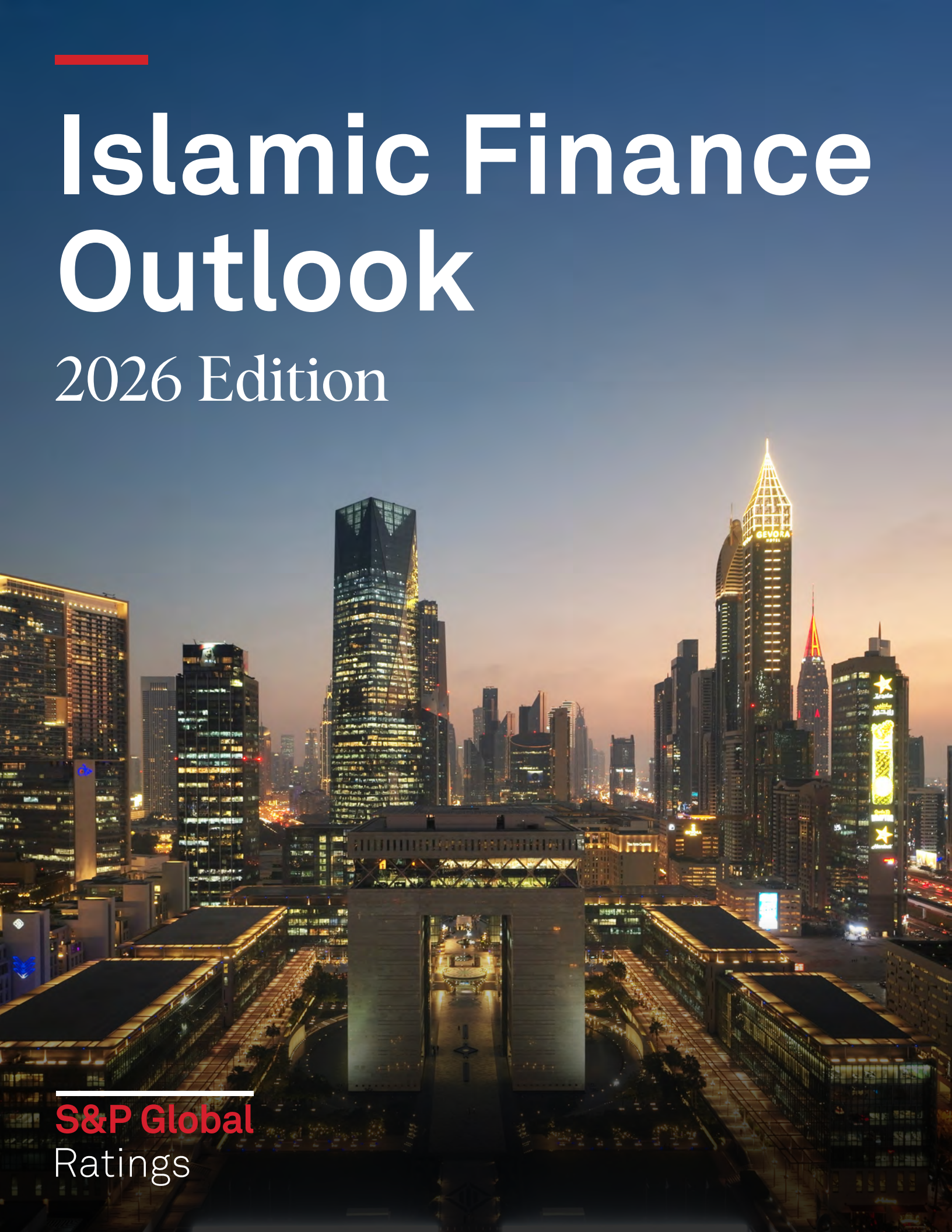

Islamic Finance Outlook

2026 Edition



S&P Global
Ratings

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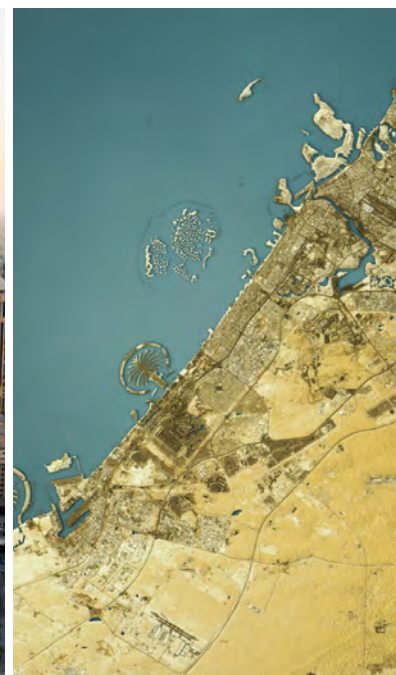
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His Excellency Arif Amiri

Chief Executive Officer
DIFC Authority

The global Islamic finance industry continues to demonstrate resilience and adaptability, navigating evolving macroeconomic landscapes and market uncertainties.

Looking ahead, the UAE announced its Islamic finance strategy in 2025, aiming to more than double the industry's assets over the next six years, positioning the sector as a driver of innovation, financial inclusion, and sustainable economic growth.

At the centre of this transformation is Dubai International Financial Centre (DIFC), which serves not merely as a financial hub but as a global platform for Islamic finance innovation. DIFC provides the legal and regulatory rigor, connectivity, and ecosystem necessary for institutions, investors, and innovators to scale new ideas, expand international reach, and deliver Shariah-compliant solutions that meet the demands of a rapidly evolving global market.

Through targeted initiatives, strategic partnerships, and a commitment to sustainable finance, DIFC actively enables the next generation of Islamic finance solutions—driving digitisation, fostering innovative capital markets, and facilitating access to new pools of capital. Our platform empowers stakeholders to collaborate, experiment, and lead, reinforcing DIFC's role as a catalyst for industry-wide transformation.

As regulatory frameworks continue to evolve, including initiatives such as the proposed Standard 62 for Islamic Finance, DIFC is committed to ensuring that Islamic finance remains competitive, resilient, and attractive to global investors.

By bringing together innovation, governance, and international connectivity, DIFC helps shape an Islamic finance ecosystem that is dynamic, inclusive, and future-ready.



سعادة عارف أميري، الرئيس التنفيذي لسلطة مركز دبي المالي العالمي

يواصل قطاع التمويل الإسلامي العالمي إظهار مرونته وقدرته على التكيف، مواكباً تطورات المشهد الاقتصادي ومتجاوزاً تقلبات السوق.

واستشرافاً للمستقبل، أعلنت دولة الإمارات العربية المتحدة عن إستراتيجية الإمارات للمالية الإسلامية وصناعة الحلال في عام 2025، والتي تهدف إلى مضاعفة أصول القطاع بأكثر من الضعف خلال السنوات الست المقبلة، مما يجعل القطاع محركاً للابتكار والشمول المالي والنمو الاقتصادي المستدام.

يتصدّر مركز دبي المالي العالمي المشهد في هذا التحول، فهو ليس مركزاً مالياً فحسب، بل منصة عالمية للابتكار في مجال التمويل الإسلامي. ويوفر مركز دبي المالي العالمي البيئة القانونية والتنظيمية والتواصل اللازم للمؤسسات والمستثمرين والمبتكرين للارتقاء بأفكارهم الجديدة، وتوسيع حضورهم الدولي، وتقديم حلول متوافقة مع الشريعة الإسلامية تلبي متطلبات السوق العالمية سريعة التطور.

ويعمل مركز دبي المالي العالمي بنشاط على تمكين الجيل القادم من حلول التمويل الإسلامي، وذلك من خلال مبادرات هادفة وشراكات إستراتيجية والتزام بالتمويل المستدام، مُعززاً بذلك التحول الرقمي وأسواق رأس المال المبتكرة، ومُيسراً الوصول إلى مصادر تمويل جديدة. وتُمكن منصتنا أصحاب المصلحة من التعاون واكتساب الخبرات ومهارات القيادة، مما يُعزز دور مركز دبي المالي العالمي كمحفز للتحول الشامل في هذا القطاع.

ومع مواصلة تطور المنظومة التنظيمية، بما في ذلك مبادرات مثل المعيار الشرعي رقم 62 المُقترح للتمويل الإسلامي، يلتزم مركز دبي المالي العالمي بضمان بقاء قطاع التمويل الإسلامي تنافسياً ومرناً وجاذباً للمستثمرين العالميين.

ومن خلال الجمع بين الابتكار والحوكمة والتواصل الدولي، يُسهم مركز دبي المالي العالمي في بناء منظومة تمويل إسلامي ديناميكية وشاملة وجاهزة للمستقبل.

Foreword



Dr. Mohamed Damak

Managing Director & Global Head of Islamic Finance
S&P Global

Islamic Finance 2025–2026: Resilient Growth in a Turbulent Environment

Resilience is the first word that comes to mind when I am asked to describe the growth of the Islamic finance industry over the past decade.

The industry has been through several ups and downs, yet it has continued to deliver strong growth in its asset base. S&P Global Ratings expects this resilience will persist over the coming years, supported by the economic transformation of Saudi Arabia and the strength of the economies of other core Islamic finance countries. In the United Arab Emirates, for example, the industry should benefit from the recently announced Islamic finance strategy, whose objectives include increasing the industry's assets by 2.6x over the next six years. Elsewhere, the sukuk market continued to expand with total foreign currency denominated issuances of \$41.4 billion in the first half of 2025, up from \$38 billion over the first half of 2024. That performance appears particularly robust in light of: the volatility in international capital markets that followed the announcement of tariffs by the U.S. government in April 2025; prevailing significant geopolitical instability; and slower-than-initially-expected monetary easing. Sukuk issuance in 2025 has been supported by significant financing needs in core Islamic finance countries, which were amplified by lower oil prices and widening fiscal gaps. At the same time, local currency issuance fell, mirroring the liquidity conditions in some core markets, such as Saudi Arabia, and reduced need for financing due to good fiscal performance in other markets, such as Malaysia.

Growth was strong but concentrated. The Gulf Cooperation Council (GCC) accounted for more than 80% of the industry's banking assets growth in 2024, with Saudi Arabia responsible for two-thirds of that. In contrast, the industry continues to be embryonic in several jurisdictions and is struggling to realize its full potential in others. That is not surprising. Ask a corporate to pay a bit more for its financings to be Sharia compliant, and you will typically get a firm refusal. Similarly, a government may not accept spending significant amounts of time or resources on a sukuk when they can raise the money elsewhere. To overcome those challenges, the industry needs to rethink its value proposition, keeping efficiency and competitiveness in mind. The proposed AAOIFI Standard 62, which is intended to govern sukuk from issuance to maturity, was an attempt at that reform. However, proposals that aimed to shift the risk-reward equation to favor equity-like instruments over fixed income-like products prompted significant concerns from market participants. The AAOIFI Sharia Board accepted this feedback and decided to reopen the standard to incorporate market comments. The final shape and form of the new standard are yet to be determined at this stage.

Islamic finance's beneficial link to the real economy is at the core of its value proposition. This and its natural alignment with sustainability are likely to be the main driving forces of growth in the industry. We witnessed an increase in the issuance of sustainable sukuk in the first half of 2025 and expect to see even more activity as GCC issuers' climate transition journey accelerates and as regulators offer increasing incentives to pursue sustainable options. The same regulators are also studying how to unlock opportunities related to digitalization. While the market is closely watching the impact of digital developments in conventional finance, we believe that digitalization will also accelerate the growth of the Islamic finance industry.

We hope you enjoy the 2026 edition of our annual Islamic finance outlook and, as always, we welcome and encourage your feedback.

Foreword



د. محمد دمي

المدير الإداري والرئيس العالمي للتمويل الإسلامي

التمويل الإسلامي 2025-2026: نموّ مرّن في بيئة مضطربة

المرونة هي الكلمة الأولى التي تتبادر إلى ذهني عندما يُطلب مني وصف نمو قطاع التمويل الإسلامي خلال العقد الماضي. لقد شهد القطاع العديد من التقلبات، إلا أنه استمر في تحقيق نمو قوي في قاعدة أصوله. وتتوقع وكالة «إس أند بي جلوبال للتصنيفات الائتمانية» أن تستمر هذه المرونة على مدى السنوات المقبلة، بدعم من التحول الاقتصادي في المملكة العربية السعودية وقوة اقتصادات دول التمويل الإسلامي الأساسية الأخرى. وفي دولة الإمارات العربية المتحدة، على سبيل المثال، من المتوقع أن يستفيد القطاع من إستراتيجية التمويل الإسلامي التي أُعلن عنها مؤخرًا، التي من أهدافها زيادة أصول القطاع بمقدار 2.6 مرة على مدى السنوات الست المقبلة. وفي دول أخرى، واصل سوق الصكوك نموه، حيث وصل إجمالي الإصدارات المقومة بالعملة الأجنبية إلى 41.4 مليار دولار أمريكي في النصف الأول من عام 2025، مرتفعًا من 38 مليار دولار أمريكي خلال النصف الأول من عام 2024. ويبدو أن هذا الأداء قوي بشكل خاص في ضوء التقلبات في أسواق رأس المال الدولية التي أعقبت إعلان الحكومة الأميركية عن التعريفات الجمركية الجديدة في أبريل 2025، وعدم الاستقرار الجيوسياسي السائد، والتيسير النقدي الأبطأ مما كان متوقعًا في البداية. لقد تلقت إصدارات الصكوك دفعةً في عام 2025 نتيجةً للاحتياجات التمويلية الكبيرة في الدول الأساسية للتمويل الإسلامي، التي زادت أكثر بفعل انخفاض أسعار النفط واتساع الفجوات المالية. وفي الوقت نفسه، انخفضت إصدارات الصكوك المقومة بالعملات المحلية، وهو ما يعكس ظروف السيولة في بعض الأسواق الأساسية، مثل المملكة العربية السعودية، وانخفاض الحاجة للتمويل بسبب الأداء المالي الجيد في أسواق أخرى، مثل ماليزيا.

كان النمو قويًا، ولكنه مركزًا. ومن المتوقع أن تساهم دول مجلس التعاون الخليجي بأكثر من 80% من نمو أصول القطاع المصرفي في عام 2024، حيث تستحوذ المملكة العربية السعودية على ثلثي هذه النسبة. وعلى النقيض من ذلك، لا يزال القطاع في مراحله الأولى في العديد من الدول، ويكافح من أجل تحقيق إمكاناته الكاملة في دول أخرى. وهذا ليس مفاجئًا، لأنه في حال الطلب من إحدى الشركات أن تدفع مبلغًا إضافيًا مقابل أن تكون تمويلاتها متوافقةً مع أحكام الشريعة الإسلامية، فإنها في الغالب سترفض رفضًا قاطعًا. وعلى نحو مماثل، قد لا تقبل الحكومة إنفاق قدر كبير من الوقت أو الموارد على إصدار الصكوك عندما يكون بوسعها جمع الأموال من مصادر أخرى. وللتغلب على هذه التحديات، يتعين على القطاع إعادة النظر في مقترح القيمة الخاص به، مع وضع الكفاءة والقدرة التنافسية في الاعتبار. وكان المعيار الشرعي رقم 62 الذي اقترحه هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية (أيوبي)، الذي يهدف إلى إدارة الصكوك من تاريخ إصدارها حتى تاريخ استحقاقها، محاولة لهذا الإصلاح. مع ذلك، فإن المقترحات التي تهدف إلى تحويل معادلة المخاطر إلى الأرباح لصالح الأدوات الشبيهة بالأسهم على حساب المنتجات الشبيهة بالدخل الثابت أثارت مخاوف كبيرة بين المشاركين في السوق. وقد قبل المجلس الشرعي لهيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية هذه الملاحظات وقرر إعادة فتح المعيار للأخذ بعين الاعتبار ملاحظات السوق. ولم يُحدد بعد الشكل النهائي للمعيار الجديد في هذه المرحلة.

ويعد الارتباط المفيد لقطاع تمويل إسلامي بالاقتصاد الحقيقي جوهر القيمة المقترحة له. ومن المرجح أن يشكل هذا، إلى جانب توافق القطاع الطبيعي مع الاستدامة، القوة الدافعة الرئيسية للنمو في القطاع. لقد شهدنا ارتفاعًا في إصدارات صكوك الاستدامة في النصف الأول من عام 2025 وتتوقع أن نشهد المزيد من النشاط مع تسارع رحلة التحول المناخي للمُصدرين في دول مجلس التعاون الخليجي ومع تقديم الجهات التنظيمية لحوافز متزايدة لمواصلة الخيارات المستدامة. وتدرس الجهات التنظيمية أيضًا كيفية إطلاق العنان للفرص المتعلقة بالتحول الرقمي. وفي حين يراقب السوق من كثب تأثير التطورات الرقمية في التمويل التقليدي، فإننا نعتقد أن التحول الرقمي سيعمل أيضًا على تسريع نمو قطاع التمويل الإسلامي.

نأمل بأن تنال نسخة "توقعات التمويل الإسلامي للعام 2026" إعجابكم، ونرحب دائمًا بآرائكم وتعليقاتكم.

Industry Outlook

Resilient Growth Amid Upcoming Headwinds



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Key Takeaways

- Strong banking and sukuk industry performance led to 10.6% growth for the global Islamic finance industry in 2024, with total sukuk outstanding surpassing \$1 trillion for the first time.
- In 2025, amid increased uncertainty, we expect continued positive growth in the industry, but the sukuk market's regulatory landscape is still evolving with the possible adoption of Sharia Standard 62.
- We expect \$10 billion-\$12 billion in sustainable issuance in 2025 and continue to think it could drive future growth, although short-term performance might be lower than our initial expectations.

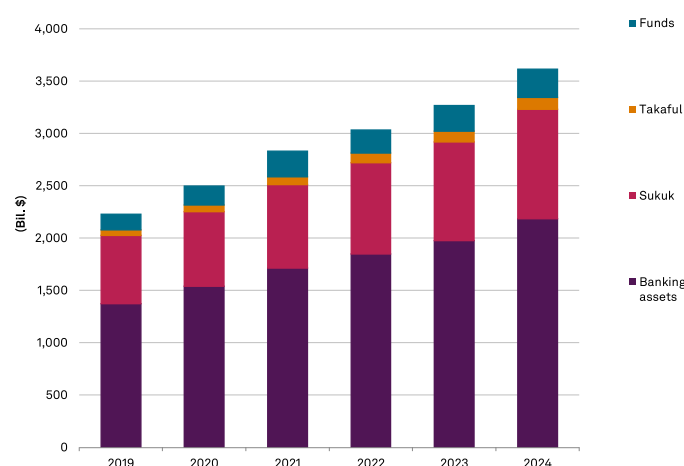
If Standard 62 is adopted as proposed, we anticipate the industry could become more fragmented and less attractive to investors and issuers due to higher sukuk pricing for issuers and fewer fixed-income investors.

Strong But Concentrated Growth

In 2024, the Islamic finance industry's total assets increased by 10.6% compared with 2023, supported by growth in banking assets and the sukuk industry (see chart 1).

Chart 1

Strong growth in the Islamic finance industry continued in 2024



Sources: Central Banks, CIBAFI, Eikon, S&P Global Ratings, and S&P Global Market Intelligence. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

The Islamic finance industry experienced a rapid asset increase in 2024, mainly from growth in banking assets and sukuk owing to higher foreign currency-denominated issuances. S&P Global Ratings expects this growth to continue in 2025 barring any significant macroeconomic or intrinsic disruption.

We have recently revised our oil price assumption to \$65 per barrel for the remainder of 2025 and \$70 per barrel from 2026. This will likely continue to support some growth in most core Islamic economies. Simultaneously, financing needs driven by economic transformation programs will remain high, and the inherent preference for Islamic finance will persist. As a result, despite growing uncertainty, we expect the Islamic finance industry to grow in 2025.

However, a further decline in oil prices could reduce the growth prospects for core Islamic finance economies and markets. In addition, adopting Sharia Standard 62 could disrupt the sukuk market from 2026 by potentially reclassifying the instruments from debt-like to equity-like. But the extent of this will depend on whether the standard is approved, its content, and when it will be implemented.

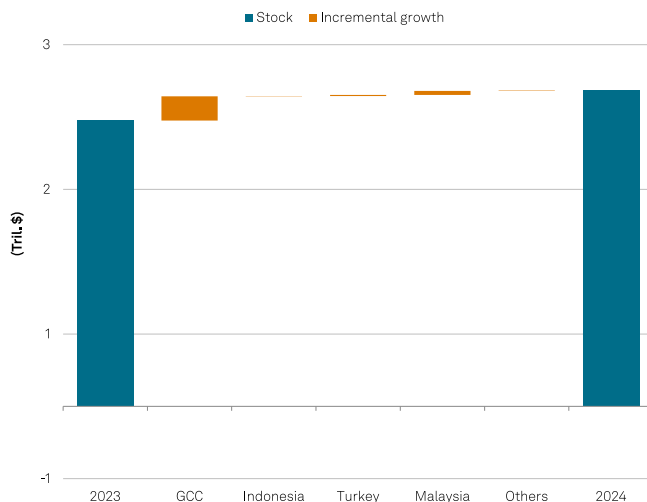


Banking assets account for more than half of this increase

Islamic banking assets contributed 60% of industry growth in 2024 compared with 54% in 2023. The Gulf Cooperation Council (GCC) accounted for 81% of this growth, with Saudi Arabia alone responsible for two thirds of it. This strong performance results from opportunities created by the Saudi government's Vision 2030 program and the deep integration of the Islamic banking industry in Saudi Arabia, which represented about three-quarters of banking system assets at year-end 2024. Bahrain also experienced significant Islamic finance industry growth, particularly due to Ahli United Bank's (BBB+/Stable/-) conversion from conventional to Islamic banking. The United Arab Emirates (UAE) also contributed to this growth, thanks to the non-oil economy's strong performance. Elsewhere, we have observed some growth in other countries, particularly in Malaysia and Turkey (see chart 2).

Chart 2

A few regions contributed to the Islamic finance industry's growth

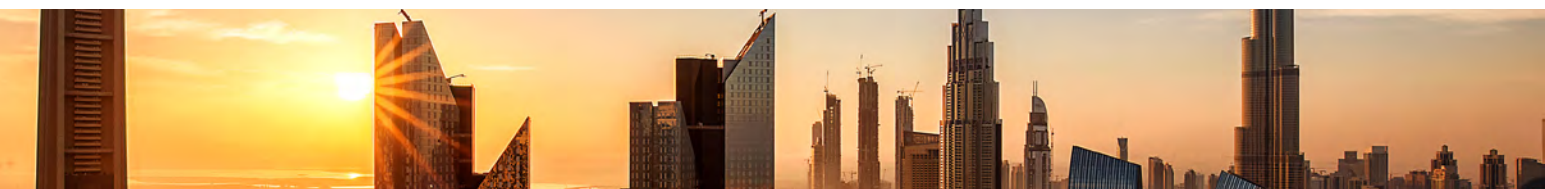


GCC--The Gulf Cooperation Council. Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect economic growth in Saudi Arabia and the UAE will continue supporting Islamic banking asset expansion in 2025, barring any significant disruptions from global trade tensions or a further decline in oil prices.

Saudi Arabia's Vision 2030 will continue to translate into significant banking system growth, provided it attracts sufficient refinancing sources, including sukuk issuances from the international capital market. In the UAE, the non-oil economy's performance, along with capital expenditure needs across various sectors will further support financing requirements and sukuk issuances in 2025, assuming current market volatility does not have a major impact. In other GCC countries, we expect growth to continue thanks to reforms in Oman, Bahrain, and Kuwait, as well as anticipated increases in gas production in Qatar.

In Asia-Pacific, we expect the Islamic banking industry to grow by high single digits over the next couple of years. Robust demand for Islamic products and services in Malaysia and significant market potential in Indonesia, Bangladesh, and Pakistan support this trend. Nonetheless, we expect Malaysia to continue controlling the majority of Asia-Pacific's banking industry. The financing growth of Islamic banks will continue to outshine conventional banks' credit growth, facilitating market share gains. However, this growth might be somewhat tempered by local currency volatility, which is also a concern for Türkiye and Egypt. We expect local currency growth in these countries to continue, but overall performance will depend on that of their respective currencies. Although Türkiye's contribution to Islamic banking growth in 2024 was modest in absolute terms, it ranked as one of the largest contributor to the industry's growth in relative terms.



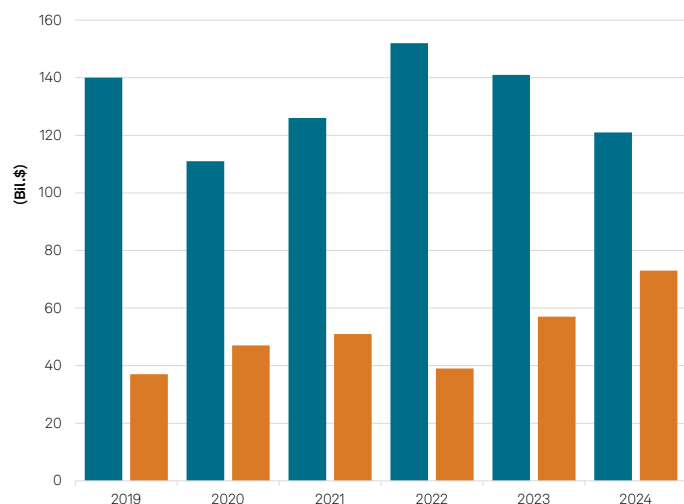
Outstanding sukuk issuance crossed the \$1 trillion mark

Global sukuk issuance is likely to reach about \$190 billion-\$200 billion in 2025, assuming current market volatility does not have a major impact, with foreign currency-denominated issuance contributing \$70 billion-\$80 billion. In 2024, total sukuk issuance declined slightly to \$193.4 billion from \$197.8 billion in 2023. However, a notable difference was the 29% rise in foreign currency issuance to \$72.7 billion as of Dec. 31, 2024 **(see chart 3)**.

The main contributors to this increase were issuers from GCC countries led by Saudi Arabia, Malaysia, and Indonesia **(see chart 4)**.

We expect foreign currency-denominated issuance to remain elevated in 2025, provided there are no major disruptions due to the current volatility in global capital markets.

Chart 3
Foreign currency issuances continued to increase in 2024

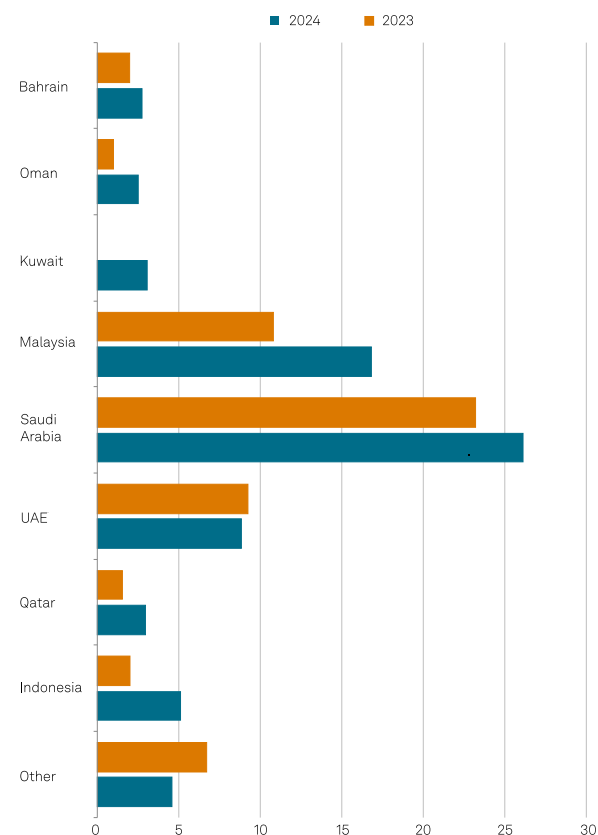


Source: S&P Global Ratings.

Many issuers sought to benefit from the improving global liquidity conditions in 2024, with major central banks easing their monetary policy. As it stands, we anticipate the Federal Reserve will lower its policy interest rate by just 25 basis points this year but widening spreads may result in higher overall financing costs.

However, this is unlikely to significantly hinder the sukuk market's performance since it is primarily driven by high financing needs in core countries, pushing issuers to seize available market opportunities. A significant change in macroeconomic conditions, such as materially lower oil prices or increased geopolitical risks, could lead to a decrease in issuance volume.

Chart 4
Saudi Arabia and Malaysia are the main contributors to foreign currency issuances



Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

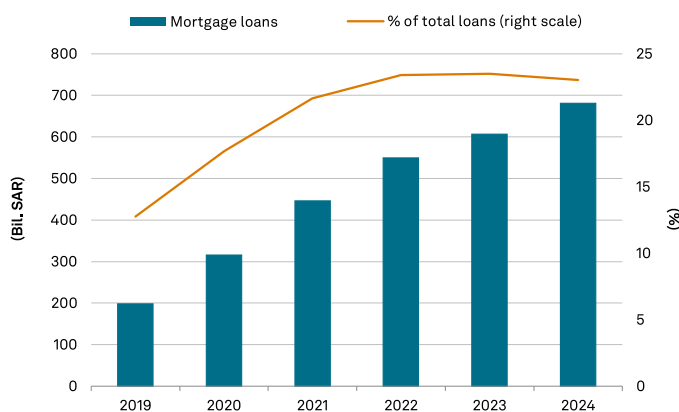
Residential mortgage-backed securities could benefit Saudi Arabia's sukuk market. At year-end 2024, banks were sitting on more than \$180 billion in predominantly fixed-rate mortgages that were financed using sources--primarily domestic deposits--with short-term contractual maturities (see chart 5).

While we note the behavioral maturity of these deposits is much longer than their contractual maturity, mismatches are still high.

As interest rates decline, banks will be able to resell these loans in the secondary market without incurring losses. A key hurdle remains investor confidence regarding the capacity of banks to foreclose on mortgages in the event of a default. A stronger track record could help kickstart issuances in this segment.

In the meantime, banks may rely on backup coverage to cater for the lack of asset foreclosure, provided Sharia scholars approve this. A residential mortgage-backed sukuk market in Saudi Arabia, denominated in riyals or U.S. dollars to leverage the credible peg between the two currencies, could also act as a catalyst for similar movement in the GCC region.

Chart 5
Saudi Mortgage-backed securities continued to experience strong growth in 2024



SAR--Saudi riyal. Sources: S&P Global Ratings and Saudi Central Bank. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

The takaful and fund industries play a small but an important role

Although their contribution to the industry is small, we expect the asset base in the takaful and fund sectors will continue to grow. We expect takaful to expand annually by 10%-15%, supported by ongoing business growth and increasing insurance penetration. Investment returns may be volatile in 2025, but we still expect some growth in the fund industry given the dominance of money market and sukuk funds followed by equity funds. The industry could also benefit from stronger disclosure in the fund industry since we are still using estimates to assess its performance.

Overall, we think the industry is likely to experience 9%-10% growth in 2025. Its performance in 2026 will depend on whether Standard 62 is adopted, and if so, its impact on sukuk issuance volumes. We continue to exclude Iran from our calculations due to the lack of disclosure and volatility in the country's exchange rate.

Standard 62 Is Driving Preemptive Market Activity

In a recent public hearing, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) announced it will likely give issuers more time to implement Sharia Standard 62. Issuers will likely have between one and three years to implement the new requirements, depending on AAOIFI's final decision. The standard is supposed to be approved this year, but it's still not clear whether AAOIFI will consider the significant concerns raised by market participants, such as effectively transferring the ownership of underlying assets.

We still think a retroactive application of the standard to existing sukuk is unlikely since it would be subject to investor consent. At the same time, we consider sukuk issuers who are already under financial strain may use the standard to restructure their existing sukuk on the grounds that they do not comply with the new requirements.

However, this risk should be mitigated by the fact that a sukuk's legal documents generally include clauses that are designed to prevent the issuer from reneging on its contractual obligations based on noncompliance with Sharia law. Therefore, although we do not currently expect a significant number of sukuk restructurings once the standard is adopted, this could change depending on its final terms. In our view, adopting the standard is likely to result in a rush to market before it comes into force. Hereafter, we think investor and issuer appetites will wane, particularly if Standard 62 is adopted as proposed. Some supporters of the new standard argue that the market has lived through various changes, such as when Standard 59 was approved--but this situation is different, in our view. Standard 59 formalized a requirement already in place, whereas the proposed Standard 62 could change the nature of the instrument from debt-like to equity-like. This could result in higher sukuk prices for issuers and fewer fixed-income investors. Also, it is important to note the real transfer of sukuk underlying assets may not be straightforward for sovereign issuers.

One of the key points the market is asking AAOIFI to clarify in the final Standard 62 is whether usufruct can be used as the underlying asset. S&P Global Ratings doesn't comment on Sharia compliance, but we factor in the potential implications of Sharia requirements on the nature of contractual obligations in sukuk transactions. In certain structures, we have observed an increased risk that an issuer may disregard specific contractual obligations, such as the obligation to subscribe to and renew the hedging mechanism in sukuk that uses equity instruments as underlying assets. This could raise concerns among Sharia scholars--whether internal or external to the transaction--about the strategy's compliance to Sharia law. Consequently, this may create uncertainty over how the transaction could unwind, ultimately increasing risk for investors.

Simplifying Islamic Finance Structures Could Boost Competitiveness

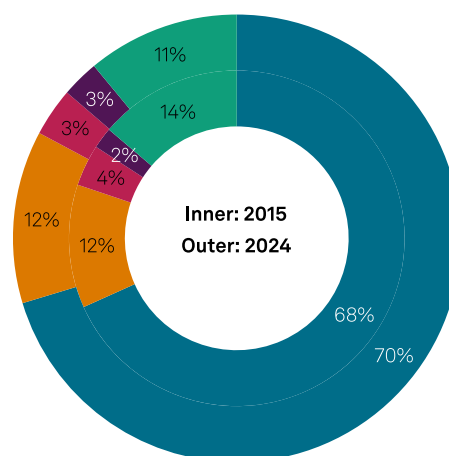
The Islamic finance industry is concentrated, and its structure has barely changed over the past decade. At year-end 2024, the GCC represented about 70% of the industry's banking assets, with Malaysia accounting for about 12% (see chart 6). These numbers have barely moved in a decade. Although we have seen some interest in Islamic finance across several countries over the past decade, the industry has not made significant inroads.

In our view, the industry could unlock its full potential through stronger regulatory action to ensure Islamic finance is not disadvantaged compared with conventional finance. Simplifying the structures used, reducing complexity, and leveraging fintech and technological solutions could enhance the end-user experience, making it more competitive with conventional finance. Positively, Islamic finance continues to attract interest, and some countries are experiencing growth with the support of multilateral development institutions.

Chart 6

The same core regions still account for most of the Islamic finance industry

■ GCC ■ Malaysia ■ Turkiye ■ Indonesia ■ Others



GCC--The Gulf Cooperation Council. Source:S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

Sustainable Issuances Present A Medium-Term Opportunity

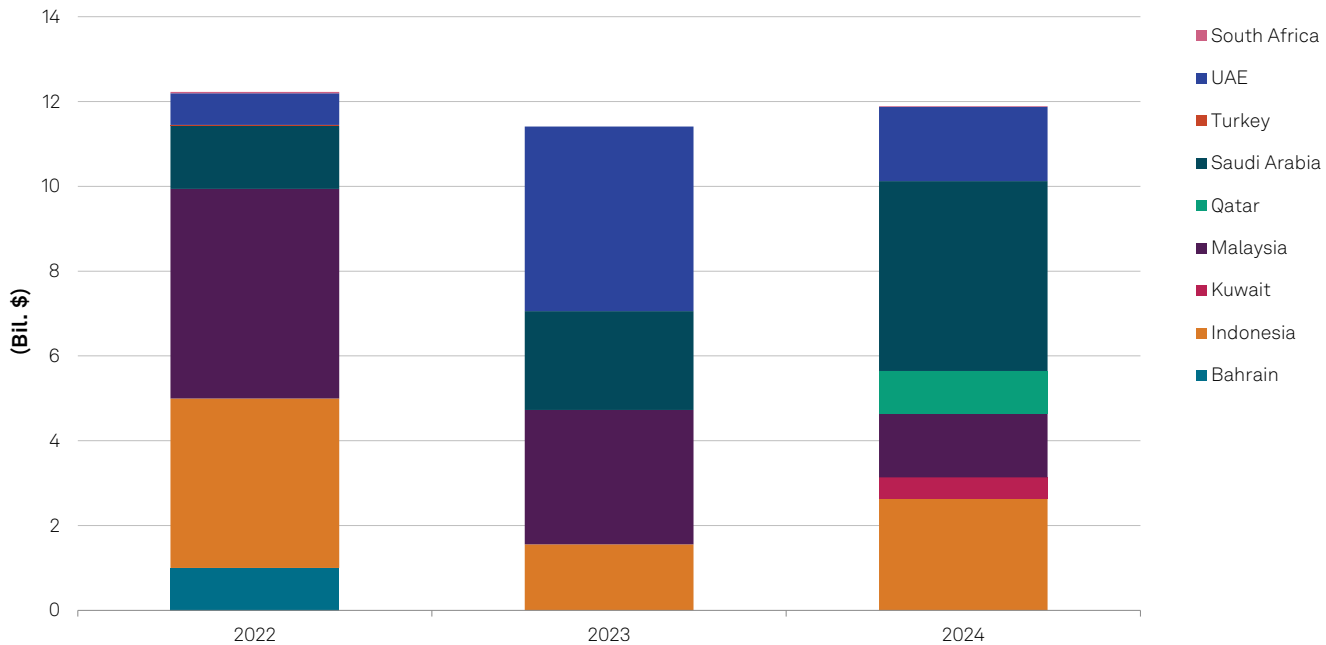
We expect sustainable sukuk issuance to hover between \$10.0 billion-\$12.0 billion in 2025 compared with \$11.9 billion in 2024 and \$11.4 billion in 2023 (see chart 7). Issuance volumes will be supported by the International Capital Market Association's Islamic finance guidelines in April 2024, along with other regulatory initiatives. The guidelines allow for a wide variety of assets to be used as sukuk underlying assets, as long as the proceeds are invested in green or social assets and projects. This flexibility aims to address the shortage of sustainable assets in Islamic finance; however, as the industry continues to expand, we may see these requirements tightening.

Demand for sustainable sukuk continues to grow as well. In 2024, Saudi Arabian issuers contributed the highest share of total sustainable sukuk issuance at 38%, underpinned primarily by issuances from Saudi banks. Indonesia was the second-largest market thanks to sovereign issuance. Although the volume of sustainable sukuk issuance in the UAE fell by 60% in 2024 compared to 2023 when figures were boosted by Dubai hosting the climate change conference COP28, the country still contributed 15% of the overall issuance volume.

We anticipate an increase in sustainable sukuk issuance when GCC issuers implement climate transition plans more quickly and make progress toward renewable energy targets, particularly if regulators offer incentives for sustainable issuance. The drop in oil prices could further facilitate this transition, although we think GCC sovereigns possess competitive advantages, such as low extraction costs and the capacity to increase production capacity. We also expect GCC banks to continue supporting their respective government's climate transition goals. Finally, we expect the sustainable sukuk market to continue attracting interest from more countries as they seek to access diverse funding sources to finance their sustainability agenda.

Chart 7

Sustainable Sukuk issuance stabilized in 2024



Sources: S&P Global Ratings and Eikon.
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Sukuk Issuance Trends Show Resilience



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Key Takeaways

- We continue to expect \$70 billion-\$80 billion in foreign currency-denominated sukuk issuance over 2025 and believe that local currency issuance will likely continue its downward trend in the second half of this year.
- In our base case, we do not expect geopolitical risks to significantly affect the volume of issuance, which will rather depend on the trajectory of monetary policy, local liquidity conditions, and investments in core Islamic finance countries.
- The AAOIFI's Sharia board is in the process of amending the proposed Standard 62. The timeline and potential changes are uncertain.

Lower local currency issuances in core Islamic finance countries caused global sukuk issuance to drop by almost 15% in the first half of 2025 to \$101.3 billion, from \$119.0 billion at midyear 2024. S&P Global Ratings expects local currency issuance to remain subdued mirroring the liquidity conditions in some core markets and lower financing needs due to good fiscal performance in other markets. In contrast, foreign currency issuance increased to \$41.4 billion from \$38.0 billion. Therefore, we continue to expect \$70 billion-\$80 billion in foreign currency-denominated issuances in 2025.

Under our base-case scenario, we continue to exclude a protracted, full-scale regional war in the Middle East. Rather, we believe the conflict could result in a prolonged blockade of trade routes, maritime harassment, cyber or terrorist attacks, or international involvement, including the U.S. We assume oil prices will average \$60 for the remainder of 2025 and \$65 for 2026, and that the market's oversupply will continue to outweigh demand from 2025. We expect sukuk to contribute to the financing of core Islamic finance countries that rely heavily on oil revenue. Further, the market will benefit from the Federal Reserve (the Fed) cutting its interest rates by 50 basis points in the last quarter of 2025.

Following the delay in implementing the Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI's) Standard 62 and uncertainty about how it could affect the sukuk market once finalized, the need to issue prior to the adoption of the standard may decrease since issuers and investors no longer perceive the disruption as imminent.

Foreign Currency Issuances Increase Despite International Market Volatility

Foreign currency-denominated issuances increased by 9% in the first half of 2025. This was underpinned by strong issuances in the UAE, Bahrain, and Kuwait, while in Saudi Arabia we observed a small decline in issuance (see chart 1). This increase is despite the volatility in international capital markets that followed the announcement of tariffs by the U.S. government and slower-than-initially-expected monetary easing. Significant financing needs in core Islamic finance countries supported sukuk issuances, as well as lower oil prices and fiscal deficits.

In the first half of the year, issuers tapped into any window of opportunity to go to market. In Saudi Arabia, where issuers contributed 38.9% of market volume, we saw a lot of issuances from banks as they continue to support the financing of the government's Vision 2030 initiatives. Similarly, in the UAE, where we observed a significant increase in the volume of issuances, banks and corporates tapped the market to finance growth amid a still-supportive economy. In Malaysia, the International Islamic Liquidity Management Corp. continued to tap the market, providing the industry with much-needed liquidity management instruments and contributing to the bulk of the country's foreign currency issuances. We expect performance in the second half of the year to depend on the evolving geopolitical situation in the Middle East. However, since we don't expect a full-scale regional war, we think the resilient foreign currency issuance trends observed in the first half will continue. It will also be supported by the Fed's expected reduction in interest rates. Therefore, we maintained our forecasts for foreign currency-denominated issuances to reach about \$70 billion-\$80 billion for the full year in 2025.

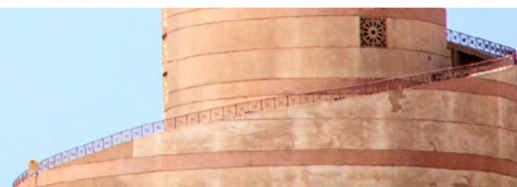
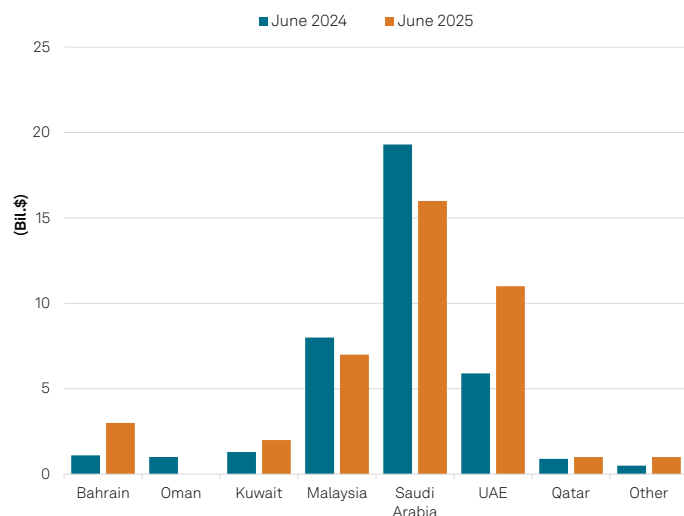


Chart 1

Foreign currency-denominated sukuk issuance increased by \$3.4 billion

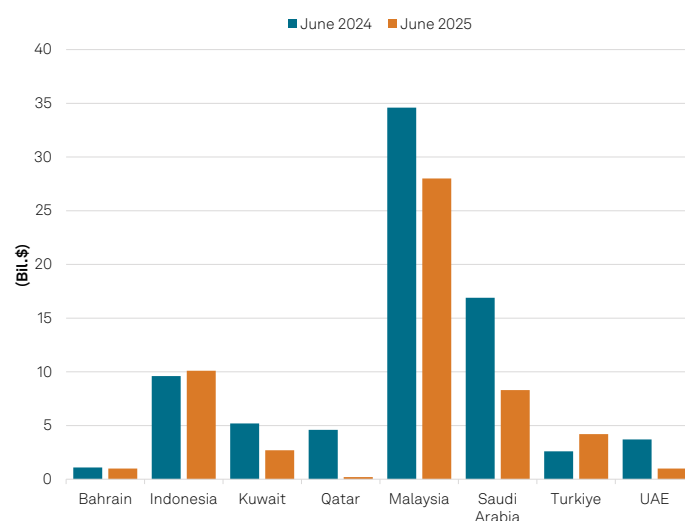
Sources: LSEG, S&P Global Ratings.

Local currency-denominated issuances plummeted in the first half of 2025, reaching \$59.8 billion at midyear 2025 compared with \$81.0 billion a year earlier (see chart 2). This was neither directly related to U.S. tariffs and the ensuing volatility in global capital markets nor the sharp escalation in geopolitical risk in the Middle East. It was instead due to lower local currency issuances in some core Islamic finance countries, particularly Malaysia, Saudi Arabia, Qatar, and the United Arab Emirates (UAE).

We expect this drop to continue, mirroring the liquidity conditions in some core markets and lower financing needs due to good fiscal performance in other markets. For example, we have observed a significant drop in local currency issuances in Saudi Arabia, where banks' liquidity is instead being channeled into financing Vision 2030. The drop was mainly underpinned by lower issuances from the government. We have also seen a lower volume of issuance in Malaysia, where the central bank not only reduced its issuances but also eased the reserve requirements to inject additional liquidity in the system.

We think Bank Negara may continue to moderate its issuances as it shifts to a more accommodative stance, including ongoing support for liquidity conditions. The consolidation of the government's fiscal position may also reduce sukuk issuance in Malaysia. The Malaysian government has reduced its fiscal deficit meaningfully over the past three years, and borrowing needs are now likely to remain lower than during the 2021-2023 period, even as the pace of consolidation slows. We expect this trend to continue in the second half of the year, limiting the issuance volume of local currency sukuk compared with last year.

Chart 2

Local currency-denominated sukuk issuance plummeted by \$21.2 billion

Sources: LSEG, S&P Global Ratings.

Reopening Standard 62 Reignites Questions About Its Future Content

In April 2025, the AAOIFI announced its Sharia board was in the process of amending the proposed Standard 62 following comments received from the industry. The AAOIFI did not specify which changes the board intended to introduce or the timeline for the project. The implementation process following the amendment is also uncertain.

This means that it is now very difficult to determine the implications of adopting the new standard on market performance. The need to issue prior to the adoption of the standard may also abate since issuers and investors no longer perceive the disruption as imminent.

The key question remains whether Standard 62 will require asset ownership to effectively pass to investors, and if so, would this change sukuk holders' mechanisms of recourse in the event of default. We continue to believe that the appetite for sukuk with real transfer and full recourse to asset remains limited for now. One example is in Saudi Arabia, where the market for residential mortgage-backed sukuk is yet to emerge.

We understand that investors continue to question banks' capacity to foreclose in a timely manner in the event of default, despite the regulatory and legal avenues in place to facilitate this. Another example is the recent Higher Sharia Authority ruling in the UAE, clarifying that it is not necessary to register the rights associated with certain assets in the names of the buyers or special purpose vehicles as long as registration is not legally required for the transfer of ownership. In our view, if sukuk holders are given the option to register the asset in their name, this could lead to a situation in which the sukuk might be considered a secured obligation, reducing the protection of other unsecured creditors. This could lower the creditworthiness of unsecured instruments and leave them at a disadvantage.

Sustainable Sukuk's Solid Growth In Issuances

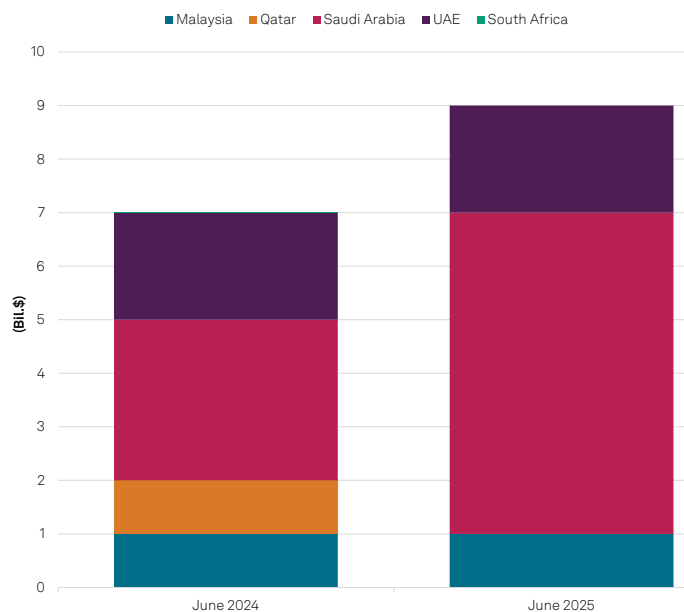
The total volume of sustainable sukuk issuance increased by 27% in the first half of 2025, reaching \$9.3 billion compared with \$7.4 billion in 2024 (see chart 3). Banks, including the Islamic Development Bank (IDB), accounted for almost 50% of this performance, followed by some Gulf Cooperation Council (GCC) and Malaysian corporates. It is also worth noting that Saudi Arabian issuers accounted for more than 60% of sustainable sukuk issuances in the first half of the year. This trend can be explained by the alignment between Islamic finance and sustainability, the

significant role of IDB in Islamic sustainable financing, along with the high financing needs of Saudi banks.

For banks, the use of Additional Tier 1 structures allows them to get the financing and at the same time support their capitalization. Given the strong performance in the first half of the year, we have slightly revised upward our forecasts of the volume of sustainable sukuk issuance for the full year to \$14 billion-\$16 billion. We expect issuance to increase further if we see an acceleration in the climate transition journey of GCC issuers, as well as regulators offering incentives to go down the sustainable route.

Chart 3

Sustainable sukuk issuance increased by 27%



Sources: LSEG, S&P Global Ratings.



Related Research

- [Islamic Finance 2025-2026: Resilient Growth Amid Upcoming Headwinds](#), April 17, 2025
- [Sukuk Brief: More Time To Adopt AAOIFI Standard 62](#), Feb. 4, 2025
- [Sukuk Market: Strong Performance Set To Continue In 2025](#), Jan. 13, 2025

This report does not constitute a rating action.



Spotlight On...

What's Behind Saudi Arabia's Increase In AT1 Sukuk Issuances?



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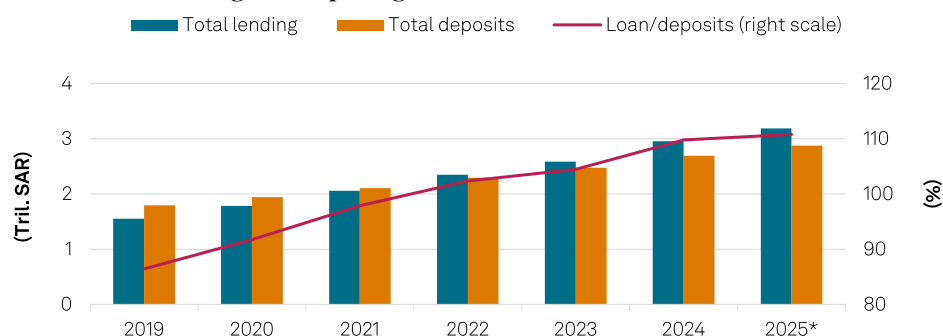
This report does not constitute a rating action.

Over the past few years, lending growth in Saudi banks has outpaced that of deposits, accelerating the trend toward tapping alternative funding sources (chart 1). We expect Vision 2030 will continue to generate growth in both corporate and retail lending for banks, which may, in turn, face constraints from the perspective of funding and capitalization. While Saudi banks maintain strong capitalization--with a total capital adequacy ratio of 19.3% as of June 30, 2025--they are proactively issuing Sharia-compliant hybrid instruments, such as additional tier 1 (AT1), to bolster their funding and capital positions.

Here, S&P Global Ratings answers frequently asked questions from investors regarding these issuances.

Chart 1

Saudi banks' lending and deposit growth



*As of June 30, 2025. SAR--Saudi riyal. Source: S&P Global Ratings.
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Frequently Asked Questions

How much AT1 sukuk have Saudi banks issued this year and why?

As of Aug. 27, 2025, Saudi banks issued \$9.5 billion sukuk compared with \$5.3 billion over the same period in 2024 (table 1). Out of this, \$4.2 billion was made up of AT1 sukuk, more than double the \$2.0 billion in 2024. So far this year, five AT1 sukuk have been issued, with a few more in the pipeline. Banks have been issuing these instruments to mobilize the external funding needed to continue growing their lending books. AT1 instruments allow banks to raise funding and at the same time support their regulatory capital ratio. They are also competitively priced when compared with senior unsecured sukuk.

On average, Saudi banks paid 6.4% on their U.S. dollar-denominated AT1 issuances compared with 5% on U.S. dollar-denominated senior sukuk with a five-year maturity. Hybrid instruments enable banks to optimize shareholder returns and increase their return on equity, while still providing protection to depositors and senior creditors. AT1s allow issuers to suspend periodic distribution payments without triggering a contractual default, while the bank is still a going concern. These instruments can also be written down at the institution's point of nonviability, which is frequently defined as the point at which a bank's capital level drops below the minimum required to maintain its license. To this end, regulatory authorities have a range of powers to determine whether a specific institution is no longer a going concern. Typically, it is also contractually defined as the



Saudi banks' sukuk issuances 2024-2025

Issuer	Issue date	Maturity date	Size (mil.\$)	Currency	Coupon (%)	Tenor
Al Rajhi Sukuk Ltd	Aug. 6, 2025	Aug. 6, 2026	100	U.S. dollar	0	Bills
Arab National Bank SJSC	Aug. 6, 2025	Aug. 6, 2030	106.6	Saudi riyal	6.45	5 years
Saudi Awwal Bank SJSC	July 24, 2025	July 24, 2030	533	Saudi riyal	6.3	5 years
SNB Sukuk Ltd	July 18, 2025	July 18, 2036	250	U.S. dollar	5.938	11 years
Alinma Sukuk Ltd	July 15, 2025	July 15, 2030	500	U.S. dollar	4.937	5 years
Riyad Sukuk Ltd	July 14, 2025	July 14, 2035	1250	U.S. dollar	6.209	10 years
Saudi National Bank SJSC	June 3, 2025	March 6, 2099	461.1	Saudi riyal	6	74 years
Alinma AT1 Sukuk Ltd	May 28, 2025		500	U.S. dollar	6.5	
Al Rajhi Sukuk Ltd	May 28, 2025	May 28, 2027	80	U.S. dollar	5.2294	2 years
BAB USD AT1 Sukuk Ltd	May 22, 2025		650	U.S. dollar	6.5	
Sab At1 Ltd	May 21, 2025		650	U.S. dollar	6.5	
Al Rajhi Sukuk Ltd	May 19, 2025	May 19, 2030	500	U.S. dollar	4.865	5 years
Al Rajhi Sukuk Ltd	May 7, 2025	Nov. 7, 2026	300	U.S. dollar	5.0854	2 years
Al Rajhi Sukuk Ltd	Feb. 4, 2025	March 12, 2029	200	U.S. dollar	5.047	4 years
Arab National Bank SJSC	Feb. 3, 2025		892.8	Saudi riyal	6.2	
Riyad Bank SJSC	Jan. 23, 2025	Jan. 23, 2099	533	Saudi riyal	6	74 years
Al Rajhi Tier 1 Sukuk Ltd	Jan. 21, 2025		1500	U.S. dollar	6.25	
BSF Sukuk Company Ltd	Jan. 21, 2025	Jan. 21, 2030	750	U.S. dollar	5.375	5 years
Al Rajhi Sukuk Ltd	Aug. 8, 2024	Aug. 8, 2025	100	U.S. dollar	0	Bills
Al Rajhi Tier 1 Sukuk Ltd	May 16, 2024		1000	U.S. dollar	6.375	
Al Rajhi Sukuk Ltd	March 12, 2024	March 12, 2029	1000	U.S. dollar	5.047	5 years
Alinma Tier 1 Sukuk Limited	March 6, 2024		1000	U.S. dollar	6.5	
SNB Sukuk Ltd	Feb. 27, 2024	Feb. 27, 2029	850	U.S. dollar	5.129	5 years
Al Rajhi Sukuk Ltd	Feb. 1, 2024	April 5, 2028	130	U.S. dollar	4.75	4 years
SNB Capital Company SJSC	Jan. 30, 2024	Jan. 9, 2025	399.8	Saudi riyal	0	Bills
BSF Sukuk Company Ltd	Jan. 25, 2024	Jan. 25, 2029	700	U.S. dollar	5	5 years
Al Rajhi Sukuk Ltd	March 13, 2024	April 5, 2028	130	U.S. dollar	4.75	5 years

Data in 2025 until Aug. 27. Source: Refinitiv Workspace.

How many AT1 instruments were issued in foreign currency and why?

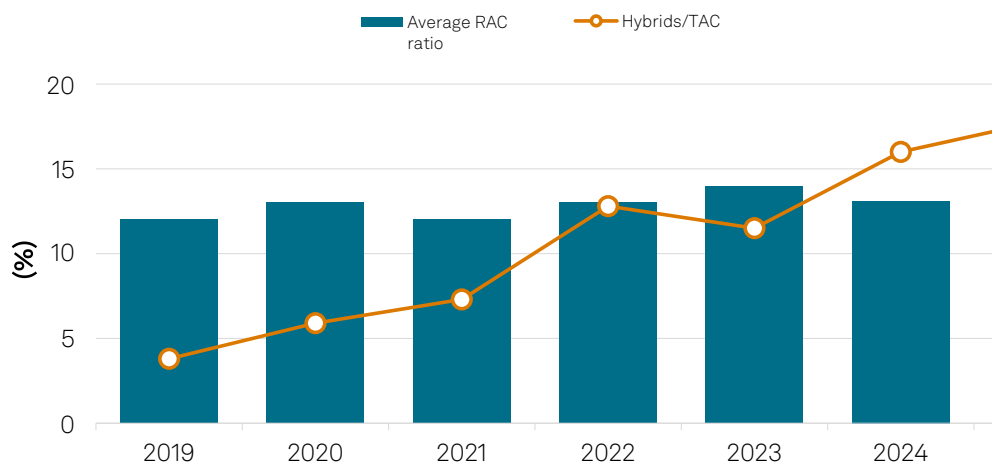
Four out of five of the AT1s issued so far this year were U.S. dollar-denominated and only one was in Saudi riyal (SAR). While the chosen currency generally depends on the banks' own position and what they expect the proceeds to be used for, U.S. dollar-denominated issuances allow banks to attract funding from a broader investor base. That said, we observed that the U.S. dollar issuances were not that differently priced from the SAR transaction. Unlike other emerging markets where banks can benefit from a higher capital impact when they issue foreign currency hybrids, particularly in the context of local currency depreciation, the SAR is pegged to the U.S. dollar and we don't expect this to change over the foreseeable future. We project the Federal Reserve will cut its rates by 50 basis points later this year and believe that this will be mirrored by the Saudi Central Bank. This will likely reduce banks' cost of funding, including on hybrid instruments.

What impact will these issuances have on Saudi banks' capital quality?

Saudi banks' capitalization remains strong, with a total capital adequacy ratio of 19.3% on June 30, 2025, and an average risk adjusted capital (RAC) ratio of 13.1% at year-end 2024 for rated banks. The amount that AT1 instruments contribute to the overall capital structure of banks has increased over the past few years and reached 22% of reported common equity on average on June 30, 2025--17.9% of adjusted common equity for rated banks (chart 2). A significant increase in this ratio could weaken our view of banks' capital quality. Positively, Saudi banks are solidly profitable with return on assets reaching 2.3% on June 30, 2025. We expect this ratio to remain broadly stable in the next 12-24 months since the expected decline in interest rates will be compensated by higher lending volumes. Within this context, we expect banks' dividend policies to remain relatively prudent with a distribution rate close to 50%. This will also support banks' capitalization both quantitatively and qualitatively.

Chart 2

Rated Saudi banks' capitalization remains strong



*As of June 30, 2025. RAC--Risk-adjusted capital. TAC--Total adjusted capital. Source: S&P Global Rat
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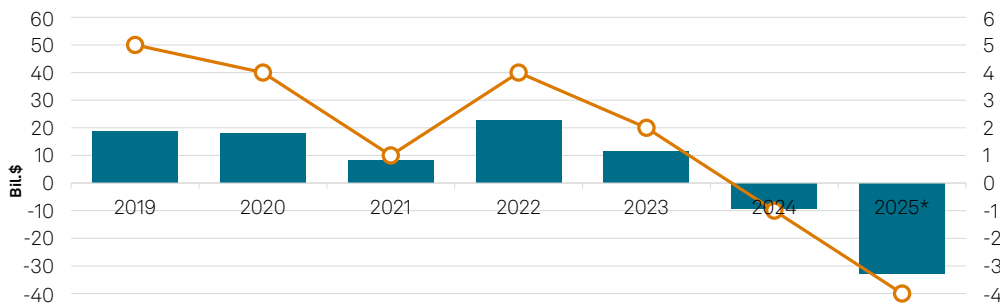
How do you view these instruments from a ratings perspective?

For the purpose of our risk-adjusted capital ratio (RAC), we classify most AT1 instruments issued by rated banks in Saudi Arabia as having intermediate equity content because we consider that they would be able to absorb losses or conserve cash when needed while the bank is still a going concern, through the nonpayment of periodic distribution amounts. We also assume that these instruments will not be eligible for extraordinary government support in Saudi Arabia because generally their principal can be written down contractually, if the issuing bank were to receive extraordinary government support. The instrument must also meet the other requirements for intermediate equity content, such as being eligible for inclusion in regulatory capital (see "General Criteria: Hybrid Capital: Methodology And Assumptions," Feb. 10, 2025, on RatingsDirect). Therefore, they are included in total adjusted capital (numerator of the RAC ratio) and have helped banks maintain strong capitalization under our RAC analysis in recent years. AT1 are included in total adjusted capital at par amount, up to a maximum of 33% of adjusted common equity.

Are you concerned about how quickly external debt is increasing in the Saudi banking system?

Despite a significant increase in external funding over the past three years, the overall contribution of net external debt to Saudi banks' funding remains limited. By the end of 2024, banks had transitioned from their earlier net external asset position to a small net external debt position of SAR34 billion (\$9 billion). This position increased to SAR123 billion (\$32.8 billion) on June 30, 2025 (chart 3). However, in relative terms this position is still very manageable, accounting for 3.9% of total lending on June 30, 2025. While we expect the volume of Saudi banks' external debt to continue to increase in the next 12-24 months, we do not think it will exceed 10% of total lending. We note that 52% of Saudi banks' external debt is due to foreign banks, which generally tend to be shorter term and are potentially more volatile than capital market issuance, particularly during spikes in geopolitical risk. However, we understand that some of these are repurchase agreement transactions, which tend to be more stable than unsecured transactions. In any case, we are keeping an eye on how Saudi banks' liquidity position evolves. Finally, we view Saudi authorities as highly supportive of the banking system and expect extraordinary support will be forthcoming should the need arise. Saudi Arabia has a strong track record of providing this support when needed.

Chart 3
Saudi banks' net external debt is increasing but remains manageable



*As of June 30, 2025. Source: S&P Global Ratings.
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Related Research

- [Credit FAQ: The Future Of Securitization In Saudi Arabia: RMBS](#), Sept. 1, 2025
- [Podcast Insights: Why Securitization Matters Now In Saudi Arabia](#), Sept. 1, 2025
- [Sukuk Issuance Trends Show Resilience](#), July 8, 2025
- [Saudi Banks Can Manage Their External Debt Spike](#), April 30, 2025

This report does not constitute a rating action.



Spotlight On...

ABS Frontiers: Sharia-Compliant Mortgages And RMBS Explained



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Sharia-compliant mortgages are common in Islamic finance core countries and increasingly common in other countries. There is also potential scope for Sharia-compliant securitizations, backed by these arrangements.

Here, S&P Global Ratings presents responses to frequently asked questions from market participants. In the appendix, we set out the main features of Sharia-compliant mortgages in the U.K. and Saudi Arabia.

This article exclusively covers high-level risks that are common among Sharia-compliant mortgages and Sharia-compliant residential mortgage-backed securities (RMBS) structures. Other risks may exist and may differ by jurisdiction.

Frequently Asked Questions

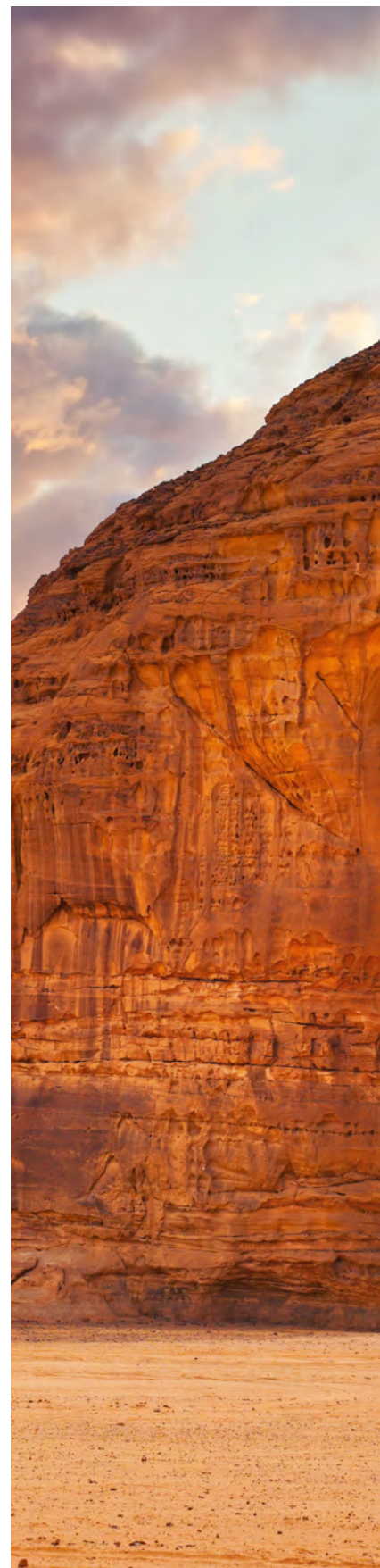
What are Islamic or Sharia-compliant mortgages and how do they differ from conventional mortgages?

To answer this, we must take a step back to explain how conventional mortgages--in this case, mortgages that are not Sharia-compliant--work. A conventional mortgage provider typically charges interest. A property purchase through a conventional mortgage usually means that the borrower--who uses their own funds and the mortgage from the mortgage provider to buy the property--owns the property in its entirety and that the lender has a security interest over the property that they will enforce if default amounts are owed.

The principles of Islamic finance and Sharia law prohibit “riba”--the practice of earning interest and making money solely from money. Therefore, Sharia-compliant mortgages are not technically mortgages in the conventional sense. In certain structures, they are better classified as joint participation in a property between two parties with ongoing lease payments, which is also referred to as rent. This arrangement replaces the concept of mortgage interest.

In practice, one of these parties will resemble the borrower in a conventional mortgage and the other will resemble the lender. To reflect the distinction between providing finance and joint participation, some countries legally differentiate between a conventional mortgage and joint participation. For example, joint participation arrangements in the U.K. would typically be categorized as home purchase plans rather than mortgages.

Throughout this article, we use the term “intended ultimate owner” (IUO) to describe the party that would generally be the borrower in a conventional mortgage. We use the term “bank” to describe the entity that would typically lend money to the borrower to purchase the dwelling in a conventional mortgage, although we acknowledge that non-banks can offer Sharia-compliant mortgages too. Likewise, we use the term “Sharia-compliant mortgage,” even though we acknowledge that the arrangement differs from a conventional mortgage in several ways.



Who determines whether a product is Sharia-compliant?

This is typically done by a bank's Sharia supervisory board, which usually comprises suitably qualified Islamic scholars. The board opines on the compliance of products on a case-by-case basis. Thus, different Sharia supervisory boards can have different opinions on a product's compliance with the Sharia.

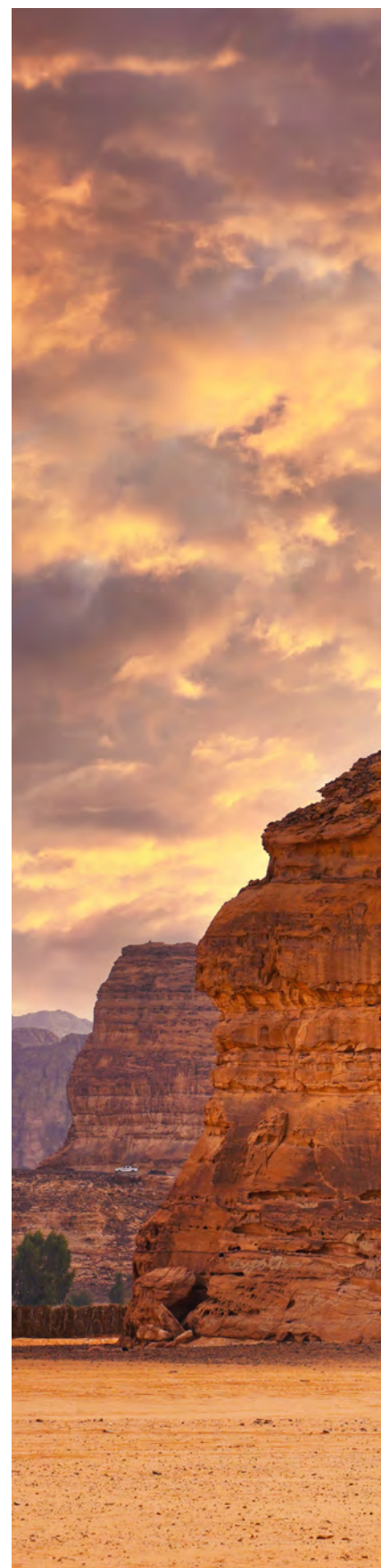
How many types of Sharia-compliant mortgage are there and how do they differ?

We observe three types:

- **Musharaka (partnership):** At the outset of the transaction, both parties contribute to the purchase price, and ownership is shared in proportion to their respective contributions on day one. The IUO agrees to pay regular, usually monthly, payments to the bank. These regular payments have two components that are very similar to conventional repayment mortgages: One part of the payment contributes to the repayment of the bank's initial capital outlay that helped purchase the house. The other part is the bank's profit. As the IUO makes regular payments, they acquire an increasing share of the property over time, until they eventually buy out the bank's share and gain full ownership of the property. This form of arrangement, where ownership interest changes over time, is referred to as a "diminishing musharaka."
- **Murabaha:** Under this arrangement, the bank purchases the property on behalf of the IUO and "sells" it to them immediately, generally with an appropriate security structure, for a higher price. The payment made by the IUO over the course of the financing arrangement will repay the initial purchase price of the property, plus the bank's profit. The murabaha structure is similar to fixed-rate financing arrangements.
- **Ijara:** This is best categorized as a form of leasing arrangement, where the IUO pays an agreed amount (the rent) to the bank to use an asset for an agreed period. An ijara contract can be structured in such a way that ownership of the asset moves to the individual from the finance provider at the end of the pre-agreed term. Since the rent changes over time, the ijara contract is similar to a conventional mortgage with variable interest rates. One key difference is that the bank in an ijara contract is typically the legal owner of the asset financed. The IUO's monthly payment is intended to mean that the mortgage capital is paid off at the end of the term.

If interest is not charged, does rate risk exist in Sharia-compliant mortgages?

To some degree, this depends on which of the three types of Sharia-compliant mortgages--musharaka, murabaha, and ijara--is being considered. Murabaha can be used to create a fixed payment plan that is predetermined at the outset and therefore is similar to a conventional fixed-rate mortgage. Ijara and musharaka payments are typically not fixed, and the overall rate payable is often based on a margin above a "rent rate." The rent rate can be reset at a frequency that is defined in the underlying contract.



Given that Sharia-compliant mortgages are not loans, how do you assess the loan-to-value (LTV) ratio to estimate default probability in your analysis?

For all three Sharia-compliant products, we can generally proxy the numerator of the original LTV ratio as the purchase price of the property minus the amount contributed by the IUO at the purchase date. This is equal to the amount the bank contributed at the outset. To calculate the current unindexed LTV (based on the initial value of the property at inception), we factor in subsequent payments made by the IUO. This means the equivalent of the current LTV is the current ownership interest of the IUO, multiplied by the initial purchase price and divided by the original purchase price. To be able to follow this approach, for all three products, we would require visibility of how regular payments are split between capital and profit/rent payments.

Since Sharia-compliant mortgages are not loans, how do you assess LTV to estimate loss severity in your analysis?

The calculation of loss severity follows the same logic as that for default probability. We ascertain what the IUO's ownership interest in the property is, relative to the current value of the property. For example, if the property is worth 100 and the borrowers' ownership interest is 40%, the bank's share is 60 and the LTV is $(60/100)$, that is 60%. To be able to follow this approach, for all three products, we would require information on how regular payments are split between capital and profit/rent payments.

In musharaka, if the property is owned jointly with dynamic ownership interest, are recovery proceeds allocated according to this share in the event of default in your analysis?

This would depend on what has been agreed in the underlying mortgage contract between the IUO and the bank. In contracts in the U.K., we have observed the following: If the IUO defaults, the IUO's beneficial interest in the property converts automatically upon sale of the property at an amount equal to the amount of the sale proceeds of the property that remains after settling amounts payable to the bank. Accordingly, this beneficial interest is equal to the amount that is left after paying any amount that is due to the finance provider.

We note that, for all three products described above, it would depend on the details of the mortgage contract and the jurisdiction to determine if rent/profit amounts were included in the amounts owed to the bank in the event of repossession.

Depending on jurisdiction and contract specifics, the bank may therefore be able to achieve an economic outcome in the event of default that is similar to that of a conventional mortgage, where the loan is secured by a charge on the property. In practical terms, joint ownership is equivalent to a first-lien loan. However, we note that market practice may differ across jurisdictions and lenders, meaning every RMBS transaction would need to be analyzed by considering the underlying mortgage contracts.



Does the IUO have to contribute to the initial purchase of the property?

Although theoretically nothing explicitly prevents the bank from funding 100% of the initial purchase price, the borrower typically contributes part of it. The relative amount is similar to that seen in conventional mortgages. In some countries, this amount is set by the banking regulation to control the risks taken by the banks.

In the event of repossession, if the property value increases, can the bank receive an amount that exceeds its share of the property?

This would be governed by the mortgage contract. Where this has been contracted between the bank and the IUO, proceeds would clear any balance due to the bank first. We note that, for ijara, the amount would generally not cover accrued but unpaid rental amounts. Any additional surplus would typically be distributed to the IUO.

If the lender is also the full or partial owner of the property, are they responsible for property maintenance and repair?

This would depend on the nature of the product and the mortgage contract between the bank and the IUO. We understand that, for murabaha, it is common for the IUO to be contractually responsible for all maintenance and repair. For musharaka and ijara, by convention in certain countries, it is common for the maintenance costs to be borne pro-rata and by the bank, respectively.

Do operational risks differ from conventional mortgages?

The main operational consideration for securitizations backed by mortgages is usually the role of the entity responsible for cash collection, allocation, and dealing with borrowers in arrears, often referred to as the servicer. When we consider servicing risk, in our RMBS analysis we generally consider three separate risks:

- Is the servicer competent with the skills to undertake the role?
- Is the risk of fraud or misappropriation mitigated?
- Can the role of the servicer be transferred to another entity if necessary, without material disruption to the rated securitization?

For RMBS transactions backed by Sharia-compliant mortgages, our assessment of a servicer's competency and potential fraud risk does not differ from the assessment we use for conventional mortgage pools, although local market protocols might differ slightly. The ability to transfer servicing, however, is likely to be specific to the country, due to the difference in the depth of the replacement servicer market and product characteristics: If the product is inherently non-standard or complex transfer may be difficult and time-consuming.

The market depth of mortgage servicers who are specifically set up to service Sharia-compliant home financing will depend on the country. As highlighted above, Sharia-compliant home financing is structured differently from conventional mortgage lending, but the overall behavior of the product mirrors that of a conventional mortgage. We would therefore expect, subject to details of the underlying mortgage contract, that conventional mortgage servicers should be able to fulfill the role if required.



Are Sharia-compliant mortgages available for buy-to-let properties?

Yes, Sharia-compliant financing is available for investment purposes. In the case of musharaka, it is possible to use a non-diminishing musharaka to achieve an arrangement that mimics an interest-only loan.

If interest is not charged, how are the changes in underlying interest rate dynamics reflected?

Since musharaka is a partnership based on shared profit, the bank passes on cost changes to the IUO. This is similar to a finance provider who adapts the interest rate on a conventional mortgage when interest rates change. Ijara products would also see the rent rate fluctuate as the costs of the bank fluctuate. For example, in a Sharia-compliant mortgage, the bank would pass on any savings that result from a cost decrease to the IUO.

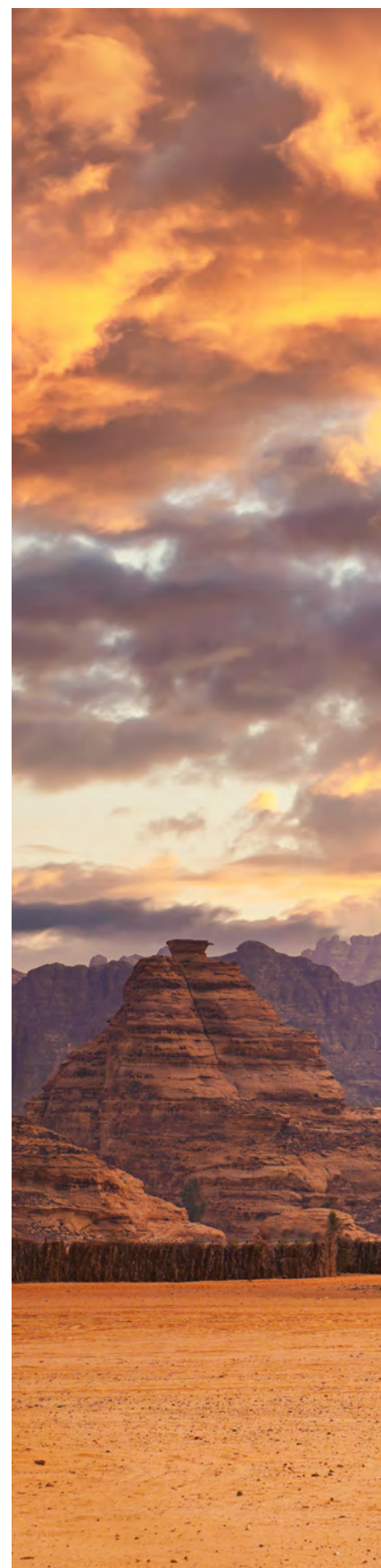
Are there any other credit highlights associated with Sharia-compliant mortgages?

In certain jurisdictions, the costs of Sharia-compliant mortgages may be higher than those of conventional mortgages. Due to competitive dynamics, Sharia-compliant mortgages in some countries are complex, while the entities that provide Sharia-compliant mortgages may be smaller than those that provide conventional mortgages. This increases the cost of funding. Mortgage loans are underwritten relative to the relevant regulation in a jurisdiction and the rigor of affordability testing differs.

Are risks of negative carry the same for a conventional RMBS transaction and one complying with Sharia principals?

It is possible that a Sharia-compliant RMBS structure may have more risk of negative carry. We highlight two potential risks in this regard. Firstly, Sharia-compliant savings work broadly in the same way as mortgages. Since earning interest is forbidden, savers typically place their funds in profit sharing investment accounts (PSIAs) and earn money in the form of an expected profit rate (EPR). The EPR is expressed as a percentage and similar to an interest rate. Depending on the underlying Sharia contract of the PSIAs, savers may be exposed to the risk of negative returns.

Secondly, depending on the country the securitization is being executed in and depending on the rating sought, a bank with a sufficiently high issuer counterparty rating and Sharia-compliant cash accounts might not exist. This means that cash held on deposit by the issuer might not earn any return. In such a scenario, negative carry would be more pronounced than be in an RMBS transaction backed by conventional mortgages.



Can fixed-payment, Sharia-compliant mortgages be hedged?

Sharia-compliant derivatives are a complex topic. As with all products that are intended to be Sharia-compliant, the bank's Sharia supervisory board would need to opine on them on a case-by-case basis. This means each contract that is designed to hedge the fixed payment of the underlying Sharia-compliant mortgage and the potential variable rate payable by the issuer must be assessed individually. Even though profit rate swaps are available, we have not yet seen them utilized in a securitization.

Does the fact that Sharia-compliant mortgages are not mortgages in the conventional sense create complexity at the RMBS issuer level?

When conventional mortgages are being securitized, beneficial interest of the underlying loans and the security over the underlying properties is generally transferred to the issuer. For Sharia-compliant mortgages, what is being sold and by what mechanism may differ by product type (murabaha, musharaka, ijara) and jurisdiction, meaning that any legal considerations would have to be assessed on a case-by-case basis. For example, a musharaka mortgage--given it is not a loan but rather a direct participation in property ownership--will require a different transfer mechanism and have different risks than a conventional mortgage in the U.K.

Do Sharia-compliant RMBS structures differ notably from standard RMBS structures?

Examples of public Sharia-compliant RMBS transactions are limited. Since the concept of profit sharing applies to the liability side for Sharia-compliant RMBS transactions, the concept of tranching--which is common in most structured finance, including RMBS--might not be Sharia-compliant. This potential non-compliance centers on the fact that junior tranches in structured finance carry a higher risk than senior tranches, meaning the profits shared could be disproportionate to the risks they relate to.



Appendix

Country comparison		
	Saudi Arabia	U.K.
General market background		
Position of Sharia-compliant mortgages in the country	Conventional mortgages were declared non-compliant with Sharia law in the early 1980s. In 2012, the Registered Real Estate Mortgage Law (RREML) was passed. The Saudi Real Estate Mortgage law (REML) is significantly influenced by Sharia law. As such, all mortgage finance in Saudi Arabia is Sharia-compliant.	Sharia-compliant mortgages are generally classified and referred to in law as Home Purchase Plans (HPP), rather than mortgages. If they are classified as HPP, many key features of Sharia-compliant mortgages mirror those of conventional mortgages. We note that products that are not intended to be Sharia-compliant, for example shared ownership, may be classified as HPPs.
Main products	Murabaha and, to a lesser extent, ijara are the most common types of mortgages.	For owner occupied lending, we observe that diminishing musharaka is the most common form of lending and non-diminishing musharaka is common for buy-to-let (BTL) lending.
Sharia BTL market	Although an active rental market exists, it is not financed by mortgage products in any material way.	Several banks and non-banks offer Sharia-compliant BTL products.
Recourse provision	Full recourse to the borrower.	Full recourse to the borrower.
Main lenders	According to a 2020 report by Al Rajhi Capital, the top three banks--Al Rajhi Bank, Saudi National Bank, and Riyadh Capital--account for 60% of mortgage lending. This ratio is broadly in line with their general market share. The Saudi Real Estate Refinancing Company aims to provide liquidity and mortgage refinancing solutions for the wider banking market.	Several banks specialize in Sharia-compliant financing and mortgages. Some are domestic banks, others are U.K. entities of international banks. We are also aware of non-banks operating in the Sharia-compliant mortgage space. However, Sharia-compliant mortgages account for a small fraction of the overall lending market.
Home ownership levels	Estimated at 63.7% at year end 2023. The Saudi government aims to increase this to 70% by 2030.	62% at a national level.
Regulation		
Consumer regulation summary	The regulatory position for residential mortgages is covered under the Real Estate Financing Law, also known as the Mortgage Law, which outlines the mortgage process. The REML outlines the mortgage registration guidelines which are approved by the Ministry of Justice.	The regulatory position of owner occupied mortgages mirrors that of a conventional mortgage in the U.K. and would fall under the remit of the Financial Conduct Authority. BTL contracts are generally not covered by consumer regulation.

Prudential regulation	The Saudi Central Bank Arabian Monetary Agency (SAMA) regulates the banking industry.	Banks originating Sharia-compliant mortgages are regulated by the Prudential Regulation Authority.
Specific "borrower"/IUO and product characteristics		
Cofinancing mortgages/guarantor mortgages	Although guarantors are usually not required, products that allow for cofinancing by more than two borrowers are available.	Not a common feature of the Sharia-compliant mortgage market.
Typical loan to value ratio	Up to 90%. The average tends to be 70%-80% at origination.	Up to 95%. The average tends to be 70%-80% at origination.
Payment type	Annuity (capital and bank profit).	Annuity (capital and interest).
Rate	Mainly fixed rate.	Fixed and variable rates available.
Typical term	25-30 years.	25 years, but up to 40 years are possible.
Salary assignment	Most lenders will require assignment of the salary to pay the mortgage.	Not a feature of the Sharia-compliant mortgage market or the wider market.
Second liens	While envisaged under the mortgage law, they are not common in practice.	Not a common feature of the Sharia-compliant mortgage market.
Minimum age	The legal minimum age is 18, but market convention means that lending to borrowers under the age of 20 is rare.	The legal minimum age to take on a personal credit product is 18. BTL lenders often require the IUO to be at least 21.
Maximum age	Generally, the mortgage would need to be repaid by the age of about 70.	Conventionally, the mortgage would need to be repaid by the age of about 70, but mortgages going further into retirement are available.
Prepayment charges	Prepay/early repayment charges are common in the market and depend on the underlying mortgage contract.	Prepay/early repayment charges are common in the market and depend on the underlying contract.
Property/security characteristics		
Valuation process	Generally involves a full internal inspection by a suitably qualified surveyor, with the valuation based on sales of comparable properties.	Generally involves a full internal inspection by a suitably qualified surveyor, with the valuation based on sales of comparable properties. Other valuation methods, for example via automated valuation models, are available but uncommon.
Acceptable security	Determined by banks' lending appetite.	Determined by banks' lending appetite.
Residential property taxes upon purchase	There are no taxes payable upon purchase of a residential property.	If the property is classified as a HPP, purchase taxes mirror those of a conventional mortgage, payable by the purchaser as a one-off payment upon purchase of the property.
Expat and foreign national lending	Available, although it only accounts for a small part of the market.	Available, but not a core part of the Sharia-compliant mortgage market.

Wider securitization considerations

Active third-party servicing market	Nonexistent, although several active lenders, who currently service their own assets, could technically service a portfolio originated by another lender.	There is an active third party servicing market. Due to the generic similarities between Sharia-compliant and conventional mortgages, an incumbent third-party servicers in the U.K. could develop the technical capacity to service Sharia-compliant mortgages. Likewise, other active Sharia-compliant lenders, who currently service their own assets, could technically service a portfolio originated by another lender.
Sovereign rating as of April 14, 2025	A+/Stable	AA/Stable
Rating category of top tier banks as of April 14, 2025	A	BBB
Mortgage insurance and guarantees	Mortgage insurance is not a common feature of the market. However, Damanat, which is owned by the Real Estate Development Fund, has been established to offer insurance and guarantees, whose exact workings are currently uncertain.	Not a common feature of the Sharia-compliant or wider mortgage market.

IUO--Intended ultimate owner. Source: S&P Global Ratings.



Related Research

- [How We Rate ABS And RMBS Transactions In Non-Established Markets](#), Dec. 3, 2024
- [Saudi Residential Real Estate: The Market Is Booming](#), Nov. 11, 2024
- [Tolkien Funding Sukuk No.1 PLC](#), Jan. 29, 2018

This report does not constitute a rating action.

Spotlight On...

Private Financings Gain In Popularity Among GCC Issuers



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Key Takeaways

- Private capital financings are becoming an important funding source for issuers in the Gulf Cooperation Council (GCC) region.
- For now, private financiers mainly focus on large transactions.
- Private capital financing can be an alternative funding source for companies that are underserved by banks.

Over the past decade, GCC issuers mainly relied on banks, bonds, and sukuk to meet their funding needs. The total amount of private capital financings raised by GCC issuers between 2020 and 2024 increased significantly to \$54.8 billion, from \$10.4 billion between 2015 and 2019, and is set to rise further.

S&P Global Ratings expects private capital financings in GCC countries will gain in importance over the next few years, particularly considering higher interest from private capital providers in the region. The number of transactions that were financed with private capital peaked at \$20.4 billion in 2023 and decreased to \$14.5 billion in 2024, compared with \$1.3 billion in 2015 (**see chart 1**).

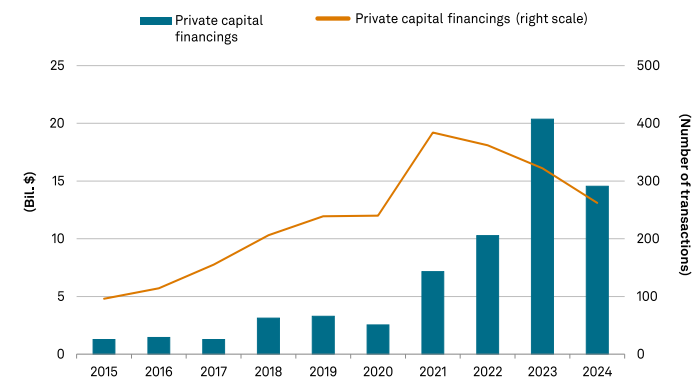
The steep decline over 2024 largely resulted from improving financing conditions in local banking sectors and bond and sukuk markets, and the decline in interest rates. Even so, the number of transactions in 2024 was still 2.7 times higher than in 2015, which is indicative of the strong fundamentals that underpin the increase in private capital financings.

Bonds Continue To Dominate

We analyzed the data related to financing raised by GCC issuers over the past decade. Concretely, we focused on financing from banks, bond and sukuk issuances, equity capital market transactions--such as initial public offerings (IPOs)--and private capital financings via private credit investments, private equity investments, venture financing, sovereign wealth fund investments, and other fund investments or credits.

Chart 1

Private capital financings are increasing

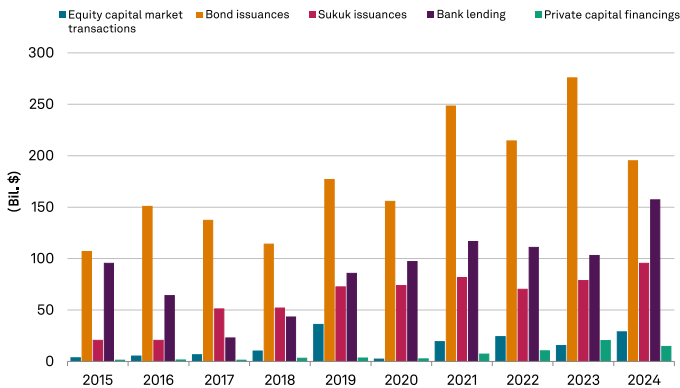


Sources: S&P Global Ratings, S&P Global Market Intelligence.
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Our analysis shows that GCC issuers, including GCC governments, raised \$3.5 trillion over the past decade (**see chart 2, p31**). Bond issuances, which accounted for 51% of the total amount raised in 2024, constituted the preferred method of financing, followed by financing from banks, which contributed 26%. Three other asset classes experienced a significant increase in GCC issuers' funding mix: Sukuk issuances accounted for 19% of the amount raised in 2024, equity capital market transactions--such as IPOs--for 6%, and private capital financings for 3% (**see charts 2 and 3, p31**).

Chart 2

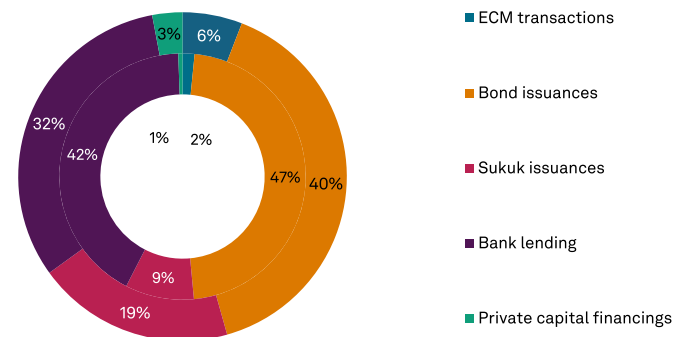
Bonds are still the preferred method of financing for GCC issuers



Inner circle data as of 2015, outer circle data as of 2024. ECM--Equity capital market. GCC--Gulf Cooperation Council. Sources: S&P Global Ratings, S&P Global Market Intelligence.

Chart 3

Sukuk, ECM transactions, and private capital financings increasingly contribute to the funding mix in the GCC



Inner circle data as of 2015, outer circle data as of 2024. ECM--Equity capital market. GCC--Gulf Cooperation Council. Sources: S&P Global Ratings, S&P Global Market Intelligence.

Private Financings Currently Focus On Large Deals

We note that private companies received most of the private capital financing and that investments concentrated on the largest deals (**see chart 4**).

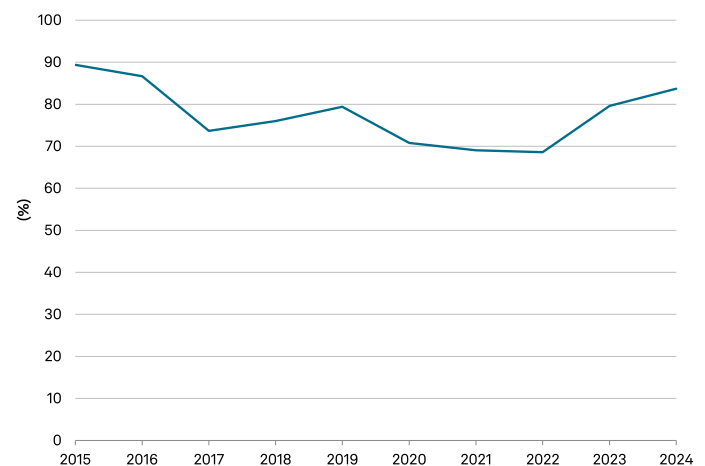
Over the past decade, the top 10 transactions accounted for about 80% of the total annual volume of private capital financings. What's more, large corporates, including government-related entities (GREs), were among the recipients of private capital financing.

We expect large corporates and GREs will continue to optimize their funding mix and seize opportunities, while smaller companies will increasingly turn to private financings, particularly if they are at an early development stage.

Chart 4

Private capital financings remain highly concentrated on a few transactions

Top 10 private capital financings as a percentage of total private capital financings



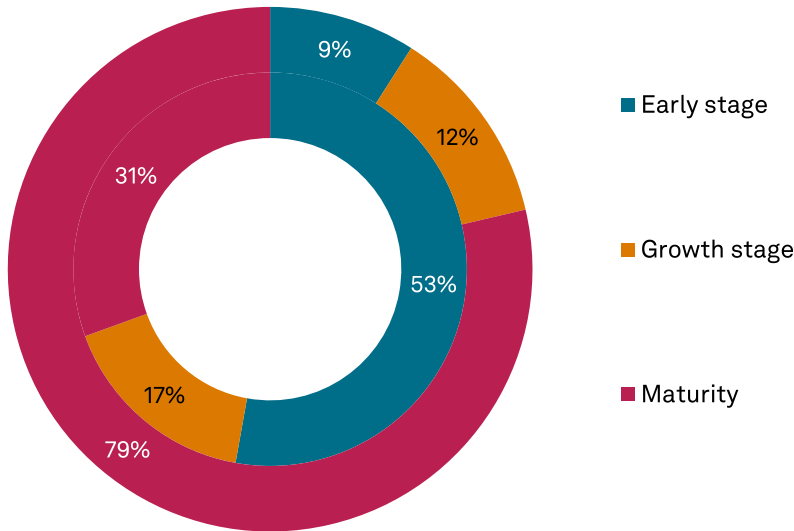
Sources: S&P Global Ratings, S&P Global Market Intelligence.
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Private Capital Is Targeting Banks' Clients For Now

Our analysis of private financing transactions shows that private financiers have expanded their reach over time to provide funding to more mature and established companies, not just those at early development stages. Established companies received 79% of private financings in December 2024, up from 31% in 2015 (**see chart 5**).

Chart 5

Private capital financings are targeting banks' clients



Inner circle data as of 2015, outer circle data as of 2024. Sources: S&P Global Ratings, S&P Global Market Intelligence. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

Even though these established companies could have easily raised the required funding from banks or on capital markets, they chose private financings, which could provide a faster or more streamlined execution, more flexible terms, or more competitive pricing. Nevertheless, we do not expect private capital to challenge the role banks play in the GCC region because the overall volume of private financings remains relatively small.

On the demand side, private capital financings can help early-stage firms and make them bankable over time, which fuels the financial ecosystem by creating more growth opportunities. Banks tend to be wary of providing loans to companies at early development stages, unless they benefit from external support or guarantees.

On the supply side, regional private capital providers for GCC corporates, including sovereign wealth funds, will continue to diversify their geographic exposure to avoid over-relying on a single economy or region. GCC investors will remain on the radar of large companies that aim to raise money outside of the traditional banking system or capital markets, especially when interest rates are high.

Banks

Saudi Banks Can Manage Their External Debt Spike



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Key Takeaways

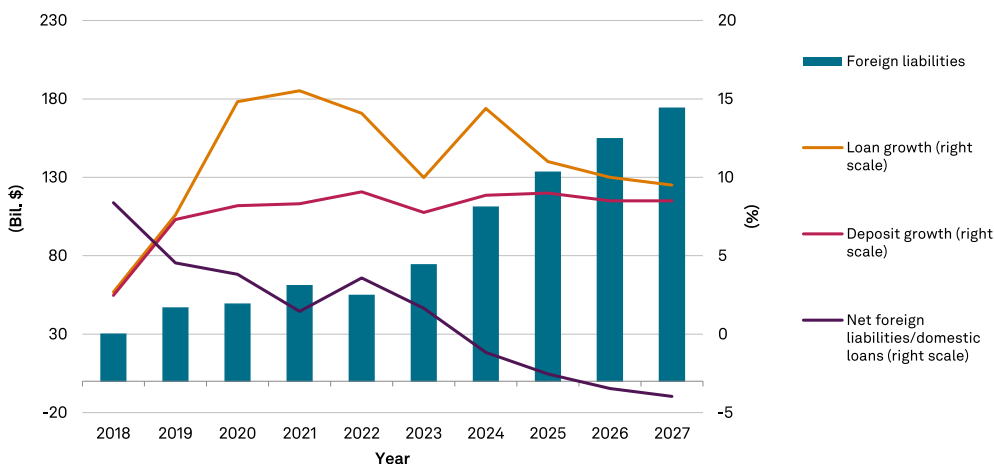
- Saudi banks are increasingly turning to external funding to maintain rapid lending growth and to cater to the financing demands of Vision 2030.
- That external funding is mostly short-term, in the form of interbank and nonresident deposits, but also includes long-term issuance on international capital markets.
- Risk, in the short term, appears under control, despite recent market turbulence. However, greater reliance on external funding warrants attention given the potential for long-term vulnerabilities.

Despite a significant increase in external funding over the past three years, the overall contribution of net foreign debt to Saudi banks' funding remains limited. Banks have resorted to external funding as local sources proved insufficient to support domestic borrowing demand. In 2024, for example, banks extended SAR 371.8 billion (\$100 billion) of new loans, while their deposits grew by only SAR 218.9 billion, leaving SAR 152.9 billion to be refinanced. S&P Global Ratings expects this trend to continue over the next three to five years, but we don't expect external debt to translate into significant vulnerabilities for Saudi banks.

External debt will help Saudi banks to continue growing and cater for Vision 2030. Saudi banks have grown rapidly over the past few years, propelled by demand for mortgages (at least until 2022), with the growth supported by abundant local funding. More recently, banks have increasingly tapped international capital markets for funding as local sources proved insufficient to meet the country's ambitious requirements, as set out in the state's Saudi Vision 2030 development program, and the expected growth in corporate financing requirements. By the end of 2024, banks had shifted from their earlier net external-asset position to a small net external-debt position of SAR 34 billion. We expect foreign liabilities to almost double in the next three years (see chart 1). While the absolute number may appear significant, we expect Saudi banks net external debt position to remain at a manageable level of about 4.1% of total lending by the end of 2028.

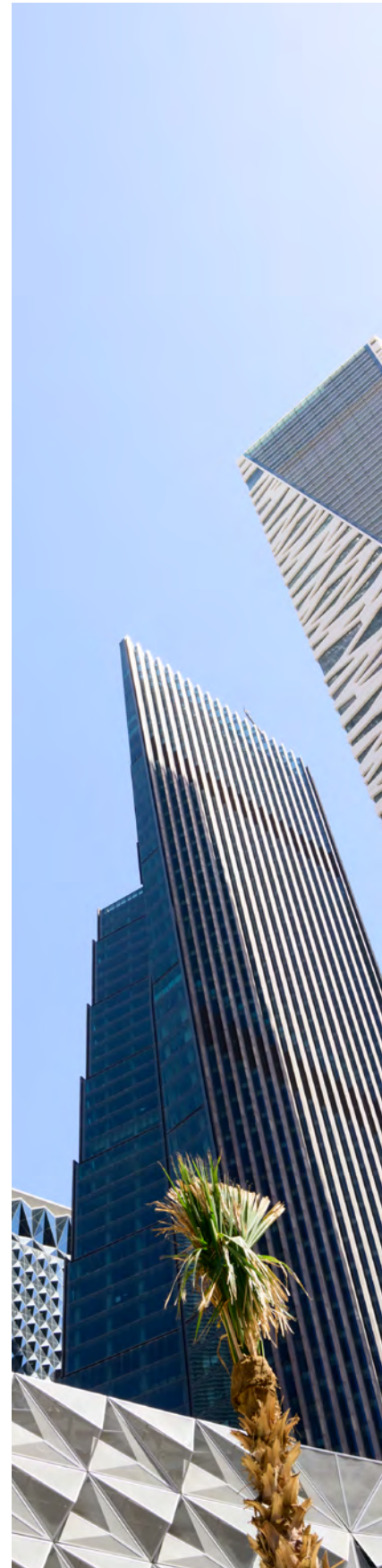
Chart 1

Saudi's external liabilities are expected to increase to meet financing needs



Sources: Saudi Central Bank, S&P Global Ratings.

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Saudi banks' external debt remains skewed toward interbank deposits and repurchase agreement lines. The increase in interbank liabilities was the main contributor to the growth of Saudi banks' external debt, accounting for 55% of the overall increase in the external gross debt in 2024. The remainder was primarily issuance in international capital markets, either directly or through Saudi banks' branches operating in global liquidity centers.

In terms of stock, due to foreign banks accounted for about 59% of Saudi banks' external debt in 2024. We view that as a potential source of risk because such funding sources tend to be generally shorter-term and potentially more volatile than capital market issuance. The percentage of Saudi banks' due from banks and branches abroad divided by the due to foreign banks declined to about 54% by the end of 2024, from 109% at the end of 2022, potentially exposing banks to sudden and significant outflows governed by foreign investors' appetites. However, such a scenario is not part of our base case. That is partly because we understand that almost half of the deposits come from within the Gulf Cooperation Council (GCC) region, where some banking systems are awash with liquidity, and therefore likely to be stickier. We also understand that some of the due to foreign banks are repurchase agreement (repo) transactions.

Finally, we view Saudi authorities as highly supportive of the banking system and expect extraordinary support will be forthcoming should the need arise. GCC governments, in general, and Saudi Arabia, in particular, have a strong track record of providing such support when needed.

Not Walking In Qatar's Footsteps

Investors looking at Saudi Arabia's rapid increase in external debt often make the comparison with Qatar's experience with external debt funding. In Qatar's case, significant domestic infrastructure investments (including in preparation for the 2022 FIFA World Cup) resulted in an external debt imbalance underpinned by a desire to secure low-cost funding. Qatar's net banking system external debt to systemwide domestic loans peaked at 40.6% at the end of 2021, up from 5.3% at the end of 2014.

While that ratio fell to 33% by the end of 2024, after the Qatar Central Bank imposed more stringent regulatory requirements, we consider the banking system's high level of external debt could pose a risk in the event of significant capital outflows due to geopolitical events. The potential for that eventuality was demonstrated in 2017 when Qatar was boycotted by a group of Arab states, resulting in outflows of over \$20 billion that were offset by a more than \$40 billion injection by the Qatari government and related entities.

Some investors see parallels between Qatar's recent history and Saudi Arabia's financing needs, which are largely emanating from Vision 2030. We are monitoring the potential for risks to emerge, although at this stage, and based on our expectations, the likelihood of an adverse outcome appears low in Saudi Arabia.

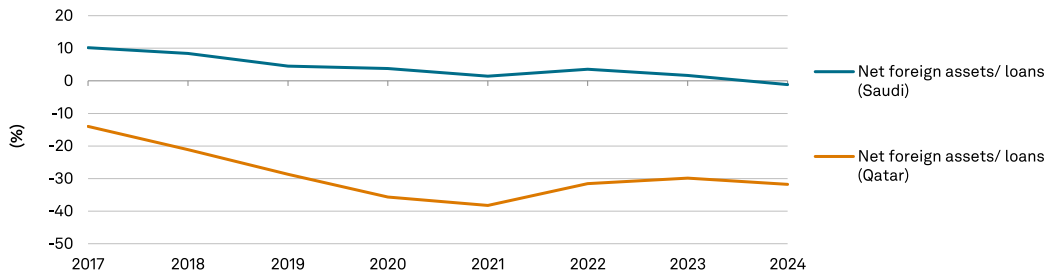
We do not completely dismiss the risk, though we believe context is important to understanding the potential for pressures to emerge. The total gross external debt of the Saudi banking system was \$109.5 billion at the end of 2024, which is almost quadruple its \$29.5 billion at the end of 2018. In comparison, the highest amount of gross external debt mobilized by the Qatari banking system was \$196.9 billion, at year-end 2021. Further perspective on those numbers is provided by comparing the sizes of the countries' banking systems, with the total assets of Saudi banks almost twice those of their Qatari counterparts (**see chart 2, p36**).



Chart 2

Qatar's external debt is proportionally larger than that of Saudi Arabia

Net external assets/total loans (%)



Source: S&P Global Ratings

A Role For Mortgage-Backed Securities?

In addition to increasing their external debt, Saudi banks are seeking to create financing headroom (particularly to meet the demands of Vision 2030) by shifting some assets off their balance sheets. The low-hanging fruit in that process is mortgages. Banks are either divesting mortgages directly to the Saudi Real Estate Refinance Company (A/Stable/--), which reported SAR28.8 billion of total mortgage purchases as of the end of 2024; or 1% of the banks' total lending book, or they are contemplating the use of securitization to move them off their balance sheets. The latter option remains nascent and appears dependent on local and foreign investors becoming more comfortable with securitization's risks, and specifically creditors' capacity to claim against the real estate assets in the event of default.

It is legitimate to wonder why banks have not been divesting mortgages more aggressively, particularly given huge mortgage books, worth about \$180 billion, or 23% of all loans, as of the end of 2024. We see three main reasons for this:

- The mortgages provide good risk-adjusted profitability; mortgages are fixed-rate, primarily provided to civil servants or employees of large Saudi companies, typically repaid via salary assignment, and supported by real estate collateral. Why would banks divest them if they can refinance them at a lower cost.
- Higher interest rates had, until recently, meant some fixed-rate mortgages were out of the money, meaning that a bank moving them off its balance sheet would have to book a loss. Recent lower interest rates have reversed that situation, in some instances.
- Some investors are uncomfortable with the risks inherent to residential mortgage backed securities (RMBS) and/or banks' capacity to access collateral, which is investors' ultimate recourse to recover funds in the event of an RMBS default. Greater clarity regarding legal processes or flooring the risk at a certain level could reassure investors and facilitate the development of the market.





Related Research

- [Saudi Arabia Banking Sector Outlook 2025: Vision 2030 Momentum Continues](#), Jan. 20, 2025
- [Banking Industry Country Risk Assessment: Saudi Arabia](#), Dec. 6, 2024
- [Your Three Minutes In Saudi Vision 2030: Credit Implications For Banks And Corporates](#), May 2, 2024

This report does not constitute a rating action.



Banks

Why Our View on GCC Banks' Capital Adequacy Differs from Regulators



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The risk-adjusted capital (RAC) ratio is the primary metric used by S&P Global Ratings to assess the capital adequacy of issuers and it influences our analysis of the Gulf Cooperation Council (GCC)-based banks that we rate. The role that the RAC ratio plays in our analysis of credit quality, and the differences between the RAC ratio and the region's regulatory capital requirements, is thus a subject of interest.

Here S&P Global Ratings presents frequently asked questions from investors about the RAC ratio and our assessment of GCC banks' capital adequacy.

Frequently Asked Questions

How do GCC banks compare with financial institutions in other regions in terms of capital adequacy?

We believe the GCC banking sector is generally well capitalized. The median regulatory Tier 1 capital ratio for rated GCC banks was 16.6% at year-end 2024, about 140 basis points (bps) higher than the ratio for the 115 Group 1 banks monitored by the Basel Institute (as of June 30, 2024). At the same time, the median RAC ratio for rated GCC banks at year-end 2024 was 11.3%, corresponding to strong capital and earnings score under our criteria and approximately 160 bps higher than our estimate for the top 200 rated global banks. We expect rated GCC banks' RAC ratio to remain stable over the next two to three years, supported by sound capital generation capacity, prudent capital management, and regulatory requirements. However, the variance is quite high across rated GCC banks, with RAC ratios ranging from just below 4% to over 15%. This largely reflects bank-specific, idiosyncratic factors.

Why do you use your own model and not regulatory ratios to assess a bank's capital?

We use our own RAC framework to evaluate the capital adequacy of banks and certain nonbank financial institutions because it is unaffected by differences in jurisdictional definitions of capital, the methods financial institutions use to define and calculate capital, and the approaches they adopt to calculate regulatory risk-weighted assets. Compliance with regulatory ratios is a starting point for assessing banks' capital under our methodology for rating financial institutions. However, these regulatory ratios are not uniform and are influenced by jurisdiction-specific implementation and diverging macroprudential policies, which make them incomparable.

Why do you apply different risk weights to different asset classes and geographies?

We do this because we consider that the potential magnitude of banks' unexpected credit losses typically varies between asset classes and countries. This variation is influenced by factors such as the sovereign rating, the country's economic structure and policy flexibility, the quality of lending and underwriting standards, and the extent of internal and external imbalances and protection for creditors. We assess the relative level of economic risk as part of our Banking Industry Country Risk Assessment (BICRA) and use this evaluation to determine risk weights for corporate and retail exposures in each jurisdiction.



Why are the risk weights you apply to sovereign exposures generally higher than those set by local regulators, which sometimes apply a zero-risk weight?

Regulators generally apply a zero percent risk weight to the domestic sovereign exposure as it is considered a risk-free asset in that specific jurisdiction. In our view, countries can (and do) default and banks may incur losses on their exposure to them. Therefore, in our risk adjusted capital framework, banks should set aside capital to cover this risk. The higher the rating on a country, the lower the risk that banks will incur unexpected losses relating to their sovereign exposure under our framework. For most GCC countries, effective risk weights are quite low given their relatively strong creditworthiness. The exception is Bahrain, where risk weights are higher, given the country's lower rating. For some banks with sizeable exposures to sovereigns outside the GCC, particularly countries like Egypt or Türkiye, the density of risk-weighted assets can be material since the creditworthiness of these countries is lower than the average creditworthiness of GCC sovereigns.

What is your approach to assessing banks' exposure to government-related entities (GREs)?

In general, we treat loans to GREs as corporate exposures, unless we consider there to be a credit substitution guarantee, or if we consider the creditworthiness of the entity to be similar to that of the sovereign, typically in the case of public sector entities as defined by local central banks. We may sometimes deviate from the regulatory treatment if we believe that the creditworthiness of these entities is materially different from the government's.

How do you assess portfolios of assets funded by Islamic investment accounts?

Theoretically, Islamic banks have the option to require their profit-sharing investment account (PSIA) holders to absorb losses if the underlying assets of these deposits generate losses. In reality, to avoid that scenario, banks set aside additional provisions in the form of profit equalization reserves and investment risk reserves. Even if these are insufficient, banks generally avoid sharing losses with clients as this may lead to significant outflows of deposits and potential concerns over a bank's viability. In some jurisdictions, Bahrain for example, regulators reduce risk weights for exposures funded by PSIAs to reflect this theoretical capacity to absorb losses. We do not apply a similar adjustment, and this can sometimes result in significant differences between our RAC ratios and regulatory capital ratios.

What other critical factors do you consider when applying the RAC capital model to Islamic banks in the GCC?

In general, we take a substance-over-form approach. For instance, we may consider Mudarabah exposures to be equity rather than debt if these instruments have equity-like features, such as the ability to absorb losses. We typically treat Additional Tier 1 capital instruments, which are often based on Mudarabah principals, as equity instruments.



How do you risk weight mortgage loans in Saudi Arabia?

We believe that mortgages in Saudi Arabia do not bear significantly lower credit risk than unsecured retail exposures. This is because banks can be reluctant to repossess collateral from Saudi nationals. To our knowledge, there have been only a few cases of property repossession, and typically only after lengthy legal proceedings. Conversely, most retail loans are secured by wage assignment. We also understand that off-plan mortgage lending in Saudi Arabia is becoming a key growth driver for banks. We therefore risk weight mortgages using the same risk weight as unsecured retail exposures in Saudi Arabia.



Related Criteria

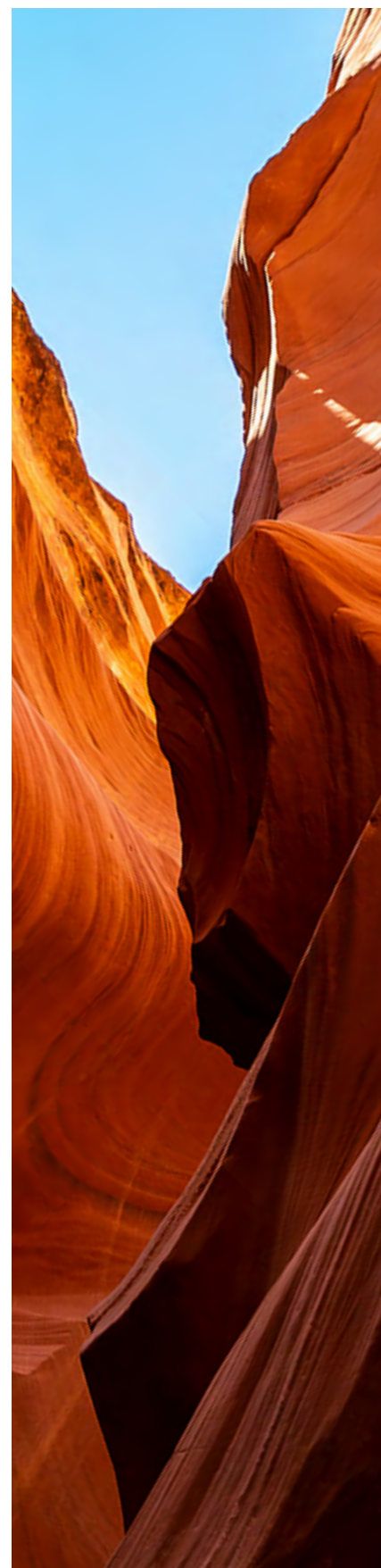
- [Banking Industry Country Risk Assessment Methodology And Assumptions](#), Dec. 9, 2021
- Financial Institutions Rating Methodology, Dec. 9, 2021

Related Research

- [How We Rate ABS And RMBS Transactions In Non-Established Markets](#), Dec. 3, 2024
- [Saudi Residential Real Estate: The Market Is Booming](#), Nov. 11, 2024
- [Tolkien Funding Sukuk No. 1 PLC](#), Jan. 29, 2018

External Research

Basel III Monitoring Report March 2025, BIS, <https://www.bis.org/bcbs/publ/d592.pdf>



Banks

Why Most EMEA Emerging Markets Are Slow To Adopt Bank Recovery And Resolution Plans



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Key Takeaways

- While many emerging markets were among the first adopters of international regulations on capital and liquidity, most of them are still dragging on the implementation of a resolution regime.
- As members of the G20, Saudi Arabia, South Africa, and Turkiye have endorsed the resolution standards but only South Africa made it to the finish line.
- Reluctance to adopt resolution regimes could be due to concerns that it would undermine confidence in government support for banks. It could also be due to the narrow local capital markets and limited access to international capital markets and the higher costs for banks. Finally, it could be simply related to the low sophistication of the institutional frameworks in many emerging markets.
- We therefore expect adoption of resolution regimes in many of EMEA's emerging market countries will take a long time.

S&P Global Ratings expects most emerging markets (EMs) in Europe, the Middle East, and Africa (EMEA) to continue to take a cautious approach in the adoption of resolution regimes for banks. As members of the G20, three EMs--[Saudi Arabia](#), [South Africa](#), and [Turkiye](#)--have endorsed the resolution standards, and South Africa has already made the move.

Resolution planning considers what happens if a systemically important bank fails to recover--that is, if it becomes nonviable. At this stage, it consists of regulators identifying the best approach to stabilize the institution and how to avoid contagion to other parts of the financial system while winding down the unviable segments of the business.

However, some of the EMs that were among the first adopters of international regulations (such as Basel II and III, for example) are still dragging on implementation of a resolution regime, and in our view, the implications for their banking systems could be significant.

As part of South Africa's resolution planning, the Financial Laws Amendment Act was signed into law in 2021. The law enhanced the South Africa Reserve Bank's (SARB) power as the resolution authority, established the Corporation for Deposit Insurance (CODI), and introduced legal mechanisms for bail-ins, allowing creditors to bear losses, among other amendments. CODI went into effect

in 2024 and provided retail insurance deposit coverage of up to South African rand (ZAR)100,000 (about \$5,500) per account. Subsequently, the SARB published the final prudential standard for first loss after capital (FLAC) instrument requirements for designated institutions, which comes into effect in January 2026.

Saudi Arabia has published its law for systemically important financial institutions in 2020, but the implementing acts are still being developed. The Saudi Central Bank (SAMA) circulated a draft of the regulation in August 2023 for public consultation. To our knowledge, there was no significant progress since then.

In Turkiye, reforms are under development, but the timeline of adoption remains unclear. A few other countries have also looked at the standard for potential adoption. Oman has published its resolution framework but did not request banks to set aside an additional loss absorbing capital buffer.

Finally, [Georgia](#) is another country that decided to adopt a resolution regime. The country has already introduced legislation to create a resolution fund and introduced a minimum for own funds and eligible liabilities (MREL) for the three systemically important banks of the country. It has also dedicated resources to the Resolution and Liquidation Division within the central bank and is in the process of putting the resolution framework into effect.



The Emergence Of Resolution Regimes

The development and adoption of resolution regimes were primarily driven by a desire to end bailouts and reinforce the regulatory toolkit to manage systemic banks' failures.

Following the global financial crisis of 2007-2009, across the G20 and beyond, regulators and policymakers united in their desire to address banks they deemed "too big to fail." They started with broad implementation of tougher capital, funding, and liquidity requirements and subsequently strengthened the tools and options available for regulators to deal with systemic bank failures.

The Financial Stability Board (FSB) established its Resolution Steering Group in 2010 to develop tools and frameworks for the effective resolution of financial institutions. In October 2011, the Key Attributes of Effective Resolution Regimes For Financial Institutions were adopted by the FSB and endorsed by the G20 and other FSB members as the international standard for resolving systemic bank failures.

Some countries aimed to prevent future bailouts, such as the U.S. and others. Other countries tried to reinforce regulators' toolkits to deal with a crisis at the level of systemic banks without necessarily closing the door to direct support, particularly where such interventions do not carry the same political baggage as in the U.S. or in much of Western Europe.

In many EMs, however, tighter regulation of banks after the financial crisis (including standards designed to limit the systemic impact of bank failures) was viewed by some as a cure for a disease that most EM banking systems never had because of the difference in banks' business models. That is, in countries with shallower and less developed capital markets, banks are the primary channels of financial intermediation. In some cases, banking systems are generally well-capitalized with abundant liquidity, and governments view supporting their banking systems in times of crisis as an obligation rather than a burden to the taxpayer. Hence, many EMs have an uneven and cautious approach to adopting resolution regimes.

Why Emerging Markets Are Proving Cautious

We see three main reasons behind the cautious approach of most EMs in adopting resolution regimes.

Financial stability concerns could arise

This is particularly true for countries with a strong track record of government support to prevent banking failure or systemic crises. If they were to move to resolution regimes, they would most likely close the door to such support, potentially providing scope for the emergence of financial stability concerns. In emerging markets in EMEA, we assess seven countries as either highly supportive or supportive of their banking systems.

Specifically, we assess four out of the six Gulf Cooperation Council (GCC) countries as highly supportive toward their banking systems. In Oman and Bahrain, we consider the authorities' capacity to support their banking system as weaker than that of the other GCC countries and therefore we do not incorporate any rating uplift in our ratings of systemically important banks in these two countries.



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The most recent demonstration of such support was when Qatar was boycotted by some of its neighbors, leading to external funding outflows for Qatar in excess of \$20 billion that were replaced by local funding from the government and its related entities in excess of \$40 billion. This also explains the significant external debt that the Qatari banking system maintains and its relative stability through episodes of increased capital market volatility.

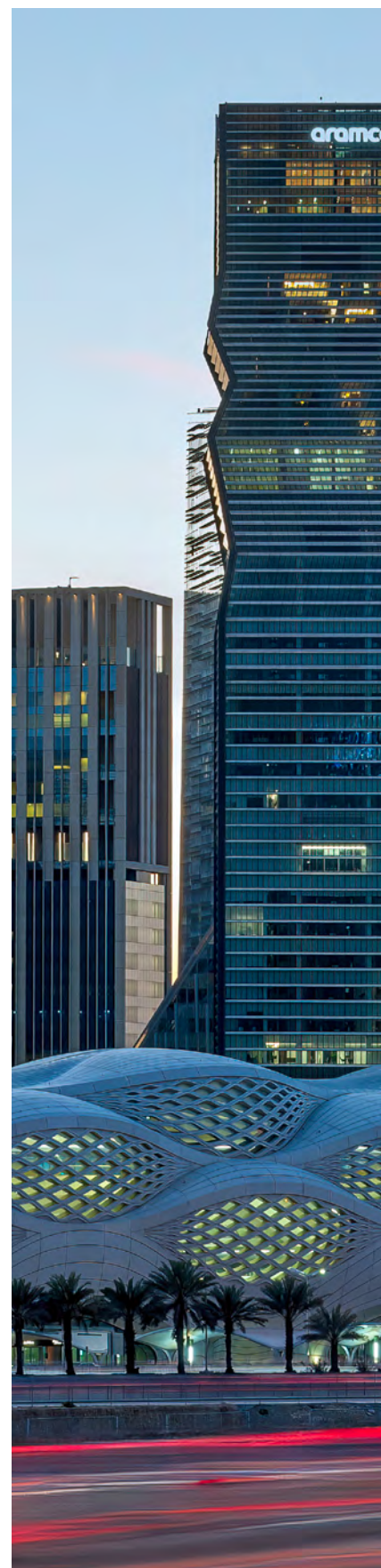
Adopting resolution regimes could increase the volatility of a portion of this external debt, particularly if external creditors perceive that such a move would result in a lower likelihood of support from the government. Therefore, managing the narratives around the move will be important.

Chart 1

The likelihood of government support is largely uncertain in EMEA emerging markets

Highly supportive	Supportive	Uncertain
Kuwait	Kazakhstan	Armenia
Qatar	Morocco	Azerbaijan
Saudi Arabia	Uzbekistan	Bahrain
United Arab Emirates		Belarus
		Bosnia and Herzegovina
		Egypt
		Georgia
		Iraq
		Jordan
		Kenya
		Nigeria
		Oman
		South Africa
		Tunisia
		Turkiye
		Ukraine

EMEA--Europe, the Middle East and Africa. Source: S&P Global Ratings.
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Capital market depth and costs

With resolution regimes, banks are typically required to build or maintain a substantial additional buffer of instruments that can be used to absorb losses or recapitalize the bank beyond their capital requirement. These are long-term debt instruments sourced from local or international capital markets.

In the broader context of emerging markets in EMEA, only South Africa has a broad and deep local capital market that could absorb such issuance. For all the other markets, the issuance of capital market instruments is either happening in foreign currency--for example, in the Gulf where local currencies are pegged to the U.S. dollar--or not happening at all. In our view, many EM banking systems have limited access to international capital markets. As such, even if regulators were to require additional loss-absorbing buffers, sourcing these instruments might prove challenging unless the authorities start by developing local capital markets.

The cost related to building the additional loss-absorbing buffer is also another key consideration, particularly as EM banking systems are typically sufficiently funded by deposits. Finally, raising these instruments on the international capital markets may increase banks' exposure to foreign currency risk, particularly for countries with unstable currencies.

Evolving local regulation and standards

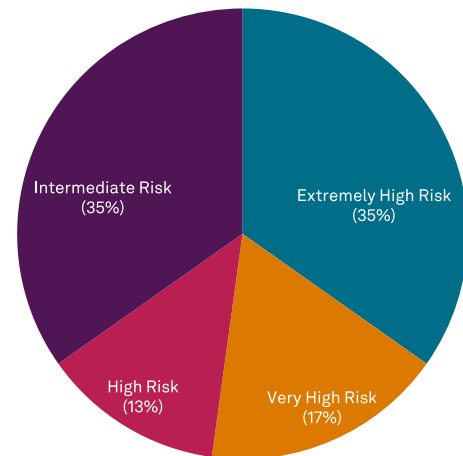
Most of the banking systems and business models in EMs in EMEA are generally simple. Banks remain at the heart of financial intermediation in most of these countries, raising deposits on the one hand and recycling the money in local lending and government paper on the other.

For many of them, we see significant weaknesses either in banking regulation and supervision or the quality of governance and transparency within the banking system. In fact, we assess the institutional framework of 35% of the 23 EMEA EM jurisdictions as extremely high risk (see chart 2).

Chart 2

Institutional Framework Assessment

As of April 30, 2025



Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

However, some regulators are also relatively more advanced in their supervision frameworks and approaches. For example, in the GCC, all the banking systems have adopted Basel III with relatively stringent requirements on the capital side. South Africa is another country where the Prudential Authority (PA) has been an early adopter of global best practices.

Countries like Tunisia and [Iraq](#), however, are lagging. For Tunisia, banks continue to report their capital adequacy ratios under outdated standards, and we view the system as significantly undercapitalized. To their credit, in their 2016 banking law, the authorities created a framework for bank resolution that was tested in 2022 with the resolution of Banque Franco Tunisienne, a very small institution that had financial difficulties for a long time. Iraq is another example where large banks are reportedly undercapitalized.

Some countries, such as [Azerbaijan](#) and [Kazakhstan](#), are implementing reforms to improve the quality of their regulation and supervision. For others, the lack of transparency, the volatile institutional landscape, and political interference are among the factors that shape our assessment. Therefore, we expect that for the majority of these countries and where no legal resolution framework exists, regulators will continue to use ad hoc solutions to face any banking crisis. In some countries, for example, banks are allowed to operate while in breach of the minimum capital adequacy requirements for a prolonged period.

Also, in some countries, the legal framework that allows the regulators to intervene and take direct action for banks facing difficulties may need some strengthening.

Why Recovery Matters

Recovery planning's main goal is to enable banks to restore their creditworthiness through specific actions prior to the need of a bailout from the authorities. Recovery would typically take the form of recapitalization or other restructuring, such as asset sales. As such, it is relevant way for any bank to improve resilience.

Making a bank truly resolvable is a long process. Regulators use their authority to force banks to remedy any barriers to an effective resolution, such as obliging banks to enhance their bail-in buffers to facilitate recapitalization and organizational changes.

Key Factors To Assess The Effectiveness Of A Resolution Framework

We assess a resolution framework as sufficiently effective for additional loss absorption capacity (ALAC) uplift, above banks' intrinsic creditworthiness, if all four of the following conditions are met:

- Resolution authorities would apply a well-defined resolution process that involves loss absorption by the ALAC instruments to systemically important financial institutions.
- Authorities have the ability and intent to permit a financial institution that is near or at the point of nonviability to continue its operations as a going concern.
- Authorities have the ability and intent to provide the relevant financial institutions access to the necessary funding and liquidity mechanisms to cope with the likely loss of access to market funding in the resolution process.

Authorities require designated financial institutions to comply with minimum ratios for the amounts of instruments that can be bailed in at the point of nonviability.



What Comes Next?

For South Africa, where we consider the resolution regime to be effective, we could incorporate up to two notches of ratings uplift for banks, depending on the amount of ALAC that they issue. However, most bank ratings in South Africa are constrained by the sovereign foreign currency rating. Unless banks pass a hypothetical sovereign default stress test, we do not rate banks above the sovereign rating. Therefore, we expect that any uplift the banks can get would be still constrained by the sovereign rating.

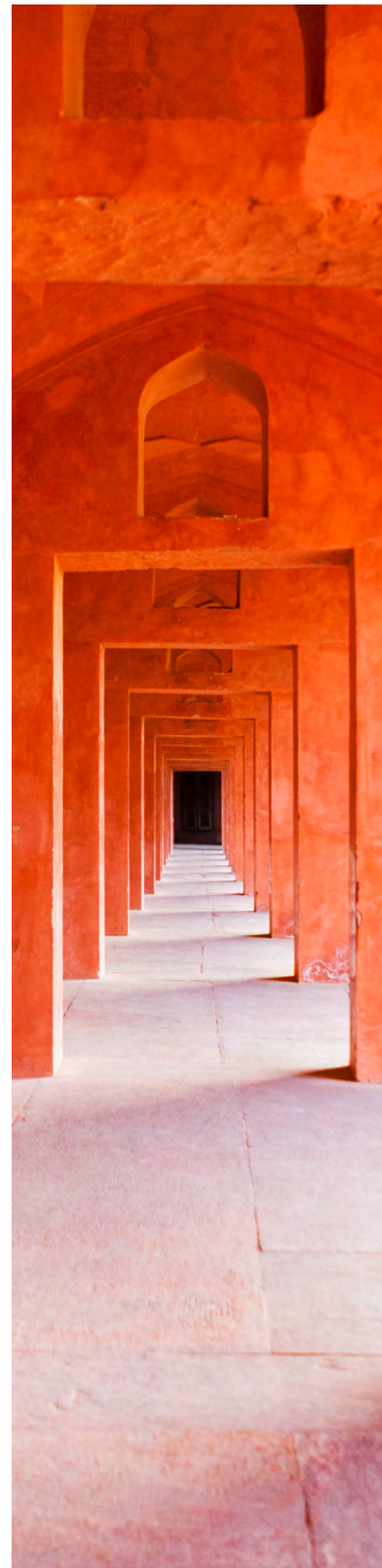
Georgia will continue to harmonize its legislation with the European Bank Recovery and Resolution Directive (BRRD). For the GCC, the question remains whether the authorities will keep the possibility of direct intervention and support provision for banks that need such support.

We currently incorporate two to four notches of uplift in the ratings on eligible banks due to government support. If countries were to move to resolution regimes and if we were to consider these effective, we would still consider the highest number of notches due to either ALAC or government support, assuming we keep the same view on their propensity to support their systemically important banks and that support provision is still possible.

If the approach changes and direct support is no longer an option, thus leading to a revision in our view of the support assessment to “uncertain,” we may incorporate fewer notches of support into our ratings, depending on the amount of ALAC accumulated. The upper limit we would incorporate is two notches of uplift. We therefore expect that any move from the regulators will carefully consider the potential implications in terms of the perception of the creditworthiness of the banking systems.

For rated banks in Saudi Arabia, we currently do not incorporate more than two notches of support in our bank ratings due to the proximity between banks’ intrinsic creditworthiness and the sovereign rating. Therefore, even if we were to change our view of the propensity of the authorities to support their banking system, the impact on bank ratings may be neutral if they set aside a sufficient buffer of ALAC.

We are also aware of a few countries in Central Asia and the Caucasus region that are working toward the adoption of resolution regimes--with some more advanced than others, including Armenia, Azerbaijan, and Kazakhstan. For other countries, if they decide to move in this direction, we think the adoption may take a long time to materialize.





Related Criteria

- [Financial Institutions Rating Methodology, Dec. 9, 2021](#)

Related Research

- [South Africa's Bank Resolution Framework Will Reduce Systemic Risk](#), March 11, 2025
- [Asia-Pacific Banking: Despite Different Strokes, Government Lifeline Is Still Likely](#), April 4, 2019
- [Ending Too Big To Fail: Different Journeys, Different Destinations](#), April 4, 2019
- [Recovery And Resolution Regimes In The Gulf Cooperation Council: More Questions Than Answers](#), Feb. 11, 2018

This report does not constitute a rating action.



Banks

How A Hypothetical Russia-Ukraine Ceasefire Could Affect United Arab Emirates Banks



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Key Takeaways

- Diplomatic efforts to reach a ceasefire agreement between Russia and Ukraine are gaining momentum.
- In our view, the potential implications of a hypothetical ceasefire scenario for the UAE banking system are limited.
- Deposit outflows, a softening residential real estate sector, and potentially lower oil prices are the main channels of transmission, but we expect the overall impact on the UAE banking system to be contained.

S&P Global Ratings notes a high degree of uncertainty about the extent, outcome, and consequences of the Russia-Ukraine war. The exact scope and/or timing of the possible ceasefire or any other solution to the war are difficult to estimate at this point. That said, we outline below the key credit transmission channels that we will monitor as they evolve and our current assumptions under a hypothetical ceasefire scenario.

likely to maintain some form of presence to benefit from the UAE's flexible and supportive economic environment, as well as its business-friendly regulations and low tax regime. Overall, under our current base case scenario, we expect the UAE's real GDP growth to accelerate and remain close to 4.4% on average over 2025-2027, following 3.4% growth in 2024.

This assumes a gradual unwinding of OPEC+ oil production cuts and continued strong non-oil growth. We also expect oil prices to remain at around \$70 per barrel over the next couple of years, which is helpful for the UAE's economy. While the impact of a potential relaxation of sanction on oil price is difficult to predict, a significant deviation from our base case scenario could have some implications on the economic environment in the UAE.

The Banking System Could Withstand The Implications Of A Ceasefire

A hypothetical ceasefire would have a limited effect on the UAE's banking system. In our view, two main channels of transmission are worth highlighting:

Deposit outflows. There is no publicly available data on the deposit inflows from Russian citizens and companies. However, in 2023-2024 we saw UAE banks' deposit bases increase much faster than the normalized growth rate, which we approximate using the average incremental deposit growth of 2018-2021 and 10% growth per year (chart 1). While some of these flows are certainly related to the outbreak of the Russia-Ukraine war, we believe that UAE banks have more than enough liquidity to deal with potential outflows. As of Nov. 30, 2024, UAE banks' liquid assets were equivalent to 3x total deposit inflows between 2022 and November 2024, which would give banks a strong cushion in the event of outflows.

Even if most Russian nationals returned, they may nevertheless decide to maintain some form of presence in the UAE in order to maintain bank accounts and therefore capital in the UAE. We believe the incremental increase in deposits may also be linked to the broader appeal the UAE holds for foreign investors given its supportive business environment.

A Ceasefire Would Have Only A Limited Effect On The UAE Economy

We do not expect a ceasefire to result in an immediate reversal of Russian labor and financial inflows into the UAE. Although there are no official statistics on the number of Russian nationals or the financial flows that have come into the UAE since the outbreak of the war, anecdotal evidence suggests that they are not negligible. For example, Russians have been among the top nationalities buying or renting real estate in Dubai over the past three years, according to publicly available information.

Uncertain domestic political and macroeconomic dynamics in Russia will likely persist even in the scenario of a ceasefire, in our view. This will likely encourage individuals and businesses to maintain at least some presence and funds in the UAE. More generally, and if and when sanctions are relaxed, we still think individuals and businesses would

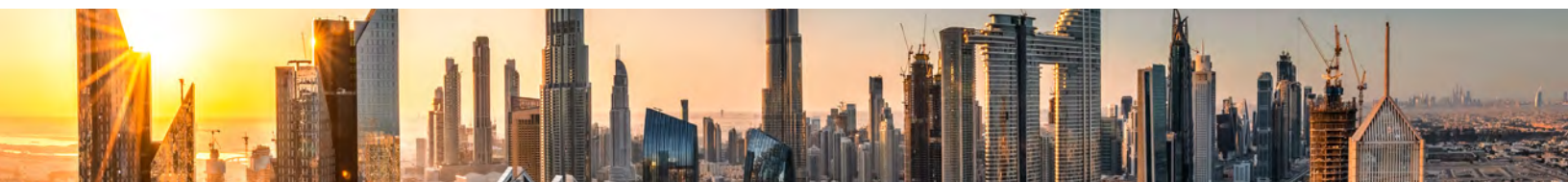
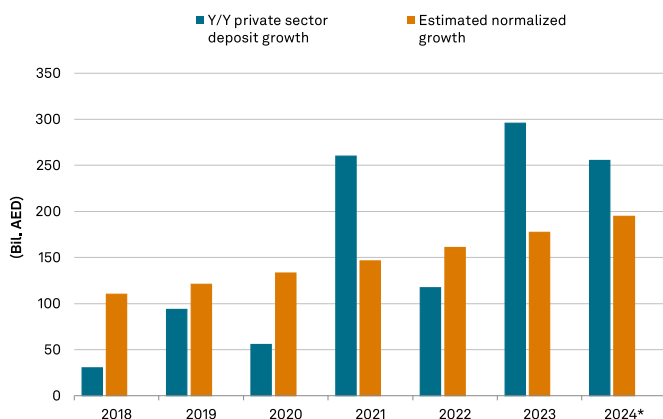


Chart 1

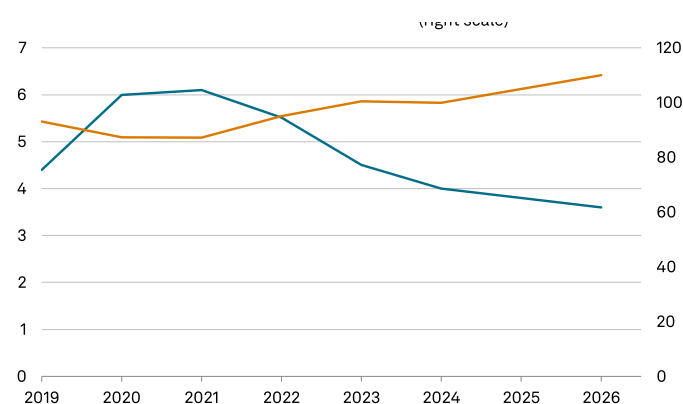
Significant deposit growth in 2023-2024

Y/Y--Year on year. AED--UAE dirham. *Nov. Sources: S&P Global Ratings and Central Bank of the United Arab Emirates. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

The effects on asset quality if residential real estate market were to soften. Direct exposure to construction and real estate accounted for 14.4% of banks' lending exposures in the UAE as of Nov. 30, 2024. Over the past three years, Russia migrant inflows, among other factors, have supported real estate demand in the UAE and the overall economic activity. We would not anticipate a significant disruption to the residential real estate sector, even if we were to see significant property divestments by Russians, given continuous strong demand and population growth. Dubai has witnessed an annual double-digit value increase since 2021, leading to significant capital gains for real estate owners. The market remains supportive as demand is still outpacing supply, a situation that we expect will continue in the next 12-18 months.

High yields and capital gains along with asset security could be another reason for Russians to stay invested in the UAE. In our base case, we expect UAE GDP growth to accelerate from 2025 and as such see limited risks to banks' asset quality indicators. We also note that most real estate transactions are not financed by mortgages, which reduces banks' exposure to real estate price risks.

Chart 2

UAE banks asset quality indicators are strong

NPLs--Nonperforming loans. Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

We also believe rated real estate developers will remain resilient, even if their operating environment weakened, thanks to solid revenue backlogs, reduced leverage, strong cash flow generation, and good liquidity buffers.

Overall, we expect the UAE banking system will continue to display strong asset quality indicators (**chart 2**) and that the UAE central bank's recent change to the provisioning rules will further increase nonperforming loan coverage ratios--which were close to 100% in 2024--to levels comparable with some regional peers.



Sukuk

More Time To Adopt AAOIFI Standard 62



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At the beginning of February, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) held a couple of public hearings on Sharia Standard 62. In S&P Global Ratings' view, this standard will shape the future of the sukuk market.

The AAOIFI has reiterated that the purpose of this standard is to standardize and harmonize the requirements for sukuk issuances, particularly in jurisdictions where regulators have adopted the AAOIFI's Sharia standards.

What's Happening

The AAOIFI will likely give issuers more time to implement Sharia Standard 62. In its public hearing over the weekend, the AAOIFI mentioned that it is likely to approve Standard 62 in 2025, and that issuers will likely have between one and three years to implement the new requirements, depending on the AAOIFI's final decision.

The AAOIFI also mentioned that the retroactive application of the standard to existing sukuk is unlikely. We have previously commented that a retroactive application might be challenging. Changes to legal documents are generally subject to investors' consent, and, in our view, sukuk issuers are unlikely to obtain this consent if investors believe that they will be exposed to higher risks.

At the same time, we consider that sukuk issuers that are already under financial strain may use the adoption of Standard 62 as a reason to trigger the restructuring of their sukuk by declaring that they are not aligned with the new requirements.

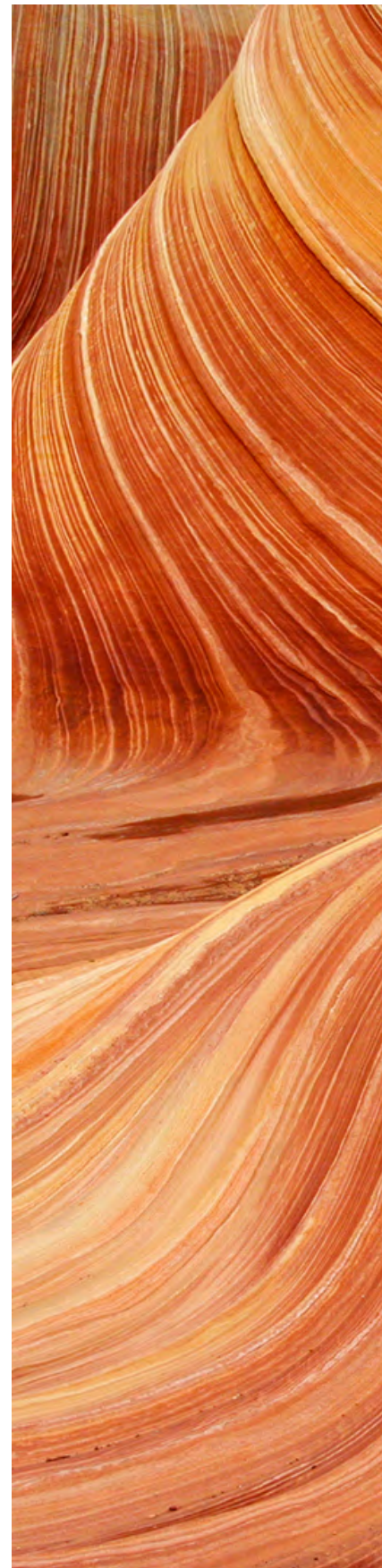
However, this risk should be mitigated by the fact that the sukuk's legal documents generally have clauses that are designed to prevent the issuer from reneging on its contractual obligations on the basis of noncompliance with Sharia law. Therefore, depending on the standard's final content, we do not expect a significant number of sukuk restructurings when the standard is adopted.

Why It Matters

Sukuk structures could change. Depending on the final timeline that the AAOIFI gives the market, this development could give sukuk structurers more time to develop structures that strike a balance between complying with the new requirements and making the sukuk attractive to fixed-income investors, if this is still possible.

It remains to be seen if there will be any major changes to the standard compared with the current draft. The AAOIFI mentioned in the public hearings that some previous sovereign sukuk used the usufruct as the underlying assets. This could mitigate the difficulty of registering such assets.

At the same time, if the assets are registered to the investors and the investors pay the registration fee, the sukuk may ultimately be seen as an asset-management product, whereby the sponsor acts as an originator and asset manager rather than as an obligor. This could expose investors to the sponsors' fiduciary risk rather than their credit risk, and may cause sukuk to morph away from being fixed-income instruments.



What Comes Next

The adoption of the standard could cause a decline in sukuk issuance. If adopted as proposed, Sharia Standard 62 will, in our view, result in the sukuk market shifting away from structures in which the sukuk sponsors' contractual obligations underpin their repayments, to structures in which the underlying assets have a more prominent role.

Notwithstanding the fact that issuers will have more time to adjust to the new requirements, investors will likely face new risks relating to asset performance and value.

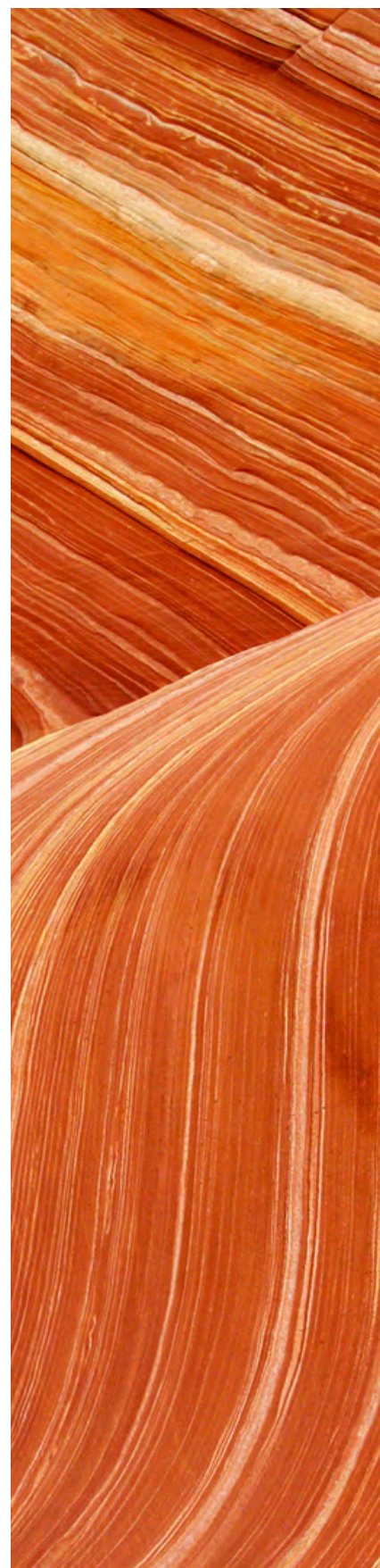
We continue to believe that if the standard is adopted as proposed, some investors and issuers may choose alternatives to the sukuk market, as issuing sukuk might become more onerous from a risk/reward perspective. This could also encourage some adopters to transition away from the standards if their ability to tap the capital markets is significantly restricted.



Related Research

- [Sukuk Market: Strong Performance Set To Continue In 2025](#), Jan. 13, 2025
- [Islamic Finance 2024-2025: Resilient Growth Anticipated Despite Missed Opportunities](#), April 29, 2024

This report does not constitute a rating action.



Takaful

Islamic Insurers In The Gulf Cooperation Council Are On Track To Report A Significant Earnings Decline In 2025



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Key Takeaways

- Islamic and Takaful insurers in the Gulf Cooperation Council (GCC) region continue to benefit from favorable growth prospects, and we therefore expect 2025 to be another year with solid top-line growth.
- However, heightened competition in motor and medical lines, primarily in Saudi Arabia, the largest Islamic insurance market in the region, will likely weigh on overall earnings in 2025.
- The top and bottom lines of insurers in the United Arab Emirates (UAE) will likely benefit from rate adjustments in motor lines following the floods in early 2024, but most other markets could see earnings decline if current underwriting rates for motor and medical business are maintained.
- S&P Global Ratings projects that overall credit conditions for Islamic insurers will remain relatively stable over the next 12 months, although we expect that some loss-making players will continue to face challenges relating to solvency and other regulatory demands, potentially leading them to explore mergers and acquisitions or seek to raise capital to address their needs.

The Islamic insurance sector in the GCC will continue to benefit from positive growth prospects in 2025 and 2026. Key growth drivers will include ongoing investments in infrastructure projects, population growth, and regulatory initiatives. However, if current underwriting rates for motor and medical business are maintained, increasing competition and declining investment returns (stemming from a gradual decline in interest rates and potentially more volatile capital markets as a result of global trade tensions) may put pressure on the industry's earnings in 2025 and 2026.

Geopolitical risk remains high. While this is not our base case, a flare-up in the conflict between Israel and Iran, along with a regional escalation, could negatively affect business sentiment across the broader Middle East, including the GCC region. This could diminish growth prospects and adversely affect GCC insurers' investment portfolios.

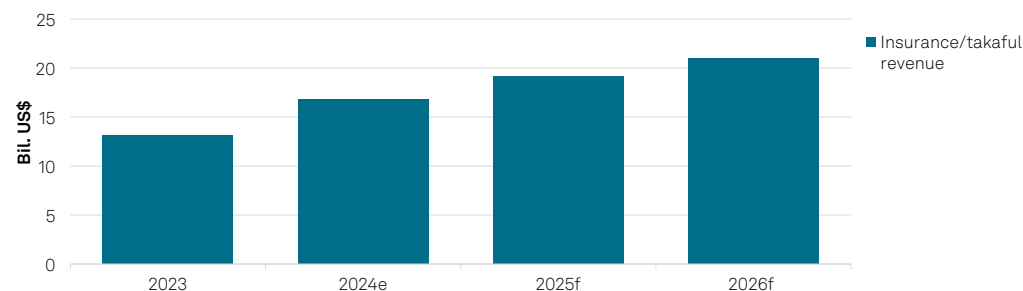
Consolidation and capital-raising remain prominent topics in the industry. Although we anticipate that overall credit conditions for Islamic insurers will remain stable over the next year, the need for further consolidation and capital-raising will likely persist, as many smaller and mid-sized Islamic insurers continue to report relatively weak earnings and struggle to meet regulatory demands.

The GCC regional Islamic insurance sector is projected to grow by approximately 10% annually in 2025 and 2026. The Saudi market is expected to remain one of the fastest-growing markets in the region due to its Vision 2030 initiatives, driving increased insurance demand from infrastructure projects, population expansion, and regulatory changes. Islamic insurance expanded substantially in the GCC over the past five years with growth rates of 24%-28% in 2022 and 2023.



Chart 1

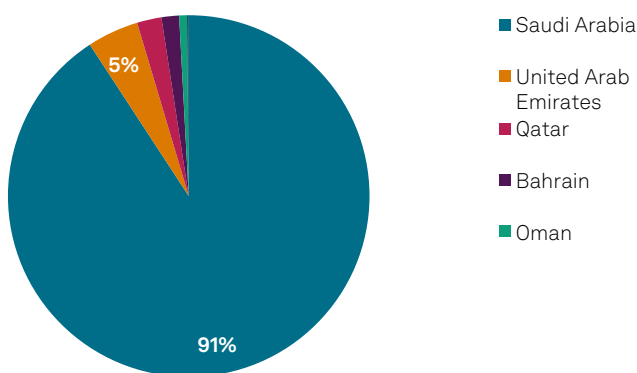
Revenue growth of the Islamic insurance industry in the GCC, 2023-2026f



GCC--Gulf Cooperation Council. Source: S&P Global Ratings.
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Chart 2

Estimated insurance/takaful revenue in the Islamic insurance in the GCC by country in 2024



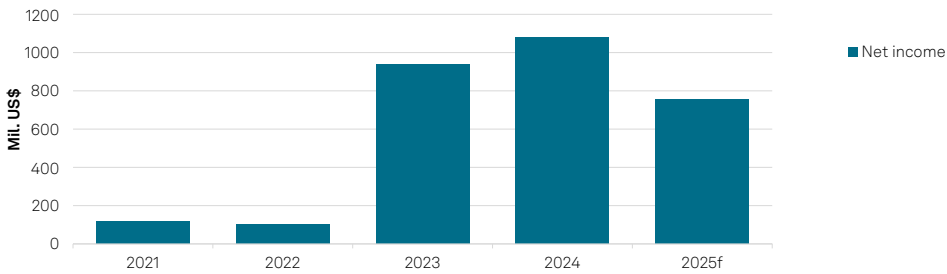
GCC--Gulf Cooperation Council. Source: S&P Global Ratings.
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Outside of Saudi Arabia, GCC Islamic insurers' revenue growth was approximately 13%, compared with 14% in Saudi Arabia. We anticipate more moderate growth for the sector in 2025, largely due to increased competition in the motor and medical insurance segment. Data from Saudi Arabia indicates that gross written premiums in the motor sector, which accounts for about 18% of total premium income, fell by nearly 3%, while gross claims paid rose by approximately 28% in 2024. We also see pressure on motor rates in other markets in the GCC, with the exception of the UAE, where rates have increased significantly following the floods in early 2024.

Results for the first half of 2025 indicate that net profits for GCC Islamic insurers could experience a significant decline this year, following record results in 2024. The aggregate net profit for the sector rose to approximately \$1.1 billion in 2024, up from about \$940 million in 2023, primarily driven by the Saudi market, where net earnings increased to around \$960 million in 2024 from approximately \$853 million in 2023. Cumulative earnings for Islamic insurers in the region outside of Saudi Arabia also saw a substantial improvement, rising to over \$120 million in 2024 from about \$87 million in 2023. However, net earnings for the sector in the first half of 2025 have declined by 35% year on year, largely due to a 40% drop in profits in the Saudi market and weaker earnings across other regional markets, mainly attributed to heightened competition in motor and medical lines, as well as a decline in investment returns.



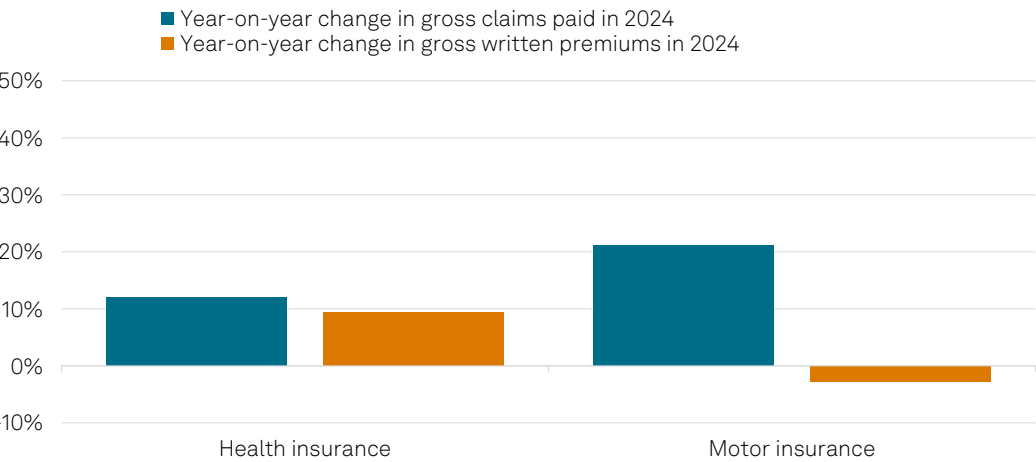
Chart 3
Net income in the Islamic insurance industry in the GCC, 2021-2025f



GCC--Gulf Cooperation Council. Source: S&P Global Ratings.
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Cyclicality in motor insurance, characterized by fluctuating rates, continues to pose a significant challenge for many insurers. In 2023, underwriting results improved due to rate adjustments across various lines in Saudi Arabia and the government's efforts to reduce the number of uninsured vehicles. However, the landscape shifted in 2024 with the introduction of no-claims and other discounts, as well as more intense competition. In 2024, gross claims paid outpaced gross written premium growth in the two largest lines--medical and motor--which together contributed about 74% of the total gross written premiums in the Saudi market, (see chart 3), ultimately resulting in weaker earnings.

Chart 4
Gross paid claims outpaced gross premium growth in 2024



GCC--Gulf Cooperation Council. Source: S&P Global Ratings.
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We anticipate that credit ratings for GCC Islamic insurers will remain largely stable over the next 12 months, because most rated insurers are well capitalized. Total shareholder equity in the sector in the region rose to approximately \$8.5 billion in 2024, from \$7.5 billion in 2023, driven by profitable earnings and several capital increases. That said, we expect to see some weakening credit conditions among loss-making players. In our view, the primary risks to credit conditions for both Islamic and conventional insurers in the GCC region include:

- Increased competition, which, combined with weaker investment returns, could negatively affect earnings and capital buffers; and...
- Rapidly deteriorating geopolitical conditions in the region, although we do not currently expect this, which could impair revenue growth and increase investment volatility for GCC Islamic and conventional insurers alike.

While global tariff disputes have largely left GCC economies and insurers unaffected, we believe that ongoing volatility in capital markets could significantly impact insurers' earnings if trade disputes escalate. However, most insurers we rate maintain capital buffers that are sufficiently robust to endure temporary fluctuations in capital markets.

Intense competition and rising regulatory demands have already resulted in several mergers, with more anticipated over the coming 12 months. Consolidation is particularly evident among smaller and midsize players in Saudi Arabia and the UAE, as economies of scale become more important. We believe that consolidation will remain a hot topic in the industry, as many players are wrestling with weak earnings. This trend persists in Saudi Arabia, where, excluding the top three insurers, the remaining 24 listed insurers collectively reported a loss of approximately \$83 million, compared with a profit of about \$139 million during the same period in 2024. We also believe that thin capital buffers, and increasing regulatory and solvency capital requirements, will continue to drive consolidation in the sector.



Sukuk

Methodology For Rating Sukuk



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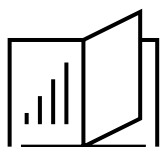
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(Editor's note: On July 18, 2024, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)



1

This article presents S&P Global Ratings' methodology for assigning issue credit ratings to sukuk (trust certificates). These criteria explain how we rate sukuk with contractual commitments from their respective sponsor. The main changes in the criteria provide further transparency on the conditions under which we rate sukuk at the same level as the sponsor's rating, as well as identify more clearly cases where additional risks can affect sukuk ratings.

2

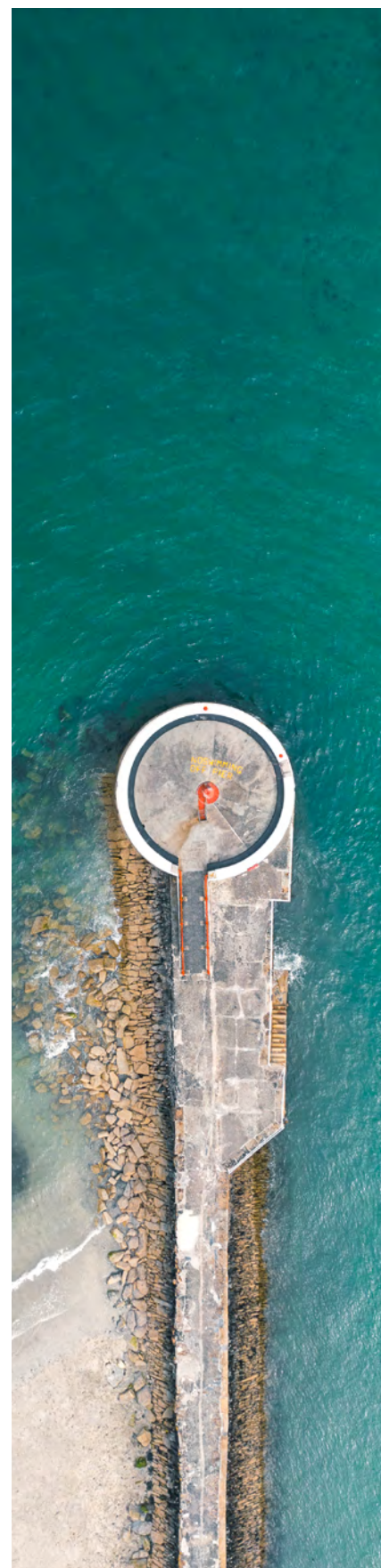
Sukuk that S&P Global Ratings rates under these criteria provide for contractual commitments by their sponsor to make certain payments that, together with cash flow derived from the underlying assets (if any), ultimately cover the instrument's periodic distribution and principal amounts. The terms and conditions of sukuk that S&P Global Ratings rates generally provide for early dissolution and redemption in case the cash flows from the sponsor and the underlying assets do not fully cover the periodic distribution amounts and payment of one periodic distribution amount is missed. This is funded through the undertaking of the sponsor to repurchase the underlying assets or an indemnity from the sponsor, at least equal to the sum of the accrued periodic distribution amount and the principal. S&P Global Ratings treats the sponsor's contractual payment obligations under a sukuk transaction toward the issuing special-purpose vehicle (the special-purpose vehicle (SPV) or the issuer) as financial obligations, the failure to meet any of which leads to a 'D' or 'SD' issuer credit rating on the sponsor, indicating default or selective default.

3

These criteria are consistent with "[Principles Of Credit Ratings](#)," published on Feb. 16, 2011. When rating sukuk, S&P Global Ratings does not express an opinion on the transaction's compliance with Sharia.

Sukuk Overview

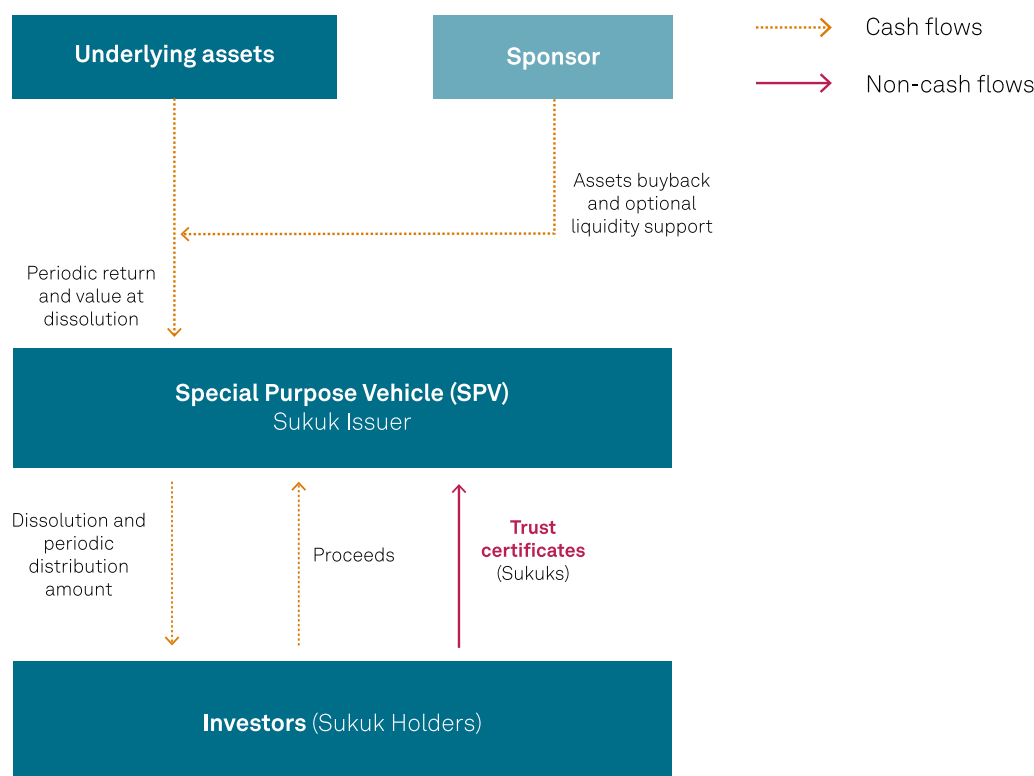
Sukuk are trust certificates usually issued by a special-purpose vehicle (SPV or the issuer), the proceeds of which are, generally, on-lent to a corporate, financial institution, insurance company, sovereign, or local or regional government (the sponsor), for the purpose of raising funding according to Islamic principles. Sukuk are issued on the basis of one or more Islamic contracts (ijara, murabaha, wakala, etc.), reflecting either investment or financing contracts (see the chart below for example of sukuk structure, and for definitions of the different kinds of Islamic contracts, see "Glossary Of Islamic Finance Terms: August 2015 Update," published Aug. 10, 2015).



Sukuk usually involve the transfer of an asset or a pool of underlying assets or beneficial interests in these assets to an SPV, which issues the trust certificates. Generally, the return on these underlying assets serves as a basis for the payment of periodic profit distribution to sukuk holders. To delink the sukuk's credit quality from the performance of the underlying assets, sukuk sponsors have so far typically undertaken contractual payment obligations to the sukuk issuer to provide it with the necessary funds to fulfill its financial obligations toward investors. While this is the most common approach, we have seen cases where the repayment of the sukuk is solely based on the underlying assets, therefore mimicking the characteristics of a structured or project finance transaction.

We note that under some sukuk structures, the sponsor's contractual payment obligations cover only the principal and last accrued periodic distribution under an early dissolution event, but not the ongoing periodic distribution. Under this type of structure, the sukuk will pay periodic distribution amounts as long as the underlying assets generate sufficient revenues or the sponsor decides to make equivalent payments to the issuing SPV. In case of shortfall, early dissolution is typically triggered, and the sponsor is obliged to make payments to the issuing SPV that enables it to pay any accrued periodic distribution amount and repay the sukuk principal. An early dissolution could require the consent of a certain minimal share of investors, to prevent the sponsor from deliberately triggering dissolution in case it desires to refinance its sukuk.

A simplified example of a Sukuk structure



Source: Standard & Poor's 2015



I. SCOPE OF THE CRITERIA

4

The criteria apply globally to sukuk that directly or indirectly contractually oblige the sponsor to make payments to the issuer that ensure full and timely payments of principal and of periodic distributions (all of them, or in case of early dissolution, the last one due before that event), as we define timeliness in “[S&P Global Ratings Definitions](#)” (see “Payment Timeliness Standards” in appendix). The sponsor can be a sovereign, a local or regional government, a corporate, a financial institution, or an insurer. The criteria do not apply to sukuk with two or more sponsors. If not ratable under these criteria, we may potentially rate sukuk according to criteria that pertain to the type of underlying assets.

II. SUMMARY OF THE CRITERIA

5

For long-term sukuk: We rate sukuk with an issue credit rating at the same level as the sponsor’s senior unsecured rating, if it meets the five conditions set out in paragraph 9. We rate the sukuk at the level of the sponsor’s financial obligations with the same level of seniority in accordance with paragraph 25 when the sponsor’s contractual payment obligations do not rank *pari passu* with its senior unsecured financial obligations, but the sukuk meet the four conditions other than condition B in paragraph 9. For sukuk that we consider short-term in their relevant market, we would apply the sponsor’s short-term issuer credit rating, if it meets the same four other conditions set out in paragraph 9. For both long-term and short-term sukuk, if we assess certain risks as non-remote, we may assign an issue credit rating on the sukuk that is different from the sponsor’s rating, according to paragraphs 22 or 24.

6

The issue credit rating on the sukuk--whether foreign currency or local currency--depends on the denomination of the sukuk’s periodic distributions and principal, and in turn, on the sponsor’s foreign or local currency ratings. We assign a ‘D’ or ‘SD’ issuer credit rating (ICR) on a sponsor if the issuer fails to pay on the sukuk’s periodic distributions and principal, and the sponsor has failed to fulfill, in amount or timeliness, one of its payment obligations toward the issuer under the sukuk’s terms and conditions.



III. METHODOLOGY

7

We rate a long-term sukuk (for short-term sukuk, see paragraph 10), and assign it an issue credit rating at the same level as the sponsor's senior unsecured rating, if the next five conditions (A-E) are met:

A.) The contractual payment obligations of the sponsor to the issuer are sufficient for full and timely periodic distributions and final payments of principal (on the scheduled dissolution date or in case of early dissolution)

B.) The sponsor's contractual payment obligations rank pari passu with the sponsor's other senior unsecured financial obligations (if they do not, but the other four conditions are met, see paragraphs 10 and 25).

C.) The sponsor's contractual payment obligations are irrevocable;

D.) The sponsor commits to fully and unconditionally pay all foreseeable costs of the issuer including taxes and costs related to the trustee, service agent, and investment manager through the life of the transaction, in a timely way, so as not to weaken the issuer's ability to meet all payments due in a timely way;

E.) We assess as remote the risks that conditions, such as those mentioned in paragraphs 16 to 20, jeopardize full and timely payments (as defined by our criteria, see paragraph 12). If we believe these risks are non-remote, we may assign an issue credit rating on the sukuk that is different from the equivalent sponsor issue credit rating according to paragraphs 22 or 24.

8

We rate the sukuk at the level of the sponsor's financial obligations with the same level of seniority in accordance with paragraph 25 when the sponsor's contractual payment obligations do not rank pari passu with its senior unsecured financial obligations, and the four other conditions in paragraph 9 are met. We then adjust downward the rating caps in paragraph 22 by the difference in notches between the junior and senior unsecured ratings. For example, a bank sponsor's subordinated sukuk would be capped at 'BBB-', not 'BBB' under paragraph 22.B.1. We generally assign short-term ratings to sukuk that we consider short-term in their relevant market, if the same four other conditions in paragraph 9 are met. We apply the sponsor's short-term issuer credit rating regardless of whether the sponsor's contractual payment obligations rank pari passu with its senior unsecured financial obligations, since we do not distinguish between senior and subordinated debt on our short-term rating scale.



9

We treat the payment obligations of a sukuk's sponsor toward the issuer as financial obligations. Thus, we assign a 'D' or 'SD' issuer credit rating (ICR) on a sponsor if the issuer fails to pay on the sukuk's periodic distributions or principal, and the sponsor has failed to fulfill, in amount or timeliness, one of its payment obligations toward the SPV under the sukuk's terms and conditions. By contrast, under the provisions of paragraph 22 the rating on the sukuk may be different from the rating on the sponsor.

10

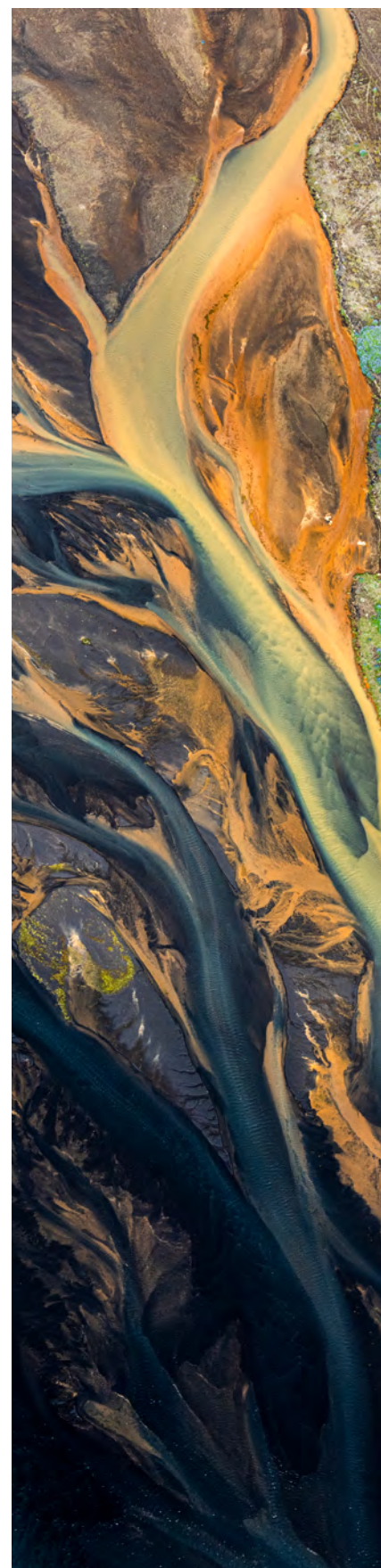
We define timeliness with respect to payments to sukuk holders in "S&P Global Ratings Definitions" (see "Payment Timeliness Standards" in appendix). For a long-term sukuk that has no stated grace period, or a stated grace period of one to five business days, timely payment means no later than five business days after the due date for payment. For a long-term sukuk that has a stated grace period of more than five business days, timely payment means no later than the earlier of the stated grace period or 30 calendar days. For short-term sukuk, when there is no stated grace period, we do not impute any grace period; when there is a stated grace period, timely payment means no later than the earlier of the stated grace period or five business days after the due date for payment.

11

The sukuk that are within the scope of these criteria include two types of instruments: Under the first type, the sponsor's payment obligations to the issuer mirror in timing and amount the issuer's payment obligations to the sukuk holders. Thus, payments made by the sponsor, fully and in a timely fashion, cover payments by the issuer to sukuk holders. These sukuk instruments are generally structured using murabaha or ijara contracts, where the sponsor contractually commits to timely and sufficient murabaha or ijara charges, so that the issuer can service timely periodic distribution amounts, and the sponsor commits to buy back the assets at a price at least equal to the sukuk's principal and any accrued periodic distribution amount at maturity or upon early dissolution.

12

In the second type of sukuk within the scope of these criteria, the sponsor's contractual obligations do not cover periodic distribution amounts. Such sukuk are ratable only if, under its terms and conditions, the sukuk holders (or their delegate) have the right to demand, in case of a non-full or non-timely payment of one periodic distribution amount, early payment of the principal and any accrued periodic distribution amount from the sponsor in a timely way, as our criteria define timeliness (see paragraph 12 above). In our understanding, to date rated sukuk of this type have all paid all periodic distributions on a timely basis. We have observed in the terms and conditions of certain sukuk that early payment is subject to the request of a certain minimal share of investors. In our view, such a requirement of a minimal share of investors doesn't impact our opinion on the creditworthiness of the sukuk.



13

We rate both types of sukuk referred to in paragraphs 13 and 14 at the level of the sponsor's senior unsecured rating, subject to potential rating differentiation for conditionality (as described in paragraph 17 and the section below, "Treatment Of Total/Partial Loss Events") or subordination (as described in the section below, "Treatment Of Contractual Or Structural Subordination"). We assign a foreign or local currency rating, depending on whether the currency in which the sukuk's periodic distributions and principal are denominated in foreign or local currency, respectively.

14

If, after publication of these criteria, conditionality or other types of limitations are applied to sponsor obligations in sukuk issuance, where we rate such sukuk we expect to explain how we apply the criteria to these specific circumstances.

15

We have observed in the terms and conditions of certain sukuk one type of conditionality that in our view could lead to situations where the sponsor may perform on its contractual obligations but where the sukuk's periodic distributions or principal repayment are not full and timely. For example, we think that such conditionality could occur in case the terms and conditions require that assets be insured, if a "total loss event" (TLE) or a "partial loss event" (PLE) occur, and an insurance payment is not made or, if made, is insufficient or late. For the definition of TLE/PLE, see the "Treatment Of Total/Partial Loss Events" section.

16

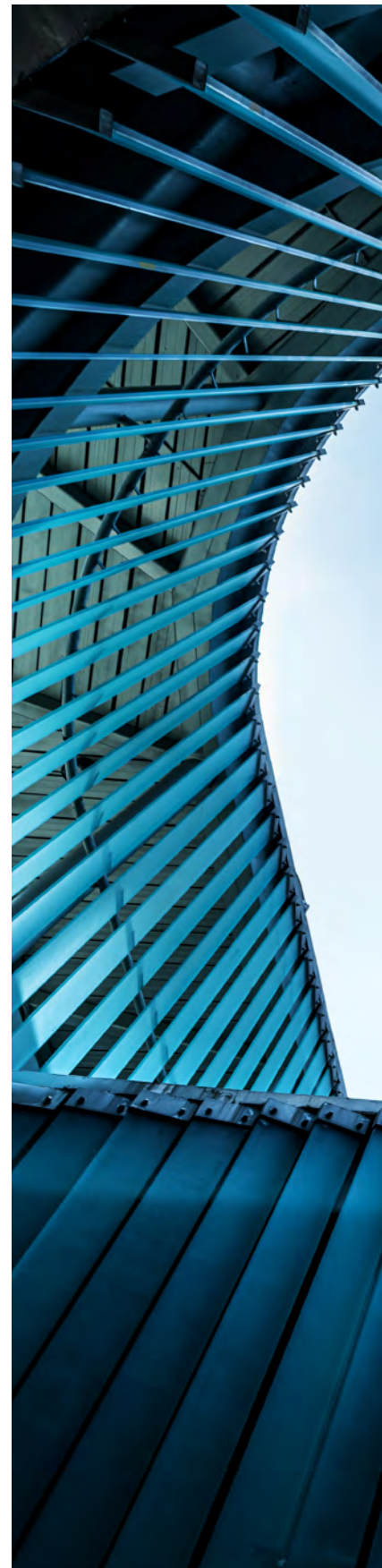
The sukuk is rated at the sponsor's senior unsecured rating level for a remote risk of TLE/PLE, or if we assess the risk of less than full or non-timely payment to sukuk holders because of TLE/PLE, as remote subject to potential subordination considerations, as described in the section below, "Treatment Of Contractual Or Structural Subordination."

17

In case of actual occurrence of a TLE/PLE, if we are of the view that under the sukuk's terms and conditions, the sponsor is obliged to pay shortfalls between the insurance proceeds--if any--and principal amount and accrued periodic distribution, and if such payment is deferred as per the terms and conditions of the instrument, we evaluate such a delay under "S&P Global Ratings Definitions" (see "Issue Credit Ratings--Cumulative Deferral On Hybrid Capital And Similar Instruments" in appendix). According to these definitions, temporary deferrals, as the terms and conditions of the instrument define them, will not lead to a 'D' issue credit rating as long as we expect repayment of such deferred amounts within one year from the original payment date.

18

Consequently, in conjunction with the occurrence of a TLE/PLE, acceleration of principal and accrued periodic distribution for sukuk whose terms and conditions require repayment of such accelerated amounts within one year or less (for example, 41 days), and when we expect such payment according to these terms, do not lead to a 'D' issue credit rating on the sukuk.



IV.1. Treatment Of Total/Partial Loss Events

In determining the TLE/PLE remoteness, we examine the definition of the TLE/PLE in the sukuk terms and conditions and the nature of the underlying assets. In assessing TLE/PLE remoteness, we typically use the specific definition of the TLE/PLE, the nature of the assets, as well as analytical judgement. If the TLE/PLE definition involves the physical destruction of the underlying assets, we would typically assess the risk as remote, depending on the geographical dispersion or concentration of the assets, geopolitical risks such as war, terrorism, or risk of conflict, and natural catastrophe risks, both in the jurisdiction(s) where the assets are located and within the timeframe of the transaction. If the TLE/PLE definition involves nonphysical loss, such as nationalization or confiscation risks, we would typically assess the risk as remote, unless we assess that the government demonstrates a tendency to nationalize that could directly or indirectly affect the sukuk's underlying assets within the timeframe of the transaction.

The table below includes guidance on how we assess TLE/PLE remoteness depending on the definition of the TLE/PLE and the nature of asset(s).

Assessment Of TLE/PLE Remoteness And Definition		
Asset/TLE-PLE definition	Physical TLE-PLE	Nonphysical TLE-PLE
Single asset	Generally remote, unless the asset is located in a war zone, an area at risk of conflict, or a zone subject to natural catastrophe risks that could affect the underlying asset within the timeframe of the transaction	Generally remote, unless we assess that the government demonstrates a tendency to nationalize that could apply to the asset within the timeframe of the transaction
Portfolio of assets in a single jurisdiction	Generally remote, unless the assets are located in a war zone, an area at risk of conflict, or a zone subject to natural catastrophe risks that could affect the underlying assets within the timeframe of the transaction	Generally remote, unless we assess that the government demonstrates a tendency to nationalize that could apply to the assets within the timeframe of the transaction
Portfolio of assets in multiple jurisdictions	Generally remote	Generally remote
TLE--Total loss event. PLE--Partial loss event.		

Physical TLE/PLE. We generally define a physical TLE as the destruction of, or damage to the whole of, the asset(s), or any event or occurrence that renders the whole of the asset(s) permanently unfit for any economic use, and the repair or remedial work in respect of the asset(s) is wholly uneconomical.

We generally define a physical PLE as the destruction of one or more of the assets in a manner that substantially deprives the issuer from the benefits expected from the whole assets. **Nonphysical TLE/PLE.** We generally define a nonphysical TLE as the expropriation, nationalization, requisition, confiscation, attachment, or sequestration of the asset(s). We generally define a nonphysical PLE as the expropriation, nationalization, requisition, confiscation, attachment, or sequestration of one or more of the assets in a manner that substantially deprives the issuer from the benefits expected from the whole assets.



19

If we consider a TLE/PLE occurrence to be remote, we rate the sukuk at the same level as the sponsor's senior unsecured rating (subject to paragraph 25) even if we do not believe that the sponsor is obliged to make up shortfalls between the insurance proceeds--if any--and the principal amount and the accrued periodic distribution.

20

If, when rating a sukuk for the first time, we determine that a TLE/PLE is non-remote, or if our assessment of the TLE/PLE likelihood changes after having first rated a sukuk, and the sponsor's contractual obligations do not provide for the repayment of the principal and periodic distribution to sukuk holders in case of a TLE/PLE, there are three possible outcomes (subject to paragraph 25):

A.) The sponsor's ICR incorporates the TLE/PLE and consequently the sukuk issue credit rating is at the same level as the sponsor's senior unsecured rating;

B.) The sponsor's ICR doesn't incorporate the TLE/PLE, and the sukuk issue credit rating is:

1. Capped at 'BBB' if we consider that the TLE/PLE is non-remote but do not expect it to happen in the next three years.
2. Capped at 'BB' or 'B', depending on the likelihood and timing of the TLE/PLE, if we believe the risk of the TLE/PLE occurring is higher than in 22.B.1. We rate the sukuk no higher than 'BB' if we believe that the TLE/PLE, while remote over the next year, could occur in the following two years. 'B' would be the highest rating consistent with an event that we believe is remote over the next year, but we believe may be non-remote in the following year.

C.) A combination of outcomes A and B whereby, perceiving a higher risk that the events corresponding to a TLE/PLE occur, we lower the sponsor's ICR and lower even further the sukuk issue credit rating as per 22.B. The sponsor's senior unsecured rating and the sukuk issue credit rating can differ.

21

We understand that typically the sponsor can substitute some of the underlying assets under certain conditions such as a PLE. Generally in our experience the terms and conditions of sukuk require that the total value of the new assets is at least equal to the value of the substituted assets. If this leads us to assess the likelihood of a TLE/PLE as non-remote that we previously assessed as remote, we derive the sukuk issue credit rating using the approach described in paragraph 22.

22

"Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012, apply and prevail over these criteria. For example, if and when a TLE/PLE occurs and we believe that a sukuk instrument is currently vulnerable to non-payment and depends on favorable business, financial, and economic conditions to meet its financial commitments, we expect to rate the sukuk 'CCC+' or lower (minus any notching applicable under the next paragraph, floored at 'C').



IV.2. Treatment Of Contractual Or Structural Subordination

23

We equalize the issue credit rating of the sukuk with the ratings that we apply to the sponsor's financial obligations with the same level of seniority. To reflect contractual or structural subordination, we apply the criteria that are relevant to the sponsor's industry (for example, bank criteria if the sponsor is a bank) in determining the notching of the sukuk issue credit rating relative to the sponsor's senior unsecured issue credit rating or to the sponsor's issuer credit rating, and floor the sukuk rating at 'C' unless 'D' applies.

V. GLOSSARY

24

Sponsor: a legal entity that is directly or indirectly contractually obliged to make certain payments to the issuer.

25

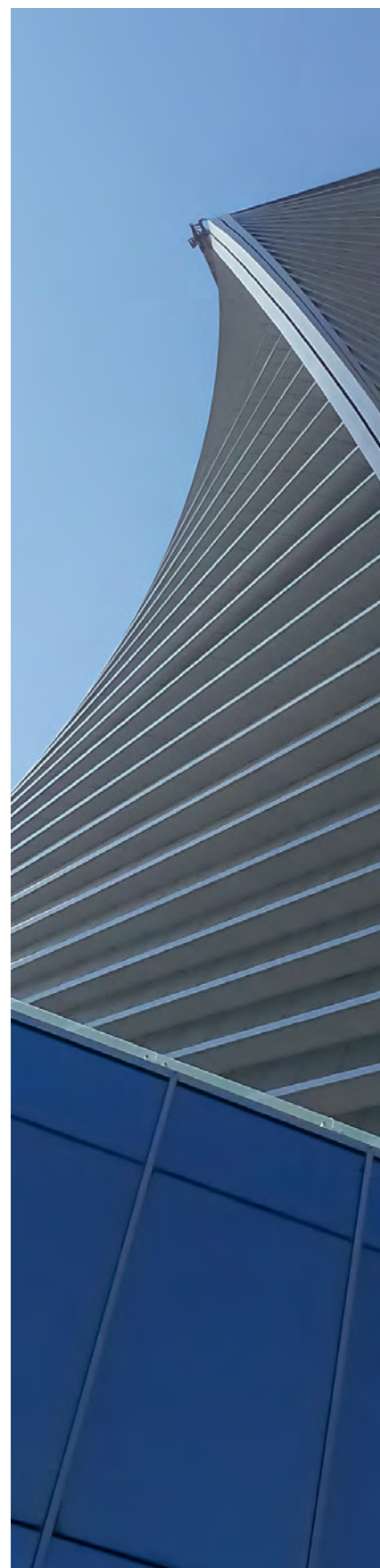
Underlying assets: assets used for the purpose of structuring the sukuk.

VI. REVISIONS AND UPDATES

This article was originally published on Jan. 19, 2015.

Changes introduced after original publication:

- Following our periodic review completed on Jan. 18, 2017, we updated the contact information and related research and clarified the chart.
- Following our periodic review completed on Jan. 17, 2018, we updated the related research.
- **On May 2, 2019**, we republished this criteria article to make nonmaterial changes reflecting the publication of "Guidance: Methodology For Rating Sukuk." We moved the definition of a total loss event (TLE) from paragraph 28 to the guidance. We also removed text describing the additional factors we may consider when assessing the risks related to a TLE from paragraph 21, as these factors are now detailed in the guidance, and we removed examples from paragraphs 22.B.1 and 22.B.2. Finally, we updated the contact information and criteria references.
- **On March 9, 2020**, we republished this criteria article to make nonmaterial changes to update criteria references.
- **On July 27, 2020**, we republished this criteria article to make nonmaterial changes to clarify the definition of short-term sukuk in paragraphs 5 and 10, and to align that with our general approach to short-term ratings.
- **On March 4, 2021**, we republished this criteria article to make nonmaterial changes to update criteria references.
- **On March 7, 2022**, we republished this criteria article to make nonmaterial changes by adding new content in the "IV.1. Treatment Of Total Loss Events" section. As announced in "Evolution Of The Methodologies Framework: Introducing Sector And Industry



Variables Report,” published Oct. 1, 2021, we are phasing out guidance documents over time. As part of that process, we have archived “Guidance: Methodology For Rating Sukuk,” published on May 2, 2019, and included its content in the “IV.1. Treatment Of Total Loss Events” section of the criteria without any substantive changes. We also added a related research and updated contacts.

- **On Jan. 12, 2023**, we republished this criteria article to make nonmaterial changes in paragraph 15, paragraphs 17-20, and the “IV.1. Treatment Of Total/Partial Loss Events” section to add the definition of “partial loss event” and treatment of PLE, which is similar to the treatment of TLE given the current definition of PLE. This nonmaterial change reflects the changes in the legal documents post the adoption of the Accounting and Auditing Organization for the Islamic Financial Institutions Standard 59. We also updated related publications.
- **On July 18, 2024**, we republished this criteria article to make nonmaterial changes to update criteria references.



Related criteria

- [National And Regional Scale Credit Ratings Methodology](#), June 8, 2023
- [Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [Criteria For Assigning ‘CCC+’, ‘CCC’, ‘CCC-’, And ‘CC’ Ratings](#), Oct. 1, 2012
- [Principles Of Credit Ratings](#), Feb. 16, 2011

Related Guidance

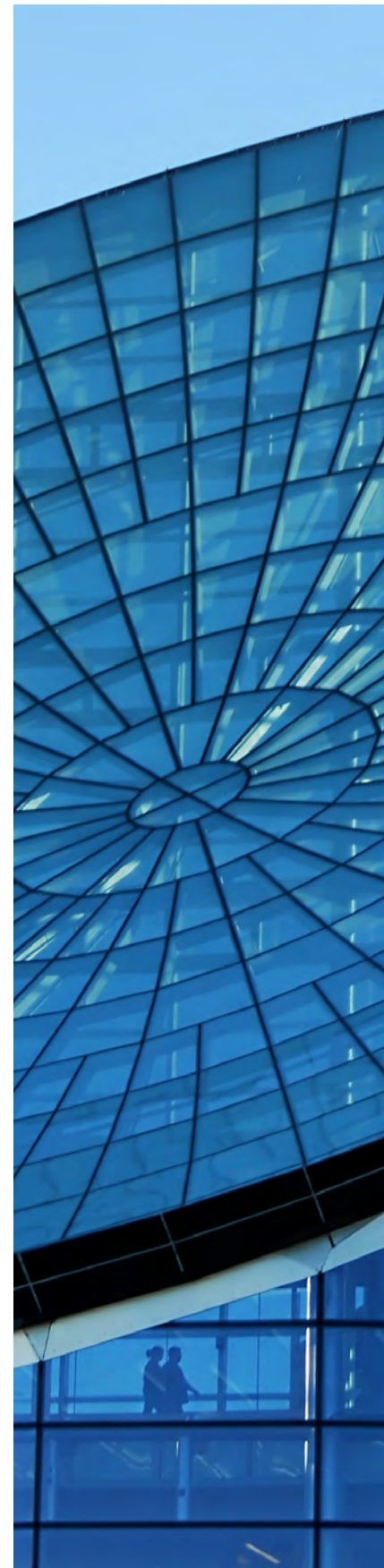
- [ARCHIVE: Guidance: Methodology For Rating Sukuk](#), May 2, 2019

Related Research

- [S&P Global Ratings Definitions](#), Nov. 10, 2021

This article is a Criteria article. Criteria are the published analytic framework for determining Credit Ratings. Criteria include fundamental factors, analytical principles, methodologies, and /or key assumptions that we use in the ratings process to produce our Credit Ratings. Criteria, like our Credit Ratings, are forward-looking in nature. Criteria are intended to help users of our Credit Ratings understand how S&P Global Ratings analysts generally approach the analysis of Issuers or Issues in a given sector. Criteria include those material methodological elements identified by S&P Global Ratings as being relevant to credit analysis. However, S&P Global Ratings recognizes that there are many unique factors / facts and circumstances that may potentially apply to the analysis of a given Issuer or Issue. Accordingly, S&P Global Ratings Criteria is not designed to provide an exhaustive list of all factors applied in our rating analyses. Analysts exercise analytic judgement in the application of Criteria through the Rating Committee process to arrive at rating determinations.

This report does not constitute a rating action.



Sukuk

Sovereign Brief: UAE's Domestic Debt Capital Market Gains Momentum



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This report does not constitute a rating action.

Abu Dhabi is readying to issue local currency debt as part of an ongoing effort to develop the United Arab Emirates' (UAE) domestic debt capital markets.

S&P Global Ratings expects that Abu Dhabi and the UAE federal government will issue more than \$8 billion of local currency debt this year to support the building of a domestic yield curve. Overall, we expect individual emirates and the UAE federal government to issue about \$18 billion of total debt in 2025, slightly down from \$19 billion in 2024 (see chart). About 55% of that will be used for refinancing or to roll over of maturing debt. Of the three emirates we rate--Abu Dhabi, Ras Al Khaimah, and Sharjah--we expect that only Sharjah will issue debt to meet a fiscal shortfall (we estimate its deficit will be 6.3% of GDP in 2025), while the others will maintain their surplus position.

Gross borrowing needs vary across individual Emirates

	Rating	Gross borrowing requirement*			
		Bil. \$		Percentage of respective GDP	
		2024	2025e	2024	2025e
Sharjah	BBB-/Negative/A-3	5.7	6	13.7	13.9
Ras Al Khaimah	A/Stable/A-1	0	1	0	7.5
Abu Dhabi	AA/Stable/A-1+	12.4	8.2	4.1	2.7
Dubai§	Not rated	0.2	0	0.2	0
UAE Federal Government†	Not Rated	1	2.7	0.2	0.5

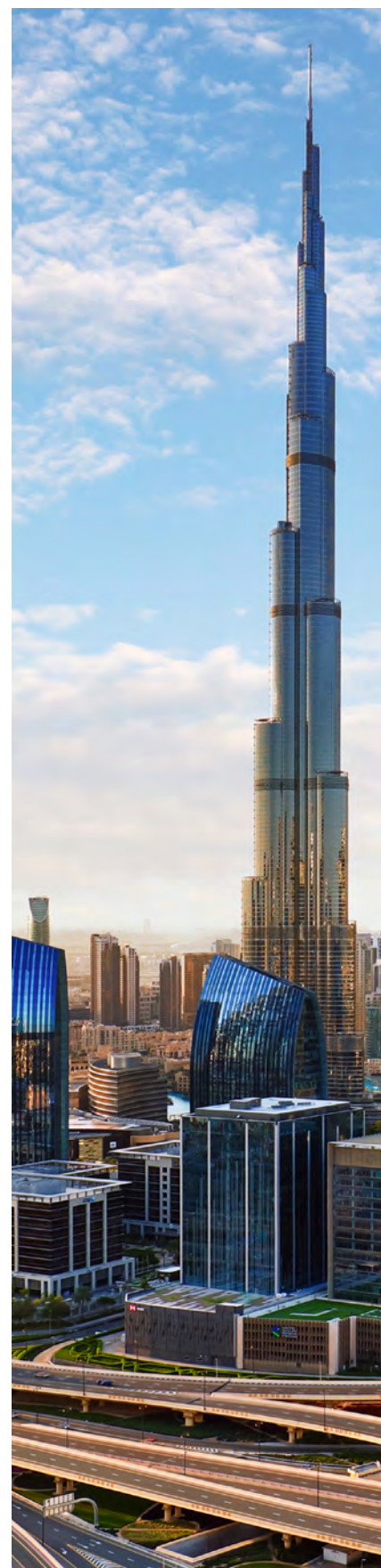
*Reflects fiscal deficits (where applicable), roll over of maturing debt, and other borrowing plans. § Based on publicly available data.† Based on unconsolidated and publicly available data for the UAE federal government. e--Estimate. Sources: National sources, S&P Global Ratings.

What's Happening

The UAE's domestic debt capital market remains relatively nascent, particularly with regards to local currency issuance, but it is growing. Since the UAE federal government began raising debt in 2021, it has issued about AED27 billion (\$7.3 billion) of treasury bonds and sukuk in local currency, equating to about 42% of total issuances. Sharjah also issued AED1 billion of long-term local currency sukuk in July 2024 and reissued its AED7 billion short-term sukuk certificate in May 2024. However, most of the emirates and federal government debt remains denominated in U.S. dollars and is held externally.

Why It Matters

Capital markets are volatile in an uncertain global environment, and reliance on international capital markets could expose some issuers to higher borrowing costs. Sharjah is particularly exposed in this regard. Its fiscal deficits will likely remain large, net government debt is about 50% of GDP, and its interest burden is around 30% of government revenues, one of the highest among our rated sovereigns. We note, however, that Sharjah's recent sukuk issuances were well received by the market.



The UAE's well-capitalized and liquid banks could provide funding should capital markets prove unsupportive. Banks have notably increased deposits over the past three years and continue to display comfortable loan-to-deposit ratios that should support strong lending growth in 2025. In a worst-case scenario of impaired access to capital markets and bank stress, we expect the UAE federal government, backed by Abu Dhabi, would provide extraordinary support to the emirates.

Despite lower oil prices, most of the emirates will maintain prudent fiscal policies and strong balance sheets. Much of the debt issuance is therefore likely to be opportunistic and market dependent. For example, we expect that Abu Dhabi could choose to repay some of its about \$6 billion of debt maturing this year. Dubai also continues to deleverage—the government repaid \$1.2 billion during the first three months of the year. Dubai could however issue more debt from 2026 to fund the expansion of the Al Maktoum International Airport and the renovation of the rainwater drainage network. Ras Al Khaimah issued a \$1 billion 10-year sukuk in March to refinance the same amount maturing that month. There are large upcoming tourism-related projects in the emirate, but we anticipate that these will be mostly funded by government-related entities (GREs), with contingent liabilities of the government remaining manageable.

What Comes Next

More regular domestic currency issuances by Abu Dhabi and the UAE federal government will help to build a domestic yield curve. This could be used in the pricing of issuance by banks and corporates and help smaller issuers access the capital markets, while diversifying the funding base. That said, we expect bank funding along with the access to international capital markets to remain the core funding sources for corporates in the near term.





Related Research

- [Emirate of Sharjah Outlook Revised To Negative On Rising Fiscal Risks; Ratings Affirmed At 'BBB-/A-3', March 21, 2025](#)
- [United Arab Emirates Banking Sector 2025 Outlook: Balancing Growth And Risks Amid Economic Expansion, Jan. 8, 2025](#)
- [Emirate of Abu Dhabi, Nov. 25, 2024](#)
- [Ras Al Khaimah Upgraded To 'A/A-1' On Stronger Growth Prospects And Resilient Fiscal Performance; Outlook Stable, Nov. 22, 2024](#)

This report does not constitute a rating action.



Sukuk

Alinma Sukuk Ltd



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Profile

\$500 mil.

trust certificate program assigned
'A-' rating.



Transaction Summary

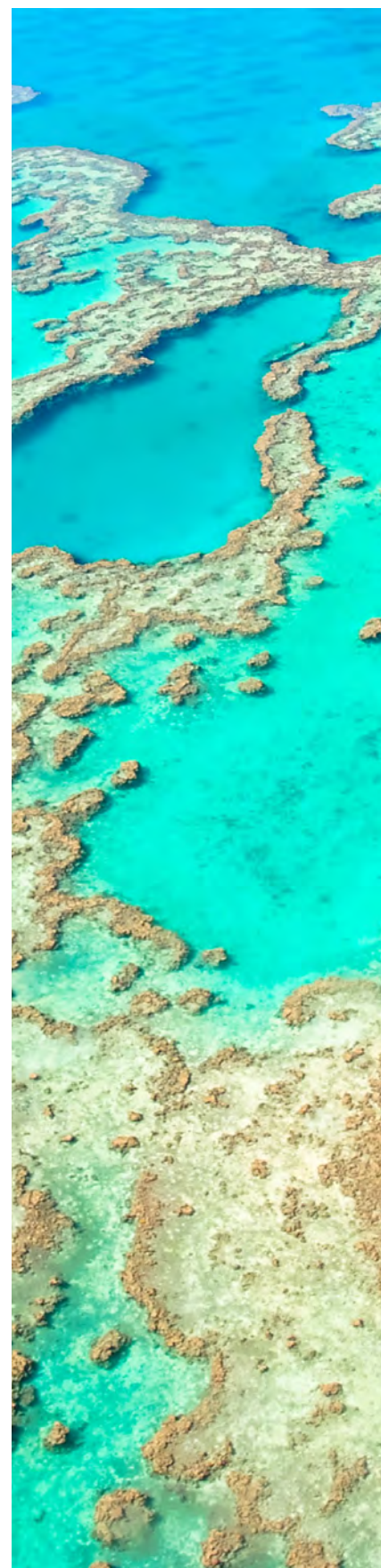
[Alinma Sukuk Ltd.](#) (Alinma Sukuk) is a limited liability company registered in the Cayman Islands with issued shares held in trust for charitable purposes by Walkers Fiduciary Ltd., established for the sole purpose of issuing Sharia-compliant securities. Alinma Sukuk will issue certificates based on, among other documents, a master trust deed, a purchase undertaking, a servicing agency agreement, and a master murabaha agreement. [Alinma Sukuk](#) will use at least 55% of the proceeds of the trust certificate issuance to purchase a portfolio of eligible assets from Alinma Bank (Alinma; A-/Stable/--), which will continue to administer them. Alinma Sukuk may use the other part of the proceeds to purchase commodities.

Income from the asset portfolio and murabaha profit installment amounts will fund the periodic distribution amounts. At maturity or early dissolution, Alinma will repurchase the asset portfolio from Alinma Sukuk for the full amount of the outstanding certificates, plus any unpaid periodic distribution amounts, plus any amounts payable in respect of any liquidity facility, plus any due but unpaid servicing agency liability amounts and any other amounts owed less the commodities deferred payment price to be paid under the master murabaha agreement.

Rationale

The rating on the program reflects the long-term issuer credit rating on Alinma because the legal documents fulfill the five conditions of our criteria for rating sukuk (see link to the criteria):

- Alinma 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 assets leading to an early dissolution of the sukuk.
- The obligations will rank pari passu with Alinma's other senior unsecured obligations.
- Alinma's obligations are irrevocable and unconditional.
- Alinma will undertake to cover all the costs related to the transaction through various obligations under the different contracts.
- There is no total or partial loss event risk defined in the legal documents. Any total or partial loss event at the level of any of the underlying assets renders them ineligible for the inclusion in this transaction.



We therefore equalize the rating on the program with the long-term issuer credit rating on Alinma. 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.

Transaction details	
Issuer and trustee	Alinma Sukuk Ltd.
Purchaser and service agent	Alinma Bank
Arranger	Alinma Investment Company and J.P. Morgan Securities PLC
Delegate	HSBC Bank PLC, United Kingdom
Principal paying agent	HSBC Bank PLC
Governing law	English law: All transaction documents, except, Saudi Arabia law: Master Purchase Agreements

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

We understand that Alinma Sukuk will use at least 55% of the proceeds from each trust certificate issuance to purchase a portfolio of eligible assets from Alinma that are either financing assets or other tangible assets, the required characteristics of which are defined in the master purchase agreement. Alinma will continue to administer the assets under the servicing agency agreement. Alinma Sukuk will use the remaining proceeds to purchase commodities, which will be sold to Alinma on a deferred payment basis. At the maturity of the transaction or upon the occurrence of an early dissolution event, Alinma will buy back the portfolio of assets from the issuer and pay the deferred payment price under the master murabaha agreement.

The yields generated by the pool of underlying assets--collected by Alinma as the servicing agent--and the murabaha profit amount paid by Alinma periodically 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, Alinma 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, Alinma may either provide Sharia-compliant funding to the Alinma Sukuk or procure Sharia-compliant funding from a third party--in each case in the amount required to ensure that there is no shortfall. We understand there is no legally binding obligation for Alinma to provide such a liquidity facility and therefore we do not factor it in our rating analysis. We instead base our rating on the scenario that if Alinma does not provide this support, it will lead to the early dissolution of the sukuk.



The certificates become immediately due and payable upon the delegate giving dissolution notice to Alinma. Such notice is given either at the sole discretion of the delegate, or if requested in writing by 20% of the holders of the sukuk, or if directed by an extraordinary resolution. If the payment takes longer than this stated grace period, we may downgrade the instrument to 'D' (default) and Alinma to 'SD' depending on our expectations of the timing of repayment.

The exercise price comprises, among others:

- From this would be subtracted the aggregate amounts of deferred payment price outstanding that have been paid into the transaction account in accordance with the terms of the master murabaha agreement.

The diagram illustrates the Alinma Sukuk structure, showing the flow of funds and obligations between the following entities:

- Alinma Bank** (Top)
- Alinma Sukuk Ltd.** (Middle)
- Certificate holders** (Bottom)

Key components and flows include:

- Agreements:**
 - Servicing agency agreement** (between Alinma Bank and Alinma Sukuk Ltd.)
 - Master murabaha agreement** (between Alinma Bank and Alinma Sukuk Ltd.)
 - Master trust deed** (between Alinma Sukuk Ltd. and Certificate holders)
- Flows and Obligations:**
 - 1. Income generated from asset portfolio*** (from Portfolio of underlying assets to Alinma Sukuk Ltd.)
 - 2. Instalment payment from commodity purchases** (from Portfolio of underlying assets to Alinma Sukuk Ltd.)
 - 3. Exercise price at dissolution** (from Alinma Sukuk Ltd. to Alinma Bank)
 - 4. Periodic distributions** (from Alinma Sukuk Ltd. to Certificate holders)
 - 5. Principal payment at dissolution** (from Alinma Sukuk Ltd. to Certificate holders)

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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%, Alinma, as the wakeel, shall take steps, in consultation with its Sharia 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 redemption of their certificates 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. The occurrence of a total or partial loss event at the level of any of the underlying assets renders them ineligible for inclusion in this transaction and triggers an obligation of replacement by Alinma.



Related criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Feb. 10, 2025
- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30, 2024
- [General Criteria: National And Regional Scale Credit Ratings Methodology](#), June 8, 2023
- [Criteria | Financial Institutions | General: Financial Institutions Rating Methodology](#), Dec. 9, 2021
- [Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions](#), 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: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Methodology For Rating Sukuk](#), Jan. 19, 2015

Related research

- [Alinma Sukuk Ltd.'s \\$500 Million Trust Certificate Program Rated 'A-'](#), May 22, 2025
- [Saudi Banks Can Manage Their External Debt Spike](#), April 30, 2025
- [Saudi Arabia Banking Sector Outlook 2025: Vision 2030 Momentum Continues](#), Jan. 20, 2025
- [Banking Industry Country Risk Assessment: Saudi Arabia](#), Dec. 6, 2024
- [Your Three Minutes In Saudi Vision 2030: Credit Implications For Banks And Corporates](#), May 2, 2024



Sukuk

Riyad Sukuk Ltd.



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Profile

\$3 bil.

Senior unsecured trust certificates program assigned 'A' rating.



Transaction Summary

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

Riyad Sukuk will issue certificates based on, among other documents, a master trust deed, a purchase undertaking, and a servicing agency agreement. Riyad Sukuk will use the proceeds of the trust certificate issuance to purchase a portfolio of eligible assets from [Riyad Bank](#) (A/Stable), which will continue to administer them.

Income from the asset portfolio will fund the periodic distribution amounts. At maturity or early dissolution, Riyad Bank will repurchase the asset portfolio from Riyad Sukuk for the full amount of the outstanding certificates, plus any unpaid periodic distribution amounts, plus any amounts payable in respect of any liquidity facility, and any other amounts owed.

Rationale

The rating on the program reflects the long-term issuer credit rating on Riyad Bank because the legal documents fulfill the five conditions of our criteria for rating sukuk (see "General Criteria: Methodology For Rating Sukuk," published on Jan. 19, 2015, on RatingsDirect):

- Riyad Bank 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 assets leading to an early dissolution of the sukuk.
- The obligations will rank pari passu with Riyad Bank's other senior unsecured obligations.
- Riyad Bank's obligations are irrevocable and unconditional.
- Riyad Bank will undertake to cover all the costs related to the transaction through various obligations under the different contracts.
- There is no total or partial loss event risk defined in the legal documents.



We therefore equalize the rating on the program with the long-term issuer credit rating on Riyad Bank. We base the rating on the sukuk program on the final documentation dated Feb. 11, 2020. 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.

Issuer and trustee		Riyad Sukuk Ltd.
Purchaser and service agent		Riyad Bank
Arranger		Riyad Capital, HSBC Bank PLC, Merrill Lynch International, and Standard Chartered Bank
Delegate		BNY Mellon Corporate Trustee Services Ltd., U.K.
Principal paying agent		The Bank of New York Mellon, London Branch
Governing law		English law: Purchase undertaking (except that Clause 4.2(ii), which is related to Tier 2 instruments, shall be governed by the laws and regulations of Saudi Arabia), Agency Agreement, Substitution Undertaking, Master Declaration of Trust, Amendment Agreement, Servicing Agency Agreement English law (except that Clause 8.2, which is related to Tier 2 instruments, shall be governed by the laws and regulations of Saudi Arabia), Amended and Restated Dealer Agreement. Saudi Arabia law: Master Purchase Agreement.

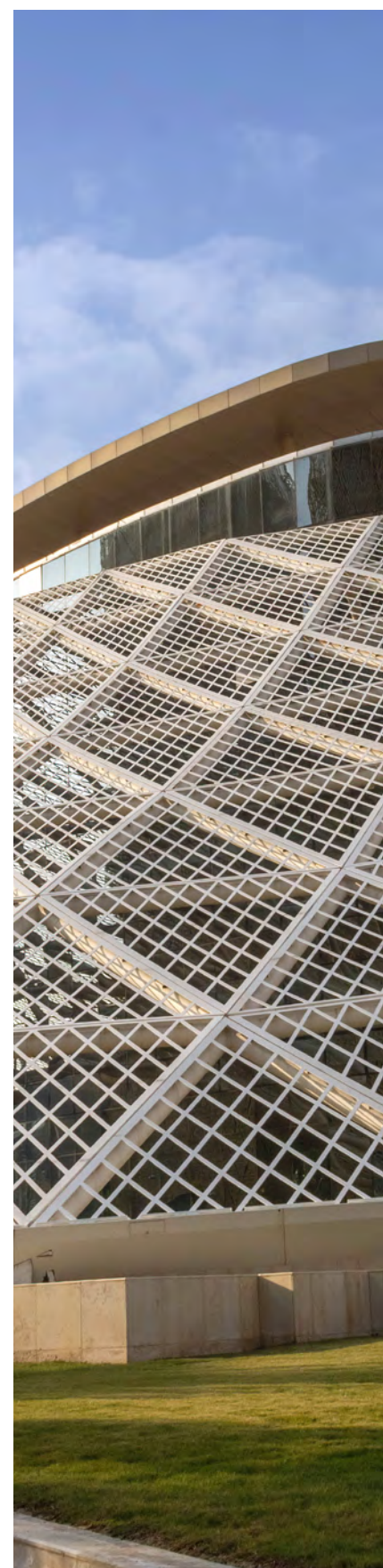
A sukuk structure that provides sufficient contractual obligations for full and timely repayment.

We understand that Riyad Sukuk will use the proceeds from the trust certificate issuance to purchase a portfolio of eligible assets from Riyad Bank, the characteristics of which are defined in the master purchase agreement. Riyad Bank will continue to administer the assets under the servicing agency agreement. At the maturity of the transaction or upon the occurrence of an early dissolution event, Riyad Bank will buy back the portfolio of assets from the issuer.

The yields generated by the pool of underlying assets--collected by Riyad Bank as the servicing agent will serve as the basis for the periodic distribution payments to investors. If the returns generated by the asset portfolio are insufficient on any periodic distribution date to fund the amount due to investors, Riyad Bank 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, Riyad Bank may either provide Sharia-compliant funding to the Riyad Sukuk or procure Sharia-compliant funding from a third party--in each case in the amount required to ensure that there is no shortfall.

We understand there is no legally binding obligation for Riyad Bank to provide such a liquidity facility and therefore we do not factor it into our rating analysis. We instead base our rating on the scenario that if Riyad Bank does not provide this support, it will lead to the early dissolution of the sukuk



We therefore equalize the rating on the program with the long-term issuer credit rating on Riyadh Bank. We base the rating on the sukuk program on the final documentation dated Feb. 11, 2020. 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.

Under such a case, Riyadh Bank is irrevocably committed to purchase the asset portfolio at the portfolio exercise price, which comprises, among other amounts, the principal, any unpaid periodic distribution amounts, any amounts payable in respect of any liquidity facility and service agency liabilities amounts. We note that the triggering of the early dissolution in case of a shortfall in any periodic distribution amount is done after 14 days of Riyadh Sukuk defaulting on the periodic distribution amount.

The certificates become immediately due and payable upon the delegate giving dissolution notice to Riyadh Bank. Such notice is given either at the sole discretion of the delegate, or if requested in writing by 20% of the holders of the sukuk, or if directed by an extraordinary resolution. If the payment takes longer than this stated grace period, we may downgrade the instrument to 'D' (default) and Riyadh Bank to 'SD' (selective default) depending on our expectations of the timing of repayment.

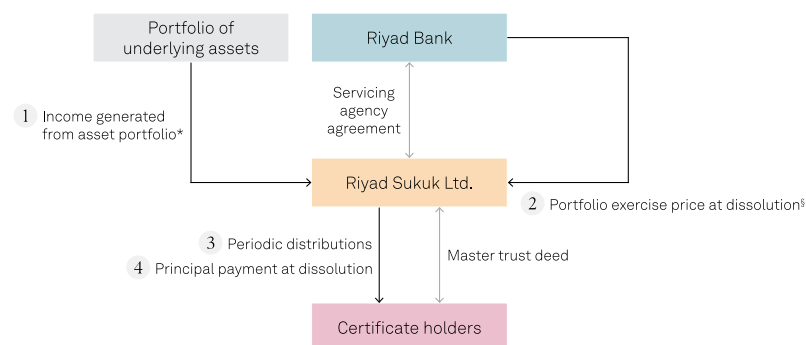
On maturity of the sukuk, Riyadh Bank irrevocably undertakes to purchase the underlying assets at the portfolio exercise price. The exercise price comprises, among others:

- The aggregate outstanding face amount of the certificates on the relevant dissolution date;
- An amount equal to all accrued and unpaid periodic distribution amounts (if any) relating to the certificates; and
- An amount equal to the sum of any outstanding (i) amounts repayable in respect of any liquidity facility and (ii) service agency liabilities amounts.

We also note that in the purchase undertaking, Riyadh Bank can either purchase or procure the purchase of the assets. We rate to the assumption that Riyadh Bank will be the one purchasing the assets as if the bank procures a third party to buy the assets and this party defaults, this will trigger a default of the Riyadh Sukuk and retrigger the obligation of Riyadh Bank to purchase the assets. In case of delays in the repayment of the sukuk holders, we may downgrade the instrument to 'D' (default) and Riyadh Bank to 'SD' depending on our expectations of the timing of repayment.



Riyad Sukuk Ltd. structure



*Income generated from the asset portfolio funds the periodic distribution amounts under the servicing agency agreement.

[†]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.

Source: S&P Global Ratings.
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Related criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Feb. 10, 2025
- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30, 2024
- [General Criteria: National And Regional Scale Credit Ratings Methodology](#), June 8, 2023
- [Criteria | Financial Institutions | General: Financial Institutions Rating Methodology](#), Dec. 9, 2021
- [Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions](#), 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 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

- [Saudi Banks Can Manage Their External Debt Spike](#), April 30, 2025
- [Saudi Arabia Banking Sector Outlook 2025: Vision 2030 Momentum Continues](#), Jan. 20, 2025
- [Banking Industry Country Risk Assessment: Saudi Arabia](#), Dec. 6, 2024
- [Your Three Minutes In Saudi Vision 2030: Credit Implications For Banks And Corporates](#), May 2, 2024



Sukuk

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This presale report is based on draft documentation dated April 11, 2025. This report does not constitute a recommendation to buy, hold, or sell securities. Final ratings will depend upon receipt and satisfactory review of all final transaction documentation, including legal opinions.

Accordingly, this presale report should not be construed as evidence of final ratings. If S&P Global Ratings does not receive final documentation within a reasonable time frame, or if final documentation departs from materials reviewed, S&P Global Ratings reserves the right to withdraw or revise its ratings.

Profile

\$1.5 bil.

trust certificate issuance program assigned preliminary 'BB' issue rating.



Transaction Summary

[Sobha Sukuk I Holding Ltd.](#), an exempted company with limited liability incorporated in the Dubai International Financial Centre, is putting in place a \$1.5 billion trust certificate issuance program (sukuk program). This will be sponsored by [PNC Investments LLC](#) (PNCI; BB/Stable/--), a Dubai-based real estate developer.

Under the sukuk documents, Sobha Sukuk I Holding Ltd. will enter into a purchase agreement with PNCI and Sobha Capital LLC, which own the lease assets that are expected to underpin the proposed sukuk structure. Sobha Capital is a limited liability company incorporated in the United Arab Emirates (UAE) and 100% owned by PNCI.

Sobha Sukuk I Holding Ltd. will also enter into several agreements with PNCI including a lease agreement, a murabaha agreement, a purchase undertaking and a servicing agency agreement.



Rationale

S&P Global Ratings assigned a preliminary 'BB' issue rating to the program, in line with its 'BB' rating on the obligor PNCI because the transaction fulfils the five conditions listed in our criteria for rating sukuk (see "General Criteria: Methodology For Rating Sukuk," published Jan. 19, 2015, on RatingsDirect):

- PNCI will provide sufficient and timely contractual obligations for the repayment of the periodic distribution amounts (through the lease agreement and the murabaha agreement) and the principal amount (through the purchase undertaking and the murabaha agreement).
- PNCI's obligations under the transaction documents are irrevocable.
- These obligations rank pari passu with PNCI's other senior unsecured financial obligations.
- PNCI will cover all the costs related to the transaction.
- Although the documentation mentions the risk of a total loss event (TLE) or a partial loss event (PLE), we view both possibilities as remote. In our view, a TLE or a PLE are remote because the underlying assets will comprise multiple land plots.

Issuer and trustee	Sobha Sukuk I Holding Ltd.
Sponsor/obligor	PNC Investments LLC
Arrangers	Abu Dhabi Commercial Bank PJSC, Abu Dhabi Islamic Bank PJSC, Arqaam Capital Ltd., Dubai Islamic Bank PJSC, Emirates NBD Capital, J.P. Morgan Securities PLC, Mashreqbank PSC, The National Bank of Ras Al-Khaimah PSC, Sharjah Islamic Bank PJSC, Standard Chartered Bank, Warba Bank K.S.C.P.
Principal paying agent	The Bank of New York Mellon, London branch
Delegate	The Law Debenture Trust Corp. PLC
Governing law	English law, Emirate of Dubai law, and UAE law

PNCI is expected to use the proceeds of the issuance for general corporate purposes. We do not expect any significant contractual or structural subordination after issuance and therefore rate the proposed sukuk in line with the long-term issuer credit rating on PNCI.

PNCI's current debt structure includes the \$500 million (UAE dirham [AED] 1,836 million) Sukuk due 2028 and smaller secured bank loans that have varying maturities (AED68 million due 2025, AED70 million due 2026, and AED35 million due 2027).



Sobha Sukuk I Holding Ltd. will use:

- At least 55% of the sukuk proceeds to purchase the lease assets from Sobha Capital under a sale-and-purchase agreement; and...
- A maximum of 45% of the sukuk proceeds to acquire a portfolio of commodities (murabaha assets).

PNCI will be the lessee under the lease agreement and the purchaser under the murabaha agreement. We understand that the lease payments it makes, combined with the profit element of the murabaha agreement, will be calibrated to cover the periodic distribution amounts payable to investors. The transaction terms indicate that profit instalments under the murabaha agreement will account for 10% of the periodic distribution amount.

On the transaction maturity date, or upon an early dissolution event (or, upon the early dissolution), PNCI will pay the relevant exercise price under the purchase undertaking and the deferred sale price under the murabaha agreement.

PNCI's obligations are senior unsecured and will rank pari passu with its other senior unsecured obligations. A failure to meet these obligations would prompt us to lower the issue credit rating on the instrument to 'D' (default) and the issuer credit rating on the sponsor to 'D' or 'SD' (selective default).

Sobha Capital's land parcels that constitute part of the lease assets under the proposed sukuk structure were subject to an agreement executed in 2022, under which Sobha Capital received the land parcels from PNCI's former joint venture partner. Sobha Capital retained title to the land, but transferred the beneficial ownership to PNCI, which reports the land on its balance sheet.

The purchase agreement allows Sobha Capital to direct the proceeds from the sale of the assets directly to PNCI. We understand that Sobha Sukuk I Holding Ltd., as the issuer, will therefore pay the purchase price for the lease assets directly into PNCI's bank account. Our issue rating on the sukuk instruments assumes the effective transfer of the funds. Ultimately, PNCI will repay the full sukuk amount to the issuer upon maturity or earlier dissolution by buying back the beneficial ownership of the lease assets from the issuer.

Total And Partial Loss Events

Although the transaction documentation mentions the risk that a TLE or PLE could occur, we do not expect either possibility to occur during the lifetime of the transaction as the underlying assets include multiple land plots. We rate to this assumption; however, if a TLE or PLE were to materialize, the issue rating could be lowered by multiple notches (see paragraph 22 of "General Criteria: Methodology For Rating Sukuk," published Jan. 19, 2015).

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 with regard to compliance of the proposed transaction with Sharia.





Related criteria

- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments](#), Jan. 20, 2016
- [General Criteria: Methodology For Rating Sukuk](#), Jan. 19, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013

Related Research

- [Sobha Sukuk I Holding Ltd. Proposed Sukuk Program Assigned 'BB' Preliminary Rating](#), April 28, 2025
- [Real Estate Developer PNC Investments LLC \(Sobha\) Upgraded To 'BB' On Stronger Expected EBITDA: Outlook Stable](#), July 29, 2024



Sukuk

Omniyat Sukuk 1 Ltd.



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This presale report is based on draft legal documents dated April 7, 2025.

This report does not constitute a recommendation to buy, hold, or sell securities. Ratings will depend upon receipt and satisfactory review of all final transaction documentation, including legal opinions. Accordingly, the ratings should not be construed as evidence of final ratings. If S&P Global Ratings does not receive final documentation within a reasonable time frame, or if final documentation departs from materials reviewed, S&P Global Ratings reserves the right to withdraw or revise its ratings.

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 with regard to compliance of the proposed transaction with Sharia.

Profile

\$1.0 bil.

Sukuk program assigned preliminary 'BB-' issue rating.



Transaction Summary

[Omniyat Sukuk 1 Ltd.](#) (Omniyat Sukuk 1), an exempted company incorporated in the Cayman Islands with limited liability, has established a sukuk program (trust certificate) pursuant to which it may issue from time to time trust certificates based on, among other documents, a master purchase agreement with [Omniyat Holdings Ltd.](#) (Omniyat; BB-(prelim)/Stable/--), master and supplemental lease agreements, a purchase undertaking, a servicing agency agreement, and a murabaha agreement with Omniyat. Under the terms of these agreements, Omniyat will provide sufficient funds to pay investors the periodic distribution amounts and the principal amount.



Rationale

The sukuk program is rated preliminary 'BB-', in line with our 'BB-(prelim)' rating on the obligor, Omniyat, because the transaction fulfils the five conditions listed in our criteria for rating sukuk (see "Methodology For Rating Sukuk," published Jan. 19, 2015, on RatingsDirect):

- Omniyat will provide sufficient and timely contractual obligations for the repayment of the periodic distribution amounts, through the payment of the rental under the master and supplemental lease agreements and the deferred sale price installment under the murabaha agreement, and for the repayment of the principal amount through the payment of the exercise price under the purchase undertaking and the outstanding amounts of deferred sale price upon the maturity of the sukuk or its early dissolution.
- Omniyat's obligations under the transaction documents are irrevocable.
- These obligations rank pari passu with Omniyat's other unsecured and unsubordinated financial obligations.
- Omniyat will cover all the costs related to the transaction.
- Although the documentation mentions the risk of a total loss event (TLE) or a partial loss event (PLE), we view both possibilities as remote based on the definition of these events and the expected nature of the underlying assets that will comprise a diversified portfolio of real estate assets located in the United Arab Emirates (UAE).

Omniyat Sukuk 1 Ltd.

Issuer, trustee	Omniyat Sukuk 1 Ltd.
Sponsor/obligor	Omniyat Holdings Ltd.
Joint lead managers	Abu Dhabi Commercial Bank PJSC, Ajman Bank PJSC, Citigroup Global Markets Ltd., Commercial Bank of Dubai P.S.C., Dubai Islamic Bank PJSC, Emirates NBD Bank PJSC, First Abu Dhabi Bank, J.P. Morgan Securities PLC, Kamco Investment Company K.S.C.P, Mashreqbank P.S.C. (acting through its Islamic Banking Division), Standard Chartered Bank, The National Bank of Ras Al Khaimah (P.S.C.), Warba Bank K.S.C.P.
Principal paying agent	The Bank of New York Mellon, London branch
Delegate	BNY Mellon Corporate Trustee Services Ltd.
Governing law	English law for the settlement deed, agency agreement, commodity purchase agency agreement, commodity purchase agreement, servicing agency agreement, master murabaha agreement, purchase undertaking, sale and substitution undertaking, commodity sale agreement and master declaration of trust. Laws of the Emirate of Dubai and, to the extent applicable in the Emirate of Dubai, the federal laws of the United Arab Emirates for the master lease agreement and master purchase agreement.



We don't expect any significant contractual or structural subordination for the sukuk after issuance because the ratio of secured debt (including nonrecourse debt secured by land or project assets) to total debt is expected to remain below 50%. We therefore rate the proposed sukuk in line with the long-term issuer credit rating on Omniyat. If the ratio were to rise above 50%, we would downgrade the sukuk instruments by one notch in line with our subordination criteria (see "[General: Reflecting Subordination Risk In Corporate Issue Ratings](#)," published March 28, 2018).

Omniyat's current capital structure includes secured bank loans and nonrecourse project debt that have varying maturities. We expect Omniyat will use the proceeds of the issuance primarily to refinance existing bank debt held at the corporate level and for general corporate purposes, including to buy land. We estimate its total gross debt balance after the issuance will increase to UAE dirham (AED) 3.2 billion in 2025 versus AED2.4 billion in 2024.

We understand that the issuer, Omniyat Sukuk 1, will use the sukuk's proceeds as follows:

55%.

of the aggregate face value of the certificates will fund the purchase of the lease assets from The Mural Real Estate LLC and Marina Promenade Ltd., each as sellers and each are unrated, under a purchase agreement; and...



45%.

of the aggregate face value of the certificates will fund the acquisition of a portfolio of commodities under a murabaha agreement.



Omniyat will be the lessee under the master and supplemental lease agreements and the buyer of the commodities on a deferred basis under the murabaha agreement. Omniyat will also act as the obligor under the purchase undertaking. Omniyat will receive the full amount of the purchase price to an account it will direct in writing as per the supplemental purchase agreement.

The rent payable under the master and supplemental lease agreements, together with the deferred sale price installment under the murabaha agreement, are calibrated to suffice for the payment of the periodic distribution amount to investors. On the transaction's maturity date, or upon the occurrence of an early dissolution event, Omniyat will pay the relevant exercise price under the purchase undertaking and the outstanding deferred sale price installments under the murabaha agreement, which are calibrated to suffice for the payment of the principal amount to the investors.



Omniyat's obligations under the master and supplemental lease agreements, the purchase undertaking, and the murabaha agreements will rank pari passu with Omniyat's other unsecured and unsubordinated obligations. A failure to meet these obligations could prompt us to lower the issue credit rating on the instrument to 'D' (default) and the issuer credit rating on the sponsor to 'D' or 'SD' (selective default).

Transaction And Partial Loss Events

The transaction documentation mentions the risk of a TLE or PLE. However, we see these risks as remote in the context of this program, based on the definition of such events and the expected nature of the underlying assets.

A TLE is defined as: (a) the total loss or destruction of, or damage to the whole of the lease asset(s) or any event or occurrence that renders the whole of the asset(s) permanently unfit for any economic use and the repair or remedial work in respect thereof is wholly uneconomical; or (b) the occurrence of any nationalization, expropriation, requisition, confiscation, attachment, or such other analogous event.

A PLE is defined as: the partial impairment of one or more lease asset(s) in a manner that substantially deprives Omniyat from the benefits expected from the whole of the lease asset(s), as determined by Omniyat and the occurrence of which: (a) has been certified in writing by a recognized independent industry expert; (b) has not arisen as a result of Omniyat's negligence or misconduct; and (c) does not constitute a TLE.

We construct our view of the remoteness of these events on the basis that the assets will be made of real estate assets located in the UAE. In case of occurrence of TLE/PLE, the rating could be subject to multi-notch transition risk (see paragraph 22 of "[General Criteria: Methodology For Rating Sukuk](#)," published on Jan. 19, 2015). by a recognized independent industry expert; (ii) has not arisen as a result of Omniyat's negligence or misconduct; and (iii) does not constitute a TLE.

We construct our view of the remoteness of these events on the basis that the assets will be made of real estate assets located in the UAE. In case of occurrence of TLE/PLE, the rating could be subject to multi-notch transition risk (see paragraph 22 of "[General Criteria: Methodology For Rating Sukuk](#)," published on Jan. 19, 2015).





Related criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments](#), Jan. 20, 2016
- [General Criteria: Methodology For Rating Sukuk](#), Jan. 19, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related research

- [Omniyat Sukuk 1 Ltd. 's Proposed Senior Unsecured Sukuk Trust Certificate Program Rated Preliminary 'BB-'](#), April 24, 2025



Sukuk

Presale: Alpha Star Holding IX Ltd



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Profile

Benchmark size of about:

\$500 mil.

sukuk proposed by [Damac Real Estate Development Ltd.](#) (Damac), assigned a preliminary 'BB' issue rating.

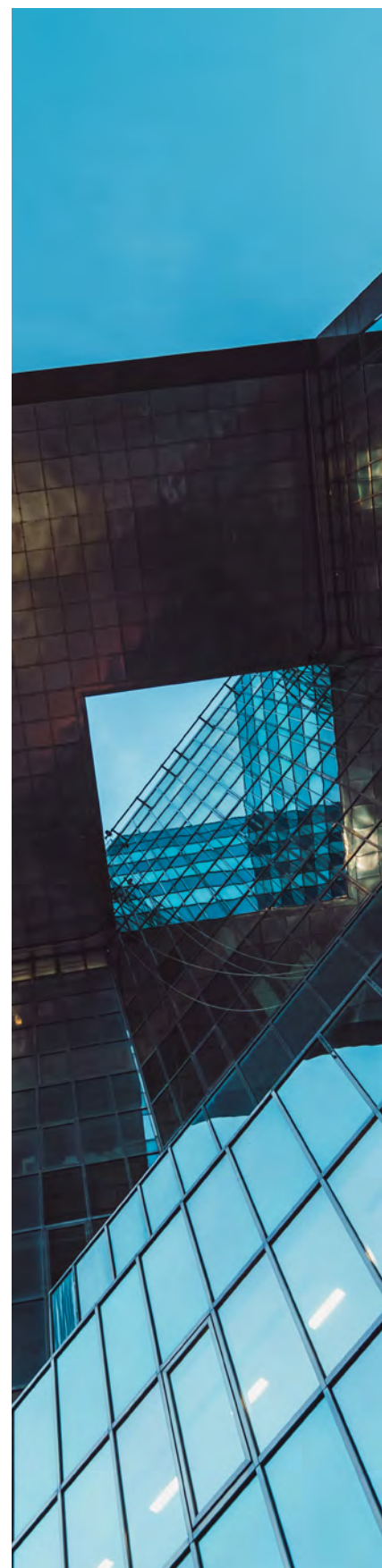


Transaction Summary

This presale report is based on the draft documentation dated Jan. 31, 2025, for the proposed benchmark size of about \$500 million. The sukuk is expected to mature 3.5 years after the issuance.

Under the sukuk documents, Alpha Star IX will enter a sale and purchase agreement in line with the offering circular with a group of companies--Front Line Investment Management L.L.C (Front Line; not rated), Damac Crescent Properties LLC (Damac Crescent Properties; not rated), Island Oasis Properties (LLC) (Island Oasis Properties; not rated), Damac MRY Investment L.L.C (Damac MRY Investment; not rated), and Damac Elite Investment Co. L.L.C (Damac Elite Investment; not rated), all 100% subsidiaries of Damac (BB/Stable/--). It will also enter an Ijara agreement, a service agency agreement, a sale and substitution undertaking, and a purchase undertaking with Front Line. Alpha Star IX will also enter a Murabaha agreement with Dubai-based real estate developer Damac. Damac will provide a guarantee in favor of Alpha Star IX and the delegate with respect to Front Line's obligations under the transaction documents. We understand proceeds will be used for refinancing, land acquisition, and general corporate purposes.

As of Dec. 31, 2024, Damac's capital structure includes secured bank debt of \$200 million, considered as priority liability as per our methodology; and \$1.2 billion of outstanding sukuks, consisting of a \$200 million private unsecured sukuk that has already been called and is expected to be paid in full in February 2025, a \$400 million unsecured sukuk maturing in April 2026, and a \$600 million unsecured sukuk maturing in April 2027.



Rationale

The 'BB' preliminary issue rating on the sukuk reflects the guarantee by Damac and that the transaction fulfills the five conditions of our criteria for rating sukuk (see "Methodology For Rating Sukuk," published on Jan. 19, 2015, on RatingsDirect):

- Front Line will make lease payments, which, together with the deferred sale price installments paid by Damac, will be calibrated to pay for the periodic distribution amounts to investors, according to our understanding. Front Line will also pay the exercise price under the purchase undertaking, and Damac will pay the outstanding deferred sale price installments under the Murabaha agreement. Both the exercise and remaining deferred sale prices installments will be calibrated to cover the principal amount at the sukuk's scheduled or early dissolution.
- Damac has irrevocably and unconditionally guaranteed Front Line's payment obligations under the transaction documents.
- Front Line's and Damac's obligations under the transaction documents are irrevocable.
- Damac's obligations under the Murabaha and the guarantee rank pari passu with Damac's other senior unsecured financial obligations. Damac has limited secured debt. Absent contractual or structural subordination, we rate the sukuk in line with the long-term issuer credit rating on Damac.
- Damac will cover the transaction-related costs through the various obligations of Front Line and Damac's guarantee.
- The documentation mentions a risk of a total loss event (TLE) and a partial loss event (PLE). However, we view these risks as remote because the underlying assets will comprise various freehold development projects in Dubai, including residential units, commercial units, and land plots.

Alpha Star Holding IX Ltd. Transaction Details

Issuer, trustee	Alpha Star Holding IX Ltd.
Sponsor/obligor	Front Line Investment Management LLC
Joint lead managers	Abu Dhabi Commercial Bank PJSC, Abu Dhabi Islamic Bank PJSC, Dubai Islamic Bank PJSC, Emirates NBD Bank P.J.S.C., Goldman Sachs International, HSBC Bank PLC, J.P. Morgan Securities PLC, Mashreqbank PSC and Warba Bank KSCP.
Guarantor	Damac Real Estate Development Ltd.
Principal paying agent	The Bank of New York Mellon, London Branch
Delegate	BNY Mellon Corporate Trustee Services Ltd.



Governing law

English Law for the Murabaha agreement, the agency agreement, the declaration of trust, the service agency agreement, subscription agreement, and the guarantee. The laws of the Emirate of Dubai and, to the extent applicable in the Emirate of Dubai, the federal laws of the United Arab Emirates (UAE) for the Ijara agreement, sale and substitution undertaking, and the purchase undertaking.

We understand that the issuer, Alpha Star IX, will use the sukuk's proceeds as follows:

55%.

of the aggregate face value of the certificates will fund the purchase from Front Line, Damac Crescent Properties, Island Oasis Properties, Damac MRY Investment and Damac Elite Investment of assets pursuant to a sale and purchase agreement.



45%.

A maximum of 45% of the aggregate face value of the certificates will fund the acquisition of a portfolio of commodities (Murabaha assets).



Front Line will pay leases (under the Ijara agreement) and Damac will pay deferred sale price installments (under the Murabaha agreement), which will be calibrated to match the periodic distribution amount payable to investors. Damac guarantees Front Line's payment obligations under the Ijara agreement.

Upon the transaction's maturity or an early dissolution, Front Line will pay the exercise price under the purchase undertaking and Damac will pay the outstanding deferred sale price installments under the Murabaha agreement, which will be calibrated to cover the dissolution amount and any missed periodic distribution or costs. Damac guarantees Front Line's contractual obligations. Damac's obligations under the Murabaha and guarantee are senior unsecured and rank pari passu with its other senior obligations. There is no debt at Damac's operating subsidiaries, and all funding is raised at the parent level. Damac's guarantee underpins our ratings, because we do not rate Front Line. The failure to meet these obligations would lead to a 'D' (default) or 'SD' (selective default) issuer credit rating on the instrument and the guarantor.



The transaction documentation requires tangible assets to remain above 50% of total assets in the portfolio underlying any issuance throughout the transaction's lifetime. If the tangibility ratio falls below 33%, investors will receive the option to request the sukuk's early redemption at a price that will include:

- The total face amount of the certificates, where an early repayment was requested; plus....
- All related accrued-but-unpaid periodic distribution amounts; plus
- Any amount payable by the trustee under the transaction documentation and the terms and conditions related to these certificates; minus
- The amounts outstanding of the deferred payment price related to these certificates, which will be collected through the Murabaha contract.

Transaction And Partial Loss Events

The transaction documentation mentions the risk of a TLE or PLE. However, we view it as remote that TLE or PLE would jeopardize the full and timely repayment of the sukuk since the underlying assets comprise various projects including development projects in the Damac Hills, Damac Hills 2, Damac Lagoons, Damac Riverside, and Damac Islands master developments.

A PLE is defined as the impairment of one or more assets in a manner that substantially deprives Front Line from the benefits expected from the whole of such assets, as determined by Front Line and the occurrence of which: (a) Has been certified in writing by a recognized independent industry expert, and (b) does not constitute a Total Loss Event.

A TLE is defined as follows:

- The total loss or destruction of, or damage to the whole of, the assets or any event or occurrence which renders the whole of the assets permanently unfit for any economic use and the repair or remedial work in respect thereof is wholly uneconomical; or....
- Expropriation, nationalization, requisition, confiscation, attachment, sequestration, or execution of any legal process in respect of the whole of the assets.

We consider these risks remote in the UAE as, in our view:

- The assets are not in an area at risk of conflict, or a zone subject to natural catastrophe risks that could affect the assets in the transaction's timeframe.
- We see the risk of nationalization as remote in the UAE.

We rate to this assumption; however, if it does not materialize, the issue rating could be subject to multi-notch transition risk (see paragraph 22 of "General Criteria: Methodology For Rating Sukuk," published on Jan. 19, 2015).

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 with regard to compliance of the proposed transaction with Sharia.





Related criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Guarantee Criteria](#), Oct. 21, 2016
- [General Criteria: Methodology For Rating Sukuk](#), Jan. 19, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related research

- Damac Real Estate Development Ltd.'s Proposed \$500 Mil. Sukuk Is Neutral To Credit Quality But Reduces Rating Headroom, Feb. 17, 2025
- [Alpha Star Holding IX Ltd.'s Proposed Senior Unsecured Sukuk Trust Certificates Rated 'BB' \(Preliminary\)](#), Feb. 17, 2025
- [Credit FAQ: Is Dubai's Residential Real Estate Market Heading For Correction?](#), Oct. 28, 2024



Sukuk

Bahrain's CBB International Sukuk Program

Affirmed At 'B+' On Update Of The Program's Terms And Conditions



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DUBAI (S&P Global Ratings) May 7, 2025--S&P Global Ratings today affirmed its 'B+' rating on the sukuk program of Bahrain-based CBB International Sukuk Program Co. WLL.

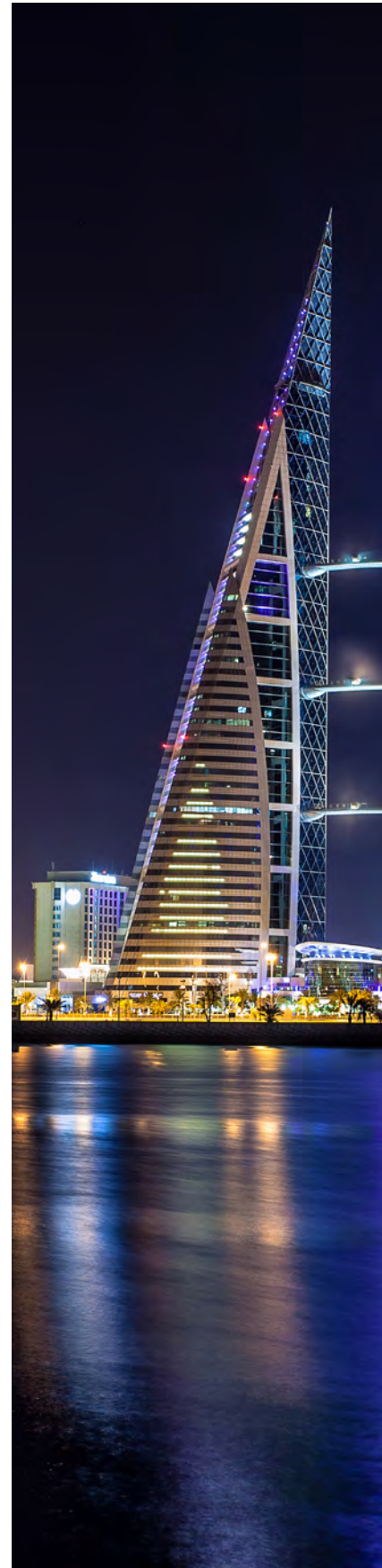
CBB International Sukuk Program Co. is a limited liability company incorporated in Bahrain, whose proprietor is the Central Bank of Bahrain and established for the sole purpose of issuing Sharia-compliant sukuk. The proceeds of sukuk issued under the program will ultimately be used for the government of Bahrain's funding purposes.

The program's terms and conditions have been updated, largely to align them with recent developments in the industry. We understand at least 53% of the proceeds from the sukuk issuance will be used to make an advanced rental payment on real estate assets located in Bahrain. The rest of the proceeds will be used to purchase commodities.

The rating on the program continues to reflect the 'B+' long-term sovereign credit rating on Bahrain. This is because the program's documents fulfill our conditions for rating sukuk at the same level as the rating on its sponsor (see "General Criteria: Methodology For Rating Sukuk," published Jan. 19, 2015, on RatingsDirect):

- The government of Bahrain's contractual obligations are sufficient to ensure full and timely payment of the periodic distribution amounts through the sublease agreement and deferred sale price installment under the master murabaha agreement. These obligations also cover final payment of the principal amount on the scheduled dissolution date or, in case of early dissolution, through the purchase undertaking and the outstanding deferred murabaha sale price instalments. We expect the calibration of rental payments and the murabaha profit to match the periodic distribution amounts under each drawdown, otherwise we could consider a different rating.
- Bahrain's obligations under the transaction documents will rank pari passu with Bahrain's other unsecured and unsubordinated obligations.
- Bahrain's obligations under the transaction documents are irrevocable.
- Bahrain will cover all the costs related to the transaction through various obligations under the different contracts.
- The documentation mentions a total loss event (TLE) and a partial loss event (PLE); however, we consider the risk stemming from both as remote, since the underlying assets for any sukuk drawdown will comprise various real estate assets and land parcels located in Bahrain. Although the updated legal documents include a revision of the definition of TLE, our remoteness assumption remains unchanged.

We continue to equalize our rating on the program with our long-term sovereign credit rating on Bahrain (B+/Negative/B), reflecting our view of the government's willingness and ability to service its financial obligations. We will review the legal documentation of each new sukuk issue. A material change in the contractual obligations or our assessment of TLE or PLE risks could affect the rating on that specific issue.



The updated legal documents include a revised the definition of TLE and PLE. In this update, the issuer broadened the definition of TLE to include risks related to the expropriation, nationalization, requisition, confiscation, attachment, sequestration, or execution of any legal process in respect of all of the underlying assets. The definition of PLE has also been revised to carve out the exclusion of PLE triggered by the government's negligence, in its capacity as sublessor. We understand these updates aim to align the legal definition with standard definitions used in documentation for other sukuk issued in the region.

We regard the updated definition as neutral from a rating perspective and continue to base our rating on the remoteness of TLE and PLE risks. This is because the underlying assets used for any sukuk issuance comprise various real estate assets and land parcels located in Bahrain. In addition, with the broadened definition of risks for the TLE and PLE, we continue to consider that Bahrain's government would not take actions that would disrupt payments under the sukuk. If the composition of assets for a specific drawdown is changed, we could revise our assumption of TLE and PLE risks and change our rating. Similarly, if TLE or PLE risks were to materialize, we could lower the rating on the program by one or more notches (see paragraph 22 of "General Criteria: Methodology For Rating Sukuk").

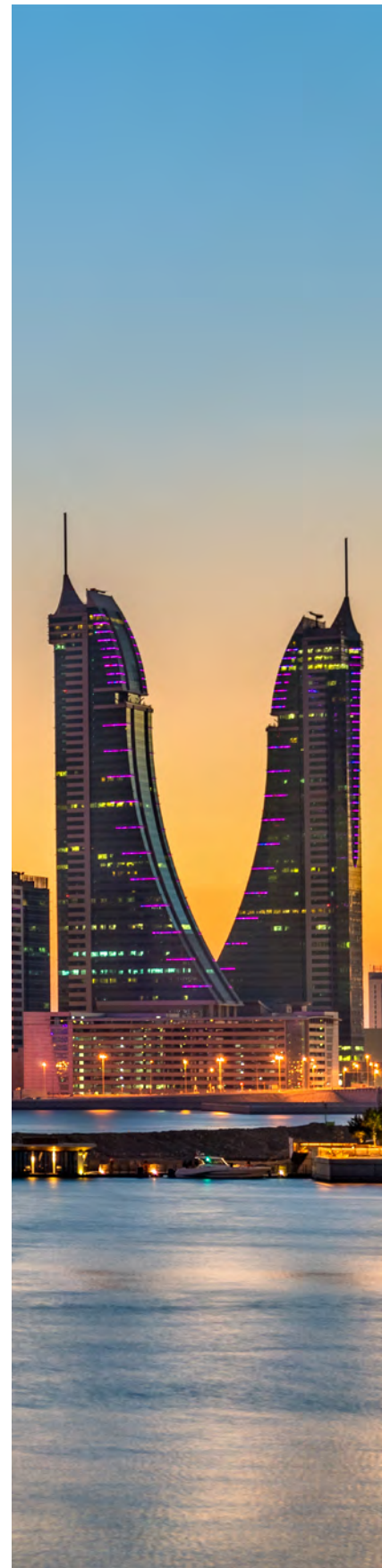


Related Criteria

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Governments | Sovereigns: Sovereign Rating Methodology](#), Dec. 18, 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
- [General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments](#), May 18, 2009

Related Criteria

- [Bahrain Outlook Revised To Negative On Persisting Fiscal Pressure: 'B+/B' Ratings Affirmed](#), April 23, 2025
- [Bahrain](#), Nov. 25, 2024
- [Bahrain's CBB International Sukuk Program Co. Affirmed At 'B+' On Update Of Program Terms and Conditions](#), Sept. 29, 2021
- [Presale: CBB International Sukuk Programme Company S.P.C.](#), Sept. 25, 2019





Related Criteria

- [Bahrain Outlook Revised To Negative On Persisting Fiscal Pressure; 'B+/B' Ratings Affirmed](#), April 23, 2025
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Sukuk

RAK Capital Sukuk Program

Rating Affirmed At 'A' Following Update To The Structure



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DUBAI (S&P Global Ratings) Feb. 28, 2025--S&P Global Ratings today affirmed its 'A' rating on RAK Capital's sukuk program. RAK Capital is a special-purpose vehicle that is incorporated in the Cayman Islands and is affiliated with the government of Ras Al Khaimah (A/Stable/A-1), which acts as the obligor under this program.

\$2 bil.

trust certificate program rating affirmed at 'A'.



RAK Capital has amended and restated the legal documents of the program to add a murabaha agreement between RAK Capital and the Ras Al Khaimah government. Other program documents include a master purchase agreement, a master lease agreement, a servicing agency agreement, and a purchase undertaking with the Ras Al Khaimah government.

On the issue date of each tranche, RAK Capital will buy ijara assets from the Ras Al Khaimah government for at least 55% of the proceeds. The remaining 45% will be used to purchase commodities to be sold to the Ras Al Khaimah government on a deferred payment basis.

Rental income from the lease assets and the profit element of the murabaha will be calibrated to cover the periodic distribution amount payable to investors. At the maturity or early dissolution, the Ras Al Khaimah government will repurchase the asset portfolio from RAK Capital for the full amount of the outstanding certificates, plus any unpaid periodic distribution amounts and any other amounts owed, minus the deferred sale price outstanding to be received under the murabaha agreement.

The rating on the program reflects the 'A' long-term issuer credit rating on the Ras Al Khaimah government. That is because the sukuk program fulfils all of our conditions for rating sukuk at the same level as the rating on its sponsor (see "General Criteria: Methodology For Rating Sukuk," published Jan. 19, 2015, on RatingsDirect):

- The government of Ras Al Khaimah will provide sufficient and timely contractual obligations for the repayment of the periodic distribution amounts (under the master and supplemental lease agreements as well as the murabaha agreement) and the principal amount (through the purchase undertaking and the murabaha agreement).
- The government's obligations are irrevocable and unconditional.
- These obligations rank pari passu with Ras Al Khaimah's other senior unsecured and unsubordinated financial obligations.



- Ras Al Khaimah will cover all the costs related to the transaction through its various obligations.
- The documentation mentions a risk of a total loss event (TLE) and a partial loss event (PLE). However, we view the risk of TLE or PLE as remote, since we understand that the underlying assets will likely comprise various real estate assets in Ras Al Khaimah.

We therefore equalize our rating on the program with our foreign currency sovereign credit rating on Ras Al Khaimah. We will review the legal documentation of each drawdown. A material change in the contractual obligations or our assessment of PLE and TLE risks could affect the rating on that specific drawdown.

Changes to legal documents introduce the obligation to maintain a tangibility ratio.

Under the amended agreements, after the issue date of the first tranche, there is now an obligation to maintain a tangibility ratio of more than 50% of the total value of the underlying assets throughout the lifetime of the transaction. If the tangibility ratio falls below 33% (other than in the event of a TLE or PLE), investors will receive an option to request the early repayment of the sukuk at a price that will include, among other things, the aggregate face amount of the certificates and all accrued-but-unpaid periodic distribution amounts related to these certificates minus the deferred sale price of the murabaha, which also becomes immediately payable. If the tangibility ratio falls below 33%, the program certificates must either be traded as per Sharia principles or be delisted.

The updated legal documents introduce the notion of a PLE and update the definition of TLE. A PLE is triggered if there has been a partial impairment of one or more lease assets in a manner that substantially deprives the lessee from the benefits expected from the whole of the properties. Although the service agent (Ras Al Khaimah government) is obliged to properly insure the underlying assets, we think that investors can still be exposed to residual asset risk stemming from Ras Al Khaimah's capacity to challenge the legality of the obligations to insure, given the described terms and conditions of the insurance coverage in the legal documents. In addition, the updated definition of the TLE suggests that a TLE can be triggered in the event of nationalization, expropriation, requisition, or confiscation and other similar events.

We rate the program under the assumption that a TLE or a PLE is remote. That is because we understand that the underlying assets will likely comprise various real estate assets in Ras Al Khaimah. In each drawdown, we will reassess this assumption. If a TLE or PLE materialized, the issue rating could be subject to mult notch transition risk (see paragraph 22 of "[General Criteria: Methodology For Rating Sukuk](#)").





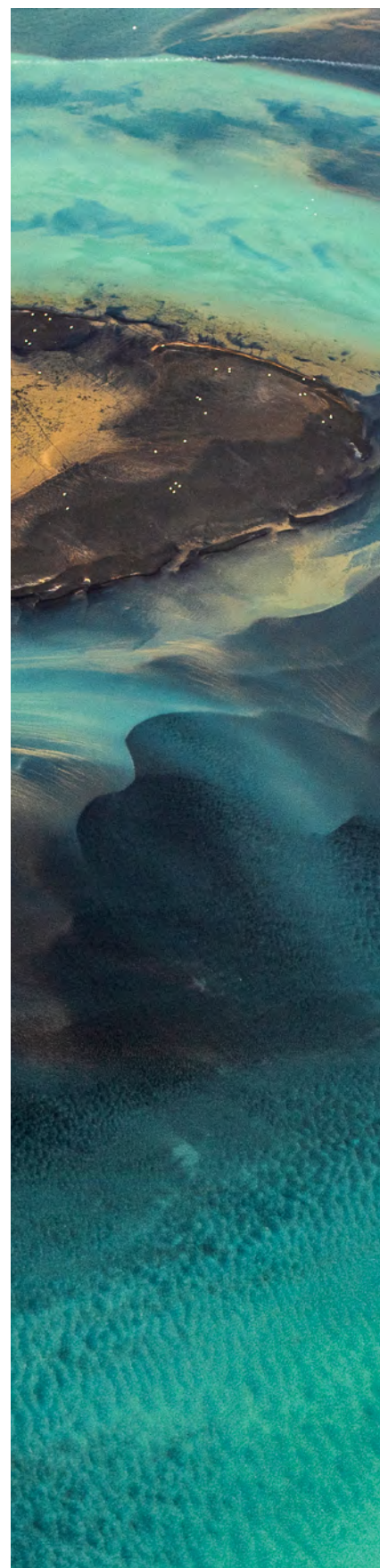
Related Criteria

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- [General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments](#), May 18, 2009

Related Research

- [Ras Al Khaimah Upgraded To 'A/A-1' On Stronger Growth Prospects And Resilient Fiscal Performance; Outlook Stable](#), Nov. 22, 2024

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Glossary Of Islamic Finance Terms

August 2015 Update

Sources: Islamic Financial Services Board and Standard & Poor's.



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The Five Pillars Of Islamic Finance

The ban on interest

Interest must not be charged or paid on any financial transaction. Money has no intrinsic value and consequently cannot produce returns on its own. Rather, it is a vehicle to facilitate transactions.

The ban on uncertainty or speculation

Uncertainty in contractual terms and conditions is forbidden. However, risk taking is allowed when all the terms and conditions are clear and known to all parties.

The ban on financing certain economic sectors

Financing of industries deemed unlawful by Sharia--such as weapons, pork, and gambling--is forbidden.

The profit- and loss-sharing principle

Parties to a financial transaction must share in the risks and rewards attached to it.

The asset-backing principle

Each financial transaction must refer to a tangible, identifiable underlying asset.

Vocabulary Of Islamic Finance

Bay salam

A sales contract where the price is paid in advance and the goods are delivered in the future, provided that the characteristics of the goods are fully defined and the date of delivery is set.

Diminishing musharaka

A form of partnership in which one of the partners undertakes to buy the equity share of the other partner gradually, until ownership is completely transferred to the buying partner.

Gharar

An exchange transaction in which one or both parties remain ignorant of an essential element of the transaction.

Halal

Lawful; permitted by Sharia.

Hamich Jiddiya

A refundable security deposit taken by an Islamic financial institution prior to establishing a contract.

Haram

Unlawful; prohibited by Sharia.

Ijara

Equivalent to lease financing in conventional finance. The purchase of the leased asset at the end of the rental period is optional.

Ijara muntahia bittamleek

A form of lease contract that offers the lessee the option to own the asset at the end of the lease period, either by purchase of the asset through a token consideration or payment of the market value, or by means of a gift contract.

Ijara wa iqtina

Lease purchasing, where the lessee is committed to buying the leased equipment during or at the end of the rental period.

Investment risk reserve

The amount appropriated by an Islamic financial institution (IFI) from the income of profit sharing investment account (PSIA) holders, after allocating the mudarib's share of the profit or mudarib fee (mudarib refers to the IFI as a manager of the PSIA), to create a cushion against future investment losses for PSIA account holders.

Istisna

A contract that refers to an agreement to sell to a customer a nonexistent asset, which is to be manufactured or built according to the buyer's specifications and is to be delivered on a specified date at a predetermined selling price.

Mudaraba

A contract between a capital provider and a mudarib (skilled entrepreneur or managing partner), whereby the Islamic financial institution provides capital to an enterprise or activity to be managed by the mudarib. Profits generated by such an enterprise or activity are shared in accordance with the terms of the mudaraba agreement, while losses are borne solely by the capital provider, unless the losses are due to the mudarib's misconduct, negligence, or breach of contractual terms.

Murabaha

The financing of a sale at a determined markup (cost plus profit margin).

Musharaka

A contract between an Islamic financial institution and a customer to provide capital to an enterprise, or for ownership of real estate or a moveable asset, either on a temporary or permanent basis. Profits generated by the enterprise or real estate/asset are shared in accordance with the terms of the musharaka agreement, while losses are shared in proportion to each partner's share of capital.

Profit equalization reserve

The amount appropriated by an Islamic financial institution (IFI) from mudaraba income before allocating the mudarib share (fee; mudarib refers to the IFI as a manager of the profit sharing investment account [PSIA]), to maintain a certain level of return on investment for PSIA holders.

Profit sharing investment account

A financial instrument relatively similar to time deposits of conventional banks. According to the terms and conditions of profit sharing investment accounts (PSIAs), depositors are entitled to receive a share of a bank's profits, but also obliged to bear potential losses pertaining to their investment in the bank. PSIAs can be restricted (whereby the depositor authorizes an Islamic financial institution (IFI) to invest its funds based on a mudaraba or wakala, with certain restrictions as to where, how, and for what purpose these funds are to be invested); or unrestricted (whereby the depositor authorizes the IFI to invest his funds based on mudaraba or wakala contracts without specifying any restrictions).

Qard hasan

A loan granted for welfare purposes or to bridge short-term funding requirements. Such a loan could also take the form of a nonremunerated deposit account. The borrower is required to repay only the principal.

Retakaful

A form of Islamic reinsurance that operates on the takaful model.

Riba

Usury.

Sharia (or Shari'ah)

Islamic law.

Sukuk

Trust certificates that are generally issued by a special-purpose vehicle (SPV or the issuer), the proceeds of which are, generally, on-lent to a corporate, financial institution, insurance company, sovereign, or local or regional government (the sponsor), for the purpose of raising funding according to Islamic principles. Sukuk are issued on the basis of one or more Islamic contracts (ijara, murabaha, wakala, among others), reflecting either investment or financing contracts.

Takaful

A form of Islamic mutual insurance based on the principle of mutual assistance.

Urbun

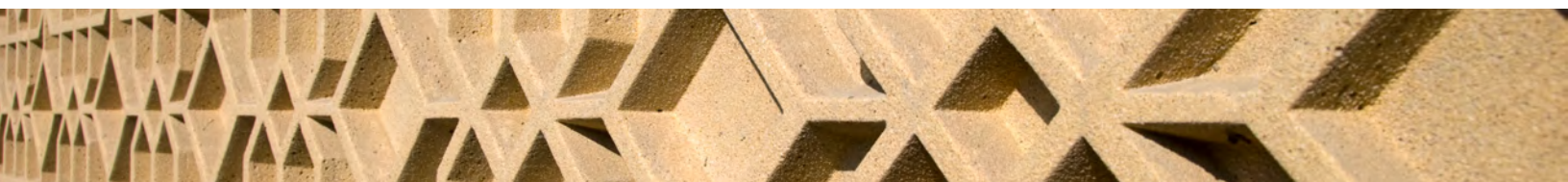
An amount taken from a purchaser or lessee when a contract is established, for the benefit of the Islamic financial institution, if the purchaser or lessee fails to execute the contract within the agreed term.

Wadia

An amount deposited whereby the depositor is guaranteed its funds in full on demand.

Wakala

An agency contract where the investment account holder (principal) appoints an Islamic financial institution (agent) to carry out an investment on its behalf, either with or without a fee.



Sukuk rating list

Sponsor	Country	Sukuk/Trust certificates	Sector	Date of Rating	Program or Issued (\$-eq Mn)
Emirate of Ras Al Khaimah	UAE	RAK Capital	Gov.	2008	2,000
Islamic Development Bank	Saudi A.	IDB Trust Services Ltd.	Gov.	2011	25,000
Republic of Indonesia	Indonesia	Perusahaan Penerbit SBSN Indonesia III	Gov.	2012	45,000
Majed Al Futtaim	UAE	MAF Sukuk Ltd.	Corp.	2012	3,000
Axiata Group Bhd.	Malaysia	Axiata SPV2 Bhd.	Corp.	2012	1,500
IILM	Malaysia	International Islamic Liquidity Management 2 SA	SF	2013	6,000
Mumtalakat	Bahrain	Mumtalakat Sukuk Holding Company	Gov.	2014	1,000
Ooredoo (Tamweel)	QAT	Ooredoo Tamweel Ltd.	Corp.	2014	2,000
Saudi Electric Co.	Saudi A.	Saudi Electricity Global Sukuk Co. 3	Corp.	2014	2,000
Government of Malaysia	Malaysia	Malaysia Sovereign Sukuk Bhd.	Gov.	2015	500
Government of Malaysia	Malaysia	Malaysia Sukuk Global Berhad	Gov.	2016	1,500
Hilal Services Ltd.	Saudi A.	ICDPS Sukuk Limited	Gov.	2016	600
Government of Hong Kong	China	Hong Kong Sukuk 2017 Limited	Gov.	2017	1,000
Equate Petrochemical	Kuwait	EQUATE Sukuk SPC Limited	Corp.	2017	2,000
Central Bank of Bahrain	Bahrain	CBB International Sukuk Co S.P.C. 7	Gov.	2018	1,000
Emirate of Sharjah	UAE	Sharjah Sukuk Programme Limited	Gov.	2018	11,700
Saudi Telecom Company	Saudi A.	STC Sukuk Company Ltd.	Corp.	2019	5,000
Almarai Company	Saudi A.	Almarai Sukuk Ltd.	Corp.	2019	2,000
Government of Bahrain	Bahrain	CBB International Sukuk Programme Company W.L.L.	Sov.	2019	5,350
GFH Financial Group	Bahrain	GFH Sukuk Ltd.	FI	2020	300
Government of Malaysia	Malaysia	Malaysia Wakala Sukuk Berhad	Sov.	2021	1,300
Ahli United Bank	Bahrain	AUB Sukuk Ltd.	FI	2021	2,000
Saudi National Bank	Saudi A.	SNB Sukuk Ltd.	FI	2022	5,000
Private Department of Skh Mohamed Bin Khalid Al Nahyan LLC	UAE	PD Sukuk Ltd.	Corp.	2022	1,000

Sukuk rating list

Sponsor	Country	Sukuk/Trust certificates	Sector	Date of Rating	Program or Issued (\$-eq Mn)
Government of Egypt	Egypt	The Egyptian Financial Company Taskeek	Sov.	2023	5,000
Air Lease Corporation	U.S.	Air Lease Corporation Sukuk Ltd.	Corp.	2023	600
Emirates Telecommunications Group Company PJSC	UAE	e& Group Sukuk Limited	Corp.	2023	3000
Damac Real Estate Development Ltd	UAE	Alpha Star Holding VII Ltd.	Corp.	2023	400
Damac Real Estate Development Ltd	UAE	Alpha Star Holding VI Ltd.	Corp.	2023	200
Banque Saudi Fransi	Saudi A.	BSF Sukuk Co. Ltd	FI	2023	4,000
Khazanah Nasional Bhd.	Malaysia	Khazanah Global Sukuk Bhd.	Sov	2023	5,000
PNC Investment LLC	UAE	Sobha Sukuk Limited	Corp.	2023	500
Philippines	Philippines	ROP Sukuk Trust	Sov	2023	1,000
Damac Real Estate Development Ltd	UAE	Alpha Star Holding VIII Ltd.	Corp.	2023	600
Energy Development Oman SAOC	Oman	EDO Sukuk Ltd.	Corp.	2023	1,750
Ittihad International Investment - L L C	UAE	Ittihad International Ltd	Corp.	2023	450
Saudi Electricity Company	Saudi A.	Saudi Electricity Sukuk Programme Company	Corp.	2024	2,200
Mashreqbank	UAE	Mashreq Al Islami Sukuk Co. Ltd.	FI	2024	2,500
Aercap Holdings N.V.	Netherland	Aercap Sukuk Ltd.	FI	2024	500
GFH Financial Group	Bahrain	GFH Senior Sukuk Ltd.	FI	2024	500
Arabian Centres Company	Saudi A.	Arabian Centres Sukuk II And Sukuk III	Corp.	2025	1,585
Damac Real Estate Development Ltd	UAE	Alpha Star Holding IX Ltd	Corp.	2025	500
Omniyat Holdings Ltd.	UAE	Omniyat Sukuk 1 Ltd.	Corp.	2025	2,000
PNC Investments LLC	UAE	Sobha Sukuk Ltd.	Corp.	2025	1,500
Riyad Bank	Saudi A.	Riyad Sukuk Ltd	FI	2025	3,000
PNC Investment LLC	UAE	Sobha Sukuk I Holding Ltd.	Corp.	2025	1,500
Alinma Bank	Saudi A.	Alinma Sukuk Ltd.	FI	2025	500

List of Islamic banks and takaful companies rated by S&P Global Ratings

Issuer	Country	Type	Ratings as of Sept. 15, 2025
GFH Financial Group	Bahrain	Bank	B-/Stable/--
Hannover ReTakaful B.S.C.	Bahrain	Insurance	A+/Stable/--
Bank Islam Brunei Darussalam Berhad	Brunei	Bank	A-/Stable/A-2
Al Khaleej Takaful Group (Q.P.S.C.)	Qatar	Insurance	A-/Stable/--
Al Rajhi Bank	Saudi Arabia	Bank	A/Stable/A-1
Islamic Development Bank	Saudi Arabia	Multinational	AAA/Stable/A-1+
The Company for Cooperative Insurance	Saudi Arabia	Insurance	A/Stable/--
Wataniya Insurance Company	Saudi Arabia	Insurance	BBB+/Stable/--
Islamic Corporation for Development of the Private Sector	Saudi Arabia	Multinational	A/Stable/--
Walaa Cooperative Insurance Company	Saudi Arabia	Insurance	A-/Stable/--
Islamic Arab Insurance Co. (Salama)	UAE	Insurance	BBB-/Developing/--
Sharjah Islamic Bank	UAE	Bank	A-/Negative/A-2
Alinma Bank	Saudi Arabia	Bank	A-/Stable/--
Kuwait Finance House - Bahrain	Bahrain	Bank	BBB+/Negative/A-2
Islamic Corporation for the Insurance of Investment and Export Credit	Saudi Arabia	Multinational	AA-/Stable/--
First Iraq Islamic Bank For Investment And Finance	Iraq	Bank	B-/Negative/--

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