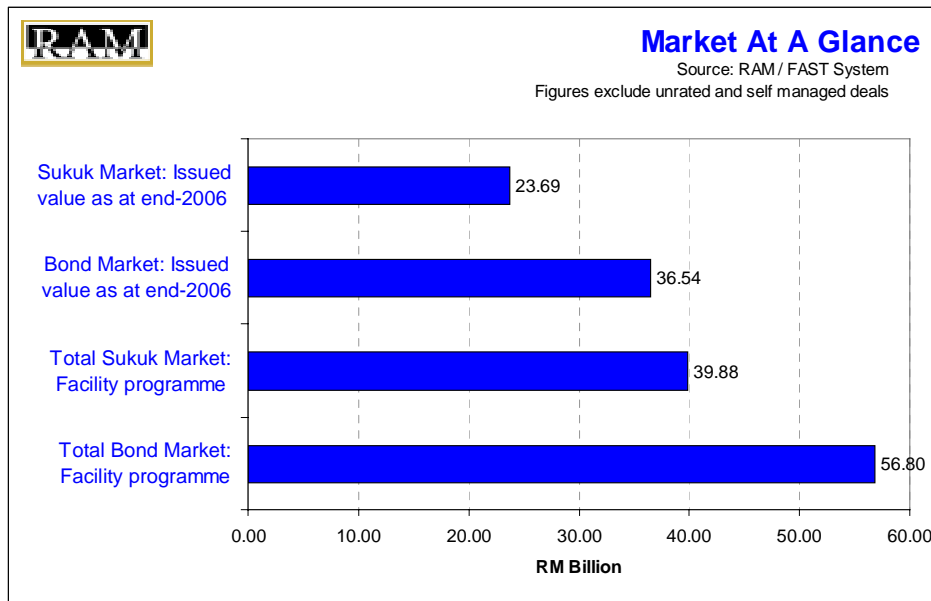


Malaysian Sukuk Market Soared

Rating Agency Malaysia Berhad

The Malaysian sukuk market ended 2006 on a high note. A total of 56 new corporate sukuk deals - with an aggregate value of RM39.9 billion – were announced last year. This accounted for 70% of the domestic market's RM56.8 billion of rated corporate bond issues for the same period. In terms of actual issuance, sukuk accounted for 65% of the entire debt market. Most of the sukuk proceeds had been used to fund new investments, acquisitions or business expansion, as opposed to refinancing.

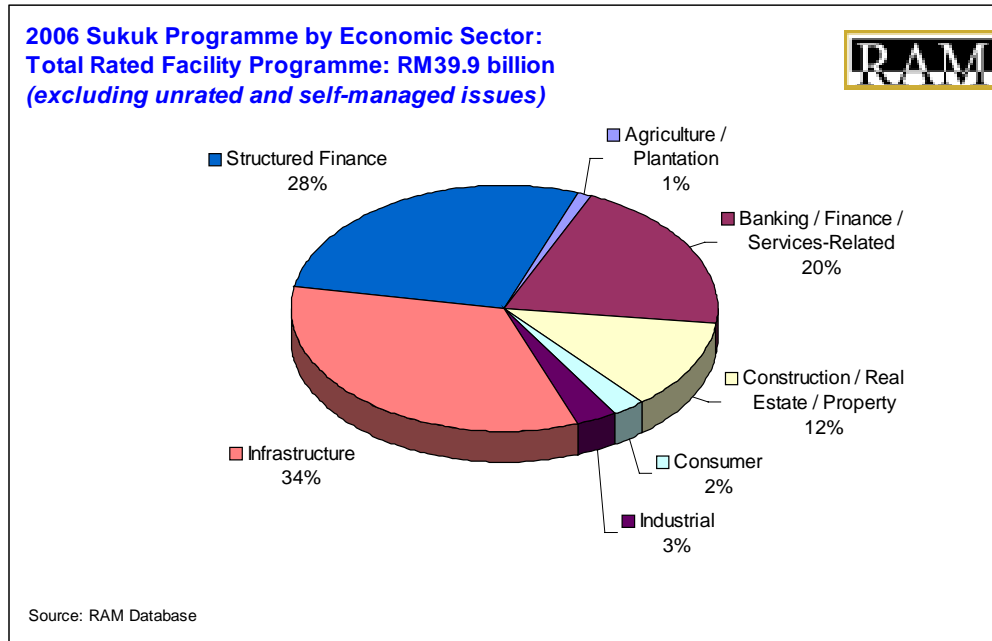


Funding the Economy

Application of Islamic finance was seen across various economic sectors last year. Nonetheless, due to the sheer funding requirements typical of port and highway projects, power plants and telecommunication businesses, the infrastructure sector continued to dominate with a 33%-share. In 2006, the single largest issue from this sector was the RM9.2 billion project-financed sukuk programme by Projek Lebuhraya Utara-Selatan Berhad or PLUS, as it is more commonly known. The structured-finance sector followed with a 28%-share, anchored by the RM10 billion Sukuk Musyarakah originated by Rantau Abang Capital Berhad (“Rantau Abang”), a wholly owned special-purpose vehicle (“SPV”) of Khazanah Nasional Berhad.

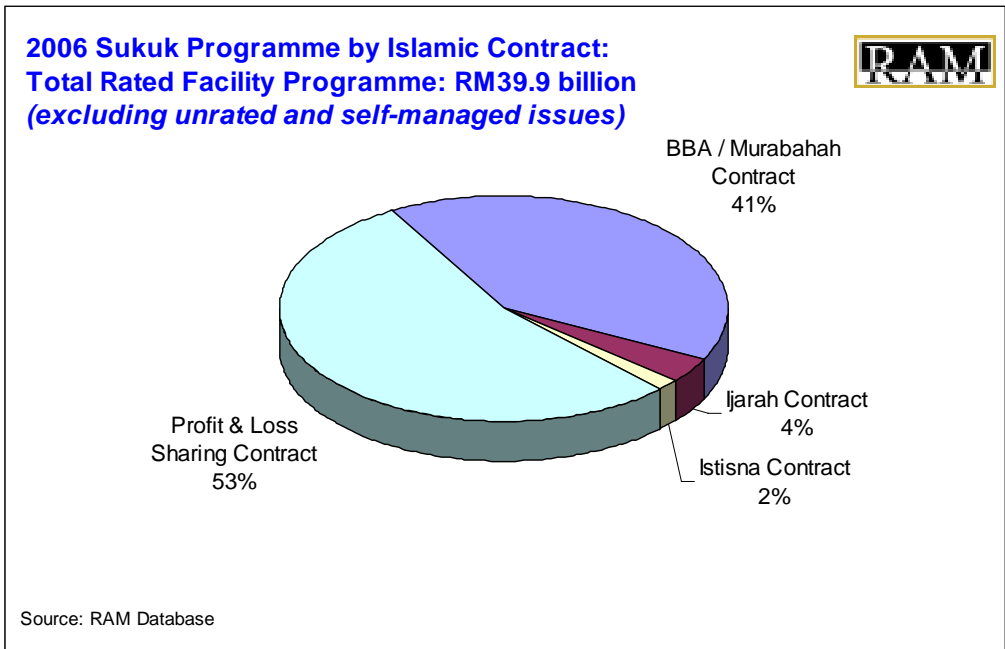
Elsewhere, the fund-raising exercises by the country's primary development bank, i.e. Bank Pembangunan dan Infrastruktur Malaysia Berhad (“BPIMB”), and the largest banking group, i.e. Malayan Banking Berhad (“MBB”), accounted for most of the sukuk originating from the banking sector. Meanwhile, the Sukuk Murabahah of

Malaysian International Shipping Corporation Berhad (“MISC”) was the largest sukuk offering from the services sector.



Changing Structure

There has been a notable shift from debt-based bonds premised on cost-plus-sale agreements or cost-plus production agreements, to lease-based or profit-sharing sukuk. This change may have been partly influenced by the desire to distribute the sukuk outside the established home market, particularly in the Gulf states. It is only natural that products are tailored to meet the requirements and preferences of specific target markets. Each market regulator and institution has its own Syariah board and opinions on permissible structures, which may vary from country to country as well as from one investor group to another. There is now a tendency for Syariah boards to comprise both national and international prominent scholars, qualifying them to address issues and operate across the different schools of thought. The shift in the types of sukuk may have also been encouraged by the additional tax incentives accorded to Islamic securities based on the Mudharabah and Musyarakah contracts, as well as the tax benefits now available to companies that establish SPVs for the sole purpose of undertaking Islamic financing approved by the Securities Commission.



Credit Strength

The Malaysian sukuk market has benefited from having a reference benchmark for credit risks, as the rating of Islamic debt instruments in Malaysia, similar to conventional instruments, has been compulsory since 1992.

In 2006, RAM published the ratings of 24 new corporate sukuk programmes, with an aggregate value of close to RM30 billion, of which RM18.2 billion had already been issued as at the end of the year. Based on issued programmes, the AAA bracket had the highest density, skewed by 2 of the largest sukuk issues in Malaysia’s corporate history, i.e. the RM10 billion Sukuk Musyarakah by Rantau Abang and RM9.2 billion Sukuk Musyarakah by PLUS.

RAM-Rated Sukuk Rating Distribution	
Long-term Instruments	RM Million
A1	175
A2	685
A3	650
AA1	6,145
AA2	895
AA2(s)	130
AA3	965
AAA	20,170
Short-term Instruments	80
Total RAM-Rated Sukuk	29,895

Transaction highlights...

Issuer: Rantau Abang Capital Berhad

- Instrument: RM3 billion Islamic Commercial Paper and Islamic Medium-Term Notes
- Islamic Contract: Musyarakah
- Ratings: AAA / P1
- Lead Arranger: CIMB Investment Bank Berhad
- Trustee: PB Trustee Services Berhad
- Syariah Adviser: CIMB Syariah Committee
- Purpose: The funding programme is to finance Khazanah's investments, in addition to refinancing its borrowings and to be used as working capital.
- The Sukuk Musyarakah was issued in March 2006.

Issuer: Projek Utara-Selatan Berhad (PLUS)

- Instrument: RM2.26 billion Sukuk Musyarakah Series 1, RM2.41 billion Sukuk Musyarakah Series 2 and RM4.5 billion Sukuk Musyarakah Medium-Term Notes Programme
 - Islamic Contract: Musyarakah
 - Ratings: AAA
 - Lead Arranger: CIMB Investment Bank Berhad
 - Trustee: Universal Trustee (M) Berhad
 - Syariah Adviser: CIMB Syariah Committee
 - Purpose: The funding programme is to refinance PLUS's existing debt-based sukuk with the equivalent RM4.67 Sukuk Musyarakah and to be used as working capital.
 - PLUS's adoption of the profit-and-loss-sharing principle is to ensure that the liability side of its balance sheet satisfies the Syariah rulings of the Gulf Cooperation Council (or GCC) markets. This, in turn, would enable PLUS to be endorsed and included in the relevant Islamic global indexes, such as the Dow Jones Islamic Market Index and/or the Foreign Trade Stock Exchange Global Syariah Islamic Index.
 - The Sukuk Musyarakah was issued in October 2006.
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Malaysian Sukuk Market League Table 2006

The RM30 billion of sukuk deals in 2006 had been brought to the market by 18 financial and advisory institutions. Provisional tabulation, based on data collated from Bank Negara Malaysia's FAST information system and the websites of the rating agencies, indicates that CIMB Investment Bank Berhad topped the sukuk league table, with a 59.2%-share. This was followed by AmInvestment Group and Aseambankers Malaysia Berhad, with respective 9.0% and 7.2% shares of the pie.

Malaysian Rated Corporate Sukuk Market League Table of Lead Managers - as at 31 December 2006			
	Nos	Programme Issue (RM Million)	%
CIMB Investment Bank Berhad	15	23,613	59.2%
AmInvestment Group	7	3,600	9.0%
Aseambankers Malaysia Berhad	6	2,869	7.2%
HSBC Bank Malaysia Berhad	5	2,717	6.8%
RHB Investment Bank Berhad	5	1,542	3.9%
RHB Islamic Bank Berhad	3	1,165	2.9%
Alliance Investment Bank Berhad	3	948	2.4%
United Overseas Bank (Malaysia) Berhad	3	790	2.0%
Amanah Short Deposits Berhad	6	674	1.7%
Bank Muamalat Malaysia Berhad	2	417	1.0%
MIDF Amanah Investment Bank Berhad	3	350	0.9%
OCBC Bank (M) Berhad	3	323	0.8%
Hwang-DBS Securities Berhad	1	250	0.6%
Avenue Securities Sdn Bhd	1	200	0.5%
Affin Investment Bank Berhad	3	190	0.5%
OSK Securities Berhad	2	110	0.3%
MIMB Investment Bank Berhad	1	70	0.2%
Affin Bank Berhad	1	50	0.1%
Total Sukuk Market		39,878	
Total Corporate Bond Market		56,796	
<i>The value of consortium issues have been equally divided by the number of lead managers of a consortium</i>			
<i>Figures above exclude non-rated and self-managed bond issues.</i>			
<i>Source : RAM Database / FAST System</i>			



Quick Take on the Malaysian Sukuk Market Going Forward

The growth of the country's sukuk market, at "break-neck" speed, has been nothing less than remarkable. As a pioneer in the Islamic finance industry, Malaysia has set the standard and led the way on many fronts; for example, the empowerment of one regulatory body; a central Syariah advisory council, which facilitates shared understanding and uniformity on Syariah interpretation and permissible structures; a single documentation framework; a robust supervisory structure; established governance and disclosure standards for investor protection; and a progressive tax regime catering to the distinct requirements for sukuk issuance, to name but a few.

With the established and conducive infrastructure and system coupled with growing demand, there is considerable room for Malaysia to expand into other segments of the Islamic financial industry, for instance the Syariah-compliant structured-product market and the Islamic derivatives market, for better dispersion and management of risk – all of which should render the market more efficient and competitive. The

market will also benefit from a shift in the trading mentality of investors, leading to even more dynamic secondary trading and a robust price-discovery device. We would also gain from a bigger pool of professional talents – different skill sets, resources and technology are required for the structuring and execution of more complex sukuk transactions.

We foresee Syariah-compliant financial instruments, sukuk in particular, playing a catalytic role in advancing the growth and development of domestic Islamic bond markets and promoting cross-border issuance and investments, especially the inter-regional flows between Asia and the Middle East.