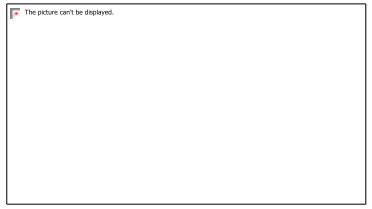


Islamic Finance: Navigating Rough Waters

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Oct. 20, 2026



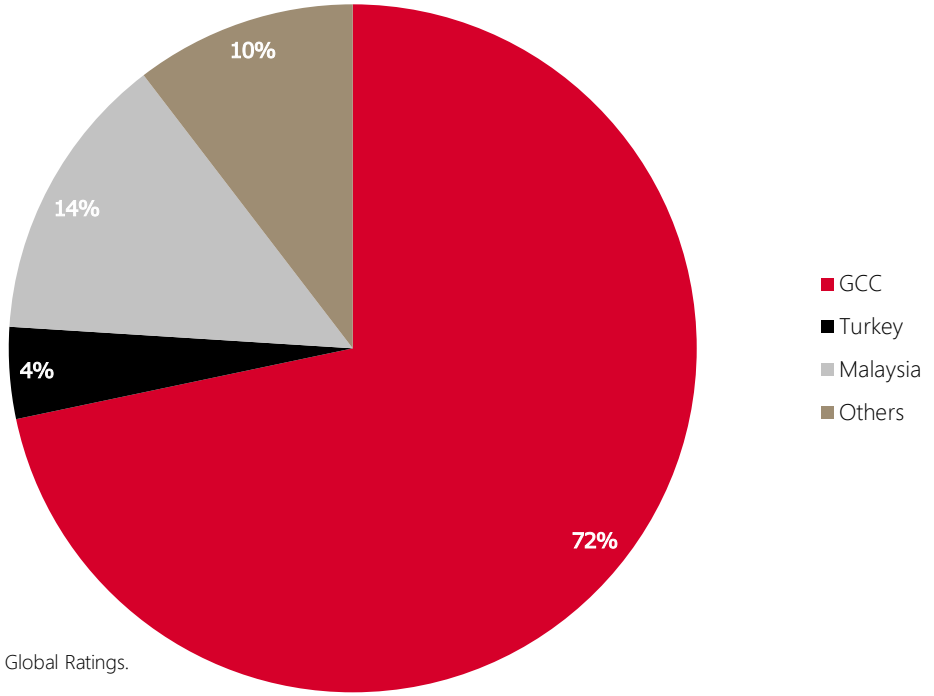
This report does not constitute a rating action

Agenda

- Impact of the Middle East War
- The Three Key Challenges
- Key Takeaways

The GCC Accounts For A Significant Portion Of Islamic Finance Assets

Islamic Banking Assets Remain Concentrated By Geography

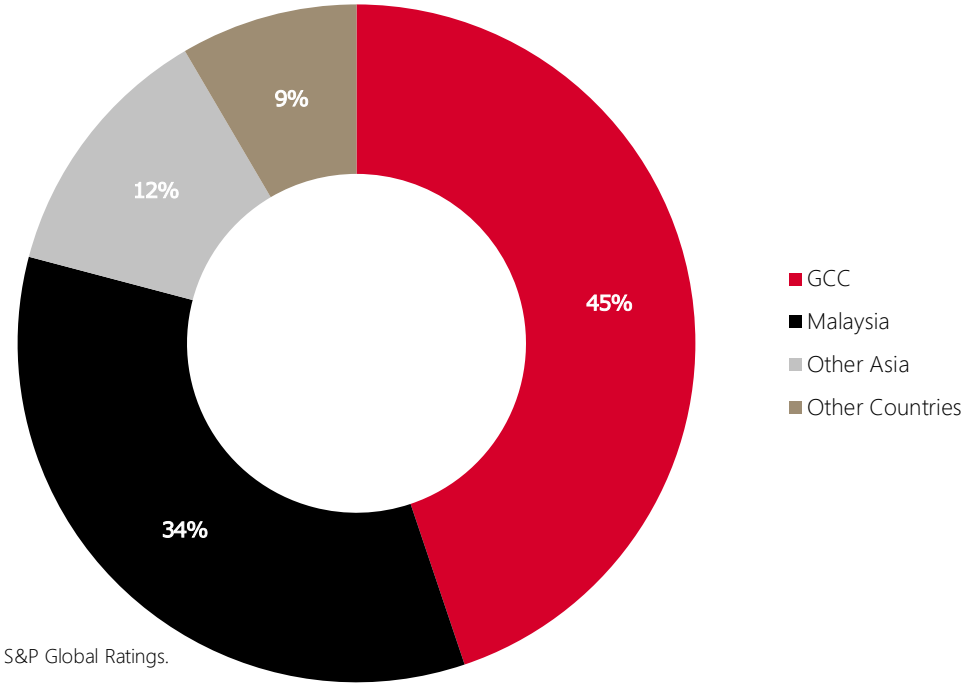


Source: S&P Global Ratings.

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Data as of yearend 2025

Sukuk Issuance Shows Similar Concentration



Source: S&P Global Ratings.

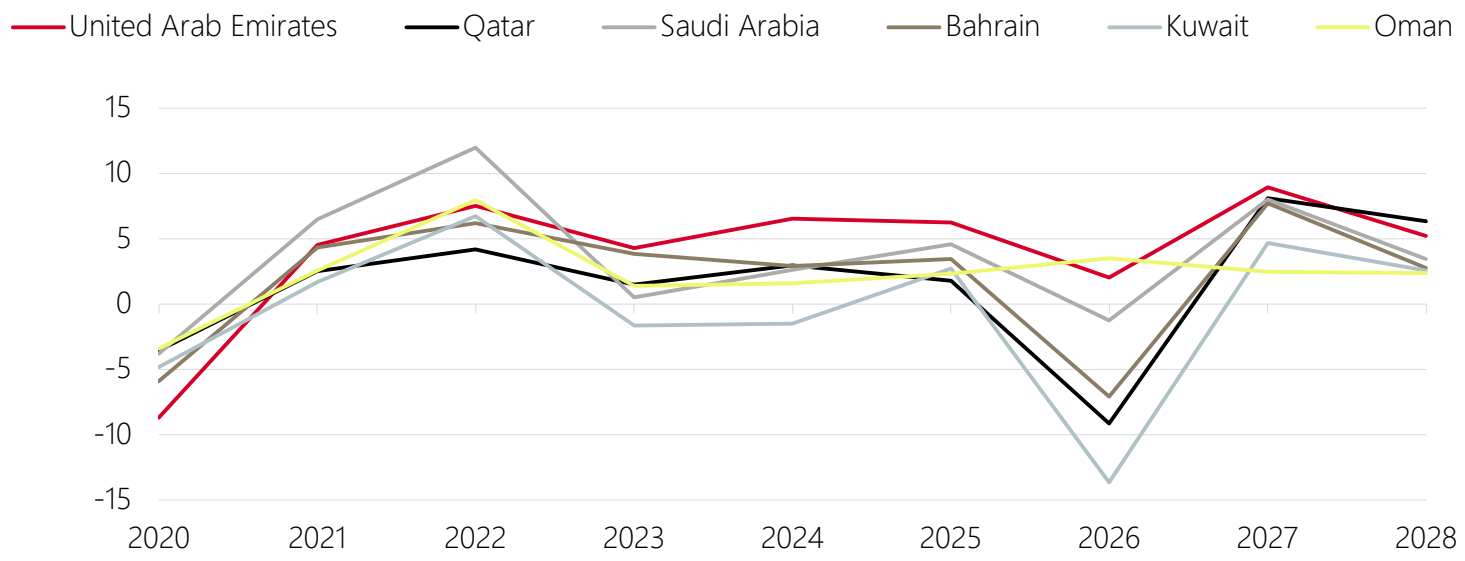
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A Major Contraction For Some GCC Countries Followed By A Strong Recovery

Economic Contraction In Four Out Of The Six GCC Countries



Source: S&P Global Ratings.

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Our base-case assumptions

- Disruption from the conflict will last through 2027 - trade flows through the SoH will, on average, remain below pre-war levels (around 75%).
- Periods of military escalation and negotiation will continue, possible geographical expansion.
- Oil price assumption of $95/bbl for remainder of 2026, falling to an average of $80/bbl in 2027.
- It is possible there is no final, permanent agreement between the US and Iran; prolonged uncertainty.
- For Qatar, Bahrain and Kuwait, the expected economic contractions are more severe than Covid19 contractions.

Sovereign Rating Stability Through The Middle East Conflict

The rating impact from the conflict has been contained *so far*, but downside pressures continue to mount



- All ratings and outlooks have remained the same since the end of February 2026, aside from Iraq's outlook.
- Our stable outlooks are supported by an expected strong, hydrocarbon-driven economic recovery in 2027 and robust fiscal buffers for some countries.
- Prolonged geopolitical uncertainty could strain public finances, rattle confidence-sensitive investment and consumption, and expose variances in sovereigns' fiscal ability to absorb lengthy disruptions.

Note: FC Ratings displayed only. For graphical purposes, we omit 'AAA', 'AA+', ratings in the 'CCC' category are grouped in the table. SD--Selective default. Source: S&P Global Ratings.

Some Corporate Sectors Will Be Affected

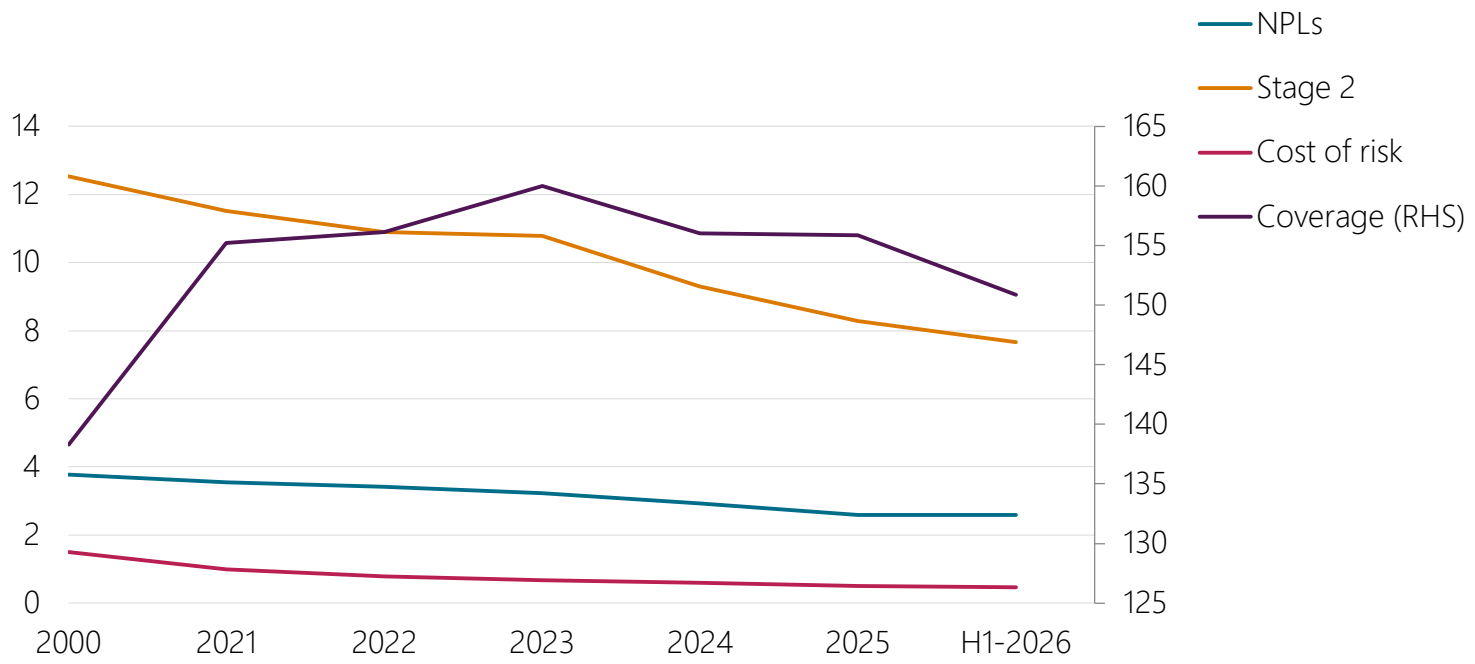
	Dubai	Abu Dhabi	Saudi Arabia	Qatar	Kuwait	Bahrain	Oman
Hospitality	High risk	High risk	Some risk	High risk	High risk	High risk	Some risk
Residential real estate developers	Some risk	Neutral	Neutral	Some risk	N/A	N/A	Neutral
Luxury residential real estate developers	High risk	High risk	N/A	N/A	N/A	N/A	N/A
Aviation	High risk	High risk	Some risk	High risk	High risk	High risk	Neutral
Transportation and logistics	High risk	High risk	Some risk	High risk	High risk	High risk	Positive
Real estate companies	Some risk	Neutral	Neutral	Some risk	N/A	N/A	N/A
Construction and contracting	Some risk	Some risk	Some risk	Some risk	N/A	N/A	Neutral
Consumer and retail (discretionary)	High risk	Some risk	Some risk	Some risk	High risk	High risk	Neutral
Consumer and retail (non-discretionary)	Some risk	Neutral	Neutral	Some risk	Some risk	Some risk	Neutral
Education (K-12)	Some risk	Some risk	Neutral	Some risk	N/A	Some risk	Neutral
Oil and gas (including OFS and downstream)	N/A	Some risk	Some risk	High risk	High risk	High risk	Positive
Chemicals (petrochemicals and fertilizers)	N/A	Some risk	Some risk	High risk	High risk	N/A	Positive
Metals and mining	Some risk	Some risk	Some risk	N/A	N/A	Some risk	N/A
Healthcare	Some risk	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Telecommunications	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Utilities	Neutral	Neutral	Neutral	Neutral	N/A	N/A	Neutral

K-12--Kindergarten to grade 12. N/A--Not applicable. OFS--Oil field services. Source: S&P Global Ratings.
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- The conflict will weigh heaviest on sectors reliant on tourism, consumer spending, transportation and logistics and energy.
- Defensive sectors, including utilities and telecommunications, remain resilient.
- For corporates, we also expect profitability effects given higher logistics costs, reassessment of discretionary capital expenditure, and lower volumes of capital market debt issuance in 2026.
- Renewed conflict undermines growth by affecting regional expatriate populations, weighing on consumption, and permanently deterring some inward investments. These elements could also hamper longer-term potential growth for most sectors.

Banks Continue To Display Resilience

GCC banks asset quality is still resilient



Source: S&P Global Ratings.

- GCC banks' credit quality remains stable, supported by solid capital buffers and cyclically low non-performing loans and credit losses.
- Deposits continued to grow while credit growth is slowing to an average of 5%-7% expected for 2026.
- Key channels of transmissions are:
  - 1- Sovereign rating changes.
  - 2- External funding outflows.
  - 3- Local funding outflows.
  - 4- Asset quality deterioration.
- All GCC banks remain on Stable outlooks, with one exception for idiosyncratic reasons that predated the war.

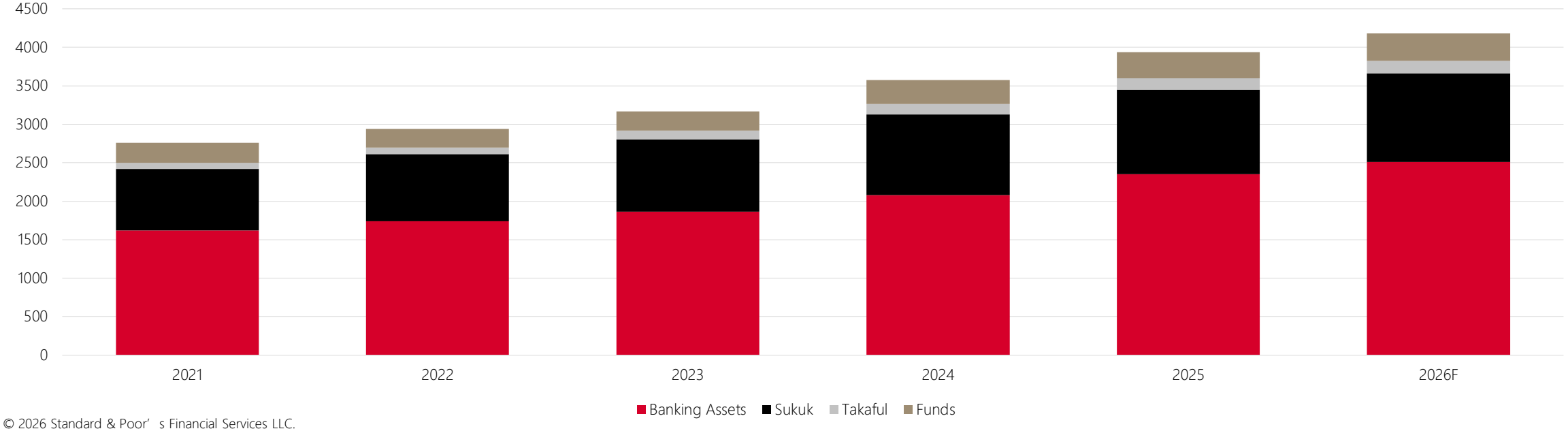
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Expect A Slower But Positive Growth

- Islamic finance assets have more than doubled over the past decade. They reached almost $4 trillion at YE2025 (excluding Iran) driven primarily by the growth of the banking assets and sukuk issuances.
- We expect lower growth in 2026 because of the Middle East war that is affecting the growth of banking assets and sukuk issuances. The prospects for 2027 appears more positive thanks to the expected strong economic recovery in the GCC.

A $4 Trillion Industry

The Global Islamic Finance Industry Continued To Expand in 2025



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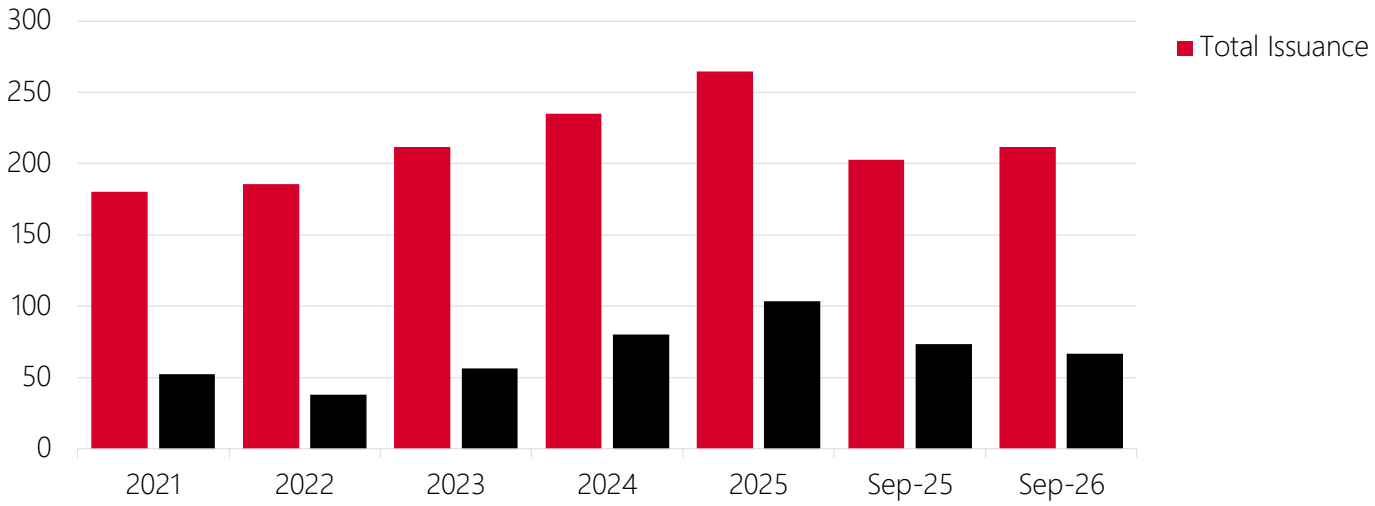
Source: Central Banks, Eikon, S&P Global Ratings, S&P Market Intelligence

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Resilient Sukuk Market

Total Sukuk issuances increased in 2026, but FX issuances dropped

The Sukuk Market Displayed Resilience



Source: S&P Global Ratings.

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Source: S&P Global Ratings and Refinitiv

- Global sukuk issuance increased 4.4% in 3Q-2026 in dollar terms compared with 2025.
- Strong performance from Malaysia, Iraq, Qatar and Türkiye explain this increase.
- Foreign currency issuance dropped by 9% due to lower issuances from the UAE and Saudi Arabia because of the Middle East war.
- Higher issuances from Malaysia and Turkiye helped to amortize the shock. Future performance will depend on the resolution of the Middle East war and the trajectory of the U.S. monetary policy.

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The Three Key Challenges

#1: A preference for conventional private placements

Issuers were attracted by liquidity, simplicity and swift execution…

Bond

Decision to issue → Standard documents → Market

PP



Sukuk

Decision to issue → Adjustment of legal environment → Identify the asset and structure → Negotiation (Sharia, Lawyers) → Finalization of the documents → Market

S&P Global Ratings

#2: Divergent Sharia interpretations

Sharia interpretation for digital assets will help shape the prospects for the industry

- Recent debates, such as those regarding Standard 62 and the Sharia-compliant nature of crypto assets, highlight the diversity of scholarly views. Greater consensus will be crucial for the future growth of both the industry and the emerging digital sukuk market.
- In April 2025, AAOIFI announced its Sharia Board is amending the initial draft of Standard 62 following industry feedback. The Board has not yet provided details of the amendments or a timeline, leaving the implementation process uncertain and the standard's potential market impact difficult to quantify. We do not expect the revision to affect market performance in 2026.
- A critical unresolved question is whether the ownership of underlying assets must be effectively transferred to investors and how this might alter recourse mechanisms for sukuk holders in a default scenario.

#3: Assets Related Risks In Sukuk

- Physical destruction of assets could affect the repayment of sukuk instruments.
- While we still consider the risk of TLE/PLE to be remote for rated sukuk, we have examined their underlying assets to identify cases that could be potentially subject to heightened risks in the current environment. We have excluded rated sukuk where assets are located outside of the GCC.
  - **Many sukuk are issued with land parcels as underlying assets.** This is the case mainly for sovereigns and some real estate developers. In our view, realizing a TLE/PLE for land would be extremely improbable. We also note that for many transactions, the pool of underlying assets is diverse and dispersed geographically, which contributes to our assessment.
  - **A few corporate sukuk use industrial or commercial real estate (typically shopping malls)** as underlying assets. These account for around 3% of the rated sukuk total. We consider that these assets can be subject to heightened TLE/PLE risk due to targeted strikes in the countries where they are located.
  - **Sukuk legal documents are supposed to cover TLE/PLE risk.** This has never been tested. While we expect issuers to protect sukuk investors' interest and maintain their credibility in a period of heightened volatility, some small or less creditworthy issuers might explore the possibility of legal loopholes to share potential losses with sukuk investors.

Key takeaways

A blip and not a permanent shock: We expect a slowdown followed by a strong recovery.

Streamlining the process of issuance and harmonization of Sharia interpretation could help unlock future growth opportunities.

The war could expose weaknesses in the sukuk legal documents and imply some adjustments.

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