

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.



A-SECURITISATION NEWS

MENA AND GCC REGION

BSEC Investment Bank and Shamil Bank announced the groundbreaking launch of a SR102 Million Shariah compliant investment SUKUK. CARAVAN I Limited is the region's first inventory fleet securitisation transaction. Iad Georges Boustany, Managing Director of BSEC, said that there is a strong demand for Securitisation services in the Middle East. "Securitisation, by converting illiquid assets into marketable securities, adds value to both, the corporations and the investors. Securitisation also helps bridging the gap between corporate finance and capital markets and seems to be the shortest route for GCC based companies to access capital markets. Furthermore, the coming together of Securitisation and Islamic Banking is a force that undoubtedly will reshape the industry over the next few years" he added. Ibrahim A. Mardam-Bey, Executive Vice President at BSEC, explained the elements behind the transaction: "The Islamic Banking sector is

experiencing rapid growth and fuelling a demand for new products. At the same time many of the region's companies are looking for alternative financing sources. Islamic and Conventional Securitisation is an ideal financing tool for our region's emerging capital markets." Nizar Alshubaily, Group Head, Investment Banking at Shamil Bank, said "We are excited to bring to market such an innovative structure using Shamil Bank's expertise and know-how of Islamic financial modes. Thanks to our partnership with BSEC, we were able to offer the Islamic Banking sector a new investment product compliant with the Shariah principles. CARAVAN I Sukuk is a result of Shamil Bank's focus on catering to the region's rising demand for Islamic investment products". BSEC is specialized in securitisation, and cross-border structured finance, applying best in class know-how, and innovative financial structures, BSEC has succeeded in providing sophisticated financial

services to clients and investors based in the GCC, (Gulf Cooperative Council). BSEC was established in 1994 as a Financial Institution under Lebanese law and is regulated by Central Bank of Lebanon. BSEC is part of the BEMO Bank Group operating in five different markets: Lebanon, Syria, Cyprus, Luxembourg and France. Shamil Bank is incorporated in the Kingdom of Bahrain and has grown steadily since 1982 to become a leading Islamic institution with a paid up capital of US\$ 230 million and assets under management in excess of US\$ 2.5 billion. The Bank provides a range of products and services that cater for the financing and investment needs of individuals and institutions. It conducts its business in strict compliance with the principles of Islamic Shariah. Shamil Bank is a subsidiary of the Dar Al-Maal Al-Islami Trust, one of the world's leading Islamic financial organizations among other shareholders. Its shares are listed on the Bahrain Stock Exchange. ■

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B-SECURITISATION ANALYSIS

FINANCIAL: CARAVAN I FINANCIAL STRUCTURE



CARAVAN I is the region's first inventory fleet securitisation transaction. The 3-year maturity Shariah compliant transaction offers investors 6% return paid on a monthly basis. The transaction has a total size of SR102 Million Sukuk and is backed by a pool of vehicles and vehicle lease agreements purchased from HANCO Rent A Car, a leading Saudi Arabian car rental and leasing company. BSEC was the deal Arranger and Structurer, while Shamil Bank was the sole Underwriter. The special features of the deal are the

two-tier two-jurisdiction financial structure. A Special Purpose Company (SPC, also referred to as owner SPV) was set up in KSA to purchase the assets from the originator, while a jersey-based Special Purpose Vehicle (Issuer SPV) issued the Sukuk under the control of Jersey Financial Services Commission. This structure is unique since the securitised assets are physically based in KSA. The two-tier configuration was meant to overcome the absence of securitisation laws in Saudi Arabia. Credit enhancements

embedded in the structure, are 15.39% over collateralisation, 4.25% equity tranche and 8.77% of cash reserves, whereas early warning triggers helped to mitigate the performance risk. Partners to the deal include Baker & McKenzie, legal advisors for Saudi law, Voisin & Co Jersey law advisors and Volaw Trust as trustees; Dr. Nasri Diab law firm was the legal counsel for BSEC. Shariah compliance was provided by UK-based Yasaar Limited■

TAX AND ACCOUNTING: FASB TO REWRITE FAS 140 ON QUALIFYING SPE'S



The FASB has undertaken a project to rewrite accounting rules on qualifying special-purpose entity (SPE) and the condition for isolation of assets, required for off balance sheet treatment to securitization transactions. the objective of this project is to amend FAS 140, to (1) specify the conditions under which a qualifying SPE is permitted to issue beneficial

interests with maturities that are shorter than the maturities of the assets held by the qualifying SPE and roll over those beneficial interests at maturity; (2) clarify or amend other requirements of Statement 140 related to commitments by transferors, their affiliates, and their agents to provide additional assets to fulfill obligations to the beneficial interest

holders; and (3) address other issues related to transfers of financial assets that arose during *deliberations (to be continued on Issue N.13 of this NewsWire; source vinodkothari.com)*■

LEGAL: ISLAMIC BANKING IN ... LEBANON



(Continued from NewsWire, Issue N.11, February 04) Obviously, the legislator is asking Central Bank to act as its surrogate, and the source of inspiration of Central Bank is to be found more in the Sharia' and the statutes enacted by Islamic countries with broad experience of the subject such as Bahrain, than in the common provisions of Lebanese law. Besides, Central Bank will have to set the guidelines applicable to the accounting, the ratios of liquidity, and all the tools which are in place for commercial banks and not applicable to Islamic banking and which are vital for the protection of the clients'

deposits. The law defines the Islamic banks as those banks "which Articles of Incorporation contain a commitment not to violate the Sharia' in the operations they conduct and especially not to use interests, taking or giving" (article 1). The incorporation of an Islamic bank is subjected to the prior authorization of Central Bank which has a discretionary power for granting the license in view of "public interest" (article 3, para. 3). The commercial banks already operating in Lebanon can set up, or participate to the capital of, Islamic banks provided they obtain said license. The Islamic bank can

undertake all kinds of financial, banking and commercial operations including taking participations in existing or new projects which is almost barred to commercial banks as per article 152 of CMC. The Islamic bank can open current accounts for its clients as well as deposit accounts, (article 3). The deposits, which duration cannot be lower than six months, are governed by the common rules contained in article 307 of the Code of Commerce except for the interests, which are prohibited *(to be continued in Issue N.13 of this NewsWire)*■

C-SECURITISATION COMMENTARY

SPECIAL FOCUS ASSET SECURITIZATION IN THE REPUBLIC OF TURKEY



The financial liberalization process in Turkey began in the second half of the 1980s where the Turkish banking system entered into a structural change. The main policy target of the banks became the development of financial tools for asset and liability management. The asset-back securities were considered as a new tool to achieve this target. In the last 10 years the major banks in the Republic of Turkey securitized their: (i) international credit card receivables due from credit card networks, (ii) export receivables, (iii) checks and travelers check

remittances, (iv) electronic remittance payments (generated primarily from Turkish workers in Germany), and (v) diversified payments. These future-flow transactions provided long-term, lower-cost hard currency financing to banks in the Republic of Turkey. The Turkish banks that have lower ratings from the credit rating agencies, but have high-quality assets (i.e. receivables) could get cheaper funds through securitization as compared to borrowing from the money markets. The major banks involved in international asset securitization became more liquid, lowering risk and cost. Under Turkish law, the

originator Turkish banks sell and assign the transferred receivables to an SPV incorporated outside the Republic of Turkey. However, a true sale of transferred receivables from the originator to the SPV is possible under Turkish law and results in a transfer which effectively removes the assets in question from the originator's estate so that they are placed beyond the reach of the originator's third-party creditors or its receiver, liquidator, administrator or trustee in bankruptcy (source: securitization.net)■

READINGS OF THE MONTH "RICH PICKINGS" GULF BUSINESS, March 04



The growing number of ultra-wealthy individuals in the Gulf region is highly attracting the banking sector, offering diversified services. It has been reported that the number of High Net worth Individuals (HNWI) in the Middle East grew by 4.7% to 300,000 by end 2002. By 2007, the Middle East is predicted to account for \$1.5 trillion of the world's private wealth. As the number of HNWI grows, so does the fight to managing their money. Private banking services offered by regional banks and financial institutions seem to be a stable and lucrative business since it's generally fee-based, rather than credit-based,

requires relatively low capital and is a low risk business for the bank. The demand for investment products is obviously rising due to the continuous decrease in deposits' rates. According to Merrill Lynch 2003 Wealth Report, only 45% of the world's wealthiest were prepared to make investment decisions alone, compared with 55% two years before. Experts reported that "the Gulf's private banks have not been slow to accommodate the rising demand. The past two years has seen a number of new players in the private banking sector, as well as more established players moving into wealth management alongside their

commercial or retail practices". It seems that there is some debate over which has the 'better' offering for private banking customers, international institutions or local banks. The multinationals are often criticized for being merely regional offices, serving customers through their bigger American or European private banking arms rather than offering local expertise or products. Fund and product managers tend to be based overseas because that is where the investments are located. What matters is that the advisers are in close proximity to investors (source: zawya.com)■

D-CONTACTS AND DISCLAIMER

CONTACTS

BSEC - BEMO SECURITISATION SAL

Registered Office

7th floor, BEMO building,
Sassine square, Achrafieh,
Beirut, Lebanon
Tel: 961-1-200609
Fax: 961-1-200647

E-mail

info@bemosecuritisation.com

Web

www.bemosecuritisation.com

Iad Boustany

*General Manager, Executive VP
– Structured Finance*

iboustany@bemosecuritisation.com

Ibrahim Mardam-Bey

*Executive VP – Marketing and
Sales*

lmardam-bey@bemosecuritisation.com

Abdallah Nassif

*Senior Analyst - Structured
Finance*

anassif@bemosecuritisation.com

Roula Sleiman

*Associate – Marketing and
Sales*

rsleiman@bemosecuritisation.com

Elias Sayegh

Associate - Structured Finance

esayegh@bemosecuritisation.com

Associated Law Firm**Nasri Antoine Diab Law Firm**

Unifert Center, Barbar Abou Jaoudé Street, Jdeidet,
Beirut, Lebanon

Tel: 961-1-901316

Fax: 961-1-874664

E-mail: unidroit@dm.net.lb

Visit: www.martindale.com (Lebanon)

<http://www.securitizability.com/site/writers/cwlebanonlaw.shtml>

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