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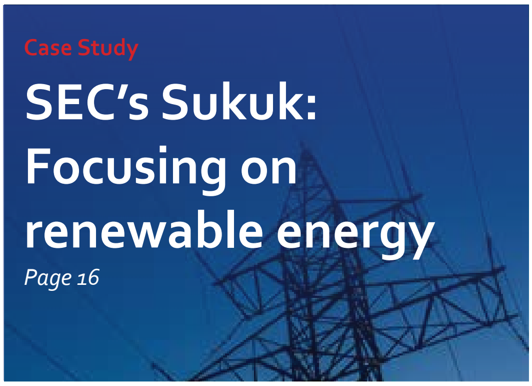
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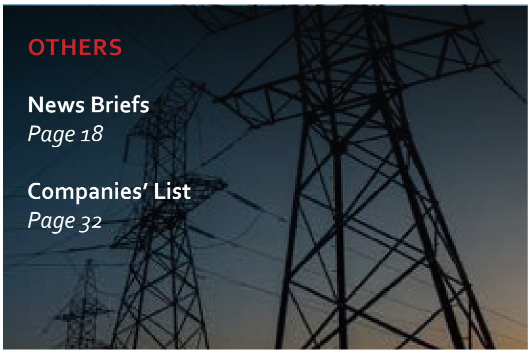
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SAUDI ARABIA: HOLDING POSITION

An Islamic banking and finance pioneer, Saudi Arabia's Shariah banking industry holds a 51.5% share of its domestic market. NESSREEN TAMANO reviews the developments in the Kingdom's Islamic finance landscape in the last 12 months.

Regulatory landscape

A single regulatory framework governs both the Islamic and conventional banking industries in the Kingdom, which generally follows Shariah law but has no specific regulation for Shariah banking. All banks have their own Shariah boards to ensure compliance.

The Saudi Arabian Monetary Authority (SAMA) regulates the banking, finance and Takaful sectors and has a dedicated Islamic Finance Division, while the Capital Market Authority (CMA) is responsible for regulating and developing the Saudi capital market under the Capital Market Law.

In May 2020, the Saudi Arabia-headquartered IsDB partnered with the UAE's Ministry of Finance and the Dubai Islamic Economy Development Centre to create a unified global legal and legislative framework for the Islamic finance sector, and will use AAOIFI standards as a reference.

Banking and finance

There are 12 local banks licensed by the SAMA, four of which are fully-fledged Islamic — Al Rajhi Bank, Aljazira Bank, Alinma Bank and Bank Albilad — while the rest operate Islamic banking units.

In June 2019, Saudi British Bank and Alawwal Bank merged to become what is touted as the third-largest lender in the Kingdom by assets.

The past few years have seen developments, including the establishment of the three major rating agencies' offices in the Kingdom as well as interest by foreign banks and financial institutions — including Credit Suisse — to set up offices in Saudi Arabia, which have contributed to the growth of the Shariah banking sector. The UAE's First Abu Dhabi Bank opened three branches in Jeddah in late 2019, and French investment bank Natixis opened its Saudi branch in June 2020.

According to the SAMA's 2019 annual report, total Islamic assets in the GCC amounted to US$927.1 billion, or 42.3% of total Islamic assets worldwide, of which 20.2% is accounted for by Saudi Arabia.

Capital market

The CMA has a parallel market to the main market of the Saudi Stock Exchange (Tadawul), which opened up in 2019 to foreign companies wishing to be listed on the exchange, and the Kingdom is also featured in the MSCI and FTSE Russell indices.

Saudi Arabia debuted its sovereign Sukuk in 2017, that year's largest issue size at US$9 billion. It continues to dominate the global Sukuk market, with a 28.9% or US$21.4 billion share as at the end of 2019 according to RAM Ratings, followed by Indonesia and Malaysia at 25.3% and 18.5% respectively. It also issues local Sukuk monthly under its Saudi riyal-denominated Sukuk program.

The IsDB also made the headlines in 2019 when it issued its first-ever green Sukuk paper worth EUR1 billion (US$1.13 billion), and again in February 2020 when it sold US$2 billion in a five-year Sukuk issuance.

Asset management

The Kingdom remains home to the largest number of Islamic funds worldwide, holding 34% of total Islamic fund assets under management. Tadawul lists 252 mutual funds and 17 Islamic REITs.

Takaful

Operating a fully Islamic insurance market, Saudi Arabia is the largest Takaful market in the world, accounting for more than 87% of total contributions along with Malaysia and the UAE, according to the IFSB's latest data.

It is, however, a highly concentrated market, and insurers in the country are pressured into merging to enhance capability. Some of the mergers in discussion are Al Jazeera Cooperative Takaful Company with Solidarity Saudi Takaful Company; Walaa Cooperative Insurance Company with Metlife AIG ANB; Chubbs Arabia Cooperative Insurance Company with AlAhli Takaful Company; and Al Ahlia Cooperative Insurance Company with Gulf Union Cooperative Insurance Company.

In 2019, the SAMA updated the actuarial regulations of insurance and reinsurance companies to further develop and regulate the performance of actuaries in the Kingdom.

Outlook

The Kingdom shows no signs of slowing down yet, and with a well-established domestic debt market, it has the benefit of easily issuing local-currency Sukuk. There is also strong governmental support — the SAMA injected SAR50 billion (US$13.31 billion) into the banking sector to enhance liquidity amid the coronavirus crisis while the regulators continue to support the Takaful and financing sectors with new regulations and initiatives — and, according to analysts, while Saudi Islamic banks' financial metrics slightly deteriorated in 2019, they remain well above that of their conventional peers.

FOSTERING INNOVATION AND CREATING NEW CUSTOMER EXPERIENCES THROUGH OPEN BANKING

Open banking has been a notion explored by both incumbents and fintechs especially when driving the innovation agenda toward a more complete and experience-driven financial services ecosystem. RAHEEL IQBAL writes that the emergence of COVID-19 has accelerated the agenda by allowing digital organizations to fast-track their developments toward innovations while goading the traditional bricks and mortar businesses to adopt more digital-ready practices.

As the shift in the digital space has now started to be more focused on key business areas such as customer experience, convenience, data integrity and so forth, regulators are now working together to establish open banking regulations to bring together a connected ecosystem whereby all the involved stakeholders from the consumers to the providers duly benefit equally.

The shift toward a more digitally-dependent economy has now urged the new norm for digital phenomena such as cashless payments in the MENA region to flourish. With that being said, open banking regulations are allowing providers to take the next step forward and support use cases such as cross-border payments, digital banking and aggregation. Organizations and regulators are now working more together with each other than they were before — a blessing in disguise — and it has pushed forward the next evolution for the connected digital economy for the region.

Demands for more mobile solutions have leapfrogged years in advance as users are now ever more dependent on the convenience and availability of these offerings which are at the touch of their fingertips and this has cemented the notion that going back to the old ways is almost impossible. Codebase Technologies has been at the forefront in helping traditional banks and upcoming fintechs adopt the open API [application programming interface] revolution through its proprietary Fintegrator proposition which allows banks and fintechs to collaborate and deliver new innovative solutions in a highly secured environment.

There are various innovative use cases and examples of how the open banking agenda can benefit the MENA region such as shared know-your-customer services among banks and other incumbents, and a concept that, in the example of telcos

Raheel Iqbal managing partner, Codebase Technologies

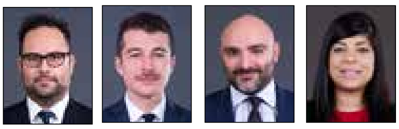
collecting customers' information for offering mobile services, helps service providers validate such information, provides an added convenience and saves on the cost of managing compliance, allowing them to focus on delivering new shared experiences.

The EU, including the UK, has seen a monthly growth of 16% in API calls from 180 million calls in October 2019, with 20–30 million calls added additionally per month. The average API availability sits at 98.48% which in turn allows for a continuously enriched digital ecosystem. Studies has shown that countries that lag behind on these regulations risk being left behind in the global markets, thusly providing the Middle East a golden opportunity to embrace the open banking economy even more. Another innovative use case fostered by open banking has been account aggregation, as well as the use of intelligently architected analytics — these allow customers to link multiple bank accounts and enable intelligent analysis of their expenses, budgets, etc, to suggest beneficial recommendations on how they can save more money by giving them intuitive recommendations to seamlessly switch service providers such as utility, telco and internet providers as well as switch subscriptions.

Using the data from the aggregated accounts, financial institutions can now analyze the readily available information on a customer's financial health and help take and drive data-driven credit decisions. Thus, this use case helps not only to mitigate financial risk both to the customer and institutions but also allows both parties to engage in healthier financial practices that foster better informed and effective decision-making. The market outlook in the MENA region with the presence of open banking aspires to enrich the financial and digital lifestyles of the consumers, although many addressable pain points and challenges are still being worked out. Open banking is poised not only to help fintechs but also deliver connected experiences for regtech, insuretech, e-commerce and healthtech sectors with a single aim to offer new and hyper-personalized propositions to consumers.

COVID-19: IMPLICATIONS ON GLOBAL ISLAMIC FINANCIAL SERVICES

The COVID-19 pandemic is causing widespread disruption to the global financial markets, and while the general implications are broadly the same for Islamic financial institutions as they are for conventional lenders, Islamic financial institutions will face some additional hurdles in dealing with the pandemic. This is partly because Islamic financial institutions are regulated differently and also because of the wider disruption that is occurring in key markets where Islamic financial institutions typically operate. PAUL MCVIETY, PAUL DUKE, RICHARD DASSIN and KIRTI MIDDLETON explore.



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Liquidity

Unsurprisingly, and as is the case with all economic downturns, the liquidity challenge is the most significant impact of the COVID-19-related downturn for both Islamic and conventional financial markets, with those liquidity issues being compounded for Islamic financial institutions in particular given that many will have greater exposures as a direct result of the significant drop in oil prices. That old mantra, 'cash is king', comes to the fore, with market participants needing to take all steps necessary to ensure the continuation of business operations, including confirming available credit lines, preemptively drawing on any available facilities and even expediting any new money deals or bond/Sukuk issuances in order to ensure liquidity.

Central banks and governments across the Middle Eastern region (and the world) have also implemented various regulatory regimes to try to limit issues arising from the lack of liquidity. Key examples include:

- Regimes which see central banks offer facilities directly to banks/customers, noting that from an Islamic finance structuring perspective, any facility utilized by an Islamic financial institution must of course be Shariah compliant (which


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is in contrast to the scheme established by the Bank of England that involves a nominal interest being charged)

- New regulations that require financial institutions to grant customers mandatory payment deferrals and/or maturity extensions, noting that in an Islamic finance context, any deferral or extension would need to operate in a way that is structurally consistent with the underlying Islamic contract (for example, in the context of a Murabahah structure, a deferral of a profit payment might mean that the repayment date for the profit component is extended with the profit component therefore needing to be recalculated using a new Murabahah trade), which is more 'involved' than a deferral of interest under a conventional loan which could simply consist of interest being compounded or capitalized, and

- Existing 'repo' regimes offered by central banks that are designed to assist banks with liquidity management, noting however that only certain markets have dedicated repo programs allowing for Islamic financial instruments to be used as collateral (the Islamic Sukuk Liquidity Instrument established by the Central Bank of Bahrain being a notable example).

Implications for financing documentation

The other key concern for the Islamic finance market is what impact COVID-19 has on the financing documentation for current and future transactions. There is an inherent tension to this question, as Islamic financiers will obviously want to ensure that they are protected in case the risk profile of their customer deteriorates significantly, while customers will want to ensure that the pandemic does not affect their available lines of credit or put them into default for reasons which are outside of their control. The implications from a documentation perspective will therefore be very much specific to the transaction, the commercial profile of the customer and the relevant sector. It is probably too early to say if there are any clear market trends developing.

However, it does appear likely that discussions will be focused around the following areas in particular:

- **Financial covenants**: How COVID-19 affects financial covenants for a transaction will be contingent on the financial covenants included in any particular deal and the wording of those covenants. Customers will want to ensure that any increased costs and loss of revenue associated with COVID-19 are not factored into any testing of financial covenants for problematic periods. There is, however, also the challenge of how any costs/losses should be determined and quantified. This is also very relevant for covenants that are based on the value of physical assets for which valuations become difficult to carry out during periods of lockdown. A fine balance would need to be found and reshaping the parameters of the financial covenants following COVID-19 could lead to lengthy discussions between financiers and their customers.

- **Material adverse change**: While any material adverse change clause has to be interpreted in accordance with its terms, in circumstances where it is the only available event of default, it is unlikely that an Islamic financier would be confident in relying upon it, and usually there are other more clear-cut events on which to rely. Islamic financiers would also need to consider the reputational risk associated with any assertion that a material adverse change has occurred, especially in a context where enhancements and measures have been introduced by governments and central banks to support the economy during the COVID-19 pandemic.

SUKUK FINTECH START-UP RECEIVES GREENLIGHT TO TEST INVESTMENT PLATFORM IN SAUDI

A fintech start-up has gained a license from the Saudi regulator to design, launch and operate a digital platform facilitating offering and investment in debt instruments in a controlled environment.

With a Financial Technology Experimental Permit (FinTech ExPermit) by the Capital Market Authority (CMA), Sukuk Capital Company would be allowed to test its platform in Saudi Arabia. The start-up is targeting SMEs with its solution which would enable businesses in the Kingdom to raise capital through the offering of Sukuk while serving as an avenue to attract collective investments.

Sukuk Capital Company is one of several start-ups which have received the greenlight from the regulator to operate similar business models. Wethaq Capital Markets earlier this year also received a FinTech ExPermit to launch a platform which would support the issuance, administration and distribution of Sukuk. Wethaq expects to float its first Sukuk on the blockchain platform this year.

Concurrently, the CMA also extended a FinTech ExPermit to Osool & Bakheet Investment Company to establish an equity crowdfunding platform. While it is not immediately clear if the platform would be Shariah compliant, it is understood that most if not all of the fintech solutions to be approved by the CMA would meet the needs of Muslim investors and clients.

These two licenses are part of the third batch for the FinTech ExPermit announced late last year. The regulator opened applications for the fourth cohort on the 1st October 2020.

> "The start-up is targeting SMEs with its solution which would enable businesses in the Kingdom to raise capital through the offering of Sukuk"

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ENFORCEMENT OF CAPITAL COMMITMENT STRUCTURES IN SAUDI ARABIA

As the asset management landscape in Saudi Arabia develops and aligns with global best practices, a growing number of investment funds in the Kingdom are being structured on a capital commitment basis. Pursuant to such structures, investors commit to investing a certain amount of money over a certain period of time pursuant to capital drawdowns from the fund manager, as and when needed by the respective fund.

In the event investors default on their commitments to provide the requested funding, fund managers are typically given the right to exercise certain remedies in accordance with relevant offering documents. Such remedies include charging late payment fees, withholding future distributions, preventing the defaulting investors from voting or even forfeiting the defaulting investors' interests in the fund and distributing them to other existing investors.

In the Kingdom, where a considerable number of funds are structured on a Shariah compliant basis, such remedies may prove to be questionable notwithstanding the fact that they have been incorporated in various offering documents approved by prominent Shariah scholars and the Saudi Arabian Capital Market Authority (the CMA). In particular, the extent to which the CMA upholds the provisions of the offering documents and recognizes the relevant default remedies was historically uncertain until a recent judgment was issued in July 2020 by the CMA's appeal committee in which the CMA recognized and upheld certain default remedies exercised by a Saudi Arabian fund manager against a defaulting investor in a private real estate fund.

As background, in January 2019, a Saudi Arabian defaulting investor filed a claim against a Saudi Arabian fund manager who forfeited the investor's units in the fund (in accordance with the fund's offering documents) claiming that its units were unjustly forfeited by the fund manager in violation of the general principles of Shariah (notwithstanding the fact that the fund's offering documents were approved by a reputable Shariah scholar).

In May 2019, the CMA's committee for the resolution of securities disputes issued its judgment in favor of the defaulting investor on the basis that the fund manager violated its obligations under the general principles of Shariah and the Authorized Persons Regulations (now referred to as the Capital Markets Institutions Regulations).

On appeal, however, the CMA's appeal committee overturned the judgment and dismissed the investor's claim on the basis that (i) the investor subscribed into the fund as a sophisticated investor and was well aware of the consequences of default as clearly set forth in the relevant fund documents, (ii) enforcement of contracts in accordance with their terms and enhancing the predictability of enforcement are crucial for supporting the capital market industry in the Kingdom, (iii) the investor clearly defaulted on its contractual obligations under the fund's offering documents, and (iv) the committee does not regard any step taken by the fund manager to be in violation of the applicable regulations.

The judgment issued by the CMA's appeal committee is widely welcomed by fund managers, institutional investors and other participants within the asset management industry in Saudi Arabia, as it clearly removes any ambiguities regarding the enforceability of default remedies and provides comfort to fund managers and institutional investors that enforceability of contractual terms (including default remedies) is clearly prioritized by the CMA.

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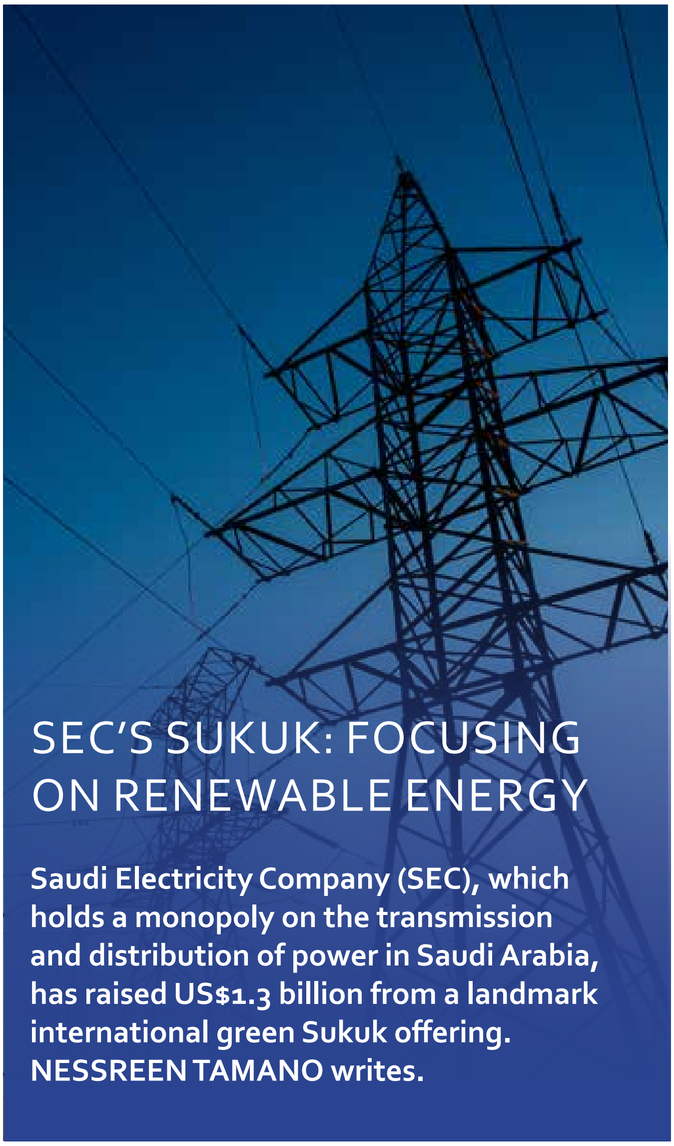

SEC'S SUKUK: FOCUSING ON RENEWABLE ENERGY

Saudi Electricity Company (SEC), which holds a monopoly on the transmission and distribution of power in Saudi Arabia, has raised US$1.3 billion from a landmark international green Sukuk offering. NESSREEN TAMANO writes.

The Islamic paper — the first public green issuance in the GCC region — was oversubscribed four times, attracting investor interest from the Middle East, Asia and Europe, and receiving orders amounting to over US$5.2 billion.

The Sukuk offering features two tranches: five-year and 10-year green Sukuk. "The proceeds from the Sukuk sale will be exclusively used to finance eligible green projects that will help contribute to climate change mitigation," SEC said.

Green capital projects include the procurement and installment of smart meters, creating potential energy consumption savings and potentially reducing or avoiding carbon emissions. Approximately 10 million smart meters are planned to be installed — a project that commenced in January 2020 and is expected to be completed by March 2021.

The construction and operation of the transmission and distribution infrastructure to connect renewable energy sources to the grid is also in the works, with nine energy plant projects in different cities scheduled to be completed by 2021.

The Sukuk issuance follows SEC's Green Sukuk Framework, published in June 2020, that outlines the company's strategy to significantly increase its transmission and distribution business and enhance its interconnectivity in line with the Saudi government's Vision 2030 initiatives. SEC is also focusing on research and development projects with a particular focus on the development of renewable energy projects.

As at the end of 2019, the SEC Group accounted for 69.7% of the electricity generation capacity in the Kingdom. The Public Investment Fund of the Kingdom holds 74.3% of the company's shares, Saudi Aramco holds 6.9% and the general public holds the remaining 18.8%.

Saudi Electricity Company's Sukuk

US$1.3 billion

13th September 2020

Issuer	Saudi Electricity Company
Issuance type	RegS senior unsecured international green Sukuk
Issue size	Tranche 1: US$650 million Tranche 2: US$650 million
Total number of Sukuk	6,500
Currency	US dollar
Par value	US$200,000
Profit rate	Tranche 1: 1.74% per annum Tranche 2: 2.41% per annum
Tenor	Tranche 1: Five years Tranche 2: 10 years
Terms of redemption	Redemption on maturity and early redemption following a change of control event
Listing	Irish Stock Exchange

GAZT signs MoU with Islamic university

The General Authority of Zakat and Tax (GAZT) has signed an MoU with Riyadh-based Imam Mohammad Ibn Saudi Islamic University to cooperate on the exchange of specialized consultations related to Zakat and tax on the accounting side, tax law and public law, a statement said.

Iraqi and Saudi regulators discuss banking policies

Mustafa Ghaleb, the governor of the Central Bank of Iraq (CBI), has met with Dr Ahmed Alkholifey, the governor of the Saudi Arabian Monetary Authority (SAMA), to discuss monetary and banking policies between Iraq and Saudi Arabia, a statement said. Also discussed were the possibility of resuming the training of CBI employees at SAMA, the developments of opening a branch of Trade Bank of Iraq along with other Iraqi banks in Saudi Arabia and an agreement to avoid double taxation in both countries.

Tihama secures Islamic financing

Tihama Advertising and Public Relations Co has secured an Islamic financing facility worth SAR20 million (US$5.33 million) from Samba Financial Group, a bourse filing said. The facility, which has a tenor of two years, will be used to restructure Tihama's financial obligations and provide non-cash facilities for the company.

Edaa launches Repo Collateral Transfer service

Securities Depository Center Company (Edaa) in a statement confirmed the launch of the Repo Collateral Transfer service to facilitate the transfer of collateral required under repurchase agreements.

CMA acts against KLMFX and GCC Group

The Capital Market Authority (CMA) is taking action against KLMFX and GCC Group which have been identified as unauthorized persons to carry out a securities business in Saudi Arabia, according to an official statement.

CMA authorizes Arch Capital

The Saudi Capital Market Authority (CMA) has authorized Arch Capital to conduct the following activities: managing investments and operating funds, as well as arranging and advising activities in the securities business, read a statement.

Al Sagr hires SRB

Al Sagr Cooperative Insurance Company has hired Shariyah Review Bureau (SRB) to manage its Shariah compliance affairs such as setting up a Shariah committee, reviewing all its insurance products and related documents and more.

AlAhli REIT Fund 1 starts expansion

AlAhli REIT Fund 1 has completed the acquisition and title deed transfer of the land adjacent to one of its assets, Al-Andalus Mall, according to a bourse filing. The acquisition is part of the fund's plan to expand the mall and is expected to have a positive impact on both Al-Andalus Mall and the fund. The land was acquired for SAR43.51 million (US$11.6 million).

Saudi Re maintains 'AA+' rating

Saudi Re for Cooperative Reinsurance Co has maintained an 'AA+' insurance financial strength rating with a stable outlook issued by SIMAH Rating Agency, a bourse filing said.

According to the agency, the rating is a reflection of Saudi Re's "strong brand strength, risk profile and competitive advantage" in the Saudi market, as well as the improved level of diversification for its international business.

Wataniya Insurance Co

Wataniya Insurance Co has appointed Tahir Mohammed Al-Dabbagh as a new non-executive member of its board of directors effective the 5th November 2020, a bourse filing confirmed.

Al-Rajhi REIT Fund

Abdulaziz Al Sabt has resigned as a non-independent board member of the Al-Rajhi REIT Fund effective the 8th November 2020, fund manager Al-Rajhi Capital said in a bourse filing.

Alinma partners with JCB

Alinma Bank has partnered with JCB International Co, the international operations subsidiary of Japan's only international payment brand JCB Co, to enable the acceptance of JCB cards through its point-of-sale and ATM network devices deployed in the Kingdom.

Al Mashaar REIT

Muscat Capital has announced in a bourse filing a change in the board of directors of Shariah compliant Al Mashaar REIT due to the resignation of Khalifa Abdullah Muhammad Al Hatami, the chairman and a non-independent member of the board on the 8th November 2020. The company has appointed a new chairman to succeed Khalifa and an announcement will be made once it has obtained approval from the Capital Market Authority of Saudi Arabia.

NBM secures Islamic facility from Alinma Bank

National Building and Marketing Co (NBM), which manufactures and trades building materials, has secured an Islamic financing facility worth SAR15 million (US$4 million) from Alinma Bank, a bourse filing confirmed. The facility, which matures on the 31st May 2021, will be used to finance the company's working capital as necessary.

MEPCO renews Islamic facility

Middle East Paper Company (MEPCO) has renewed a Shariah compliant financing facility worth SAR200 million (US$53.3 million) with Bank Albilad, a bourse filing said. The revolving facility is renewable in August every year, and will be used to finance the company's working capital and capital expansions.

Squire Patton Boggs

Squire Patton Boggs has appointed Ahmed Butt as a partner in its financial services practice based in its Riyadh office, according to a statement. Ahmed, whose expertise covers both Islamic and conventional banking, was previously attached to Simmons and Simmons where he established the firm's Riyadh presence, headed its Middle East banking practice and led its Saudi Arabia practice.

On the 9th and 10th November 2020, IFN gathered some of Saudi Arabia's most influential Islamic finance figures for IFN Saudi Arabia OnAir Forum. Together, these experts explored opportunities in one of the most active markets in the Islamic financial world across multiple segments, including the emerging green and ethical finance sector.

IFN SAUDI FORUM 2020 REPORT/SESSION ONE

DISCUSSION INTRODUCTION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN SAUDI ARABIA

The world has changed. How our industry - Islamic banking, finance and investment - chooses to respond to these changes may be a generation-defining moment. How can Islamic finance mobilize in Saudi Arabia to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the Saudi SME and corporate sector? Can Islamic finance in the Kingdom 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? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies and how can the UN Sustainable Development Goals be applied to the Kingdom's Islamic finance activities? How can Islamic finance continue to play a role in the progress and development in Saudi Arabia's important housing, mortgage finance and privatization programs? We ask a respected panel for a new roadmap to success for Islamic banking, finance and capital markets in Saudi Arabia.

YOUR PANEL

ABDULKADER THOMAS
Group CEO, SHAPE™ Knowledge Services

ASAD AHMED
Managing Director, Alvarez & Marsal

PAUL LATTO
Partner, DLA Piper seconded to Alshahrani Almansour

DR SUTAN EMIR HIDAYAT
Director of Islamic Economy Supporting Ecosystem, National Committee of Islamic Finance

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SAUDI STRENGTH: SETTING UP FOR A BIG YEAR AHEAD

IFN Saudi Arabia Forum is always one of the highlights of the REDmoney events calendar and, despite being in a slightly different format, 2020 was certainly no exception. IFN brought together some of the most influential and experienced experts in the GCC region to discuss the most pressing issues facing the Kingdom today — and how it can continue to forge a role for itself as one of the biggest and most influential Islamic finance markets in the world. LAUREN MCAUGHTRY writes.

One of the largest and most influential Islamic finance markets in the world and accounting for an estimated 20% of total Islamic assets in the GCC, Saudi has seen a spate of mergers and acquisitions in 2020 to consolidate its banking market into an even stronger segment. Its Islamic fund industry is the biggest in the world and home to a thriving REIT sector, while its debt capital market continues to grow from strength to strength both domestically and internationally, including the launch last year of the Kingdom's first-ever green Sukuk.

So where should Saudi go from here — and what are its priorities as we near the end of the challenging year that has been 2020, and look with hope toward a brighter (and less COVID-19-filled) 2021?

"Islamic banking assets increased at an annual growth rate of 16% in the first half of 2020, standing at SAR1.8 trillion (US$480.6 billion) at the end of June 2020"

- Dr Fahad Abdullah Aldossari

SAMA speaks

We were delighted to welcome Dr Fahad Abdullah Aldossari, the deputy governor of apex regulator the Saudi Arabian Monetary Authority (SAMA), who gave us his optimistic insights into the future of the Saudi market.

"The Islamic financial services industry in Saudi Arabia has shown resilience during the peak of the COVID-19 outbreak," Dr Fahad emphasized. "Islamic banking assets increased at an annual growth rate of 16% in the first half of 2020, standing

at SAR1.8 trillion (US$480.6 billion) at the end of June 2020. Islamic banking assets in Saudi Arabia represent almost 25% of global Islamic banking assets, and 72% of the total banking assets at the national level, as of Q2 2020. In addition, the Islamic capital market recorded a significant surge in the issuance of Sukuk, led by sovereign issues by the Ministry of Finance with maturities of up to 30 years. In fact, just in the first half of this year, the Ministry of Finance issued Sukuk worth SAR97 billion (US$25.8 billion).

"On the corporate Sukuk side, we have observed constant growth over the past three years in local and international Sukuk issued by different sectors of the economy. During the first half of 2020, there have been SAR3.7 billion (US$987.8 million) of Saudi Sukuk issued locally and US$1.9 billion of US dollar Sukuk issued by Saudi companies in international markets.

"The nature of Islamic finance is founded on the linkage of the financial system with the real economy. This linkage enables Islamic financial institutions to withstand shocks to the financial system. In addition, a rich variety of Islamic financial products have been introduced, which has created a favorable diversification effect that contributed to increased demand, as well as an enhancement of profitability and stability. Islamic financial institutions have repeatedly therefore been able to navigate challenging circumstances without incurring heavy losses.

"Here at SAMA, we believe the industry can be developed further by tackling a number of challenges. These areas of improvement which SAMA is working on can be summarized into four main categories. The first: operational and human capacity-building, to lead increased efficiency. Second, Shariah governance to increase confidence in products and services. Third, to improve awareness and increase financial literacy. And lastly, promoting innovative technologies to improve efficiency and inclusion."

SAMA has undertaken a number of admirable policy actions to contribute to developing the industry both qualitatively and quantitatively, with a particular focus on innovative fintech solutions. It recently established a sandbox to enable fintech technologies to be tested in a safe environment, and in 2018 partnered with the Capital Market Authority to launch Fintech Saudi to develop the industry further and enable access to opportunities for all. The global pandemic exposed financial systems around the world to unexpected pressure. Central banks have reacted in a timely manner and added a diversified set of monetary, supervisory and regulatory actions. SAMA is no exception, and early on introduced a comprehensive private sector financial support package directed at SMEs, as well as injecting SAR50 billion (US$13.3 billion) into the banking sector to ensure it can continue providing credit.

"Financial inclusion is a continuously moving target, not a static issue"
- Asad Ahmed

Back to basics

Moving on from the regulatory perspective, the first session of the day zeroed in on the question of progress: exploring how Islamic finance can help Saudi Arabia to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the Saudi SME and corporate sectors. The conversation also addressed the issues of inclusivity and ethics, discussing the tricky issues of substance over form and exploring how the core values of Islamic finance can be applied to sustainable and socially responsible financial goals, as well as playing a pivotal role in the vital sectors of housing, mortgage finance and privatization as Saudi seeks to diversify away from oil through its Vision 2030.

Ably hosted by Abdulkader Thomas, group CEO of SHAPE Knowledge Services, the panel comprised both local and international experts across a wide range of fields.

Paul Latto, a partner at DLA Piper, seconded to Alshahrani Almansour, highlighted the emerging confluence between environmental, social and governance and Shariah compliance, as well as emphasizing the fintech element and especially the Saudi regulatory sandbox, which he called "critical and very interesting", while he also stressed the level of regulatory change we have seen recently in Saudi Arabia. "That's going to help on a broad basis, across a lot of areas," he noted.

Financial inclusion was one of the most thoroughly discussed topics and Asad Ahmed, the managing director at Alvarez & Marsal, was optimistic. "Financial inclusion is a continuously moving target, not a static issue," he stressed. "There is no such thing as a late start."

Dr Sutan Emir Hidayat, the director of the Islamic Economy Supporting Ecosystem at Indonesia's National Committee for Islamic Economy and Finance, agreed emphatically. "There is a strong link between financial literacy and financial inclusion," Dr Sutan pointed out. "By enhancing one, you enhance the other. But how can you ensure SMEs in Saudi Arabia can access the Islamic financial services they need? As they grow and look for financial opportunities, Islamic institutions should be looking to provide that for them."

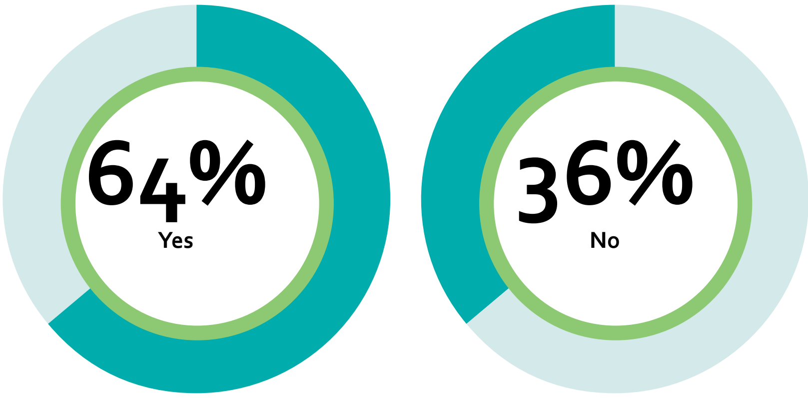
"There is a strong link between financial literacy and financial inclusion. By enhancing one, you enhance the other"
- Dr Sutan Emir Hidayat

The role of fintech was another hot topic during the session, and Asad noted that: "The mobile phone itself is creating a whole new stream of financial inclusion."

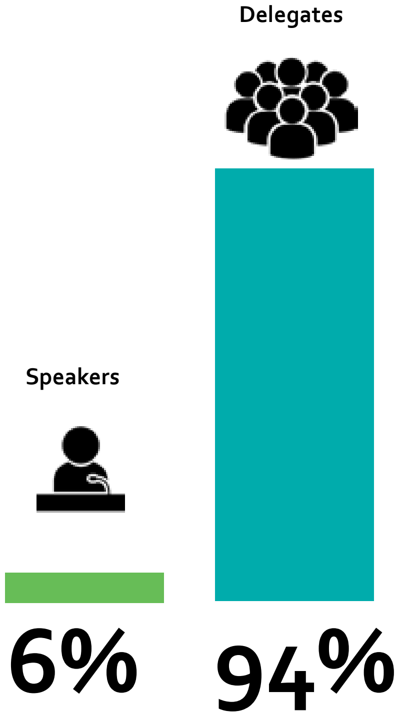
The conversation also revolved around the type of customer in Saudi Arabia, and what they were really looking for when it came to Islamic products. "I am coming more and more to the conclusion that there is room and appetite for a true risk-sharing model when it comes to SMEs," suggested Asad. "I have looked at portfolios of banks and their SME lending capacity, and empirically, you find that if there was a risk-sharing element based on profitability for SMEs, they would come out ok. I think there is an opportunity here for some work to be done — it could be a fundamentally different way for banks to look at Islamic finance, but I think it is an achievable way."

PRE-EVENT CONTACT	OVERALL EVALUATION OF THE EVENT	OVERALL EVALUATION OF THE SPEAKERS
16% Excellent	11% Excellent	17% Excellent
53% Good | 31% Average	47% Good | 42% Average	44% Good | 39% Average

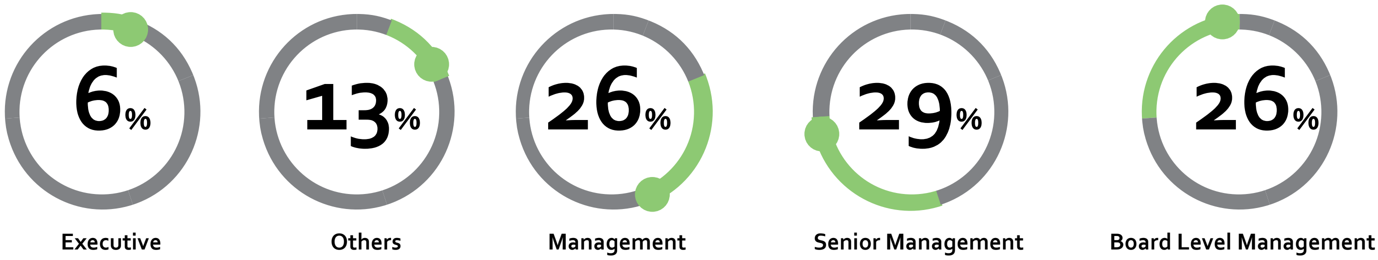
DELEGATES WHO WOULD LIKE TO ATTEND IFN SAUDI FORUM 2021



DELEGATE BREAKDOWN



DELEGATE JOB TITLE BREAKDOWN



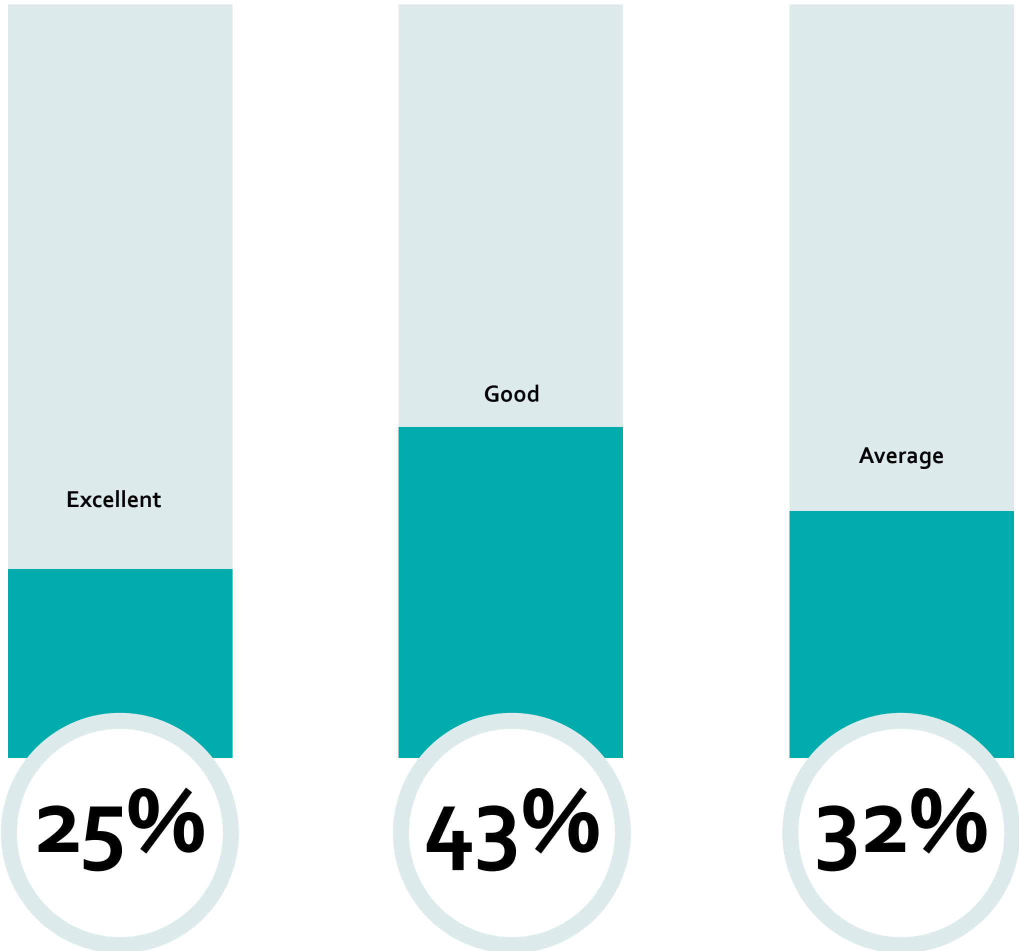
DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

53%
Local

47%
International

SESSION EVALUATION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN SAUDI ARABIA



DISCUSSION INTRODUCTION

FUNDING, INFRASTRUCTURE, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN SAUDI ARABIA

With the Kingdom issuing its first green Sukuk, how can sustainable and responsible finance make further progress in Saudi Arabia and can the UN Sustainable Development Goals be applied to the Kingdom's Islamic finance and investment activities? Are social bonds an opportunity for the Kingdom? Are regulatory Sukuk still a viable option for Saudi Arabian banks seeking to enhance liquidity and capital management, while diversifying funding sources? Where is the Saudi Arabian asset management industry heading and how has the progress been for recent product innovations, particularly Real Estate Investment Trusts and Sukuk Funds? What is the potential of Waqf for capital markets in Saudi Arabia? How is Waqf typically structured and what are the main variations? Lastly, we examine the Kingdom'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

DR JOHN SANDWICK
General Manager, Safa Investment Services

ASHRAF MADANI
Vice-President, Moody's Investors Service

LAWRENCE OLIVER
Deputy CEO, DDCAP Group

NICOLAS BREMER
Partner, Alexander and Partner

PAUL MCVIETY
Head of Islamic Finance, DLA Piper

ZAINEB SEFIANI
Founder and Director, Carrera Learning

FUNDING THE FUTURE

Day 2 welcomed detailed discussions around the future of Saudi Arabia's own capital markets, exploring the funding, infrastructure and responsible finance requirements within the Kingdom and looking at how the asset management industry and both the equity and debt capital markets are evolving to meet the ever-changing needs of this vast market.

Host Dr John Sandwick, the general manager at Safa Investment Services, was joined by a diverse panel of experts including lawyers, service providers and fintech pioneers for a lively discussion around progress and innovation within the Kingdom's financing structures.

"Essentially we are talking about reconnecting Saudi Arabia's economy to the global economy through the capital markets, and some of the most innovative ways that this region has started to reach out to global capital in terms of bringing in the necessary capital for the very aggressive and much-needed economy growth that they desire," explained Sandwick.

The conversation ranged from regulatory Sukuk to responsible finance, asset management, Waqf, infrastructure financing and public–private partnership, with energetic debates over numerous granular elements detailing the nitty-gritty of what needs to be done to promote progress.

"It's fair to say that these days, rather than just seeing the odd deal with Shariah compliant funding involved, almost all deals within the project and infrastructure space in Saudi Arabia now have a significant component of Shariah compliant funding to them"

- Paul McViety

Paul McViety, the head of Islamic finance at DLA Piper, pointed out the steady growth he's seen in Islamic finance in Saudi Arabia since 2004, especially in the realm of project finance. "It's fair to say that these days, rather than just seeing the odd deal with Shariah compliant funding involved, almost all deals within the project and infrastructure space in Saudi Arabia now have a significant component of Shariah compliant funding to them. The structures have evolved, we see a wide variety of different Islamic banks with appetite for investing in those kind of projects, and that has been supported more recently by an acceleration of legal and regulatory change within the Kingdom over the past three to five years, culminating recently with some really significant developments that have opened up the capital markets, and made banking and financial transactions more generally feasible and de-risked within the Kingdom. Going forward, the focus should be on promoting more direct foreign investment within the Kingdom itself."

"You can have very effective legislation but if you don't have regulators that will work with you, you will always run into trouble somewhere"
- Nicolas Bremer

Nicolas Bremer, a partner at Alexander and Partner, agreed. "We have certainly seen a significant regulatory development that allows us to structure transactions according to international best standards. But maybe the more relevant development that we have seen in Saudi, that I have seen lacking in other countries in the region, is the development of the regulators themselves, the authorities that we work with. You can have very effective legislation but if you don't have regulators that will work with you, you will always run into trouble somewhere. It really comes down to the staff that you are working with, and we are really seeing a generational shift at these regulators where we see a lot of young, highly trained professionals with a different mentality — more deal focus, more customer focus, a better understanding of the time pressures that a Sukuk issuer, for example, might face."

Ashraf Madani, a vice-president at Moody's Investors Service, noted that over the past three years he has seen significant development on the capital markets front in Saudi. "This development has been based on the joint effort between the Ministry of Finance, SAMA and the Capital Market Authority," he said. "We have seen the Ministry of Finance establishing a dedicated Debt Management Office

responsible for attracting international capital to meet funding requirements. This office is excellent, with sophisticated programs in place and a strong investor base. The sophistication and the transparency have improved immeasurably."

Lawrence Oliver, deputy CEO of leading intermediary DDCAP Group, talked about how the Saudi Arabian marketplace is evolving, and in particular the significantly increasing volumes they are seeing within the Kingdom and the role that technology is playing in promoting that. "What is driving the growth of Islamic finance in

"We have seen the Ministry of Finance establishing a dedicated Debt Management Office responsible for attracting international capital to meet funding requirements. This office is excellent"
- Ashraf Madani

"It's difficult to underestimate the significance of the role that technology now plays"
- Lawrence Oliver

Saudi Arabia? We are seeing extremely high requirements for Shariah funding in the Kingdom. The new advanced efficiencies provided by the banks and intermediaries are helping to provide an increasingly efficient service. Banks are coming to us looking for streamlined processes and enhanced technological functionality. It's difficult to underestimate the significance of the role that technology now plays."

To learn more about the growth and development of Islamic finance in Saudi Arabia, and to hear the detailed, insightful and exclusive discussions held by our expert panelists (only a tiny portion of which we have been able to convey within these pages), check out the full recording for free at ***www.redmoneyevents.com***.

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48% Good | 38% Average	45% Good | 40% Average	53% Good | 31% Average

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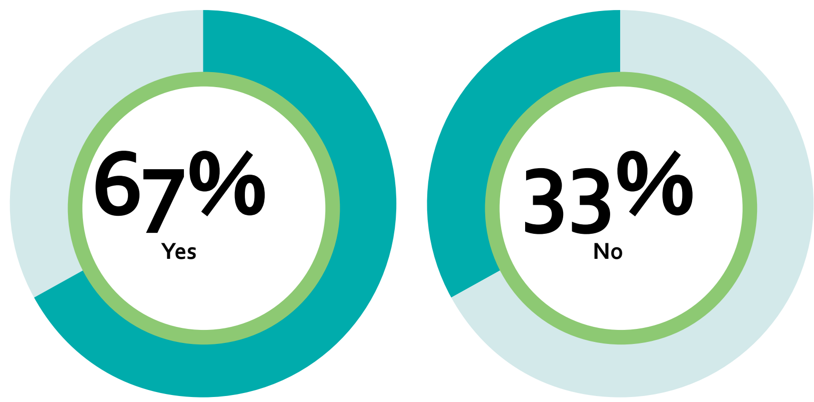

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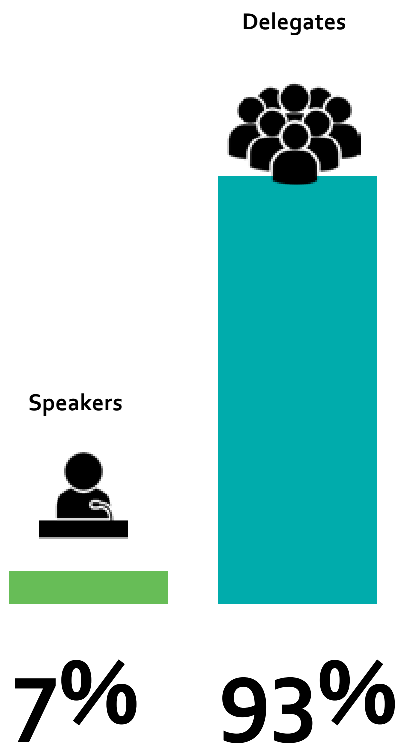

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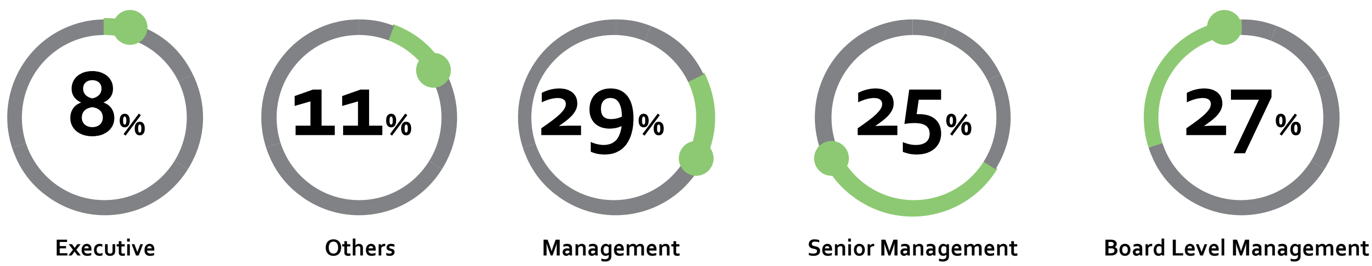


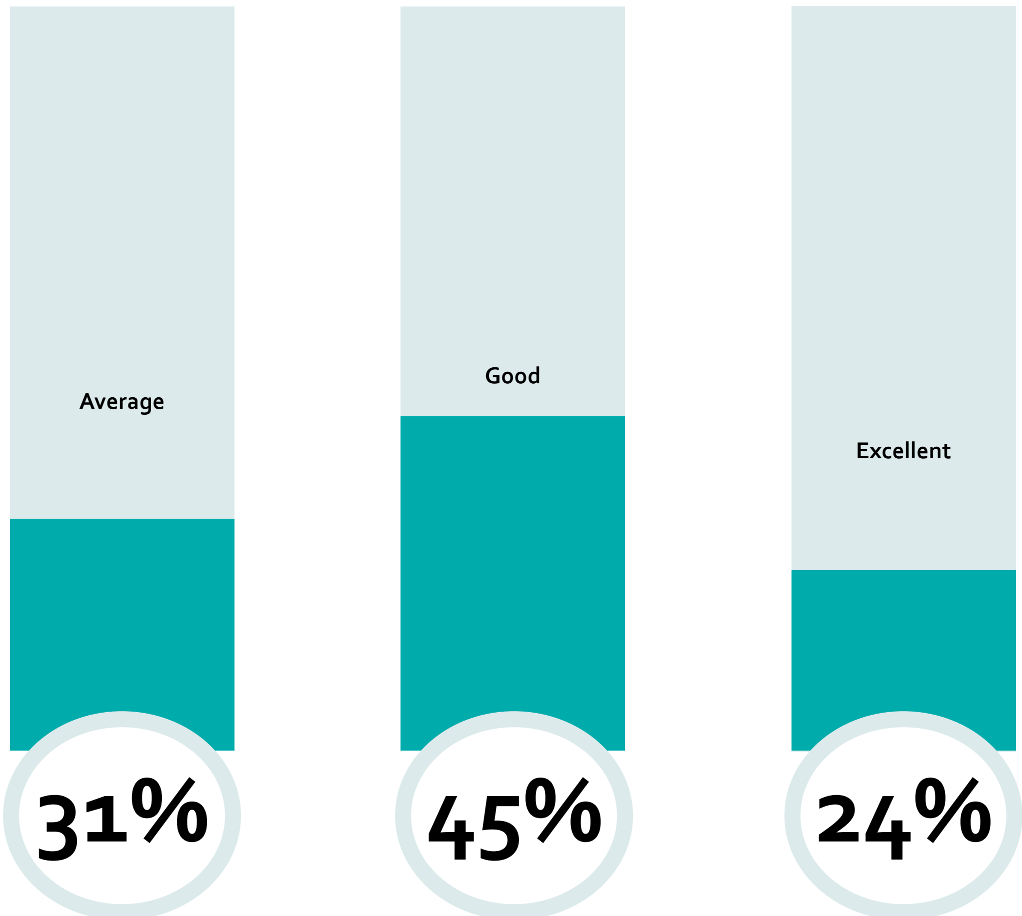
DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

57%
Local

43%
International

SESSION EVALUATION

FUNDING, INFRASTRUCTURE, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN SAUDI ARABIA



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African Institute of Management

Al Rajhi Bank Malaysia

Al-Bahar Group

Alexander and Partner

AlJazira Capital

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ANB Invest

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