

Special Report

Islamic Finance



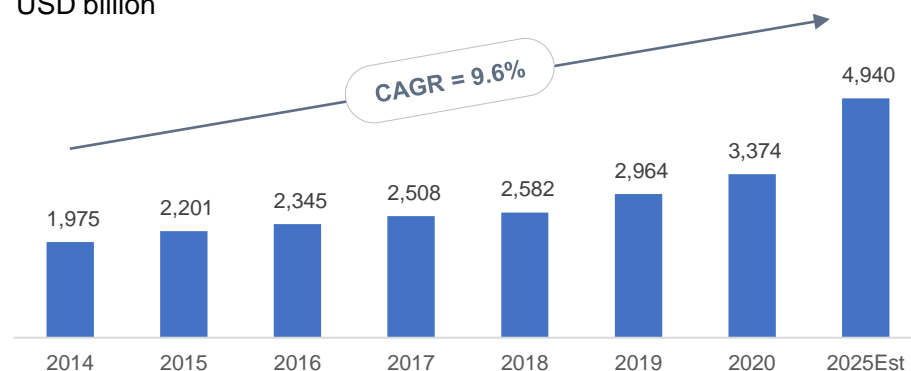
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Islamic finance assets set to grow rapidly despite economic challenges

Global Islamic Finance Assets

USD billion



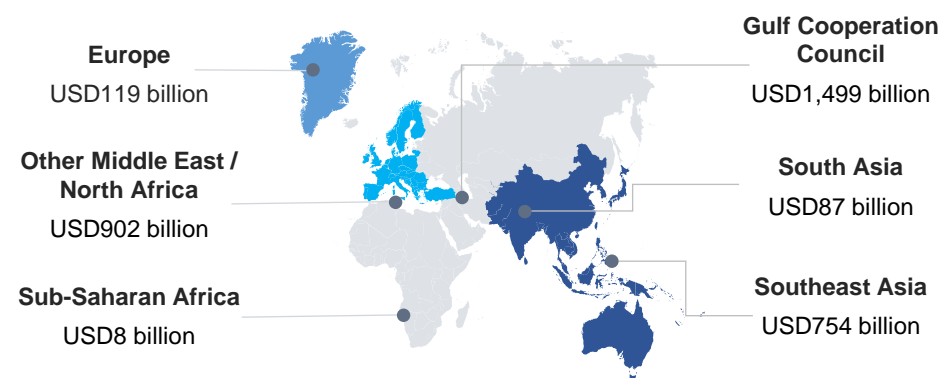
- The global Islamic finance assets market is forecast to expand at a 9.6% CAGR during 2014–25 to reach USD4,940 billion.
- Despite challenges from rising interest rates, the Islamic Finance sector is expected to continue growing in 2022, as economic recovery accelerates, primarily in the GCC region, and the outlook for credit growth improves.
- Rapid expansion of the largest Islamic banks in the GCC, Iran, and Malaysia boosted the growth of the Islamic finance industry. Total liabilities of these banks increased, particularly with sukuk issues, as they took advantage of the low interest rate environment to meet capital adequacy requirements.
- Iran ranked first with USD838 billion in Islamic finance assets, followed by Saudi Arabia with USD826 billion and Malaysia with USD620 billion.
- Afghanistan, Australia, Egypt, Ethiopia, Morocco, and Tajikistan recorded the highest increases in Islamic finance assets. In these countries, Islamic banking was the primary growth driver.

Source: Refinitiv, IFD, Aranca Research

Islamic Finance Distribution (2020)

		Total Assets (USD billion)	Share (%)	Number of Institutions / Instruments
Islamic Banking		2,349	70%	527
Sukuk		631	19%	3,805
Other IFIs		178	5%	1,698
Islamic Funds		154	5%	745
Takaful		62	2%	323

Islamic Finance Assets by Region



Fragmented market with many players vying for a significant share

Key Market Trends

Islamic Banking is the Largest Segment

The rapid expansion of the largest Islamic banks in the GCC, Iran, and Malaysia boosted the growth of the Islamic finance industry globally. Total liabilities of these banks increased, particularly with sukuk issues, as they took advantage of the low interest rate environment to meet capital adequacy requirements.

GCC and MENA account for 70% of Global Islamic Finance Assets

Shariah-compliant assets represent a significant portion of the GCC's total bank assets. In the MENA region, Islamic banking assets represent 14.0% of total banking assets.

The GCC countries continue to dominate, with the region being home to the largest Islamic banks by asset size. These represent five of the top 10 countries, indicating the systemic importance of this core region for the global Islamic banking industry.

Major Players



Market Concentration

Consolidated
(Market dominated by 1–5 major players)

Fragmented
(Highly competitive market without dominant players)



Global Islamic Finance Market

Key Components (2020)



1,595

Islamic Finance Institutions



47

Countries with Islamic Finance Regulations



844

Islamic Finance Events



11,856

News Reports on Islamic Finance



1,008

Islamic Finance Education Providers



2,878

Islamic Finance Research Papers



1,235

Shariah Scholars Representing Islamic Financial Institutions



USD1.28 billion

CSR Funds Disbursed by Islamic Financial Institutions

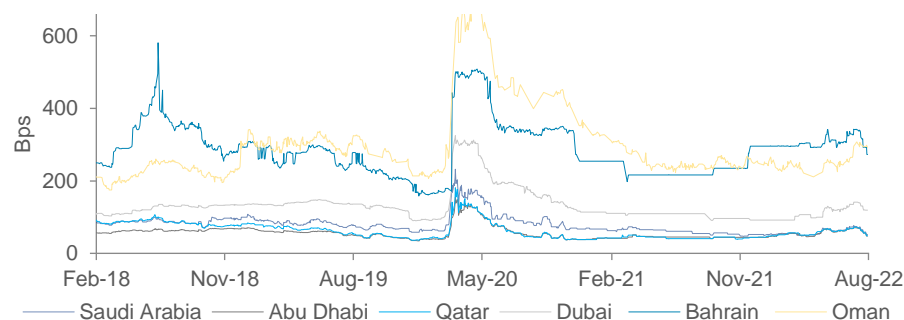
Source: Refinitiv, IFD, Aranca Research

Growing opportunities for Islamic finance amid high market volatility, geopolitical tensions

GCC Peer Countries' 5-year Sovereign CDS

CDS spreads narrowed

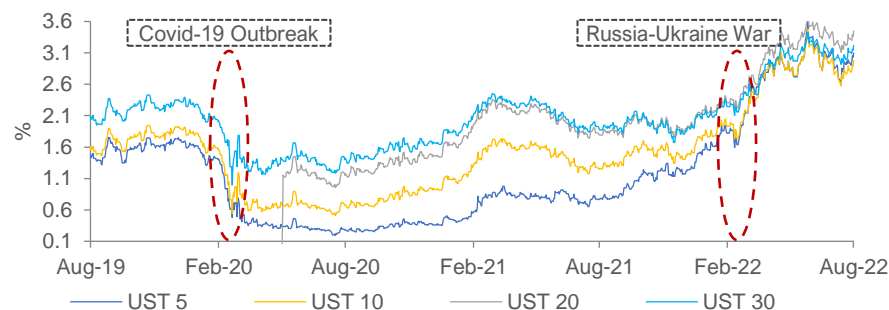
GCC CDS spreads dropped considerably since the onset of the pandemic.



US Treasury Yield Evolution

US Treasury yields on the rise despite headwinds

After falling considerably during the pandemic, US Treasury yields maintained an upward trend, but suffered a setback during the Russia-Ukraine war.



Conventional Bond vs. Sukuk – Spread Evolution

Turkey Sovereign Bond vs. Sukuk – Case Study

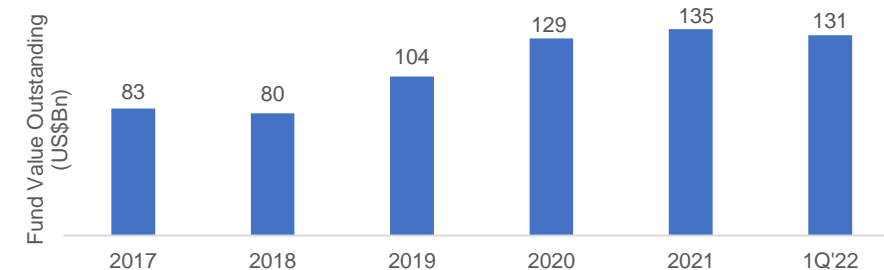
*Sukuk formats fetch lower NIPs and discounted pricing
Sukuk discount: up to 260bps; average discount: 130bps*



Islamic Asset Management

Saudi Arabia leads with AUM of USD52 billion in Islamic funds

Islamic fund size is growing since 2018. However, the pace is relatively slower, as sukuk funds are likely to suffer from higher global interest rates.



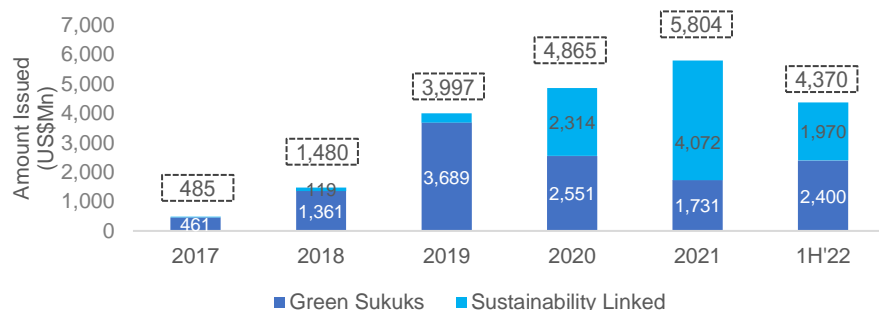
Source: Refinitiv, Bloomberg, Aranca Research

Increased government spending on low-carbon energy and sustainability drives demand for certain 'green products', and in turn, for ESG funding

ESG Sukuk – Historical Issuance

Global sukuk issuance reached USD100.7 billion in 1H22

ESG sukuk issuance rose by over 11x by volume in the past 5 years to USD5.8 billion in 2021, accounting for about 5.8% of global sukuk issuances.

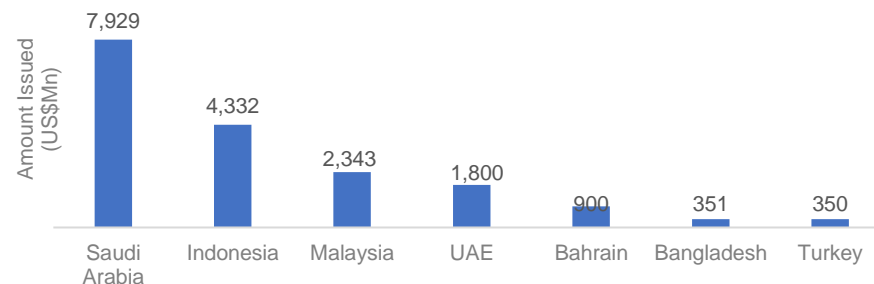


- Green sukuk contributed 50% to total ESG sukuk issuances in 1H22. These reversed the trend of sustainable and sustainability-linked sukuk, whose share reduced to 30% in 2021 from 50% in 2020 and 100% in 2019.
- Volume of green sukuk reached USD2.4 billion in 1H22, with major contribution from the USD1.5 billion green sukuk issuance from the Indonesian government. Indonesia issued a total of USD5.8 billion to date, making the sovereign the largest ESG sukuk issuer by 1H22.
- Infracorp raised USD900 million through green sukuk, making it the first ESG sukuk issuer in Bahrain. Saudi Arabia followed suit, with Riyadh Bank and Saudi National Bank issuing USD750 million each through sustainability-linked sukuk.
- ESG sukuk are penetrating global mainstream markets as interest and demand for sustainable Islamic debt instruments increases. Multiple sovereigns and corporates debuted in the ESG debt framework in 2Q22, while others seek to expand their existing debt portfolio through these Islamic debt instruments.

ESG Sukuk Issuance by Market (2018–1Q22)

GCC's Islamic finance institutes led ESG sukuk issuances

Saudi Arabia led the market with ESG sukuk issuances totaling USD1.5 billion in 1Q22, followed by Indonesia and Malaysia.



Sukuk Vs Green Sukuk- Spread Evolution

Saudi Electricity Sukuk vs Green Sukuk – Case Study

*Higher discounts through ESG formats on top of sukuk discounts
Green sukuk discount: up to 20bps; average discount: 5–7bps*



Source: Refinitiv, Bloomberg, Aranca Research

Pandemic and volatile oil prices affected sukuk issuance

QFC develops sustainable sukuk, bonds framework

The Qatar Financial Centre (QFC) created the first sustainable sukuk and bonds framework in the GCC region to help develop the country's local debt market.

Riyad Bank sells USD750 million in perpetual sustainability sukuk

Riyad Bank (43% stake indirectly owned by the Saudi government) sold USD750 million in Additional Tier 1 Islamic bonds linked to sustainability at 4%. After demand exceeded USD3 billion, the yield was reduced from an initial price guidance of around 4.375%.

Saudi National Bank raises USD750 million via 'sustainable' sukuk

Saudi National Bank (50.4% stake indirectly owned by the Saudi government) sold USD750 million via its first 'sustainable' sukuk after demand surpassed USD3.2 billion. Proceeds will be used for projects eligible under the Sustainable Finance Framework.

ESG to boost Islamic financial assets in 2022

Demand for Shariah-compliant investment vehicles is anticipated to expand in 2022 due to the growing emphasis on ESG investing. Islamic financial assets surged to more than USD3 billion in 2020.

Egyptian government finalizes USD2 billion syndicated bank loan

The Egyptian government finalized a USD2 billion syndicated bank loan, which will reportedly be split into two tranches: a USD1 billion Islamic financing tranche and USD1 billion ESG tranche intended to support green projects in line with the green financing framework established by the Finance Ministry.

Saudi Arabia appoints advisers on green debt issuance

With numerous solar, wind, and power plants that need financing and multiple new plans in the pipeline, Saudi Arabia appointed financial advisers for a planned green debt issuance.

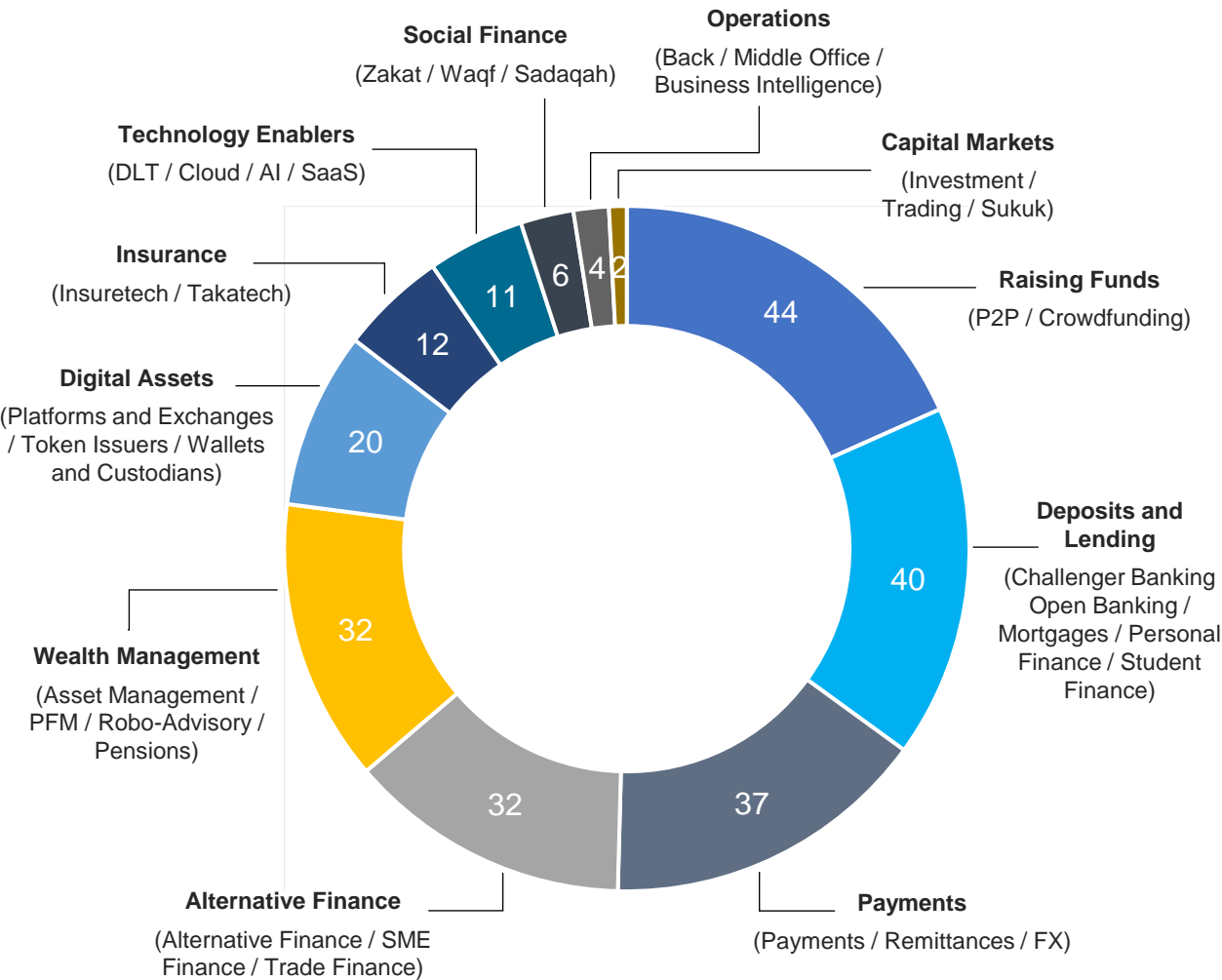
Major MENA issuances from all types of issuers

Issuer Name	Amount Issued	Issue Date	Maturity/ (Call date)	Country of Risk	Coupon
Dar Al-Arkan Sukuk Co	400	7/7/2022	2/7/2026	SA	7.750
Arada Sukuk Ltd	350	6/8/2022	6/8/2027	AE	8.125
Sharjah Sukuk Program	750	4/4/2022	4/4/2030	AE	3.886
Boubyan Sukuk	500	3/29/2022	3/29/2027	KW	3.389
Infracorp Tier 2 Sukuk	900	3/15/2022	(3/15/2027)	BH	7.500
QIB Sukuk Ltd	250	3/4/2022	3/3/2025	QA	2.525
Fab Sukuk Co	500	3/2/2022	3/2/2027	AE	2.591
Riyad Tier 1 Sukuk	750	2/16/2022	(2/16/2027)	SA	4.000
DIB Sukuk	750	2/15/2022	2/16/2027	AE	2.740
SNB Sukuk	750	1/19/2022	1/19/2027	SA	2.342
Warba Tier 1 Sukuk 2	250	11/29/2021	(11/29/2026)	KW	4.000
CBB International Sukuk	1,000	11/18/2021	5/18/2029	BH	3.875
KSA Sukuk	2,000	11/17/2021	5/17/2031	SA	2.250
EI Sukuk Co	500	11/2/2021	11/2/2026	AE	2.082
AUB Sukuk	600	9/9/2021	9/9/2026	BH	2.615
Dukhan Tier 1 Sukuk	500	7/14/2021	(7/14/2026)	QA	3.950
Sharjah Sukuk Program	750	7/13/2021	7/13/2031	AE	3.200
Emaar Sukuk Ltd	500	7/6/2021	7/6/2031	AE	3.700
KFH Tier 1 Sukuk	750	6/30/2021	(6/30/2026)	KW	3.600
BAJ Sukuk Tier 1	500	6/29/2021	(6/29/2026)	SA	3.950
DIB Sukuk	1,000	6/22/2021	6/22/2026	AE	1.959
SA Global Sukuk	3,000	6/17/2021	6/17/2031	SA	2.694
SA Global Sukuk	2,000	6/17/2021	6/17/2026	SA	1.602
SA Global Sukuk	1,000	6/17/2021	6/17/2024	SA	0.946
Ahli United Tier 1 Sukuk	600	6/17/2021	(6/17/2026)	KW	3.875
Oman Sovereign Sukuk	1,750	6/15/2021	6/15/2030	OM	4.875
DIB Tier 1 Sukuk 5	500	4/19/2021	(10/19/2026)	AE	3.375

Source: Refinitiv – Islamic Finance Development Report 2021, Bloomberg, Aranca Research

Robust advancements in Islamic FinTech

Islamic FinTechs by Sector



Outlook

The estimated size of the Islamic FinTech market for Organization of Islamic Cooperation (OIC) in 2020 was USD49 billion, representing 0.72% of the current global FinTech market by transaction volume.

The size of the Islamic FinTech market in OIC countries is expected to grow to USD128 billion at a 5-year CAGR of 21.0% from 2020 to 2025.

Top five OIC FinTech countries in the Islamic FinTech market by transaction volume are Saudi Arabia, the UAE, Malaysia, Turkey, and Kuwait, demonstrating strong dominance by the MENAT region.

Collectively, the top five countries account for 75.0% of the OIC Islamic FinTech market size, indicating that market activity is concentrated in key jurisdictions.

Some major MENAT countries introduced regulatory initiatives to help drive the growth of Islamic FinTech.

Source: Global Islamic FinTech Report 2021, Aranca Research

Key Takeaways

Commodity price hikes will support a stronger recovery in many core Islamic finance markets. Furthermore, most Islamic countries are relatively resilient to macroeconomic shocks caused by the Russia-Ukraine conflict. This will help the industry's prospects in the coming years, but global headwinds may change the scenario.

The Islamic finance industry is still hampered by structural weaknesses, namely, the inherent complexity of transactions and correlation of performance with oil prices due to concentration in commodity-exporting countries.

As issuers seek to broaden the investor base and include funds aligned with sustainability themes, the volume of green and sustainability sukuk (from a low base) is expected to increase. Furthermore, on satisfying the prerequisites, digital sukuk are likely to generate significant investor interest in the future.

Increasing demand and relatively lower supply of Islamic debt financing structures, such as sukuk, is resulting in lower new-issue premiums fetching a more profitable pricing.

The versatile nature of Islamic financing structures allow issuances to be listed and traded on international securities exchanges in various forms such as sukuk, ESG sukuk (green and sustainable), wakala sukuk, and ijara sukuk.



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