

Presale:

BSF Sukuk Co. Ltd.

May 19, 2023

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Profile

\$4 billion trust certificate program assigned 'A-' preliminary rating.

Transaction Summary

BSF Sukuk Co. Ltd. (BSF Sukuk) is a limited liability company registered in the Cayman Islands with issued shares held in trust for charitable purposes by Maples FS Ltd., established for the sole purpose of issuing Sharia-compliant securities.

BSF Sukuk will issue certificates based on, among other documents, a master trust deed, a purchase undertaking, a servicing agency agreement, and a master murabaha agreement. BSF Sukuk will use at least 55% of the proceeds of the trust certificate issuance to purchase a portfolio of eligible assets from Banque Saudi Fransi (BSF; A-/Stable/A-2), which will continue to administer them. BSF may use the other part of the proceeds to purchase commodities.

Income from the asset portfolio and instalments from the profit on the commodity sales will fund the periodic distribution amounts. At maturity or early dissolution, BSF will repurchase the asset portfolio from BSF Sukuk for the full amount of the outstanding certificates, plus any unpaid periodic distribution amounts and any other amounts owed less the commodities' deferred payment price to be paid under the master murabaha agreement.

Rationale

The preliminary rating on the program reflects the 'A-' long-term issuer credit rating on BSF because the legal documents fulfill the five conditions of our criteria for rating sukuk at the same level as the sponsor:

- BSF provides sufficient contractual obligations for the repayment of the principal amount and the final periodic distribution amount in case of a shortfall in the performance of the underlying

PRIMARY CREDIT ANALYST

Zeina Nasreddine

Dubai

+ 971 4 372 7150

zeina.nasreddine

@spglobal.com

SECONDARY CONTACTS

Mohamed Damak

Dubai

+ 971 43727153

mohamed.damak

@spglobal.com

Benjamin J Young

Dubai

+971 4 372 7191

benjamin.young

@spglobal.com

assets leading to an early dissolution of the sukuk.

- The obligations will rank pari passu with BSF's other senior unsecured obligations.
- BSF's obligations are irrevocable and unconditional.
- BSF will undertake to cover all the costs related to the transaction through various obligations under the different contracts.
- There is no total loss event risk defined in the legal documents.

We therefore equalize the rating on the program with the long-term issuer credit rating on BSF. We base the rating on the sukuk program on the final documentation. S&P Global Ratings will review the legal documents of each drawdown and if there is a material change in the contractual obligations, the issue rating assigned may be different from the program rating. This report does not constitute a recommendation to buy, hold, or sell the trust certificates. S&P Global Ratings neither structures sukuk transactions, nor provides opinions about the compliance of the transaction with Sharia.

The master trust deed and the purchase undertaking specify that if BSF fails to fulfill any of its obligations, BSF shall, as an independent, severable, and separately enforceable obligation, fully indemnify BSF Sukuk for the purpose of redemption of the certificates under the condition that BSF (acting in any capacity) is in actual or constructive possession, custody, or control of all the wakala assets. We note that BSF has undertaken to maintain such possession, custody, and control under the servicing agency agreement provided that it is legally possible and such maintenance should not result in a breach of the terms of the relevant asset contracts.

Notwithstanding that the legal documents stipulate that all obligations of BSF are senior unsecured, if BSF fails to maintain the possession or if this obligation is altered in future updates of the legal documents or for a specific drawdown, our view of the ranking of the sukuk creditors in the event of liquidation of BSF might change.

Transaction Details

Issuer and trustee	BSF Sukuk Co. Ltd.
Purchaser and service agent	Banque Saudi Fransi
Arranger	Citigroup, First Abu Dhabi Bank, Goldman Sachs, HSBC, Saudi Fransi Capital
Delegate	HSBC Bank PLC, United Kingdom
Principal paying agent	HSBC Bank PLC
Governing law	English law: All transaction documents, except: Saudi law: Master Purchase Agreement (and each Supplemental Purchase Contract, each Sale Agreement entered into pursuant to the Purchase Undertaking and each Sale Agreement entered into pursuant to the Sale and Substitution Undertaking)

A sukuk structure that provides sufficient contractual obligations for full and timely repayment

We understand that BSF Sukuk will use at least 55% of the proceeds from the trust certificate issuance to purchase a portfolio of eligible assets from BSF that are either financing assets or other tangible assets, the characteristics of which are defined in the master purchase agreement. BSF will continue to administer the assets under the servicing agency agreement. BSF Sukuk will use the remaining proceeds to purchase commodities, which BSF will buy from BSF Sukuk over

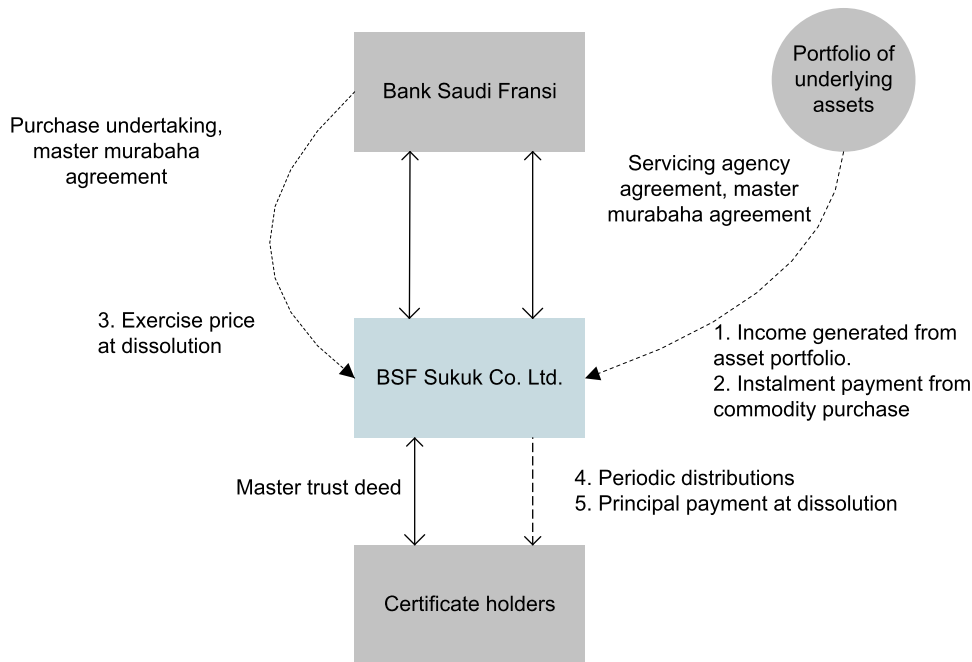
the life of the transaction. At the maturity of the transaction or upon the occurrence of an early dissolution event, BSF will buy back the portfolio of assets from the issuer.

The yields generated by the pool of underlying assets--collected by BSF as the servicing agent--and an instalment payment of the murabaha profit amount paid by BSF as part of the master murabaha agreement will serve as the basis for the periodic distribution payments to investors. If the returns generated by the asset portfolio and the murabaha profit amount are insufficient on any periodic distribution date to fund the amount due to investors, BSF will use any amounts standing to the credit of the reserve account (funded when the income generated in previous periods is greater than the periodic distribution amount) to make up the shortfall. If funds are still insufficient to cover the amount due, BSF may either provide Sharia-compliant funding to the special-purpose vehicle (SPV) or procure Sharia-compliant funding from a third party for the SPV--in each case in the amount required to ensure that there is no shortfall. We understand there is no legally binding obligation for BSF to provide such liquidity and therefore we do not factor it into our rating analysis.

We instead base our rating on the scenario that if BSF does not provide this support, it will lead to the early dissolution of the sukuk. Under such a case, BSF is irrevocably committed to purchase the asset portfolio at the exercise price, which comprises, among other amounts, the principal, and any unpaid periodic distribution amounts, less the remaining outstanding amount of the deferred sale price on the commodities, which will also become due. We note that the triggering of early dissolution in case of a shortfall in any periodic distribution amount happens 14 days after BSF Sukuk defaults on the periodic distribution amount. The certificates would become immediately due and payable upon the delegate giving dissolution notice to BSF. Such notice is given either at the sole discretion of the delegate, or if requested in writing by 20% of holders of the sukuk, or if directed by an extraordinary resolution. If the payment takes longer than 30 days, we may downgrade the instrument to 'D' (default) depending on our expectations of the timing of repayment.

On maturity of the sukuk, or in the event of an early dissolution, BSF irrevocably undertakes to purchase the underlying assets at a predefined exercise price. The exercise price comprises, among others, the aggregate face amount of the certificates outstanding, all accrued and unpaid periodic distribution amounts (if any), any outstanding amounts payable in respect of any liquidity facility and due but unpaid servicing agency liabilities amounts; any amounts payable by the Trustee (in any capacity) under the transaction documents; less the aggregate amounts of deferred payment price outstanding which have been paid into the transaction account in accordance with the terms of the master murabaha agreement.

BSF Sukuk Co. Ltd. \$4 billion trust certificate program: transaction structure



1. Income generated from the asset portfolio and income from the commodity purchase fund the periodic distribution amounts under the Servicing Agency agreement and master murabaha agreement.
2. In the event of a shortfall in the payment of periodic distribution amount or at the maturity of the sukuk, the purchase undertaking will be exercised by the trustee. The exercise price covers, among other amounts, the principal (5) and any unpaid and accrued periodic distribution amounts (4), less the outstanding deferred sale price on commodities, which also becomes due.

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The program includes an obligation to maintain a tangibility ratio (ratio of the aggregate value of the tangible assets and the wakala portfolio value) above 50% throughout the lifetime of the transaction. If the tangibility ratio falls to 50% or below, but remains above 33%, BSF, as the wakeel, shall take steps, in consultation with its Shariah adviser, to ensure that the ratio is restored to more than 50% within the period determined by the adviser. If the ratio falls below 33%, a tangibility event occurs in which, among other things, the certificates are delisted, while certificate holders are given the option to request early repayment of their sukuk at a price that will include, among others:

- The aggregate face amount of the certificates for which investors have exercised their option to accelerate.
- All accrued and unpaid periodic distribution amounts related to them.
- Any outstanding liquidity facility and due but unpaid servicing agency liabilities amounts; plus any amounts payable by the trustee (in any capacity), less the aggregate amounts of deferred

payment price outstanding related to the certificates which has been paid into the transaction account.

Total Loss Event

The transaction documents do not define a total loss event.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings , June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Methodology For Rating Sukuk , Jan. 19, 2015
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Ratings On Four Saudi Banks Raised, Two Affirmed After Sovereign Upgrade; Outlooks Stable, March 29, 2023

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