Rating Action: Sun Finance Limited

Moody's Assigns Provisional Ratings to Sukuk Certificates issued by Sun Finance Limited

Originator is Sorouh Real Estate PJSC based in the Emirate of Abu Dhabi of the United Arab Emirates

DIFC, July 15, 2008 -- Moody's Investors Service has assigned the following provisional ratings to three classes of Sukuk Certificates issued by Sun Finance Limited (the "Issuer"):

- (P) Aa3 to the AED [2,761,000,000] [55] percent Class A Secured Sukuk Certificate due 2012 and Legal Final Maturity of 2015;

- (P) A3 to the AED [251,000,000] [5] percent Class B Secured Sukuk Certificate due 2012 and Legal Final Maturity of 2015;

- (P) Baa3 to the AED [1,004,000,000] [20] percent Class C Secured Sukuk Certificate due 2012 and Legal Final Maturity of 2015; and

- NR to the AED [1,004,000,000] [20] percent Class D Secured Sukuk Certificate due 2012 and Legal Final Maturity of 2015.

Transaction Structure

The transaction is the first Islamic securitisation of the land and associated rights to payment (the "Assets") from a pool of GCC obligors. The [61] obligors (the "Obligors") are primarily GCC real estate developers who pay in scheduled instalments to purchase undeveloped land, concentrated within two real estate developments - Shams and Saraya (the "Developments") within Abu Dhabi, the capital city of the United Arab Emirates (rated Aa2). The purchase contracts were originated by Sorouh Real Estate PJSC ("Sorouh"), one of the three key real estate developers in Abu Dhabi who have been granted land on preferential terms by the government.

Sun Finance Limited, an SPV incorporated under the laws of Jersey, will issue four classes of AED denominated notes to fund the purchase of the Assets. The transaction involves a dual SPV structure as follows: (i) Sorouh will transfer the land and assign the PSPA instalments and all the associated rights under the contracts to Sorouh Abu Dhabi Real Estate LLC ("PropCo"), a company incorporated in Abu Dhabi, so as to isolate the Assets from Sorouh. (ii) The Issuer will extend an inter-company loan to PropCo; PropCo will create security interests over all of its assets in favour of the local Security Trustee acting on behalf of the Issuer.

The transaction also includes two pre-funded reserves to cover (i) [six] months of fixed Senior Expenses of AED [6,850,000] and (ii) [six] months of dynamic coupon liquidity amounting to AED [84,285,263]. A third reserve, the Infrastructure Fund, will be pre-funded at AED [1,735,000,000] and will be used to pay the contractors, project managers and supervising consultants appointed in relation to the infrastructure development.

It should be noted that due to the Islamic nature of the transaction, and unlike typical ABS receivables transactions, there will be a transfer and registration of title of the land to PropCo. This registered transfer, as well as the assignment of the PSPA rights is governed by local Abu Dhabi law, while the remaining security documents are governed by English law. While there are some weaknesses regarding the enforceability of foreign court judgements in the UAE, such weaknesses are felt to be mitigated by the strong structural features of the transaction that provide several means of local enforcement before resorting to a foreign arbitration.

The Securitised Assets

The securitised assets are composed primarily of plots of land and associated rights to payment from the Obligors under the terms of [107] Plot Sale and Purchase Agreements ("PSPA"). The PSPAs were originated by Sorouh over the course of the last [30] months in respect of land purchases in the Developments. The remaining weighted average life of the cashflows due under the PSPAs is [22] months at closing. The aggregate notional sum of instalments due is approximately AED [5.715] bn versus the rated funding raised of AED [4.016] bn. The large [42]% overcollateralisation of the rated notes is due to the fact that there is no yield on the assets, hence principal will be used to pay the fixed income 'Profit' stream on the Sukuk and to cover the unrated equity tranche of the transaction.

One possible risk metric is to compare the outstanding balance of the payments due, against the value of the land to be purchased. As such, this measurement is analogous to the Loan-To-Value measure commonly applied in analysing property-related transactions. Using the valuations provided along with other data and qualitative information, Moody's came to its own assessment of a stressed market value. Based on such value, the weighted average LTV on the pool is [49] % at closing. This provides a significant buffer against losses upon default of an obligor in a base case scenario. However, the current positive dynamics of the local real estate market was felt to be unsustainable in the long term. In addition, the concentration risk in the transaction (the city of Abu Dhabi) is very high. Moody's therefore applied significant stresses to the Obligors' default likelihood, recovery rate upon obligor default and correlation assumptions in its model to ensure that the expected loss on the Certificates is consistent with the provisional ratings assigned. The relatively short weighted average life of the transaction is a further mitigant to the above mentioned risk.

Originator/Primary Servicer/Property Manager ("PM"): Sorouh PJSC

The primary servicing, or more appropriately project management, will be performed by Sorouh in its capacity as 'Property Manager'. Abu Dhabi Commercial Properties will also act as back-up servicer from closing. It should be noted that 'servicing' in this securitisation is primarily related to the management of the on-site sub managers and contractors, collection of payments and enforcement on any delinquent Obligors as well as the resale of any repossessed land.

Sorouh was initially formed by a Ministerial Decree dated 23 July 2005 and was incorporated on 26 July 2005 as a Public Joint Stock Company. Its primary role is that of a 'master developer', and as such is one of the three entities that have gained prime freehold land within the Emirate of Abu Dhabi at preferential terms from the government. Sorouh has launched a number of projects involving commercial, industrial and residential properties, and currently has a residual land bank of approximately 46 million square feet.

The regional demand for residential and commercial property has allowed the local phenomenon of pre-selling of land and property often years in advance of actual delivery date. While this model shifts the immediate speculative construction risk from Sorouh to the underlying sub developers, it does not eliminate the ultimate exposure to price volatility or decline in the local property markets. Payments under plot sale and purchase agreements are typically staged and not linked to construction milestones. Therefore Sorouh's current income stream from the sale of plots is relatively predictable. In the longer term, the land/property-sales model is expected to shift towards more recurring income streams from rents, property management and servicing.

The Secondary Servicer/Replacement Property Manager ("RPM"): Abu Dhabi Commercial Properties PJSC (ADCP)

ADCP was incorporated in January 2007 as a wholly owned subsidiary of Abu Dhabi Commercial Bank (Aa3/P-1), which in turn is approximately 65% owned by the Government of Abu Dhabi. ADCP is present in three key capacities in the transaction:

- Firstly as Verification Agent: ADCP will inspect progress against construction milestones and authorise the release of escrowed funds from the cash management agent to sub-project managers and contractors.

- Secondly as Operations Advisor: Upon a breach of the first delinquency trigger, ADCP will step in to 'advise' the PM on the ongoing management of the project and assist in the collection process.

- Thirdly as Replacement Property Manager: As agent of PropCo and following termination of the PM (e.g. following a Sorouh insolvency or a breach of the second delinquency trigger) the RPM acts as a back-up project manager which has the right to manage, pay, direct and enforce against the existing contractors and agents onsite to ensure completion of the infrastructure and collections/enforcement of the PSPAs.

Moody's notes that the Aa3 rating of ADCB and the indirect (majority) government ownership of the RPM are key elements in achieving the high ratings on the structure given the young and unrated nature of the primary PM.

Construction Risk

Unlike other securitisations and sharing some features with Project Finance, there is an additional risk that arises due to the contractual obligation of Sorouh to provide common infrastructure to the development. AED [1,735]m of the sales proceeds are escrowed in an Infrastructure Fund charged to PropCo for the purpose of pre-funding all amounts due under the fixed price construction contracts. A sizable contingency reserve is included in the balance, with any residual shortfall to be covered by Sorouh.

Based on a revised schedule, completion of all work is estimated to occur by Q4 2009. The current scope of works, cooling and associated costs is preset with milestones to December 2009 (AED [1,137]m), leaving [90]% of the residual AED [594]m as a contingency buffer. All monies remaining in the account after full delivery of the infrastructure will be paid to Sorouh. Nonetheless, failure to deliver by an individual set date for each PSPA may result in a fair termination of the purchase contract by the Obligors and the right to a refund of any money paid up to that point. Beyond the pre-funding of costs, there are several mitigants to this risk:

- Firstly, only the rights to payment of purchase instalments have been assigned to PropCo with the consent of the obligor. The obligation for delivery of infrastructure and the consequential refund obligation in case of failure to deliver stays with Sorouh.

- Secondly, out of the [107] contracts signed only [11] to date have an infrastructure delivery date set. The remaining dates ill be set by Sorouh in its absolute discretion with a covenant not to set them earlier than [32] months from the closing date. This feature should help immunise all cash flows prior received to this date from such interruption.

- Thirdly, the terms of the PSPAs allow for two "six-month" grace periods to deliver the infrastructure (one specific and one for the entire site).

- Fourth and finally, the current equity value in the contract (low LTV) should limit the Obligors' economic incentive to terminate the PSPA contracts irrespective of delays in the delivery of the infrastructure.

Mudaraba Sukuk Structural Features

It should be noted that the transaction is structured to be compliant with Islamic ethical principles or 'Shari'ah'. As such, investors will see transaction features that are not typical of conventional securitisations. The application of Arabic financial terminology may be commonplace throughout the asset and structure documentation. Bonds that comply with such principles are commonly referred to as "Sukuk".

The Islamic structure is that of a Mudaraba, where one party (the Issuer or the Trustee in the Islamic context) is the investor (Raab ul Maal) and the other party is the asset manager (Mudareb/PropCo). Capital is invested as per a Restricted Mudaraba Agreement (investment plan) in purchasing the Assets. The Raab ul Maal/Trustee has a security interest over all the assets of the Mudareb/PropCo in the case of an event of default. Income from the assets is distributed as Profit to the Raab ul Maal/Trustee (and then onto the investors) with separate amounts being used to (a) pay the monthly profit (coupon) due and (b) repurchase a share of the Raab ul Maal/Trustee's interest in the assets -- the latter providing the principal amortisation mechanism.

In its extensive analysis of such structures, Moody's has found that conventional methods of ABS analysis are still applicable and that the credit ratings assigned are comparable to the Global Scale Ratings issued by Moody's. It is important to note that Moody's does not seek to review or opine on the degree of compliance with Shari'ah and such aspect is only considered to the extent it affects the credit risk profile of the transaction.

Provisional Ratings Assigned

The ratings of the notes are inter-alia based on (i) favourable PSPA characteristics such as a low weighted average LTV of [49.00] % calculated using certain stressed assumptions; (ii) the legal structure including the property ownership by PropCo; (iii) the short average life of the property exposure; (iv) the close involvement of a highly rated secondary servicer; (v) the importance and involvement of the Government of Abu Dhabi in the project; and (vi) the pre-funded and escrowed reserves for liquidity, senior expenses and infrastructure costs.

The provisional ratings address the expected loss posed to investors by the legal final maturity of the Notes. Moody's issues provisional ratings in advance of the final sale of securities, but these ratings represent only Moody's preliminary credit opinions. Upon a conclusive review of the transaction and associated documentation, Moody's will endeavour to assign definitive ratings to the Notes. A definitive rating may differ from a provisional rating. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks such as market value stability and liquidity have not been addressed, but may have a significant effect on yield to investors.

To obtain a copy of Moody's Pre-Sale report and/or "Shari'ah and Sukuk a Moody's Primer" please see Moody's website www.moodys.com or contact our Client Service Desk in London (+44-20-7772 5454). The Pre-Sale report is expected to be available on our website by the [17]July

Moody's will monitor this transaction on an ongoing basis. For updated monitoring information, please contact monitor.abs@moodys.com. A copy of the forthcoming Moody's New Issue Report on this transaction will be available on Moody's website on www.moodys.com or via Moody's Client Service Desk in London (+44-20-

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