



Advantages & Benefits of UK & EU Corporates in accessing the Sukuk Market

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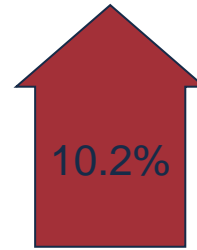
9th June 2010

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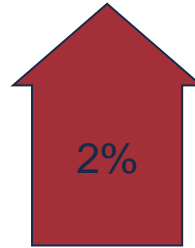
Investor Perspective

GCC markets show positive signs of recovery...

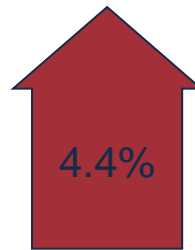


Trade Surplus

Despite the financial crisis, middle eastern investors still enjoy relatively good liquidity prospects in 2010



Reserves

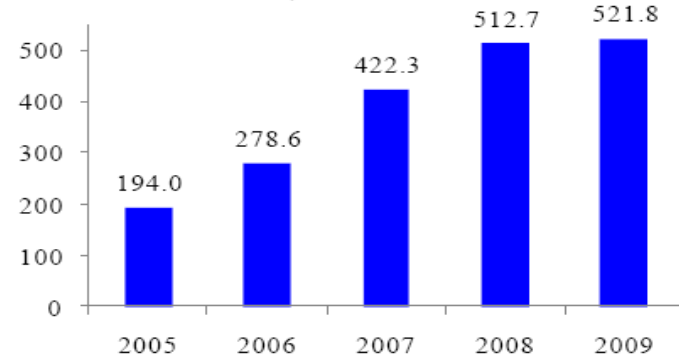


GDP Growth

\$/bbl	2007	2008	2009	2010
Saudi	40	55	40	57
Kuwait*	36	50	35	43
Qatar*	40	55	40	55
Oman	40	45	45	50
Bahrain	40	40	60	60
WTI	72	100	62	75

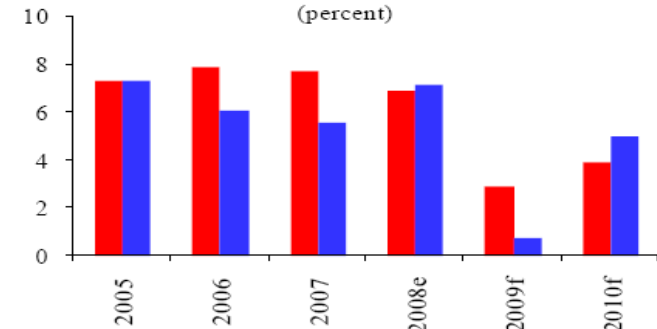
Source: MEES, Samba *year starting April

GCC: Central Bank External Reserve Assets (\$ billion); * latest available data



Source: Central Banks

GCC: Real Economic Growth (percent)

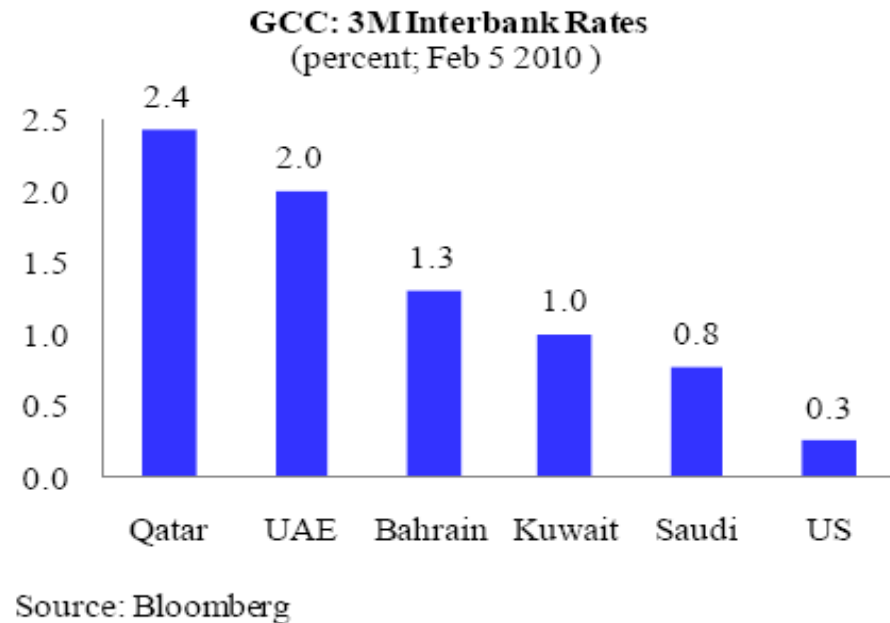
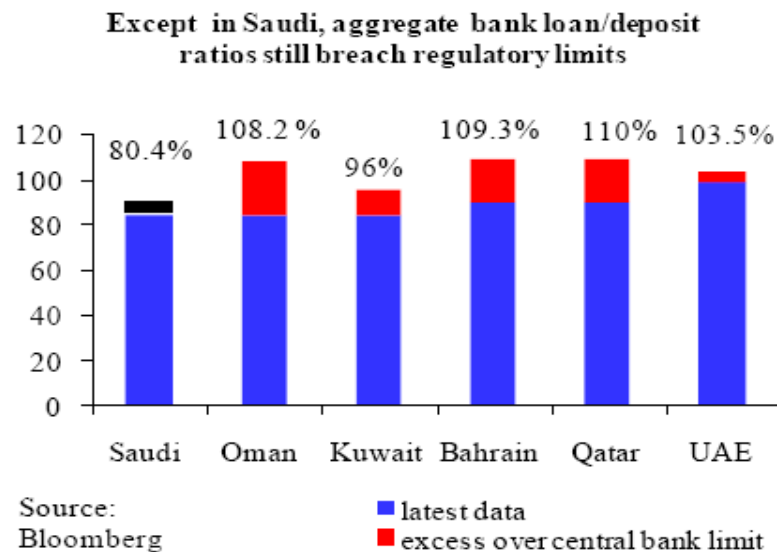


Source: IMF; IIF; Samba

■ GCC Non-Oil Real GDP Growth
■ GCC Real GDP Growth

Investor Perspective

...although banking sector is still under stress. Majority of banks have resorted to aggressive deposit schemes



All banks offer premium to interbank rates on fixed term rates
Central banks report average deposit rate of around 3% to 4%

Milken Institute ranks GCC after OECD for access to capital on the strength of favourable economics

	2009 CAI score	Macroeconomic environment (ME)	Institutional environment (IE)	Financial and banking institutions (FI)	Equity market development (EM)	Bond market development (BM)	Alternative sources of capital (AC)	International Funding (IF)
Industrialized countries	7.09	7.61	7.66	6.96	6.22	6.76	6.60	6.21
Middle East	5.03	7.21	5.71	3.96	4.13	2.83	3.08	4.03
Europe	4.83	6.92	5.30	4.91	2.82	3.36	2.64	4.03
Asia	4.50	5.42	4.74	4.34	4.42	3.96	2.85	3.99
Americas and the Caribbean	4.17	5.57	4.63	3.79	2.77	3.46	2.44	3.79
Africa	3.07	4.33	4.08	2.74	1.76	1.55	1.02	2.59

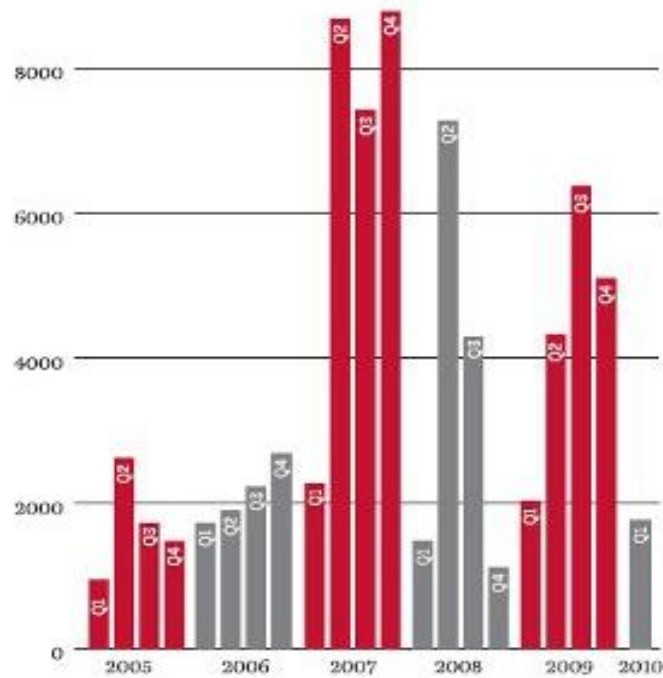
Source: Capital Access 2009, Milken Institute April 2010

Investor Perspective

Yet poor track record of GCC sukuk issuers, means they are not accessing the capital

Global Islamic bond volume by quarter

(\$m)

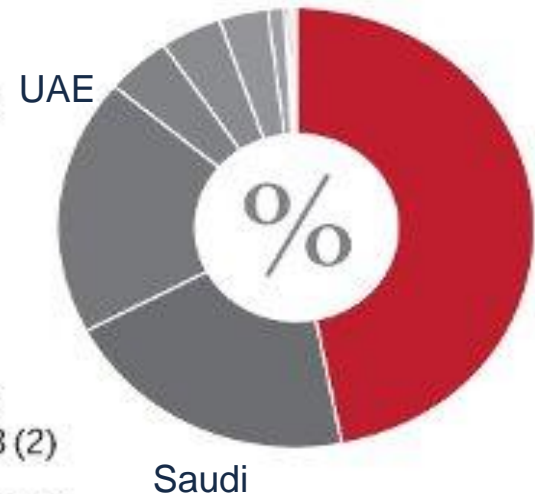


Source: Dealogic

S&P estimate 2010 sukuk volume around \$20bn

Global Islamic bond volume by issuer – April 2009-March 2010

- Malaysia 47.1 (44)
- Saudi Arabia 20.2 (5)
- United Arab Emirates 19 (3)
- Indonesia 4.3 (1)
- US 3.4 (2)
- Pakistan 1 (1)
- Singapore 0.3 (2)
- UK 0.2 (2)
- Hong Kong 0.2 (1)



Source: Dealogic

Middle Eastern investors are frustrated by shortage of quality assets in the local market and tend to look outside for “reliable and established” issuers

Investor Perspective

Sukuk issued in 2007 are trading at heavy discount and influence pricing of new issues

Sukuk features 2007

- Average price: 119 over libor
- Average tenor: 5 years
- Average rating: A
- Credit: Real state
- 2009 trading: 70% par
- Example Dar Al Arkan, Saudi Arabia 2007

Sukuk features 2009

- Average price: 350 over libor
- Average tenor: 5 years
- Average rating: A+
- Credit: Sovereign Guarantee/Real state
- 2009 trading: 101% par
- Example Government of Bahrain 2009

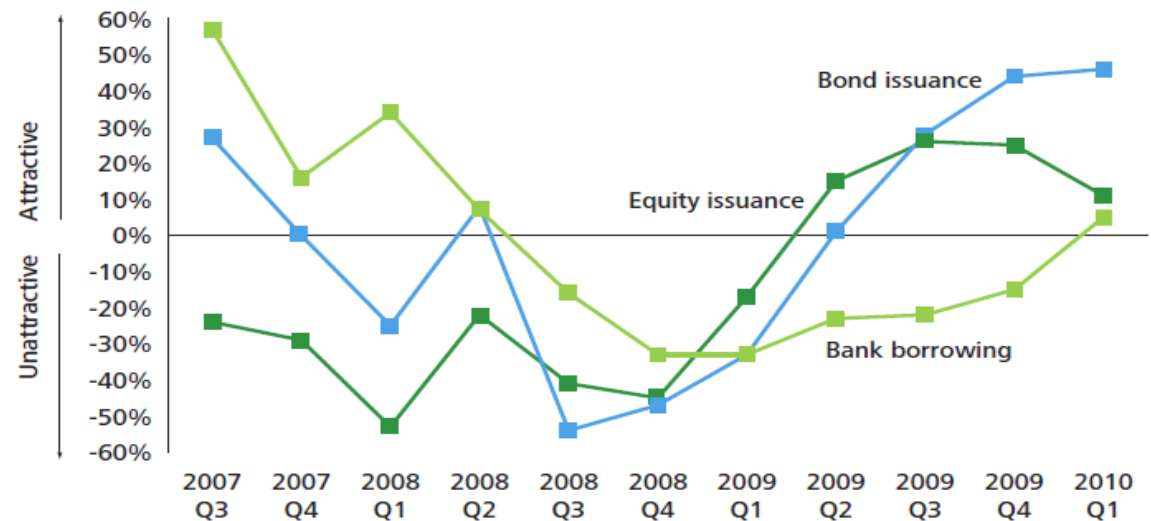
GE Capital \$500m Sukuk was four times over subscribed with 175bp issue coupon

Investor Perspective

European CFO are turning to Bond Issuance to diversify their funding

- Refinancing bank borrowing or maturing bonds is the key driver
- Funding diversification is a key objective for many
- Most low beta are well funded
 - Anglian Water £130m for 2045 maturity
 - Yorks Water £250m 10 yr & £250m 16 yr around 300bp over mid swaps
- Supply will be from high beta and debut issue
 - BAA 10 year
 - Thomas Cook 7 year bond

Net % of CFOs reporting the following sources of funding as attractive



Deloitte CFO Survey, 2010 Q1 Results

New European Corporate issues

YTD: Euro 57bn

2010 : Euro100bn

Source : IFR

Investor Perspective

Sukuk can be a new funding alternative as shown by BLME survey

Ideal Product Characteristics for a European Sukuk Issue

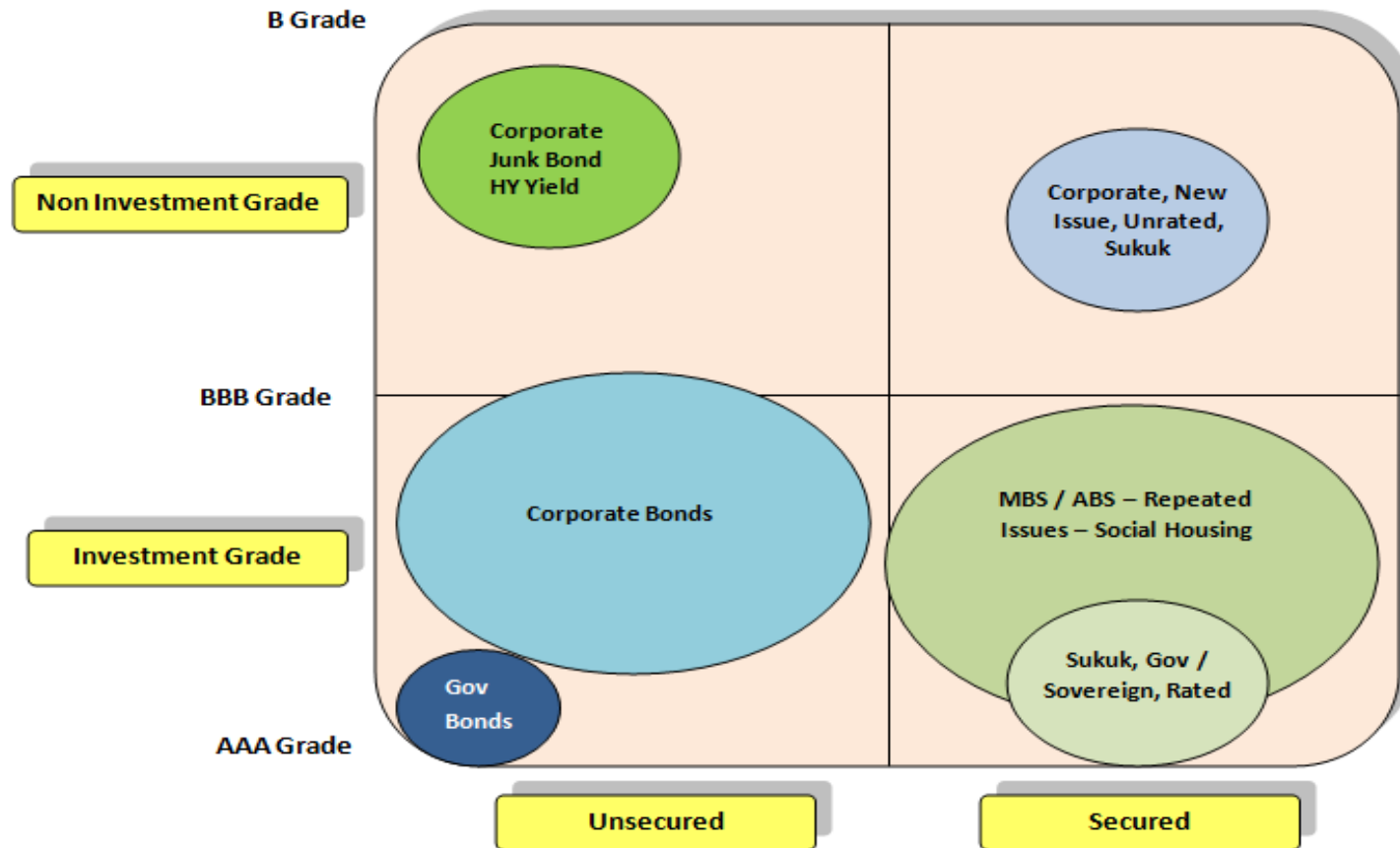
Issuer	A high rated corporate or Sovereign
Maturity	5 years
Schedule of Coupon Payments	Semi-Annual
Rate	Floating (linked to Libor)
Listing	Essential
Denomination	Ranged from 5,000 to 100,000
Size of issue	400 - 500 million. Minimum of 150 - 200 million
Asset	Infrastructure asset with stable cash flows
Rating	Critical / Important.
Currency	US Dollar and Euro
Instrument Type	Eurobond
Premium for Sukuk compared to Bond	Sharia investors and a few conventional investors: No Premium
	Most conventional investors: 25 to 200 bps
	Intermediaries: 0 to 100

Source: Survey of European Sukuk Issue, BLME Nov 2009

Investor Perspective

To European CFO's, Sukuk carries the same risk as asset backed securitisation or a covered bond

Sukuk can be presented to the investor as a secured or covered bond:



Investor Perspective

Examples of two recent European corporate bond issues that can be structured as sukuk

Established issuers

Leaseplan

- Rated BBB+, A- car lease Co
- Regularly in the market with Senior unsecured and ABS programme
- Raised funding under Dutch Gov guarantee 30 bp
- Now ABS AAA 5 year tranche are issued at 150bp over LIBOR
- Senior Unsecured at 200bp
- Core driver- Refinancing maturing obligations

Debut issuers

Thomas Cook

- Unrated travel and holiday Co
- Closed dual currency April 10
 - £300m 7 yr yield 7.75%
 - E400m 5 yr yield 6.75%
- Deal attracted £4bn demand
- The company also mandated a Saudi co for an islamic ijara sukuk
- The core driver: Funding diversification

Investor Perspective

Enabling Factors

European Islamic
Banks

Sukuk is still new to European corporate issuers. More needs to be done to educate the market and marry the supply and demand

Legislative
Framework

Islamic finance still needs to level the playing field with conventional finance. Much has been done by the UK government on debt side. Now attention needs to turn to investment products too

Standard /
Simple Products

Many of sukuk structures are convoluted and complex
There needs to be a focus on simpler and standard products that fit the investor appetite. CD rather than CDO

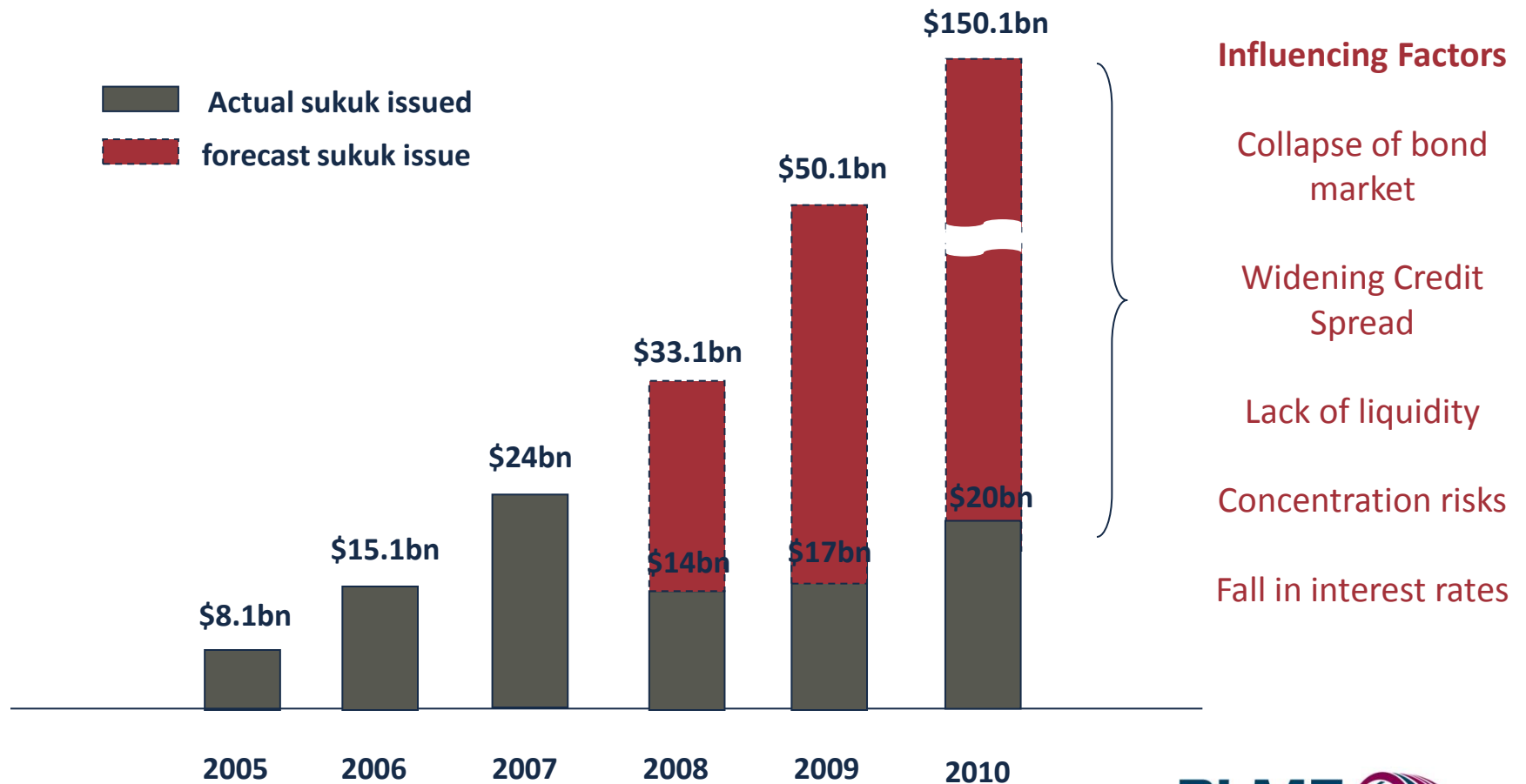
Wider
distribution
strategy

Majority of Sukuk was bought to hold by treasuries of Islamic banks. There needs to be a better value proposition to appeal to institutional investors (such as SWF) in the Gulf.

Summary

- Relative to European markets GCC has favourable liquidity position
- Yet the supply of sukuk is flat as GCC issuers are adjusting to new environment before returning to the market
- There is new European issuer demand borne out of diversification and the European banking crisis
- There is opportunity for European Islamic Bank to address this and invest in the enabling factors to make this happen

The financial crisis has created a huge funding gap for sukuk issuers



Sukuk volatility chart

- Sukuk as an asset class is more volatile than their equivalent bonds because;
 - Concentration and therefore Exposure to one main sector: property
 - Lack of depth in the market (Size of issues too small) ; not enough liquidity (Negligible Secondary Market)
 - Regional exposure (To Non Mature markets such as GCC and Malaysia)

