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# CONTENTS

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## THE IFN OMAN FORUM 2022 REVIEW



### Oman doubles down on Islamic finance regulatory support — where next?

The Central Bank of Oman (CBO) revealed several Shariah banking initiatives including the long-awaited policy on Islamic liquidity products at IFN Oman Forum 2022, which was welcomed with great enthusiasm by market leaders. VINEETA TAN explores what these new measures could mean to Oman's Islamic banking and finance future based on market leaders' input at the forum.

7

## PANEL DISCUSSIONS

### Omani Islamic Financial Services: Momentum and Success

13

### Building a Nation: Funding National Development through Islamic Finance

15

### Digitalization and the Evolution of Omani Islamic Financial Services

17

### Funding the Future: Islamic Sustainable Finance and Investment

19





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# CONTENTS

## COUNTRY ANALYSIS

### Oman: Expanding the Islamic finance sector

While Oman's Islamic finance and banking industry is younger and smaller relative to its GCC neighbors, the Sultanate has a strong regulatory infrastructure in place that supports the sector and its players. NESSREEN TAMANO writes an overview of the Shariah finance market in Oman, which continues to expand and improve.

23

### Event Overview

Pre-event Contact  
Overall Evaluation of the Event  
Overall Evaluation of the Speakers  
Delegate Breakdown  
Delegate Job Title Breakdown  
Delegate Breakdown (International & Local)  
Delegates Who Would Like to Attend IFN Oman Forum 2023

25

### Sessions Overview

27



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# THE IFN OMAN FORUM

## 2022 REVIEW

### OMAN DOUBLES DOWN ON ISLAMIC FINANCE REGULATORY SUPPORT — WHERE NEXT?



The Central Bank of Oman (CBO) revealed several Shariah banking initiatives including the long-awaited policy on Islamic liquidity products at IFN Oman Forum 2022, which was welcomed with great enthusiasm by market leaders. VINEETA TAN explores what these new measures could mean to Oman's Islamic banking and finance future based on market leaders' input at the forum.

"We are launching the infrastructure to be able to offer Shariah compliant liquidity products for the Islamic banking sector, which will include lender-of-last-resort and liquidity support facility, remuneration on deposit with CBO," confirmed Malik Mahrooqi, the advisor to the Office of the Executive President of the CBO. "A few months ago, the High Shariah Supervisory Authority reviewed and approved the contract structures of these products. Now efforts are being made to complete the remaining groundwork and gradually offer these products to market players."

The new measure will allow CBO to issue Wakalah-based short-term products — in both Omani rial and US dollar — either to reserve money or inject liquidity into the market. It would also pave the way for Islamic treasury bills, according to Sulaiman Al Harty, a senior Islamic banking analyst with the CBO.

The introduction of Islamic liquidity management tools is one industry players have long asked for, particularly in the absence of commodity Murabahah, which is banned in the Sultanate. Yet despite the lack of such instruments, Oman has done spectacularly well for itself.

Only officially adopting Islamic finance 10 years ago, Oman has managed to catapult itself to become the 15<sup>th</sup>-largest Islamic banking market in the world. It has made strong statements in the Sukuk space with its sovereign

and retail offerings, even beating several of its regional peers in tapping the Islamic capital markets for funding.

The country's impressive rise is undisputed, but the playing field is not yet leveled, and more can be done to harness Oman's full potential.

For example, as Islamic banks in Oman and beyond are not able to access Islamic repos, treasury Sukuk and Shariah compliant certificate of deposits, they are strongly disadvantaged compared with conventional banks, according to Saif Shawqi, the associate director of Islamic finance at Fitch Ratings. "Because these are conventional products, Islamic banks cannot benefit from it. There is a lack of equal footing between conventional and Islamic banks."

"There is an appetite and there are work going

#### Key highlights of Oman's Islamic banking industry

- Two fully-fledged Islamic banks and five Islamic windows
- As of the end of June 2022:
  - Islamic banking asset market share: 15.9%, making Islamic banking systemically significant
  - Shariah compliant financing: 19.9% market share, a 10.9% year-on-year growth
  - Islamic deposits: 17.9% of total deposits, a 13.6% yearly increase
  - Year-on-year pre-tax profit of Islamic banking entities up 10.9%, contributing 41% of total Islamic banking assets, with remaining assets held by Islamic banking windows,
  - Branch network: About 100 nationwide.



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on [in private investments] so we'll be seeing more private placement happening in the local market. But again, the challenge will be the investment tools available. From the Islamic perspective, what are the Shariah compliant products which we can offer these investors?" Suad Al Balushi, Bank Nizwa's head of treasury, highlighted.

## Astounding resilience

In the face of such shortcomings, something must be said about Oman's resilience and ingenuity in overcoming such hurdles to advance the Islamic finance proposition.

**“We are seeing a Shariah compliant tranche sitting beside a conventional tranche for a number of companies who are also then going to use that potentially as a springboard to potentially do a Sukuk”**

“What we have seen is that Shariah structures can have some challenges whereby the asset itself is not enough [to meet funding needs]. In other jurisdictions, they have hybrid structures, for example, Ijarah and Murabahah, which are not applicable here. But that does not stop us from moving forward to financing the project,” shared Mohsin Shaik Sehu Mohamed, the head of investment banking and capital market at Maisarah Islamic Banking Services. “The new gameplay for us is that we work with our conventional counterpart, where we have two lakes: one conventional and another Islamic, to cater the solution to the obligor for example.”

Sadaf Buchanan, a partner at Dentons, concurred.

“We as legal advisors have seen for the first time over the last year or so, the emergence of the dual-tranche approach — we are seeing a Shariah compliant tranche sitting beside a conventional tranche for a number of companies who are also then going to use that potentially as a springboard to potentially do a Sukuk. In some ways, this conventional partnership with the Shariah compliant product is allowing new entrants to come to the market, and that can only be seen as positive.”

## More regulatory ammo

CBO and the Capital Market Authority (CMA) are aware of the regulatory gaps and are working to address market concerns.



“The current comprehensive Islamic Banking Regulatory Framework and the associated Shariah Governance Framework have worked quite well until now; however, with the sophistication of the banking market and changes in the global regulatory standards, updates are required in this regulatory framework. This review will also aim at enhancing the Shariah governance framework and strengthen external Shariah audit guidelines,” Malik explained.

The CBO is preparing several other measures, including one to address ambiguities with regards to the treatment of Islamic banks or windows post a merger with a conventional lender. The apex bank is readying a roadmap to outline instructions and thresholds for the conversion of Shariah banking windows into independent Islamic banks or subsidiaries. It is also working on introducing a framework for rate of return calculation on Islamic banking deposits and investment accounts in line with international best practices.

It is learned that the central bank is also considering building a framework to ease the integration of Islamic social finance instruments to enhance financial inclusion.

This social focus is in lockstep with the CMA's ESG pursuit. The CMA is preparing a green bond and Sukuk framework, in line with the government's ambitious plan to reach net-zero carbon emissions by 2050.

## Sustainability ambitions

Like many of its peers, Oman's Islamic banking and finance community sees ESG (and digital) as its next driver of growth. And like its hydrocarbon-producing neighbors, the Sultanate understands it is in a rather precarious position advocating for carbon neutrality when more than half of its economy is dependent on oil revenue.

Nonetheless, significant resources are being poured into meeting the Sultanate's carbon-neutrality target. Just last month, Sultan Haitham Tariq Al Said approved the establishment of the Oman Centre for Sustainability, while financial regulators work on cultivating a finance-for-good financial system.

In the context of Shariah finance, experts generally agree that the environmental and governance elements of ESG are largely well defined and therefore, relatively easier to achieve. For the social dimension, however, it is a lot trickier. Or in the words of Mohamad Noranuar Sajari, Bank Nizwa's head of Shariah structuring, it is “blurry”.

Using the LGBTQ100 ESG Index as an example, Mohamad expounded: “Within that particular index, there are 10, if not more, companies such

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as Amazon, Alphabet and Microsoft — and all these stocks are Shariah compliant but are also listed in that particular index. Now the question is, how can Shariah respond to that?

“When we talk about social parameters, what parameters are we using? Is it western parameters or is it Islamic parameters? How can we harmonize between these two?”

Such an intellectual conundrum is only to be expected for a sector that is still in its infancy in this region, notwithstanding the natural alignment of Shariah with environmental, governance and social justice values.

“ESG was a very new terminology here in our minds back in 2019,” shared Rehab Al Lawati, COO of investment management firm Rakiza. “Then COVID hit and ESG took a full ramp up in the region. We had to develop the entire ESG policy within a quarter just to cater to investor demand. And it was not only policy, but it was also the whole culture of getting the data to execute the ESG policy.”

As a firm, Rakiza had to balance between ESG and Islamic finance demand. “It was a very tough learning experience for us but the difference in Islamic finance and ESG was an opportunity for us to bring a different set of investors to the country.”

The intellectual debate aside, bankers also note the need for incentives to promote green Sukuk and ESG financing. Khalid Al Kayed, CEO of Bank Nizwa, thinks such incentives, which could include special tax treatments, should reflect in regulations.

Khalid in fact also thinks that digitalization and fintech will be crucial to Oman’s next phase of growth. “I strongly believe banks will not be disrupted by fintech. I think [banks and fintech] have to work together. I’m saying that because fintech cannot replace banks, because people trust banks. They can keep their money in a bank, but they cannot keep their money on a platform,” the CEO said.

## The future is DeFi?

While excited and eager for fintech to play a stronger role in their growth story, industry players also highlighted several fintech challenges Oman faces: the absence of a centralized platform for digital identity and the lack of an address system to meet eKYC [electronic know-your-customer] requirements.

“Another real challenge is digital signatures away from PKI because PKI is not picking up and we need to review that as this is a real challenge for a legal perspective,” according to Asaad Al Kharusi, the head of strategy

and acting COO of Alizz Islamic Bank. PKI is the Oman Public Key Infrastructure, a national initiative that sets the infrastructure needed for all government entities to provide e-services in the Sultanate. It enables online transactions for citizens and aims to enhance the security of electronic paperwork.

Challenges aside, the fintech discussion interestingly took a decentralized finance (DeFi) turn.

“Building a DeFi or Web 3.0 bank is an incredible prospect using smart contracts. About 60–70% of what a bank does is just processes — you can automate that entire business and run your bank via smart contracts apart from maybe customer relationships,” noted Khalid Howladar, the chairman of MRHB DeFi.

Arsalaan Ahmed, CEO of Al Rajhi Bank Malaysia, believes that integrating DeFi into Islamic finance represents an opportunity for those who are willing to explore the potential of bringing back traditional Islamic finance views, such as deposits fully backed by regulators, into the industry while still being regulated in a fractional reserve banking system.

Bank Nizwa is in fact already ensuring that APIs [application programming interfaces] and roadmaps, whether internal or with vendors, can support technologies such as Web 3.0 or DeFi including cryptocurrencies and non-fungible tokens.

**“ We are going to be regulating all digital assets in Oman except for the payment system as the payment system is under the purview of the central bank ”**

“What we lack are regulations allowing us to start using DeFi technologies,” said Mujahid Al Zadajly, the general manager of information technology and operation of Bank Nizwa, who noted the multitrillion dollar DeFi prospect that the new asset class could bring to Islamic finance.

Kemal Rizadi Arbi, an expert/advisor with the CMA, concurred that regulations are paramount. He revealed that the CMA is currently working on regulations on digital assets which it hopes to unveil before the end of the year.

“We are going to be regulating all digital assets in Oman except for the payment system as the payment system is under the purview of the central bank,” Kemal said. ☺

*Read **here** for a more detailed coverage on CMA’s latest fintech initiatives.*





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## OMANI ISLAMIC FINANCIAL SERVICES: MOMENTUM AND SUCCESS

How are the key features of Oman Vision 2040 enabling the growth of the Islamic banking and finance markets in Oman? How have successful regulatory initiatives contributed to Oman's Islamic banking sector constituting more than 15% of the total banking market share? Will the new domestic Islamic banking landscape ultimately lead to enhanced product offerings and customer experience? Considering recent regulatory amendments to healthcare Takaful, how will the Omani Takaful sector continue to develop, and do Sukuk offer a viable funding route for Takaful companies? How will Shariah compliant financial technology, including the new crowdfunding platforms, further contribute to the transformation of the domestic financial services sector? Finally, how significant will green and responsible finance be in the coming year for the domestic Islamic financial services sector?



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## BUILDING A NATION: FUNDING NATIONAL DEVELOPMENT THROUGH ISLAMIC FINANCE

With Islamic real estate finance well established in the Sultanate, what is the scope for complex project and asset financing in Oman via Shariah compliant structures? Do Islamic products effectively lend themselves to fund public-private partnerships for the development of infrastructure and large-scale projects? What role should Islamic banks and venture capital play in this important activity, and what does the diminishing Musharakah structure offer? How will draft Sukuk and bond regulations further improve and standardize rules governing the issuance of Sukuk? Will regulations pave the way for the incorporation of innovative structures such as Waqf? With significant domestic institutions successfully accessing the Islamic finance market, what is the potential for other notable issuers? Finally, what funding options do Sukuk offer Omani financial institutions in terms of regulatory capital?



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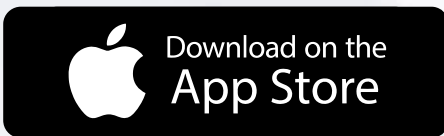
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## DIGITALIZATION AND THE EVOLUTION OF OMANI ISLAMIC FINANCIAL SERVICES

Identifying and evaluating key governmental and private sector initiatives designed to modernize and digitally transform the national economy, with a focus on Islamic financial services and digital assets. What measures would assist domestic Islamic banks in the further development of Islamic digital and crypto retail, wealth management, Takaful and pension offerings in Oman? How are regulator-fostered sandboxes contributing to the development and distribution of such products? How have efforts to recognize and regulate Islamic crowdfunding platforms created opportunities for the joint ownership of Shariah compliant assets and investment projects? Does blockchain have a role in crowd and venture funding? How will the vital SME sector benefit from the new platforms and the above initiatives? What role do DeFi, NFTs, crypto, tokenization and other digital assets and technologies have in the future of Omani financial services and markets? We seek the views of an expert panel.



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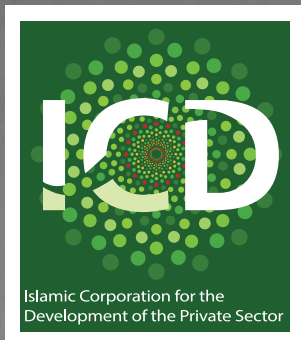


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## FUNDING THE FUTURE: ISLAMIC SUSTAINABLE FINANCE AND INVESTMENT

What does the transition to green and sustainable financing potentially mean for Omani issuers, and how will Islamic structures play a meaningful role in the shift? What opportunities are there for important domestic sectors such as aviation, oil and gas and other asset-heavy industries to adopt sustainable fundraising programs? What is the potential for private sector financing of green infrastructure projects in Oman? How market-friendly is the Omani regulatory framework for sustainable finance and are market participants being encouraged to develop effective sustainability frameworks? Finally, how can Omani financial institutions develop effective Islamic sustainable investment products, satisfying the requirements of a range of savers and investors?



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# ANALYSIS

## OMAN: EXPANDING THE ISLAMIC FINANCE SECTOR

Activities and developments over the last 12 months signal bright prospects for Islamic sustainable finance as the world attempts to march forward toward a more green and just future. VINEETA TAN reviews the progress.

### Regulatory environment

The Islamic finance and banking industry in Oman started in earnest in 2011, after the issuance of a royal decree authorizing the industry's operations. In 2012, the Central Bank of Oman (CBO) released the Islamic Banking Regulatory Framework (IBRF), and then in 2015 established a dedicated Islamic banking department. In March 2019, the CBO announced it was considering amending the IBRF to afford more independence to Islamic windows and facilitate them toward a subsidiary model.

Meanwhile, the Capital Market Authority (CMA), under whose purview falls Islamic capital market activities and Takaful, issued regulations in 2016 that included the Takaful Law and rules for issuing Sukuk.

In 2021, in light of the COVID-19 pandemic, the Takaful Law was amended to separate healthcare Takaful regulation from other Takaful activities, which market players took to mean that the CMA was aware of the sector's growth potential. The regulator also issued draft rules for SRI bonds and Sukuk, including Waqf Sukuk.

### Banking and finance

There are two fully-fledged Islamic banks and six Islamic windows in Oman. Oman Arab Bank (OAB)'s takeover of Alizz Islamic Bank was completed in mid-2020, a merger that was first announced in 2018 and culminated in OAB's Al Yusr Islamic window being integrated into Alizz Islamic to become a stand-alone Islamic bank.

According to the apex bank, as at the end of June 2022, the total assets of Islamic banks and windows in Oman increased 9.6% year-on-year to OMR6.2 billion (US\$16.06 billion), with the Islamic banking sector holding 15.9% of the total banking system's assets. In comparison, the sector held 15.1% of the total market as at the end of July 2021.

In the fintech space, the CBO has announced its plan to launch a Fintech Regulatory Sandbox that features Islamic fintech solutions as a core



pillar, and the CMA has started work on a crowdfunding platform that would give SMEs better access to Islamic financing.

In July 2022, the central bank announced that it is working on a new strategy for the Islamic banking sector, as well as a range of Islamic money market instruments that would meet the sector's liquidity needs.

### Capital market

The Sultanate made its debut dollar Sukuk issuance in 2017 with a US\$2 billion facility, followed in 2018 by its sophomore US\$1.5 billion Islamic facility, whose orderbook topped US\$3.5 billion. Its third sovereign Sukuk offering under its 2019 program raised OMR200 million (US\$517.92 million) in 2020, proceeds from which were used to plug the budget deficit.

In late 2020, the government issued its first sovereign Sukuk opened for retail investors, worth a total of OMR25 million (US\$64.76 million), and in June 2021 issued a US\$1.7 billion Sukuk facility that received an orderbook of over US\$11.5 billion. Meanwhile, the state-backed firm Energy Development Oman has, this year, announced its plan to raise at least US\$1 billion through a Sukuk Ijarah paper.

Following the introduction of REIT legislation in early 2018, the CMA issued initial approval for the establishment of a maiden Islamic REIT called Aman REIT. This year also saw the IPO of the Pearl Real Estate Investment Fund, the country's largest Shariah compliant fund, with over 208 million units on offer.

The Muscat Stock Exchange's Shariah index tracks 27 companies that meet Shariah compliance requirements as at the end of September 2021.

### Takaful

Insurance operators in Oman are prohibited from offering Islamic products on a window basis. The CBO also prohibits the bundling of Takaful and banking products. Al Madina Takaful and Takaful Oman Insurance are the only two Islamic insurers in Oman. According to the CMA, as at the end of 2019, the Takaful sector's share of the market increased to 13%.

Takaful Oman tapped the Sukuk market in early 2021 to issue the first perpetual Sukuk facility by a Takaful company, both regionally and globally.

The Sultanate has implemented Dhamani, its mandatory health insurance scheme for private sector employees, expatriates and visitors, which is expected to have a substantial effect on the Takaful sector. In October 2019, the CMA issued the Rules for Health Insurance as part of the process of preparing the legislative and regulatory infrastructure for Dhamani.

**“ Further reforms are also agreed by experts to be crucial, particularly in the Islamic fintech and fund sectors ”**

In late 2020, the regulator told IFN it is exploring blockchain technology for the insurance and Takaful sector.

### Outlook

The finalization and issuance of draft regulations supporting the Sukuk market and the wider Islamic finance sector in Oman will be a welcome development for industry players. Further reforms are also agreed by experts to be crucial, particularly in the Islamic fintech and fund sectors, for the industry to flourish. <sup>(2)</sup>



# ICIEC, the Green Economy Enabler



THE ISLAMIC CORPORATION FOR  
THE INSURANCE OF INVESTMENT  
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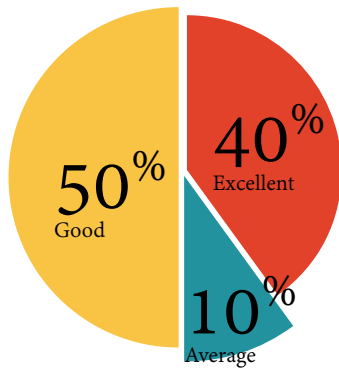
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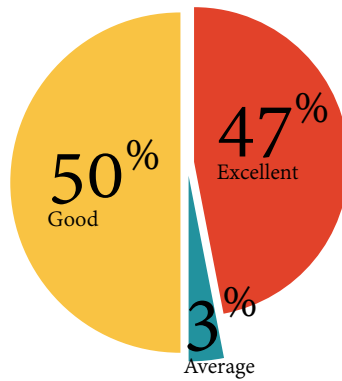
مجموعة البنك الإسلامي للتنمية  
Islamic Development Bank Group

## OVERVIEW

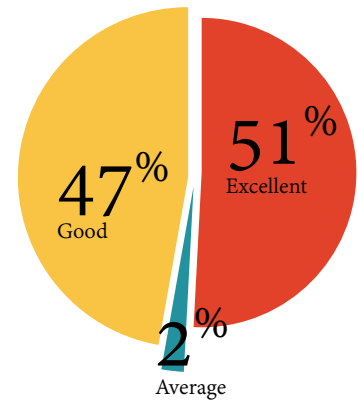
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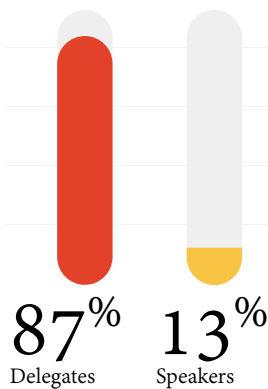
Overall Evaluation of the Event



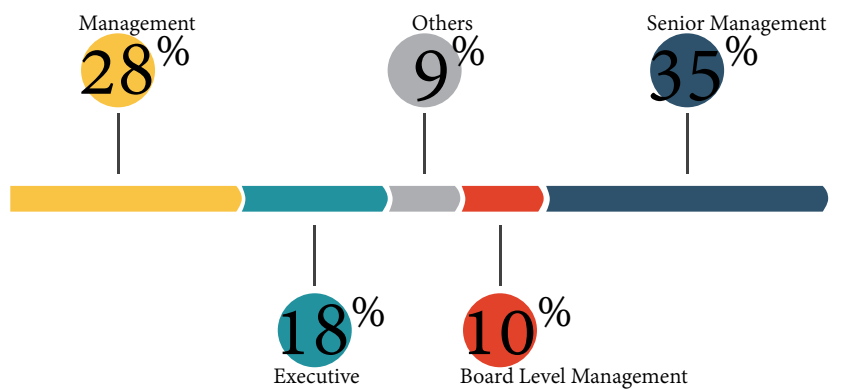
Overall Evaluation of the Speakers



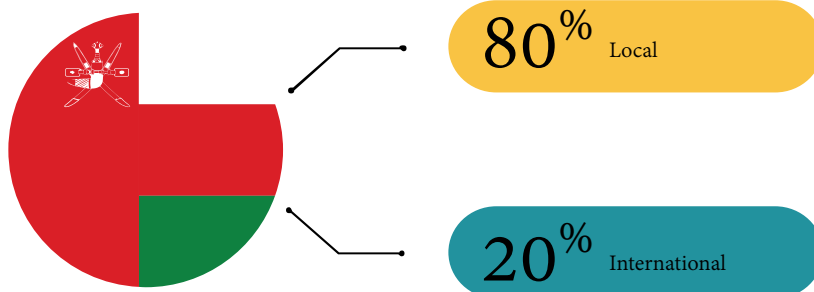
Delegate Breakdown



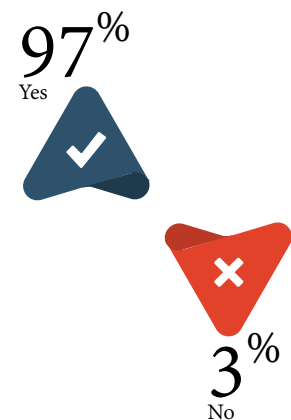
Delegate Job Title Breakdown



Delegate Breakdown (International & Local)



Delegates Who Would Like to Attend IFN Oman Forum 2023



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#### Head Office

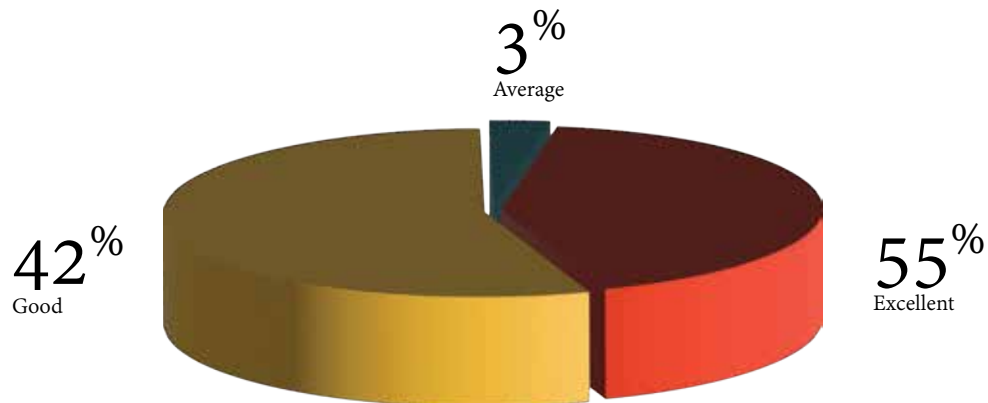
50 California Street  
Suite 1500  
San Francisco, CA 94111



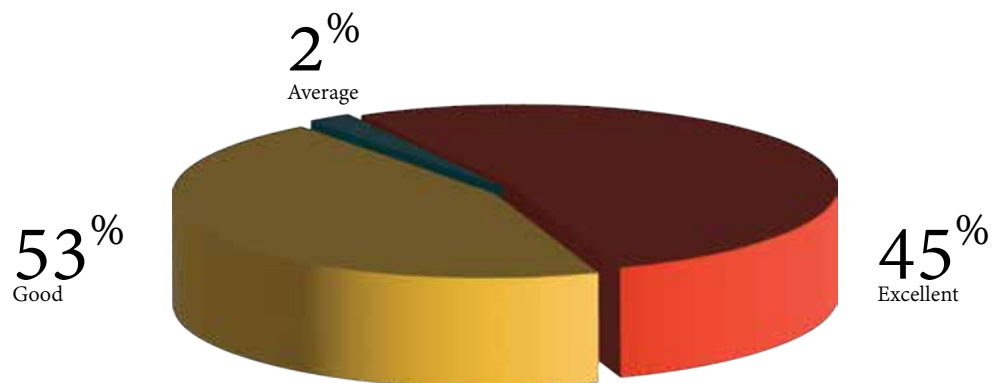


## SESSIONS OVERVIEW

### Omani Islamic Financial Services: Momentum and Success

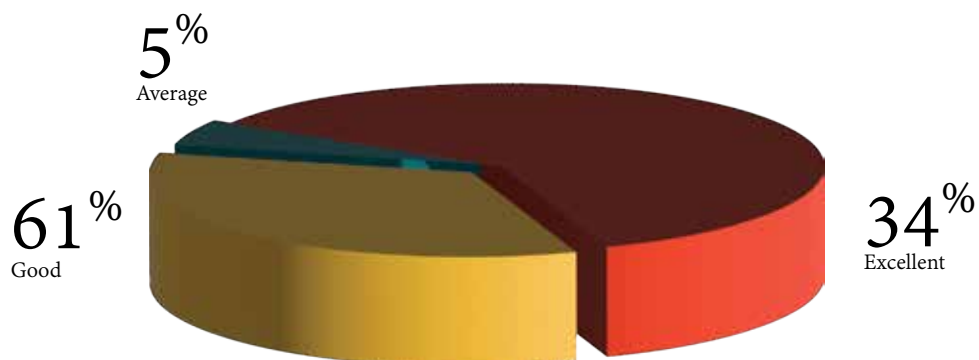


### Building a Nation: Funding National Development through Islamic Finance

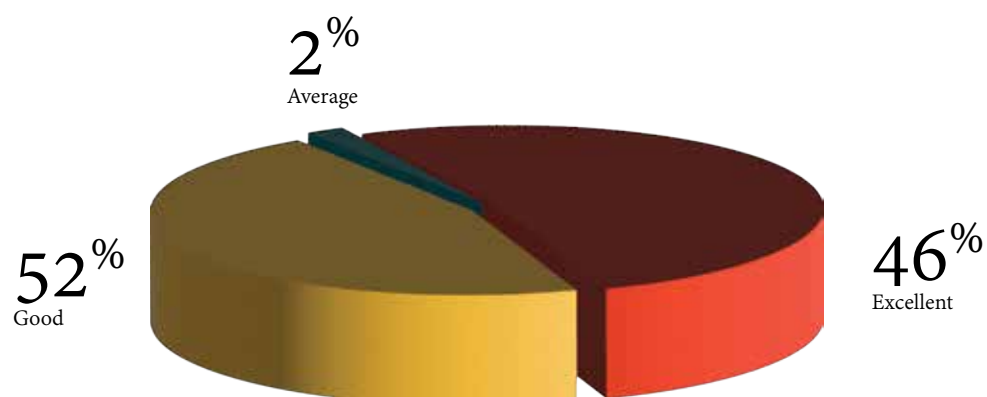


## SESSIONS OVERVIEW

### Digitalization and the Evolution of Omani Islamic Financial Services



### Funding the Future: Islamic Sustainable Finance and Investment



# COMPANIES' LIST

|   |                                   |
|---|-----------------------------------|
| Acatis Investment                           | Lyst Technologies                 |
| Ahli Bank                                   | Maisarah Islamic Banking Services |
| Ahli Islamic                                | MAQ Legal                         |
| Al Alawi & Co                               | Marhaba Decentralized Finance     |
| Al Busaidy, Mansoor Jamal & Co              | Mayuree Internat                  |
| Al Hashmi Law Firm                          | Middle East & Africa Luxury Group |
| Al Hassan Oman                              | Mohanlal Arjun Pawani & Co        |
| Al Hilal Islamic, Ahli Bank                 | Muzn Islamic Banking              |
| Al Marzooi Advocates                        | Nawa Investment                   |
| Al Rajhi Bank Malaysia                      | Net News Agency                   |
| Al Sahwa                                    | Nitaj                             |
| Alita Multimedia                            | Nuzraa Business                   |
| Alizz Islamic Bank                          | Oer Live                          |
| Apex Media                                  | OIA                               |
| Bank Dhofar                                 | Oman 70 Holding                   |
| Bank Muscat                                 | Oman Air                          |
| Bank Nizwa                                  | Oman Block chain                  |
| Bank Sohar                                  | Oman Daily Observer               |
| Beehive Oman                                | Omaniaa                           |
| Capital Market Authority, Sultanate of Oman | Omantel                           |
| Central Bank of Oman                        | Ray Oil and Gas                   |
| College of Banking & Financial Studies      | Razika Fund                       |
| College of Banking and Financial Studies    | Realia Family Office              |
| Daleron Development Group                   | Refinitiv / LSEG                  |
| Deloitte                                    | ROPF                              |
| Dentons                                     | Rukun Al Yaqeen International     |
| Embassy of Japan                            | Said Al-Shahry & Partners (SASLO) |
| Ethis Investment Platform                   | Salaam Gateway                    |
| Fahad & Muhanad Trading                     | SAlegal                           |
| Fitch Ratings                               | Saturna Capital                   |
| Gov. Consultant                             | SIG                               |
| HornConnect                                 | Sohar International               |
| ICIEC                                       | Stephenson Harwood Middle East    |
| IKAM  | Suhail Bahwan Group               |
| Injaz Development                           | Sukuk Network                     |
| Inspired Solutions                          | Sustainable Investments           |
| Intelligent Beings                          | Thara Global                      |
| Jasa Raharja                                | TKA Group                         |
| Khimji Ramdas                               | Trowers & Hamblins                |
| KMA Business Solutions                      | Ubhar Capital                     |
| Kvant Group                                 | UMS Group                         |
| Life In Oman Online                         | United Securities                 |



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