

Securitisation in the Middle East:

Exploring The Untapped Potential of the Region

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INTRODUCTION

Since March 2007, the Gulf region has seen the launch of five rated asset-backed financings aimed both at the local and global investor base (see Appendix 2 for more details). The most recent transaction to come to the market was Sun Finance Limited, a land development-related AED4.016 billion sukuk issue from Sorouh Real Estate PJSC in September 2008. Despite its considerable size, this deal represents a tiny drop in the hundreds of billions of dollars of real estate projects currently planned across the region.

The loan and equity markets have so far been the dominant form of financing in the Gulf Cooperation Council (GCC). Currently the local debt/sukuk capital market is small at around US\$70 billion, of which only around US\$4 billion are securitisation transactions. This compares with the US\$12 trillion of outstanding asset-backed financing globally. The local bond market, in all its various forms including securitisation, is key to the region's future development.

Home finance is relatively new in the region and demand for housing is predicted to grow steeply given demographic patterns, the increased import of home ownership and the recent ability for foreign ownership. Using more established housing markets as a proxy, rough estimates show that at current GDP growth levels, over US\$600 billion of wholesale finance will be needed in the long term to support home buyers. Funds are still needed for construction of these homes. but local banks may be over-exposed to the real estate development sector and central banks have placed limits in an endeavour to moderate that exposure. As a result, the market – including securitisation – is likely to cover an increasing portion of the financing going forward. Securitisation transactions could also support the growth in consumer finance.



US\$1.5 trillion of securitisation in the first half of 2008

Regulators trying to create supportive legislation

Lower capital charge for holding senior rated debt compared to unsecured lending

Securitisation has strong long term growth potential

Demographics are a key driver for the real estate sector

Securitisation may also assist banks in meeting their financial/balance sheet objectives by offering a new and potentially large source of funding, reducing asset/liability mismatches and promoting risk transfer. The first half of 2008 has still seen approximately US\$1.5 trillion¹ of global securitisation issuance from (mainly) banks as they restructure their balance sheets and take advantage of central bank liquidity facilities available for rated bonds.

Some of the local regulators have taken note of the potential of asset-backed financing. The Dubai International Financial Centre Authority (DIFCA) has recently been active, passing legislation facilitating the creation of the special purpose vehicles (SPVs) that are key for structured financed transactions. Government entities in Kuwait and Saudi Arabia have also been considering laws to help facilitate such transactions in their own markets. However, the nascent legal environment has seen little in the way of large-scale bankruptcies, which creates significant uncertainties with respect to the enforceability of the security mechanisms required in asset-backed structures.

On the buy side, the region's investors are looking for new investment opportunities with alternative risk profiles. Capital shortages aside, international investors are also searching for diversification as the uncertainty in their home markets persists. Less troubled Asian banks are becoming particularly active in the region. For all banks, holding senior rated asset-backed bonds incurs significantly lower capital charges than unsecured lending and is also a source of collateral for central bank liquidity facilities.

Ultimately, Moody's believes securitisation financing has a strong growth potential in the GCC. This report aims to serve as a securitisation primer for market participants unfamiliar with this form of finance and provides some insight into the possible drivers for securitisation in these new markets. We focus primarily on the six countries which comprise the GCC: Kuwait, Qatar, Oman, Kingdom of Saudi Arabia (KSA), Kingdom of Bahrain and the United Arab Emirates (UAE) as this is where Moody's currently sees the most potential for credit ratings. Jurisdictions in North Africa and the Mediterranean such as Lebanon, Egypt² and Tunisia³ show activity but with very different securitisation dynamics from the GCC ones discussed here.

A GROWING NEED FOR GULF SECURITISATION

We begin by examining the demand for residential and commercial property in the region and (despite the current correction) related need for funding to cover for such demand over the coming years. The local consumer finance market is also expanding rapidly and we will look at the related opportunities for the ABS sector. Finally, the ability of securitisation to assist banks in meeting this funding need and supporting their risk management is evaluated.

Home ownership and opportunities for RMBS - Filling the US\$600 billion hole for Gulf home buyers

Demographics supports growth in residential properties: The demand for housing is deep and expected to continue to grow in the future. To address this demand and provide economic diversity away from oil, the region's public and private sectors have produced ambitious plans for new developments, including entire cities built for hundreds of thousands of people.

Demographic drivers in the region are very important to the current and future economic growth plans of the GCC. With approximately 50% of the population under 25 years of age, birth rates ranging from 2%-4%, a falling average of 4-5 persons/household and an overall population growth of ~3.5% (from 10% plus in Qatar to around 2.5% in KSA), there is a basic need for housing⁴.

¹ European Securitisation Forum: Securitisation Data Report Q2 2008 (applies USD/EUR FX rate of 1.50). In the same period, global corporate and sovereign bond issuance was US\$533 and US\$959 billion, respectively.

² See Appendix 4, Moody's Egyptian affiliate MERIS has rated multiple domestic securitisations.

³ See Appendix 2, Tunisia has seen two national scale-rated residential mortgage-backed transactions.

⁴ IMF: World Economic Outlook Database, October 2008.

Saudi Arabia has made increasing home ownership a public priority

Freehold and long leaseholds are now available across the region for non citizens

Low mortgage penetration in the region

Total home finance demand in GCC estimated to be around \$600 billion

Public support for home ownership: With 27 million inhabitants (an increase of 7 million since 2000), Saudi Arabia is the market with the greatest potential and the most ambitious but least developed real estate projects. The Minister of the Economy has announced that the government is seeking 75% home ownership for its citizens by 2025, up from 35% today⁵.

As 50% of the population reaches their 30s and expatriates continue to arrive (approximately one million in 2007), some estimates put the current deficit at 400,000 units with a future need of 150,000 units a year for the next ten years, many of which will need funding. The government's Eighth Development Plan has targeted the construction of 1 million units by 2009⁶.

Foreign ownership available: Expatriate immigration is also driving growth with over 75% of the populations of Qatar and the UAE originating from abroad compared with 30% in Oman and Saudi Arabia⁷. Drawn by employment opportunities, many of these expatriates have been residents for a number of years but did not have previously the option to own their residence. With demand pushing up rents to unaffordable levels, many are now seeking to buy, despite the still relatively high cost of home finance. Such purchases are now on hold as would-be owners sit between falling prices and a lack of finance. Foreign freehold ownership and long leaseholds are now available across most of the GCC countries, usually in specially designated areas. This concept, first observed in Dubai, has led to a massive increase in demand from residents and foreign investors, creating a real estate boom across the region.

A dearth of mortgage lending: While the demand for housing is large, end purchasers also increasingly need finance to help them buy their homes. The Gulf governments are highly active on the supply side but they will need to become involved on the demand side as well if they are to meet their strategic real estate ambitions. The current liquidity shortage has further exacerbated the situation - LTVs from local lenders have fallen dramatically in recent months, meaning that sizable deposits (20%-40%) are now required from potential home owners.

Mortgage penetration in the Gulf region is very low at less than 4% of aggregate GCC GDP on average, with the UAE – the most advanced financial economy of the GCC - at around 10% of 2008 forecast GDP. This compares with 15%-20% for most emerging markets, around 40%-50% for city states such as Hong Kong and Singapore and 60%-80% for many European countries⁸.

Large growth potential looking at mortgage penetration comparables: Assuming the long-term trend for expatriate-heavy city states is towards Singapore/Hong Kong's mortgage levels (40%/50%), the long-term home finance demand potential of the UAE would be close to AED500/US\$135 billion based on 2008 forecast GDP figures. Extrapolating further, the population in the UAE is around 4.8 million. With 25 million in Saudi Arabia, and 37 million overall in the GCC, using GDP estimates and penetration benchmarks, we estimate the long-term potential at around US\$600 billion. This figure does not give credit to future GDP growth – but given some cultural adversity to debt financing and the relative infancy of local financial services, it is highlighted that such penetration levels may take many years, if not decades to reach.

⁵ Khaleej Times -07/09/2008 Saudi Arabia- PPA launches SR10 billion scheme.

⁶ Kingdom Of Saudi Arabia Millennium Development Goals 1425 H 2005 G.

⁷ Moody's Sovereign Risk Group: Country Analysis for respective GCC countries.

⁸ Central Banks, Morgan Stanley Research – Winners and Losers in MENA Property – 4 August 2008.

In Saudi Arabia, the majority of homes are paid for in cash, mortgage penetration is less than 1% of GDP

Given the demand, the existing government funds are not sufficient and private sector involvement is key

Bahrain and Kuwait have tens of thousands of citizens seeking housing support

Abu Dhabi and Qatar are amongst the richest per capita but the economic boom has created a massive shortage in housing stocks

In Dubai, home finance demand is estimated at US\$17 billion over the next few years

GCC markets:

Housing market in Saudi Arabia: The current mortgage penetration in Saudi Arabia is less than 1% of GDP. The urban population has increased to around 80% today, from 21% in 1950. Anecdotally, over 80% of the newly built homes in the kingdom are paid for in cash (often from lifelong personal savings) with the balance coming from government funds and financial institutions. The government set-up the "Real Estate Development Fund" in 1974, which has thus far provided around SAR134 billion/US\$36 billion funding in interest-free credit, allowing over 500,000 homes to be built⁹. However, like the rest of the region, prices have risen dramatically in the past few years and there is a demand backlog of around 450,000 applications¹⁰. Those with middle/lower incomes as well as younger buyers are struggling to become home owners. To further encourage home ownership and address the lack of significant private sector involvement, Saudi Arabia's Public Pension Agency has recently set up a SAR10 billion (US\$1.5 billion) fund available to those pensioners with zero loan facilities outstanding. The question remains whether these funds will fulfill the demand posited by the aforementioned one million units targetted under the government's Eighth Development Plan.

And in Bahrain and Kuwait: Bahrain also has social housing issues and has recently indicated to the UN that it has a housing crisis, with over 40,000 families seeking state assistance in home financing or subsidised accommodation. The physical shortage of land (only 650 sq. km) in the country exacerbates the issue. While some local securitisations have taken place, they are relatively small, unrated and placed with the domestic market and state agencies. Kuwait has similar concerns with 70,000 housing applications outstanding from Kuwaiti citizens¹¹.

Then Abu Dhabi and Qatar: Abu Dhabi and Qatar have shortages of housing stock exacerbated by the economic boom. They are far earlier on in the cycle and both currently have a lower level of property releases at around 10,000-20,000. However, on a per capita basis, both are amongst the richest cities in the world, so home finance is not as much a social issue as in other GCC countries. The longer-term expatriate community, however, is forced to pay relatively high rents, creating some demand. The legislation on rent increase supports existing tenants, but not the immigration of new professionals that is supporting the ongoing economic boom in the region.

And finally, Dubai: As the most advanced housing market, Dubai serves as a good indicator of the region's long-term potential. Residential lending is not yet tracked separately by the Central Bank but as of June of 2008, we estimate the mortgage market to be relatively small at around AED25-30 billion/US\$7-8 billion and 20,000-25,000 accounts¹². Assuming an average price of AED2.5 million per property (averaging villas, townhouses and apartments) and a projected near-term supply of around 25,000¹³ units a year, a total of AED63 billion/US\$17 billion of finance would be needed over the next three years. If we further assume that at least 50% are cash buyers and that lenders will finance at 70% LTV, that would equate to a further AED22/US\$6 billion required for the next few years as we enter a market slowdown with reduced liquidity. Notwithstanding the current environment, US\$6 billion is actually not that much when looking at the aggregate bank credit outstanding (ie consumer/auto loans, overdrafts/advances etc) which was up to AED182 billion/US\$33 billion last year.

Dubai is currently the most advanced market both in terms of real estate legislation and of availability and variety of home financing products, with major market players such as Amlak, Tamweel, Dubai Islamic Bank, Standard Chartered, HSBC, Barclay's, Commercial Bank of Dubai, Noor bank, etc. Nonetheless, direct residential financing as a percentage of overall bank lending remains small at less than 6%.

⁹ NCB Capital Research Department – Kingdom Under Construction, June 2008.

¹⁰ Saudi Gazette - February 2008.

¹¹ Kuwait Times – 13 June 2007.

¹² Moody's: Estimated from various financial accounts of local home finance and mortgage providers.

¹³ Morgan Stanley research – Winners and Losers in MENA Property Aug 4th 2008. Vision 2008 - Shuaa Capital Jan 2008 indicate approximately 50,000 units/year for the next three years. Given recent market conditions we have halved this estimate as we expect developers to moderate future supply.

Moody's believes that RMBS/Sukuk issuance in the GCC will grow in response to funding needs

Residential Mortgage-Backed Securities (RMBS) to grow: The retail providers of home finance also need finance. As the funding needs become quite large, the requirement for access to capital market funding becomes apparent. In response to the demand for finance and the very low levels of mortgage penetration, Moody's expects the mortgage market in the GCC to grow significantly over the foreseeable future. As global markets stabilise, Moody's believes that RMBS/Sukuk volumes will grow, initially in the UAE and eventually in the KSA once the mortgage law is passed. It is worth noting that RMBS is the most common asset class in EMEA, with home finance volumes of €384 billion in 2007.

Securitisation markets may be key sources of funds for home financiers: Tamweel and Amlak PJSC were the original captive financing arms for the two (initially) state developers Nakheel and Emaar, respectively. They were formed when land and property laws were virtually non-existent. They have since evolved into the two dominant providers of home finance in the GCC and have recently announced merger discussions. However, both lack the 'cheap' and stable retail deposits of some of their newer competitors that have become more active in the country since land registration laws were passed in 2007. As a result, they are likely to need to raise alternative finance to equity and unsecured debt. Securitisation markets may become key to their long-term business models. The same is true for the newer lenders being set up in the region – where currently Saudi Arabia is the most active.

Increased volatility assumptions help compensate for a lack of data in nascent markets

Some rating considerations for RMBS in the region

A housing market with little historical data: One of the key considerations for both Moody's and the investor base is that mortgage financing in the GCC is relatively new, and most of the region has limited experience of a property downturn. Performance data is limited as a result: no data is available on a full housing cycle; very few defaults have been observed so far; the lack of local house price indices also creates difficulties in trying to assess current valuations and related LTVs of mortgage portfolios (although several parties have begun to create an index). Moody's typically handles a deficit of data by introducing a relatively high level of volatility around the main assumptions in its analysis.

Foreclosure and repossession are key to responsible lending and RMBS analysis

Untested legal system: A necessary part of any secured home financing (and Moody's rating analysis on RMBS transactions) is the financier's ability to repossess the property. Although ownership and access to credit is increasing, the boom has meant limited (if any) experience or awareness of home foreclosure/repossession, and even more so in countries such as Saudi Arabia where Shari'ah courts can consider social and humanitarian issues when providing judgements. The upcoming Mortgage Law is expected to resolve some of the key issues holding back home ownership in the Kingdom by improving the legal environment necessary for financiers to both lend, and – perhaps more controversially – enforce and repossess properties from delinquent borrowers.

Tamweel was the first internationally placed RMBS in the region

RMBS: Tamweel Residential ABS 1¹⁴ /Tamweel PJSC

The pioneering Tamweel Residential ABS transaction was the first international and publicly rated Islamic securitisation of Ijara (lease-to-buy) receivables of residential properties located in Dubai. Moody's assigned credit ratings of Aa2, Baa1, Ba3 to the US\$186 million, US\$16 million and US\$10 million class A, B and C notes, respectively. The class D notes (US\$8 million) were unrated, all are due 2037. The very high prepayment rate on the Ijara pool (given a rising housing market) means that the deal is expected to amortise long before the legal final maturity.

From an Islamic perspective the deal was important as it was the first true-sale, globally rated, asset-backed Sukuk in the region and 'complies' with some of the recent Shariah recommendations issued by the Accounting Association of Islamic Financial Institutions (AAOIFI).

This transaction is a good example of a company raising secured funds on high quality assets and while it was initially unrated (it subsequently obtained a public issuer rating of A3), this weakness was mitigated by strong back-up servicing mechanisms. The transaction achieved Aa2 ratings on the senior notes – the highest rating currently possible in the UAE.

Senior secured Sukuk rated Aa2, Tamweel unsecured rated A3

The securitised nature of the funding meant that the senior notes are rated higher (Aa2 vs. A3) than the unsecured bank sukuk due to the strong nature of the underlying collateral compared with the standalone risk of the originator. At the time it achieved a cost of funding of LIBOR plus 35 bps on the senior notes. While unlikely to be repeated in the medium-term, it was seen as very competitive vs. the unsecured funding at the time.

Urban development and opportunities for CMBS - Building cities in the sand – US\$1 trillion needed

Current shortage of regional office space, hence high level of rents

Commercial and retail property expansion: The demand for commercial and retail properties is extensive across the GCC. Companies are setting up local offices to service this fast growing region and take advantage of the low corporate tax rates. Rents on commercial office space have climbed even more quickly than those on residential housing, for example, Abu Dhabi, with occupancy rates of 99%, has seen rental growth levels of over 300% since 2001. Dubai and Riyadh have also seen rises from 15%-40% triggered by the economic boom¹⁵.

This includes state sponsored, flagship developments such as Bahrain Financial Harbour and King Abdullah Economic City of Saudi Arabia, which will add a further 620,000 sq. m of office space to the region. As such, the overall regional balance is expected to shift from shortfall to excess, but the effect on rents may vary between locations. Recent market slowdowns have affected the prices of the future supply but rents for available and ready offices have yet to fall.

Developers have difficulties raising funds

Developers need cash: With hundreds of billions of dollars required, local banks are already over-exposed to the sector and central banks have placed limits to try to moderate their concentration - e.g. the UAE caps real estate exposure at 20% of the deposit base, Qatar limits LTVs to 65% of the project value. Although these restrictions are vital for a sound banking system, they make it increasingly difficult to raise the money needed for the execution of the government's urban plans.

The real estate sector may need over US\$1 trillion in funding

If mega-projects like Blue City (Oman), Reem Island (Abu Dhabi), City of Silk (Kuwait) are combined with the many other developments, the financing needed is estimated at around US\$1,000billion¹⁶ over the next ten years when looking at the top one hundred projects/developers alone. However, these numbers also include "announced" projects, which may take many years to complete their design and feasibility stages. The recent uncertainty in the real estate and oil markets will likely result in further project delays or even cancellations.

¹⁴ Please see Moody's Pre Sale Report: Tamweel Residential ABS CI (1) Ltd, (SF101479isf) published June 2007 for more detail

¹⁵ Colliers International – "Abu Dhabi/Riyadh/Dubai Real Estate Overviews, Q2 2008".

¹⁶ MEED – US\$1 trillion is the estimated value of projects, announced and begun by the top 100 real estate companies, 26 September 2008.

Borrowers and lenders are keen but CMBS investors are missing

CMBS remains limited so far: Given the volume of real estate loans, commercial property investment and the central bank lending limits (20% of deposits) we would expect to see more CMBS transactions. However, interest/issuance has been very limited so far and the price for a capital markets issuance remains uncompetitive compared with the loan market. Although borrowers and lenders may still be keen on commercial property securitisation, local investors seem yet to be convinced.

UAE central bank looking at ways to support real estate risk transfer

The UAE central bank and Ministry Of Finance have recently announced they were looking at “financial vehicles” to help with bank balance sheet real estate exposure to help provide additional liquidity. If effected, such mechanisms will have a transformational effect on the securitisation landscape.

Pre-sale contract cash flows can be securitised

A consequence of the supply/demand imbalance across the region is that it has permitted master developers and sub developers to sell property off-plan, particularly in the UAE often years ahead of delivery¹⁷. This cash flow receivable can be used as a securitisation asset.

Market correction is underway

Recent global events have now triggered the long expected slowdown in local real estate markets. As such, a correction has begun – particularly for future property deliveries in the more speculative locations and developments.

Much of the immediate new supply is in the hands of investors and speculators

Given the sheer volume of planned construction in certain markets, there is also a risk of oversupply. Much of this future housing stock is in the hands of state-related developers, and we have already seen some developers change their construction schedules and payment plans to try and ensure that the release of additional (now excess) supply is more limited. However, much of the segment under construction is now due for release over the next 24 months and is already in the hands of investors whose market behaviour is far more susceptible to near term and emotional drivers.

Payment plans allowed for excessive leverage and speculation

Indeed, in some of the local real estate markets it is felt that the majority of more recent property demand is not from would-be owner-occupiers but from speculators and investors. The leverage offered by the staged payment plans and general lack of any credit checks can facilitate a high degree of speculation. The consequential price rises (in both buying and renting) actually preclude the more stable occupier demographic that the governments need and affect the long-term prospects of a healthy market. Various regulations are being proposed to try to limit this aspect. Moody’s will monitor the situation closely and incorporate markets developments into its ongoing analysis.

Dubai may be the most exposed: Dubai has seen the largest growth in real estate prices, the highest availability of credit, the highest volume of residential supply and the highest proportion of speculators over recent years. As a result, Dubai may be the most sensitive to the correction. On the upside, it is still the fastest growing economy and the most liberal in facilitating home ownership for its large and growing expatriate and tourist populations.

Longer-term potential for CMBS is high

CMBS still needed over the longer term: While the strong fundamental drivers coupled with increasing regulation and state moderated supply may help slow the market, only time will tell how effective they are at effecting a manageable slow down versus a hard correction. In this context, CMBS transactions may be more challenging to launch. Longer-term, however, securitisation should be an attractive way of financing part of the future growth.

¹⁷ Purchasers generally pay according to staged payment plans with final payments due once the property is finished. Freehold title is retained until all payments are made. Construction risk is a critical issue if cash flows can be interrupted or need to be refunded.

Abu Dhabi's first securitisation of land and associated payments	ABS/CMBS: Sun Finance Limited¹⁸ / Sorouh Real Estate PJSC
Investors are taking risk on Sham's project success, which is largely delinked from Sorouh's financial health	The recent Sorouh transaction (Sun Finance Limited) is an innovative example of an asset-backed sukuk financing. It is a hybrid of asset-backed securitisation and project finance. Sorouh required funding to help deliver a portion of the Abu Dhabi's Reem island development (Shams), which is one of their major projects and part of the government's urban master plan for the city. As an Islamic securitisation, it was also notable in adhering to the recent AAOIF ¹⁹ guidelines for sukuk Shari'ah compliance. The concept of tranching, however, has yet to achieve consensus in its application.
Secured funding generally cheaper	In a very illiquid market, Sorouh raised AED4.106 billion by securitising AED5.7 billion of payments due to it under the land purchase contracts of 109 sub-developers working on the estate. A sizable portion (approximately AED1.7 billion) was put into escrow to fund the construction costs and help delink somewhat the sukuk performance from that of Sorouh. Ultimately, investors are expected to be repaid from the payments from the real estate developers under the land purchase contracts assuming the land and infrastructure get developed according to the schedule. They have no recourse back to Sorouh.
First regional commercial property-backed securitisation	The three notes issued were rated Aa3/A3/Baa3, and achieved spreads of EIBOR plus 200/250/350 bps, respectively. For Sorouh, it allows the funding of the land development to be self-contained and helps monetise the equity value of the land that would have otherwise only been released over the next few years. The investors gain exposure to Abu Dhabi's real estate market and if they are banks, the capital charge associated with the secured asset risk is far lower than the one associated with unsecured lending to Sorouh.
Security was first ranking mortgage of property	CMBS: UAE CMBS No1 Limited²⁰ / Arabian Real Estate Investment Trust
	UAE CMBS Vehicle No. 1 was the first publicly rated conventional securitisation of a single commercial real estate loan secured by a single, multi-tenanted, property in Dubai within the Technology and Media Free Zone. In July 2007, Moody's assigned ratings of: Aa3, A3, Baa1, Baa3 to the four classes of notes (A, B, C and D) of US\$ 28.1 million, US\$12.9 million, US\$12.5 million, US\$13.5 million, respectively, all due 2016.
	The new funding was used to refinance a bridge loan, which was initially used to acquire the property. The security package for investors was primarily a first-ranking mortgage over the property, and assignment by way of security of all shares in the SPV, its rights, title and interests in the management and leasing agreement, and various other contractual rights. A charge over the SPV's bank accounts and all its rights under all transaction documents was also included. Other key features include covenants such as the fact that the 'Interest Coverage Ratio' should not drop below 1.3x and the LTV should not exceed 75%.

Consumer finance and opportunities for ABS

Consumer lending in the region is growing around 26% a year

Additional funding needed for consumer finance: The need for additional funds is not limited to residential or commercial real estate projects. The total GCC growth in consumer finance/loan origination in the region has been about 26% a year since 2003²¹, outstripping the 22% growth in deposits. With negative real interest rates, this gap is likely to increase (as the real cost of borrowing is effectively zero due to the elevated inflation).

¹⁸ Please see Moody's Pre-Sale Report; Sun Finance Limited (SF136098isf) published July 2008 for more details.

¹⁹ Accounting and Auditing Organization for Islamic Financial Institutions: Six Sukuk principles – published February 2008.

²⁰ Please see Moody's Pre Sale report: UAE CMBS Vehicle No.1 Limited (SF101325isf) published June 2007.

²¹ Moody's Financial Institutions Group.

Cultural changes in attitudes to personal debt and consumer goods

In particular, credit cards are growing in popularity and auto loans have been locally originated for decades and are well understood. Sizable loan pools and meaningful performance history make these assets well suited to securitisation. Consumer loans in the UAE have grown 46% this year to AED54 billion and represent about 85% of GDP²² vs. around 35% in Saudi Arabia, which is comparatively under-banked.

Besides the changing attitudes towards debt, high inflation levels throughout the region (particularly on rents) are not being matched by the growth in salaries, further encouraging borrowing. When combined with regulatory and internal risk limits on consumer lending, Moody's believes that securitisation could be an effective means for lenders to regain origination capacity.

UAE Central Bank maintains credit records on larger exposures

Centralised credit bureaus are essential: While credit bureaus in the region are in their infancy, the UAE's central bank, in addition to recording borrowing in excess of AED250,000, also maintains a 'blacklist' of defaulters, as well various exposure and rudimentary credit scoring mechanisms. The lack of local credit bureaus is a key weakness in ensuring prudent and appropriate lending. In the UAE, it means that borrowers with single or multiple exposures below the Central Bank's cap (or with non-reported delinquencies) do not get picked up and can apply for and receive further loans (possibly to pay off delinquent ones). It is thus difficult for lenders to assess the true credit position of borrowers and differentiate between low and high risk consumers.

Local credit agencies in their infancy

This is set to improve as Dubai's "Emcredit" agency becomes fully operational. The first in the country, this agency will link to various government agencies - including the Real Estate Regulatory Authority (RERA) - to better track the exposure of, and risk associated with, the region's most credit-hungry consumers. Similar bodies are operating in other GCC countries, and all are trying to capture and aggregate consumer credit exposure with varying degrees of success.

Non-payment of debts is a criminal offence in many local jurisdictions

Few government regulations on consumer finance: Generally there are few laws, if any, regulating defaults on personal borrowing. On the positive side from a credit perspective, the criminal nature of non-payment of cheques means that security cheques are usually taken for the full available loan balance and can be used in court to enforce payment. Interestingly in 2006, over 40% of Dubai jail's 3,000 inmates were there for credit offences²³.

Kuwait has history of paying off private debts of borrowers – further encouraging consumer debt

On the other side, recent government surpluses (\$35 billion in 2007) have made Kuwait particularly indulgent to its native defaulters by effectively paying off their debts. The Parliament recently voted in favour of establishing a KWD500 million fund to help Kuwaitis pay bank loans through interest-free instalments. While locking up a sizable part of the population would have many negative social and economic consequences, this support element creates a moral hazard within the banking system as consumers (with a GDP per capita income of around \$40,000 including non-citizens) expect the government to keep paying off their private debts - further spurring local credit growth.

It is important to highlight that each GCC market may have key differences that could significantly affect the asset analysis in each case. Moody's will work with the local institutions, bankers and originators to better understand the credit risk drivers and factor these into our analysis.

RISK TRANSFER, FUNDING AND REGULATORY CAPITAL FOR BANKS' BALANCE SHEETS

Securitisation is used for funding/liquidity purposes

Important source of funds: In developed economies, securitisation has been used (among other things) for funding and liquidity purposes.

Before the credit crunch, the large liquidity available in the GCC meant that there was a limited need for securitisation. Despite the ongoing boom, the credit crisis has dramatically changed the local funding environment at a time when the sheer amount of project financing needed in the region over the next ten years is estimated at over US\$2 trillion²⁴.

²² UAE Central Bank website.

²³ The National Newspaper/Dubai Central Jail study, 1 September 2008.

²⁴ MEED: "GCC Projects market tops \$2 trillion", 23 July 2008.

Secured borrowing (e.g. via securitisation) could become more attractive.

Larger companies/banks are looking to diversify funding sources

Securitisation can be a source of long-term, matched finance

Majority of banking assets will comply with Basel II

Liquidity and risk concentration issues across the GCC mean that government-related transactions are the ones most likely to be favourably priced for large funding amounts. Local corporate yield spreads have widened by around 225 bps from last August²⁵ to last October. As liquidity tightens and spreads escalate, Moody's believes that 'secured' financing may become more attractive to the market, especially for non government-related entities.

Following the credit crunch, the majority (~90%) of the recent securitisation transactions in EMEA (and elsewhere) have been retained by the originators and used for repo at the Central Bank to obtain liquidity.

Desire for funding diversification: Despite recent developments in the industry, tourism and real estate sectors, the performance of the GCC economies is still highly correlated to oil prices (hence to each other). Local corporates and financial institutions are keen to stabilise and diversify their funding with sources from outside the region. In the pre-crunch era, 2007 saw over US\$30 billion of plain bond issues, with more than half of the issuance placed abroad. Despite the need for financing, recent credit conditions have discouraged most issuance this year due to wide spreads, with less than US\$10 billion of conventional and Islamic EMTN bonds and only a few billion dollars of convertible debt issued by GCC banks.

Reduction of asset liability mismatch: Local banks face asset-liability mismatch issues and have a pronounced need for long-term funding. In an illiquid period where banks are finding it difficult to finance themselves, any long-term lending (eg, for home loans) against short-term deposits is increasingly risky, despite the high demand (mortgage growth at 50%) and the highly profitable nature of the business. Non-deposit taking institutions also need to finance their rapid balance sheet growth.

The regional banks are generally unable to compete with their global counterparts on longer tenor projects. This is especially visible in the project finance area where international banks take the top spots in league tables. Securitisation can support this goal by using long-term assets (eg residential mortgages) or short-term ones (on a revolving pool basis) to provide long-term funding – a key liquidity risk management tool.

The Tamweel transaction neatly illustrates this. By securitising pools of Ijara mortgage contracts (amortising 15-20 year contracts), the quickly-growing originators raised term finance and freed up existing balance sheet to conduct more lending. The notes have a legal final maturity of 2037 with a coupon step-up at 12 years if the notes have not redeemed by then.

This could be similarly extended to incorporate other parts of loan books, classified in designated homogeneous pools like: credit cards, auto loans, mortgages etc., and potentially create a whole new market that would assist the banks in refinancing assets as their liabilities come due without having to revert to the central bank or the government for liquidity support. However, to be successful, such initiatives should be combined with a proper legal and regulatory framework along with adequate credit enhancements from the structuring side, so that the instruments are marketable and offer the opportunity of creating a true alternative source of funding.

Capital relief and risk transfer: The results of a Financial Stability Institute questionnaire reveals that 89% of Gulf banking assets are expected to be subject to Basel II by December 2009²⁶. Increasing deregulation, competition and cross-border lending in the region is leading to a focus on economic capital and as per Pillar 1, the credit risk of assets on the balance sheet.

²⁵ JPMorgan: GCC Corporate Strategy: Will support be available? – 16 October 2008.

²⁶ BIS: Implementation of the new capital adequacy framework in non-Basel Committee member countries - July 2004

Local lending constrained by risk and concentration issues

The ambitious growth plans of many regional corporates is requiring ever larger financing packages that are too much for their key banks to provide, especially in the current environment. Larger syndicates are the current solution but local banks are relatively undiversified and are becoming increasingly exposed to concentration risk, CDS spreads on some of the largest borrowers have widened by many hundreds of basis points as the market starts to differentiate credit risk. For sectors such as real estate, the banks' direct exposure is estimated in the range of 125%-230% of the banks' equity²⁷. While local subsidiaries of global banks are facing the same concentration issues, the inclusion of concentration risks under Basel II (Pillar 2) has yet to occur in the GCC, this will incur sizable capital charges for affected banks once implemented.

Central banks have imposed sector limits

Most central banks in the region have imposed lending limits on the relative amounts extended to the real estate and consumer lending sectors but definitions can be vague and arbitrary distinctions made between direct and indirect real estate exposure.

Lenders can transfer default risk of balance sheet assets to investors via securitisation

Securisation can be an attractive tool in reducing major risk concentrations as well as improving capital efficiency and profitability. Securitising mortgage loan and credit card portfolios (for example) allows originators to transfer the credit and prepayment risk of these pools to investors. Securitisation can also involve balance sheet collateralised loan obligations (BS CLOs), where the financing provided by investors is used to purchase some of the corporate loan portfolio of the bank originating the loans. The liability side can be tranching to provide bonds of varying risk and return profiles. BS CLOs allow investors to obtain exposure to the corporate loan sector via the originating bank in a manner less volatile than equity (with lower possible returns).

Derivative technology can also help transfer the asset risk to investors without a 'true sale' of assets

Relationship management: The relatively untested legal environment in the GCC may favour the application of derivative or 'synthetic' technology to sidestep some of the "true sale" requirements of cash structures. A synthetic trade may also help preserve the client relationship of the loan while removing the risk and balance sheet exposure to investors.

THE FUTURE FOR GCC SECURITISATION

Current market conditions mean bond market growth has stalled

Rapidly changing market dynamics and unprecedented events such as thinning liquidity, equity and real estate market corrections, Basel II, local risk concentrations and demand for tighter and differentiated risk-based pricing are all playing a key part in reshaping local markets. The overall uncertainty means that the bond, sukuk and debt market growth has stalled awaiting some stability in pricing and a return of investor confidence, but given the local need, this is just a matter of time.

Home finance, real estate and bank balance sheet risk management are key drivers

A multitude of factors are converging to drive real estate demand. However, the amounts needed to provide additional supply in residential homes and home financing will require many hundreds of billions of dollars from capital markets over the next 10 to 20 years to turn ambition into reality. Gulf bank balance sheets need to restructure and manage their risk exposures better. Hence these are expected to be the three main pillars in the future growth of securitisation.

Given the long history and large existing volumes of consumer assets in the region, as well as the amount of commercial lending activity, these two sectors are surprisingly quiet.

No imminent volumes but expected to become an essential part of the GCC financial landscape in future

Moody's does not expect large securitisation volumes from the GCC in the near future, but the long-term potential for the region is immense as the six GCC nations continue a transformational phase in their economic and financial development. While hydrocarbon wealth is being productively invested, governments and the increasingly active private sector require ever larger amounts of external funding to fulfill policy objectives and take advantage of economic opportunities. Moody's expects securitisation to become an increasingly important part of the regional capital markets in the future.

²⁷ HSBC Research 3/9/2008

APPENDIX 1 – UNDERSTANDING SECURITISATION AND LEVERAGE

Securitisation is an important financing mechanism that simplistically raises debt finance secured on assets that produce a cash flow. Securitisation in any new market is typically motivated by the need for more cost-efficient funding. Through securitisation, borrowers seek to raise **secured funding** against a pool of assets and their associated cash flows in an effort to reduce some of the risk premium paid when borrowing on an unsecured or on balance sheet-secured basis. Although in some structures the rights to the cash flows/payments themselves can be securitised (ie without the sale of the associated assets) these payments are often referred to as receivables.

Assets can be physical or financial

Assets can be physical (eg cars, land and property) or financial, (eg corporate loans, leases and consumer mortgages). For maximum investor security, these assets are usually segregated from the borrower by selling or assigning them to a new special and single purpose company/vehicle (SPV) set up for the new investors. Once this is complete, the assets and/or future cash flows legally belong to the investors that have provided the funding. The cash flows are used to pay the coupon and principal amounts due on the bond. **The legal element is critical for securing the assets in favour of the investors and thus also for the rating.**

Assets are sold to an SPV, which then issues debt or Sukuk secured on those assets

While the asset side of the investor SPV consists of the purchased assets, the liability side is arranged to provide a capital structure with debt/bonds/notes/sukuk (these terms can be used interchangeably in most circumstances) of varying ranking/priority/rights. The most junior bonds are exposed to the first defaults and losses in the entire asset pool, and has the highest credit risk. The most senior bonds are the last to be affected by any potential defaults or losses and as such have the lowest credit risk and the lowest yield.

Strong regional ratings mean that senior notes in securitisations can achieve high (Aa) ratings

The overall risk of the assets drives the capital structure which is usually split (or ‘tranch’) to provide the lowest overall cost of funding. Hence young and fast growing companies with high quality assets can use them to raise secured financing with higher ratings and likely lower overall spreads than they could achieve on an unsecured basis. The maximum ratings achievable on a US dollar-denominated senior notes are dependent on the foreign currency ceilings²⁸ assigned by Moody’s Sovereign Risk group (see Appendix 1 for full list of regional ratings). The improved liquidity of listed and rated securities allows for access to a deeper pool of capital for larger funding amounts.

Quality assets and seniority allow for higher ratings

From a ratings perspective, structuring can allow for senior issuance to be rated more highly than that of the borrower as it is the **asset quality** and its **senior position** in the capital structure that drive the risk of the investment, not the originator’s ongoing business activities. In some circumstances, there may still be some linkage, which we will discuss further in the third paper in this series.

Junior notes highly leveraged

Credit risk can be analysed and be described via a credit rating. **It should be emphasised that the junior bonds are leveraged investments**, where the investor is exposed to the **losses** on the whole asset pool, not just a portion equal to the capital invested. However, while this leverage increases risk and also the returns, the total **loss** possible is **capped** by the balance invested.

²⁸ See Moody’s Sovereign Group paper “A Guide to Moody’s Sovereign Ratings”. 22 August 2006.

Leverage increases volatility of returns

This leverage also tends to increase volatility as small changes (positive or negative) in underlying asset performance can be magnified. If the underlying assets are **already leveraged** (as in some of the more exotic **arbitrage-driven structures**) one can see that the combined leverage makes for very high returns but with very high risk, which investors should be aware of.

Derivatives allow investment exposure unlimited by availability of cash asset

The application of derivative technology allows assets to be 'referenced'²⁹ to new securities. They do not need to be sold, eg the default risk of a project finance loan can be transferred to a buyer in return for payment. For example, in the case of US subprime mortgages, the default risk of the mortgages was passed to investors.

Pools of these (mortgage backed) bonds were themselves often securitised into new structures – CDOs³⁰ and SIVs³¹). Thus the already **leveraged mezzanine tranches** from such deals were **leveraged again** to further increase the underlying yields. By magnifying small levels of underlying losses, these are the structures that have suffered the most dramatic mark-to-market writedowns and were present on the balance sheets of some local GCC banks.

Gulf losses caused by the most leveraged structures

Some of these types of investments have led to pronounced losses (both credit and mark-to-market) at some local banks and it should be emphasised that our rating solely addresses credit risk of the instruments and not market risk. As such, it is important to note that the transactions undertaken in the region thus far are first and foremost **financing-driven structures**, where the motives and underlying assets are more 'basic' and better understood from a credit risk perspective.

Regional losses have been generated by the highly levered 'arbitrage' structures

Some of the more prominent investment banks in the most mature financial market of Bahrain suffered the highest level of investment losses in the region related to securitised products. While these losses were in aggregate relatively small (approximately US\$2 billion) we emphasise that the investments made in those structures sought to take advantage of the low spread environment and were either CDOs of RMBS or SIVs that took existing leveraged assets/bonds and leveraged them further. This arbitrage made for comparatively very high returns with high risk. The losses were not incurred on the simpler financing type securitisations that we have seen thus far in the region.

Although from an originator perspective the first transaction is relatively costly in time and resources, the usual (long-term) goal is to periodically repeat the exercise as and when required. Moody's has already seen numerous regional originators highlight and prepare for securitisation as a future funding source.

²⁹ Please see "Moody's Review of SIV Capital Note Ratings" 9 May 2005 for more explanation

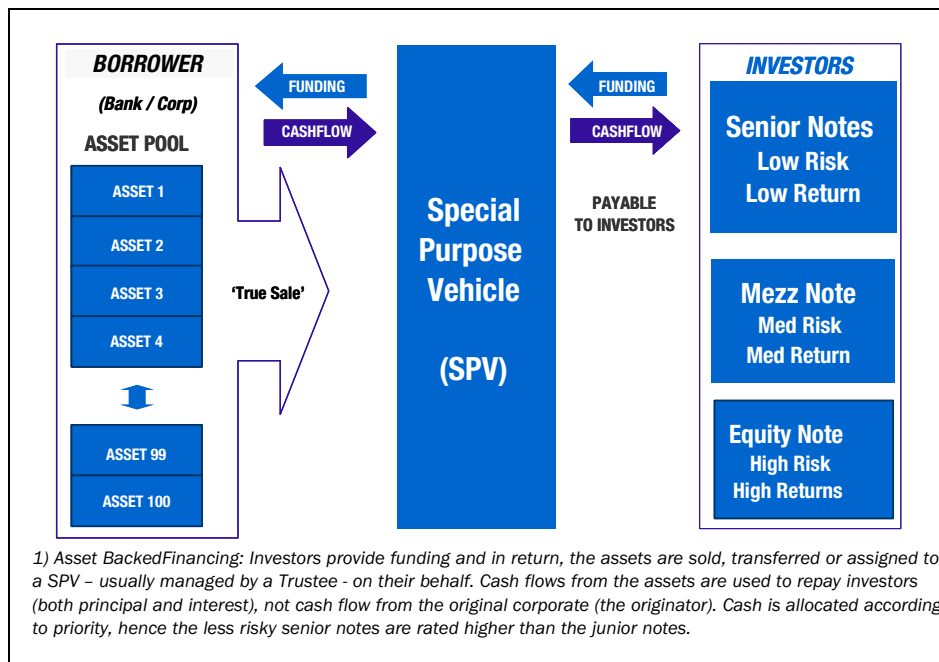
³⁰ Please see "Collateralised Debt Obligations: A Moody's Primer" 7 May 2005 for more explanation.

³¹ CDO – Collateralised Debt Obligation, SIV – Structured Investment Vehicle.

Investors effectively 'buy' assets from the originator – a corporate or bank

Asset, not originator, cash flows used to pay coupon and principal to investors

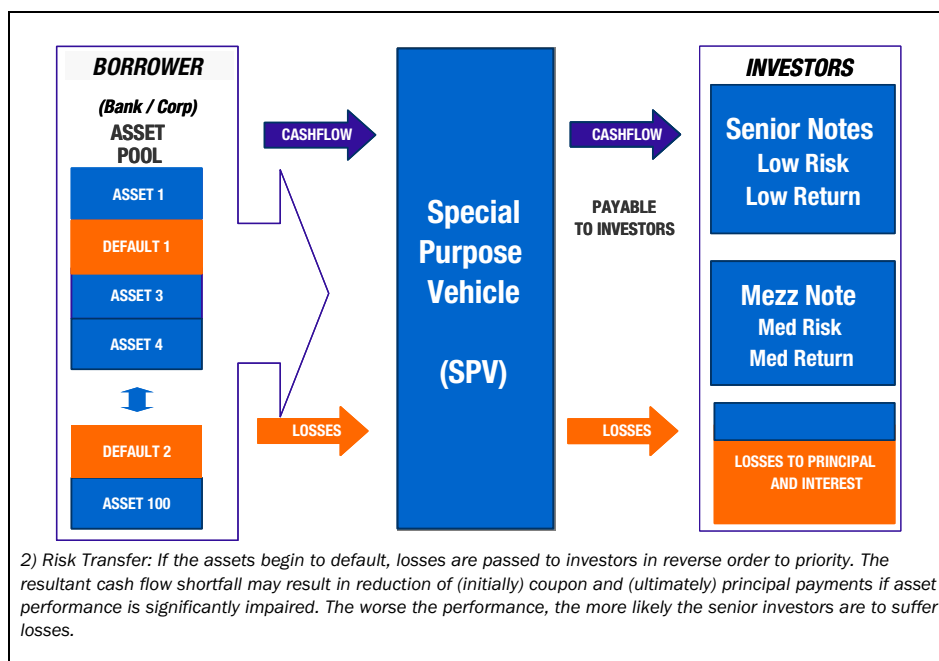
Different classes or ranking of notes provide differing leverage/risk/return profiles to Investors



Losses may occur in asset pool which are effectively passed on the Investors

This leads to a shortfall in income which may preclude payment of interest and principal

Lowest ranking/most junior/Equity note has the most leverage, is the most risky and the highest yielding



APPENDIX 2 – MOODY’S RATED MENA SECURITISATIONS

Sun Finance Limited / Sorouh Real Estate PJSC - 11 September 2008, UAE

This first Abu Dhabi transaction (Sun Finance Limited) is an innovative example of an asset-backed sukuk financing. Sorouh securitised AED5.7 billion of payments due to it under the land purchase contracts of 109 sub-developers working on the estate. A sizable portion (approximately AED1.7 billion) was put into escrow to fund the construction costs and helped further delink the sukuk performance from that of Sorouh. The credit risk of the transaction is related (among other things) to the credit worthiness of the sub developer pool. Involvement of the Abu Dhabi Urban Planning Council and low (effective) ‘LTVs’ of the contracts were key deal features. Certificates are amortising with full pass through of asset cashflows.

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity	WAL
A	Aa3	Public	2761	55.0%	AED	E+200	Jan 2015	0.95
B	A3	Public	251	5.0%	AED	E+250	Jan 2015	2.03
C	Baa3	Public	1004	20.0%	AED	E+350	Jan 2015	2.55
Sub'n	NR	Originator	1004	20.0%	AED	0		

No Class “D” note issued, but receivable balance remains in deal as overcollateralisation, Basis is EIBOR, WACC E+240

Thor Asset Finance Ltd / Dubai Electricity & Water Authority - 16 Aug 2007, UAE

This was the first receivables transaction in the region. The proceeds of the Notes were used to purchase consumer receivables originated by the Dubai Electricity & Water Authority (now publicly rated by Moody’s at A1). The whole issuance, however, was purchased entirely by the bank conduits of (then) ABN AMRO and Calyon. The programme was tapped again in May 2008.

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity	Issued
A-1	A1	Conduit	1000	100.0%	USD	NA	July 2036	6 th May 2008
A-2	A1	Conduit	1000	100.0%	USD	NA	July 2036	16 th Aug 2007

UAE CMBS No 1 Limited / Arabian Real Estate Investment Trust – 27 July 2007, UAE

This is the first, publicly rated conventional securitisation of a single commercial real estate loan secured by a single, multi-tenanted, property in Dubai within the Technology and Media Free Zone. The new funding was used to refinance a bridge loan, which was initially used to acquire the property. The security package for investors was primarily a first-ranking mortgage over the property, and assignment by way of security of all shares in the SPV, its rights, title and interests in the management and leasing agreement, and various other contractual rights

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity
A	Aa3	Public	28.1	41.9%	USD	L+50	June 2016
B	A3	Public	12.9	19.3%	USD	L+70	June 2016
C	Baa1	Public	12.5	18.7%	USD	L+140	June 2016
D	Baa3	Public	13.5	20.1%	USD	L+170	June 2016

LIBOR Basis, WACC L+95

Tamweel ABS (CI) 1 / Tamweel PJSC – 26 July 2007, UAE

Tamweel Residential ABS transaction was the first international and publicly rated Islamic securitisation of Ijara (lease-to-buy) receivables of residential properties located in Dubai. It is the first true-sale, rated, asset backed Sukuk in the region. In a rather unusual way for an RMBS deal but driven by the Islamic and legal elements of the deal, the freehold titles of all the financed properties were passed to the Issuing SPV. The originator (Tamweel) is unrated, but multiple back up servicing mechanisms are in place to mitigate the rating linkage of the Sukuk to Tamweel.

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity
A	Aa2	Public	177.45	84.5%	USD	L+35	Aug 2037
B	Baa1	Public	15.33	7.3%	USD	L+120	Aug 2037
C	Ba3	Public	9.87	4.7%	USD	L+395	Aug 2037
D	NR	Originator	7.35	3.5%	USD	NA	Aug 2037

LIBOR Basis, WACC L+57

Blue City Investments 1 Limited -14 March 2007, Oman

This is the securitisation of a real estate and hotel development project in the Sultanate of Oman, the 'Blue City'. The transaction will finance the first phase of a major project, near the Omani capital Muscat. The Baa3 rating is primarily driven by the creditworthiness of and support provided by the insurance provider, Axis Specialty Limited (rated A2), and the loss coverage granted by the insurance policy, rather than by the assets themselves. The high credit risk of the project on a standalone basis would not have supported the low investment grade ratings that we ultimately assigned on the transaction.

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity
A1	Baa3	Public	399.0	43.1%	USD		Nov 2013
A3	NR	Public	262.5	28.4%	USD		Nov 2016
B	NR	Public	143.0	15.5%	USD		Nov 2016
C	NR	Public	50.5	5.5%	USD		Nov 2016
D	NR	NA	70.0	7.6%	USD		Nov 2016

FCC BIAT - Credimmo 1 & 2, Tunisia (National Scale Rating)

The ratings assigned to the transaction are based on Moody's national rating scale for Tunisia. A ".tn" modifier specifying the national feature of these Tunisia-specific ratings is therefore appended to the assigned ratings. As such, these ratings cannot be compared to Moody's ratings assigned on the usual global rating scale. These are the first securitisation transactions in Tunisia and they fall under the framework of the Tunisian securitisation law passed in 2001. The funding in both cases was used to acquire a mortgage loan portfolio guaranteed by a first-ranking mortgage and originated by Banque Internationale Arabe de Tunisie (BIAT) to its customers.

FCC BIAT - Credimmo 2, 15 May 2007

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity
P1	Aaa.tn	Public	30.0	43.1%	TND		April 2020
P2	Aaa.tn	Public	10.5	28.4%	TND		April 2020
P3	Aaa.tn	Public	4.0	28.4%	TND		April 2020
S	A3.tn	Public	4.0	28.4%	TND		April 2020
R	NR	Public	1.5	15.5%	TND		April 2020

FCC BIAT - Credimmo 1, 12 May 2006

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity
P1	Aaa.tn	Public	36.0	43.1%	TND		Sept 2020
P2	Aaa.tn	Public	10.0	28.4%	TND		Sept 2020
S	A3.tn	Public	2.5	15.5%	TND		Sept 2020

ENSEC Home Finance 1 Limited – 17 May 2005, UAE

ENSEC Home Finance 1 Limited is considered as the first GCC securitisation. However, while this structure involved pre-purchase payments on property assets of Nakheel's Palm Jumerah development, this (now redeemed) transaction was fully cash-collateralised in an offshore account and as a result was rated Aaa by Moody's.

Class	Rating	Investor	Balance	%-age	Currency	Spread	Maturity
A	Aaa	Public	350	100.0%	USD	L+20	Redeemed

APPENDIX 3 – MOODY’S MENA SOVEREIGN RATINGS

	COUNTRY CEILINGS				GOVERNMENT BOND RATINGS	
	FOREIGN CURRENCY		LOCAL CURRENCY		FOREIGN CURRENCY	LOCAL CURRENCY
	Bonds	Bank Deposits	Bonds	Deposits		Local Currency
<i>Gulf Cooperation Council</i>						
Bahrain	Aa3 / STA	A2 / STA	Aa2	Aa2	A2 / STA	A2 / STA
Bahrain-Offshore Banks [2]	Aa3 / STA	Aa3 / STA	-	-	-	-
Oman	Aa3 / STA	A2 / STA	Aa2	Aa2	A2 / STA	A2 / STA
Qatar	Aa2 / STA	Aa2 / STA	Aa2	Aa2	Aa2 / STA	Aa2 / STA
Kuwait	Aa2 / STA	Aa2 / STA	Aa2	Aa2	Aa2 / STA	Aa2 / STA
Saudi Arabia	Aa3 / STA	A1 / POS	Aa3	Aa3	A1 / POS	A1 / POS
Abu Dhabi Emirate	Aa2 / STA	Aa2 / STA	Aa2	Aa2	Aa2 / STA	Aa2 / STA
United Arab Emirates	Aa2 / STA	Aa2 / STA	Aa2	Aa2	Aa2 / STA	Aa2 / STA
<i>North Africa & The Levant</i>						
Egypt	Baa2 / NEG	Ba2 / NEG	A3	A3	Ba1 / NEG	Ba1 / NEG
Tunisia	A3 / STA	Baa2 / STA	Aa2	Aa2	Baa2 / STA	Baa2 / STA
Morocco	Baa2 / STA	Ba2 / STA	A3	A3	Ba1 / STA	Ba1 / STA
Jordan	Baa3 / STA	Ba3 / STA	A3	A3	Ba2 / STA	Baa3 / STA
Lebanon	B2 / STA	B3 / STA	Ba1	Ba1	B3 / STA	B3 / STA

APPENDIX 4 –MIDDLE EASTERN RATINGS & INVESTORS SERVICE (EGYPT) RATINGS

CorpLease (Lease Backed Securitisation) – 2008, Egypt

In 2008, the Egyptian market witnessed the closing of the first lease backed securitization deal. The securitized assets represented a static pool of fixed-rate auto, equipment or real estate leasing receivables from large and medium-sized corporate entities domiciled in Egypt. All of the leasing receivables stem from financial leasing contracts, whereby the title of ownership remains with the lessor until the final payment under the contract. The notes benefit from an over collateralization of 2.87% at the outset of the transaction. An additional credit support will be provided through an irrevocable and unconditional bank guarantee issued by a reputable Egyptian bank in the amount of 10% of the notes. Excess cash accumulating from over-collateralization is being trapped in a reserve account used to cover any eventual shortfalls in coupon or principal payments over the life of the bond, as well as any other fees in the waterfall structure.

Class	Rating	Investor	Balance	%-age	Currency	Fixed	Maturity
A	AA	Public	360	100%	EGP	9.75%	2013

Contact – (Auto Receivables) – Three issuances, Egypt

Contact Securitisation Company was the first issuer of securitisation bonds in the Egyptian market. Its first asset backed bond was launched in December 2005, and ever since then the company has had 2 repeat transactions, with a third one currently underway. The collateral portfolio represents a static pool of fixed-rate auto receivables stemming from the sale of brand new passenger vehicles to customers domiciled in Egypt. The auto receivables are secured by the cars, which are fully insured and subject to a resale restriction by the Traffic Directorate. The notes benefit from a credit enhancement in the form of an over collateralization. The excess cash accumulating from over-collateralization is being trapped in a reserve account used to cover any eventual shortfalls in coupon or principal payments over the life of the bond.

Class	Rating	Investor	Balance	%-age	Currency	Fixed	Maturity
Contact – Third Issue (Auto Receivables) – 2007							
A	AA	Public	275	100%	EGP	9.50%	2012
Contact – Second Issue (Auto Receivables) – 2006							
A	AA	Public	159	100%	EGP	10.75%	2012
Contact – First Issue (Auto Receivables) - 2005							
A	AA	Public	140	100%	EGP	11.00%	2012

Egyptian Arab Land Bank - Two Issuances (Covered Bond), Egypt

The first cover bond transaction in the Egyptian market was closed in 2006, followed by a repeat transaction the next year. The issuer, Egyptian Arab Land Bank (EALB) is a 100% owned by the Government of Egypt through the Ministry of Finance. The bond issues are backed by a static asset pool of loans extended by EALB to the Construction Cooperative Authority, a governmental body under the Ministry of Housing charged with implementing the government's housing strategy. The Ministry of Finance guarantees the payment of principal and interest on the loans. The guarantee is in the form of a direct debit authorization provided to EALB on the MoF account with the Central Bank of Egypt in case the borrowing institution is unable to pay the due instalments.

Class	Rating	Investor	Balance	%-age	Currency	Spread*	Maturity
Egyptian Arab Land Bank – Second Issue (Covered Bond) - 2007							
A	AA	Public	500	100%	EGP	CBE+0.50%	2014
Egyptian Arab Land Bank – Second Issue (Covered Bond) - 2006							
A	AA	Public	750	100%	EGP	CBE +0.50%	2016

*The spread is calculated using the Central Bank of Egypt's Discount Rate as a reference rate.

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