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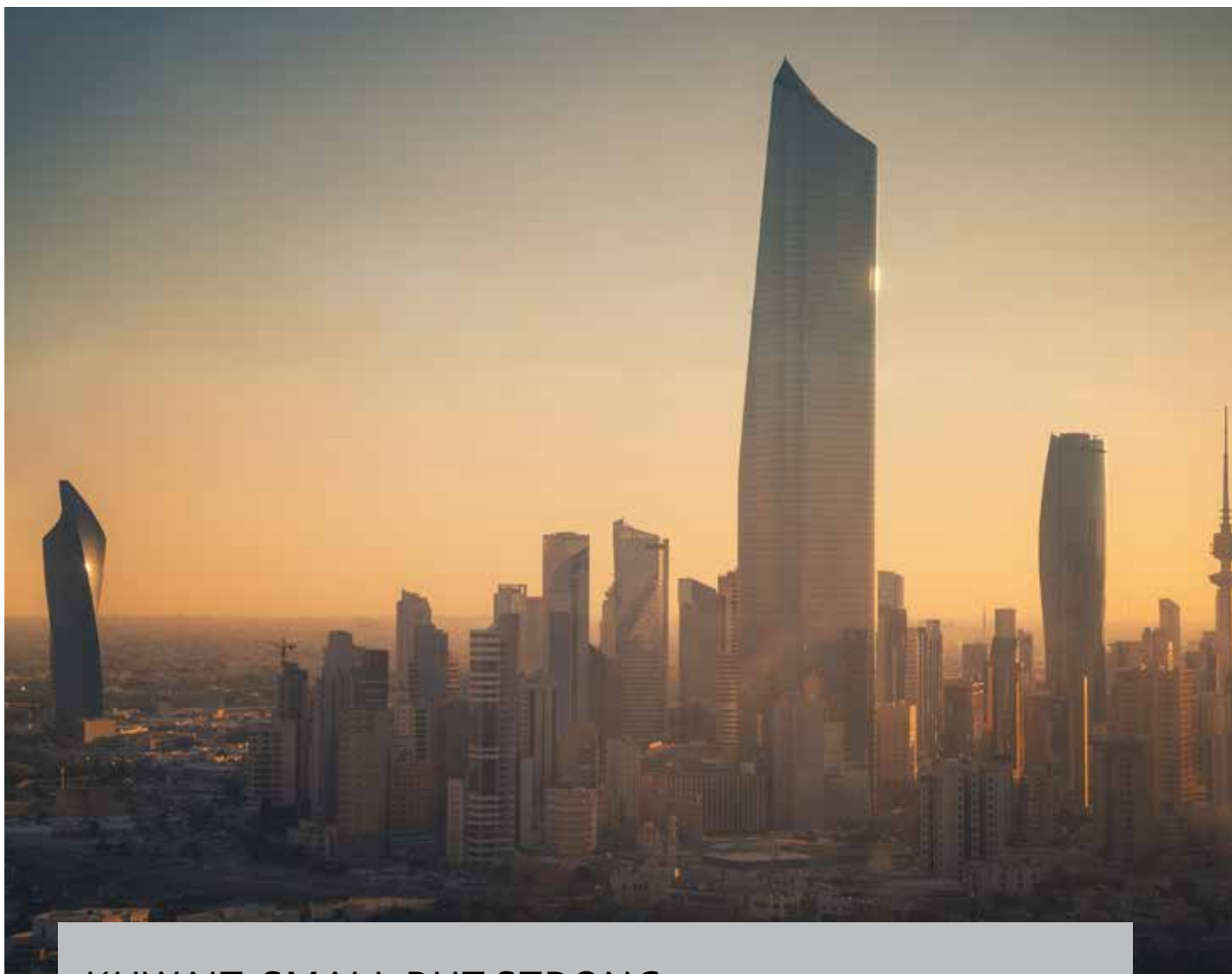
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KUWAIT: SMALL BUT STRONG

Kuwait is the fifth leading nation in global Islamic economy development according to the Islamic Financial Services Industry Stability Report 2019. NESSREEN TAMANO highlights the last 12 months of Kuwait's Islamic finance and banking industry.

Regulatory landscape

The regulators — the Capital Markets Authority (CMA) and the Central Bank of Kuwait (CBK) — have backed Kuwait's Islamic finance and banking industry with regards to a legal infrastructure to facilitate Shariah compliant activities. Islamic banks are regulated under Law No 30 of 2003, and the CMA issued Sukuk regulations in 2015, which gave greater clarity to issuances in terms of structuring and governance.

In 2019, the CBK issued comprehensive Shariah audit regulations, and announced plans to launch certification for Shariah auditors. The central bank also finalized a draft law on establishing a centralized Shariah board.

In February 2020, Kuwait's National Assembly unanimously voted in favor of the establishment of a Shariah inspection body by the central bank to regulate the country's Islamic banking and finance sectors.

Banking and finance

There are six fully-fledged Islamic banks in Kuwait — Kuwait International Bank (KIB), Kuwait Finance House (KFH), Boubyan Bank, Warba Bank, Bahrain-based Ahli United Bank (AUB) and the Kuwaiti branch of Saudi-owned Al-Rajhi Banking & Investment Corporation.

The planned merger between KFH, the country's first Islamic bank which started operations in 1978, and AUB is expected to result in



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the world's largest Islamic bank, but it has been put on hold until the global coronavirus situation has stabilized. The merger was first proposed in 2018.

Boubyan Bank also made a US\$212.1 million all-cash offer to fully acquire BLME Holdings, the parent company of UK-based Bank of London and The Middle East (BLME).

Islamic windows are currently not permitted by the central bank.

In the financing sector, Al Mulla International Finance Co is the only licensed fully-fledged Islamic finance company in the country, but other finance companies do offer Shariah compliant solutions.

Some noteworthy deals include a US\$600 million Murabahah facility secured in January 2020 by Alafco Aviation Lease and Finance Company — which exclusively offers Shariah-based commercial aircraft leasing products — and a Murabahah financing deal in December 2019 worth KWD350 million (US\$1.15 billion) jointly managed by KFH and the National Bank of Kuwait for Kuwait Petroleum Corporation.

“Kuwait remains a major industry player backed by strong government support and an enabling regulatory framework”

The country's Islamic asset management industry is vibrant — the central bank lists at least 12 Shariah compliant funds out of over 50 in Kuwait.

Sukuk

The Kuwaiti Islamic Sukuk market, while small, has seen much activity this past year, particularly from corporates. In May, KIB issued a US\$300 million perpetual Sukuk facility classified under Tier 1 capital that was oversubscribed 15 times. Later in the year, the bank announced it was considering a new Sukuk program worth up to US\$2 billion to support its expansion strategy. In September, Warba Bank issued a US\$500 million Sukuk facility that was also oversubscribed 6.32 times.

In February 2020, Boubyan Bank sold a US\$750 million Sukuk facility that was oversubscribed 6.12 times and Kuwait-based Equate Petrochemical Co announced plans to issue a benchmark Sukuk facility alongside conventional bonds.



GFH Financial Group also has a US\$500 million Sukuk issuance in the works, and KFH, amid global concerns about the coronavirus crisis, disclosed its plans to issue Sukuk or other Islamic debt instruments.

As for sovereign papers, the central bank continued to issue short-term Tawarruq facilities alongside conventional papers.

Takaful

The Takaful sector is regulated by the Ministry of Commerce and Industry under Kuwait's insurance law, Law No 24 of 1961. In January 2019, the Council of Ministers approved the establishment of a separate regulatory body for the insurance sector.

According to the IFSB, in 2017, Kuwait's Takaful sector held 22.1% of the insurance sector's total premium, and of that, 87% was contributed by General Takaful.

Outlook

Kuwait has, in general, been affected by the sharp decline in oil prices triggered by the impact of COVID-19 on the global economy. However, as the country's central bank continues to play a pivotal role in international Islamic finance-related institutions, Kuwait remains a major industry player backed by strong government support and an enabling regulatory framework. 🌐

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WARBA BANK — KUWAIT'S FIRST FINANCIAL INSTITUTION TO ISSUE DINAR-DENOMINATED SUKUK

Warba Sukuk

KWD150 million



17th June 2020

Warba Bank issued a KWD150 million (US\$486.03 million) senior unsecured Sukuk facility structured on the Shariah concept of Wakalah on the 17th June 2020. SHAHEEN H ALGHANEM walks us through the details of the bank's debut dinar Sukuk issuance.

The five-year floating rate Sukuk facility is the second series issued from the bank's US\$2 billion Trust Certificate Issuance Program and is the industry's debut Kuwaiti dinar-denominated issue. The Sukuk facility is listed on Euronext Dublin.

The bank's inaugural Sukuk issuance in September 2019 was a US\$500 million issuance, the first senior Sukuk issued by a Kuwaiti bank. The bank's success with that pioneering undertaking established a long-sought pricing benchmark for Kuwaiti Islamic banks and paved the way for an issuance by a second Kuwaiti Islamic bank in February 2020. A third issuer is believed to be about to announce its intended issuance imminently. Warba Bank had established its Sukuk program in July 2019 with the objective of being ready to tap the capital market opportunistically to achieve the twin goals of effectively managing its cost of funds and efficiently complying with the Central Bank of Kuwait (CBK)'s regulatory liquidity requirements.


This five-year Kuwaiti dinar Sukuk facility was priced on a floating rate basis at 100bps above the CBK discount rate, netting an initial all-in rate of 2.5%. The bank opted for a floating rate issuance in its domestic currency to match its asset-liability profile given that its assets are predominantly denominated in the Kuwaiti dinar and priced on a floating rate basis. The Sukuk facility was structured on the Shariah concept of Wakalah as it is a globally acceptable structure for Sukuk issued by financial institutions and would therefore

maximize the audience from among the investee community.

The success of the issuance reflects the confidence investors have in the performance of the bank and in its strategy, which includes an aggressive push into the digital banking space. It is an endorsement of their confidence in the CBK-regulated banking system and the economic strength and stability of the State of Kuwait as it navigates through the COVID-19 pandemic.

This issuance establishes a new pricing benchmark for the market and will spur the development of the capital market as there is now a Kuwaiti dinar-denominated reference point for issuers and investors. We are proud of this achievement as it is a success for Warba Bank, the Islamic finance industry and a significant milestone for the development of the capital market and sound investment atmosphere prevailing in the State of Kuwait.

I would like to express my appreciation to the CBK and the Capital Markets Authority for their support in granting the requisite approvals and facilitating a regulatory environment conducive to the growth of the capital market which is essential for the long-term development of Kuwait's economy. I would also like to extend my appreciation to the bank's board of directors and Shariah board for their visionary leadership and guidance leading to the successful execution of the transaction.

Shaheen H Alghanem is CEO of Warba Bank. 

Issuer	Warba Sukuk
Obligor	Warba Bank
Size of issue	KWD150 million (US\$486.03 million)
Mode of issue	Sukuk Wakalah – floating rate
Purpose	General corporate purposes
Tenor	Five years
Reference rate	CBK discount rate
Margin	100bps
Currency	Kuwaiti dinar
Maturity date	17 th June 2025
Lead manager(s)	KFH Capital, Boubyan Bank, Burgan Bank, KAMCO Invest
Principal advisor(s)	KFH Capital
Bookrunner(s)	Boubyan Bank, KFH Capital, Burgan Bank
Governing law	KFH Capital
Legal advisor(s)/counsel(s)	Clifford Chance and International Counsel Bureau, Kuwait
Listing	Euronext Dublin
Underlying assets	Ijarah and Murabahah
Rating	Not rated
Shariah advisor(s)	Standard Chartered and Al Mashoorah Al Raya, Kuwait
Structure	Wakalah
Tradability	Freely tradable
Investor breakdown	Kuwaiti investors
Face value/minimum investment	KWD50,000 (US\$162,009) and integral multiples of KWD1,000 (US\$3,240.18) in excess thereof



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KUWAIT – AN EVENTFUL MONTH

September was an eventful month for Kuwait starting with Warba Bank's acquisition rumors, parliament's deliberations of the Public Debt Law, Kuwait Finance House (KFH)'s new board elections, Kuwait International Bank's Sukuk approval and finally the passing of Kuwait's emir.

Public Debt Law came to the forefront again with tight liquidity rumors about the country's deficit budget. This was discussed, debated and negotiated between parliament's Economic and Financial Committee and the government for approval with a lot of moving back-and-forth, and finally a rejection by the committee to endorse the law as it has requested to lower the amount from KWD20 billion (US\$65.13 billion) to KWD10 billion (US\$32.57 billion). As parliament is due to disband by the end of September before the new elections next November, the law may be passed as a necessity bill pending endorsement by a new parliament.

Also in September, the much-anticipated annual general meeting for KFH took place and elections for new a board of directors for the next three years went through smoothly after the government withdrew its request to take up its full seats at the board. As a result, most of the same board directors were reelected. This can pave the way for the merger with Ahli United Bank by the end of the year.

Kuwait International Bank has received the central bank's approval to issue US\$300 million in Sukuk this year, and this will help to boost its Tier 2 capital to conform with the BIS Regulations.

Strong rumors were circulating that Warba Bank, the youngest and smallest Kuwaiti bank operating under Shariah, was being targeted for takeover by Gulf Bank. This has pushed Warba Bank's share price by around 20% during the month. If this takeover proceeds, it will mimic National Bank of Kuwait's takeover of Boubayan Bank in 2009.

The most notable event that took place during the month was a downgrade of Kuwait's sovereign credit rating by two notches to 'A-' by Moodys Investors Service. Explaining the rationale for the rating downgrade, Moody's said with the government's debt law yet to be passed and the General Reserve Fund's assets likely to be depleted before the end of the current fiscal year (ending in March 2021), government liquidity risks have increased.

In addition, there is a lack of harmonization between parliament and the government in approving the Public Debt Law. Even if the debt law is passed — whether by parliament or by a decree from Kuwait's emir while parliament is in recess — it will likely not provide a credible medium-term funding strategy, which was a key driver behind Moody's initiating the review for downgrade in March.

"Kuwait International Bank has received the central bank's approval to issue US\$300 million in Sukuk this year"

Finally, Sheikh Sabah Al Ahmad Al Sabah, the emir of Kuwait, passed away on the 29th September at age 91. He had ruled Kuwait since 2006 and steered its foreign policy for more than 50 years. His designated successor is his brother, Crown Prince Sheikh Nawaf Al Ahmad Al Sabah. Sheikh Sabah had been in hospital in the US since July following surgery for an unspecified condition in Kuwait that same month.

Sheikh Sabah sought to balance relations with Kuwait's bigger neighbors — forging the closest ties with Saudi Arabia, rebuilding links with Iraq and keeping dialogue open with Iran.

Issam Altawari is the managing partner of Newbury Economic Consulting. He can be contacted at issam@newburyconsultancy.com.

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Boubyan Bank partners with ExpandCart

Boubyan Bank has partnered with ExpandCart, a platform specializing in building online shops, as part of the Islamic bank's strategy to collaborate with digital start-ups. This cooperation, Boubyan Bank will provide an exclusive offer on all of ExpandCart's packages for Boubyan Bank's enterprise and SME customers.

CBK places bonds and related Tawarruq papers

The Central Bank of Kuwait (CBK) has announced that the most recent issues of its bonds and related Tawarruq facilities totaled KWD240 million (US\$782.27 million), with a tenor of three months and a rate of return of 1.25%.

NBK Capital receives license

NBK Capital has been licensed to market 13.5 million shares of 20th Limited Islamic Leasing and Financing Fund Company at US\$10 per share, according to an announcement by the Capital Markets Authority. The firm is entitled to a 2.25% subscription commission. The one-year marketing license is renewable annually. NBK Capital, National Bank of Kuwait, Boubyan Bank and Boubyan Capital Investment Company are interested in subscribing to the shares.

Kuwait Finance House

Kuwait Finance House has announced the appointment of Abdulwahab Issa Abdulwahab Al Rushood as acting group CEO effective the 18th October 2020.

First Takaful Insurance makes payment

First Takaful Insurance Company has made a KWD4.02 million (US\$9.14 million) payment for investment in generated income from a real estate investment portfolio in the third quarter, according to a bourse announcement.

CBK issues bonds and related Tawarruq facilities

The Central Bank of Kuwait (CBK) has announced in a statement that the most recent issues of its bonds and related Tawarruq facilities totaled KWD240 million (US\$545.62 million), with a tenor of three months and a rate of return of 1.25%.

Kuwait International Bank

Mustafa Sayed Hassan Al Zalalah, the vice-chairman of Kuwait International Bank's Shariah supervisory board, has

tendered his resignation. According to a bourse filing, Mustafa has been selected as a member of the Supreme Shariah Supervisory board at the Central Bank of Kuwait.

KIB to issue Tier 2 Sukuk

Kuwait International Bank (KIB) has obtained the approval of the Capital Markets Authority to issue Tier 2 capital Sukuk worth up to US\$300 million or its equivalent in other currencies, a bourse filing confirmed. The issuance is to enhance the bank's capital base as per the Capital Adequacy Ratio Standard – Basel 3.

Warba Bank

Sheikh Dr Issa Zaki Shakra and Sheikh Dr Mutlaq Jasser Al Jasser have resigned from the Shariah supervisory board of Warba Bank due to their selection as members of the Supreme Sharia Supervisory Board at the Central Bank of Kuwait, according to a bourse statement.

Al Madina for Finance and Investment Company

Al Madina for Finance and Investment Company has announced in a bourse filing the resignation of Mohamed Amin Abdelkader Kjairey as the head of the Internal Audit Department effective the 7th October 2020.

Markaz says no material financial impact from fire

Kuwait Financial Centre (Markaz) has announced in a bourse filing that a fire incident involving its development project in the US has no material financial impact on the company and it expects to fully recover the amount from the insurance claims in line with the policy.

National Bank of Kuwait Group

The National Bank of Kuwait Group has announced that Jim Murphy, its group CFO is retiring effective the 31st October 2020 after a 20-year career with the bank. Sujit Ronghe, the group's financial controller, will be acting group CFO from the 1st November 2020.

Central Bank of Kuwait

The Central Bank of Kuwait (CBK)'s board of directors has approved the establishment of the Higher Committee of Shari'ah Supervision at the CBK.

According to a press release, four experienced Fiqh and Islamic banking specialists have been appointed as members on the 5th October 2020 for a three-year term which is renewable: Dr

Essa ZE Shaqra as the chairman and Dr Khaled MY Boodi, Mostafa Sayed HA Alzelzalah and Dr Motlaq JM Aljaser as members.

Gatehouse Capital renews license

Gatehouse Capital's license has been renewed by the Kuwaiti Capital Markets Authority for another three years. The Islamic financial firm can conduct activities as an investment advisor and subscription agent, according to an announcement.

Al-Madina acquire shares

Al-Madina for Finance and Investment through one of its subsidiaries has acquired 99% of Arabian Pen Educational Company, a subsidiary of its associate company Ektitab Holding Company, for KWD450,000 (US\$1.47 million), according to a bourse filing. This will result in the group's ownership of about 22% of the capital of Jiyad Holding Company.

Goldilocks sells KHCB shares

Goldilocks Investment Company has sold 700,000 of its shares in Khaleeji Commercial Bank (KHCB), reducing its direct ownership interest in the Islamic bank to 9.86% from 9.94%, confirmed a bourse filing.

GFH Financial Group clarifies share status

GFH Financial Group in a bourse filing has made a clarification with reference to GFH's disclosure on the 30th September 2020 regarding the results of its ordinary general meeting where a proposal was made to authorize GFH's board of directors to take the appropriate decision regarding the continuity of listing of GFH's shares on Bursa Kuwait. GFH has clarified that the matter is under consideration by the board and has not yet been decided upon. The company assured that shareholders and the markets will be informed once a decision has been made.

Boubyan Bank and FinFin Capital collaborate

Boubyan Bank has signed a partnership agreement with FinFirst Capital as part of the bank's strategy of investing in digital banking services' development and services that support the growth of the banking industry. According to a press release, FinFirst Capital recently launched the FinFirst financial services app which will be utilized by the Islamic bank to help increase its digital sales channels. 📱



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DISCUSSION INTRODUCTION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN KUWAIT

The world has changed. How our industry - Islamic banking, finance and investment - chooses to respond to these changes may be a generation-defining moment. Can Islamic finance in Kuwait use this opportunity to become truly responsible, inclusive and ethical, while at the same time contributing to the country's growth and development? How can we as an industry ensure this is substance over form on a permanent basis? What opportunities do the UN Principles for Responsible Banking offer Islamic financial institutions in Kuwait? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies? What is an accurate assessment of the situation with bank consolidation in Kuwait, and what will be the best course of action for the domestic Islamic banking industry? We ask a respected panel for a new roadmap to success for Islamic banking, finance and capital markets in Kuwait.

YOUR PANEL



ISSAM AL TAWARI
*Founder and Managing Partner,
 Newbury Consulting*



CASSIM DOCRAT
Director, DDCAP (DIFC)



DR JAMSHAIID ANWAR CHATTHA
*Former Assistant Secretary-General,
 IFSB*



MOHAMMED BADER AL-JOUAN
Senior Advisor – Banking Sector



NITISH BHOJNAGARWALA
*Vice-President, Senior Credit Officer,
 Moody's Investors Service*



TARIQ AL-RIFAI
*CEO, Quorum Centre for Strategic
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KUWAIT: A COMPELLING PROPOSITION

IFN returned once again to Kuwait for yet another lively, positive and progressive forum discussing the latest achievements and enormous future potential of the Kingdom within the Islamic finance arena. Already an important market for Islamic finance and with a long-standing commitment to Shariah compliant banking, recent regulatory progress in Kuwait has paved the way for yet further growth, allowing the country to stretch its wings as a pioneer within the Islamic finance industry. LAUREN MCAUGHTRY writes.

The potentially groundbreaking amendment of the public debt law, which if passed could signal the nation's first sovereign Sukuk, has been awaited with bated breath, and provided an obvious focal point for the event, while Kuwaiti investors have also been recognized for their active momentum both in the GCC, the US and Europe, bringing an asset management flavor to the table.

Back to basics

The first day kicked off with a comprehensive discussion on 'Back to Basics', looking in detail at all the opportunities for Islamic finance to flourish in the state. Moderated by Issam Al Tawari, the founder

and managing partner at Newbury Consulting, the panel debated how Islamic finance in Kuwait could contribute to the country's growth and development while still supporting sustainable and socially responsible finance and investment strategies.

The wide-ranging conversation also discussed the complexities of bank consolidation in the country and evaluated the best course of action for the domestic Islamic banking industry, attempting to create a new roadmap for success across the retail, wholesale and capital markets.

There is no denying that Kuwait in 2020 has faced some challenges, and

it has been an exceptional year from all angles. Oil prices started the year at US\$60 and dropped to as low as US\$11. Kuwait's budget is based on a price of about US\$55 and it is currently sitting at about US\$41, making the situation obviously uncomfortable. Kuwait entered the year with a deficit of around KWD9.4 billion (US\$30.66 billion), and this is expected to go up to KWD13–14 billion (US\$42.41–45.67 billion), so the public debt law and the possibility of Sukuk comes at a timely point — but what can the Kingdom's economy expect over the coming year? Kuwait saw the longest lockdown in the world, and along with the oil price shock the COVID-19 crisis has also shaken its economy — particularly with the



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deferral of consumer loan payments, which has cost the Kuwaiti banking system an estimated US\$1 billion and seen the potential postponement of the long-awaited Kuwait Finance House (KFH)/Ahli United Bank (AUB) merger. Moody's Investors Service downgraded the sovereign for the first time in September, a month that also saw the tragic passing of Emir Sheikh Sabah Al-Ahmed Al-Sabah.

The implication of all of these elements will be drastic on both the Kuwaiti economy and the Kuwaiti financial system. But can the Kingdom's Islamic banking system weather the storm? On the whole, the panelists were optimistic.

"Kuwait's major source of revenue is in trouble. So Kuwait is absolutely in trouble. The only question is the magnitude of the trouble"

- Dr
Jamshaid
Anwar
Chattha



Dr Jamshaid Anwar Chattha, the former assistant secretary-general of the IFSB, was matter-of-fact about the situation. "Kuwait's major source of revenue is in trouble. So Kuwait is absolutely in trouble. The only question is the magnitude of the trouble, and what efforts are taken to get out of this trouble," he stated. "The banking sector entered the crisis from a position of considerable strength, but the health crisis and the oil price crash is going to make things very difficult for them and we will see that coming through in the 2021 results."

Mohammed Bader Al-Jouan, a senior advisor of investments at Ahli Capital Investment Company, agreed. "The country's macroeconomics is not healthy, no. But the environment for doing business in Kuwait before

COVID-19 was on a slow growth track, and I believe it will go back to that."

"Kuwait is facing a fiscal crisis, but it is not unique — the entire region is facing a crisis," pointed out Tariq Al-Rifai, CEO of the Quorum Centre for Strategic Studies. "The Kuwaiti central bank is very conservative, even compared to its peers in the region, and that has helped it weather this storm quite well. But going forward, it will need to become more entrepreneurial and come up with some more ideas to energize the sector going forward."

"Islamic banks have been extremely resilient and in our assessment we feel they have the right buffers in terms of capital and loan-loss reserves that will help them navigate future challenges"

- Nitish
Bhojnarwala



Nitish Bhojnarwala, the vice-president and senior credit officer at Moody's Investors Service, gave some valuable context. "Despite the unique position of Kuwait due to its reliance on oil prices, from an economic standpoint we expect non-oil GDP, which is where most of the Islamic banks and financial institutions do their business, to see a 4.5% decline in 2020, but we expect that to recover in 2021 with growth of 2.2%, and then a further 2+% growth in 2022."

So growth and the economic activity will come back. From a macro standpoint there are no unique headwinds, and some emerging markets have declined much more than Kuwait. And from a banking and financial institutions' perspective, they are coming into this from a position of strength, and the system is one of the most resilient in the region — which has much to do with the way the central bank

has been running things, and its focus on building up high provisions. There is certainly a recovery in the pipeline."

In fact, the outlook is surprisingly optimistic, despite the headwinds. "While the medium- to long-term prospects are good, in the short term there are some challenges ahead, primarily driven by COVID-19," admitted Cassim Docrat, a director at DDCAP. "But in the wholesale market on the liquidity management side, we have found quite a resilient climate with liquidity being managed very well."

In terms of new business there hasn't been a lot of activity, but in terms of resilience, most of the Islamic institutions we deal with have not seen much fallout yet, especially when compared to other markets in the region. That resilience is interesting."

"Islamic banks have been extremely resilient and in our assessment we feel they have the right buffers in terms of capital and loan-loss reserves that will help them navigate future challenges," agreed Nitish.

"While the medium- to long-term prospects are good, in the short term there are some challenges ahead, primarily driven by COVID-19"

- Cassim Docrat



Within the central bank, the inclusion of a higher Shariah authority could be a new beginning, suggested Cassim, that could push Islamic banking forward in Kuwait. In addition, the inter-country merger between KFH and Bahrain's AUB could be immensely important, on the scale of the Abu Dhabi Commercial Bank–Union National Bank–Al Hilal Bank merger in Dubai, when it comes to creating an influential player with real clout in the Islamic space. 📌

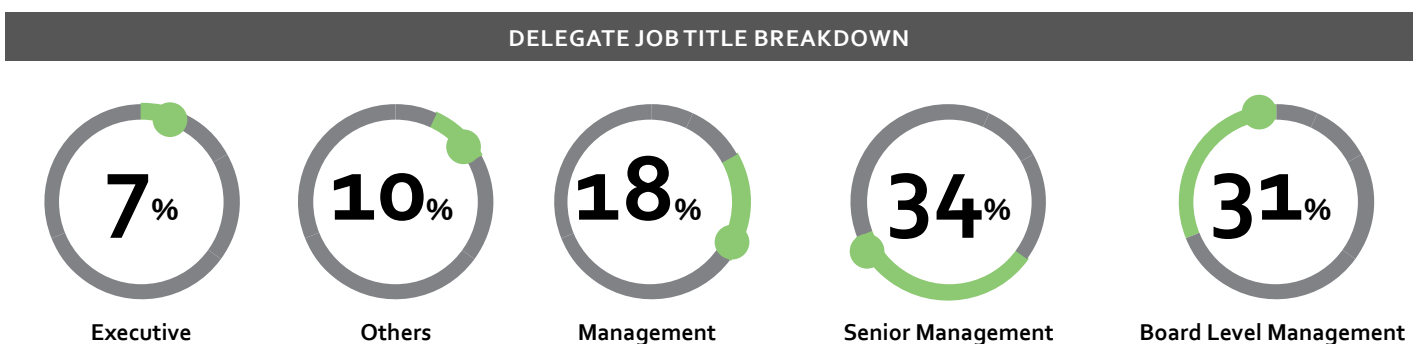
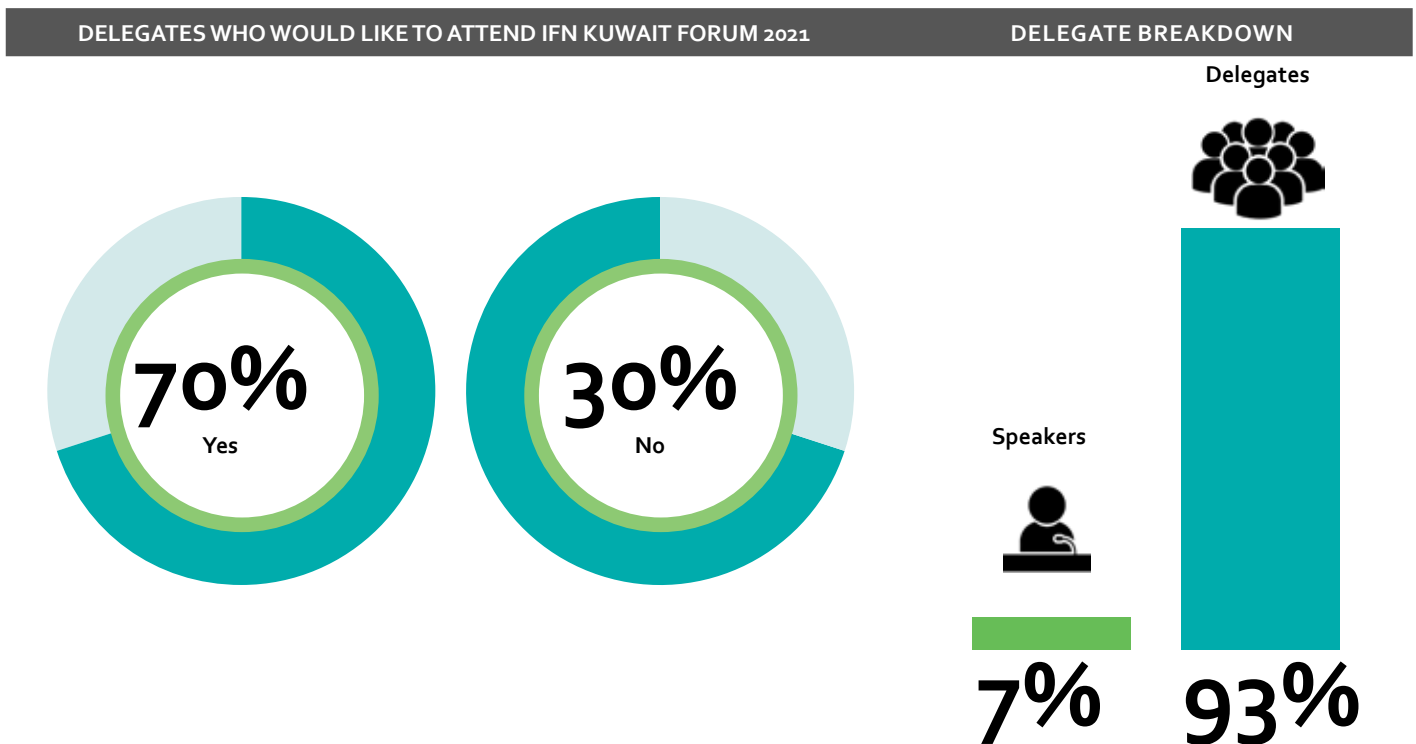
KEY TAKEAWAYS

Kuwait's Islamic financial services sector is well established, with a long history of pioneering within that area in both Islamic banking and Takaful, or Islamic insurance. The segment has expanded in recent years, building on the country's reputation as an emerging center for Shariah compliant banking, insurance and investment products. The government has enacted a series of laws and regulations aimed at further developing Islamic finance, and there remains a strong demand for such products.

This is reflected in the country's increasing global share of Shariah compliant assets, with Kuwait accounting for 6.3% of such products in 2019, up from 6% during the same period of 2018, according to the IFS Industry Stability Report 2019 published by Kuala Lumpur-based IFSB in July 2019. The GCC as a whole was home to 44.3% of all Islamic financial assets in 2019.



Mohammed Bader Al-Jouan is a senior advisor of investments at Ahli Capital Investment Company.



DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)



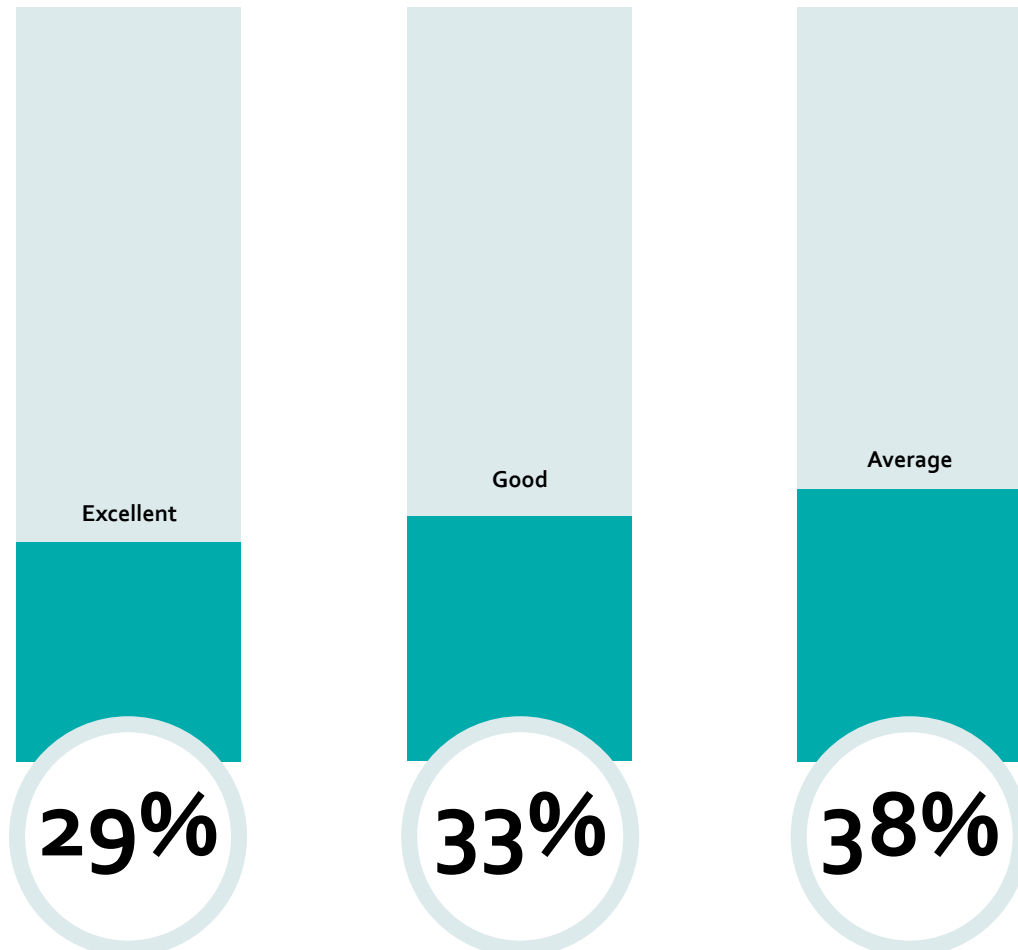
55%
Local



45%
International

SESSION EVALUATION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN KUWAIT



FUNDING, INFRASTRUCTURE, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN KUWAIT

Are Sukuk still a viable option for Kuwaiti banks seeking to enhance liquidity and capital management, while diversifying funding sources? What can technology, particularly tools such as blockchain, offer capital market and asset management innovation in Kuwait? What more needs to be done to drive the issue of Shariah compliant tradeable securities, including Sukuk, in the country? What regulatory changes would be helpful and constructive toward this objective? How can Islamic finance mobilize in Kuwait to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the corporate sector? How can sustainable and responsible investment make progress in Kuwait and can the UN Sustainable Development Goals be applied to the State's Islamic finance activities? Lastly, we examine the country's infrastructure requirements in the coming years and ask what can be funded through Islamic facilities, how can risk be effectively managed and do public-private partnerships offer a viable opportunity?

YOUR PANEL



ABDULKADER THOMAS
Group CEO, SHAPE™
Knowledge Services



AJAI THOMAS
Chief Financial Officer, Kuwait
International Bank



DR HESSAH AL-MOTAIRI
Assistant Professor, Department of
Mathematics, Kuwait University



M.R. RAGHU
Executive Vice President and Managing
Director, Marmore Mena Intelligence



NOURA ALABDULKAREEM
Head of Markets Sector, Boursa Kuwait



FINDING THE FUNDING

The second day took the conversation to a whole new level, drilling deep into the real opportunities that exist in Kuwait and how these can realistically be funded.

Led by veteran Islamic finance expert and SHAPE Group CEO Abdulkader Thomas, it discussed the viability of Sukuk as an option for Kuwaiti banks to enhance their liquidity and explored the benefits that technology could bring to the table for banks seeking to diversify their funding sources.

Never shy of touching on controversial topics, the panel also debated honestly and openly the requirement for ongoing regulatory change to help address the ongoing challenges in the real economy and mobilize Islamic finance to provide much-needed support during the current COVID-19 crisis.

Finally, it also examined the country's infrastructure requirements in the coming years, asking what could perhaps be funded through Islamic facilities, how

could that risk be effectively managed and whether public-private partnerships offered a viable opportunity to do so.

"Our market is in love with two asset classes: it's always either equities or real estate," elaborated Noura Alabdulkareem, the head of the markets sector at Boursa Kuwait. "The flow of liquidity between these two asset classes is not ideal, whether it terms of portfolio allocation or risk mitigation. This brings us to bonds and Sukuk — how can such a global asset class be of such negligible value in our market?"

The knowledge of such an asset class locally is largely reserved for treasury desks within banks, and some investment firms that offer some type of fixed income funds. Last time I checked the central bank website, the total issuances of the government were around KWD4.5 billion

"Our market is in love with two asset classes: it's always either equities or real estate"

— Noura Alabdulkareem



(US\$14.68 billion), the majority focusing on short-term maturities. Part of our initiative here at Bourse Kuwait is to create a platform for actually trading fixed income and Sukuk. As we try to bridge that gap, we realized our market is fragmented in terms of types and means of trading.



We have the backing of the Capital Markets Authority, and we are making great efforts to advance the fixed income asset class by creating more robust rules and creating this platform for trading. But will that bring in investors who will adopt? We have a non-existent yield curve, a relatively small value of corporate issuances, a scarcity of trading between banks and a lack of detailed knowledge of the asset class.

"But in 2020–21, Islamic banks will focus more on improving asset quality, and focus less on business growth"
– MR Raghu



about the importance of bonds and Sukuk. We should phase out the CBK [Central Bank of Kuwait] full guarantee of deposits, so that people invest in CBK issuances rather than locking their money up in guaranteed deposits."

"The public debt law, that would allow the government to issue bonds and Sukuk, hasn't been approved yet but we are waiting for it to launch and it should be imminent"

– Dr Hessah Al-Motairi



an assistant professor in the Department of Mathematics at Kuwait University. "The public debt law, that would allow the government to issue bonds and Sukuk, hasn't been approved yet but we are waiting for it to launch and it should be imminent."

MR Raghu, the executive vice-president and managing director at Marmore Mena Intelligence, pointed out that Islamic banks still entered the current pandemic in a very good position in terms of asset quality, profitability and capitalization. "This is probably what is sustaining us now. But in 2020–21, Islamic banks will focus more on improving asset quality, and focus less on business growth. So we need to be mindful of the big picture."

Finally Ajai Thomas, CFO at Kuwait International Bank, was articulate on the importance of sustainable and socially responsible finance, particularly through the UN Sustainable Development Goals and how these correlate to real asset-based, ethical Islamic finance objectives.

The main driver of the Kuwaiti capital market is the retail investors, and we need to get them involved and raise awareness

"Kuwait has officially recorded a budget deficit, and they need to issue public debt," pointed out Dr Hessah Al-Motairi,

To hear the full conversation and learn more about the detailed opportunities, challenges and outlook for Islamic finance in Kuwait, download or listen to the whole event for free at redmoneyevents.com. (🔊)

KEY TAKEAWAYS

Bursa Kuwait is working to build a diversified platform to embrace conventional and Islamic instruments. The mandate includes instrument standardization. A challenge is that local investors prefer equity and real estate investments. Bursa seeks to build retail awareness about fixed income alternatives. Yet, one wonders if retail investors would switch to fixed income, including Sukuk, as long as the central bank offers deposit protection.

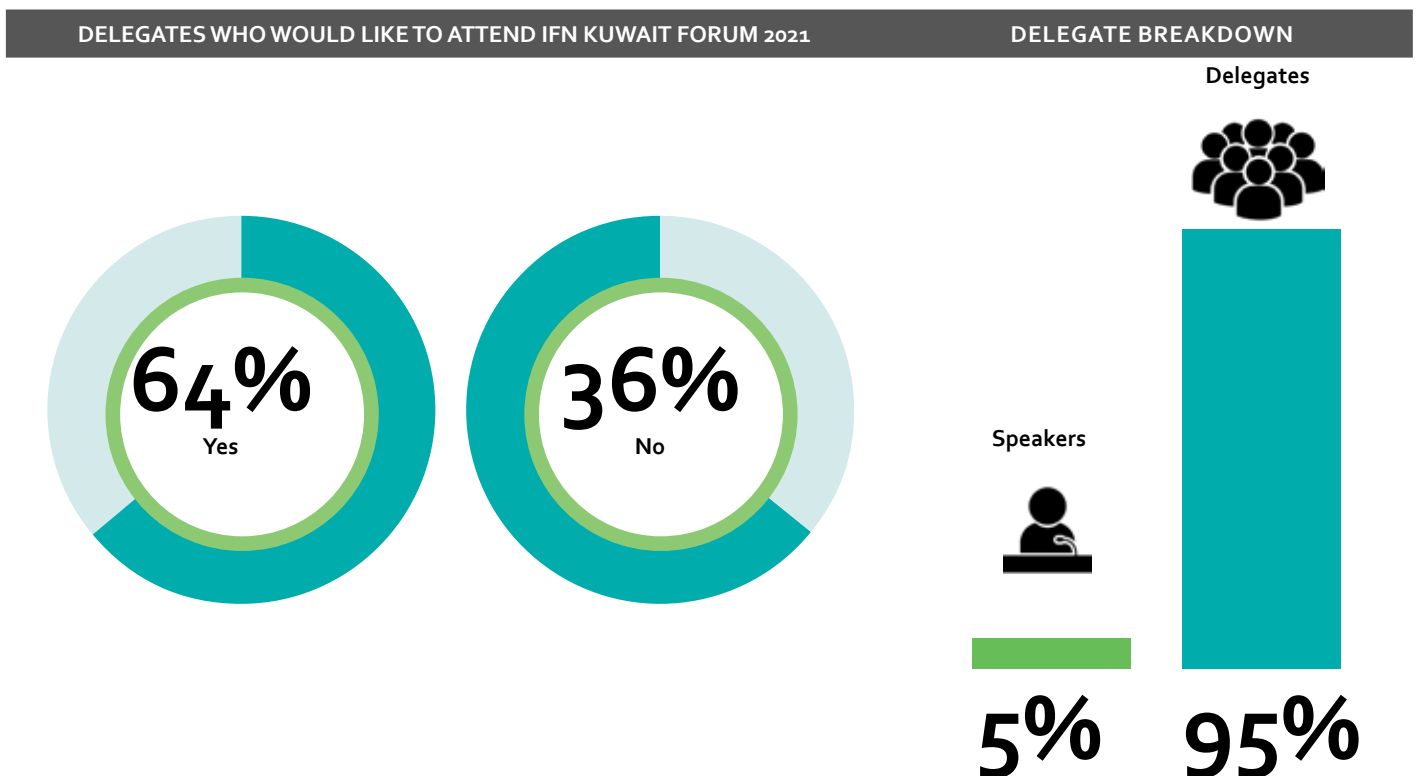
To develop the Sukuk market, corporate issuers need the market to embrace international investors. There is a disconnect between Kuwait and the international market. Today, all clearing in Kuwait is local. International investors require transparency, a yield curve and the global clearing companies. Opportunities for economic growth and investment it seems will come from Kuwait's proposed KWD150 billion (US\$489.33 billion)-worth of anticipated infrastructure projects.

Despite the recent difficulties and COVID-19, the panelists found a number of areas for optimism. It was noted that the decline in asset quality was creating an opportunity for mergers and acquisitions in the banking sector. This might make for a more efficient market. Environmental, social and governance (ESG) is slowly percolating in the domestic market. Yet as Kuwait prepares for inclusion in the MSCI Emerging Markets Index, MSCI's ESG team visited Kuwait.

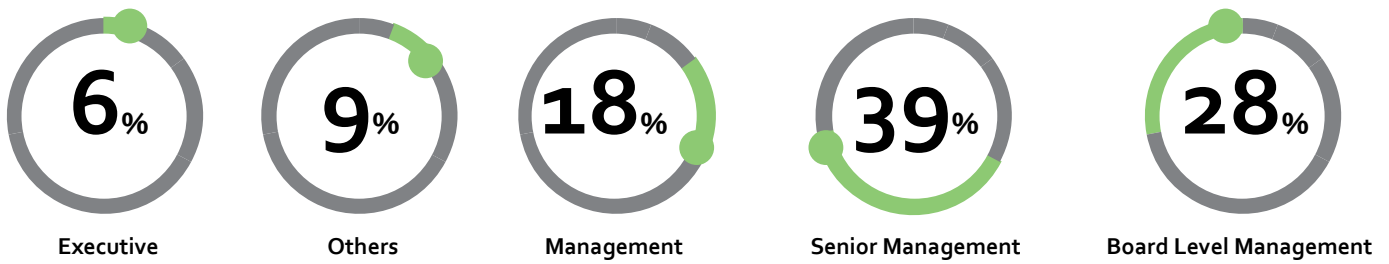
The audience wished to know the implications of the central bank's Shariah board. Though it is a good idea to usher in standardization, however, there are concerns that some scholars may lack technical knowledge to examine some instruments and projects. From Bursa Kuwait's perspective, Shariah is an investor preference.

Despite Kuwait's strong financial position, the sudden increase in deficit spending has a negative impact on the country. The panelists agreed on the importance of the public debt law, ideally with a ceiling above KWD20 billion (US\$65.24 billion).

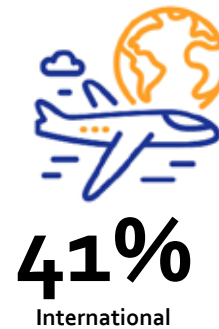
Abdulkader Thomas is group CEO of SHAPE Knowledge Services.



DELEGATE JOB TITLE BREAKDOWN

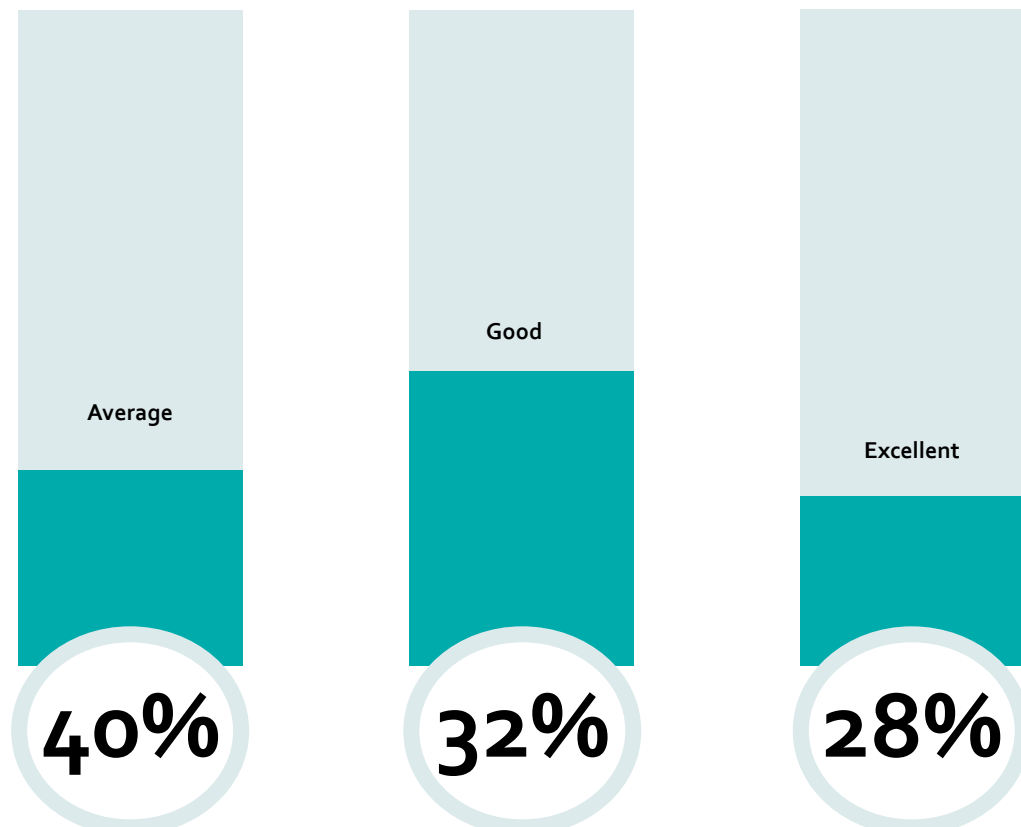


DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)



SESSION EVALUATION

FUNDING, INFRASTRUCTURE, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN KUWAIT



Abu Issa Holding	FTI Consulting	Kuwait Petroleum Corporation
Accuracy Beginning Business	HAGNUS Group	Kuwait University
Action Group Holdings (AGH)	Hamad Bin Khalifa University	Marmore Mena Intelligence
Addecco Middle East (FAB)	Howard Kennedy	Moody's Investors Service
AIFC	Ibriz	MuslimPay
Al Manar Financing & Leasing	ICLA Legal & Corporate Services	National Bank of Pakistan
Al-Bahar Group	Iconify Consulting and Creative	National Investment Company
Al-Hossam Legal	IFSB	Newbury Consulting
Aljuman Import and Export	Industrial Bank of Kuwait	Patti
Ausscar Financial Group	Infopro	Powas equinox Insurance Broker
Autoriti Monetari Brunei Darusalam	Ingenious Haus Group	Quorum Centre for Strategic Studies
Bank Boubyan	International Shariah Research	Qurain Petrochemical
Bank of London & Middle East	Interplan Financial Incorporation	Qurain Petrochemical Industries
BLIDA University	Islamic Corporation Developmen	Rays Gen.Trading & Cosulting
Boubyan Bank	Islamic Development Bank ICIEC	Rayyanat Najd
Boursa Kuwait	JGTC	SAL Gropu
Credit Rating & Collection	Kamco Investment Company	Salaam Gateway
Cykube	Keepers Advisory Services	Saudi Real Estate Refinance Co
DDCAP	KFUPM	Selim Megatama Group
Distinct Model Schools	KILAW	SHAPE Knowledge Services
Eiger Trading Advisors	KIPCO	SinoGulf (DIFC)
Ellani Software Solutions	Korea University	TAIF Digital
Energy investment	Kout Pictures	TAJ Bank
Fairway Group	Kuwait Finance House (Bahrain)	The CIB
FINEOPOLIS Consulting	Kuwait Financial Centre Markaz	United Nations
First Abudhabi Bank	Kuwait Fund	Universiti Pendidikan Sultan Idris
First Securities Brokerage Co	Kuwait International Bank	Vanguards Academy
Foot Anstey	Kuwait Investment Authority	Warba Bank