

Offshore centers display busy international Sukuk markets



OFFSHORE CENTERS

By *Manuela Belmontes*

Over the past few months, banks, companies and sovereigns are taking advantage of low interest rates by vigorously tapping the Sukuk markets in an attempt to address gaps in their finances caused by the impact of COVID-19 and the drop in oil prices.

Some GCC-based issuers, such as Dubai Islamic Bank (DIB) and Emaar Properties, returned to the international Sukuk markets by drawing down under their existing Sukuk programs which feature an offshore issuing vehicle.

Very recently, Emaar Properties issued US\$500 million in Sukuk certificates due in 2031 under its US\$2 billion program through Emaar Sukuk, its Cayman Islands incorporated issuer. The offering was more than six times oversubscribed and thus priced lower than initially expected at 3.7%.

Last month, DIB floated a landmark US\$1 billion five-year senior Sukuk facility on Euronext Dublin and NASDAQ Dubai. The Sukuk facility was issued through DIB Sukuk, an orphan company domiciled in the Cayman Islands, under its US\$7.5 billion Sukuk issuance program. DIB's press release on the transaction revealed that the profit rate of 1.96% payable on the Sukuk is the lowest pricing that DIB has ever achieved on its Sukuk issuances.

Earlier in April, DIB priced another Sukuk issuance, this time additional Tier 1 capital certificates, at a record low level. The US\$500 million additional Tier 1 securities were launched at 3.38%, establishing the lowest rate for perpetual debt out of the Gulf region. The prospectus for the transaction reveals that the issuing vehicle, DIB Tier 1 Sukuk (5), was set up as an orphan company in the Cayman Islands with its shares held on charitable trust by a licensed independent trust company, MaplesFS.

Several Kuwait-based banks launched stand-alone perpetual Sukuk issuances this year. Also in April, Boubyan Bank floated US\$500 million-worth of Tier 1 capital certificates on Euronext Dublin. The issuance was priced at 3.95% and was more than 2.5 times oversubscribed.

At the same time, Boubyan Bank made a tender offer in respect of the US\$250 million Tier 1 capital certificates it previously issued in 2016 through a DIFC SPV, Boubyan Tier 1 Capital SPC.

More recently in June, each of Kuwait's Ahli United Bank (AUB) and Kuwait Finance House (KFH) floated Tier 1 capital certificates, the former being dual-listed on Euronext Dublin and NASDAQ Dubai and the latter listed on the main market of the London Stock Exchange.

Kuwait's AUB's issuance of US\$600 million-worth of Tier 1 capital certificates was priced at 3.88% and was three times oversubscribed. Part of the proceeds of that issuance were used to purchase (through a simultaneous tender offer) AUB's existing US\$200 million-worth of capital certificates previously issued in 2016 through a Cayman Islands exempted company, Ahli United Sukuk.

KFH's issuance of US\$750 million-worth of Tier 1 capital certificates was priced

at 3.6% and its orderbook received more than US\$1.9 million in subscriptions.

The prospectus states that the proceeds will be used by the bank to support its Tier 1 capital for the purpose of maintaining its capital adequacy and for its general corporate purposes.

A common thread between these three Kuwaiti banks' perpetual Sukuk transactions is the use of an orphan issuing vehicle established in the Cayman Islands. (5)

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