fund managers (9%) and had a widespread geographic reach with 68% of investors from the Middle East, 27% from Asia and 5% from Europe.

THE CLIENT

NIG, based in Kuwait City, is a publicly listed investment holding company with a strong foothold in a multitude of industries spanning numerous sectors, including building materials, specialist engineering, petrochemicals, oil and gas, financial services, utilities and real estate.

In addition to its core operating businesses, NIG continues to manage a diversified investment portfolio ranging from financial to strategic long-term investments.

NIG aims to use the proceeds from the Sukuk issuance to lengthen its debt maturity profile and for the financing of further strategic and financial investments.

The group has been assigned a foreign currency issuer rating of "Baa2" with a stable outlook by Moody's. The rating reflects the strong asset coverage provided from the group's existing portfolio of well-diversified investments, and a general track record of prudent financial management.

In August 2006, NIG was ranked first in Kuwait and fifth among the top 50 performing listed Arab companies in "*Forbes Arabia*'s 50 Best Companies List".

For the financial year 2006, NIG achieved a net profit of KWD141.9 million (US$534 million). The group's assets totaled KWD1.46 billion (US$5.5 billion) as at the 31st December 2006, while capital amounted to KWD833 million (US$3.13 billion).

PROGRAM STRUCTURE

The Sukuk was structured as a Sukuk Mudarabah. A Mudarabah is a "partnership in profit" akin to a non-discretionary investment management arrangement.

It involves Rab al maal (investors) placing funds with the Mudarib (fund manager) to generate returns from identified investments.

The Mudarabah structure used in the Sukuk combined the use of: (i) master Mudarabah agreement; (ii) purchase undertakings; and (iii) sale undertaking.

continued...

NIG US$1.5 billion Sukuk *(continued...)*

A special purpose vehicle (SPV) was formed for and on behalf of the investors which, from time to time, would issue Sukuk certificates to investors. The SPV obtained funding from investors pursuant to a program agreement and master trust feed.

The SPV, acting on behalf of the Sukuk holders, and in its capacity as the Rab al Maal, appointed NIG as the Mudarib to invest the capital of the Mudarabah in accordance with an agreed investment plan prepared by the Mudarib.

The SPV, as Rab al Maal, entered into a master Mudarabah agreement with NIG wherein, from time to time, the SPV would appoint NIG as the Mudarib to invest the proceeds of each Sukuk issue under the program.

The master Mudarabah agreement governs the overall relationship between the Rab al Maal and the Mudarib. At the time of each Sukuk issue under the program, NIG, as the Mudarib, would enter into a supplemental Mudarabah agreement with the SPV, as Rab al Maal, on the basis of the supplemental Mudarabah agreement annexed to the master Mudarabah agreement.

"The Mudarib may commingle the Mudarabah assets with the assets of NIG, provided the Mudarabah accounts clearly distinguish between the Mudarabah assets and the assets owned by NIG"

On the closing date of each Sukuk issue under the program (Sukuk issue date), the SPV, as Rab al Maal, would apply the proceeds of the Sukuk as the capital of the Mudarabah, constituted by the Rab al Maal and NIG as Mudarib. The Mudarib would invest the capital of the Mudarabah in accordance with an agreed investment plan, which will provide that such capital be invested in Shariah compliant activities, including investments in the Mudarib's business activities.

All of the assets of the Mudarabah, including all assets acquired after, from or through the investment of such capital shall be assets of the Mudarabah (the Mudarabah assets). The Mudarib may commingle the Mudarabah assets with the assets of NIG, provided the Mudarabah accounts clearly distinguish between the Mudarabah assets and the assets owned by NIG.

NIG, as obligor, would take reasonable steps to ensure that, at any time, the value of the Mudarabah assets and the profit generated by those assets are quantifiable.

The Mudarib shall distribute the profit generated by the Mudarabah to the Rab al Maal and the Mudarib in accordance with the pre-agreed profit-sharing percentages as defined in the supplemental Mudarabah agreement.

The SPV, in its capacity as the Rab al maal, shall apply its share of the profit generated by the Mudarabah to distribute the profit payments to the Sukuk holders.

NIG, in its corporate capacity and having evaluated the anticipated return and commercial benefit it will receive in acquiring the Mudarabah assets, will execute a purchase undertaking in favor of the SPV. The purchase undertaking is neither a guarantee from NIG nor an undertaking to purchase the Rab al Maal's Mudarabah units in the Mudarabah.

Under the purchase undertaking, NIG undertakes that upon the SPV exercising its option to oblige NIG to purchase all or, as applicable, the relevant proportion of the SPV's rights, benefits and entitlements in and to the Mudarabah assets, NIG shall purchase the same, with settlement in cash based on a pre-determined sale price, on the relevant exercise date following the exercise of purchase undertaking by the SPV.

Standard Chartered

This case study was written by Ahsan Ali, director of Islamic Origination. He can be contacted at +971 4508 3174 or via email at ahsan.k.ali@standardchartered.com

TERMSHEET

National Industries Group

INSTRUMENT	Sukuk Mudarabah
ISSUER	National Industries Group Sukuk, incorporated in the Cayman Islands
OBLIGOR	National Industries Group Holding Company
PRINCIPAL ACTIVITY	Investment holding company
PROGRAM SIZE	US$1.5 billion
DATE OF ISSUE	16th August 2007
ISSUE PRICE	US$475 million
MATURITY	Periodic distribution date falling in, or nearest to, August 2012
COUPON	3-month LIBOR + 105 bps pa
PAYMENT SCHEDULE	Quarterly
JOINT ARRANGERS	BNP Paribas, Citi, NBK Capital, Standard Chartered Bank and WestLB
JOIN BOOKRUNNERS	BNP Paribas, Citi, NBK Capital, Standard Chartered Bank and WestLB
LEGAL COUNSEL	Allen & Overy (English law); Law Office of Bader Saud Al-Bader & Partners (Kuwait law); Al-Sarraf & Al-Ruwayeh (Kuwait Law)
TRUSTEE	National Industries Group Sukuk, incorporated in the Cayman Islands
SHARIAH ADVISERS	Shariah boards of StanChart and Citi Islamic Investment Bank
METHOD OF ISSUE	Reg S issue listed on the London Stock Exchange
PURPOSE OF ISSUE	General corporate purposes
RATINGS	Baa2 (stable) by Moody's

Maybank US$300 million Subordinated Capital Sukuk

Malayan Banking (Maybank, rated AAA by Rating Agency Malaysia, Baa1 by Moody's, BBB+ by Fitch IBCA and BBB by Standard & Poor's) was established in 1960 and was listed on the Malaysian stock exchange, Bursa Malaysia, in 1962.

It had a market capitalization of over RM45.6 billion (US$14.4 billion) as at the 26th February 2008. Malaysia's largest financial services group offers a full range of services in commercial banking, investment banking, Islamic banking, insurance and Takaful, and fund management.

The transaction was jointly arranged and managed by Aseambankers Malaysia (Aseambankers), the investment banking arm of Maybank Group. Aseambankers identifies, structures and executes diverse and innovative public and private market transactions including mergers and acquisitions, divestitures, corporate restructuring, issuance of equity or debt capital, or a combination of these.

TRANSACTION OVERVIEW

After executing Maybank's RM1 billion (US$316.6 million) Islamic subordinated debt issuance (the world's first and the largest ringgit subordinated debt) in 2005, Aseambankers successfully brought another major landmark transaction to Maybank.

In April 2007, Aseambankers was appointed to jointly arrange and manage, on behalf of Maybank, the issuance of the world's first Islamic US dollar subordinated bank capital Sukuk for US$300 million (US$ subordinated Sukuk) — a significant milestone for global Islamic debt capital that added depth to the Malaysian Islamic capital market (ICM) in line with the government's aspirations to promote ICM.

The issuance was jointly lead managed by Aseambankers, The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit, Labuan and UBS (Labuan branch) acting through its business group, UBS Investment Bank.

The purpose of the financing program was part of Maybank's ongoing capital base substitution exercise to further improve its overall cost of capital through re-balancing of its capital structure. The issuer for the transaction was MBB Sukuk Inc, a special purpose vehicle incorporated solely for the purpose of participating in the transactions with limited liability in Labuan, Malaysia.

The US$ subordinated Sukuk was structured on a 10 non-call, five-year basis and qualified as Tier-2 Capital under the existing capital adequacy regulations for Maybank.

As this was a subordinated issue, the ratings assigned were Baa1 by Moody's Investor Services, BBB+ by S&P's Rating Services and also BBB+ by Fitch Ratings. Proceeds raised from the US$ subordinated Sukuk were used to finance Maybank Group's Islamic banking operations and for general Islamic banking purposes. Maybank also intended to use the proceeds to refinance the existing conventional US$ subordinated notes.

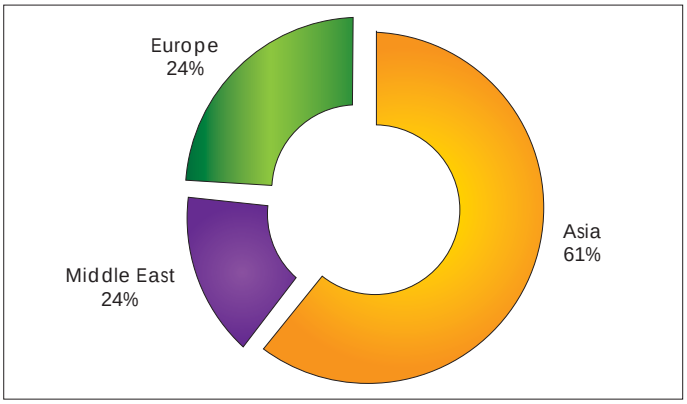
A focused investor road show strategy as well as Maybank's sound credit technical were key to distribution success. Led by president and CEO Datuk Amirsham A Aziz, Maybank's management team carried out comprehensive international road shows ahead of issuing the Sukuk, which began in Singapore on the 12th April 2007, before proceeding to Hong Kong on the 13th April, the Middle East on the 15th and 16th April and London on the 17th April, which yielded impressive results.

The offer for the US$ subordinated Sukuk received overwhelming response from international investors, resulting in over-subscription of more than seven times and amassed over a US$2.3 billion order book with a total of about 75 high-quality investors participating.

Strong appetite came from international investors across Asia (61%), the Middle East (15%) and Europe (24%). The US$ subordinated Sukuk were also offered outside the US to non-US persons in accordance with Regulation S under the United States Securities Act of 1993.

INVESTOR DISTRIBUTION PROFILE

The deal was a challenging one and involved complex commercial and legal issues, both from a bank regulatory capital and Islamic financing perspective. This landmark transaction achieved a number of pricing benchmarks, including the world's first Islamic US$ subordinated bank capital Sukuk.



It also achieved the tightest pricing ever achieved on a US$ issue from Malaysia to date and the second tightest pricing ever for a US$ sub-debt bank issue from Asia (ex-Japan).

continued...

Maybank Subordinated Capital Sukuk *(continued...)*

Globally, the US$ subordinated Sukuk achieved the tightest pricing ever for a US$ Sukuk (excluding supranational issuers).

FINANCING PLAN AND STRUCTURE

(a) At Inception

The US$ subordinated Sukuk financing structure entailed establishment of two special purpose vehicle (SPV) companies incorporated in Labuan solely for the purpose of facilitating and ensuring the proposed Islamic financing structure is in compliance with the Shariah standards set by the Shariah scholars in the Gulf Cooperation Council (GCC) countries.

The GCC's Shariah board also required that both the SPVs were orphan companies, i.e. not owned by Maybank.

Under the transaction, Maybank transferred beneficial ownership interests in a portfolio of assets (Sukuk assets which comprised Islamic financial assets such as Ijarah Islamic assets or other acceptable Shariah compliant assets).

MBB Sukuk would then issue the US$ subordinated Sukuk to investors, and proceeds from the issuance would be utilized to finance the purchase of the Sukuk assets. As the seller of the Sukuk assets, Maybank would then utilize these Sukuk proceeds to fund its Islamic finance operations or business activities.

The beneficial interest in the Sukuk assets shall be ultimately transferred in favor of MBB Sukuk, while the legal ownership should remain at Maybank. In essence, the sale and purchase of the Sukuk assets only reflected the transfer of the beneficial ownership and there would not be any physical movement of these Sukuk assets.

This effectively meant the MBB Sukuk held the Sukuk assets on trust for the benefit of the Sukuk holders who should also be the beneficial owners of the undivided fractional ownership of the Sukuk assets.

MBB Sukuk, under a management agreement, would appoint Maybank as a manager/wakeel to manage the Sukuk assets and payment agent for all collections related to the Sukuk assets and would then use these periodic payments as periodic Sukuk payments.

The US$ subordinated Sukuk incorporated a deed of purchase undertaking and deed of sale undertaking. Pursuant to the purchase undertaking issued in favor of MBB Sukuk, Maybank was required to purchase the US$ subordinated Sukuk upon maturity of dissolution for a price equivalent to outstanding principal, plus profits accrued and unpaid.

Conversely, MBB Sukuk would issue a sale undertaking in favor of Maybank granting Maybank the rights to purchase the US$ subordinated Sukuk at a prescribed price based on the agreed redemption date.

(b) Ongoing

Maybank, in its capacity as manager, would collect any payments from the Sukuk assets. MBB Sukuk would forward

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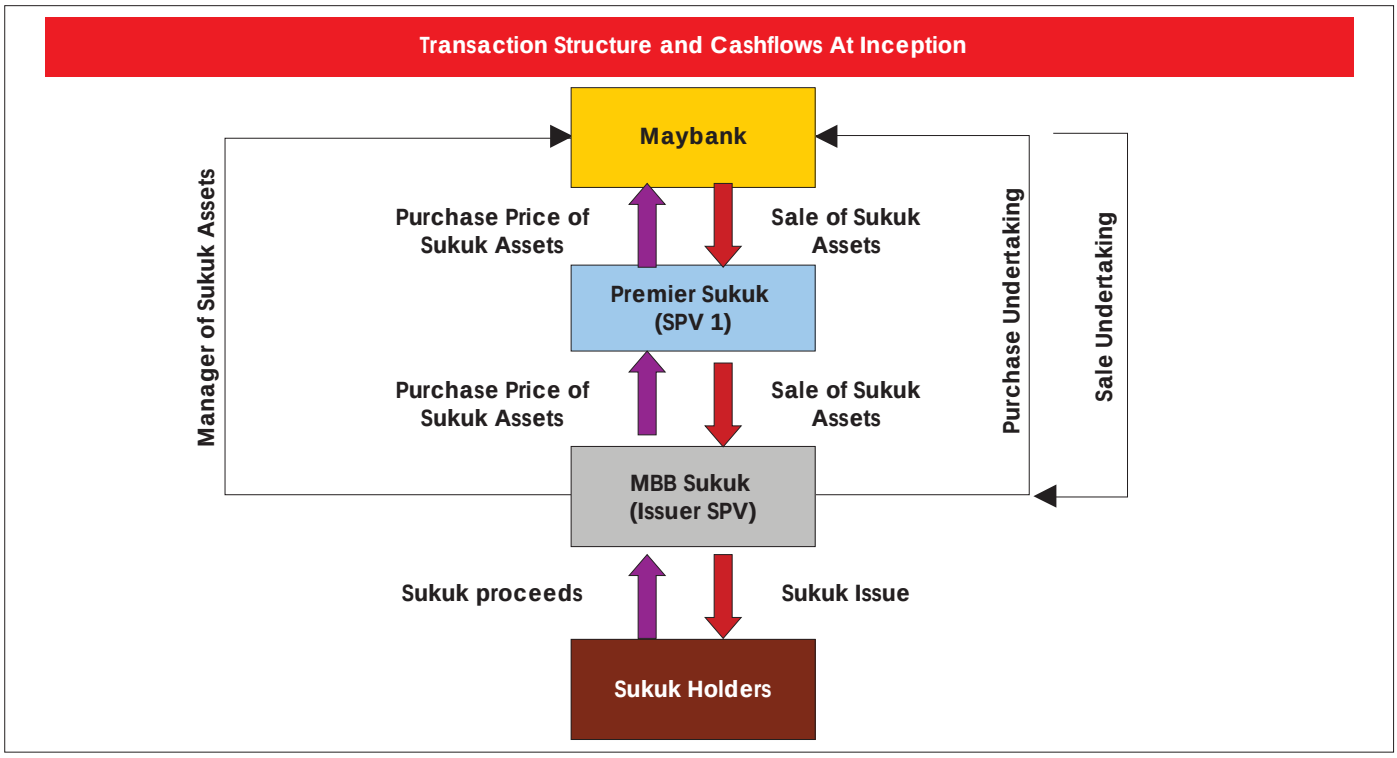


Maybank Subordinated Capital Sukuk *(continued...)*

these payments to Sukuk holders as periodic payments (profits). Any surplus income would be retained by Maybank as their fees. Any mismatch in the periodic payment would be financed by Maybank via a Shariah compliant liquidity facility pursuant to the management agreement.

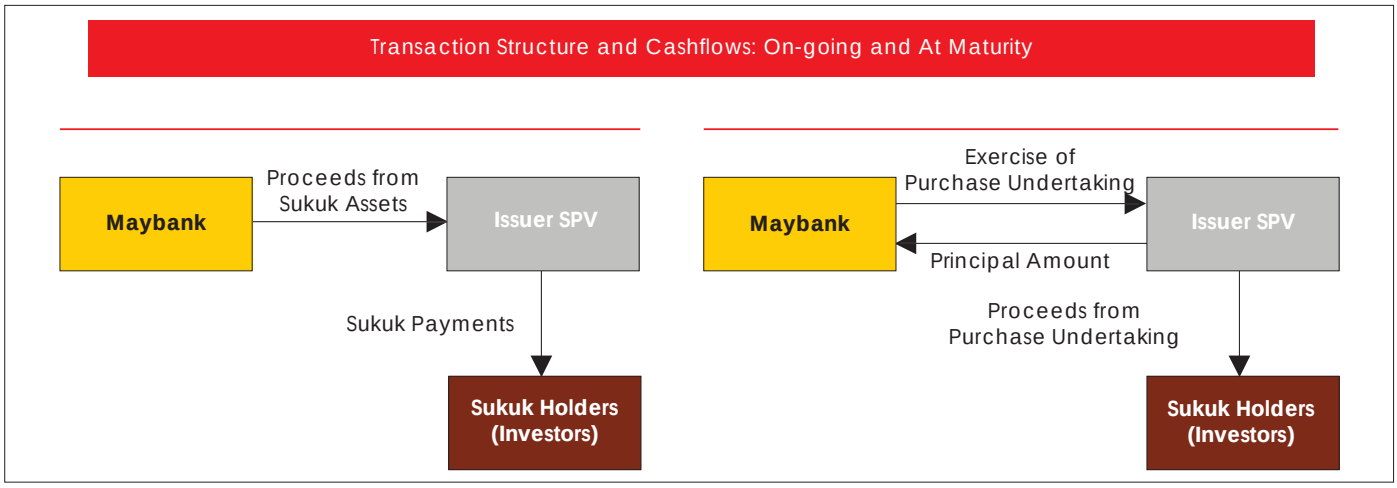
(c) At maturity
On maturity date, under the terms of the deed of purchase undertaking, Maybank would undertake to acquire the Sukuk assets at their principal value, either at maturity date or upon an event of dissolution. MBB Sukuk would then utilize the proceeds from the sale of the Sukuk assets to repay the principal of the Sukuk to the Sukuk holders.

ACHIEVEMENTS

The objectives and achievements for the issuances of the US$ subordinated Sukuk:

- An internationally Shariah compliant structure guaranteed access to a wider investors' base. Hence, funds were raised at competitive rates which in turn translated into lower overall financing costs for Maybank;
- The internationally Shariah compliant structure also enhanced Maybank's profiling among international investors;
- Fully supported the government of Malaysia's objective to make the country an international financial center through issuing an internationally accepted debt instrument.

Aseambankers This case study was written by Aseambankers Debt Capital Markets Team.



MBB Sukuk Inc

INSTRUMENT	US$300 million subordinated certificates due 2017 callable with step-up in 2012 with subordinated recourse to Malayan Banking
ISSUER	MBB Sukuk Inc; a special purpose company incorporated in Labuan
PRINCIPAL ACTIVITIES	Formed solely for the purpose of issuing the subordinated certificates and participating in the transactions contemplated by the transaction documents
LISTING	Labuan International Financial Exchange Inc (LFX) and Singapore Exchange Securities Trading Limited (SGX-ST)
FORMAT	Regulation S
ISSUE SIZE	US$300 million
DATE OF ISSUE	18th April 2007
MATURITY	25th April 2017, callable at par on 25th April 2012
PERIODIC DISTRIBUTION	Paid semi-annually
PRICE	100%
STEP-UP MARGIN	1.33% per annum
PAYMENT SCHEDULE	Bullet
IDENTIFIED ASSETS	Beneficial ownership interests in certain Hire-Purchase Contracts of Maybank (the "Obligor").
JOINT LEAD MANAGERS / JOINT BOOKRUNNERS	Aseambankers Malaysia Berhad; The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit, Labuan; and UBS AG, Labuan Branch
LEGAL COUNSEL	1. Allen & Overy, Shook Lin & Bok (To the issuer — English law) 2. Zul Rafique and Partners (To the issuer — Malaysian law) 3. Linklaters Allen & Gledhill (To the joint lead managers and International trustee — English law) 4.Zaid Ibrahim & Co (To the joint lead managers and the Labuan trustee — Malaysian law)
TRUSTEES	International Trustee The Hongkong and Shanghai Banking Corporation Limited Labuan Trustee Portcullis TrustNet (Labuan) Limited
SHARIAH ADVISERS	1. HSBC Amanah Shariah Committee 2. UBS Sharia Advisory Council
METHOD OF ISSUE	The world's first Islamic USD subordinated bank capital Sukuk was issued by means of an international book-building exercise
PURPOSE OF ISSUE	The gross proceeds of the issue of the subordinated certificates will be used by the issuer to purchase the portfolio assets from the obligor through an SPV, i.e. the beneficial ownership interests in such portfolio assets. The obligor will then use the proceeds it receives to finance the group's Islamic banking operations and for general Islamic banking purposes.
RATINGS	The subordinated debt which was over-subscribed by more than seven times was rated: 1. Baa1 by Moody's Investor Service; 2. BBB+ by Standard & Poor's Rating Services; and 3. BBB+ by Fitch Ratings Ltd.

Engro Chemical Pakistan US$150 million Project Finance Facility

THE COMPANY AND ITS BUSINESSES

Engro Chemical Pakistan is a public limited company listed on the stock exchanges of Karachi, Lahore and Islamabad. It was incorporated in 1965 as Exxon Chemical Pakistan.

In 1991, when Exxon decided to divest its fertilizer business on a global basis, its employees, in partnership with leading international and local financial institutions, bought out Exxon's equity. The company was renamed Engro Chemical Pakistan.

While Engro's primary business line continues to be fertilizer, it has diversified into other businesses, including dairy products, seeds, energy, storage of bulk liquid chemicals, and manufacture of polyvinyl chloride (PVC).

THE PROJECT

On the 11th December 2006, Engro Chemicals was allocated 100 MMCFD (million cubic feet per day) gas from the Qadirpur gas field, to be delivered via a pipeline constructed by Sui Northern Gas Pipeline Company. Engro was to construct a modern urea plant (the project) on the land adjacent to its existing plant location in Dharki. The project cost is US$950 million — the largest private sector project in Pakistan's history. With a capacity of 1.3 tpa, the new plant will be the single largest urea plant in the world when it comes online in 2010, thereby making Engro the largest fertilizer producer in Pakistan.

The project will allow Engro to leverage on its expertise and utilize its well-established distribution network, with the result of increasing market share which will afford it greater pricing power.

TRANSACTION STRUCTURE AND DOCUMENTS

The transaction was structured as an Istisna-Ijarah.

Investment agency agreement: The financiers appoint one of their own as investment agent to be the nominal owner of the financiers' undivided interest in the project, to receive rentals from the company, and to send and receive notices to/from the company.

Istisna agreement: The investment agent appoints Engro as a procurer to procure an undivided percentage interest in the project and to deliver such ownership interest on a

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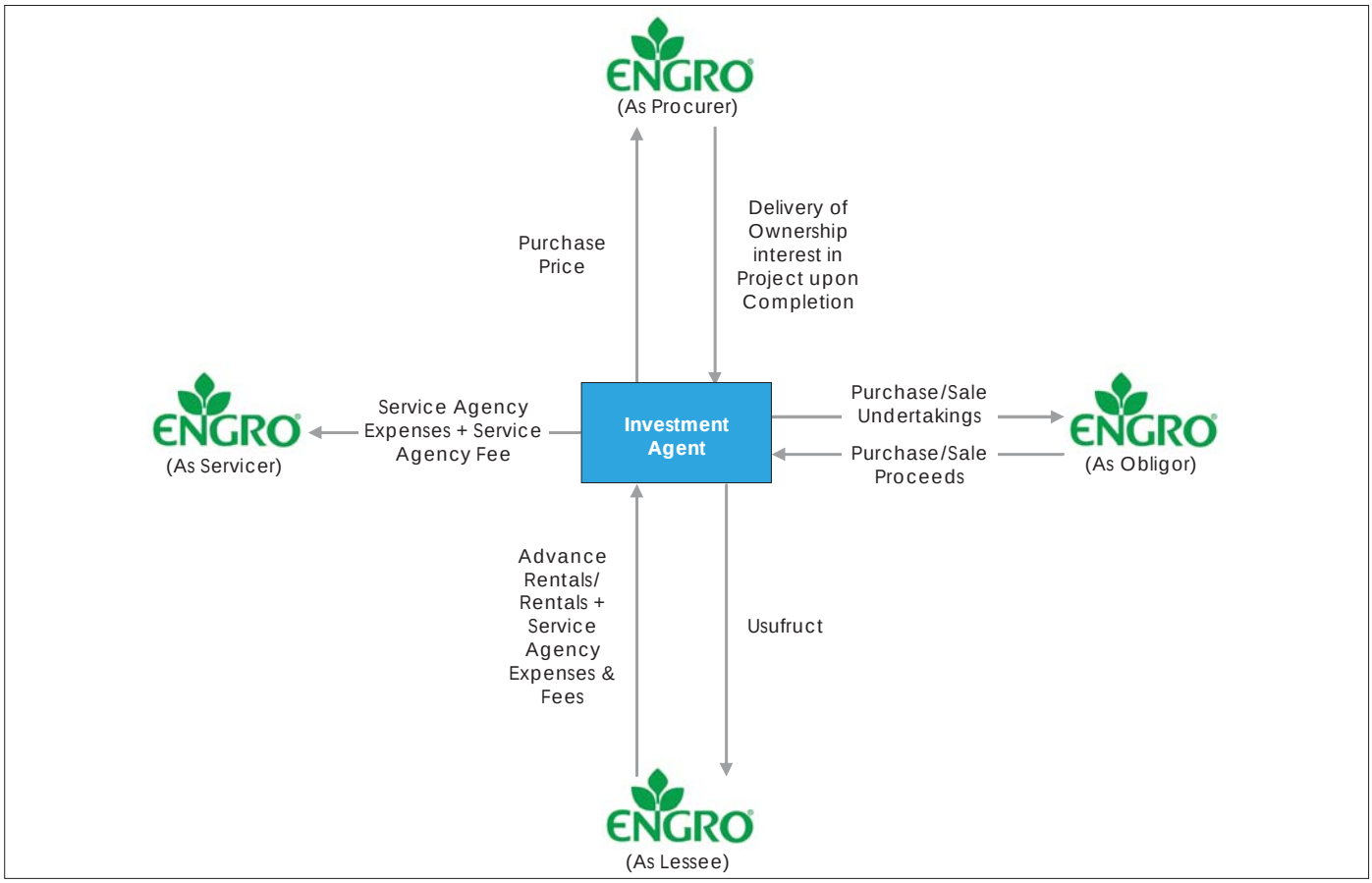

Engro Chemical Pakistan *(continued...)*

future date to the investment agent. Under the agreement, the company shall request the investment agent to make periodic "stage payments" to finance the procurement and construction of the project.

Forward lease agreement: The investment agent undertakes to lease its undivided interest in the project to the company upon completion of construction. During the construction period, the company shall pay advance rentals to the investment agent, which are formula-driven and benchmarked to LIBOR.

Post-completion, the lease will begin and the company shall pay actual rentals to the investment agent. Rentals consist of: (i) a fixed element equal to the aggregate of the stage payments; and (ii) a variable element benchmarked to LIBOR.

Service agency agreement: The investment agent appoints the company to maintain and service the project once complete.

Sale undertaking: The investment agent provides the company a unilateral sale undertaking, under which it undertakes to sell to the company all or part of its interest in the project under certain circumstances. The exercise price is benchmarked to the unpaid fixed rentals.

Purchase undertaking: The company provides the investment agent a unilateral purchase undertaking, under which it undertakes to purchase from the investment all or part of its interest in the project upon maturity or the occurrence of a dissolution event. Again, the exercise price is benchmarked to the unpaid fixed rentals.

This case study was written by Faisal Fazli, Global Islamic Banking, Citi. He can be contacted at +971 4509 9774 or via email at faisal.fazli@citi.com

Engro Chemical Pakistan

INSTRUMENT	Istisna facility
ISSUER	Engro Chemical Pakistan
PRINCIPAL ACTIVITIES	Fertilizers producer in Pakistan
BOARD OF DIRECTORS	Hussain Dawood — Chairman Asad Umar — CEO Shazada Dawood Arshad Nasarr Isar Ahmad Asif Qadir Khalid Siraj Subhani Khalid Mansoor Ruhail Mohammad Shabbir Hashmi
DATE OF LISTING	NA
ISSUE SIZE	US$150 million Islamic facility arranged with participation from local as well as international banks
DATE OF ISSUE	Agreement signed on the 28th September 2007
MATURITY	27th September 2014
COUPON	6-month LIBOR + 257 bps
PAYMENT SCHEDULE	Roughly equal amortization commencing in month 42
AUTHORIZED PAID-UP CAPITAL	PKR5.9 billion (US$94 million), inclusive of share premium of PKR3.9 billion (US$62 million)
IDENTIFIED ASSETS	1.3 tpa fertilizer plant to be constructed at Dharki (the project)
ARRANGERS AND BOOKRUNNERS	Citi Standard Chartered Bank Dubai Islamic Bank National Bank of Pakistan Habib Bank Limited Samba Financial Group
LEGAL COUNSEL	Lovells (arrangers) Haidermota & Co (obligor)
GUARANTOR	NA
SHARIAH ADVISERS	Sheikh Nizam Yaquby Dr Mohammed El Gari Dr Nazih Hammad Sheikh Hussain Hamed Hassan
METHOD OF ISSUE	NA
PURPOSE OF ISSUE	To finance the project
RATINGS	NA
DIVIDEND PER UNIT	NA

Derindere Turizm Otomotiv San Tic US$60 million Murabahah

The US$60 million Islamic financing for Derindere Turizm Otomotiv San Tic (Derindere), which concluded last November, was a landmark transaction for the Turkish Islamic financing market in many respects.

It is the first five-year syndicated Islamic financing for a Turkish company, the largest syndicated Islamic financing for a company from the Turkish commercial banking segment in Turkey to date, and the first international financing for Derindere. The financing was arranged by Citi.

A remarkable aspect was that it was significantly oversubscribed in syndication despite having a relatively long tenor of five years. Hulusi Horozoglu, vice-president of global Islamic banking for Citigroup Global Markets, said the syndication was oversubscribed by 75% and the final size of the financing facility had to be scaled back to US$60 million on a pro rata basis at the request of Derindere.

Citibank distributed the syndication to a diversified group of financial institutions in the Middle East, North Africa and Europe. All of these represented new investors for Derindere.

In addition to the Islamic financing, a Shariah compliant currency hedging transaction (a US dollar/euro cross-currency type swap) was also executed for the full facility amount. Derindere obtained synthetic euro financing in order to fund the purchase of vehicles, which is made mostly in euros. Citi was the Islamic hedging counterparty, and this is the largest Islamic hedging transaction executed in Turkey to date.

Citi Islamic Investment Bank was the documentation agent and its Shariah Advisory Board approved the financing structure (together with the related finance documents).

FINANCING STRUCTURE AND DOCUMENTATION

The Islamic financing for Derindere was structured as a commodity Murabahah. Principal documentation comprised a commodity Murabahah agreement and an investment agency agreement.

The commodity Murabahah agreement was entered into between Derindere and Citibank International, acting as the investment agent. Parties to the investment agency agreement were the financiers, the investment agent, the security agent (Citibank), the documentation agent and Derindere.

Under the commodity Murabahah agreement, the investment agent agreed to purchase certain Shariah compliant commodities at the request of Derindere from a commodities broker.

Immediately after purchasing the relevant commodities, the investment agent would sell them to Derindere at a mark-up and on deferred payment terms.

Derindere would then appoint the investment agent as its undisclosed agent solely for the purposes of on-selling the commodities on a spot basis and crediting the proceeds to a US dollar-denominated blocked account (see "Blocked accounts and LTV-style covenant" for more details on the use of blocked accounts).

The investment agent and Derindere could only enter into a single Murabahah trade for the purchase of commodities by Derindere under the terms of the commodity Murabahah agreement and the marked-up deferred price would be payable by Derindere in instalments over five years.

Under the investment agency agreement, the financiers agreed to fund the aggregate cost price of the commodities purchased by the investment agent at the request of Derindere. In return, each financier would be entitled to its share in the marked-up deferred price payable by Derindere under the commodity Murabahah agreement.

The investment agency agreement also set out the appointments of the investment agent and the security agent as well as the terms governing the relationship between the various finance parties.

Both the commodity Murabahah and investment agency agreements were governed by English law and Allen & Overy LLP acted as English counsel to the arranger and the other finance parties and Pekin & Pekin acted as Turkish counsel.

BLOCKED ACCOUNTS AND LTV-STYLE COVENANT

One of the distinctive features of the Derindere Islamic financing was the use of a blocked accounts structure. Under the terms of the financing, Derindere was to open three blocked accounts with Citibank in Turkey, which were all pledged to the security agent under an accounts pledge governed by Turkish law.

Each blocked account was denominated in a different currency: one in US dollar, the second in euro and the third in new Turkish lira.

The proceeds of the commodities on-sold by the investment agent as Derindere's undisclosed agent (the Murabahah proceeds) would be deposited into the US dollar denominated blocked account first.

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Derindere US$60 million Murabahah *(continued...)*

These funds were earmarked for use by Derindere mainly for purchasing vehicles to add to its fleet of vehicles for sale or lease to Derindere's customers.

Once the Murabahah proceeds were deposited into the US dollar denominated blocked account, Derindere would be free to move these funds into the euro and/or new Turkish lira denominated blocked accounts in order to fund the purchase of the relevant vehicles, subject to compliance with a loan-to-value (LTV)-style covenant.

Under the LTV-style covenant, the outstanding principal amount of the marked-up deferred price payable by Derindere could not exceed a certain specified percentage of the value of vehicles pledged by Derindere as security for its obligations under the finance documents.

For the purpose of determining compliance with the LTV-style covenant, the aggregate funds standing to the credit of the blocked accounts were deducted from the principal amount outstanding of the marked-up deferred price.

The valuation of the secured vehicles for the purposes of the LTV-style covenants would be based either on their purchase price (for new vehicles) or by reference to the relevant market values determined by the Association of the Insurance and Reinsurance Companies of Turkey (in the case of older vehicles).

The application of the LTV-style covenant was suspended for a certain period during the initial period of the facility. This was to enable Derindere to use the Murabahah proceeds to purchase the relevant vehicles and pledge them in favor of the security agent.

After making the initial vehicle purchases, the blocked accounts gave Derindere the flexibility to "drip feed" itself the funds to purchase new vehicles as and when it needed to update its fleet without having to enter into any further commodity Murabahah trades.

Derindere was free to choose when, and how much, it could withdraw from the blocked accounts, as long as it remained within the LTV-style covenant following the withdrawal.

From the perspective of the financiers, the blocked accounts structure simplified the administration of the facility as the parties only needed to enter into a single Murabahah trade.

It also meant that the profit element of the marked-up deferred price was determined in full following the first (and only) Murabahah trade.

The financiers could start receiving payments of the profit element even if Derindere chose to delay withdrawing monies from the blocked accounts to fund the purchase of vehicles.

The structure also expanded Derindere's options to remedy any potential breach of the LTV-style covenant. In addition to granting security over additional vehicles or prepaying some of the marked-up deferred price instalments, Derindere had the further option of depositing funds into the blocked account.

For Derindere, this had two advantages:

(i) in contrast to a prepayment, a payment made into a blocked account could be withdrawn again for use in the future; and

(ii) in contrast to providing additional vehicle security, depositing additional funds into the blocked accounts is relatively straightforward and quick.

SECURITY PACKAGE AND PERSONAL GUARANTEE

In addition to vehicle pledges and the blocked accounts, the security package for the financing included an assignment of insurance proceeds in respect of the leased vehicles, an assignment of the vehicle leases and a pledge over a collection account. All of these were also governed by Turkish law.

Derindere was obliged to ensure that payments under the vehicle leases, any insurance proceeds and the proceeds of any vehicles sold were paid into a designated collection account with the security agent.

The payments into the collection account had to show a specified minimum monthly flow as proof of Derindere's ability to make upcoming scheduled payments of the marked-up deferred sale price. Derindere's payment obligations under the financing were guaranteed by one of its principal shareholders.

CONCLUSION

The Derindere Islamic financing demonstrated the growing appetite of Islamic banks and financial institutions to invest in jurisdictions outside the traditional Islamic finance hubs of the Arabian Gulf and Southeast Asia.

The transaction is likely to pave the way for future Islamic financings in the Turkish market, given the success of its syndication.

ALLEN & OVERY This case study was written by Atif Hanif and Robert McCaw. Atif is a senior associate in the banking department of Allen & Overy LLP, specializing in Islamic finance, while McCaw is an associate in the same department. Both are based in the London office of Allen & Overy LLP.

Derindere Turizm Otomotiv San Tic

INSTRUMENT	Syndicated Murabahah
ISSUER	Derindere Turizm Otomotiv San Tic
ISSUER PRINCIPAL ACTIVITIES	Operational fleet leasing business. The company is a leading player in the Turkish fleet leasing industry.
ISSUE SIZE & PRICING	US$60 million
DATE	11th January 2007
ISSUANCES	NA
BOOKRUNNER	Citi
ARRANGERS	Citi
LEGAL COUNSEL FOR ISSUER	NA
LEGAL COUNSEL FOR ARRANGERS	Allen & Overy LLP Pekin & Pekin
GUARANTOR	Ozkan Derindere (personal shareholder guarantee)
TRUSTEE	Security agent: Citibank Turkey
SHARIAH ADVISER	Citi Islamic Investment Bank Shariah Advisory Board
METHOD OF ISSUE	NA
PURPOSE OF ISSUE	Purchase of various passenger motor vehicles for leasing purposes
RATING	None
ROADSHOWS	None
SUBSCRIPTION	75% oversubscription
INVESTORS	Middle East, North Africa and Europe

Aston Martin Lagonda Acquisition: The UK's First Islamic LBO

Last year, The Investment Dar (TID) of Kuwait led a consortium of investors in the acquisition of the iconic Aston Martin Lagonda Group from Ford Motor Company in the UK in a landmark GBP522 million (US$1.04 billion) transaction.

The acquisition was effected through a newly established company, Primrosehaven Limited, subsequently renamed Aston Martin Investments Limited (AMIL).

The transaction marks the largest regional acquisition of a major European corporate by an Islamic investment company.

PRINCIPAL SPONSORS

The equity holders in AMIL comprise TID with a 53.29% stake; ADEEM Investment & Wealth Management (Kuwait, 21%); Stehwaz (Kuwait, 7.5%); Ulrich Bez (UK, 4%); David Richards (UK, 3%); and Sinders Racing (UK, 2%).

The Aston Martin transaction is the first of its kind used to finance the acquisition of a major asset in the UK, and is the first ever leveraged buyout (LBO) to be entirely backed by Shariah compliant debt in the UK. In other words, the entire transaction was structured Islamically.

The fact that Aston Martin is a debt-free company made it easier for investors to Islamicize the financial structure of the company, including future financing needs.

FINANCING STRUCTURE

The transaction value totaled GBP522 million, of which GBP297 million (US$592 million) was financed through equity contributions from the consortium members, and GBP225 million (US$448.6 million) through a syndicated Islamic senior secured acquisition facility.

Ford Motor Company has an ongoing nominal interest in Aston Martin Lagonda Group through a separate class of preferred equity totaling GBP40 million (US$80 million).

The GBP225 million facility, a commodity Murabahah, comprised a two-tranche structure: a GBP200 million (US$399 million) term facility and a GBP25 million (US$50 million) revolving facility.

Under the master facility, WestLB (mandated lead arranger, underwriter and bookrunner), acting as investment agent, signed a Murabahah agreement with Bidco; and an investment agency agreement with the banks participating in the syndication. The facility has a term of eight years and a profit rate of six-months LIBOR + 295 basis points rising to six-months LIBOR + 345 basis points if a put option is not exercised.

The structure contains a put option at the end of year five, allowing the participating banks to demand repayment of the facilities. Under the agreement, the purchaser is allowed to repay the facilities at the end of every rollover period.

CHALLENGES IN STRUCTURING ISLAMIC DEALS UNDER ENGLISH LAW

The consortium encountered several challenges during the structuring of this transaction, including satisfying the legal provisions of the "collective investment scheme" and the so-called Whitewash process under English law.

The main challenge was how to structure the Murabahah financing in a way that was compatible with English law. Under Islamic investment principles, investors prefer to invest directly in assets through a partnership.

However, the consortium along with the Murabahah facility providers could not use TID's pioneering Islamic finance structure — the convertible Musharakah (or partnership) — because it was not cost efficient due to the various restrictions and complications under the collective investment scheme.

The Whitewash, on the other hand, is an English legal process whereby a company (and its subsidiaries) targeted for takeover gives financial assistance to the purchaser, as their assets are used as security against any secondary debt financing facility. Complying with the Whitewash provisions is an exhaustive, time-consuming and complex process.

These include passing a board resolution and memorandum; auditor's statutory reports; shareholders' resolutions and directors' declaration. This process has to be completed within eight weeks of the declaration; otherwise, the purchaser has to reapply for the Whitewash.

FUTURE IMPLICATIONS

The Aston Martin transaction can be converted into a long-term Musharakah (equity participation) structure in due course to effect the expansion of the brand into new export markets such as China, Gulf Cooperation Council countries, India and Russia.

It paves the way for further acquisitions and quality assets through the Islamic LBO and other Shariah compliant structures in the UK and the European Union.

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Aston Martin

INSTRUMENT	Islamic Structure used Commodity Murabaha for Shariah Compliant Senior Secured Acquisition Facilities
ISSUER	Aston Martin Investment Limited
PRINCIPAL ACTIVITIES	Acquisition of Aston Martin Lagonda Group Limited
BOARD OF DIRECTORS	Mahmoud Samy, Amr Abou El Seoud , David Richards, Adnan Al Musallam, Rezam Al Roomi, Mustafa Al Saleh
DATE OF LISTING	Un Listed
ISSUE SIZE	£225 million
DATE OF ISSUE	7th February 2008
MATURITY	5 / 8 years
COUPON	295 bps/345 bps
PAYMENT SCHEDULE	Profit Pay out every six month Principal Payout in the way of 50% of annual surplus cash flow is used to prepay the Facilities throughout the life of the facilities
IDENTIFIED ASSETS	Equity of Austin Marting Loganda Limited
LEAD ARRANGER	West LB
LEGAL COUNSEL	Clifford Chance and DWS
GUARANTOR	Austin Martin Investment Limited
UNDERWRITERS	West LB
TRUSTEE	Not trust base
SHARIAH ADVISOR	Members of Sharia Board of Investment Dar Co. KSCC
METHOD OF ISSUE	Syndication
PURPOSE OF ISSUE	Financing the LBO of Aston Martin Loganda Limited
RATINGS	Un Rated
DIVIDEND PER UNIT	Profit Bearing hence no dividends

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Deals of the Year
2007

Dubai Dinner Photos

Al Nojoom Ballroom, Shangri-La Hotel
Tuesday, 26th February 2008

Deal of the Year
DIFC Investment LLC

Pakistan Deal of the Year
Engro Chemical Project Financing

Djibouti Deal of the Year
Doraleh Container Terminal

Bahrain Deal of the Year
Gulf Finance House Trust Certificates

Turkey Deal of the Year
Derindere Syndicated Murabahah

Jordan Deal of the Year
Queen Alia International Airport

Ijarah & Project Finance Deal of the Year
Red Sea Gateway Terminal Project

Mudarabah & Real Estate Deal of the Year
Aldar Exchangeable Sukuk

Sukuk Deal of the Year
Jebel Ali Free Zone Sukuk

Corporate Finance & Egypt Deal of the Year
Egyptian Fertilizers Company

Innovative & Saudi Arabia Deal of the Year
Mobily Project Financing

Tawarruq Deal of the Year
Mada Leletisalat Acquisition

Structured Finance Deal of the Year
Tamweel Residential ABS Sukuk

Sovereign Deal of the Year
Ras Al Khaimah Investment Authority

Kazakhstan Deal of the Year
Bank TuranAlem Syndicated Wakalah

Kazakhstan Deal of the Year
Bank TuranAlem Syndicated Wakalah

Kuwait Deal of the Year
NIG Holding Sukuk

IPO Deal of the Year
DP World Sukuk Mudarabah

UK Deal of the Year
Aston Martin Acquisition

Qatar Deal of the Year
QREIC Company Sukuk

Islamic Finance news Awards
Deals of the Year
2007

Malaysia Dinner Photos

Emerald Ballroom,
Mandarin Oriental Hotel, Kuala Lumpur
Thursday, 6th March 2008

Malaysia Deal of the Year
MBB Subordinated Capital Sukuk

Best Islamic REIT
Al-Hadharah Boustead REIT

Best Musharakah
KL Sentral Sukuk Musharakah

Best Mudarabah/ Trade Finance
PT Krakatau Steel

India Deal of the Year
SREI Infrastructure Finance Ltd.

Indonesia Deal of the Year
PT Adhi Karya Sukuk Mudarabah

Best Cross-Border/Best Equity
Cherating Capital (Khazanah)

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Best Kuwait Deal

National Industries Group Holding Company S.A.K.

USD475 Million

Trust Certificates Sukuk due 2012

Joint Lead Manager & Bookrunner

August 2007

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Best Structured Finance Deal

Tamweel PJSC

USD220 Million

Residential Asset Backed Securitisation

Joint Lead Manager

July 2007

Islamic Finance news Awards Deals of the Year 2007

Best Pakistan Deal

Engro Chemical Pakistan Limited

PKR3 Billion

Privately Placed Sukuk Issue

Joint Mandated Lead Arranger & Bookrunner

September 2007

Islamic Finance news Awards Deals of the Year 2007

Best Djibouti Deal

Doraleh Containers Terminal SARL

USD263 Million

Syndicated Islamic Project Financing

Joint Mandated Lead Arranger & Joint Financial Advisor

December 2007

EUROMONEY 2008

Euromoney Islamic Finance Awards

Best Project Finance House

2008

EUROMONEY 2007

Euromoney Islamic Finance Awards

Most Improved International Islamic Bank

2007

TM

Telekom Malaysia Berhad

First Islamic Supply Chain Financing Deal

September 2007

Water And Power Development Authority (WAPDA)

PKR8 Billion

Sukuk due 2017

Joint Lead Manager

July 2007

ARCAPITA

Arcapita Bank B.S.C. (c)

USD1.1 Billion

Syndicated Murabaha Facility

Joint Bookrunner & Joint Mandated Lead Arranger

April 2007

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