

ESG trend continues for 2022 Sukuk issuance using offshore centers



OFFSHORE CENTERS

By *Manuela Belmontes*

Fitch Ratings and Refinitiv, among others, predict continued growth in Sukuk transactions in 2022, following a solid 2021 in which global outstanding Sukuk reached over US\$700 billion (as reported by Fitch). One prominent trend in the Sukuk market that is expected to continue throughout 2022 is environmental, social and governance (ESG) and the issuance of green Sukuk. We witnessed a debut issuance of sustainable Sukuk at the start of the year using a popular offshore center.

In January 2022, Saudi National Bank (SNB) floated a US\$750 million five-year Sukuk facility on the London Stock Exchange's International Securities Market.

The Sukuk facility (which was more than four times oversubscribed) was issued under SNB's US\$5 billion senior unsecured trust certificate issuance program which uses an SPV formed in the Cayman Islands as its issuer.

This was SNB's debut 'sustainable' Sukuk issuance and the media reported that SNB will apply the proceeds to fund eligible projects under its Sustainable Finance Framework, such as renewable energy-generating facilities and tree-planting.

The SNB issuance followed closely behind that of Riyadh Bank at the start of January 2022, which was reported as being the first global additional Tier 1 capital sustainable Sukuk issuance and the first Sukuk to be listed on the Sustainable Bond Market of the London Stock Exchange.

The US\$750 million Sukuk issuance was floated through an SPV and carries a 4% rate of return. It is anticipated that Riyadh Bank will use the proceeds from this perpetual Sukuk to finance eligible projects under its newly adopted Sustainable Finance Framework. S&P Global Ratings has confirmed that the sustainability objectives of the framework are aligned with Saudi Arabia's Vision 2030 agenda.

Moving away from Saudi Arabia, the first global Sukuk facility of 2022 to be issued out of the UAE was made by Dubai Islamic Bank (DIB) in mid-February 2022, also using the favored offshore center of the Cayman Islands.

DIB, through its Cayman Islands issuing vehicle, DIB Sukuk, sold a US\$750 million five-year Sukuk facility with a profit rate of 2.74% per annum under its US\$7.5 billion trust certificate issuance program.

The issuance (which was 2.5 times oversubscribed) was listed on Euronext Dublin and NASDAQ Dubai.

The prospectus for the program reveals that DIB Sukuk is set up as an orphan entity, with its shares held by an independent trust company, MaplesFS, as a share trustee pursuant to a charitable trust.

The issuer is independently managed with all of its directors being employees of the trust company.

Aside from Sukuk transactions, IFN reported in February 2022 that the Cayman Islands was also used as a domicile for the formation of an SPV by Alinma Bank, which will act as a counterparty to international banks in derivatives and repurchase transactions.

This follows a trend of financial institutions based in the GCC which have set up similar SPVs to take advantage of the Cayman Islands's netting legislation.

The Cayman Islands is widely recognized as being a creditor-friendly and flexible jurisdiction. (2)

This article is intended to provide only general information for the clients and professional contacts of the legal services division of the Maples Group. It does not purport to be comprehensive or to render legal advice.

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