



Kuwait Finance House



Islamic Bonds – Sukuk

Qatar Global Sukuk, USD\$ 700 million public hospital complex

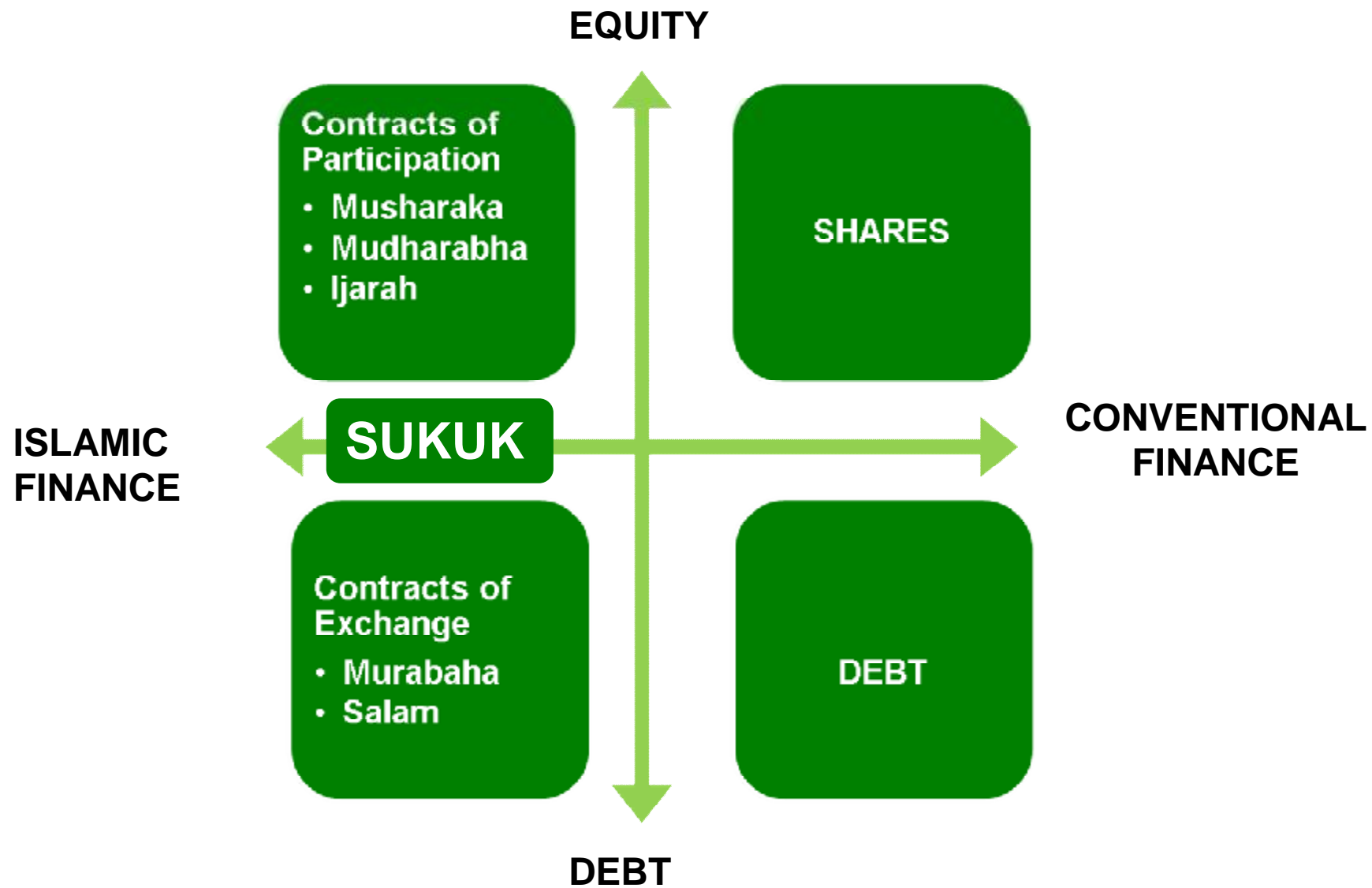
Dubai Civil Aviation Ijarah Sukuk, USD\$750 million

Durrat Real Estate Sukuk USD\$600 million

United States Sukuk, USD\$165 million East Cameron Gas Sukuk

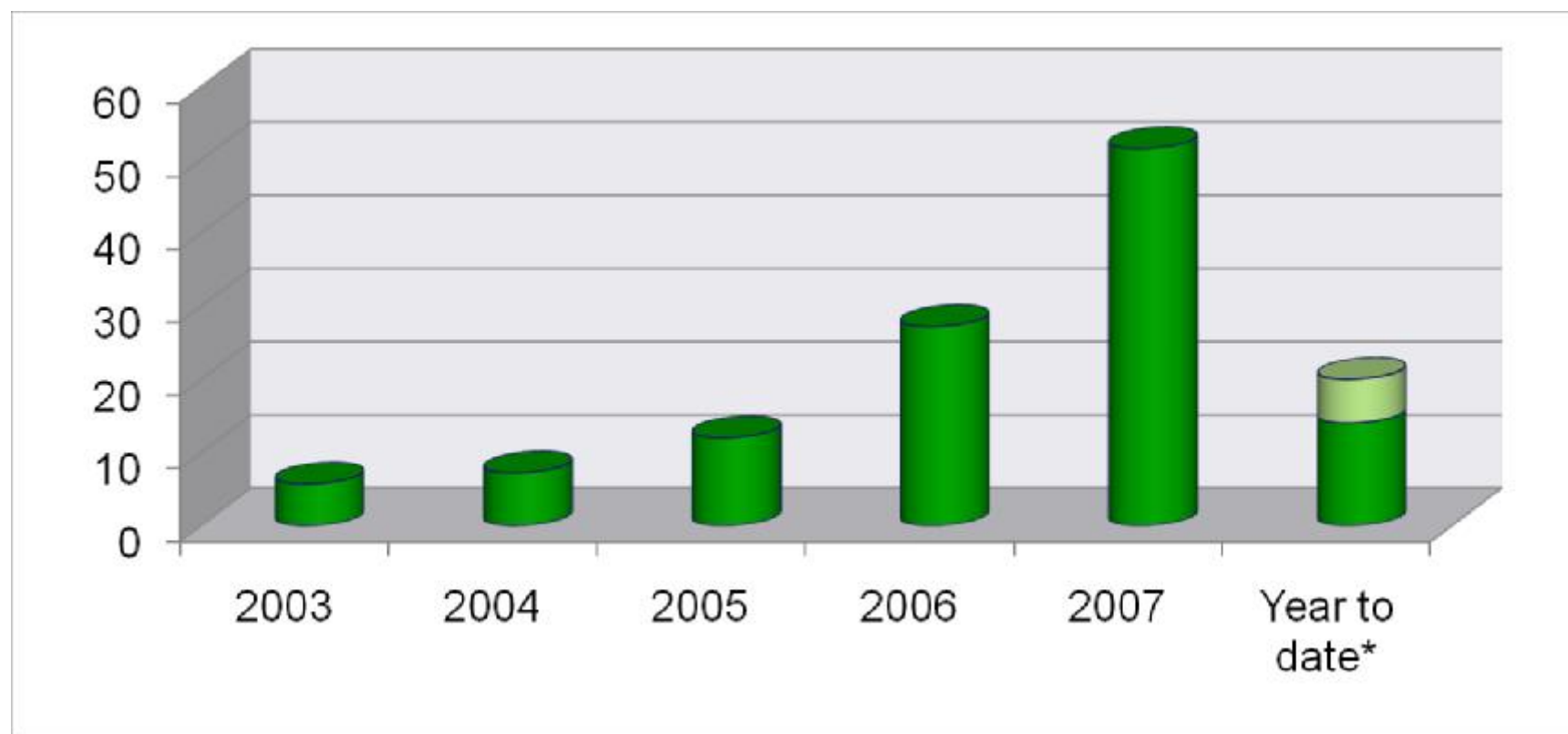
USD\$550 million Emirates Airline Sukuk

€100 million issuance to fund German Ministry of Finance buildings





Sukuk Growth in USD billion

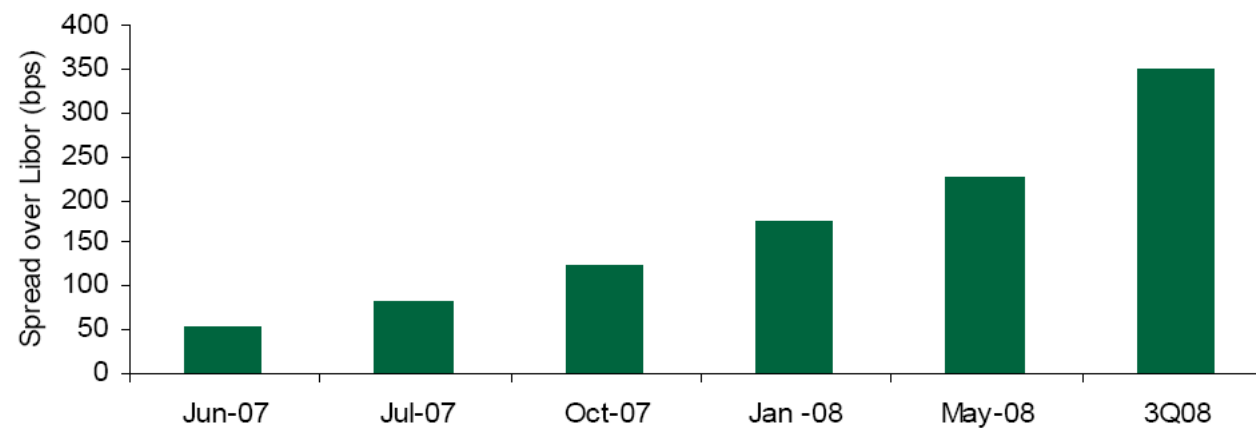


* **Credit crunch**- weakness in global credit markets stemming from the US subprime woes had a bearing on Sukuk issuance where Sukuk have either been delayed or priced slightly higher to reflect rising debt market volatility



The Sukuk Market - Trends

HSBC-DIFX Islamic Bond Index Trend (July 07- 3Q08)

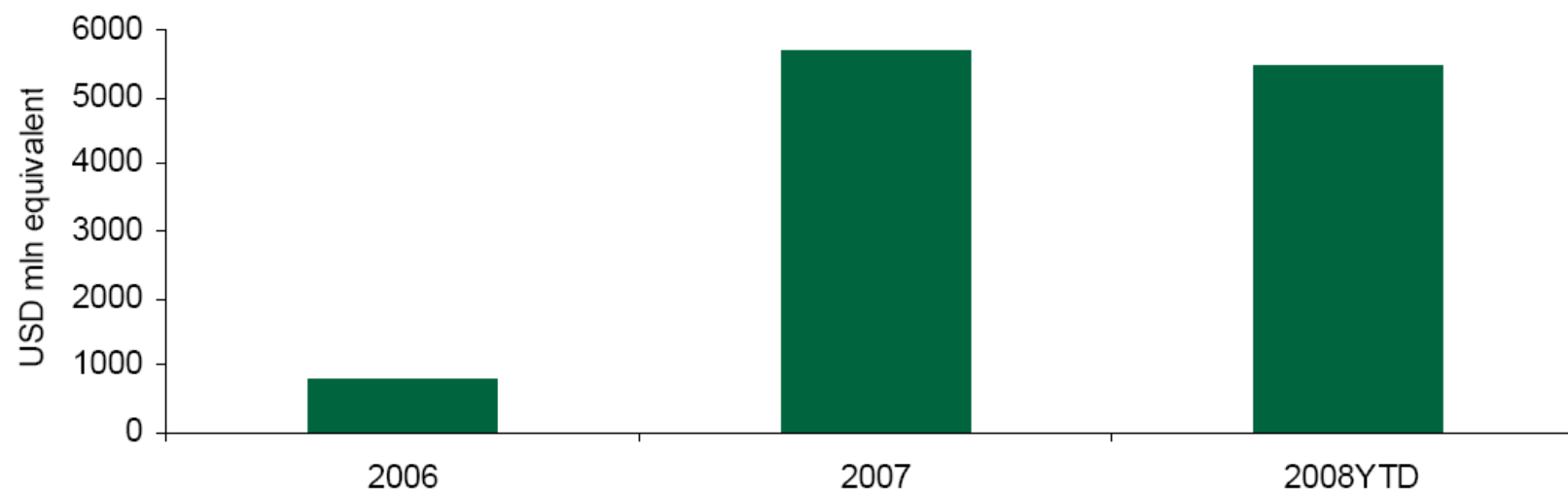


Source: Bloomberg, KFHR



The Sukuk Market - Trends

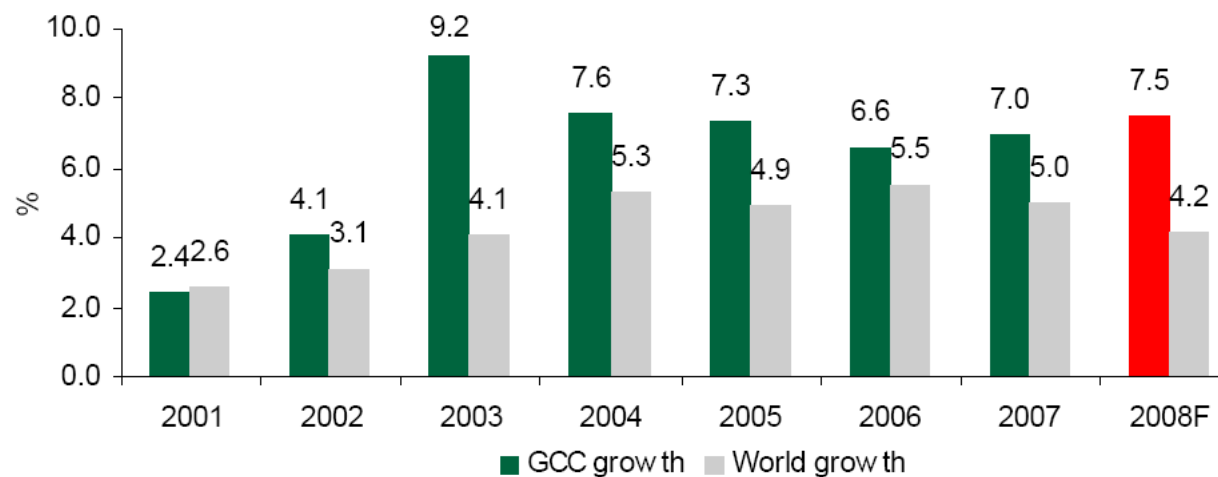
Local Currency Denominated Sukuk Issuance Trend (2006-2008F)



Source: Zawya, IFIS, Bloomberg, KFHR



GCC vs. World GDP Growth Trend (2001-2008F)



Source: Bloomberg, KFHR

***The IMF has cut the world's economic growth to 3% (from 3.9%) for 2009, which is the slowest growth since 2002**

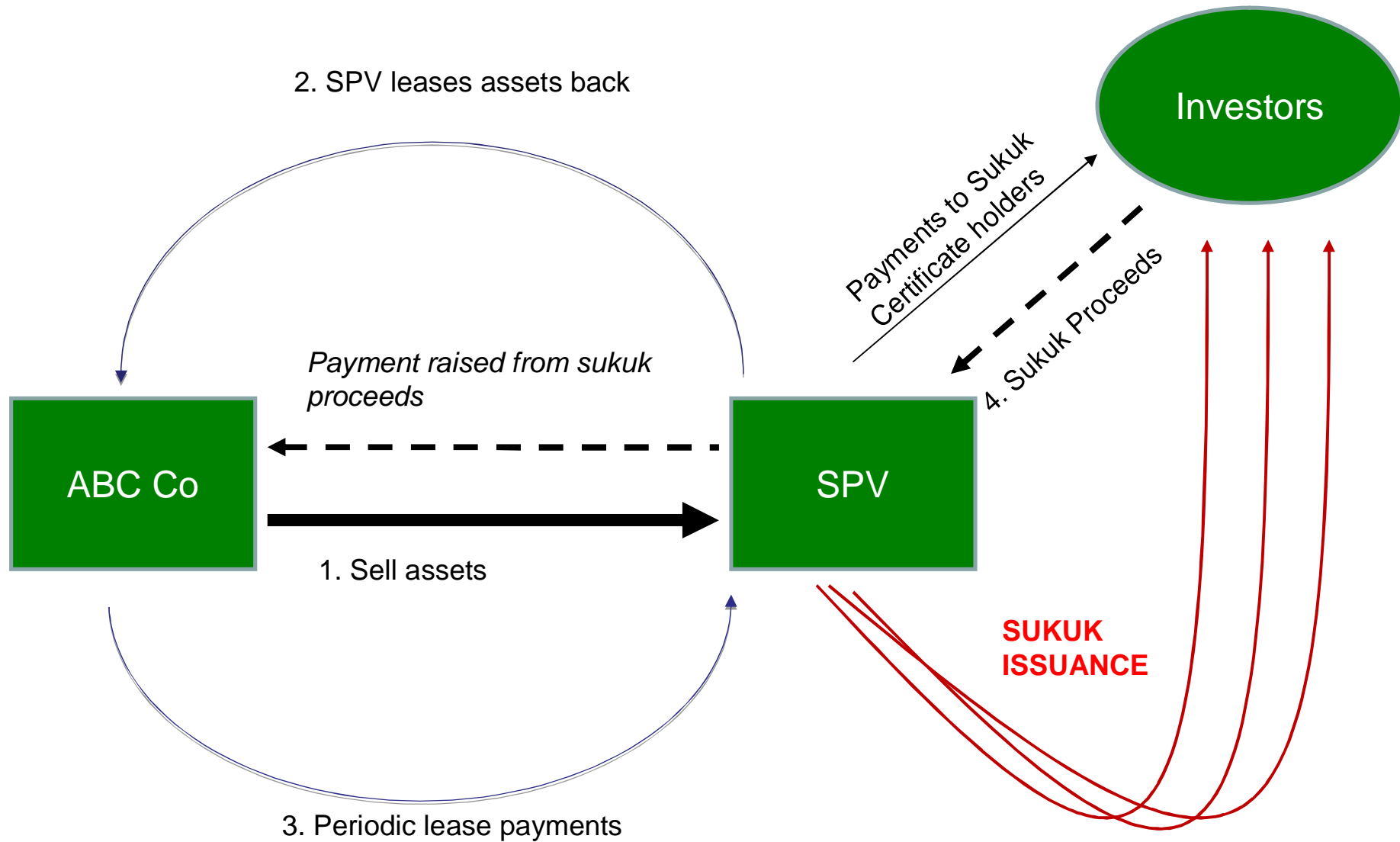


Sukuk - Securitisation

- Islamic transactions are asset backed, and in structures like Ijara and Musharaka, the assets are ring-fenced around the securitised structure
- Ratings of Sukuk take into account the assets in a structure, as such provide a true reflection of risk on each Sukuk, in addition to a rating on the issuer



Sukuk Ijarah – Lease-based





Sukuk – AAOIFI STANDARD

- **Accounting and Auditing Organisation for Islamic Financial Institutions. Sukuk Ruling, February 2008**
- Certificate must represent ownership of an undivided part of the asset with all rights and obligations in real assets, whether tangible, usufructs or services capable of being owned and sold
- Sukuk holders have claim in the usufruct rights held in the SPV not just right to income stream (cf: conventional bond)
- To be tradable Sukuks must not represent receivables or debts (51% pooling rule)
- No repurchase undertaking by investment manager from Sukuk holders of assets at end of maturity
- No loans by investment manager to be advanced to Sukuk holders when actual earnings fall short of expected earnings



Sukuks

Ownership of an undivided part of the asset

Underlying asset must be in permissible class

Must comply with AAOFI Standards

Sukuk pricing is linked to underlying asset and issuers creditworthiness

Bonds

Pure debt based – generally, unsecured

Assignment of debts

Bond pricing depends on issuers credit worthiness only



Sukuk – Transaction Costs

- Conventional assignment of debt NSW s 12
Conveyancing Act
- Equitable assignment of the debts to SPV v Legal assignment of assets
- United Kingdom legislative amendments Finance Act (FA) 2007 – ‘alternative finance investment bond’. Sukuk deemed as a loan