

Shariah Financial Structures – The Flexible Conduit To Leverage & Equity

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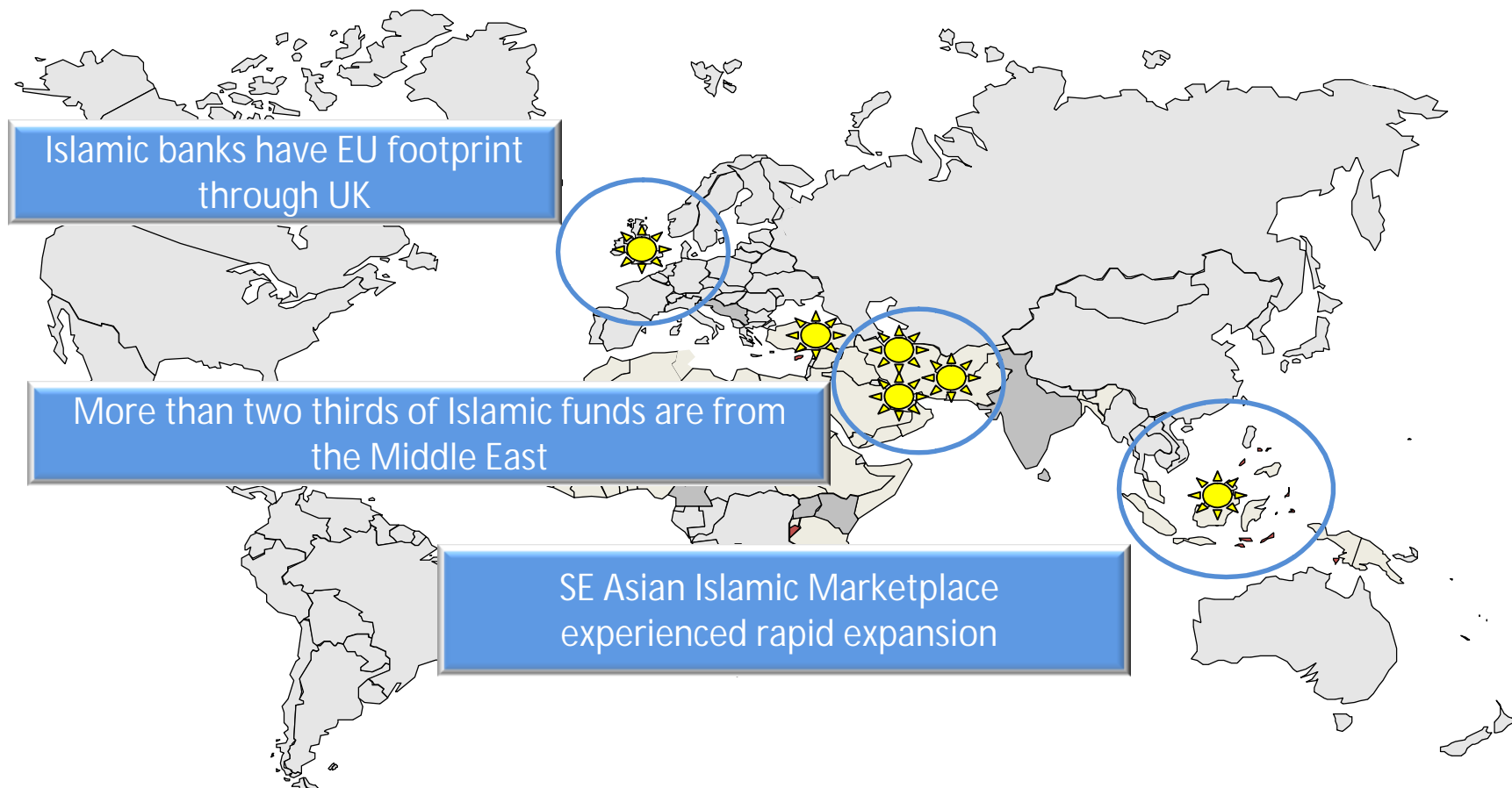


Gatehouse Bank Overview

- ❑ Gatehouse Bank plc (“Gatehouse”) received approval from the Financial Services Authority on 22nd April 2008 for a licence to act as a Shariah-compliant deposit taking banking entity operating in the UK
- ❑ Gatehouse is a wholly-owned subsidiary of The Securities House in Kuwait
- ❑ Gatehouse operates as a Shariah-compliant wholesale investment bank based in the City of London focusing on:
 - Real estate
 - Islamic capital markets
 - Institutional wealth management
 - Shariah advisory services
 - Islamic treasury business
- ❑ Gatehouse’s product delivery is supported by:
 - A team with Islamic / Middle Eastern / investment banking experience to hit the ground running
 - A market-leading dedicated Islamic sales force in London
 - An in-house Shariah scholar: Mufti Muhammad Shikder, Head of Shariah Advisory and Shariah Compliance
- ❑ The target client focus is:
 - Asian, European and US non-Islamic financiers seeking investor diversification
 - GCC corporates and financial institutions wanting to access the global capital markets
 - Islamic investors funding Shariah-compliant investments in Asian, European and North American assets

Overview of the Global Islamic Market

Islamic Financial Marketplace – Sources of Funds



1.3 billion Muslims (20% of global population)

Fastest growing and one of the most active religions

The Islamic Finance Opportunity

When written in Chinese, the word "crisis" is composed of two characters. One represents danger and the other represents opportunity - John F. Kennedy

危机

- Islamic finance: a "white knight" for the world's economic woes?
- Funding gap: can Islamic financial institutions step up to the plate?
- Cheap real estate: a buying opportunity?

Keeping It Simple

- ❑ A growing acknowledgement that real estate financing needs to go 'back to basics'
- ❑ This aligns with Shariah principles:
 - Asset backed
 - Full disclosure
 - Risk sharing
 - Profit is encouraged
 - Capital should not be left idle but put to use
 - Goods should be in existence and rightfully owned before sale
 - Exception: Isti'sna for construction finance
 - Forbidden are: interest (riba), uncertainty (gharar), gambling (maysir)
- ❑ Shariah structuring is the conduit to bring real estate and Islamic investors together

What Type of Finance and What Type of Real Estate?

- ❑ Islamic products are highly flexible and competitive to conventional products:
 - Pricing is now aligned with the conventional market
 - A “level playing field” in the UK from a taxation perspective

- ❑ Only the structure and the asset need to be Shariah compliant:
 - The real estate investor / developer itself has no need to be Shariah compliant
 - Whilst innovation continues, the structures are well established
 - Some precluded tenant activities: pork, alcohol, weapons and defence, gambling, conventional finance, tobacco, ‘non-family entertainment’

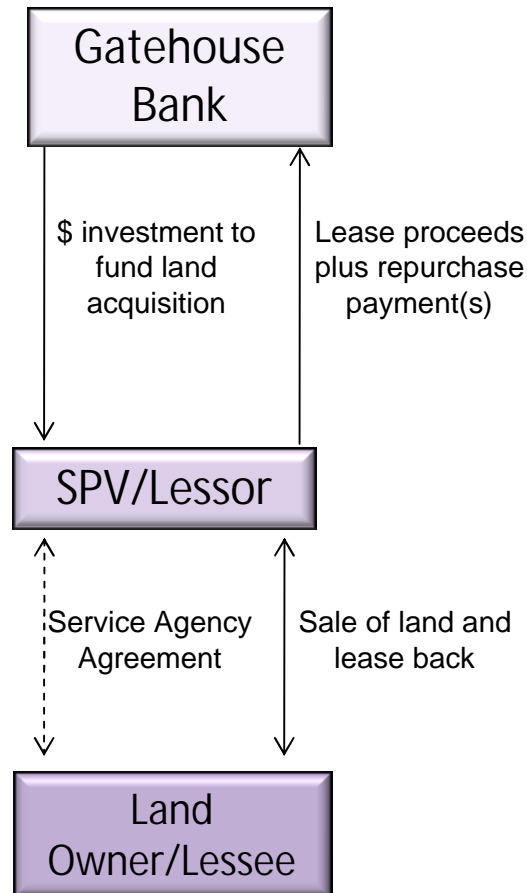
A Product for Every Situation

- ❑ Financing (leverage and / or equity) of investments and development transactions:
 - Ijara (leasing contract)
 - Musharaka (joint venture/partnership contract)
 - Mudarabah (management with profit-sharing contract)

- ❑ Financing across the capital spectrum:
 - Equity
 - Mezzanine
 - Senior
 - Secured/unsecured
 - Drawn facilities/working capital facilities

- ❑ Asset backed bond issues:
 - Sukuk (based on an underlying Shariah structure)

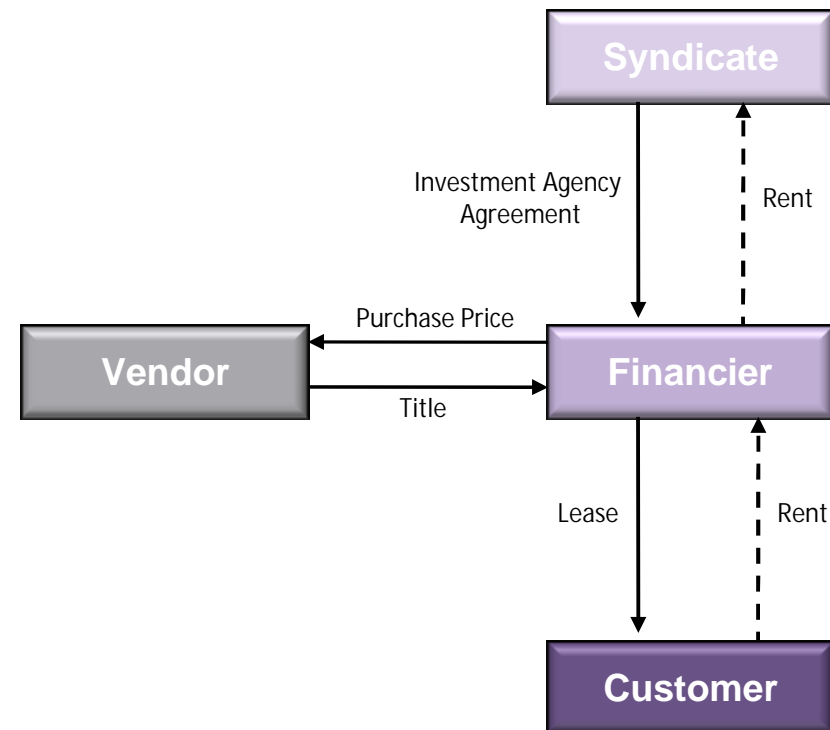
Ijara – Leasing Contract



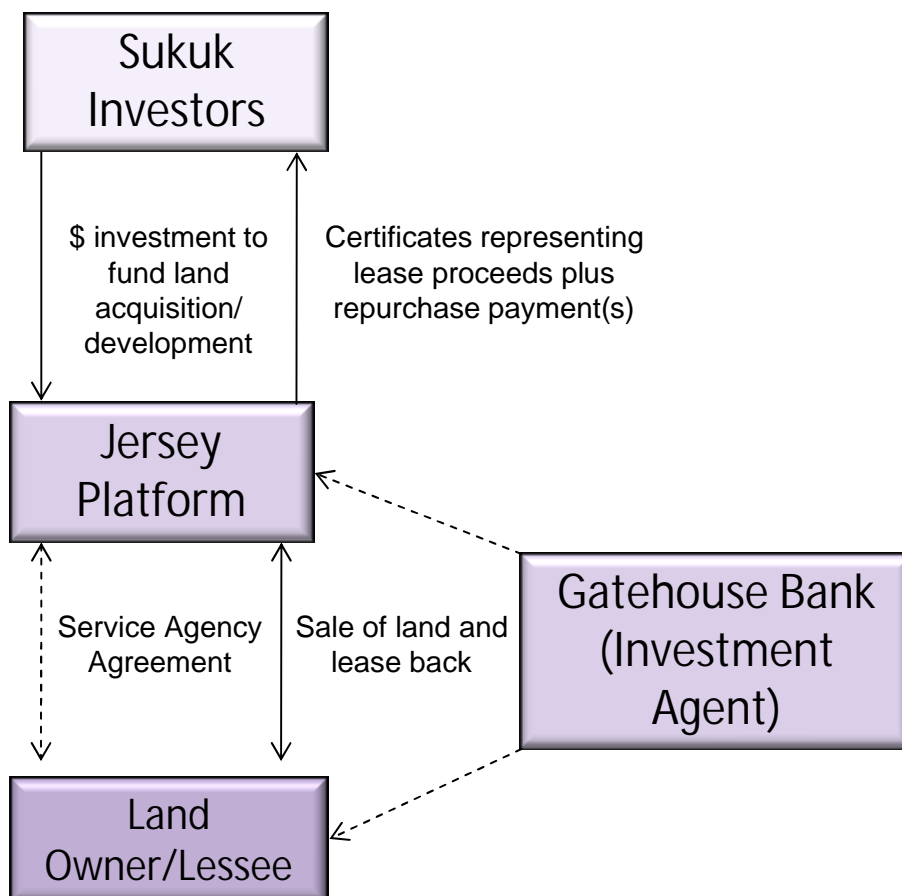
- ❑ Ijara closely reflects a conventional property lease agreement
- ❑ Principal amount of finance limited to value of underlying assets
- ❑ Whilst title does not pass to the lessee, the usufruct (use of the land) does
- ❑ Day to day maintenance is the responsibility of the lessee
- ❑ Ownership related risks and expenses are borne by the lessor, unless an independent Service Agreement is entered into between lessee and lessor
- ❑ Subsequent to either a balloon or amortising payments, ownership can pass to the lessee at the end of the lease period, if stipulated in a separate agreement (together called ijara muntahia bi tamleek or "rental ending in ownership")
- ❑ Widely used in real estate for both small and substantial transactions

Ijara – Chelsea Barracks

- ❑ US\$2.5 billion, 3.5 year Ijara based – the largest wholly Shariah compliant arrangement on a UK property transaction
- ❑ MLAs: BNP Paribas, Calyon, HSBC, Qatar National Bank, Commercial Bank of Qatar, National Bank of Abu Dhabi, RBS and Masraf Al Rayan
- ❑ A joint venture between Qatari Diar and CPC Group
- ❑ An innovative syndication and trust structuring to enable syndication within the UK's 'alternative finance regime'
- ❑ Trust structure to allow pari passu hedging and subordinated "equity of redemption"



Sukuk – Structure & Advantages



Sukuk is a certificate for an underlying Shariah structure that provides a participation right to revenues generated by the underlying assets:

- Suitable for larger leverage transactions
- Issue can be externally risk rated
- Provides access to a wider pool of capital
- Competitive pricing
- Issue can be highly flexible:
 - Short, medium or long term
 - Fixed or floating rate
 - Any currency
- Sukuk certificates are tradable
- Gatehouse Bank has the issuing platform in place to allow easy replication of issues

What are Shariah Equity Investors Looking For?

- ❑ Real Estate:
 - Value : bottom of the cycle
 - Clear strategies
 - Strong demonstrable track records (fund manager / developer)
 - The right partners
- ❑ Investments:
 - Yield products – cash is king!
 - Covenant strength
- ❑ Developments:
 - The story has to be extremely compelling
 - Alignment of interests with developer
 - Substantial equity investment
 - Site contributed for no upfront cost
 - High IRRs

Closing Remarks/ Q&A

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