



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

Rating Workshop

Monday, 18th February 2008

The Diplomat Radisson SAS Hotel

Manama, Bahrain



Agenda

- Introduction: CEO of IIRA - Jamal Abbas Zaidi
- Ratings
- Rating Agencies
- Islamic International Rating Agency
- IIRA's Analysis and Rating Definitions



What is a Rating?

An independent, objective opinion regarding the relative capacity to meet financial obligations, including Islamic returns



Background

- Islamic Development Bank in 2002 recognized the importance of rating agencies and took steps to establish IIRA
- Other participants included well-known banks from different countries and two rating agencies.
- Effort was supported by Central Bank of Bahrain
- Finally, in July 2005 IIRA started its operations from Bahrain.



A Brief History

- Moody's Investors Service, a publisher established in 1900; stole the idea for ratings from Dun & Bradstreet in 1909 to enhance the value to investors of his statistical manuals
- Fitch Investors Service established 1913; ratings from 1924
- Standard Statistical and Poor's Corp merged in 1923
- Since 1985, entrepreneurs, IFC and governments have sponsored the formation of about sixty agencies
- IIRA was initially established in 2002, operational in 2005



Role of Ratings/Research

- In advanced markets, and increasingly in emerging markets like India or Malaysia, virtually all securities are rated
- Trading of rated securities sets the market's view of suitable yields for securities in each rating category
- Thus investors expect, and investment bankers are forced to offer, an equivalent risk adjusted return if they want to place the obligation
- Rating agency research is designed to meet investor needs



Numerous Rationales for Ratings I

- Often embedded in investment policies
- Expert analysis can provide useful insights
- Research reports reflect independent opinions
- Ratings and Research can help tell a bank's story
- Over time, investors and Investment Account Holders will come to rely on ratings
- Ratings are usually necessary to attain external market access
- Ratings can bring clarity to a bank's status as a counterparty



Rationales for Ratings II

- Reduce information asymmetry by providing an independent opinion on an issuer's risk profile
- Provide a qualitative and quantitative analysis forecasting future net free cash flow and relative payment capacity
- Independence, professionalism and objectivity are of utmost importance
- Provide an appropriate pricing framework for the market
- Enhances the transparency of financial markets
- A primary tool to use in investment decisions
- Exposes an issuer's management to best practice
- Assists in bringing efficiency and stability in the financial system



Drivers of Demand

- In other markets: enhanced access to funding and impact on pricing
- Here: A report card and marketing tool
- Basel II is likely to change this with the new capital measurement protocols
- IFI managements and regulators are increasingly sophisticated, understand the role of ratings and utility of independent analysis
- Capital suppliers and counterpart fund providers recognize the value of ratings when available



The Need for Domestic Rating Agencies

- Driven by the role of rating agencies in efficient markets and the desire to enhance analytical capacity
- The global rating agencies are headquartered in New York with Fitch claiming dual headquarters
- Governments recognized the benefits of domestic rating agencies' existence where a superior knowledge of the culture and the domestic market are essential



Establishment of Domestic Rating Agencies

- The need for domestic rating agencies was recognized, and they started emerging during mid 1980s
- Domestic rating agencies formed in Japan, then other big economies like India, China and Malaysia
- Domestic rating agencies focus on local markets and offer an alternative to the global rating agencies
- The domestic rating agencies' knowledge of the region and understanding of intangible elements like reputation and track records give them advantage over the global rating agencies
- Domestic rating agencies provide services to their domestic markets and have earned credibility and respect of the users for their ratings, research and assessment services, which reduces the need to go to the global rating agencies



Establishment of Domestic Rating Agencies

- In 2001, the domestic rating agencies formed an association in Asia, the Association of Credit Rating Agencies (ACRAA) with the support of the Asian Development Bank
- As of May 2007, ACRAA had 25 members from 14 countries
- ACRAA aims at the introduction of best practice and capacity building
- ACRAA is a platform for domestic rating agencies to improve standards through harmonization and gain exposure beyond national borders
- Through ACRAA, diverse domestic rating agencies can tap regional opportunities
- Members of ACRAA do not cooperate on specific rating assignments



Establishment of Domestic Rating Agencies - *Example: In Asia*

- 28 domestic rating agencies across 12 Asian countries
- Oldest (JCRA and Korea Ratings) formed 1985, youngest (Lanka Ratings) 1 year old.
- Most domestic rating agencies in China (>30), five offer nationwide ratings
- Increase in the number of domestic rating agencies recent years
- Largest domestic rating agency (R&I) 1000x larger than smallest domestic rating agency (Bangladesh) and 4 times average domestic rating agency
- Japan, Korea, Malaysia, India have more established domestic rating agencies



→ **Conclusion: There is a potential need for Domestic Rating Agencies in all countries. It is an emerging market.**

* Reference: Domestic Credit Rating Agencies in Asia, Suresh Menon, 2004.



Islamic International Rating Agency

- IIRA started its operations in late 2005, and is now recognized by Central Bank of Bahrain as an ECAI
- Many Sponsors ensure IIRA's independence
- The management
- IIRA's franchise
- Knowledge of ratings and IIRA is growing in the region
- Volume of inquiries is growing



Islamic International Rating Agency

- IIRA employs international best practice
- Superior regional knowledge results in superior conclusions
- IIRA is completely independent and transparent, follows a consistent methodical and rigorous analytical process and subscribes to a code of conduct/ethics which is consistent with the IOSCO code of conduct for rating agencies as well as Basel II
- IIRA provides ratings of all types for all types of issuers and issues



Islamic International Rating Agency- Cont'd...

- IIRA's website www.iirating.com makes full disclosure regarding its ownership, management, rating methodology for all its services and rating scales and definitions
- IIRA has completed a number of assignments
- Rating Team: IIRA's Rating Committee consists of seven core members plus three occasional experts
- All Rating Committee members are completely independent and have no conflict of interest with the entity or instrument to be rated



What is an IIRA Rating? And What does it Measure?

- IIRA's rating is an independent, informed, objective opinion regarding the relative likelihood of meeting the financial obligations.
- It provides a simple, consistent framework for comparing the credit quality of debt instruments or capacity to pay an Islamic return
- It's not a guarantee against loss
- It's not a recommendation to buy or sell



IIRA's Rating Approach

- Global Consistency
- Emphasis on the Qualitative
- Focus on the Long-Term and Short-Term
- Level & Predictability of Cash Flow
- Considers reasonably adverse but realistic scenarios
- “Looks through” Local Accounting Practices
- Sector-Specific Analysis
- Offers a specific national rating scale -- Ordinal Ranking of entities in a particular country
- Also provides separately globally consistent ratings
- SQR provides information and an independent assessment of the compliance mechanisms for Islamic financial institutions and windows, Islamic instruments



IIRA versus the Main Players

- The main players are: Moody's, Standard & Poor's, Fitch, IIRA
- IIRA is only agency based in the region
- IIRA is only agency with SQR
- The other three have sales offices in Dubai
- They have written extensively about Islamic finance, but ... ratings are done elsewhere
- The value model for all rests on the role of ratings in efficient pricing, and the quality of supporting research



Cases and Examples

- For Bahrain, IIRA arrived at ratings which were higher than those assigned by the global rating agencies at the time. Soon after that the market witnessed upgrades by the global rating agencies which served to strengthen IIRA's claim of using local knowledge for superior quality ratings.



Cases and Examples- Cont'd...

- In 1990 for instance, Moody's and S&P ratings of the same firms were highly correlated at 0.97, indicating that the two firm's rank order of credit risks was very similar. Sixty-four percent of issues rated by both firms received the same rating. This contrasts with the results for Moody's and the domestic Japan Credit Rating Agency for which only 11 percent of ratings agreed between the two firms.



Cases and Examples- Cont'd...

- Cantor and Falkenstein (2001) compare default rates for US and non-US issues that received speculative grade ratings from Moody's. Over the last 30 years, the one-year default rate for the US firms in these rating categories was 3.3 percent while for non-US firms the default rate was 1.8 percent. This implies overly harsh ratings from Moody's for foreign firms.



Cases and Examples- Cont'd...

- Using S&P and Moody's ratings on eurobonds as an example, Steiner and Heinke (2001) specifically ask whether non-US investors view ratings from US agencies as relevant information sources and they find that ratings from US agencies may be less informative for non-US firms. Potential explanations for this result include credit analysts' reliance on US accounting standards in the interpreting of foreign financial statements or a lack of country-specific knowledge.

→ Conclusion: Ratings may differ due to the nationality of the agency. Domestic rating agencies will have superior knowledge to arrive at the actual ratings.

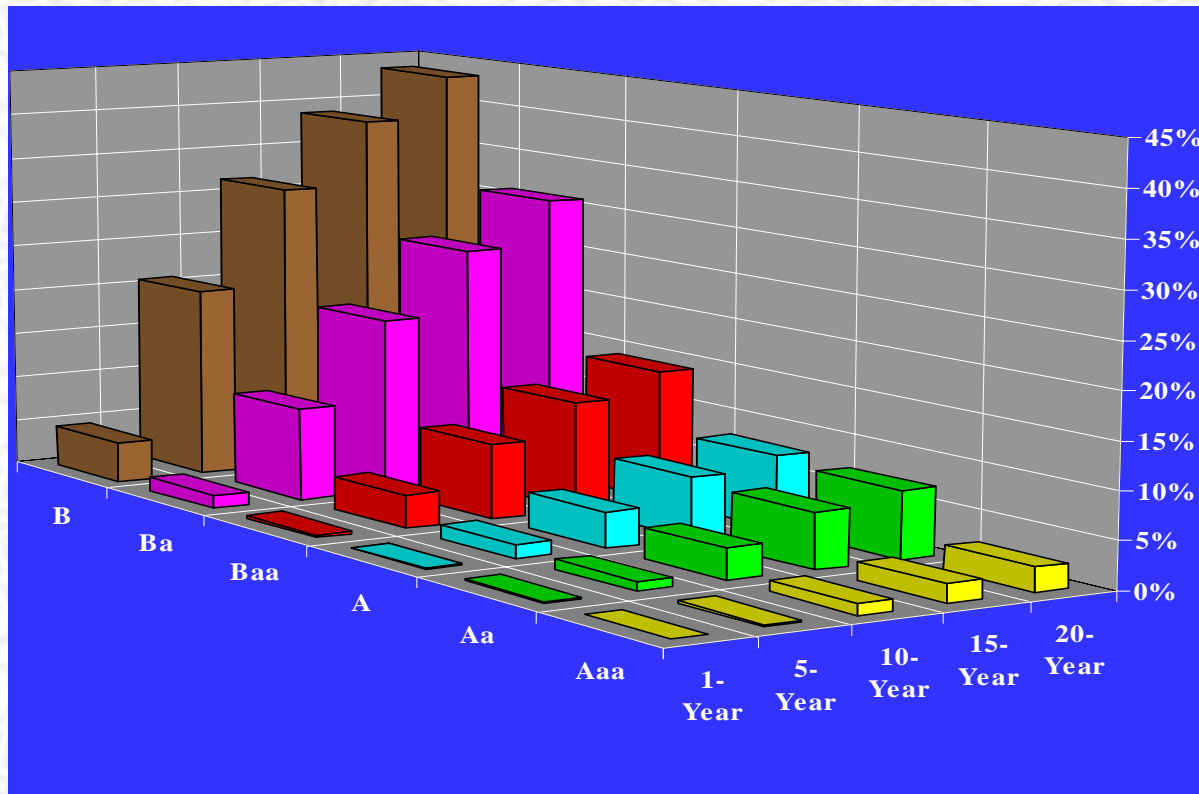


IIRA's Expectations

- IIRA's business model and rating process constitute international best practice
- Additionally, the experience and depth of its management and rating committee are comparable to any other global rating agency.
- Thus, IIRA expects that rating results will be consistent with the global rating agencies' rating results. Some statistical results can be illustrated as following:



Cumulative Default Rates after 1, 5, 10, 15 and 20 Years by Moody's Ratings, 1920-1997



Comparing Cumulative Default Methodologies

Altman*	Moody's/S&P/IIRA
1. Face value-weighted basis.	1. Issuer, un-weighted basis.
2. Domestic, straight bonds.	2. Domestic straight and convertible and foreign bonds - considered at the issuer level.
3. Based on actual rating from original issuance up to 10 years.	3. Based on implied senior unsecured rating from cohort or static-pool groups, combining bonds of all ages up to 20 years (Moody's) and 15 years (S&P).
4. Mortality default calculation adjusting for calls, maturities, and defaults.	4. Default rate based on percentage of original cohort group. Adjusts for withdrawn ratings in marginal default rate calculations.
5. Based on full rating class categories, AAA to CCC (no sub-grades).	5. Based on full rating class categories And also sub-grades, Aaa to Caa/AAA/ CCC.
6. Sample period 1971-2006.	6. Moody's sample period 1970 for full grade and 1983-2006 for sub-grades; S&P 1981-2006.

* Edward Altman is the Max L. Heine Professor of Finance at the Stern School of Business, New York University.



**Exhibit 1: Cumulative Default Rate
Comparison (in % for up to 10 years)
Statistics in Handout**



IIRA's Mission and Services - I

The mission of IIRA is to foster development of the financial markets in which it operates through provision of:

- Ratings for Sovereigns
- Traditional bond/Sukuk Ratings and Rating framework to permit rational pricing
- Shari'a Quality Ratings to reflect institutional compliance
- Investment quality and/or Issuer Ratings
- Specialist, focused Corporate Governance Ratings



IIRA's Mission and Services - II

- A periodic summary bulletin of market activity and ratings
- Economic commentary from a credit and investment quality perspective
- Detailed rating reports to enhance the investment decision process
- Sector reports clarifying company status within industry groupings
- A record of actual and prospective money and capital market activity
- Analysis of financial institution counterparty risk for treasurers
- Seminars on the analytical principles employed by rating agencies



IIRA's Analysis and Rating Definitions



IIRA's Bank Rating Analysis

1. Market Assessment

- **Economic Scenario**
 - Macroeconomic stability
 - Diversity of sectors
- **Political Setting**
 - Stability & reforms
 - Alignment with economic policies

2. Industry Environment

- Regulatory Oversight
- Competitive Dynamics
- Regulator's support

3. Internal Environment

- **Asset Quality:** assessed using credit and investment policies and loan administration, portfolio stratification and concentration and delinquencies in the current portfolio

- **Risk Management Practices:** assessed using Policies, risk reward relationship, independence of risk control unit and techniques used
- **Forecasting:** a forward looking approach where probable performance is estimated using existing limits, expansion plans, market potential, and historical performance
- **Adjustment:** are made in assets, liabilities, earnings and cash flows to reflect true economic value
- **Liquidity:** is performed using combination of ratios and qualitative criteria.
- **Capital:** assesses growth of capital, hidden reserves, and regulatory requirements to ensure adequacy of capital.
- **Earnings:** assessed on the basis of predictability and sustainability, diversification, earning performance, efficiency ratios and Level of profit distribution to IAH
- **Reputation & Resources:** evaluates management, franchise value, probability of support in times of crisis and the reputation of the institute in public
- **Sensitivity to Market Risks:** reflects the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or economic capital.



Exhibit 2: IIRA's Bank Rating Definitions (In Handout)



IIRA's Insurer's Financial Strength Rating Analysis

1. Qualitative factors

Analysis of the insurance company's country risk and business profile

• **Country Risk**

• **Economic Scenario**

- Macroeconomic stability
- Diversity of sectors

• **Political Setting**

- Stability & reforms
- Alignment with economic policies
- Insurance environment

• **Business Profile**

- Business plan and strategy
- Management
- Operational controls
- Quality and appropriateness of reinsurance program

2. Quantitative factors

Analysis of the company's balance sheet strength and operating performance

• **Balance Sheet Strength**

- Capitalization
- Adequacy of reserves
- Quality and diversification of assets
- Liquidity

• **Operating Performance**

- Profitability



Exhibit 3: IIRA's Insurer's Financial Strength Rating Definitions (In Handout)



IIRA's Shari'a Quality Rating Analysis

IIRA assesses the level of compliance by the institution with the procedure adopted by their Shari'a committee in good faith, both in letter and spirit.

IIRA examines:

- Shari'a Committee
- Internal Shari'a Control
- Accounting Standards
- Training and Human Resources
- Zakat
- Social Impact
- Modes of Financing
- Identity and Corporate Image
- Other Considerations



Exhibit 4: IIRA's Shari'a Quality Rating Definitions (In Handout)



IIRA's Corporate Governance Rating Analysis

- **Regulatory Compliances**
 - Level of compliance with all applicable laws, listing requirements and rules of all regulatory, taxation and statutory bodies, including labor and environmental regulations
- **Ownership Structure**
 - Structure and breakdown of shareholdings and ownership rights and obligations
- **Board & Executive Management Structure & Processes**
 - Board and management composition, responsibilities and performance
 - Shareholder management relations
- **Transparency**
 - Quality and timeliness of disclosure of adequate information
- **Control & Discipline**
 - Qualification and independence of internal and external auditors
 - Responsibilities and performance of the audit committees
- **Stakeholders' Relations**
 - Employee-employer relations, human resources management policies and practices and disclosure to code of business conducts and ethics
 - Entity's social responsibilities and customer relations



Exhibit 5: IIRA's Corporate Governance Rating Definitions (In Handout)



IIRA's Sovereign Rating Analysis

IIRA evaluates the creditworthiness of the government of a country, determining its ability and willingness to fully service its financial obligations on time.

- **Sovereign Rating criteria are:**

- Politics and Policy Continuity
- The Economy—Structure and Growth Prospects
- Budgetary and Fiscal Policy
- Monetary Policy and Flexibility
- The External Accounts
- Internal and External Debt



Exhibit 6: IIRA's Sovereign Rating Definitions (In Handout)

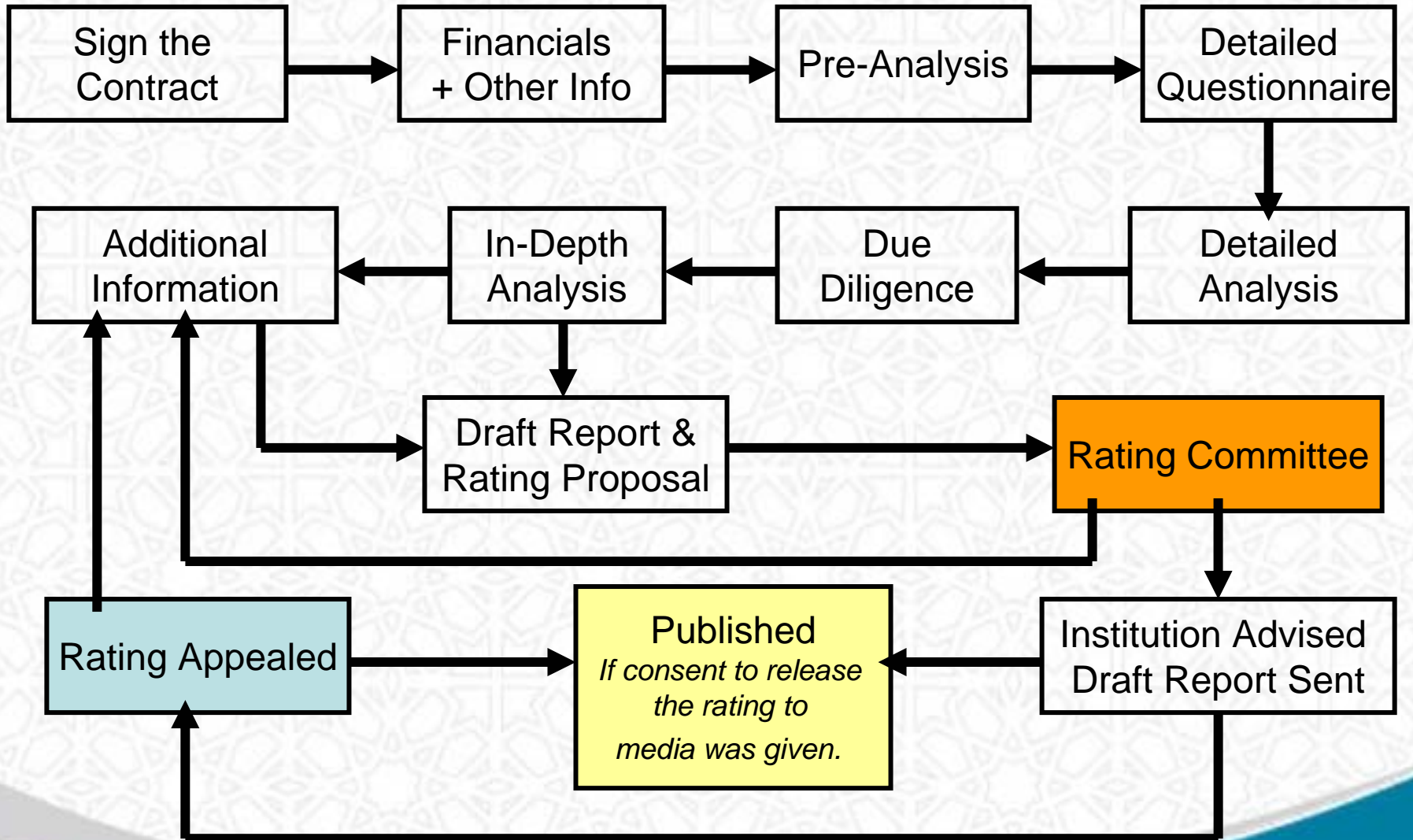


IIRA's Rating Process

IIRA Rating Process	
Issuer/Client	1. Signs agreement for an initial rating
	2. Submits preliminary information materials
IIRA	3. Conducts a preliminary study
	4. Submits a detailed questionnaire to the issuer/client
Issuer/Client	5. Provides detailed information in response to detailed questionnaire
IIRA	6. Conducts pre due diligence meeting analysis
	7. Conducts due diligence meetings
	8. Conducts post due diligence analysis
	9. Brief for internal rating committee meetings is prepared
Rating Committee	10. Decides the preliminary/initial rating
IIRA	11. Notifies issuer of the preliminary/initial rating
Rating Committee	12. Deliberates on appeals by issuer/client and gives decision
IIRA	13. Notifies the decision of the Rating Committee to the issuer/client
Issuer/Client	14. Consents to release of the rating to the public
IIRA	15. Releases the rating to media



IIRA's Rating Process



Information Requirements for Rating Applicants

- Information needed often goes beyond the published information
- IIRA does not recommend specific format in which information is to be provided.
- Any format in which the institution MIS generates information is acceptable though illustrative data entry exhibits are provided to help client understand the information needs.
- Strict confidentiality is maintained through out the rating process. The non public client data obtained on any stage of the rating exercise is subject to strict confidentiality clause as per by-laws of the company.



The Sukuk Market

A Case Study

* Source: Merrill Lynch Research



Sukuk Growth to Continue....

- Sukuk issuance was 130% up y-o-y in 2007 and 174% q-o-q in Q407. The highest contributor to the cumulative market of USD56.9bn is Malaysia with 41% contribution followed by the UAE with 32%. On a sector basis, real estate and financial services combined accounted for 50% of the market.
- Corporate bond issuance from the Gulf region saw a bumper year with US\$ 23.7bn in issuance and half of this issuance (US\$11.7bn) was Sharia-compliant. The outlook for 2008 is also positive with Moody's expecting total Sukuk issuance of USD50bn. KSA, the big brother, is picking up on the back of expected investment of USD642bn in infrastructure boom. The current Saudi Sukuk pipeline for 2008 is in excess of USD 4.5bn.



Sukuk Growth to Continue....

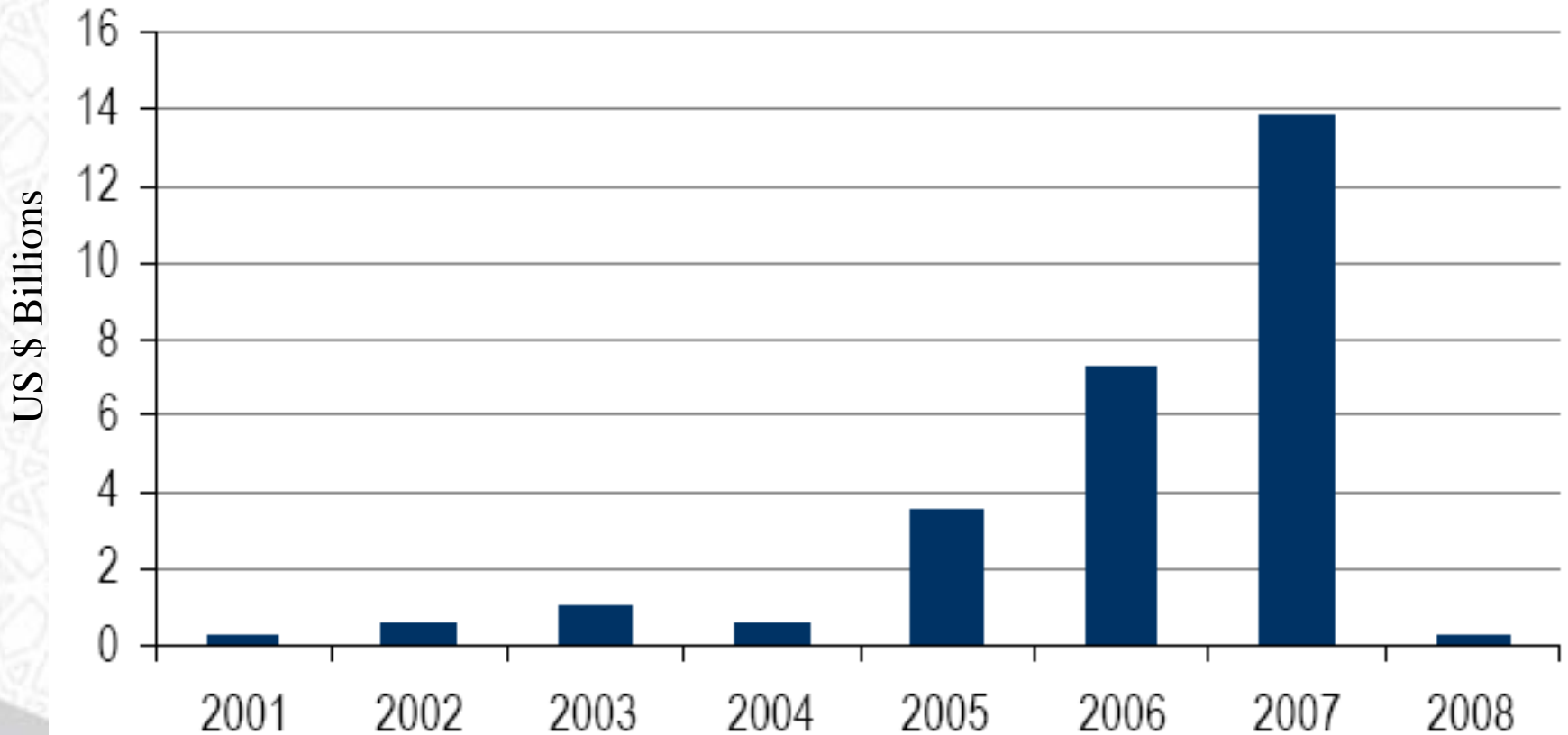
- Liquidity to trade out of positions, at short notice, is almost non-existent in the region. This results in estimated US\$10bn of cash being locked to meet customer deposit-withdrawal requirements. It is noted that the starting place for a liquid secondary market is the structure of issues provided in the primary market. Consequently, structural innovation in both the securitization and money markets is expected to reduce this liquidity problem to an extent.
- Oil prices are expected to remain at relatively high levels, even if the US experiences a mild recession. Given this outlook for oil prices, it is expected that the current credit crisis (emanating from sub-prime mortgage) would have a limited impact on Sukuk issuance from oil backed states in the Gulf.



Sukuk- Issuance volume

In the past few years, Sukuk issuance has seen immense growth with a weighted average growth rate of 137% y-o-y since 2001. Issuance grew 167% y-o-y in 2005, 156% y-o-y in 2006 and 130% y-o-y in 2007. Total issuance to date is approx US\$57 bn.

Global Sukuk issuance (US\$ billion)



**Source: Zawya*



Sukuk- Issuance volume

- **Cumulative Issuance: by currency**

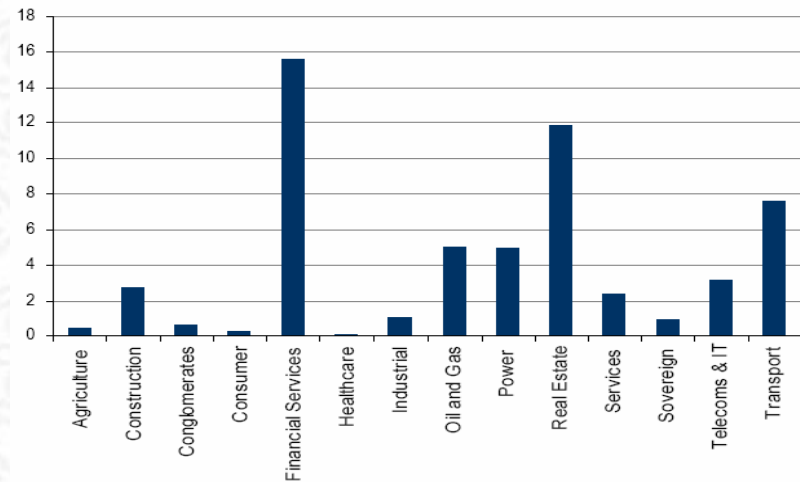
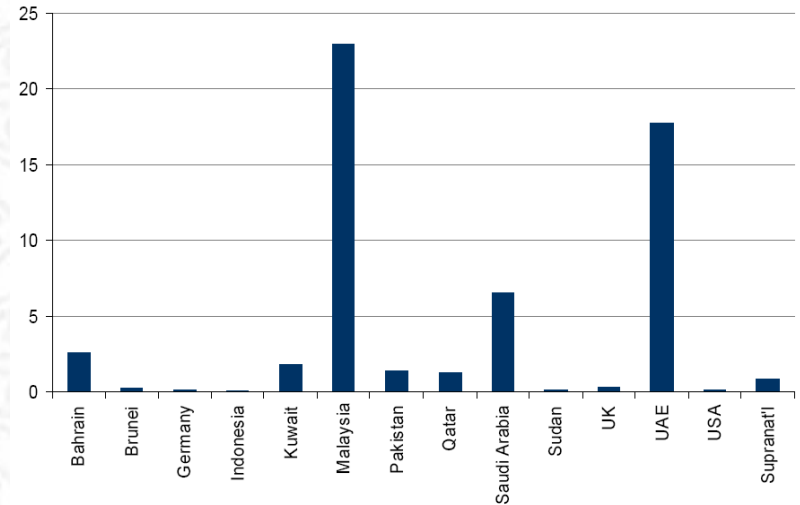
About 50% of the issuance is in US dollars, 36% in Malaysian Ringgit and 7.6% in Saudi Riyal.

- **Cumulative Issuance: by country**

Malaysia was the highest contributor to the global sukuk market with total volumes in excess of USD22.9 billion (approx. 41%) followed by the UAE exceeding USD17.7 billion (approx. 32%). Among the other major contributors, KSA is around 11% , followed by Bahrain at 5% and Kuwait at 3%).

- **Cumulative Issuance: by sector**

The financial services sector accounts for the largest volume of around US\$15bn, followed by the real estate sector with around US\$ 12bn. Other mentionable sectors include transportation and oil and gas.



*Source: Zawya



Gulf Sukuk Outlook 2008

- It is expected that around USD 225bn of infrastructure investment would be made in the GCC over the next three years. This will clearly be a driving force in the growth of the Sukuk market.
- For 2008, the forecasted Sukuk issuance is in excess of USD50bn. In addition to the infrastructure boom, other drivers for new issuance are :
 - Approximately US\$10bn of supply was postponed in 4Q'07 due to the global credit crisis .
 - Oil prices are expected to remain relatively high, even if the US enters a mild recession.
 - Short-term bridges taken out during Q4'07 will need to be refinanced e.g. US\$5bn syndicated loans raised by DP World.



Islamic Banks: A Need for Better Liquidity

- Despite the promising outlook of the industry and growth in Sukuk issuance, the liquidity constraint is limiting further inflow of funds to this asset class. Liquidity to trade out of positions, at short notice, is almost non-existent in the region. This not only hampers the growth and potential demand for Sukuk but is also affecting the profitability of Islamic financial institutions.
- Islamic banks are one of the biggest buyers of Sharia compliant products but given the lack of short maturity Islamic instruments, investment by their treasury management programs, in Sukuks are constrained. Further, the high concentration of bank deposits relative to total liabilities elsewhere in the world shifts management's focus to maintaining adequate liquidity from maximizing investment returns.
- The unforeseen nature of bank deposit withdrawals and an inability on the use of conventional financial instruments as a way to make short term returns on these deposits, results in a potential liquidity stress for Islamic banks. Islamic banks face an additional liquidity stress risk if it is unable to provide competitive returns to depositors. This is because returns to depositors for Shari'a compliant banks are generated by profits from investments in assets/companies.

Thus a win-win situation for everyone: increased profitability for banks and a liquid Sukuk market.



Tackling the Issue: Innovate, Learn and Make Money!

- **Money market instruments:**

One of the best ways to tackle the above issue is the creation of money market instruments with shorter maturities. This would not only create a liquid money market but will also provide investors with an incentive to buy for liability management purposes.

From an issuer's perspective, such instruments would provide them with cheaper funding as the liquidity premium could significantly be reduced. The Malaysian inter-bank money market is a good example for such instruments e.g. Government Investment Issues (GII) and Bank Negara Malaysia Negotiable Notes (BNNN).

In GCC, an indication of demand for such instruments could be gauged from the average 200% over-subscription of a short-term Sukuk issued by the Central Bank of Bahrain (CBB). As of now, Bahrain is the only active money market in the Gulf region. The short term Sukuk program has been running since 2001 and CBB has issued Sukuk with a cumulative value of US\$287mn. These issues are of either 3 or 6 months maturity. The CBB also issues medium to long-term notes.

- **Securitization:**

Another way to develop tailor made instruments is securitization. This could be used for the creation of notes with variable maturities. One such transaction was Cagamas in Malaysia which had seven different tranches with varying returns and maturities, ranging from 3 to 20 years.



GCC Shari'a Compliant Demand

Mckinsey's estimate that 6% of the total investable GCC assets will be allocated in a Shari'a compliant manner. Given a total investable market size of US\$2400 to US\$2800bn this suggests an Islamic finance market size of US\$150bn. As the availability of Shari'a compliant products develops, it is expected the market size to grow given the preference of high net worth individuals and mass affluent investors to invest in a *halal* manner.

→ **Conclusion: Sukuk Rating is NEEDED.**



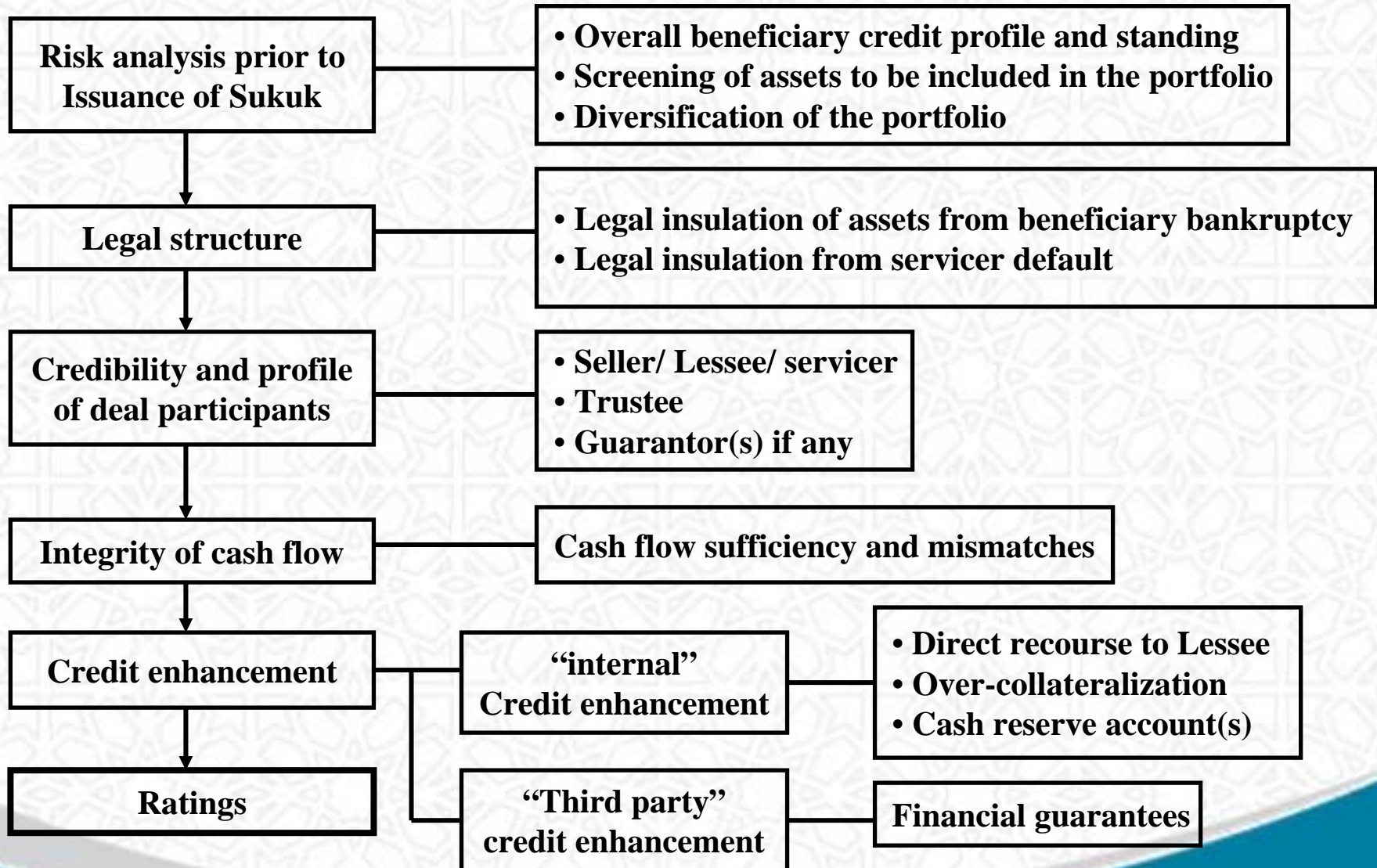
Rating the Sukuk

Why a rating?

- Determine level of risk inherent in a transaction.
- Determine the level of compliance with Shari'a.
- Help in the pricing of the transaction.
- Help in the marketability of the Sukuk.
- The rating is assigned to the Sukuk and not to the issuer.



Sukuk Rating Analysis



Thank You



Questions & Answers



Exhibit 1: Cumulative Default Rate Comparison (in % for up to 10 years)

Ratings		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
AAA/Aaa	Altman	0.00	0.00	0.00	0.00	0.05	0.08	0.09	0.09	0.09	0.09
	Moody's	0.00	0.00	0.00	0.03	0.10	0.17	0.25	0.34	0.42	0.52
	S&P	0.00	0.00	0.09	0.19	0.29	0.43	0.50	0.62	0.66	0.70
AA/Aa	Altman	0.00	0.00	0.30	0.44	0.46	0.48	0.48	0.48	0.53	0.54
	Moody's	0.01	0.02	0.04	0.11	0.18	0.26	0.34	0.42	0.46	0.52
	S&P	0.01	0.05	0.10	0.20	0.32	0.43	0.56	0.68	0.78	0.89
A/A	Altman	0.01	0.09	0.11	0.17	0.23	0.32	0.37	0.57	0.66	0.71
	Moody's	0.02	0.10	0.22	0.34	0.47	0.61	0.76	0.93	1.11	1.29
	S&P	0.06	0.17	0.31	0.47	0.68	0.91	1.19	1.41	1.64	1.90
BBB/Baa	Altman	0.33	3.45	4.74	5.92	6.62	7.10	7.33	7.51	7.63	8.00
	Moody's	0.18	0.51	0.93	1.43	1.94	2.45	2.96	3.45	4.02	4.64
	S&P	0.24	0.71	1.23	1.92	2.61	3.28	3.82	4.38	4.89	5.42
BB/Ba	Altman	1.15	3.54	7.72	9.88	12.10	13.20	14.60	15.56	17.00	19.88
	Moody's	1.21	3.22	5.57	7.96	10.22	12.24	14.01	15.71	17.39	19.12
	S&P	1.07	3.14	5.61	7.97	10.10	12.12	13.73	15.15	16.47	17.49
B/B	Altman	2.84	9.43	16.08	23.21	27.82	30.94	35.67	35.26	36.53	37.06
	Moody's	5.24	11.30	17.04	22.05	26.79	30.98	34.77	37.98	40.92	43.34
	S&P	4.99	10.92	15.90	19.76	22.55	24.72	26.54	28.00	29.20	30.42
CCC/Caa	Altman	8.12	22.30	36.86	44.30	46.60	51.57	54.38	56.98	57.34	59.36
	Moody's	19.48	30.49	39.72	46.90	52.62	56.81	59.94	63.27	66.28	69.18
	S&P	26.29	34.73	39.96	43.19	46.22	47.49	48.61	49.23	50.95	51.83

Source: Altman, Market value weights, by number of years from original Standard & Poor's issuance, 1971-2006, based on actual ratings. (Altman and Ramayanam, 2007). Moody's, Issuer weighted, cohort analysis, 1971-2006, based on actual or implied senior unsecured ratings (Moody's Investors Service, 2007). S&P, Issuer weighted, static-pool analysis, 1981-2006, based on actual or implied senior unsecured ratings (Standard & Poor's, 2007).

Exhibit 2: IIRA's Bank Rating Definitions

Long-term Ratings

- **AAA:** Obligations rated AAA are considered the best quality. They present the least investment risk. While changes can be anticipated in business and economic conditions such changes as can be assessed are not likely to impact the fundamentally strong position of such obligors.
- **AA:** Obligations rated AA are considered high quality in all respects. Combined with the AAA obligations they constitute the high grade group. The differentiation is in the magnitude and range of fluctuations in elements that assure safety. Such elements in this category will not be as stable or predictable as for AAA category.
- **A:** Obligations rated as A are considered upper medium grade obligations possessing sound credit characteristics and reflect safe margins of protection at this time but may be susceptible to changes in future due to industry or product characteristics.
- **BBB:** Obligations rated BBB normally possess sound credit characteristics. The safety elements are adequate at present but hostile business factors may bring about a change in the credit characteristics.
- **BB:** Obligations rated BB reflect significant speculative characteristics and volatility in protection factors. The obligation is not well assured even in positive economic environment.
- **B:** Obligations rated B do not typically reflect characteristics of desirable investment. There is significant doubt that obligation can be met over any period of time.
- **CCC:** Obligations rated CCC are high risk and unpredictable with very poor protective elements.
- **CC:** Obligations rated CC are highly speculative. Such obligations are often in default or reflect limitations on repayment capacity.
- **C:** Obligations rated C have extremely high level of risk and they are unlikely to meet their commitments.
- **D:** 'D' rated Obligor are in default with respect to their obligations.

Exhibit 2: IIRA's Bank Rating Definitions

Short-term Ratings

- **A1+:** Obligations rated A1+ have a superior ability for repayment of obligations and is evidenced by extremely strong liquidity conditions.
- **A1:** Obligations rated A1 have a strong ability for repayment and reflect very good liquidity conditions.
- **A2:** Obligations rated A2 have a sound capacity of repayment but could be effected by external market conditions.
- **A3:** Obligations rated A3 have an acceptable ability to repay the obligations. However, they are more susceptible to adverse market conditions and require careful management.
- **B:** The obligations rated B have weak capacity for repayment and economic changes can harm the liquidity conditions.
- **C:** Obligations rated C shows considerable uncertainty towards timely payments of obligations. The liquidity conditions appear very weak.

Exhibit 3: IIRA's Insurer's Financial Strength Rating Definitions

- **AAA:** 'AAA' rated insurers have the strongest financial strength and strongest capacity to meet policyholder and contract obligations. Unfavorable business and economic conditions are unlikely to distress this ability.
- **AA:** 'AA' rated insurers have very strong financial strength and a very strong capacity to meet policyholder and contract obligations. No material change in this capacity is expected due to hostile business and economic conditions in future.
- **A:** 'A' rated insurers have strong financial strength and a strong capacity to meet policyholder and contract obligations. A negative change in business and economic conditions may slightly affect the honoring capacity.
- **BBB:** 'BBB' rated insurers have adequate financial strength and sufficient capacity to meet policyholder and contract obligations. However, hostile business conditions can bring a change in this capability.
- **BB:** 'BB' rated insurers have marginal financial strength and a low capacity to meet policyholder and contract obligations. The entity remains vulnerable to changes in the business and economic environment.
- **B:** 'B' rated insurers have weak financial strength and a weak ability to meet policyholder and contract obligations. The entity requires favorable business conditions to ensure payments.
- **CCC:** 'CCC' rated insurers have very weak financial strength and a very weak capability to meet policyholder and contract obligations. The firm is unable to benefit from prospective improvement in the economic environment.
- **CC:** 'CC' rated insurers have extremely weak financial strength and the weakest capacity of meeting policyholder and contract obligations.
- **D:** 'D' rated insurers are in default with respect to its policyholder and contract obligations.

Exhibit 4: IIRA's Shari'a Quality Rating

Definitions

- **AAA (SQR)**: In IIRA's opinion, an entity/instrument rated AAA (SQR) conforms to highest level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.
- **AA (SQR)**: In IIRA's opinion, an entity/instrument rated AA (SQR) conforms to very high level of standards of Shari'a requirements in all aspects of Shari'a quality analysis.
- **A (SQR)**: In IIRA's opinion, an entity/instrument rated A (SQR) conforms to high level of standards of Shari'a requirements and has very few weaknesses in some areas of Shari'a quality analysis.
- **BBB (SQR)**: In IIRA's opinion, an entity/instrument rated BBB (SQR) conforms to moderately high level of standards of Shari'a requirements and has few weaknesses in some areas of Shari'a quality analysis.
- **BB (SQR)**: In IIRA's opinion, an entity/instrument rated BB (SQR) conforms to satisfactory level of standards of Shari'a requirements and has some weaknesses in some areas of Shari'a quality analysis.
- **B (SQR)**: In IIRA's opinion, an entity/instrument rated B (SQR) conforms to adequate level of standards of Shari'a requirements and has weaknesses in some areas of Shari'a quality analysis.

Exhibit 5: IIRA's Corporate Governance Rating Definitions

- **CGR-10:** Strongest Corporate Governance processes and practices overall, with very few weaknesses in any of the major areas of governance analysis.
- **CGR-9:** Very strong Corporate Governance processes and practices overall, with few weaknesses in any of the major areas of governance analysis.
- **CGR-8:** Strong Corporate Governance processes and practices overall, with some weaknesses in certain of the major areas of governance analysis.
- **CGR-7:** Moderately strong Corporate Governance processes and practices overall, with weaknesses in certain of the major areas of governance analysis.
- **CGR-6:** Satisfactory Corporate Governance processes and practices overall, with some weaknesses in several of the major areas of governance analysis.
- **CGR-5:** Adequate Corporate Governance processes and practices overall, with weaknesses in several of the major areas of governance analysis.
- **CGR-4:** Moderately weak Corporate Governance processes and practices overall, with weaknesses in a number of the major areas of governance analysis.
- **CGR-3:** Weak Corporate Governance processes and practices overall, with significant weaknesses in a number of the major areas of governance analysis.
- **CGR-2:** Very weak Corporate Governance processes and practices overall, with significant weaknesses in most of the major areas of analysis.
- **CGR-1:** Weakest level of Corporate Governance processes and practices overall, with significant weaknesses in most of the major areas of analysis.

Exhibit 6: IIRA's Sovereign Rating Definitions

Long Term

- **AAA:** 'AAA' rated obligors/Sovereigns have the lowest credit risk and strongest capacity to honor their financial obligations. Unfavorable business and economic conditions are unlikely to distress this ability.
- **AA:** 'AA' rated obligors/Sovereigns have very low credit risk and a very strong capacity to meet their financial commitments. No material change in this capacity is expected due to hostile business and economic conditions in future.
- **A:** 'A' rated obligors/Sovereigns exhibit low credit risk and possess strong capacity to meet their financial commitments. A negative change in business and economic conditions may slightly affect the honoring capacity.
- **BBB:** A 'BBB' rated obligors/Sovereigns exhibit adequate credit risk and sufficient ability to fulfill its financial obligations. However, hostile business conditions can bring a change in this capability.
- **BB:** 'BB' rated obligors/Sovereigns display moderate credit risk and their ability to honor their financial commitments is relatively inferior. Although this capacity is present in current circumstances, it may not persist in future.
- **B:** 'B' rated obligors/Sovereigns have a sizeable level of credit risk and a low capacity to meet their financial obligations. They remain vulnerable to changes in the business and economic environment.
- **CCC:** A 'CCC' rated obligors/Sovereigns exhibit a high level of credit risk and a weak ability to meet financial commitments. The obligor/Sovereign requires favorable business conditions to ensure payments.
- **CC:** 'CC' rated obligors/Sovereigns show a substantially high level of credit risk and a very weak capability of honoring financial obligations. The rated entity is unable to benefit from any prospective improvement in the economic environment.
- **C:** A 'C' rated obligors/Sovereigns have an extremely high level of credit risk and the weakest capacity to meet financial commitments.
- **D:** A 'D' rated obligors/Sovereigns is in default with respect to its financial obligations.

Exhibit 6: IIRA's Sovereign Rating Definitions

Short Term

- **A-1:** An 'A-1' rated obligors/Sovereigns have a strong capacity to honor the timely payments due to very good liquidity conditions.
- **A-2:** 'A-2' rated obligors/Sovereigns exhibit sound capacity to meet financial commitments. The liquidity conditions are satisfactory.
- **A-3:** Although the risks for obligors/Sovereigns in this category are greater than the other categories, a timely payment can still be safely forecasted due to an adequate liquidity situation.
- **B:** The obligor/Sovereign is susceptible to economic changes which can harm the liquidity conditions. The timely repayment capacity is weak.
- **C:** Considerable uncertainty exists towards the timely honor of financial obligations. The liquidity conditions appear very weak.

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