



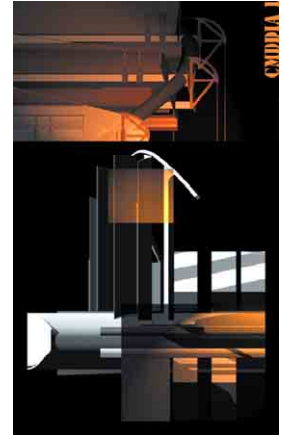
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MARKET STATEMENT

Established in 1994 and operating in the Structured Finance arena, **Bemo Securitisation SAL (BSEC)** 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 Bemo Securitisation SAL focusing on securitisation news and analysis in Lebanon and the MENA countries; It puts into perspective the different issues pertaining to securitisation in the legal, financial, tax and accounting fields.



A-SECURITISATION NEWS

LEBANON

According to a recent study of the Lebanese Banking System Outlook published by Moody's Investors Service on June 2003, it was stated that the ratings of Lebanese banks is a reflection of a difficult operating environment along with the banks' exposure to a government with weak financial fundamentals and an onerous debt. However, the recent developments came with

the Paris II agreement that was signed in late 2002 and which has had a positive impact on interest rates, rebuilt confidence in the Lebanese pound and pushed away the threat of devaluation. The average cost of deposits in LBP dropped by more than 146 bp to reach 8.68% at the end of February 2003, while the dollarisation of deposits declined from a 10-year high of 74.24% at

the end of May 2002 to 68.4% at the end of February 2003. In addition, the high liquidity of the Lebanese banks -especially in foreign currency- is a key strength; the latest figures reveal a core liquidity of 33% of total assets, which is high by international standards. According to Moody's, this fact mitigates the concerns about a potential crisis in confidence■

MENA AND GCC COUNTRIES

The Dubai Financial Market (DFM) reported that more than \$60 billion are to be invested over the next five years within the GCC states. Capital markets need to be developed to provide an alternative source of funding to bank finance; their role have been modest in financing operations of the private sector compared to the role of the banking sector. In 2001, there were 32 projects in the GCC that required \$15.5 billion in long-term financing. However, the 393 listed companies in the GCC had a market capitalisation of \$150 billion approximately. The

GCC need high-class capital markets like the New York, London and Tokyo ones. The awareness and the efforts are already existent and works have started to attract and channel investments, notably thanks to institutions like Bahrain Financial Harbour and Dubai International Financial Centre. The need for developing capital markets is in parallel to the realisation that attracting foreign direct investment is crucial to further development of Arab economies. Arab financial specialists pointed to the benefits such an integrated capital market

would bring not only for regional, but also for global players. These include: one market but six entry points; single order book with a unified trading platform; single membership with a single rulebook; single data dissemination; single list or harmonised listing criteria; single clearing system; creation of second and/or third tier markets for small and medium sized companies and demutualization (Source: *Bahrain Tribune 2003*)■

B-SECURITISATION ANALYSIS

FINANCIAL



Future flow securitisation is the predominant structure for the Middle East Africa region. Despite many political, economical and natural shocks in the recent years, the market in countries like Egypt, Turkey and South Africa is well performing with tourism related securitisation transactions, especially credit cards voucher receivables that are linked to tourists' expenditures in these countries. Despite the negative stressful events that occurred,

causing a global tourism slowdown like the attacks on tourists in Egypt, the earthquake in Turkey, as well as the September 11 events, the transactions possessed maintained rating and high levels of credit enhancements, notably overcollateralization. This is to demonstrate that this region offers potential for tourism and remittance linked securitisation; additional credit card receivables and diversified payment rights transactions are well expected to

be completed in the coming months. The positive performance of the securitisation transactions over the past years reflects an optimistic outlook for the whole region. As for investors, they have gained confidence concerning the impact of risky events on certain asset classes. However, the structures can be investment-grade rated and include further credit enhancements■

TAX AND ACCOUNTING



The continuous delay of the Lebanese tobacco securitisation that was brought up in NewsWire Issue of April 03 seems to be well managed after the frequent discussions and meetings held for the 2004 annual budget voting. It was reported that the Decree N.4461 of December 15, 2000 dealing with Custom Duties is likely to be modified in order to facilitate the tobacco securitisation, solving by then a

big tax hurdle for the structuring of this transaction. The success of such a deal would procure a relieve for the public debt, which has an estimated total size of \$500-\$750 million and is supposed to be closed by the end of this year, but the decisions to be made are still under the ministry of finance amendments. The issue of true sale, rating and targeted investors is still unclear. The government plans for the

coming year are concerned with the regulation of the imposed taxes; the talked about increase of the income tax for instance- from 10 to 16%-was not approved by the minister of finance and not mentioned in the 2004 budget plan. Yet an additional 2% is expected to be applied and the 16% will only be imposed in case other taxes are cancelled. The public debt will be then regulated by the telecom securitisation deal■

LEGAL

(Continued from NewsWire – Issue 5, August 2003)

The question at hand in Lebanon is the following: What kind of securities can the SPV issue? In the cases where the SPV has the form of a corporation, the securities which could be issued are delimited in the Code of Commerce: Shares, bonds, etc. But what about the other forms of securities, and also what about the other forms of SPV? This issue leads us to discuss the concept of freedom to create transferable securities. Under French law, such freedom is accepted but within boundaries. Not every person is free to create

transferable securities, but only incorporated entities can do so: They can, under the supervision and control of the financial authorities, issue transferable securities other than those provided for in the laws. In Lebanon, the provisions of Article 453 of the Code of Commerce permit to define the transferable securities as the registered or bearer instruments (*titres*) issued in whole lot, representing the rights to same amounts of monies, and which are negotiable pursuant to the simplified procedures provided for in this Code and can be listed on a regulated market. Clearly,

the enumeration of such securities as made in Article 453 (shares, bonds, annuities) is not limitative: This text provides also for “all other negotiable instruments.” A very interesting definition of the transferable securities is given in Article 4 of the General Regulation of “Custodian and Clearing Center of Financial Instruments for Lebanon and the Middle-East SAL” (Midclear) of 1995, which is clearly in line with Article L.211-2 of the French *Code Monétaire et Financier*, and is close to one we obtained from Article 453 of the Lebanese Code of Commerce■



C-SECURITISATION COMMENTARY

SPECIAL FOCUS “ISLAMIC SECURITISATION”



An Islamic bank as defined by the Organization of Islamic Conference (OIC) is “A financial institution whose status, rules and procedures expressly state its commitment to the principle of Shariah and to the banning of the receipt and payment of interest on any of its operations”; (Shariah being the economic, political, religious and social order of Islam). They are as well getting more and more implicated with the securitisation activities. However, there are many differences between conventional and Shariah compliant securitizations. For Shariah compliant

transactions, the nature of the underlying asset should be acceptable; for instance, assets like alcohol, tobacco or casino machines are forbidden (from being bought, financed, leased or securitised by an Islamic institution) because they generate non Islamic services or products. Mortgage Backed Securities are also not to be considered since they are pools of interest-bearing assets. The structure to use should also be satisfying to Islamic principles; the pay-through and the commercial paper for example, are debt structures that make explicit use of interest (in that case specific Islamic structures are elaborated, and which will be explained in

future NewsWires). The investors in Islamic transactions are remunerated on a profit and loss sharing basis, while a conventional structure allows a debt issue with fixed return with a right of recourse to the issuer. The successful application of securitisation requires available credit and financial data on the underlying asset, appropriate accounting standards and the possibility of a rating process. Securitisation is an interesting opportunity for Islamic financial institutions, due to the fact that it offers new liquid markets, new investor base, a balance sheet clean-up and a fee income earning■

READINGS OF THE MONTH “JUST THE TICKET”, *International Securitisation Report*, issue 79, July/August 2003, p.29



The new millennium gave birth to new risks, one of which is the Event risk. In spite of the recent tough events that occurred in the past two years, from the September 11, the Iraq war, to the outbreak of SARS, ABS deals backed by tourism-related assets have been performing surprisingly well. There have been a limited number of downgrades, notably in bonds backed by airport revenues where high security costs have accompanied a decrease in the number of travelers-whether for business or holiday purposes; however, some deals have avoided being downgraded, like

the whole business securitisation £84m Really Useful Theatre, which securitised the ticket receivables of 13 theatres in the west end of London, attended mainly by American tourists. According to Moody’s, the performance of the deal is a business management issue, which affects revenues more than a temporary drop in tourism; the main driver is how to manage the portfolio of theatres as well as the ins and outs of shows i.e. to decide how to manage phasing out that show and bringing a new one in. On another front, the London City Airport deal that raised £100m via City Aviation

Finance offering, was downgraded one notch by Moody’s, after the events of September 11, that led to an increase of costs from the insurance premiums and the added security personnel. Airports around the world suffered from SARS and the Iraqi war, leading to cut back some routes. These related deals are usually backed by a single asset, and many have limited revenue streams that made them subject to event risk■

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