

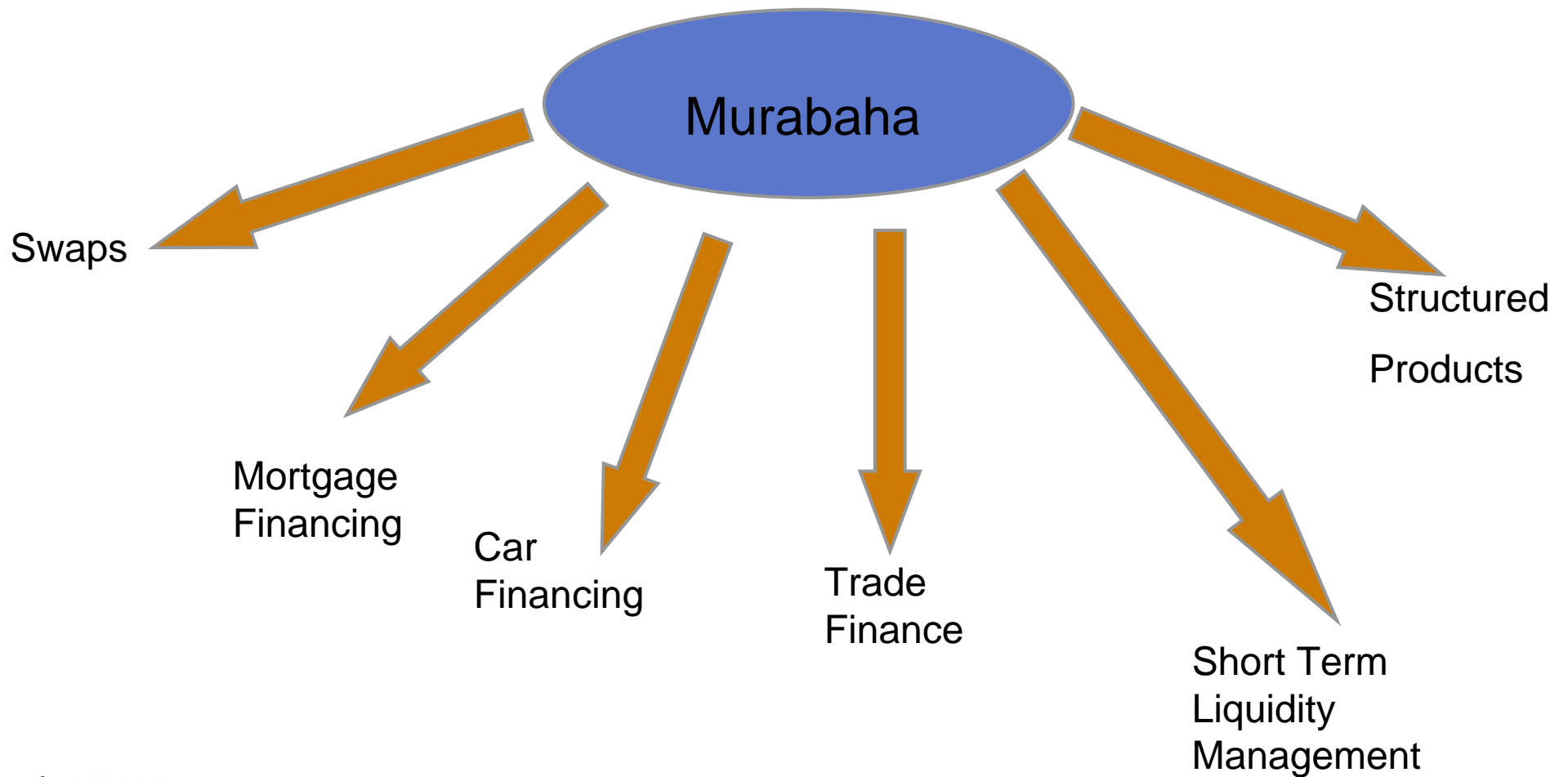
Channelling Liquidity into Islamic Finance

Global Islamic Finance Forum
Mar 2007 - Malaysia



Application of Murabaha Structure

Short Term Liquidity Management leads the way



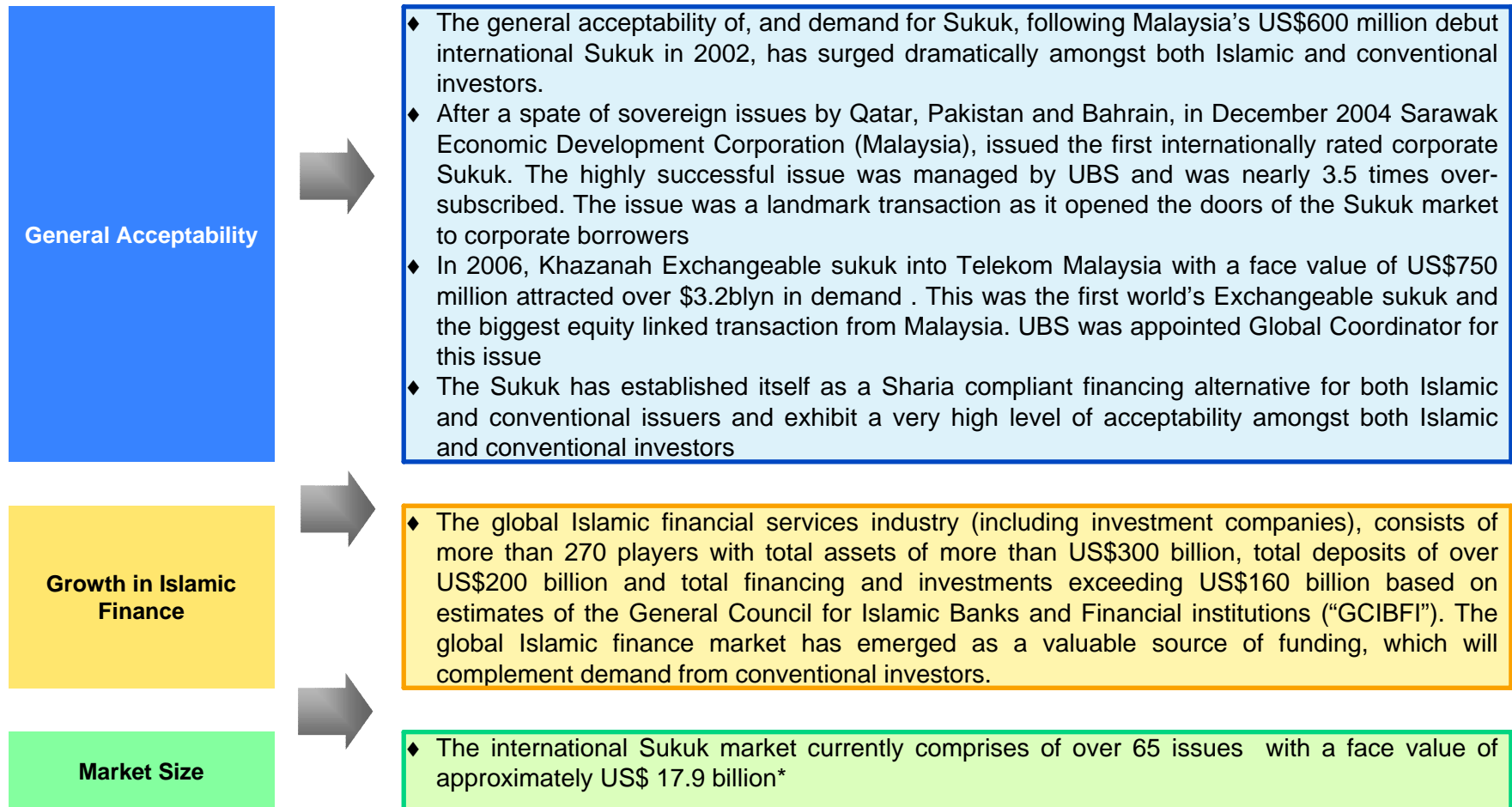
Introduction to Sukuk

Introduction to Sukuk

- Sukuk are tradable Sharia-compliant fixed income securities.
- Sukuk are certificates representing an un-divided proportionate ownership interest in tangible assets (usufruct and services or in the ownership of project assets or special investment activity), with the corresponding right to the Islamically acceptable income stream generated by the assets
- These periodic income streams are established with the ownership of the Sukuk which translate into tradable securities which can be traded at prevailing prices
- The periodic income streams, along with the Sukuk principal are the liabilities of the Sukuk issuer and carry the credit risk of the underlying Obligor

Developments in the Sukuk Market

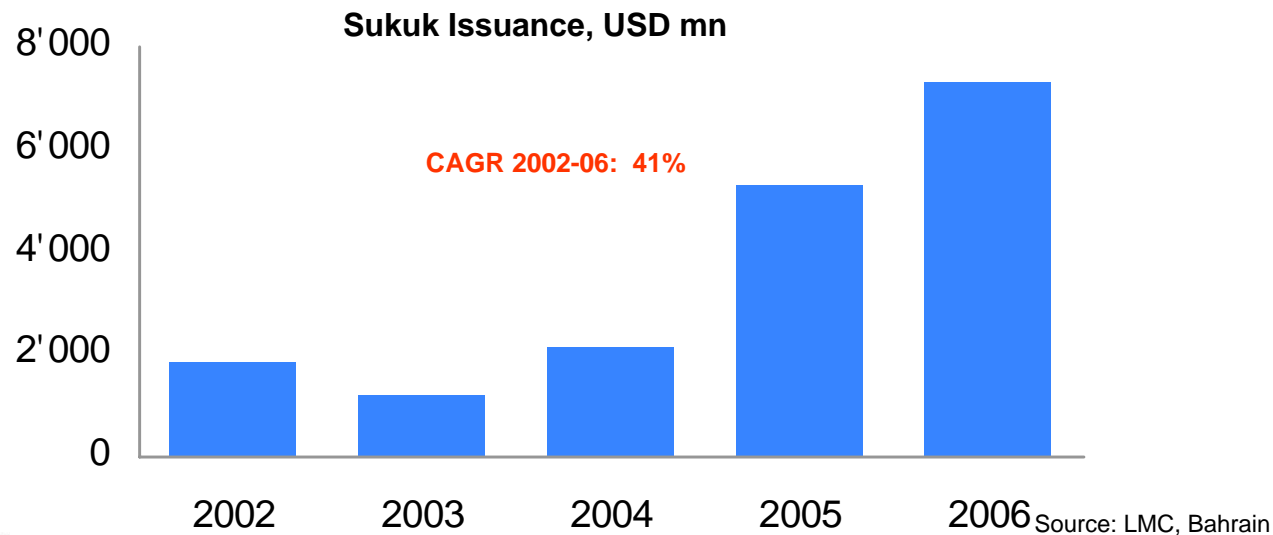
The Sukuk has established itself as a source of financing for Islamic and conventional issues



• * Source: Liquidity Management Center, Bahrain

Fixed Income: Sukuks

- The sukuk is gradually becoming more sophisticated. The recent acquisition of P&O by Dubai Port was financed through the first-ever sukuk linked to an IPO. The total value of the transaction was USD 3.5bn and demand by investors was very large.
- Equity linked Sukuk innovation continued with the issuance of Khazanah Sukuk exchangeable into Telekom Malaysia. This was the biggest equity linked issue from Malaysia at \$ 750myn with demands in excess of \$ 3 Billion.
- The potential for growth is strong. Another bumper year is expected based on the number of Sukuk in the pipeline that are likely to come out this year

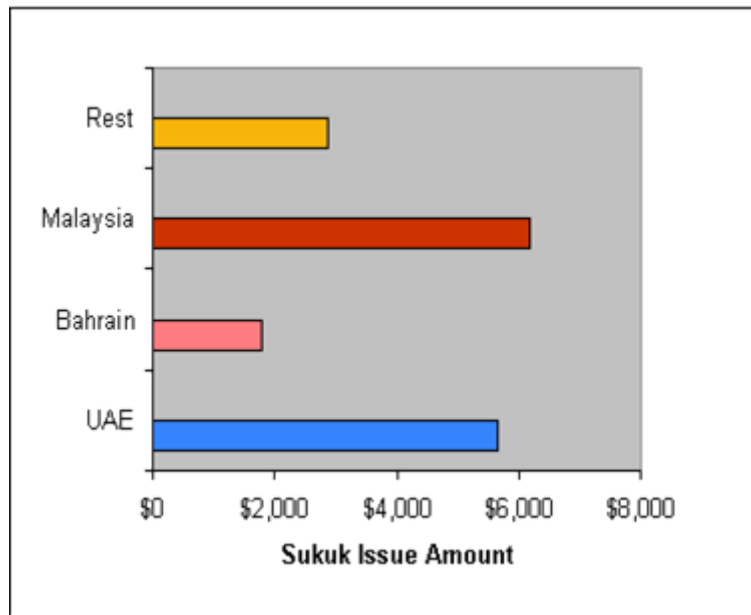


Sukuk Market Dynamics

Islamic investors in addition to conventional investors, including pensions and fixed income funds, are now accustomed to various Sukuk structures, resulting in widespread acceptability of the Sukuk and high absorption of Sukuk issue in the market

Sukuk issuance over regions

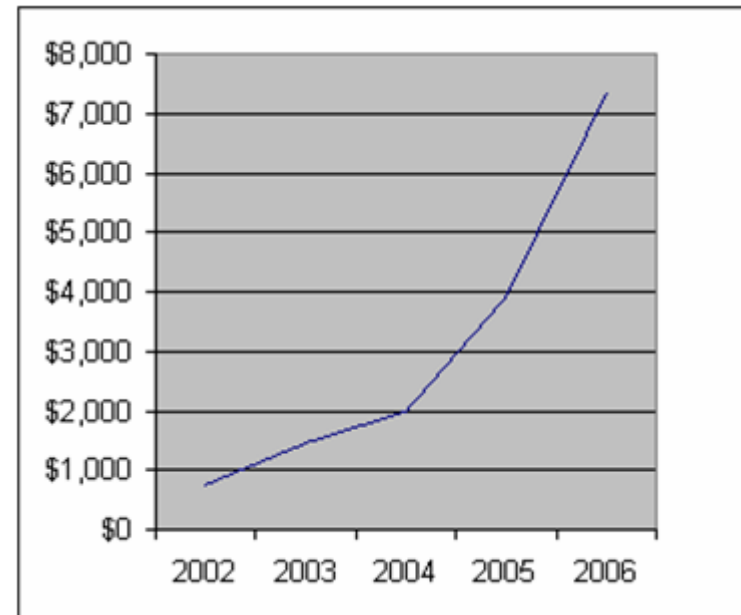
- The greatest activity in the Sukuk market is currently out of Malaysia, with the UAE as a close second



• Source: Liquidity Management Center, Bahrain

Growth in Sukuk Market

- The Sukuk market has grown exponentially over the last few years with an average growth of approximately 80% per annum.



• Source: Liquidity Management Center, Bahrain

Commodity Investment

◆ The Outlook for Commodities

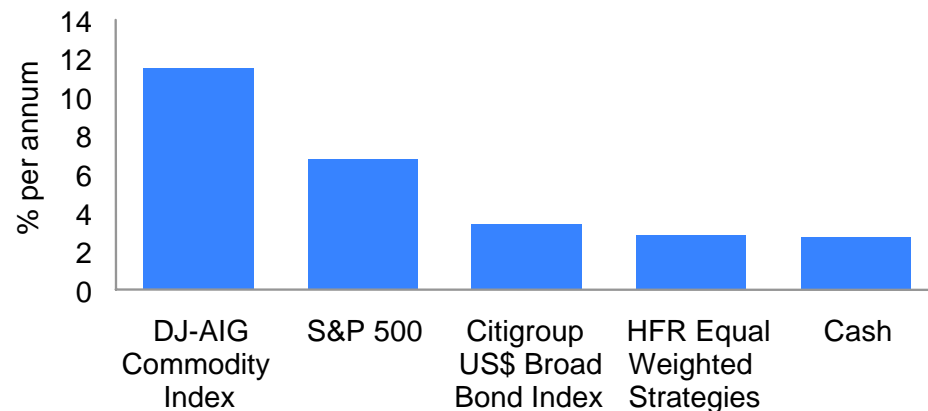
- The performance of commodity prices in recent years may be attributed to favourable demand conditions for raw materials and, in most cases, inelastic supply responses due to years of under-investment in production capacity
- Geopolitical uncertainties continue to intensify and are expected to continue supporting commodity prices through 2007
- During the 20th century there were three major commodity bull markets—each lasted an average of 15 years
- At current price levels we are still far from highs expressed in real terms that were seen in the last commodity bull market

Commodity Investment

◆ **The strong strategic case for commodities as part of a balanced multi-asset portfolio continues to be supported by the positive outlook for commodity prices**

- Long-term diversification benefits and relatively low-cost tactical reallocation opportunities
- Low correlation of commodity returns with equity and bond returns are not easily replicated through other investment alternatives

Asset Class Returns, 2004–present



Asset Cross Correlations

	DJAIG CI	S&P 500	BIG Bond	HFR EWS
DJAIG CI				
S&P 500	0.05			
BIG Bond	-0.04	-0.06		
HFR EWS	0.35	0.70	0.04	

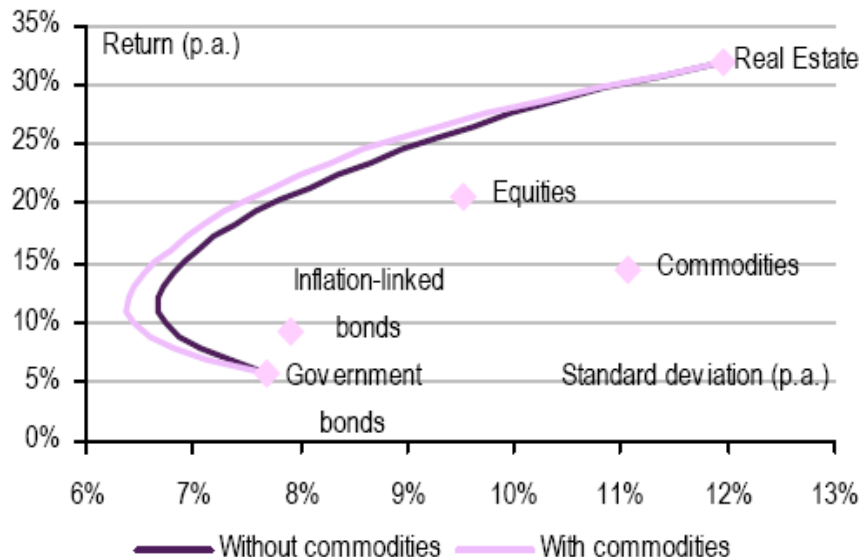
Source: UBS

Portfolio Management through commodities investments

The strong strategic case for commodities in balanced investment portfolios is supported by the positive outlook for commodity prices

- ◆ portfolio diversification benefits due to low correlation of commodity returns with equity and bond returns are not easily replicated through other investment alternatives

Global portfolio efficient frontiers (Jan 2003 – Sept 2006)



Asset Cross Correlations

	DJAIG CI	S&P 500	BIG Bond	HFR EWS
DJAIG CI				
S&P 500	0.05			
BIG Bond	-0.04	-0.06		
HFR EWS	0.35	0.70	0.04	

Source: UBS

Source: UBS Note: Commodities based on GSCI total return index

Putting the Investor at the Centre

◆ UBS Sharia Compliant Commodity Structured Products

– The investor can customize their product to suit their investment outlook:



-
- ◆ Oil
 - ◆ Natural Gas
 - ◆ Heating Oil
 - ◆ Copper
 - ◆ Aluminum
 - ◆ Zinc
 - ◆ Nickel
 - ◆ Lead

-
- ◆ Equal
 - ◆ Best of structure

-
- ◆ 1 –10 years

-
- ◆ Zero coupon
 - ◆ Coupon Paying

UBS Sharia Commodity Linked Investment Certificates

Fixed Term Islamic Commodity Linked Investment Certificates

Investor Profile

- The investor is looking for a conservative investment strategy with capital protection
- Investor expects that the price of the commodities in the commodity basket will appreciate over the short to medium-term

Investor Profile

- UBS Sharia Compliant Commodity Linked Investment Certificates are fixed term investments, the performance of which is linked to a basket of commodities. An investor can choose the profile of the Investment Certificates including the commodities to which the Investment Certificates are linked, their term, whether and the extent to which they are principal protected, their currency and whether coupon or zero-coupon.

Benefits

- Protection of principal and profit at maturity
- Tailor-made solutions with a high degree of flexibility in choice of investment currency and maturity

Risks

- The product may be partially or fully capital protected
- Upside potential may be limited depending on the return profile

Amounts

Minimum USD 10,000
G7 Currencies and Singapore \$

Term Sheets

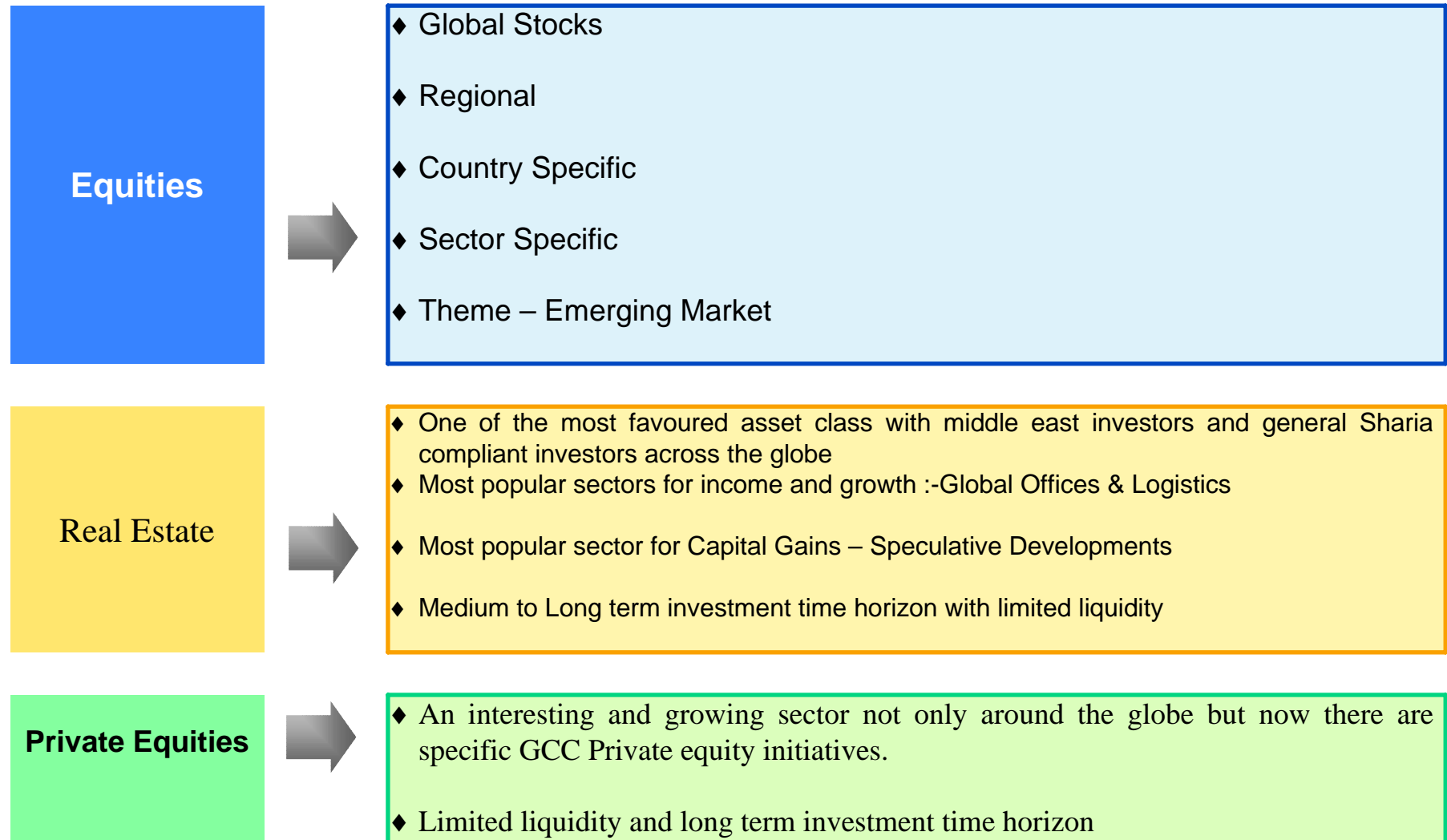
Languages:
English

Tenor

Usually one to ten years

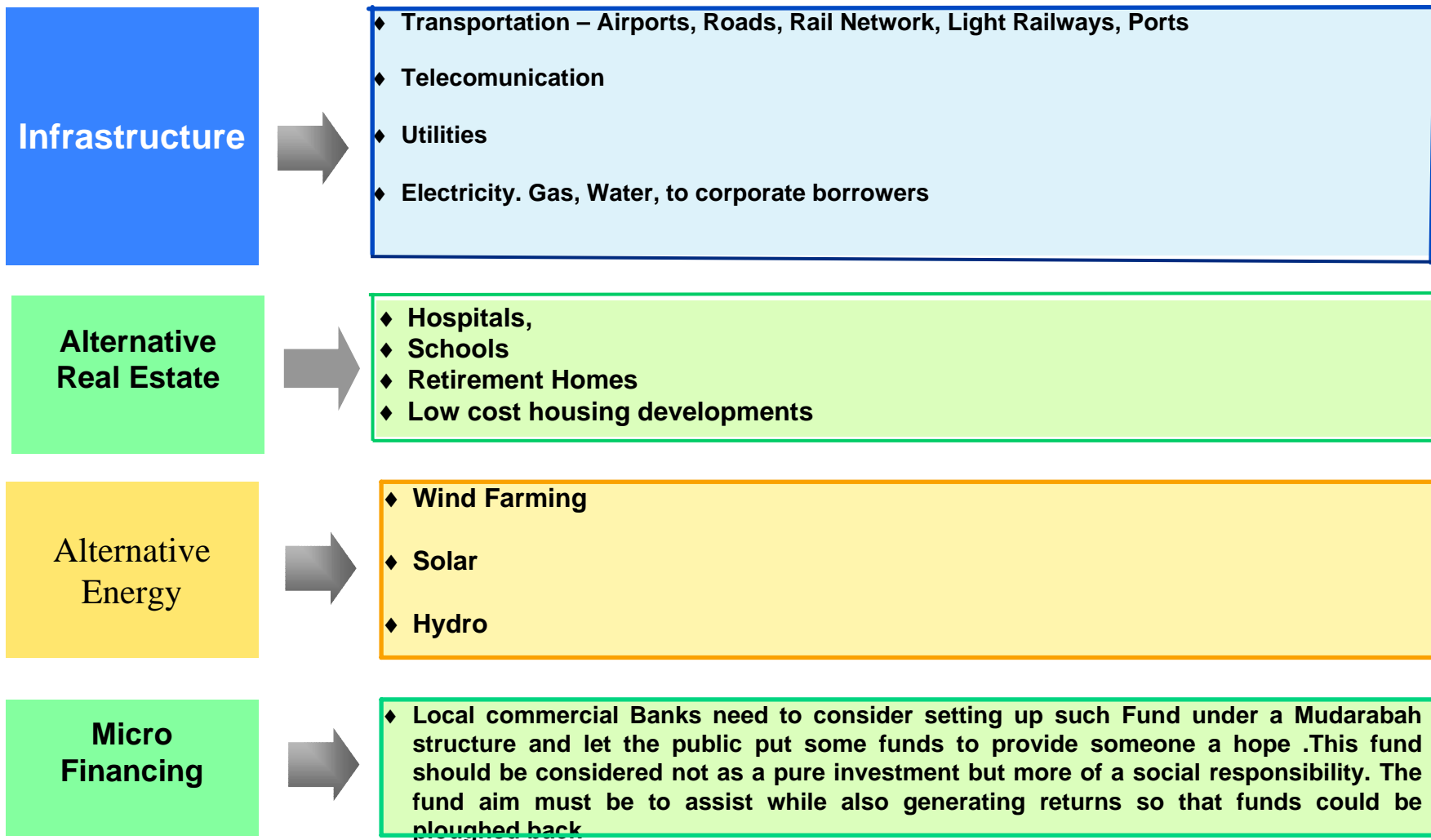
Other Assets Classes As Part of An Overall Portfolio

Most Balanced Investment will have Equities and Real Estate in their overall allocation



Thoughts toward Investments with Social Benefit

There are many areas where Islamic Finance needs to explore and sound out good investment opportunities while adding value to our society



Future Biggest Impact on Islamic Finance Market

- ◆ Funding & Liquidity Management

REPO REPO REPO REPO REPO REPO

- ◆ Risk Management – Cross Currency Hedge, Fix / Floating Profit Rate Hedge

Swaps Swaps Swaps Swaps Swaps Swaps

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