



MARKET STATEMENT

Established in 1994 and operating in the Structured Finance arena, **BSEC - Bemo Securitisation SAL** was the first MENA financial institution to introduce locally structured securitisation, credit derivatives and cross-border structured finance.

NewsWire is a monthly private newsletter of **BSEC** focusing on securitisation news and analysis in Lebanon and the MENA/GCC countries; It puts into perspective the different issues pertaining to securitisation in the legal, financial, tax and accounting fields.



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A-SECURITISATION NEWS

MENA AND GCC REGION: EMIRATES ENSFC

Dubai Islamic Bank (DIB) with Istithmar and Island Capital Group linked up to set up Emirates National Securitisation and Finance Corporation (ENSFC), in a move which will push the UAE up into the ranks of the top global financial sector players. The new body will issue commercial mortgage backed securities (CMBS) that are listed and traded on regional and international markets, including the US and Europe. The joint venture company is expected

to attract huge amounts of international and regional capital. Other international banking and real estate groups have been lined up to join the alliance, which should further enrich the mix. According to the ambitious plans of the new grouping, pools of mortgages will be securitised and issued in the form of bonds in the local as well as international markets. The mortgages will be kept in a trust vehicle and once the securitisation is complete, the funds can be returned to the

banks, which can then recycle the financing, further improving liquidity. The bonds will be open to subscription from institutions and individuals and will be Shariaa compliant. They may carry maturity periods ranging from five ten years. Though ENSFC expects to issue bonds to the tune of \$500 million to \$1 billion within six months of its inception, the fine details of the issue have yet to be finalized. ■

EMEA: MOODY'S: EMEA SECURITISATION VOLUMES TO GROW MODERATLY IN 2004

Keeping on with Moody's, the Rating Agency issued a report for Europe, Middle East and Africa market (EMEA) analyzing its performance in 2003 and outlook for 2004. The structured finance market in this region exhibited a 4% year-on-year increase in issuance volumes to €268.2 billion in 2003, whilst the rise in actual numbers of rated deals was a more impressive 58% to 577. RMBS sector was

predominant with 50% of issuance and a 52% of growth compared to 2002. ABS also grew in volume while neither CMBS nor WBS asset classes lived up to forecasts. For 2004, Moody's is anticipating a moderate rise of around 8% in issuance volume, as well as continued growth in the number of rated transactions. Specifically, RMBS is likely to enjoy a lower level of growth after its dramatic surge over

the past year and to witness a strong contribution from repeat issuers, whilst the trend for single-tranche transactions could prompt a continued dampening in CDO volumes despite a rise in deal numbers. ABS should see some diversification away from consumer assets and display moderate growth (Source: menareport.com) ■

B-SECURITISATION ANALYSIS

FINANCIAL: BYZANTIUM FINANCE

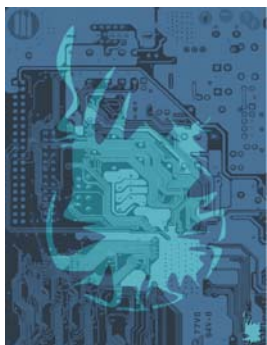


A new securitisation law (3156/2003) was enacted in Greece in last November, recognizing the true sale of receivables and the segregation of assets from the originator and the servicer, and allowing thereby the issuance of a private sector deal by Aspis bank. Jointly arranged by ABN AMRO and National Bank of Greece, the €250m RMBS is the first of its kind in the country after the new legislation. The collateral has an 8,040 floating-rate

mortgage pool split between Athens with 49.8% and other regions with 50.2%. The loans in the portfolio have a weighted average seasoning of 3.6 years and a weighted average LTV of 56.7%, while the weighted average remaining maturity is 11.4 years. The portfolio has an important level of subsidy; 74% of loans have the partial support of the Greek state and the social housing agency OEK. The deal incorporates a €225m AAA rated A class at 25bp, €15m

single A rated paper at 63bp and €10m triple B paper at 120bp, referenced to a 3mEuribor. The structure is a 100% cash collateralized with a €12.4m set-off reserve fund. No back-up Servicer is designated, National Bank of Greece will handle the servicing of the loans in the event of Aspis' s insolvency. The Greek market is expected to be witnessing further deals, namely RMBS, consumer deals, credit card and property related transactions■

TAX AND ACCOUNTING: IASB TO REVIEW SPEs RULES - Securitization news, Dec 03



The International Accounting Standards Board plans to start its consolidation project in earnest now and plans to start looking at the de-recognition rules early next year. A formal project looking at consolidation and de-recognition together will be well received by the industry. At the moment both IAS 39 and SIC 12, the two rules that cover this area, have inconsistencies that could lead to confusion. The results of these two projects

would potentially replace the relevant sections of IAS 39 and SIC 12. The de-recognition project will be much wider than SPEs, looking at a variety of derivatives and repos. For example, in a repo transaction the ownership is transferred, but because the seller agrees to buy it back they still have the risk and reward, this poses problems in terms of how it should be accounted for■

The board

LEGAL: ITALIAN COURT DECISION CONFOUNDS LEASE SECURITIZERS



The Italian Supreme Court issued a decision on April 9, 2003, (No. 5552) in which it granted a bankruptcy trustee the right to terminate a leasing contract pursuant to Article 72 of the Italian Bankruptcy Law. This judgment has notably serious implications on leasing agreements, lease-based securitisations, and it potentially also destroys noteholders' security. The Court stated that in accordance with the general principles of Italian bankruptcy law, both contracts and agreements may be terminated rapidly in

order to recover assets and funds with which to repay creditors. Furthermore, the Court, notwithstanding the objections presented by the appellant, found that the exercise of a call option to acquire goods connected to a leasing agreement is an "uncertain event" and this could prolong the bankruptcy procedure and therefore harm creditors and jeopardise the integrity of the remaining assets. Given that, if a bankruptcy trustee is granted the power to terminate a leasing agreement, which is part of a security project, then one of the main

guarantees for noteholders may vanish. In such a scenario, the only way to recover the investment would, therefore, be to join the bankruptcy proceeding as an ordinary unsecured creditor. Although this judgment may affect securitisations in Italy, it should be noted that the Italian bankruptcy law is undergoing a review and reform process that should be completed by the beginning of 2004, and therefore the effect of this decision may not stand the test of time (source: Legal Media Group)■

C-SECURITISATION COMMENTARY

SPECIAL FOCUS ISLAMIC SECURITISATION: MUSHARAKA STRUCTURE



Musharaka is a mode of Islamic finance represented by two or more financiers who want to establish or participate in a new business; it is characterized by a sort of contract of limited duration where all partners to this business enterprise contribute funds and have the right but not the obligation to exercise executive powers in that project. They are entitled to share the profits of this project according to an agreed ratio whereas the losses are shared in proportion to the capital contribution. Musharaka

displays some of the features of modern partnership structures and the holding of voting stock in a limited company. It is therefore similar to a western-style joint venture, and is also regarded by some as the purest form of Islamic financial instrument, since it conforms to the underlying partnership principles of sharing in, and benefiting from, risk. In this case, the bank enters into a partnership with a client in which both share the equity capital- and perhaps even the management - of a project or deal, and both share in the profits or losses according to

their equity shareholding. The Musharaka principle is invoked in the equity structure of Islamic banks and is similar to the modern concepts of partnership and joint stock ownership. One influential Scholar within the Hanbali School (the author of Al-Mughni, which is one of most influential texts used in the Kingdom of Saudi Arabia) defended this structure as a means of exploitation of an asset and sharing of the profits produced■

READINGS OF THE MONTH

“LACK OF VISION, DEMOCRACY HAMPERS FDI IN ARAB WORLD”, Bahraintribune.com, January 01, 2004



The group CEO of a leading Islamic financial institution talked about the hurdles to the economic development in the Arab regions and to the hampering of the inflow of foreign investments to these regions. The main reasons were summarized by the lack of vision, transparency and a democratic approach, especially regarding the existing laws. The estimated \$1.4 trillion private sector investments outside the Middle East are mainly banned by the political instability and the lack of confidence in the existing laws and regulations. In order to attract these funds, an

urgent improvement has to be done at this stage. However, the social and cultural barriers as well as the lack of democracy in the larger part of this region are also affecting the implementation of regional development since expensive bureaucracy and a fear of what investors call the absence of a rule of law are labelled as common in Arab culture. “The rule of law and security for foreign investors and a macro-economic stability can trigger the flow of foreign investments”; the group CEO emphasized on (i) the need to develop the capital and financial markets

in the region in order to open up various avenues of progress (ii) countries need to get prepared in line with the rapidly changing global economic dynamics otherwise it will lag behind in progress, prosperity and development, (iii) enhancing the educational level, formulating a strategy based on vision and streamline labour markets in line with international standards, (iv) greater participation of women and (v) embracing the best technology■

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