

# UAE Islamic finance: Back on track?

The modest economic growth, low oil prices and low profitability of 2020 continued into 2021, again impacting the Islamic finance industry's growth, asset quality and profitability. This trend is not completely over; however, 2022 is expected to be a year of increased volume and improved sophistication of Islamic finance products in the UAE. SHIBEER AHMED and LUKE ROBINSON delve further.



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## Review of 2021

According to the Islamic Finance Development Indicator, the UAE is ranked as the fourth-largest market globally for Islamic finance, with seven fully-fledged Islamic banks and certain conventional banks operating Islamic windows. According to the IFSB, over 20% of banking products in the UAE are now comprised of Islamic finance products.

Some of the key developments within Islamic finance in 2021 were the introduction, by the Higher Shariah Authority, of new Shariah compliance rules requiring Islamic banks and Islamic windows of conventional banks to comply with AAOIFI Shariah standards, and a further increased focus on environmental, social and governance lending. We also saw the International Islamic Financial Market, with the assistance of a number of international banks and organizations, tackle the interbank offered rate transition and publish a paper containing structuring solutions for a risk-free rate of Murabahah and Ijarah transactions, as well as saw the UAE Ministry of Climate Change and Environment launch the UAE Sustainable Finance Framework 2021–2031 and the government announce its ambitious energy targets under the UAE Energy Strategy 2050.

2021 saw UAE Islamic banks' operations suffer from low probability and elevated financing impairment charges against a backdrop of subdued economic conditions. However, the UAE remains a promising avenue for the growth of Islamic banking and finance and the sector maintained



steady growth throughout 2021. In the Islamic capital markets, Sukuk issuance in the UAE slowed in 2021 compared with 2020, as the rise in oil prices reduced the government's budget deficit and consequently its need for funding from capital markets. This was further impacted by regulatory changes introduced by the Higher Shariah Authority in early 2021, which included stricter tangibility ratio requirements with new dissolution triggers such as tangibility and delisting events and associated put options, as well as partial-loss events. Having said this, the UAE's Sukuk market was still very much active during the past year — notably, Dubai Islamic Bank issued two landmark Sukuk facilities totaling US\$1.5 billion within months of each other, Emaar Properties returned to the international Sukuk market with a US\$500 million issuance and the Sharjah government issued a US\$750 million Islamic paper.

## Preview of 2022

2022 is expected to be a year of progress for Islamic finance in the UAE. The implementation of COVID-19 vaccines and the introduction of fiscal measures by central banks have meant that the effects of the pandemic have now begun to diminish, particularly in the UAE, and we believe that the

pandemic has offered an opportunity for the Islamic finance industry to move toward a more integrated growth, focusing on a higher degree of standardization and with greater emphasis on the industry's social role.

We expect to see the increased focus on environmental, social and governance financings and issue of sustainable-format Sukuk witnessed in 2021 continue to be apparent in 2022. Not only that, but the events of 2020 and 2021 appear to have compelled Islamic banks in the UAE to expedite their digital strategies and adopt technology quicker than may have otherwise been possible, which we expect to further materialize in 2022. We would also not be surprised to see the consolidation trend becoming more popular among Islamic financial institutions and banks in the UAE in 2022, taking into consideration the current financial situation of the market.

As Islamic syndicated finance is increasingly playing a more significant role in the Islamic finance industry, we envisage it attracting more players in 2022. Islamic syndication has shown that it could expand the choices for fund mobilizations in the market in addition to Sukuk and we believe it could become more mainstream in the operations of the Islamic banking

industry as a way for financial institutions to become more innovative and diversify their products to stay relevant. Judging by the number of large, longer-term infrastructure and power generation projects in the pipeline and the huge liquidity pool available as oil prices remain high, we also expect Islamic project financing in the UAE to continue as an attractive proposition for banks and financial institutions in 2022.

### Conclusion

Although its growth was hindered as expected, Islamic finance in the UAE did demonstrate growth in 2021, outpacing the growth in conventional finance assets. The COVID-19 vaccine, stabilization of oil prices and improving economic growth during 2021 each played a role in this growth, and we expect 2022 to bring more of the same things that hallmarked 2021.

We predict plenty of new projects in sustainable energy generation, all of which will require substantial investment and capital, and expect increased activity in the green and sustainable, and more socially-aware, Sukuk space due to the unique source of diversified capital on offer for issuers. Having said this, we do expect 2022 to be another interesting year for the Sukuk market in general as we watch how the market continues to adapt to the requirement to make transactions more consistent with the AAOIFI standards.

The Islamic economy in the UAE is now better set-up to continue growing in 2022 in terms of volume and sophistication of products, and the adoption of new technology and its increasing alignment with sustainable finance principles, and we anticipate 2022 being a similar year to pre-pandemic years when compared with 2020 and 2021.

We see significant liquidity in Islamic banks, and the Islamic arms of local and regional banks in the UAE are strongly positioned for 2022. The aim remains for Islamic finance products in the UAE to reach 25% of the total banking assets in the UAE and we expect 2022 to be a year of progress toward that target, and for Islamic finance to exceed that of the conventional sectors in the coming years. (P)

# IFN FORUMS 2022

## AWARDS

**IFN Awards**  
KL  
**IFN Kuala Lumpur Awards**  
30<sup>th</sup> March

**IFN Awards**  
DUBAI  
**IFN Dubai Awards**  
26<sup>th</sup> May

## EVENTS

**IFN THOUGHT LEADERSHIP DIALOGUES**  
2022  
**IFN Thought Leadership Dialogue**  
26<sup>th</sup> May  
Dubai

**IFN KSA**  
DIALOGUES  
2022  
**IFN KSA Meet**  
30<sup>th</sup> May  
Riyadh

**IFN UK**  
FORUM  
2022  
**IFN UK Forum**  
5<sup>th</sup> September  
Mansion House, London

**IFN AFRICA**  
FORUM  
2022  
**IFN Africa Forum**  
13<sup>th</sup> September  
Abuja, Nigeria

**IFN ASIA**  
FORUM  
2022  
**IFN Asia Forum**  
27<sup>th</sup> September  
Kuala Lumpur

**IFN GREEN & SUSTAINABLE FINANCE FORUM**  
2022  
**IFN Green & Sustainable Finance Forum**  
28<sup>th</sup> September  
Securities Commission Malaysia

**IFN INDONESIA**  
FORUM  
2022  
**IFN Indonesia Forum**  
3<sup>rd</sup> October  
Jakarta

**IFN OMAN**  
FORUM  
2022  
**IFN Oman Forum**  
17<sup>th</sup> October  
Muscat

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