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IFN Oman Report 2016

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Oman Report: Editor's Note

We are pleased to welcome the first-ever IFN Oman Report: a comprehensive exploration of the Islamic finance industry in Oman, its prospects for growth, and the opportunities and challenges presented along the way.

The Islamic finance industry in Oman has generated strong interest from both international and domestic players, and sustained support from regulators and authorities has contributed toward the development of a robust, unique and rapidly growing sector that has already exceeded initial expectations. The country has already made its mark on the global Islamic finance market, with valuable contributions including its rigorous requirements for Shariah boards. As the last GCC country to implement Islamic finance, Oman has succeeded in drawing from the experiences of other countries to achieve best practice in its own industry, with a dedicated Islamic banking department to oversee the sector and a High Shariah Supervisory Authority to advise on Fiqh. Both the Central Bank and the Capital Market Authority have been supportive of the industry's development, contributing to its rapid growth.

The retail market has seen strong progress with the four Islamic windows and two fully-fledged Islamic banks expanding rapidly and opening multiple new branches. The capital market is well on the way, with a benchmark set by the government's inaugural Sukuk in 2015, while the Takaful sector is also growing. Continuous innovation, digital expansion, a focus on customer service and a willingness to entertain new ideas have set Oman firmly on the map for Islamic finance, and the future looks bright.

In this report I am delighted to present a host of features: including an industry roadmap of Islamic finance in Oman over the next five years (with key insights from leading practitioners), along with a look at new developments shaping the Omani capital markets, an exploration of the Shariah compliant investment landscape, new adventures in private equity, an analysis of Sukuk structuring, in-depth explorations of recent issuances including the seminal sovereign Sukuk, and much more.

I wish you an enjoyable read, and we look forward to building on these firm foundations to support Oman's Islamic finance industry toward growth.

Lauren McAughtry,

Group Managing Editor

Islamic Finance news

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OMAN REPORT CONTENTS

Session 1: Islamic finance in Oman – An industry roadmap

Industry leaders provide insight on what Oman's Islamic finance landscape will look like in five years and what market players and regulators will need to do to get there. With developments already taking place in each major sector, how can sustainable growth be achieved in Oman's banking and capital market sectors? What is Oman capable of achieving domestically and what is the outlook for cross-border Islamic finance activities?

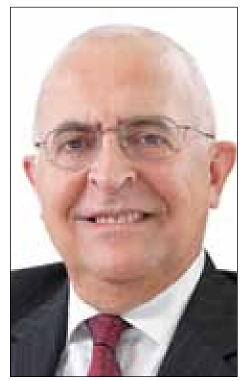
Moderator:

Qasim Aslam
Partner, Dentons

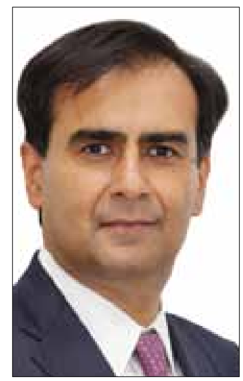
Panelists:

H.E. Abdullah Salim Al-Salmi
Executive President, Capital Market Authority

Ehab Hashish
Deputy General Manager Wholesale Banking, Alizz Islamic Bank



Dr Jamil El Jaroudi
CEO, Bank Nizwa



Sohail Niazi
Chief Islamic Banking Officer, Maisarah Islamic Banking Services, Bank Dhofar

The future for Islamic finance in Oman is promising – that is the consensus reached by the panelists who all agreed that the progress made by the Sultanate so far has been "tremendous"; however, challenges including in the area of regulation and human capital remain.

Promising progress

Commanding 7.75% of the total banking assets (as at the end of 2015), and approximately 8.7% of the Takaful market after a short three years since Islamic finance was officially introduced into the Sultanate, it is widely believed that Oman is well on its way to reaching its 10% market share target by 2018.

The Sultanate's success is attributed to it being able to learn from the best practices of its peers: "Being new entrants to the Islamic finance industry, we have had the opportunity to learn from the experience of other jurisdictions. We have tried our best to avoid mistakes done elsewhere and this gives a positive signal to the Omani market," explained Abdullah Salim Al-Salmi, the executive president of the Capital Market Authority (CMA).

Sohail Niazi, the chief Islamic banking officer of Bank Dhofar's Maisarah Islamic Banking Services, agrees with Abdullah adding that: "All building blocks are in place – we are in the very early stage of development and have just begun our journey." Sohail, however, notes realistically that: "We may not be able to follow the same [initial] trajectory but the building blocks are in place and the tangible factors such as demand will continue to drive it forward." Sohail believes that there would be significant conversion by the banking community toward Shariah finance translating into a larger market share for the industry.

Islamic banking in particular holds significant potential driven by the fact that overall banking penetration in Oman is still relatively low at 14-16%, according to Dr Jamil El Jaroudi, CEO of Bank Nizwa. "We also have a framework for liquidity/deposit and in terms of incremental growth, we have seen a 40% growth from deposits suggesting that Islamic banks are well positioned to capture new business."

The Islamic debt capital market is also highlighted as a bright spot for the GCC nation. The successful debut of the government in the Sukuk space last year was well received by market players who view the issuance as a benchmark for corporates encouraging them to also tap the asset class. Abdullah confirms this: "We have been approached by corporates especially from real estate developers who have expressed their interest in Sukuk."

However, Abdullah notes that one sovereign issuance is not enough and that the market needs continuous issuances, bigger in value, to capture regional and international interest. "We should look into dollar or euro-denominated Sukuk to attract foreign investment. From a technical aspect, we don't see any issue in issuing such papers as the CMA is flexible."

Challenges

While the general sentiment is that Oman will continue its positive trajectory over the next five years, however all stakeholders – regulators and market players alike – will need to work collaboratively to address perennial issues that are prevalent in Oman as they are in many emerging Islamic finance markets.

Key challenges include: the lack of awareness, a dearth in qualified human capital, insufficient liquidity instruments and a lackluster secondary Sukuk market.

Awareness

"I think awareness, or the lack of, is a key challenge in the Omani market and we need to collectively address that, otherwise we cannot make the progress that we want," said Ehab Hashish, the deputy general manager of wholesale banking at Alizz Islamic Bank.

Abdullah resonated with Ehab's comments noting that public awareness is imperative: "Unless end-users understand what they want, and what they expect in terms of results, it will be difficult for operators."

Human capital

The lack of qualified Islamic finance talents well-versed in the industry is an ongoing concern and according to Dr Jamil, should be viewed as such. "We cannot wait for the industry to grow then address the problem. Otherwise, it will take a lot of time," he said.

Abdullah agreed that Oman's Islamic finance community is still lacking the right people but noted that there have been new developments and "huge progress" by both the government and private sector to encourage people to learn about Islamic finance.

Secondary Sukuk market

With only two issuances in the market, it would perhaps be unreasonable to expect a vibrant secondary Sukuk market despite the availability of trading infrastructure.

"Two Sukuk experiences are not enough and we need more issuance," agreed Dr Jamil. "But what we also need is regulatory flexibility – banks currently are only allowed to hold 2.5% of the issuance. Whereas in the case of the Omantel issuance: out of OMR50 million, only 18% was held by Islamic banks when in other jurisdictions, the entire issuance will be underwritten by a single bank."

Abdullah added that making market makers available would also likely assist in spurring the trading of Sukuk.

Liquidity management tools

As in other markets, Oman is also facing a shortage of Islamic liquidity management tools.

"Many liquidity instruments available in other markets are not available here. Banks have, however, found solutions using rudimentary basics to take [a] step forward. But would we be able to go to the next stage?" asked Sohail.

"I wish commodity Murabahah were available in the beginning to grow the industry – just to kick-start for the short term," shared Dr Jamil, who concluded that Oman needs to have the courage to revisit certain laws to further propel the industry.

Conclusion

Oman has penned a remarkable Shariah finance story over the last three years, especially in comparison to other emerging Islamic finance markets such as Indonesia, Turkey and Egypt. But as the expert panelists noted, there is still a long way to go in terms of building its human capacity, broadening its liquidity instrument stable as well as raising awareness; but the country is on the right footing.

In the words of Dr Jamil: "We have just completed Phase One and now we are entering Phase Two. We were initially like a huge airplane taking off, full of fuel and struggling a little bit – but now, we hope to cruise easily."

Session 2: How will recent developments shape the Omani Islamic capital market?

Moderator:

Jonathan Fried
Partner, Linklaters

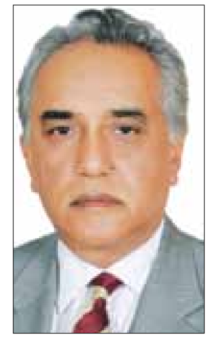
Panelists:

Abdul Rahman Barham
Board Member, Tilal Development Co

Ahsan Ali
Managing Director, Standard Chartered Saadiq

Dr Ashraf al Nabhani
Chairman, Muscat Securities Market

Kemal Rizadi Arbi
Expert/Advisor, Capital Market Authority



Mansoor Jamal Malik
Managing Partner, AMJ

The two landmark Sukuk issuances in the Omani market: the 2013 corporate OMR50 million (US$129.44 million) paper by Tilal Development Co – the first Shariah bond sale out of the jurisdiction – and the most recent inaugural sovereign Sukuk by the government in November 2015, have been widely credited as successful in terms of subscription, creating a local currency benchmark for the Omani market as well as enhancing public confidence in Islamic debt capital market instruments.

"The sovereign issuance was important as it showed quasi sovereigns and corporates that the framework is now ready for Sukuk issuance in Oman in the same way as it is ready for a conventional bond sale," explained Ahsan Ali, the managing director of Standard Chartered Saadiq, a joint lead manager to the maiden government Islamic bond sale. "This means that all regulatory, taxation and Shariah hurdles have been cleared and Sukuk are on par with conventional debt and equity instruments."

Mansoor Jamal Malik, the managing partner of legal firm AMJ, concurred: "The launch of these two instruments provided the market with a lot of confidence."

Learning curve

Yet despite the clarity and reassurance the sovereign Sukuk sale has provided to the market, the issuance was not without its challenges (as expected); and coming to market was, as experts put it, a good learning experience for the issuer and valuable lesson for potential issuers.

"It was a good learning curve for everyone notwithstanding the fact that we have seen the first corporate Sukuk from Tilal," said Kemal Rizadi Arbi, an advisor to the Capital Market Authority (CMA). "A lot of questions arose because we didn't have dedicated regulations in place but nevertheless what we've done is that we do have an existing bond regulatory framework which allows for any issuances of any fixed income instruments and we had the necessary Shariah governance requirements in place."

Explaining the move to facilitate the Shariah requirements as something the CMA was flexible about, Kemal nonetheless noted that the first sovereign Islamic issuance was indeed relatively more time-consuming in terms of setting up the SPV, identifying assets and determining valuation. He, however, added that: "It should not be an impediment to further government Sukuk issuance moving forward once we're done with the first issuance."

Flexibility is key

The CMA has indeed been accommodative when it came to setting up a Sukuk program, taking in view the absence of a dedicated Sukuk legal framework then. Such flexibilities include doing away the need for a mandatory credit rating requirement for issuances, and leaving the Sukuk structure in the hands of issuers instead of dictating the underlying contract, as well as accepting Fatwa issued by Shariah committees at the issuer level instead of by a centralized Shariah board as required by certain jurisdictions.

Above all these flexibilities accorded to issuers, Kemal highlighted that: "We take note that for any issuer, two things are of main concern: time and money."

Procedural hurdles

While fees to issue/list Sukuk are competitive and comparable to other markets according to Kemal, Jonathan Fried, a capital markets partner at Linklaters, however, highlighted that as existing regulation are more geared to equity issuance, procedural hurdles remain. This include time to market, the need for an Arabic prospectus in addition to an English one and the mandatory requirement for the advising law firms and managers of the Sukuk transaction to sign responsibility statements in the prospectus.

Time to market
Unlike in other regional markets and international jurisdictions, it could take up to two months to settle a Sukuk deal taking into consideration the fact that there is a 30-day offer period requirement and a two-week review period by the CMA to approve the prospectus. This excludes an additional five days post-offering period.

To this end, it is important to note under Omani regulations, a distinction is made between retail and private placement issuance, whereby the 30-day offer period requirement is made mandatory for retail issuances; private placement transactions, however, have more leeway. Without dictating the mechanism for privately-placed Sukuk, the process, according to Kemal, makes it "quite open and flexible"."At the end of the day, the rules were designed more on a principle-based approach rather than prescriptive – and that is the policy we intend to move forward with," said Kemal.

Arabic prospectus requirement
"Oman regulations are probably geared toward domestic retail offerings, [and we] appreciate that these should be applied to such offerings because you need to give them dual language prospectus to enhance understanding," commented Ahsan. "But exemptions need to be given for international offerings or institutional/professional offerings."

Ahsan is right in that the dual language requirement is designed for the individual retail investor. In the case of institutional Sukuk and bonds however, this requirement is silent with room to manoeuvre, and this flexibility is reflected in the new Sukuk regulation. "As long as the draft is approved, we will go on a case-to-case basis," elucidated Kemal.

Mandatory responsibility statement by managers

Counterintuitive to international practice where the burden of responsibility lies on the issuer, Omani regulation requires advising law firms and deal managers to also assume that responsibility by having them sign responsibility statements in the prospectus. While it may seem cumbersome, however, the rationale behind that extra layer of stringency is: investor protection.

"We always try to benchmark against international standards, but at the same time we need to protect investors," explained Kemal. "And this is the role of the regulator – to try to balance two approaches: taking into consideration the time and money perspective while at the same time ensuring investors are equally protected as well as ensuring fairness and transparency."

Recommendation

It cannot be denied that the CMA has taken great strides to develop the Sultanate's Islamic capital markets, laying down a solid foundation for the industry while maintaining the flexibility to allow the fledgling sector an opportunity to take off. And just as in any new emerging Islamic financial market, there is still room for improvement.

Making it cheaper to issue
For starters, cost is still an issue.

This was the case in the country's first corporate Sukuk issuance by Tilal. Abdul Rahman Barham, a board member of Tilal, explained that although the firm was satisfied with its Sukuk issuance, the paper was (unfairly) priced against discounted deposit rates due to the absence of a sovereign benchmark at that time.

"Now the situation has changed and this will attract more corporates to go ahead with a Sukuk program, but the overall cost of issuance is still high as Sukuk structures are more complex with the additional Shariah screening layer and what not," Abdul Rahman elaborated.

Understanding that cost of funding will improve once volume is generated and scale of business built, Abdul Rahman also proposed to ease rules concerning banks in order to circumvent cost issue. "Sukuk have a great future in Oman but we need to allow banks to play the role of market players. If we restrict banks' participation especially in the early stage[s] of undertaking, that could be a major setback – I highly recommend the Central Bank of Oman to relax that restriction."

Issue in foreign currency
Internationalization of the Omani market is also imperative, especially in light of the current liquidity crunch brought on by weak oil prices.

"We need to raise funds not only in rial but also explore international markets with dollar Sukuk," emphasized Abdul Rahman. "This should be the next step for the government as it should not be relying on the local market to attract international investors in Oman."

Ahsan concurred adding that to develop and integrate the market with the international environment, a non-rial issuance is vital. "In order to help open the domestic market, we also need to consider a different set of marketing rules for international issuance," he reckoned.

Revisit Company Law
There is also a call to further consolidate and streamline the regulatory framework, particularly with regards to the Company Law of Oman as there may be inconsistencies that may delay the process of establishing SPVs.

"The CMA may want to look at bringing [the] oversight of SPVs within its own jurisdiction instead of other regulatory authorities," suggested Mansoor, who also brought to attention the need to consider the extent of having different rules made applicable to conventional bonds and Sukuk. One issue raised as an example is the matter of size of issuance, where bond issuers are allowed to float in excess of paid capital of the company, which Mansoor stressed cannot be made applicable to Sukuk. "Clarity on such issues will expedite the issuance process," he said.

Strengthening the investor/institutional base

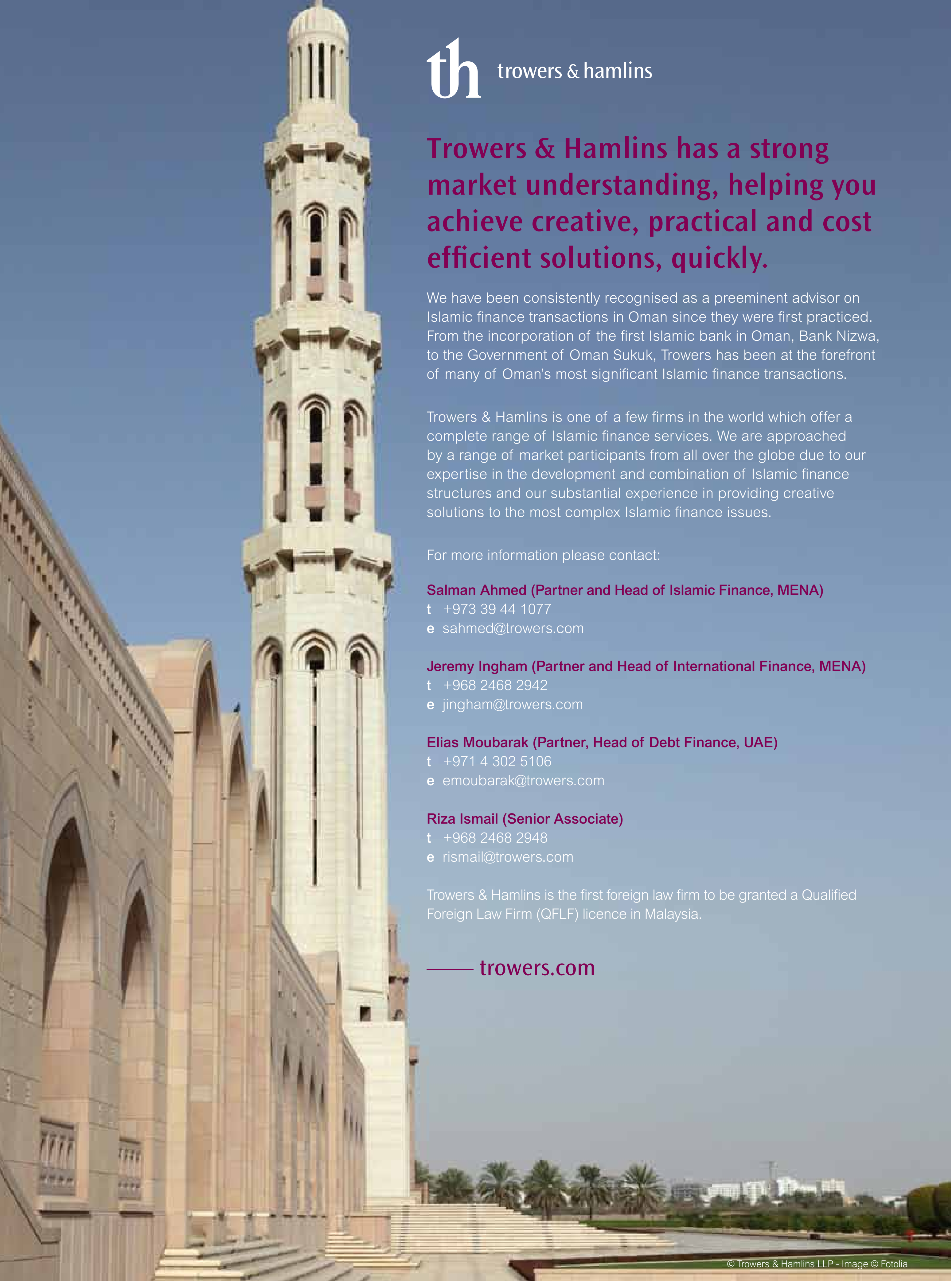
A common challenge faced in many emerging markets is the reliance of the corporate world on the banking market, which creates a disadvantage for the capital markets.

To rise above that, Ahsan had this to say: "At a more strategic level, we need to have the investor base – this will motivate issuers to move away from the banking market as they now see an alternative to funding."

Kemal added: "We need to develop the wholesale market first to strengthen the institutional base and to do that, we need to impose less restrictions on financial institutions to allow them to come to market. But at the same time, let's not lose sight on strengthening the investment fund side which will add liquidity and create demand."

Conclusion

Although there has only been two Sukuk issuances in Oman thus far, it is recognized that the Omani Islamic capital market has progressed significantly since the first sale to the next, and it has paved the way for future offerings. The government and authorities are committed to developing the Islamic capital market for the reasons Dr Ashraf Al Nabhani, the chairman of the Muscat Securities Market, outlined: its development is essential for economic growth as it will create employment and reduce dependency on oil. Nonetheless, despite the progress, industry stakeholders are cognizant that there is still a long way to go before the market reaches the maturity and sophistication desired. From optimizing cost efficiency and reducing time-to-market, to developing the investor side of the equation, certain regulatory enhancements are needed. In the case of Oman, the regulators are not only willing, but also resolute in creating a favorable environment for Shariah capital market activities which explains why the segment has taken off in such a positive way despite the youth of its Islamic finance industry. And with such solid regulatory support and strong political will from the government plus eagerness from market players, the industry is poised for further growth.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Session 3: Investor Roundtable – Outlook for the Shariah compliant investment market

Moderator:

Lauren McAughtry
Managing Editor, Islamic Finance news

Panelists:

Adeel Sarfraz
Fund Manager, Ahli Bank

Mohsin Shaik Sehu Mohamed
Director and Head of Islamic Finance, Al Madina Investment

Ramlie Kamsari
CEO, Nomura Islamic Asset Management

Salman Ahmed
Partner, Trowers & Hamlins

Current landscape

Although Oman's Islamic assets under management have been posting 9-9.7% annual growth rates, the Sultanate's investment market, which is heavily weighted toward equities, is still relatively underdeveloped.

"Omani[s] still prefer direct investments," explained Mohsin Shaikh Sehu Mohamed, the director and head of Islamic finance at Al Madina Investments. "The fixed income market is still new, hence not many opportunities there whereas the money market has not matured yet." According to Mohsin, while the equity market is matured, however, the landscape still lacks opportunities for investors to be active as there are only over 100 companies listed on the Muscat Securities Market with only 30-40 of those really liquid.

The lion's share (80%) of private equity funds is channeled into the mutual funds industry which began in 2013. In the region, Oman commands 7.1% of total assets under management of the Shariah compliant mutual funds segment, which is dominated by Saudi Arabia. "We are slow," admits Adeel Safraz, a fund manager at Ahli Bank, commenting on the progress of Oman in the mutual funds industry. "But we are moving in the right direction."

Opportunities

The country's fledgling investment landscape may not be as sophisticated as its regional peers, however, this also translates into exciting opportunities for Oman, including in the Islamic finance space.

Close-end companies

Take for example the commercial potential in close-end companies. These unlisted companies are, in general, performing well financially and performance-wise and many Islamic finance deals can emerge from this community.

"There are a lot of opportunities from close-end companies issuing Sukuk and structuring it both for institutional and retail customers," agreed Mohsin. "Although in the current climate, liquidity could be a bit of an issue to investors."

Retail

While current economic conditions weakened by the oil slump may prove a challenge in spurring activities in the corporate side, however, there are tremendous opportunities to be found in Oman's highly affluent 3.6 million-strong population. It is also noteworthy that more than half of the government's expenditure (66% in 2015 and a budgeted 54% for 2016) are allocated toward the salaries and allowances of government employees, which flow into the market creating an attractive liquidity pool.

"Now is the right time for retail," enthused Mohsin, who explained that with oil price deeply impacting [the] government's purse strings, the time is now ripe to introduce public-private partnerships. "Bring government-related entities to IPO: this will allow [the] government to exit as well as create opportunities for retail investors to hold shares in these companies," he elaborated.

Opening up the IPO market – which remains relatively tepid with one flotation in 2015 and two in the prior year – would also create new avenues for asset managers and is likely to inject vigor into the Sukuk market as companies are likely to print papers to meet their needs.

"Retail investors don't only look at returns, but also ease of access and how easy it is to monitor portfolio performance. This creates an opportunity for dedicated distribution channels," chimed Adeel.

SRI

Drawing inspiration from the Malaysian experience, Ramlie Kamsari, CEO of Nomura Islamic Asset Management, thinks that Oman can benefit from the rising socially responsible investing (SRI) phenomenon. "SRI can add visibility and liquidity into the market – which I believe can also be tested here in Oman," Ramlie opined.

Islamic REIT

Another asset class which looks promising is Islamic REITs – driven primarily by the fact that real estate, which could see a double-digit return rate, is the region's investment darling.

"What can give you double-digit returns now? Not equities, not fixed income, not multi-asset portfolios," said Ramlie, citing that 2015 is the first time since 1990 that US equities and fixed income assets registered negative returns. According to Ramlie, based on a market study conducted by Nomura and an index provider, a global Islamic REIT, with a 52% exposure to Australian real estate, up to 25% to the UK and the rest in Asia with a minority exposure to the GCC, could earn a cumulative return of 133% on total net return if the index was established in 2010 with 2015 return at 17.68%. "This is food for thought not only for Oman and GCC alone, but for tapping that liquidity and creating a new asset class for the industry – global Islamic REITs are the answer," affirmed Ramlie.

Mohsin also believes that REITs are what is needed in Oman; however, the Sultanate lacks the regulatory infrastructure needed to develop this investment class. "Unlike Sukuk which have a bond regulation to fall back on and all [that] is needed are Shariah add-ons, there is not a framework for REITs, both conventional and Islamic, which means we need to start from ground zero," explained Mohsin.

Healthcare

Healthcare is another segment which has a lot of room to grow and to be capitalized. Healthcare expenditure (preventive care) per capita in Oman stands at US$40, lower than the region's average of US$50 and Qatar's US$130, according to Adeel who also said that as compared to developed markets which spend a sizeable portion of their GDP on healthcare (the US 17%, the UK 14% and Germany 13%), Oman's spending is less than 3% of its GDP – representing tremendous potential for growth. There are several related projects in the works including the US$1.5 billion Sultan Qaboos Medical City, US$1 billion International Medical City, US$364 million Muscat General Hospital and various new hospitals and medical centers across Barka, Duqm, Suwaiq and Ibri, to name a few.

"Ahli Bank's position is for market participation in Islamic investments to be in excess of 30% over the next five years"

"There are a few investments in the pipeline, but we do not see retail participation or rather room to allow retail investors to tap into the market," lamented Adeel. Mohsin also added that while there has been swelling demand from the investor base (both in Oman and in the wider GCC), however, Omani investors are treading this asset class carefully due to the current economic climate as well as the fact that these initiatives are greenfield projects, which could take three to four years before gains from investments are realized. According to Mohsin, on average, investments into hospitals over a five to six-year horizon have yielded approximately 20% in returns.

Education
Education has been identified as another investment avenue which is likely to deliver handsome profits. “At the secondary level – the private sector has 22,000 students, public sector 272,000 so collectively, approximately 300,000 students are going into higher education. There are 38 educational institutions (colleges) in Oman. You can work back and see the potential,” said Adeel.

Challenges and recommendation

The potential for the aforementioned asset classes are clear; however, procedural and regulatory hurdles could turn these opportunities into challenges instead. For example, the more stringent diligence on real estate funds from the Ministry of Housing has been identified as a hurdle hindering the development of real estate funds in Oman. “This has nothing to do with Shariah,” said Salman. “The ministry needs to address that – make it quicker and easier to invest in Omani real estate which has so much potential and where returns are lucrative.”

The limit on how much institutional investors can invest in real estate is also a challenge. Adeel, who recognizes that regulators have been flexible when it comes to Islamic finance, called on the regulators to consider relaxing the rules further when faith-based investments are involved, to give the much-needed push to the sector as it is a need of the time. At the moment, the government is planning to introduce changes to the country’s foreign investment law.

“I think it will take some time before regulators understand what players and investors want and need,” mused Salman who attributed the situation to the youth of the Islamic finance industry. “But one thing about Oman is that when they (the regulators) want to do something – they will do it properly and very thoroughly,” assured Salman. “So while it may be frustrating to international investors at this stage, but with time, you will find appropriate legislation in place for Oman to facilitate Islamic finance investments – patience is key here.”

And this top-down approach is the way forward for Oman. “I believe that the challenge for Islamic investments in Oman would be a track record,” commented Ramlie. “Malaysia had a head start in that government agencies would provide asset managers with funding to build [a] track record and then market their capabilities to a wider global market – Oman has to do that.”

Outlook

“With things going down, there are chances for them to rebound,” said Mohsin, and this general optimistic outlook on the Omani investment landscape is shared by the rest of the panel, who all agreed that it is only a matter of time (and concerted efforts by market players and regulators) before the immense potential the GCC nation holds for Islamic finance will be realized. Adeel noted that Ahli Bank’s position is for market participation in Islamic investments to be in excess of 30% over the next five years.

“In the fullness of time, you will find certain [regulations] in Oman specific to retail investors and that’s a great thing because I don’t think that there are many regulators in the region who think about retail investors the way the CMA does,” said Salman.

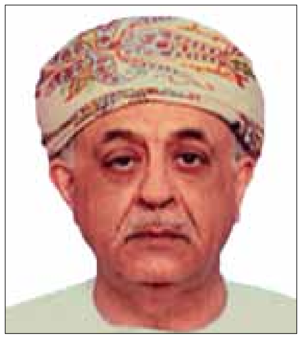
What about the current liquidity squeeze in the market? “This liquidity crunch is but a pause, perhaps two to three years, after which players will then return to the market,” concluded Ramlie.

Session 4: Deal Dialogue – Oman's OMR250 million (US$647.13 million) sovereign Sukuk

Moderator:

Lauren McAughtry
Managing Editor, Islamic Finance news

Panelists:



H.E. Mohammed Jawad Hassan – *Ministry of Finance & Government of Oman Sukuk Committee*

Dr Caroline Bolle
Head of Investment Banking, Bank Muscat

Salman Ahmed
Partner, Trowers & Hamlins

The 3rd November 2015 marked a watershed moment for the Sultanate of Oman in the Islamic finance space: it successfully launched its inaugural sovereign Sukuk paper to overwhelming demand and market excitement. Creating a currency benchmark and setting a precedent in the Islamic capital market, industry experts believe the issuance would spur the Omani Sukuk market particularly from the corporate segment while the government, at the IFN Oman Seminar 2016, confirmed that it is working on its second Sukuk sale: a US dollar-denominated Ijarah paper expected to be launched in the second quarter of 2016.

Right timing

Coming to market with a sovereign Islamic bond instrument is the natural step forward for the Omani government in developing its nascent Islamic finance and banking industry which has seen encouraging progress in the banking and Takaful sector.

"The perception of people has changed in that they are increasingly gravitating toward Islamic financial instruments, hence we thought it was timely for the government to issue Sukuk in 2015," explained Mohammed Jawad Hassan, from the Ministry of Finance and Government of Oman Sukuk Committee.

Meeting demand

Initially planned for OMR200 million (US$517.77 million), the government decided to upsize the Ijarah offering to OMR250 million (US$647.22 million) at an annual cut-off yield of 3.5% after receiving firm commitments of OMR336 million (US$869.86 million) from a wide array of investors from both the conventional and Islamic arena from banks, Islamic windows as well as institutions.

"This gives us the indication of the appetite of the market – there is indeed a lot of demand from the Islamic banking community," said Mohammed, who emphasized the importance of creating an avenue to contain liquidity in the Sultanate as pent-up demand, as well as the lack of proper instruments, has led to an outflow of liquidity into other Islamic financial facilities outside of Oman.

Universal acceptance

A key commercial factor which led to the Omani government deciding to utilize an Ijarah structure – a global favorite – and its success, was its overall acceptance.

"We wanted this to be an all-inclusive exercise," shared Dr Caroline Bolle, the head of investment banking at Bank Muscat – a lead arranger to the sovereign deal. "We also looked at other structures but given that this was the first issuance, we wanted to educate the retail market and Ijarah was easier to explain and translate to the market."

Wakalah was another structure considered. "However, Wakalah is not really accepted across all boards in Oman, which is why we decided with Ijarah as it has unanimous acceptability from a Shariah perspective," said Salman Ahmed, a partner at Trowers & Hamlins, who advised the government on the issuance.

Impact

"There has been a lot of interest from corporates since the sovereign Sukuk," confirmed Salman, who opined that it is likely that more institutions would tap the Islamic capital market. Dr Bolle agreed adding that she is cautiously optimistic for corporates to follow in the footsteps of the government and it is hoped that Sukuk as a welcomed instrument in the capital markets would spur more development in the fixed income space.

"The Omani capital market is such that it is weighed more heavily toward equities with fixed income commanding a smaller composition with only a handful of issuers comprising non-banking financial companies and financial institutions," explained Dr Bolle. "Sukuk would be the perfect tool to develop this market."

Session 5: Future Gameplan – Where do we go from here?

Moderator:

Abdulkader Thomas
CEO, Shape Financial

Panelists:

Abdullah Al Jufaili
General Manager, Sharakah

Ahmed Al Mamari
Director-General, Directorate of Insurance Supervision, CMA

Gauttam Datta
CEO, Al-Madina Takaful

Lo'ai Bataineh
Chief Investment Officer, Oman Arab Bank

Mohamad Noranuar Sajari
Senior Manager of Shariah Structuring, Bank Nizwa

Takaful

Shariah compliant insurance in Oman has had a slow start but development is expected to pick up following the introduction of dedicated regulations for Takaful in March 2016. Designed based on AAOIFI guidelines, the new law has been engineered with the intentional of providing market players with flexibilities. For example, all Shariah matters are to be decided by respective Shariah boards.

The framework is expected to provide much-needed clarity and guidance to operators in order to boost the market share of Takaful, which stands at 8.7% of total written premiums in the Sultanate; however, the Capital Market Authority (CMA) recognizes that there is still more room for improvement regulatory-wise on an international level.

"In the past two decades, the Takaful concept has grown in such a robust way thus making it difficult for standard-setting bodies such as the IFRS, AAOIFI and the IFSB which have to cope with that growth and yet be proactive at the same time," said Ahmed Al Mamari, the director-general of the Directorate of Insurance Supervision at the CMA. Ahmed highlighted that there are a few areas that need to be reviewed as far as Takaful is concerned including: participant funds surplus, Wakalah fees, technical accounting issues and Qard Hasan, among others. "That would help us as regulatory bodies to come up with regulations that will reflect the real meaning of Takaful in local markets," Ahmed shared.

At a global level, Takaful in the last decade has built a total premium base of US$18 billion and this is expected to grow to US$20-22 billion by 2020. The GCC is the largest contributor to the Takaful pot (US$8 billion including Saudi Arabia; US$2 billion without Saudi Arabia). With less than 10% of total written premiums in Oman commanded by Takaful businesses, there are huge opportunities for the segment to grow.

Ahmed, however, cautioned: "With the geopolitical conditions in the region and dramatic decrease in oil prices, we have to be very careful with our expectations." The main challenge facing Takaful operators in the country according to Ahmed is profitability. "What we need is to have both a sustainable and profitable business more than one that is focussed on expansion and growth," he opined.

Customer confidence is another contributing factor to the lack of Takaful product traction in Oman. "We have to admit that there are huge misconceptions surrounding the Takaful model in the region and we need to settle that issue," said Ahmed. Data from EY shows that return on equity for GCC Takaful companies in 2015 stood at 0.4% against 14% in Malaysia. In comparison to Islamic banking, Takaful is mainly driven by private capital and unlike its banking cousin, Takaful did not have the head start required to prove its financial viability.

"We are still babies who should not be getting out of the protected environment of our cots. We still haven't learned to walk," commented Gautam Datta, CEO of Al Madina Takaful, who went on to say: "In that context, a lot of the issues we talk about today are part of the evolution and learning process as is the case with any industry growing from its concept to maturity. It isn't about doomsday, but looking forward with a lot of hope and opportunities."

Banking and finance

The hard truth about Islamic banking and finance in Oman is that despite the high expectation and optimism when Shariah banking was formally introduced into the Sultanate in 2012, actual measurable demand did not match expectations, to the surprise of many.

> *At a macro level, Oman still lacks many products, solutions that are available in other markets*

Following the hype for Shariah compliant facilities, Sharakah or the Fund for Development of Youth Projects in 2014 converted one of its products; however, once the solution was launched, take-up rate did not reach expectations. "We struggled initially in getting clients to sign up for Shariah compliant products," shared Abdullah Al Jufaili, the manager of Sharakah, who attributed the slow subscription to the lack of proper understanding for Islamic financial instruments. However, that is beginning to change: "Alhamdulillah, it has begun to pick up. What we foresee based on the last six months, at least based on the number of enquiries and applications we have received; there has been an increase in [the] number of SMEs looking for Shariah compliant products."

At a macro level, Oman still lacks many products, solutions that are available in other markets. "I believe we lack certain products to tap market needs and requirements," said Lo'ai Bataineh, the chief investment officer of Oman Arab Bank. "We need to have a thorough analysis to identify where and what we are lacking."

That being said however, Islamic bankers are perceived as being quite innovative when it comes to developing products. Mohamad Noranuar Sajari, Bank Nizwa's senior manager of Shariah structuring, who views the industry in Oman as a green field with limited downside and unlimited upside in terms of opportunities, explained using the prohibition of commodity Murabahah in the country as an example: "By virtue of this prohibition, an innovation mindset has been inculcated in Islamic bankers."

Apart from the comprehensive Islamic banking framework issued by the Central Bank of Oman, market players also expect the creation of the High Shariah Supervisory Authority (HSSA) to spur Islamic finance activities in Oman. "For players, we want two things: Shariah certainty and legal certainty," said Noranuar. "The HSSA is a good development and will add value to the system by providing these certainties."

Crowdfunding

Crowdfunding, a booming international phenomenon, was also discussed as a potential catalyst for advancing the Islamic finance proposition due to the common overlap of principles such as being community-based and profit-sharing, especially for SMEs; however, Oman still lacks the regulatory infrastructure to enable such peer-to-peer transactions. Without a proper regulatory system, the legitimacy of the capital raised and governance of investors and project managers among other things would be brought into question and could be a source of concern for the investment community at large.

"The regulations are not there so we cannot take it forward," said Abdullah, who revealed that Sharakah had to turn away multiple regional crowdfunders due to the absence of regulatory certainty. "[The development] should come from the regulators before we can even think about being a part of a crowdfunding platform at a regional level."

Competitive advantage?

So what next for Oman? Bolstered by eager participants and supportive regulators, Islamic finance and banking is poised to continue its upward trajectory in this land of opportunities, but challenges remain. A main hurdle Omani players face, as do participants in other markets, is the lack of awareness and proper understanding of Islamic financial products.

"How is Islamic finance better than conventional finance?" is perhaps one of the most common questions asked, and how we approach the subject could, more likely than not, shape and contribute to the development of the industry.

"It isn't about which system is better – it all boils down to what you need and what you're looking for," said Datta. "I will admit that there could be an element of 'mis-selling'. As practitioners, we do have the tendency to fall into the trap of comparing ourselves with the conventional." And this comparison could prove more disadvantageous than beneficial as misunderstandings could arise leading to customers to decide between Shariah and non-Shariah products based solely on cost, according to Ahmed.

The experts are of the view that Islamic banking and finance is complementary, not a competition, to the conventional system, serving the different needs of the community. "Based on my experience in banking over 25 years, and even though I'm in a conventional bank, I can say that Islamic banking has various financing solutions that are not provided by conventional banks," said Lo'ai. "The beauty of Islamic banking is that it is a structured deal, customizable to meet specific needs of clients."

And that is what Omani players, and beyond, will need to sell to the market.

IFN Oman Dialogue 2016

In conjunction with the inaugural IFN Oman Seminar held in Muscat in March 2016 to promote, highlight and support the growth of Islamic finance in Oman, IFN in partnership with the Capital Market Authority, Sultanate of Oman are pleased to present the findings of the first IFN Oman Dialogue.

The two and a half-hour invite-only event formed part of IFN's groundbreaking annual series of high-level, closed-door international industry Dialogues, and was attended by a select group of Oman's leading Islamic finance practitioners and industry regulators.

Designed to establish a working plan for the progression and evolution of Islamic finance in Oman, the panel achieved an exceptionally open, honest and in-depth discussion of the opportunities and concerns facing the Shariah compliant financing and investment market in Oman; as well as a thorough overview of the wider economic climate and the urgent steps needed to support the growth of Islamic finance in order to benefit from its valuable potential contribution to the country's financial market.

Covering the entire breadth of the market from regulatory framework and legislation to retail banking, investment and financing, capital markets, Takaful and beyond, the findings and recommendations from this report form essential reading for all regulators, stakeholders and supporters of Oman's financial markets: and provide an instrumental and actionable roadmap for future progression.

The discussion follows Chatham House rules to encourage free and open debate. As such, no comments are attributed.

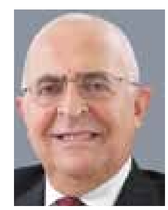
Participants:

Ahmed Al Mamari — *Director-General, Directorate of Insurance Supervision, Capital Market Authority, Sultanate of Oman*

Ahsan Ali — *Managing Director, Standard Chartered Saadiq*

Asad Qayyum — *Senior Associate, Al Busaidy, Mansoor Jamal & Co (AMJ)*

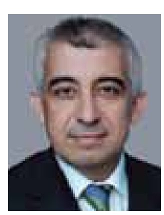
Gauttam Datta — *CEO, Al-Madina Takaful*



Dr Jamil El-Jaroudi — *CEO, Bank Nizwa*

Kemal Rizadi Arbi — *Expert/Advisor, Capital Market Authority, Sultanate of Oman*

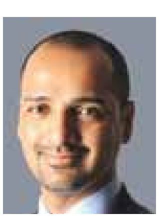
Khaled Al-Aboodi — *CEO, Islamic Corporation for the Development of the Private Sector (ICD)*



Lo'ai Bataineh — *Chief Investment Officer, Oman Arab Bank*

Mohsin Shaik Sehu Mohamed — *Director and Head of Islamic Finance, Al Madina Investment*

Neil D Miller — *Global Head of Islamic Finance, Linklaters*

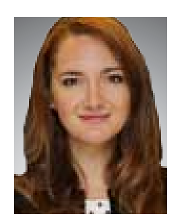


Qasim Aslam — *Partner, Dentons*

Salman Ahmed — *Partner, Trowers & Hamlins*

Sohail Niazi — *Chief Islamic Banking Officer, Maisarah Islamic Banking Services - Bank Dhofar*

Sulaiman Al Harthy — *Deputy CEO, Meethaq Islamic Banking*



Moderator

Lauren McAughtry
Group Managing Editor, Islamic Finance news

IFN OMAN DIALOGUE 2016
Executive Summary and Recommendations

General Overview and Regulatory Framework

- The current IBRF regulatory framework needs to be revisited – it has served its purpose but must be updated and adapted to reflect the evolving market needs.
- Oman needs to decide on its vision and its position in the market, and then enact a strategic and comprehensive plan covering everything from regulation to education to human talent in order to achieve that. Just throwing things together piecemeal will not succeed.
- There is an urgent need for a comprehensive strategy document that outlines the regulatory vision for Islamic finance in Oman over the next 5-10 years, in order to help banks accurately structure their investments and strategy.
- There is a disconnect between layers of regulation, and often what is allowed by one department is prohibited by another (ie a disconnect between the Islamic Banking Regulatory Framework (IBRF) and the commercial banking law, or between the Central Bank of Oman (CBO) and other government ministries) which can make the operational process for Islamic banks lengthy and difficult.
- Islamic finance can make a real and valuable addition to the Omani economy, especially as it seeks to diversify – and it needs to be supported in its ability to do this by the regulators.
- Oman should create a regular forum or platform where regulators, stakeholders and industry players work together to create a harmonized system that leverages all that Islamic finance has to offer. The central bank should be asking industry players for feedback.
- Oman should consider a centralized industry body for Islamic finance that can represent and act for industry interests.
- Oman should participate more actively in global industry and standard-setting bodies such as the IFSB, which have already issued opinions on many of the relevant issues.

Retail Banking

- Islamic banks are facing a number of operational limitations, including problems in matching assets and liabilities, and it is impossible for them to comply with the current financing ratios. They urgently need a relaxation of the rules to help them get on their feet and grow/compete effectively.
- More instruments are needed to assist with a serious liquidity management issue – and Islamic banks must be allowed to treat sovereign Sukuk as a short-term liquidity management instrument.
- Commodity Murabahah is needed, and it should be up to the individual Shariah boards of banks to determine when and where its use is appropriate.
- Beyond the IBRF, there are also certain prudential requirements on the conventional side which also apply to Islamic banking, and these can be very restrictive.
- The authorities need to understand the specific details of Islamic transactions and waive the additional charges and taxation in order to achieve efficient and cost-effective products including perfected title transfer.
- Central bank limitations (such as insisting that Islamic banks get specific permission for all fundraising) are restricting growth and go beyond monitoring the safety and soundness of the system. Islamic banks are prevented from doing certain things to prevent them from growing too fast, and that is unfair.
- Islamic banks need to be more innovative in the products they offer, and provide solutions that are not available in the conventional banking arena.
- Stand-alone banks have many issues compared to Islamic windows, and they have a disadvantage regarding access and branch networks. Islamic windows should eventually be spun off, but this is not likely to happen any time soon as it will require changing the laws of equity ownership.

- Open dialogues are needed between the private sector and regulatory bodies.
- Awareness is a key issue, and banks cannot do this on their own – all stakeholders, from regulators to government ministries to schools and education, should be involved.
- Islamic banking is still treated as commercial banking, and that has to change – it is a unique alternative and should be treated as such. It is not enough to take normal banking law and dress it up to look Islamic.
- The central bank is improving, and in the last six months it appears to be approving more requests.

Investment and Financing

- More investment products are needed as these are very limited in Oman. Islamic banks have an opportunity here – especially in the field of products such as real estate investment trusts (REITs) – but the central bank must approve these rather than declining on the basis of risk.
- The Capital Market Authority (CMA) is currently working on investment funds regulation, especially for real estate vehicles.
- Oman has not done enough to position itself in the international market, and it needs to do more in order to attract inward investment – including international roadshows with the support and participation of the regulators.
- Development authorities should work with the banks and investment institutions to provide the right kind of facilities for investors to make it easy for them to set up shop in Oman. Financial institutions need regulatory support to attract foreign direct investment (FDI).
- Oman has a low debt-to-GDP ratio and low foreign currency borrowing, so has a rarity value that should be attractive to investors seeking opportunities.
- Oman needs to diversify its investment opportunities – it cannot compete with Dubai on a pure finance level, especially since its downgrade.
- Oman needs to develop and build up its private sector – at the moment, around 55% of bank deposits are from the government or government-related entities.

Capital Markets

- Oman should have gone to market earlier – it needs a yield curve to price its assets, and it does not have a history of issuance.
- The Omani market needs more listings, more activity and more IPOs – foreign investors will not come to a market where there is no liquidity or depth so market capitalization needs to increase.
- The CMA should issue guidelines to corporate in the form of Q&As in order to explain the Sukuk concept and encourage issuance.
- The liability and responsibility of the issue manager in Oman is draconian – the CMA or any investor can bring a claim against the banks and the issuer, and the list of obligations and responsibilities is extensive. This creates a number of issues because there is no statutory defense.
- The new Sukuk regulation is expected to provide an advantage and increased flexibility for Sukuk as compared to conventional bond issuance.
- The CMA does not issue regulations in isolation, and all stakeholders need to play a role to tell the regulator what is needed.
- The CMA does not directly regulate Shariah committees or offer a centralized board because it wants the market to be flexible and innovative in the early stages.
- Oman needs to identify its value proposition and complement other financial hubs (such as Dubai or Malaysia) rather than compete.

Takaful

- The whole structure and model of Takaful in its current form needs to be restructured and realigned.
- There are certain issues with the model, and the business model needs to change in order to generate a profitable policyholders' fund that does not require Qard Hassan from the shareholders' fund.
- The Omani Takaful industry has around 9% market share, but much of this was converted from the conventional rather than growing organically.
- The market needs to grow and more firms need to be established – it is hard to raise awareness with just two companies and more capital investment is needed.

Conclusions and Recommendations

- Regulation needs to adapt to current and evolving requirements, rather than remaining static. The IBRF needs to be updated.
- The industry and the regulators need an ongoing dialogue or platform to discuss market needs, issues and requirements.
- The CBO needs to engage better with the banks and listen more carefully to their needs.
- The CMA needs to provide more support for issuers in order to encourage Sukuk.
- Government departments need to communicate and cooperate better with each other, and awareness within the authorities themselves is as important as awareness for the public.
- Collaboration between market participants and stakeholders is essential.
- Banks should unite to promote innovation, in areas such as crowdfunding, Awqaf and Zakat.
- Raising awareness is key, and it should be done through a united effort between banks, regulators, government bodies and schools.
- Human talent is a key issue and Oman has the opportunity to play a role in developing this at a global level.

Bank Nizwa: The rising star in Oman's financial services industry

Since its inception as Oman's first Islamic bank, Bank Nizwa has been at the forefront of introducing, developing and enhancing Islamic banking in the Sultanate. Renowned for its Shariah compliant range of attractive and efficient financial solutions, the bank has quickly grown to be the rising star it is in Oman's financial services industry.

Going the extra mile

With Bank Nizwa, innovation continues to be a catalyst that shapes the way it responds to the evolving needs of customers. The results of its push to develop new, value-added financial solutions have led to landmark results across multiple divisions. The retail banking unit has launched a number of new Shariah compliant instruments to help customers acquire the automobiles and homes of their dreams. Enriching the lives of customers with greater choice and convenience, the bank also launched its first dedicated mobile app in 2015, granting users greater accessibility than ever before. Going the extra mile to reaffirm its commitment toward customer satisfaction, the bank also launched a full suite of Shariah compliant credit cards in partnership with MasterCard. The move proved to be a milestone, introducing the widest range of Shariah compliant cards in the market and offering customers greater financial flexibility with access to over 35 million locations worldwide.

Reaching out to communities

In line with its strategy to reach out to customers, the bank achieved its expansion target for the third year running with the launch of its 11th branch in the governorate of Buraimi. Today, the bank's retail presence extends across Oman in Muscat, Ghoubra, Al Khoud, Barka, Nizwa, Samail, Sohar, Ibra, Sur, Al Buraymi and Salalah.

An industry leader in Oman and beyond

In 2014, Bank Nizwa launched its flagship industry initiative, the Islamic Banking Knowledge Forum. Attracting participants from across the sectors, it was designed to promote cross-industry collaboration, dialogue and the sharing of best practices. Held again in 2015, the second edition proved to be even bigger and focused on the region's economic outlook. Attended by more than 150 government and public sector representatives, the second edition served as a platform for industry experts to address the challenges and opportunities within the sector, as well as the bigger picture of the regional economic climate.

Raising awareness on Islamic finance

From the very beginning, Bank Nizwa has taken upon itself to empower communities with the knowledge and understanding of the benefits of Shariah compliant solutions, presenting them with new, untapped opportunities. The bank launched a country-wide roadshow called 'Islamic Finance Knowledge Series', conducting sessions that benefited more than 1,000 individuals form the public, private and educational intuitions in its first year.

Powered by Oman's brightest

The driving force behind the bank's success story is its employees, who are encouraged and empowered to lead the growth of this emerging industry in Oman. More than 700 training programs have been conducted in 2015, reflecting the bank's commitment to attracting and training the best of the best talent. The bank's ability to retain and develop top talent is exemplified in its board of directors, which comprises Sayyid Amjad Mohammed Ahmed Al Busaidi (chairman), Shaikh Ahmed Saif Al Rawahi, Hussain Yousif Al Shalwani, Musabah Saif Musabah Al Mutairy, Sheikh Saif Hilal Nasser Al Mawali, Sheikh Khalid Abdulllah Al Khalili, Sheikh Muadh Salim Al Ghazali and Sheikh Abdulaziz Khalifa Al Saadi. As for its Shariah Board, its members provide insight and ensure compliance to Islamic banking principles in all operational and financial aspects. The Shariah Board comprises chairman Dr Abdul Sattar Abu Ghudah, Sheikh Ibrahim Nasir Al Sawafi and Dr Mohammed Rashid Al Gharbi.

Giving back

Corporate stewardship has always been an integral component of the bank's ethos, allowing it to give back to the community through a wide range of social, economic, and industry-related activities with a number of key organizations and entities. In an effort to continue its support and endorsement of Islamic values, Bank Nizwa partnered with the Ministry of Endowment and Religious Affairs to support a Zakat campaign during the holy month of Ramadan. The bank also offered customers an option to pay Zakat by depositing cash or regular direct transfer. In addition, Bank Nizwa maintains its own volunteering program called 'Masoliyati', for employees of the bank looking to volunteer and champion charitable initiatives across the Sultanate. To date, the program has successfully conducted Iftar Sa'em outreach initiatives during the month of Ramadan, clean-ups to protect and preserve Oman's natural architectural history as well as beaches, and blood donation drives.

Soaring high with accolades

Since inception, Bank Nizwa has won a number of prestigious awards and accolades for its role in the development of Islamic banking in Oman. In 2015 alone, it won more than four awards. In addition to being named the 'Best Performing Islamic Bank in Oman' by the World Islamic Banking Conference, the bank also received the 'Best Islamic Bank in Oman' title at the 6th annual Islamic Finance Awards, the 'Best Employee Retention and Motivation Program' award at the annual Middle East Call Center Awards and was recently honored with the 'Strongest Islamic Retail Bank in Oman' title at the 7th World Islamic Retail Banking Conference.

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Private equity opportunities in Oman

Oman being a member of the GCC has always maintained a low profile when it comes to investments and developments. As with the other GCC countries, Oman has mainly depended on the income from oil, which accounts to around 50% of GDP directly and over 70% of government receipts and export earnings. MOHSIN SHAIK SEHU MOHAMED writes.

However, in recent years, the slump in oil prices has affected Oman deeply. The country reported a deficit of OMR4.5 billion (US$11.65 billion) in 2015 and is expecting a deficit of OMR3.3 billion (US$8.55 billion) in 2016. Many drastic measures have been implemented by the government when announcing Budget 2016, with spending and subsidies in many areas trimmed to face these challenges.

What needs to be done

The country which was once rated 'A' by S&P has been downgraded to 'BBB' as of March 2016. Eyebrows were raised as to why Oman seemingly did not diversify their economy during these trying times but in actual fact, the country has already planned for diversification through its Oman Vision 2020. Basically, Vision 2020 covers the following:

- Economic and financial stability
- Reshaping the role of the government in the economy and broadening private sector participation
- Diversifying the economic base and sources of national income
- Globalization of the Omani economy, and
- Upgrading the skills of the Omani workforce and developing human resources.

As such, there are many key areas besides oil that can generate revenue for Oman. Projects such as the development of industrial estates in Sohar, Sur, Salalah, Nizwa and Buraimi will create more job opportunities. The Duqm region, for example, is one of the latest industrial areas that will be developed and transformed into a major economic area which will unlock the

potential of growth opportunities. In Duqm itself, there will be a dry dock, a fishery harbor, hotels and resorts, a natural gas supply, the Duqm airport, a refinery complex and power and water generation and distribution.

Due to these industrial zones, Oman has also started to build a rail network that is expected to link major ports and free-zone areas such as Sohar, Salalah and Duqm with a wider GCC network.

> *"Many SMEs from various sectors are in need of financial injection and these companies are to be nurtured"*

Investment opportunities

As the country is currently diversifying, there are a lot of investment opportunities that can be identified. Sectors like tourism, health care, retail, education, logistics and transportation are key areas of development.

In the current climate, there are a lot of opportunities for investment that can be done via Islamic private equity. Investors will be able to find opportunities in greenfield companies, mid-sized companies or small companies that have growth potential. Opportunities will arise in the SME sector. The Omani government recently established the Public Authority for Small and Medium Enterprise Development (PASMED), an independent body created to encourage young entrepreneurs and to provide support in terms of technical, financial, training, marketing and management aspects in all necessary fields to aid these enterprises. Many SMEs from various sectors are in need of financial injection and these companies are to be nurtured so that they can later be listed on the Muscat Securities Market as an exit route for investors.

The way forward

Islamic private equity is an avenue to be tapped by investors locally and internationally. There have been discussions on allowing foreign investors to have an ownership of up to 70% which will have more of an appeal and encourage them to invest in Oman.

Oman has much to offer when it comes to investments and the following are some examples:

- a stable political environment and well-developed, high-income human capital
- a stable fiscal profile underpinned by conservative and very low debt levels
- a favorable business environment, strategic location and strong ties with GCC member countries
- a well-developed banking sector coupled with a vigilant central bank, and
- a contained inflation rate despite being a fast-growing economy.

As shown by the aforementioned examples, Oman will be a good destination when it comes to Islamic private equity transactions. With deals in the pipeline and a robust regulatory framework, it will soon not have to depend on its oil income as the main driver of the country's revenue.

Mohsin Shaik Sehu Mohamed is the director and head of Islamic finance at Al Madina Investment. He can be contacted at mohsin.mohamed@almadina.com.

almadina investment المدينة للإستثمار

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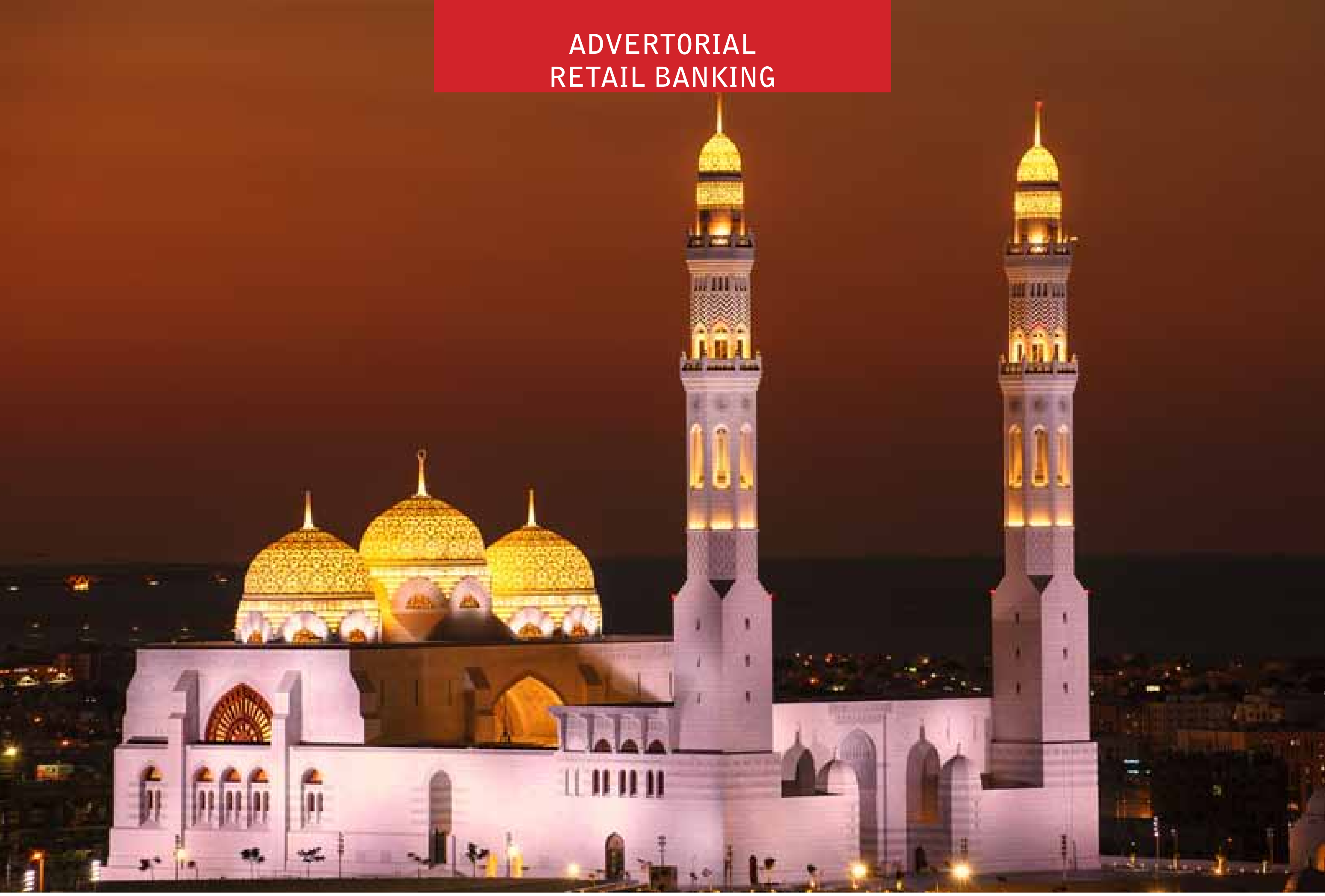

Alizz Islamic Bank: The journey continues...

Economic overview and outlook

The economic environment remained challenging throughout the year predominantly due to declining oil prices. As with other GCC countries, oil and gas revenues remain a significant contributor to Oman's economy accounting for more than 75% of government revenues. In previous years, Oman's economy benefited from significant budget surpluses and increased government spending, though fiscal restraint may be a theme in the short to medium term.

As part of the 2016 budget, the government has announced a number of initiatives to enhance non-oil revenue sources which include raising corporate tax rates, limiting tax exemptions, revising the tariffs for utilities, revising real estate transactions and municipal fees, regulating allocations of commercial, touristic and industrial lands and revising fees of various other government services. Measures have also been announced for the rationalization of expenditure which include reducing the subsidy of fuel and delaying non-essential projects. With these measures, the budget deficit for 2016 is estimated to be OMR3.3 billion (US$8.54 billion), which is expected to be financed through local and international borrowings, capital receipts and withdrawals from prior years' reserves.

With an expected decline in government revenues and reduced government spending, the banking sector may need to contend with challenges in the short to medium term. Alizz Islamic Bank (Alizz) will continue to pursue sustainable growth through strong and innovative product offerings, service excellence and operational efficiency and enhanced risk management.

Financial overview

Alizz's gross financing receivables crossed OMR200 million (US$517.75 million) to reach OMR201.9 million (US$522.66 million), registering a growth of 185% from the end of 2014 while customer deposits increased to OMR161.4 million (US$417.82 million) from OMR15.3 million (US$39.61 million) at the end of 2014. Such phenomenal growth has resulted in an increase in net operating income by 210% to reach OMR5.99 million (US$15.51 million) for the year 2015 from OMR1.93 million (US$5 million) for the year 2014.

The bank achieved all its strategic targets in terms of growth, cost and profitability.

Growing in Oman

Alizz continued to expand its distribution network by opening two more branches in Muscat (Wattayah) and in Dhofar (Salalah), enhancing the network to six branches, in addition to a kiosk in Muscat Grand Mall which houses the Sultanate's first-ever interactive teller.

Alizz is the first bank in Oman to introduce the interactive teller technology with NCR, the global leader in consumer transaction technologies. With the interactive teller, customers can complete a majority of typical branch transactions right at the ATM with the assistance of a live, remote teller. The bank has also introduced some new innovative products and services for retail customers, while significantly enhancing the security of card operations by introducing 3D secure services. The bank is one of six banks in the Sultanate that achieved EMV compliance status from the Central Bank of Oman, which indicates the level of strength and security of the bank's network.

In line with the bank's strategy, the following key initiatives and developments took place during 2015:

- The bank was assigned a long-term credit rating of 'omBBB-' (investment grade) on a national scale by Capital Intelligence. Alizz is the first Islamic bank in the Sultanate to be rated by an international agency and has achieved a strong investment grade rating at the outset. This demonstrates the bank's competence as well as the commitment and support from the bank's shareholders.

- Furthermore, the bank has signed strategic agreements with corporate customers for large projects expected to commence in the near future. This included an agreement with Shaden Development Company to provide long-term Shariah compliant financing facilities for the implementation of Phase 2 of the Shaden Al Hail Project. In addition, the bank signed a master Wakalah agreement with Oman Shipping Company (OSC) to invest in a number of the company's projects. The financing agreement with OSC is the largest and first of its kind to be carried out by a fully-fledged Islamic bank in the country.

- On the governance front, Alizz was ranked among the top five Islamic banks in the GCC and the only Omani bank on the basis of financial disclosure score by the Middle East Global Advisors. The financial disclosure rating measures the extent to which customers and stakeholders are protected through disclosure of ownership and financial information. At Alizz, we value the trust placed in us by our shareholders and completely believe in the importance of corporate transparency.

Investing in our people and community

Our aim is to make Alizz a great financial institution for our customers; an organization that will earn their trust, and in turn win more of their business. It is a strategy that provides the fundamental building blocks to make Alizz an attractive investment, a great place to work for our people, and an Oman-focused bank that the country can truly be proud of.

To date, the bank continues to work hard to recruit talented and ambitious young Omani nationals, and by the end of 2015 we had 183 Omani nationals working across all divisions, representing an Omanization rate of over 88%, exceeding the percentage fixed by regulatory bodies for a newly established bank.

We also continue to invest in a wide range of activities that benefited the community at large, including sponsorship of local activities and events. The commitments set out in our 2015 Corporate Social Responsibility Plan were organized around areas where we believe we can have the greatest social impact.

> *"The bank received several awards for its noteworthy performance across various business and financial parameters"*

Awards

Alizz has emerged as a well-known and highly respected brand in the marketplace by pursuing a clear strategic mission, maintaining a disciplined viewpoint and instilling enduring values in a team that is committed to excellence.

During 2015, the bank received several awards for its noteworthy performance across various business and financial parameters. The prestigious awards for its innovative products and services include the 'Best Retail Bank in Oman 2015' by Islamic Business & Finance. The bank is also the recipient of the 'Best Customer Service in Oman 2015' award from The Banker Middle East.

These awards and recognition are particularly valuable, as they acknowledge the merits of the bank's successful business model. Alizz continues to transform itself as it faces the challenges and competes with being the newest entrant in the market. The renewed focus on customer and customer experience will make this a better organization for all stakeholders, especially customers, staff and shareholders.

بنك العز الإسلامي
alizz islamic bank

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Structuring Sukuk in Oman

Sukuk issuance in Oman is still relatively new. To date, there have been two Sukuk issuances with the first being the OMR50 million (US$129.43 million) Sukuk Ijarah by Tilal Development Company in 2013 and the second being the recent OMR250 million (US$647.17 million) sovereign debut Sukuk issuance by the government of Oman. These Sukuk issuances demonstrate Oman's commitment to Islamic finance since the official launching of Islamic finance in the country. They opened up channels for local Islamic banks (and Islamic windows of local banks) to direct their excess liquidity and paved the way for other Oman corporate entities to follow suit and embrace Sukuk as an alternative funding tool. SALMAN AHMED and RIZA ISMAIL write.

The recent Sukuk issuances also form the basis of precedent transactions and opened up a number of legal, procedural and operational issues which have now been identified and addressed. This was made possible due to the cooperation from the Capital Market Authority (CMA) which provided guidance coupled with the fact that Oman's existing laws and regulations are flexible enough to cater to Sukuk issuances. Behind the scenes, draft Sukuk regulations are currently being discussed and developed to tighten up and provide more clarity on the legal framework, processes and the acceptable structures in Oman. There have also been efforts to amend existing law to cater to the issuance of Sukuk. For example, the Capital Market Law was recently amended to permit SPVs established for the purpose of issuing Sukuk to own assets (immovable and movable assets). Further, the SPVs are also exempted from complying with foreign ownership restrictions and imposition of all taxes and regulatory fees in Oman.

Steps to issuing Sukuk in Oman

To issue Sukuk in Oman, some of the basic steps and issues that need to be considered are set out below:

1. Existing legal framework

The issuance of securities in Oman is primarily governed by the Capital Market Law (promulgated by Royal Decree 80/98 (as amended)), the Capital Market Authority Decision No. 1/2009 Issuing Executive Regulations of the Capital Market Law (Executive Regulations) and Commercial Companies Law (promulgated by Royal Decree 4/74 (as amended)). In the absence of a dedicated Sukuk regulation, these laws apply equally to Sukuk and have been adopted in the recent Sukuk issuances in Oman. Other industry specific laws will also apply in so far as they relate to the obligor or the underlying asset. For example, an obligor in the telecommunications industry will also need to comply with the Telecommunication Regulatory Act (Royal Decree 30/2002 (as amended)) and an obligor in the banking industry will need to ensure compliance with the Banking Law (Royal Decree 7/74 (as amended)). Consequently, depending on the industry in which the obligor operates, approvals from the concerned regulators may be required. Additionally, if the underlying asset is real estate (and this is usually the case), there will be various aspects of land law which will need to be considered.

2. Sukuk structure

In Oman, the structure used to date for the issuance of Sukuk is an Ijarah (a sale and leaseback). It is a structure which is currently recognized in most jurisdictions and generally accepted by Shariah scholars, providing a good starting point to kick-off and spur the progression of Sukuk in Oman. It is also a structure that is relatively simple and straightforward to understand and therefore easier to market and gather interest from potential investors.

Although the simplest and most common option, Sukuk issuances in Oman are not limited to the Ijarah structure. Some examples of other structures which seem to be recognized in Oman can be found in the Islamic Bank Regulatory Framework (IBRF) which is issued by the Central Bank of Oman. The structures set out in the IBRF are:

i. Sukuk Murabahah
ii. Sukuk Mudarabah
iii. Sukuk Musharakah
iv. Salam Sukuk, and
v. Sukuk Istisnah.

The IBRF imposed a statutory prohibition (save for very limited exceptions) on the application of commodity Murabahah/Tawarruq. The IBRF only applies to banks and so it is yet to be ascertained whether such prohibition extends to corporate entities (other than banks). Typically, a Sukuk structure paper will be prepared on which local counsels will analyze and determine compliance with local law and regulations. The Sukuk structure must also be approved by the Shariah boards of the lead arrangers and it is advisable to obtain this at the outset.

3. Trust or agency structure

Another important consideration when preparing for a Sukuk issuance is whether a trust or agency structure should be used. There are currently no laws in Oman which provide for the constitution of a trust, the appointment and replacement of trustees, duties, powers, responsibilities and obligations of trustees. Generally, a trust is not a recognized concept under Oman law except in certain limited circumstances. Agency arrangements are recognized in Oman, particularly under the Civil Code (promulgated by Royal Decree 29/2013). To date, an agency structure governed by Oman law is used for Sukuk issuances in Oman.

Despite the fact that a trust structure is generally not a recognized concept in Oman, a declaration of trust governed by English law may be entered into. There is no statutory prohibition on parties agreeing to a governing law other than the laws of Oman. However, if a provision of a foreign law chosen by the parties is found to be contradictory to any public policy of Oman, it is unlikely to be applied and enforced. The implication of a trust structure utilizing English law and the choice of dispute resolution following the use of English law on the parties to the transaction documents would need to be considered.

4. Establishment of an SPV

In Oman, a limited liability company (LLC) is prohibited from issuing bonds. As a result, the SPV which is typically set up for the issuance will have to be in the form of a closed joint stock company (SAOC). There are additional setup requirements for an SAOC as compared to the simpler establishment of an LLC. For example, an SAOC has a higher minimum share capital requirement, is required to have in place a minimum of three shareholders and a formal board of directors and has various reporting requirements and filings to the CMA and Ministry of Commerce and Industry. Typically, the process of establishing an SAOC takes around three to four months to complete.

5. Prospectus

Under the Capital Market Law, any offer of securities in Oman by an Oman entity may only be carried out in accordance with a prospectus approved by the CMA. The approval will be by way of an administrative decision issued by the CMA. The CMA will have to approve the prospectus before it can be distributed and published and will carefully consider all the information provided within it. Typically, both the English and Arabic versions of the prospectus will be submitted to the CMA. The CMA has the discretion to determine which version of the prospectus shall form the official version for the purposes of issuing the administrative decision.

It is of utmost importance that careful thought and processes are put into the drafting and preparation of the prospectus. The Requirements and Terms for Issuing Shares in the Sultanate of Oman Administrative Decision No. 12/2005 dated 31/12/2005 (CMA Decision) provide the basis on which the prospectus is to be drafted, to the extent applicable to a Sukuk issuance. The Capital Market Law provides that any omission or avoidance of any material information in a prospectus, or the inclusion of incorrect statements or information, shall be the responsibility of the entity preparing the prospectus.

More specifically, the CMA Decision states that the issuer and issue manager will be responsible for the information in the prospectus. In this context, the model prospectus attached to the CMA Decision contains undertakings as to the accuracy of the information contained within the prospectus from the issue manager and legal advisors. It has becoming increasingly common in Oman for a full due diligence session to be conducted with the senior management of an obligor to verify the information contained in the prospectus.

6. Issue manager

An Oman entity issuing Sukuk must appoint an issue manager who shall be responsible to the CMA for the completion of all the procedures relating to the issue of Sukuk. Among others, the issue manager acts as the focal point between the obligor and the CMA, obtains CMA approval for all advertising and promotional campaigns and ensures that the obligor/ issuer has satisfied all the requirements for the Sukuk issue in accordance with the instructions of the CMA, in particular, the obligor/issuer has obtained all the approvals from the relevant competent authorities. The issue manager shall also be responsible for carrying out due diligence in the management and organization of the Sukuk issue and to ensure that the prospectus contains all the material information necessary to enable the investor to make a thorough analysis and form opinions about the costs, rewards and risks of the investment in the offered securities and that the prospectus does not contain any misrepresentation or misleading information or that material information has not been omitted. The issue manager must be a company licensed by the CMA and it is advisable for the issue manager to have sufficient expertise in managing the Sukuk issue.

7. Sukukholders' Agent, Registrar and Paying Agent

The Executive Regulations provide that in a bond issuance, a bondholder's agent must be appointed and such a role must be taken by an entity licensed by the CMA. Similarly, such a requirement extends to a Sukuk issuance. Typically, this position will be assumed by the Muscat Clearing and Depository Company (MCDC). Incidentally, the MCDC will also assume the role of the registrar and paying agent. The MCDC will act as the agent of the Sukukholders and will make payments for and on behalf of the issuer and the obligor as they fall due. The MCDC will also typically have the duty to maintain the register of Sukukholders. The role of the MCDC as the Sukukholders' agent is usually governed by a declaration of agency. The document sets out the relationship between the parties and governs the way in which the rights under the transaction documents and the assets are held and the extent of each party's liability.

8. Listing

The Sukuk is required by law to be listed on the third market of the Muscat Securities Market (MSM). The listing process is quite straightforward and submission of the approved prospectus by the CMA and other constitutive documents of the issuer is required to be made to the MSM.

Although there are a number of considerations to be made for a Sukuk issuance in Oman, the current laws do provide enough guidance on the processes and procedures. As there have only been two Sukuk issuances, and in light of the recent drop in oil prices, it is difficult to predict the path which Sukuk in Oman will take. It will be interesting to see the approach taken in the future in respect of structuring and to see how the laws and regulations will develop to accommodate the increasingly popular way of raising funds. Perhaps, we should also look forward to Oman introducing an array of trust vehicles as Sukuk can benefit through the use of sophisticated trust structures.

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Oman's inaugural sovereign Sukuk

One of the privileges of practising law in an area of finance that is still emerging is the opportunity to work on new and often very novel transactions. Our appointment to advise the government of the Sultanate of Oman on the country's inaugural sovereign Sukuk was an opportunity the capital markets team in Linklaters's Dubai office were delighted to accept. This role followed on from our earlier work advising Her Majesty's Treasury in the UK on the first sovereign Sukuk to be issued by the government of a non-Muslim majority country. In this article, NEIL D MILLER and JONATHAN FRIED discuss several aspects of the Omani sovereign Sukuk transaction, with a view to drawing some lessons that may help other countries contemplating a similar journey.

As many readers will appreciate, Oman was the last of the GCC countries to formally permit financial institutions to offer Islamic financial and banking services in its jurisdiction when in May 2011 Sultan Qaboos permitted the establishment of standalone Islamic banks and 'Islamic windows' of conventional banks. The Central Bank of Oman followed up by releasing the comprehensive Islamic Banking and Regulatory Framework in December 2012 and before the end of 2013, two fully-fledged Islamic banks – Bank Nizwa and Alizz – had commenced operations.

2013 continued to be a busy year as several of the Omani conventional banks launched their Islamic windows, the Muscat Securities Market launched a Shariah compliant Index, Takaful Oman Insurance completed its OMR23 million (US$59.54 million) IPO and Tilal Development Company issued the first corporate Sukuk Ijarah, among various other developments.

The Oman government quickly concluded that the momentum of growth in the nascent Omani Islamic financial services industry would be supported by the issue of a sovereign Sukuk and the plan to do so was announced in 2014.

The procurement process for appointing a legal counsel began in December 2014 and Linklaters was approached to offer proposals for advising the government of Oman or the issue manager and principal financial advisors (IMFA) respectively. The final selection decision and our appointment as the international legal counsel to the government was confirmed on the 15th January 2015 and we would work alongside the local counsel Trowers & Hamlins. The IMFA team would be represented by Allen & Overy and Al Busaidy, Mansoor Jamal & Co.

Although there was a desire to expedite the issuance, the Sukuk eventually came to market on the 3rd November 2015. The path from inception to launch was an interesting one for all of the participants involved in the process. In certain respects, it operated as a case study in how to achieve this type of product innovation in a country just starting its voyage into the Islamic financial services industry.

Sukuk are complex financial instruments that sit at the top of

Summary of terms and conditions	
Issuer	Oman Sovereign Sukuk
Obligor	Government of Oman
Size of issue	OMR250 million (US$647.1 million)
Mode of issue	Sukuk certificates of OMR100 (US$258.84) each
Purpose	Raising of general capital for the government for its projects
Tenor	Five years
Profit rate	3.5%
Payment	Biannual
Currency	Omani riyal
Maturity date	3rd November 2020
Lead managers and principal advisors	• Meethaq Islamic Banking and Standard • Chartered Bank (as joint finance advisors and joint lead managers)
Bookrunner	Bank Muscat
Governing law	Oman
Legal advisors	Allen & Overy and Al Busaidy, Mansoor Jamal (for the issue manager and the joint lead managers) Linklaters and Trowers & Hamlins (for the issuer and the Omani government)
Listing	Muscat Securities Market
Underlying assets	Land
Rating	'A1' (Moody's)
Shariah advisors	Shariah Supervisory Boards of Meethaq Islamic Banking Group and Standard Chartered
Structure	Sukuk Ijarah
Tradability	Tradable on third market of the Muscat Securities Market
Investor breakdown	Regional GCC investors only
Face value/ minimum investment	Each certificate has a face value of OMR100 and minimum investment is OMR500,000 (US$1.29 million)

the pyramid of Islamic financial products. Every Sukuk facility involves two intimately connected elements and this means they are really ‘two deals in one’. The first element goes to the heart of the Shariah credibility of the arrangement and concerns the assets which need to be identified to underpin and support the issuance. The second element concerns the offering to investors, when a prospectus is issued to qualified investors. As sophisticated securities instruments, the basis on which Sukuk can be issued is a matter for oversight by the authorities responsible for regulating the capital markets, so clear regulation and a good working relationship with the regulator is important to enable this type of transaction.

“As sophisticated securities instruments, the basis on which Sukuk can be issued is a matter for oversight by the authorities responsible for regulating the capital markets, so clear regulation and a good working relationship with the regulator is important to enable this type of transaction”

Asset considerations

The vast majority of sovereign Sukuk (especially inaugural issuances) adopt the Sukuk Ijarah form. The main reasons for this include: ease of comprehension; clarity around the Shariah compliant character of the asset (which often comprises real estate) and the (relative) simplicity in documenting a sale and leaseback transaction. In this respect, the Oman Sukuk was no different. The government identified a parcel of land in the Duqm region and what made this transaction slightly more challenging was that the government needed the flexibility to be able to deal with the land as the Duqm region is developed. As a result, instead of identifying a portion of land that was to be immutable during the tenor of the Sukuk, a co-ownership interest of 24.22% was granted in a larger parcel of land. This means that as the government’s plans for the land evolve, it has been able to retain the flexibility to allocate specific areas of the land to projects without encumbering the rights of certificate holders under the Sukuk.

SPV

Virtually all Sukuk require the establishment of a legal entity that will operate as the issuer. In Sukuk Ijarah, the SPV receives Sukuk proceeds from the certificate holders and uses the money to acquire the assets which it then leases to the obligor, generating a rental stream. In many Sukuk, the SPV will be an offshore entity domiciled in a jurisdiction such as the Cayman Islands. In most sovereign transactions, the government will have political, strategic and security concerns about using an offshore entity and will usually require that a 100% wholly-owned domestic entity holds the assets. This is fine in those jurisdictions where the existing legal regime provides for SPVs to be established quickly, efficiently and at minimal cost.

In the case of Oman, the only legal form available was to establish the issuer as a limited liability company under applicable regulations. Unfortunately, the process involved in doing that was lengthy and probably contributed most toward the longer-than-planned period before issuance. It illustrates an area where jurisdictions wishing to use Sukuk should consider creating legislation and the enabling administrative procedures that facilitate the prompt and competitive establishment of the legal vehicles needed.

Trust versus agency

As Sukuk have evolved, the most common method whereby a sufficient (ie from a Shariah perspective) proprietary interest in the underlying assets is vested in the certificate holders has been to use the English legal tool of a common law trust (under which the trustee holds the assets for the benefit of the certificate holders). In those Muslim jurisdictions that have tended to adopt a civil code approach when creating secular laws, the trust does not exist as it is not an instrument generally recognized in civil legal systems. At first blush, this seems to constitute an insurmountable problem and is one that several Muslim countries have resolved in different ways. Some jurisdictions have introduced the concept of financial trusts by passing trust regulations.

In other jurisdictions, agency-based arrangements have been used instead (eg Saudi Arabia). The latter approach was adopted in Oman whereby the issuer was constituted the agent of the certificate holders and instead of a declaration of trust being a key constitutive document of the Sukuk, a declaration of agency was used in the alternative. As a matter of English law, it may be arguable that a trust-based approach offers a slightly more robust approach and therefore better protection to investors; however, in jurisdictions where trusts are not recognized, the issuer is an onshore vehicle and the transaction is largely domestic or intra-regional (as was the case with the Oman sovereign Sukuk), there is little to be gained by seeking to impose a trust–based arrangement. In any future international offerings, it may be necessary for the local counsel in Oman to consider a trust-based structure.

Securities regulations

One of the most interesting, and at times challenging, aspects of the transaction concerned the regulatory environment under which the deal was executed. The Capital Market Authority (CMA) is responsible for the regulation of the capital markets in Oman. A Capital Market Law exists in Oman but the law does not deal with Sukuk and arguably is more focused on equity capital markets than debt capital markets. Also in existence during the period prior to the issuance of the Sukuk was a draft Sukuk Regulation (the Sukuk Regulation). The Sukuk

> *Regulation was not brought into force by the time of issuance and has not yet come into force, although it is expected that it may do so at some point in the near*

Regulation was not brought into force by the time of issuance and has not yet come into force, although it is expected that it may do so at some point in the near future.

The government's legal advisors and the legal advisors to the IMFA worked closely with the CMA throughout the Sukuk process and the relationship was always cordial and constructive. However, there was an unavoidable state of uncertainty about precisely what regulatory requirements had to be observed and while the advisors were directed by the CMA toward the Sukuk Regulation for guidance, the fact it remained in a draft form made the task of the local counsel difficult. The issue of whether the issuer should be constituted as a trustee or an agent (discussed previously) was an example of one area where the draft Sukuk Regulation could not be observed. The Sukuk Regulation contains provisions that, if and when they do come into full legal effect, may remedy some of the uncertainties encountered during the transaction. For example:

- SPVs: Part III of the Sukuk Regulation comprises several chapters that describe an arrangement for establishing an SPV to perform the role of issuer under Sukuk. It is to be hoped that a specific regime managed under the licencing auspices of the CMA will enable SPVs to be established quickly and efficiently in the case of future Sukuk.
- Financial trusts: Part IV of the Sukuk Regulation comprises several chapters that set out a regime for the creation and management of financial trusts for the benefit of certificate holders. Among other things, it provides that a financial trust will only come into force when it has been registered on the 'Register of Financial Trusts' to be maintained by the CMA.

It is to be hoped that the draft Sukuk Regulation will be further reviewed in light of the knowledge gained from the experience of undertaking the first sovereign issue and in due course will provide a clear regulatory framework for future Sukuk issuances in Oman whether sovereign or corporate.

One of the fascinating takeaways from this transaction was that even when no specific regulations for Sukuk issuance are in force, if there is the necessary political will and a willingness on the part of the relevant regulatory authorities and other stakeholders in the transaction to cooperate, it is still possible to make an issue happen. However, in the medium term, and particularly if international investors are to be attracted to future issuances in Oman, it will be necessary to have more certainty around procedures and regulation so the promulgation of legislation is to be encouraged.

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Faithfully secured: Al Madina Takaful leading the Islamic insurance market in Oman

Al Madina Takaful, Oman's first Islamic insurance provider has been leading the way and setting new benchmarks in the Islamic insurance industry in Oman. Established in 2006, Al Madina Insurance Co is one of Oman's largest insurance companies offering a wide range of products and services for the retail and business segments. The company is promoted by leading financial institutions and prominent business houses from Oman and across the GCC region. The portfolio of offerings includes insurance for home, motor, domestic help, marine cargo and hull, life and medical, engineering, general accident, liability, and fire and property.

In 2014, Al Madina transformed its entire business to Takaful becoming the first operational and profitable Takaful company in Oman. With a mission to provide a full range of Takaful products which are Shariah compliant, competitively priced and customized to the market requirements, and supported by superior customer service, Al Madina Takaful has grown to become the 'Oman Insurer of the Year' 2016.

The company has strong and committed shareholders from Oman and the GCC, established partnerships with leading international insurance groups and is guided by a strong and stable senior management team led by experienced insurance practitioners with international experience.

Al Madina Takaful has been setting new benchmarks with its innovative products and services. It was the first company in Oman to provide a web calculator for retail policies like motor, travel and domestic. It was the first to launch a mobile app in Oman for insurance. The app, mInsurance, is a benchmark in the industry and allows customers to receive quotes; buy policies; track a claim; perform renewals; locate the nearest Al Madina office, car repair garages and hospital clinics; get renewal reminders and information on Takaful; and more.

True to its leadership role, Al Madina introduced a knowledge-sharing forum called 'Knowledge Forum' as a platform to continually engage with decision-makers to facilitate Takaful education, the exchange of information, knowledge and practices and inspire innovation and leadership through collaboration.

The awards won by Al Madina Takaful bear testimony to the company's successful track record: the 'AIWA Award', 'Top 10 Best Performing Companies in MSM Small Cap Segment', 'General Takaful Company of the Year' at the 2nd Middle East Insurance Industry Awards 2015 and 'Oman Insurer of the Year' at the MENAIR Insurance Awards 2016.

The performance recorded by Al Madina Takaful has been remarkably successful and has helped set a firm foundation for the company to continue to reward both shareholders and policyholders alike moving into the future.

About Takaful

Takaful is defined as a cooperative system of the Islamic insurance concept, which is grounded in Islamic Muamalat (Islamic banking), observing the rules and regulations of Islamic law. Conventional forms of insurance are prohibited under Islamic law as they contain elements of Maysir, Gharar and Riba.

Takaful is based on the principles of Taawun (mutual assistance) that is Tabarru (voluntarily) provided. Takaful is similar to conventional cooperative insurance whereby participants pool their funds together to insure one another.

Five key elements:

Mutual guarantee – The basic objective of Takaful is to pay a defined loss from a defined fund. The loss is borne by a fund created by donations of policyholders. The liability is spread among the policyholders and all losses divided between them. In effect, the policyholders are both the insurer and insured.

Ownership of fund – Donating their contributions to the Takaful fund, policyholders are owners of the fund and entitled to its profits.

Elimination of uncertainty – Donations, resulting in a transfer of ownership to the fund, are voluntary to mutually help in case of a policyholder's loss without any pre-determined monetary benefits.

Management of the Takaful fund – Management is by the operator who, depending on the adopted model, utilizes either (or a combination) of two Shariah compliant contracts, namely Mudarabah or Wakalah.

Investment condition – All investments must be Shariah compliant, which prohibits investment in Haram industries, and require the use of instruments that are free of Riba.