بنك الجزيرة
BANK ALJAZIRA

SHARIAH GROUP PUBLICATION SERIES

BANK ALJAZIRA'S EXPERIENCE

IN TRANSFORMATION INTO ISLAMIC FINANCE

Special Edition

PREPARED BY:

SHARIAH GROUP OF BANK ALJAZIRA

دار الميمان للنشر والتوزيع

BANK ALJAZIRA'S EXPERIENCE

IN TRANSFORMATION INTO ISLAMIC FINANCE

© Dar Suliman Almaiman Publisher and Distributor, 2022

King Fahd National Library Cataloging-in-Publication Data

Shariah Group of Bank AlJazira

BANK ALJAZIRA'S EXPERIENCE IN TRANSFORMATION INTO ISLAMIC FINANCE. / Shariah Group of Bank AlJazira - 1. .- Riyadh, 2022

250p ; 17*24 cm

ISBN: 978-603-8378-33-5

1- Islamic finance   2- Banking and finance

I- Title

332 dc   1443/10252

L.D. no. 1443/10252

ISBN: 978-603-8378-33-5

First Edition 2022

CO-PUBLISHING

بنك الجزيرة
BANK ALJAZIRA

دار الميمان للنشر والتوزيع

info@daralmaiman.com
www.daralmaiman.com
DarAlMaiman

BANK ALJAZIRA'S EXPERIENCE

IN TRANSFORMATION INTO ISLAMIC FINANCE

PREPARED BY:

SHARIAH GROUP OF BANK ALJAZIRA

بنك الجزيرة
BANK ALJAZIRA

بسم الله الرحمن الرحيم

Study Team

Supervisory team of Bank AlJazira:

Dr. Fahad Bin Ali Al Olayan

Mr. Lahim Bin Hamad Al Naser

Mr. Mohammad Bin Abdulaziz Al Musead

Mr. Abdullah Bin Ibrahim Al Musnad

Research team:

Scientific supervision:

Prof. Dr. Abdullah Bin Mohammad Al Omrani

Dr. Khalid Bin Mohammad Al Sayyari

Dr. Ali Bin Mohammad Noor

Scientific review:

Prof. Dr. Mohammad Bin Ibrahim Al Suhaibani

Prof. Dr. Saif Al Din Taj Al Din

Researchers:

Dr. Fadl Bin Abdul Karim Al Bashir

Mr. Ahmad Bin Mohammad Nassar

Mr. Abdullah Bin Fath Al Din Beyanouni

Foreword

Chairman of the Board of Directors of Bank AlJazira

Engr. Tarek Bin Othman Al Kasabi

All Praise is due to Allah, Lord of the worlds, and peace and blessings be upon the most honorable Prophet, our Prophet Mohammad, and upon all his household and companions.

On behalf of the members of the Board of Directors of Bank AlJazira, it gives me great pleasure to present to you this study entitled: ***"Bank AlJazira's Experience in Transformation into Islamic Finance"***. The study monitors the bank's unique experience with regard to transforming into the application of Shariah-compliant transactions, and providing a role model in the Islamic finance industry, as being the first conventional bank to fully transform into Islamic banking all over the Kingdom.

The transformation process encountered a long series of challenges and obstacles. By Allah's grace, and thanks to the strong support of the Saudi Central Bank, and the insistence of Bank AlJazira's owners, successive boards of directors, and executive management, and their firm conviction in the feasibility of adopting this pioneering project, the bank was able to overcome these challenges by choosing the gradual replacement approach over a period of time that reaching nine years, and thus a remarkable story of success that is worthy of narration has been created.

Bank AlJazira dedicates this study to researchers, interested people and the general public, hoping that it will provide an added value to the studies and researches conducted in the field of Islamic finance, and pave the way for other financial institutions wishing to complete the transformation process to take steady steps towards transforming into Islamic banking. This will contribute to making the Kingdom of Saudi Arabia a center for Islamic finance.

I would like to express my sincere thanks and appreciation to everyone who contributed to this pioneering experience, particularly Mr. Mishari Bin Ibrahim Al Mishari, the CEO at the beginning of the transformation process; Dr. Mohammad Bin Saeed Al Ghamdi, who assumed the position of Assistant General Manager for Islamic Banking Services, and directly supervised the transformation project; Dr. Mohammad Bin Ali Al Qari, the member of the Preparatory Advisory Committee at the formation of the Shariah Committee in 1998 AD; and Mr. Lahim Bin Hamad Al Naser, Secretary of the Shariah Committee at that time.

I shall also extend my thanks to Dr. Fahad Bin Ali Al Olayan, head of the Shariah Group and the Social Responsibility Group; and to all members of the current work team who exerted great efforts to complete this documentary study.

I shall also direct my deepest and most sincere gratitude to our wise leadership providing the environment of success for the business sector in general and the banks in particular.

Finally, we thank and praise our Lord, the Great and Almighty, for the success and benevolence He has conferred upon us to achieve this successful transformation. All praise is due to Allah, Lord of the worlds.

Foreword

Chairman of the Shariah Committee

H.E. Sheikh Abdullah Bin Sulaiman Al Manea

All Praise is due to Allah, Lord of the worlds, and peace and blessings be upon the most honorable Prophet, our Prophet Mohammad, and upon all his household and companions.

Dear researchers and readers...

I thank and praise Allah, the Great and Almighty, that He has conferred His grace and inspired Bank AlJazira to document this experience through issuing a study entitled: ***"Bank AlJazira's Experience in Transformation into Islamic Finance"***, which tells the bank's successful story of full transformation into Islamic banking.

Allah, Glorified and Exalted be He, has granted us success in the Shariah Committee, through having our two brothers, H.E. Sheikh Dr. Abdullah Bin Mohammad Al Mutlaq and H.E. Dr. Mohammad Bin Ali Al Qari, as members participating in and supervising this study throughout its stages of preparation and until its completion.

Also, it is a grace of Allah, the Great and Almighty, that we had the honor to join our brothers in the Board of Directors of Bank AlJazira in contributing to the project of Bank AlJazira's transformation into Islamic finance from its very beginnings. The challenges that encountered this project necessitated hard work, diligence and exertion of great efforts to control and complete the transformation processes in the required manner. This success has been achieved thanks to Allah, then to the efforts of all those in charge of this blessed project, including owners, officials and employees.

The experience of Bank AlJazira's transformation into Islamic finance is clear evidence of the possibility of the conversion of conventional institutions to work in accordance with the provisions of Islamic Shariah as long as the true intention and sincere hard work is found.

In this regard, I call upon all financial institutions to benefit from this unique experience to undertake the process of full transformation into Islamic banking, so as to achieve the purposes of Islamic Shariah in applying Islamic financial transactions.

In conclusion, I would like to express my thanks and appreciation to those who contributed to the achievement of this experience, particularly Engr. Tarek Bin Othman Al Kasabi, the current chairman of the board of directors, who has been supporting such an experience since he was a member of the Board during the transformation period. I would also direct my thanks to Dr. Abdul Sattar Bin Abdul Karim Abu Ghuddah (may Allah confer mercy upon him), who has made great contributions since he was a member of the Preparatory Consultative Committee formed in 1998 AD, and throughout his successive membership periods in the Shariah Committee. I also thank Dr. Hamzah Bin Hussein Al Fe'ar, the member of the Shariah Committee for the duration of his membership in the Committee.

Finally, I ask Allah, the Great and Almighty, to bless these efforts, and make our intentions pure and sincere for His sake, Glorified and Exalted be He. Peace and blessings be upon our Prophet Mohammad, and upon all his household and companions.

Study Summary

Study objective and methodology:

The aim of this study is to monitor Bank AlJazira's experience in its transformation from a conventional bank to an Islamic bank, through analyzing its experience, presenting its phases, approaches and how the bank overcame the transformation challenges.

The study relied on a methodology based on the extrapolation of previous studies that monitored the transformation experiences of other Islamic financial institutions, whether at the local, regional or international level, as well as the analysis of reports, documents and interviews conducted by the study team with the bank officials to learn about the hidden particulars of this experience and the elements of success and challenges. This study is distinguished from its predecessors in that it provides new evidence presenting a pioneering transformation experience of Bank AlJazira. A summary of the study findings is presented below:

Development of Islamic finance:

Islamic finance is one of the significant applications based on values and provisions derived from Shariah (Islamic Law); the most important of which is the prohibition of usury and extreme ambiguity elements in financing contracts. Instead, Islamic finance depends more on financing contracts that are based on sales and various forms of sharing. The first experiences of Islamic finance commenced in the sixtieth of the last century through different initiatives in some Islamic countries after a long stage of theorization that has lasted for almost half a century. The most important phase in the Islamic finance journey is the period of expansion which began in the seventieth of the last century until the present time. The available statistics show that Islamic financial institutions have become, during the period of expansion, one of the most prominent changes in the global financial sector, as the assets they managed have grown substantially and spread over a wide geographical area around the world.

It is noted, during the period of expansion, that there was a clear variation in the approaches to regulate Islamic financial institutions by the authorities in different countries. Some countries went towards applying Islamic finance at once for all financial institutions, while others turned to a dual system in which Islamic financial institutions work under special bylaws or instructions with their conventional counterparts. On the contrary, other countries left the matter to market forces, allowing the establishment of Islamic financial institutions in response to market demand, provided that they continue to work under the same unified regulations that govern all financial institutions, which focus on ensuring the stability of the financial system, regardless of the nature of the financial contracts used. This is what the supervisory authorities in the Kingdom of Saudi Arabia went by.

This demand for Islamic financial services globally and locally has led the conventional financial institutions to seek to partially or completely transform towards Islamic finance with the purpose of attracting a new segment of customers along with preserving existing ones. In the case of the Kingdom, the continuous demand for Islamic financial services, considering the model that allows banks to respond to this demand, provided a favorable opportunity for the emergence of new Islamic banks, or the transformation of existing conventional banks. This study documents the experience of one of these conventional institutions, namely Bank AlJazira, as it details its pioneering experience of this shift to Islamic finance. The importance of this study stems from the increasing demand for evaluating the transformation strategies and the complications that can challenge their implementation either by banks or supervisory authorities.

Decision to transform into Islamic finance:

Transformation toward Islamic finance means abandoning the conventional financial products and moving gradually toward Islamic financial alternatives. The transformation is not considered complete unless it includes all the bank's products, sources and uses of funds. The decision of Bank AlJazira to move toward Islamic finance was clear from day one to be a full transformation, which in turn leads the bank to be a pioneer in this experience. This decision was based on the conviction in Islamic finance as well as the promising benefits from the transformation, taking into account the increasing demand for Islamic financial products in the Kingdom.

Approach adopted by Bank AlJazira to transform into Islamic finance:

When Bank AlJazira began planning for the transformation process, there had no similar and clear previous experience that could be benefited from. Hence, the bank, after the transformation decision was made, formed a committee whose task was to develop a detailed transformation plan based on a clear approach involving details of transitional process for transformation and rectification without any harm to what was previously accomplished. The committee counterweighted two approaches to transformation, which are:

1- **Parallel line approach:** It includes establishing an Islamic finance division within the bank, provided it has its independent capital, management, customer base and products. The Islamic finance division shall extend throughout time, and the volume of its activities shall increase at the expense of the main bank activities until completing the process of transformation.

2- **Replacement approach:** It includes developing a detailed time plan to replace all the conventional products with an Islamic alternative and applying it gradually until the bank reaches, at the end of transformation process, the full concept of Islamic bank.

The committee evaluated those approaches using selected criteria which include:

- Preserving the current customer base.
- Avoiding harmful competition within the bank between conventional and Islamic departments.
- The ability of the board of directors to monitor the transformation process.

Based on these criteria, the bank decided to adopt the second approach. To implement this approach, the bank developed a plan to review the bank's current products, classify these products according to their compliance with the Shariah provisions and determine the necessary amendments to conventional products, giving higher priority in the implantation process to the products that already have Islamic alternatives.

As this approach required time to achieve the ultimate objective, the bank did not describe itself as Islamic bank at the time of adopting this approach. Instead, the bank announced that it had a plan for transformation.

This approach is characterized by the following:

1- It leads to the spread of Islamic finance concepts among all the bank's staff, as they will undertake the replacement process by themselves after required training, which will unite the efforts of the entire staff to achieve one goal.
2- It creates positive competition within the bank for creativity and innovation in developing Shariah-compliant products to replace conventional products.
3- It preserves the existing customer base, of whom the largest proportion prefers to switch to Shariah-compliant products.
4- It is a gradual approach that avoids the bank being exposed to the risk of default or even the collapse, giving the fact that there is no complete set of Islamic financial products that can be implemented at once.

Bank plan to transform into Islamic finance:

The plan of Bank AlJazira to move toward Islamic finance has passed three phases:

First phase: Pre-transformation period (1975-1997)

This phase extends from the bank's establishment in 1975 until 1997; the year that the bank made the decision to transform into Islamic finance. The bank was established as other local banks at that time which are founded by ownership of assets of foreign banks branches. Banking at that time was based on conventional banking in which competition is limited to the quality of the required service by customers and the speed of delivering them. The bank, during this phase, was subject to financial crises which almost resulted to the failure of the bank. As a result, several operations were performed to rescue the situation that led to restructuring the bank. The operations included increasing the capital with more Saudi shareholders who had the desire to transform the bank into Islamic finance. The bank has succeeded at the end of this phase to make great breakthroughs in the bank work style that led to converting bank loss to profit in 1997.

Second phase: Transformation into Islamic finance (1998–2007)

During the bank restructuring process, the bank's board of directors appointed one of the expertise houses in 1995 to prepare an assessment study on the bank's transformation into Islamic finance. Later, the study finding was approved by the board of directors. The study was submitted to Saudi Authority Monetary Agency (Saudi Central Bank) to approve its implementation. After obtaining the necessary approvals, the bank made its most important decision in 1997 to fully transform the bank into Islamic finance. Indeed, the bank started in 1998 to pave the way for the transformation process by establishing an Islamic banking services group within the bank in that year. The group's mandate was to supervise the process of transformation into Islamic finance. After transforming all bank branches to Islamic finance, treasury operations were transformed into Islamic finance which led to an increase in the rate of Shariah compatibility of the total bank portfolio products to 75% at the end of 2004. Later, at the end of 2006, the bank transformed all its operations and became fully compliant with Shariah.

Third phase: Operating as a full Islamic bank (2007-present)

Since 2007, Bank AlJazira has been operating as a full Islamic bank. The bank has been able from the beginning of this phase to the present time to achieve many accomplishments in terms of raising more capital, expanding its market share in the Saudi banking sector, achieving high profits, developing distinguished financial products, in addition to providing valuable social services to community through its social responsibility programs.

The section below regarding the impact of the transformation on the bank's financial performance presents the most prominent achievements of the bank during this phase.

Role of Shariah governance in overseeing the transformation process:

One of the most important success elements of transforming Bank AlJazira into Islamic finance was the Shariah governance applied by the bank during the transformation process. The process began with the establishment of an Islamic banking services group in the bank with a mandate to develop the transformation plans and supervise the products development required by this process. The first tasks accomplished by this group was the establishment of a Shariah committee that oversees the transformation process and the products development, along with continuous monitoring of the bank's operations to ensure its compliance with the principles of Islamic finance. A group of senior scholars who have a long experience of Islamic finance was selected to be in the bank's Shariah Committee. The role of Shariah Group was enriched throughout time with an administrative team composed of:

- **Shariah Committee Secretariat** that renders basic supporting services to Shariah Committee and organizes its meetings.
- **Research and Development Division** that handles the required researches and studies.
- **Shariah Compliance Division** whose role is to ensure the bank's commitment and compliance with the Shariah Committee's decisions.

Shariah Group has played a pivotal role in the success of the process of transformation through its efforts to replace transactions that violate Shariah with Shariah-compliant alternatives, in addition to the development of new financial products compatible with Shariah. This study details the challenges that Shariah Group faced in the transformation process, and how it was able to overcome these challenges through the periodic Shariah audit that reviewed the financing programs of all bank's departments. These efforts were crowned by announcing the completion of the transformation process and declaring Bank AlJazira as an Islamic bank in January 2007.

Impact of transformation on the bank financial performance:

At the beginning of the transformation process, the bank was on the verge of failure, but it was able to make SAR 2.5 billion profit at the end of the transformation process. With the advent of the global financial crisis in 2008, the transformation into Islamic finance appeared to protect the bank from the adverse effects of the crisis. In 2009, the foundations for the future growth of the bank were laid down. During this year, the capabilities of the bank and its staff were strengthened with the necessary competencies that would enable the bank to seize the opportunities foreseen in the future. Among the achievements during this year was doubling the number of branches to reach 48.

Bank AlJazira also succeeded in keeping the rates of stable positive performance levels, and it was able to form a concrete base to continue its achievements that were inspired by the bank from the first day of transformation.

Social responsibility:

In 2006, Bank AlJazira supported several initiatives serving the Saudi community through its social responsibility programs. The bank undertook this role through the establishment of a social responsibility group, which was entrusted with the implementation of many projects and activities directed to individuals and organizations of the Saudi community that cover a wide range of developmental, humanitarian, cultural, social and national activities throughout the Kingdom. Bank AlJazira launched the program of "Khair Aljazira le Ahl Aljazira" (i.e., Bounty of the Peninsula for the People of the Peninsula), for which SAR 100 million were allocated to support and sponsor initiatives aimed at developing the Saudi community in cooperation with governmental and non-governmental institutions. These initiatives targeted large numbers of people with disabilities, both families and individuals, in addition to holding vocational training for hundreds of Saudi men and women to rehabilitate them to join the labor market and actively participate in the Saudi economy development. Furthermore, the initiatives focused on innovation support, volunteerism and capacity-building, goodwill loans, national and Islamic events and participations, and relief the plight of prisoners.

Lessons learned from the experience and future outlook:

This successful experience is hoped to encourage existing financial institutions to transform into Islamic finance and carries positive messages to the supervisory authorities that want to learn more about the trend towards Islamic finance. This successful transformation has broken the barrier of hesitation for those who have the desire to transform into Islamic finance and made a clear change in perceptions about Islamic finance and its ability to compete. Whatever the case may be, any experience is not without challenges that can be overcome with strong will and sincere desire.

Success of Islamic finance industry has proved its ability to coexist in the presence of fierce competition in the conventional finance industry. Now, Islamic financial products have spread, and the customer base has expanded, which contributed to a remarkable growth in its assets.

Anyone that follows Islamic financial institutions could notice their expansion and recognition across the world continents. Also, they are now praised and encouraged by leading international financial institutions.

The financial data confirm the continuous improvement in the Islamic financial services industry, which was reflected in the tendency of many countries to provide legislation for Islamic financial institutions, in addition to the emergence of Islamic finance educational programs offered by many international universities. Despite this success, Islamic financial institutions will find themselves facing great challenges and competition with conventional institutions who have long experience and great potential in utilizing the modern technologies.

Table of Contents

List of Tables

List of Figures

INTRODUCTION

Study Introduction

All Praise is due to Allah, Lord of the worlds, and peace and blessings be upon the most honorable Prophet, our Prophet Mohammad, and upon all his household and companions.

This study aims at monitoring the development of Islamic finance in the Kingdom of Saudi Arabia in particular, as well as introducing the philosophical and applied framework for the Islamic finance industry and foreseeing its future. This is beside focusing on Bank AlJazira's experience in its transformation into Islamic finance through studying and analyzing this experience, reviewing the transformation phases and approaches, exploring the transformation challenges and the methods for overcoming them, and introducing the features of benefiting from this experience and foreseeing the future.

The findings of this study are hoped to benefit conventional banks and financial institutions wishing to transform into Islamic finance, and help researchers and research centers to get acquainted with all up-to-date information in this field.

Significance of the study:

The significance of this study arises from the following points:

1- Its topic, which is meant to introduce the Islamic finance in general, and Bank AlJazira's experience in this regard in particular, and benefit from the phases of transformation, its mechanisms, and how to overcome challenges and obstacles.

2- The findings of this study are important for conventional banks and financial institutions wishing to transform into Islamic finance, as well as supervisory and regulatory authorities that need to support and supervise the processes of transformation into Islamic finance.

3- The theoretical and applied framework helps researchers and research centers to get acquainted with all up-to-date information in this subject.

Study problem:

Islamic finance is one of the most prominent developments intended by the financial sector all over the world. The Islamic financial services industry has increasingly grown and spread over wide geographical areas throughout the world. The interest in Islamic finance varies between full adoption and partial application. Over the past 60 years, the Islamic finance experience has yielded many useful lessons that can benefit other experiences, increase their strength and influence in the current financial system. This urges conventional banks to fully or partially transform into Islamic finance, in an attempt to attract a new segment of customers, while maintaining the existing customer base they already have.

Further, the recent years have witnessed a tremendous growth in the sectors of Islamic economy in general, and Islamic finance in particular. This comes in parallel with the great interest of financial and economic institutions aiming at adopting Shariah-compliant transactions. This interest has extended to reach supervisory authorities and concerned government institutions. Nevertheless, the transformation methods and steps in these institutions have not been documented, which limited the knowledge, details and challenges of the transformation process to specific parties, such as advisors in charge of the transformation process, the transforming bank itself, in addition to the supervisory authorities.

This is why this study attempts to shed light on a pioneering and unique experience at the level of financial institutions within the Kingdom of Saudi Arabia, namely Bank AlJazira's experience. The aim is to benefit from this experience in transformation to Islamic finance, and to document this process hoping that our work will act as a catalyst for documenting other achievements in various fields.

Study questions:

The study attempts to answer a number of important questions, including:

1- How has Islamic finance developed throughout the world in general, and the Kingdom of Saudi Arabia in particular?

2- What is the philosophical and applied framework for the Islamic finance industry?

3- What are the gains achieved by the Islamic finance industry in the Kingdom of Saudi Arabia, and how will its future be in light of the Kingdom's vision 2030?

4- What were the phases adopted by Bank AlJazira to achieve transformation into Islamic finance? What challenges did it face, and how did the bank overcome such challenges?

5- How can Bank AlJazira's experience be transferred for the benefit of conventional financial institutions in the Kingdom of Saudi Arabia, and around the world?

Study objectives:

1- Monitoring the development of Islamic finance around the world in general, and inside the Kingdom of Saudi Arabia in particular, as well as its expected paths of growth in the future.

2- Disseminating and evaluating Bank AlJazira's experience in transformation from conventional finance to Islamic finance.

3- Studying Bank AlJazira's transformation phases, analyzing these phases, and benefiting from the methods adopted by the bank to overcome the challenges it faced throughout the transformation process.

Literature review:

There are many studies, researches and reports which monitor the Islamic finance experience in general, and pay attention to the transformation process into Islamic finance, at the local, regional and international levels.

This study is distinguished from other studies and reports by presenting the latest information and statistics on Bank AlJazira's experience, as a new experience that has never been studied before, and then analyzing it. This is in addition to evaluating this experience to highlight the positive aspects that may be useful and can be drawn upon.

Study methodology:

The study adopts the inductive and descriptive analytical approaches, by referring to the relevant studies, reports and documents, describing the experience under study, documenting and analyzing it according to the following controls:

1- Complying with the scientific methods of scientific research.
2- Providing the scientific analysis according to clear economic and Shariah-based evidence.
3- Documenting the references, sources of information and data used in the study in a special list, without resorting to academic documentation of the information extracted from the experience of the study team, the documents of Bank AlJazira they have obtained, and the interviews they made with scholars and experts. This is to reflect the nature of the study, which is closer to technical reports than academic theses and specialized researches.
4- Conducting specialized interviews with the officials of the bank to learn about the history of the experience as well as its challenges and elements of success.
5- Observing up-to-date data and statistics.
6- Formulating and editing the content in a manner that suits the non-specialist reader, without prejudice to scientific presentation.

Personal interviews:

Among the advantages of this study is that its team has chosen to conduct personal interviews as one of the qualitative research tools, given that the subject of the study is documentary and phase-based. The interviews made with the persons who were coeval with that phase represent one of the most important sources of information, as they provided a large amount of information, and enabled the study team to be acquainted with the ideas and views of the study sample.

The study sample consisted of eighteen individuals, who have been selected based on two criteria:

- Being employees at Bank AlJazira during the transformation period (1998-2007).
- Being out of job at the time of preparing the study.

The study applied the structured interview method, which is a type of interviews prepared through drawing up a list of several questions within five topics. Then, the list is to be put forward for arbitration before five academics and experts working in the industry and holding doctorate degrees.

The structured interview aimed at collecting information using a number of pre-made questions to get acquainted with the respondents' ideas and views on the subject of the study. The questions were derived from relevant previous studies, while allowing the respondents to skip the questions they do not will to answer, or have no sufficient information about it. Also, the respondents are given the opportunity to add information not tackled in the questions and they deem important for the purposes of documenting the experience.

The study team resorted to video conferencing, using modern technical programs to conduct interviews. This is because all interviews were conducted during the period from June to October of 2020, which coincided with the application of the precautionary measures to prevent the spread of coronavirus (COVID-19) pandemic. After obtaining the permissions of the respondents, the study team recorded all personal interviews in order to write down the entire content of the interviews in preparation for data classification and analysis, noting that each interview lasted from 30 to 90 minutes.

The following table shows the positions of the study population who were interviewed:

Table 1: Positions of the study's interview respondents

Position	Number of Individuals
Board Member	2
Chief Executive	1
Shariah Committee Member	3
Shariah Group Official	4
Treasury Group Official	1
Corporate Banking Group Official	3
Retail Banking Group Official	1
Aljazira Capital Official	1
Takaful Taawuni Company Official	1
Development & Real Estate Investment Company Official	1

Study plan:

The study is divided into two sections including seven chapters:

SECTION (I): Islamic Finance: Concept and Development

Chapter (1): Development of Islamic Finance

1/1/1 Phases of Islamic Finance Development.

1/1/2 Islamic Finance Industry Institutions.

1/1/3 Islamic Financial Products.

1/1/4 Islamic Financial Services.

1/1/5 Statistical Analysis of the Development of Global Islamic Finance.

Section

I

Islamic Finance

Concept and Development

Chapter

1

Development of Islamic Finance

Preface

Islamic finance represents one of the applied aspects based on the ethical values and the Shariah provisions extracted from the Noble Quran and the Prophetic Sunnah. This perspective can be applied only to ethical-value-based economy that includes: justice, trustworthiness, integrity and sincerity. This is in addition to considering the rights of others and adhering to the Shariah provisions concerning financial contracts, such as prohibiting Riba (usurious transactions) and significant Gharar (uncertainty). That is, subject to the provisions of Shariah, financial transactions are to be based on permissible forms of contracts and other partnerships.

Islamic finance:

Islamic banking is the cornerstone of Islamic finance industry. It supports the main components of Islamic finance, including legitimate products, such as Takaful (cooperative) insurance, investment funds, Islamic capital markets, etc. These sectors are collectively referred to as Islamic financial institutions. This definition is given in light of approved activities of Islamic financial institutions, such as the Islamic Financial Service Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The early emergence of Islamic financial institutions came to express the hopes and aspirations of their communities. Hence, their incorporations were in line with the desires of the surrounding community. This is why they were able to spread across large areas, attract large numbers of dealers, and then offer a unique experience for humanity and the financial sector.

These concepts formed new convictions in the financial system, according to which dealing in sales contracts, leases, and partnerships has become among the widely known financial transactions. Allah, Glorified and Exalted be He, has prepared for Islamic finance experts, scholars, workers, and supportive governments, which helped it to fulfill its mission. Thanks to that support, Islamic finance is increasingly spreading all over the world. Here, we will shed light on the development of Islamic finance.

1/1/1
Phases of Islamic Finance Development

The concept of bank in its modern sense came to the Islamic world from Europe, as conventional banks originated in that continent nearly five hundred years ago. The first government bank was established in Venice, Italy in 1587, and therefore the word "*bank*" is taken from the Italian word "*banco*" which means "table". The reason for the name is that (the teller) in the Middle Ages used to sit in public places at a table buying and selling different currencies. Then the process developed to its current form, as indicated by many researches and studies.

The industrial revolutions in the West played a major role in the emergence of usurious banks. The currency in circulation at that time was gold money, and the rich used to deposit their money with those who work in the gold industry. They used to take from their deposited money what they need in exchange for a percentage paid to the goldsmiths. If the rich man wants to move to another country, he takes an order (a bond) from the one with whom he deposits his money to one of his partners in that country so as to receive what amounts of money he wants. Then bonds became widely circulated instead of money because of being simple and secure.

When gold deposits in possession of money changers became abundant, they used them in lending with interests determined based on the borrower's need. Historical studies indicate that the first interest-based bank opened in the Arab world was the National Bank of Egypt, which was established and began to provide its credit services in 1898. It was based on dealing with usurious interests.

Tracing the various literatures that dealt with the beginning of Islamic banks, we note a discrepancy among researchers concerning the emergence of Islamic banks. Some researchers point out that its beginning was in the rural areas of Pakistan through the institution that receives deposits from the rich and presents them to poor farmers without interest, but in return for expenses of administrative services only. Another group of researchers states that the experience began at the Savings Bank in 1963, in Dakahlia Governorate in Egypt, which later stopped.

Other researchers believe that the experience began in India with the writings of a group of researchers who called for combating usury and rejecting interest. Others point out that the practical aspects of Islamic banking in its contemporary sense began in Sudan in 1926 through the diminishing participation in financing agricultural projects. It was also said that the emergence of Islamic financial institutions can be traced back to 1940 in Malaysia, where interest-free savings funds were established. In 1950 the idea of adopting financing forms that comply with the provisions of Islamic Shariah was transferred to Pakistan, where it was applied for several months and then stopped.

Regardless of the beginning of Islamic finance, efforts shall be directed to the contents, goals and objectives of this experience in order to evaluate and develop it.

Accordingly, the important phases forming the concept, foundations, and reality of Islamic financial institutions can be identified as follows:

1- Phase of establishing the Shariah basis for Islamic finance (1850-1950):

This phase is not directly related to the emergence of Islamic financial institutions. However, it is an important phase in motivating, energizing the refusal of usury and presenting the Islamic alternative on the theoretical level by Muslim scholars so as to abandon the usurious dealings offered by conventional banks whose transactions and contents involve explicit usury. It is a phase that is based on the glorification of the Shariah and its provisions, and striving to please Allah through adhering to the acts He commanded and abandoning the matters He prohibited.

When many countries in the Arab and Islamic world gained their independence, peoples were searching for their Islamic identity. These changes coincided with the writings of a group of scholars explaining the Islamic economic system, and how Islam deals with human issues. They also highlighted the disadvantages of usury and its dangers to the economy.

In addition, other efforts, represented in holding conferences and symposiums to explain the dangers of dealing in usury and clarify the Shariah ruling regarding it, promoted these writings. This includes: The Islamic Fiqh Week held for the first time in Paris in 1951, the Social Studies Circle for Arab Countries in Damascus in 1952, the 2nd Conference of the Islamic Research Academy in Cairo in 1965, and the 1st Islamic Fiqh Conference in Morocco in 1969, as well as other conferences and symposiums.

During this scientific debate based on arguments and evidence with regard to abandoning usury and its implications, the first step toward liberating from the dominant idea that it is impossible to work without the modern financial system, and that it is a complex system that is difficult to be separated from. The next step was to find practical forms necessary to put the Islamic teachings in the field of finance and economics into practice.

As for the alternative system, it is summarized in the fact that the bank operates through three types, namely:

Deposit account, in which the bank accepts deposits of individuals, who have the right to withdraw their balances whenever they want. In this case, the bank does not pay interest or profit on the amounts deposited in this account.

Joint investment account, in which the bank accepts deposits of certain minimum amounts without setting maximum limit. The bank then invests these funds, and distributes its profits or losses to the investors in this account.

Zakat account, in which the bank accepts the Zakat funds to spend them, on behalf of depositors, in its legitimate channels.

After a discussion about these ideas by a group of experts and consultants to ensure their safety from any Shariah prohibitions in theory, they were approved so as to pave the way for the emergence of the first Islamic financial institution, and the establishment of a new phase of financial work.

2- Phase of emerging the Islamic finance (1963-1970):

This phase came as an applied extension of the previous theoretical phase. It includes the first attempt to establish an Islamic bank in Egypt in 1963, namely the local savings banks in the city of Mit Ghamr, which, geographically, is the center of the Nile Delta. At that time, about 86% of its inhabitants were farmers. It was surrounded by 53 villages that vary in size and population.

A premises was rented for the business under the name of "Local Savings Centre". Personal contact was the basis on which the business was based. Various administrative formations were established by dividing the region into a number of sectors. At the head of each sector there was an official working alongside assistants who were helping him in an organized administrative system aimed at reaching the largest segment of farmers.

Those in charge of the work showed enthusiasm and determination to make the experiment a success, with challenges surrounding it from all sides, which in their entirety became a motive and incentive to fuel the experiment. Indeed, a new model has been designed, which has resulted in a significant increase in the number of shareholders, exceeding the estimated number. The officials were able to identify the basic features of a Shariah-compliant bank. The previous name was changed to "Local Savings Banks". The experiment lasted for four years, during which it achieved great success. Under a government resolution, the bank was later merged with another bank.

In 1971, Nasser Social Bank was established, and began its operations in 1972. It is the first bank whose articles of association stipulate that interest is prohibited. It is a state-owned social bank that is aimed at achieving efficiency and justice.

In 1973, the Islamic Development Bank (IsDB) was established in Jeddah, in implementation of the resolution of the conference of Finance Ministers of 56 Islamic countries. It is intended to be an international developmental bank but not a commercial bank. Its activities officially started on October 20, 1975.

In 1975, the Dubai Islamic Bank was established. It is regarded by some researchers of Islamic economics as being the first Islamic commercial bank in the Arab world. The bank started it activities internally for its founders only, and then opened its doors to shareholders from all citizens.

During this period, the 1st International Conference on Islamic Economics was organized by the Faculty of Economics and Administration at King Abdulaziz University in Jeddah in 1976. It is the first conference of its kind that included large numbers of finance ministers from many Arab and Islamic countries. A large group of Fiqh scholars and researchers from around the world also participated in it.

The conference became the true nucleus of institutional Islamic economics. Among its recommendations was the establishment of a research center for Islamic economic studies. In implementation of this recommendation, the Islamic Economic Research Center was established in mid-1977 (currently, the Islamic Economics Institute). It contributed to outstanding works that aimed at establishing the Shariah basis for this emerging science. Studies dealing with Islamic finance in general have gained a great deal of interest from the center.

3- Phase of spreading the Islamic finance (1977-2020):

Following that conference in the Kingdom of Saudi Arabia, a major transformation occurred in the history of Islamic finance, and a new era began. Islamic finance spread in many Arab and Islamic countries through the Faisal Islamic Bank (Sudan); established in 1977, the Faisal Islamic Bank of Egypt; established in 1979, the Kuwait Finance House, Al Rajhi Trading and Exchange Corporation (currently, Al Rajhi Bank), the Jordan Islamic Bank, and other banks in many Arab countries. This is in addition to Islamic countries, such as: Pakistan, Malaysia and others, other countries in Asia, including India and the Philippines, African countries such as: South Africa, Niger and Senegal, and some Western countries such as: Britain, Switzerland, the United States and Australia.

By early 1981, a new phase began regarding the full transformation of some countries toward Islamic finance, such as Pakistan. There have been serious steps to Islamize their entire financial systems. By early 1990, serious steps were taken toward full transformation to Islamic finance in the Sudan.

There were four models of the Islamic financial institutions, as follows:

First model: The binary system, where the Islamic institution operates within a traditional financial system according to a specific system issued by law. This situation has developed in many countries to the issuance of a law regulating Islamic financial business without being limited to a specific institution. Countries such as Malaysia, the United Arab Emirates, and Kuwait have implemented this system.

Second model: It is a comprehensive system in which a particular country adopts the transformation of its entire financial system into Shariah-compliant forms. The country shall direct all financial institutions toward a gradual transformation. This is what other countries such as Pakistan and India have done.

Third model: It is the Islamic financial windows system, which was commonly used after the Islamic financial institutions spread and attracted more funds and customers. This model was adopted when a number of conventional institutions aimed at providing Islamic financial services through a window, or a specialized branch.

Fourth model: It is a system that responds to market forces, where the financial institutions respond to the demands of the customers and their desire for Islamic financial products and services away from Shariah non-compliant transactions. This model is based on unified systems that govern all financial institutions, and is mainly based on ensuring the stability of the financial system regardless of the nature of the transactions executed.

This model has many applications in Saudi Arabia, where the Saudi Central Bank provided support for this model. Bank AlJazira's experience in transformation into Islamic finance can be considered one of the most prominent examples of the fourth model.

Table 2: Islamic financial institutions established during 1975-1983

Institution	Year of Establishment	Country
Dubai Islamic Bank	1975	UAE
Faisal Islamic Bank of Egypt	1977	Egypt
Faisal Islamic Bank (SUDAN)	1977	Sudan
Kuwait Finance House	1977	Kuwait
Jordan Islamic Bank for Finance & Investment	1978	Jordan
Iran Islamic Bank	1979	Iran
Bahrain Islamic Bank	1979	Bahrain
Islamic International Bank for Investment & Development	1980	Egypt
Group of Banks	1980	Pakistan
Tadamon Islamic Bank	1981	Sudan
Al Baraka Investment & Development	1982	KSA
Qatar Islamic Bank	1982	Qatar
Islami Bank Bangladesh Limited (IBBL)	1983	Bangladesh
Bank Islam Malaysia	1983	Malaysia
Beit Ettamwil Saoudi Tounsi (BEST-Bank)	1983	Tunisia
Sudanese Islamic Bank	1982	Sudan
Al Baraka Islamic Bank	1984	Bahrain
Al Baraka Turk Participation Bank	1984	Turkey
Al Baraka Bank Sudan	1984	Sudan
Islamic Banking System International Holding	1978	Luxembourg
Al Rajhi Trading and Exchange Corporation	1978	KSA
Dar Al-Maal Al-Islami (DMI)	1981	Switzerland
Islamic Bank International of Denmark	1982	Denmark
Al Baraka International Bank	1982	UK
Kibris Islamic Bank	1982	Cyprus

1/1/2
Islamic Finance Industry Institutions

There are many institutions that support the Islamic finance industry, the most prominent of which can be briefly presented, as follows:

1- Islamic Development Bank (IsDB):

An international financial institution, established in pursuance of the declaration of intent issued by the 1st Conference of Finance Ministers of Muslim Countries held in Jeddah in December 1973. The bank was inaugurated in October 1975. Among the objectives set for the bank is to achieve economic development and social progress for the benefit of the peoples of member countries and Muslim communities in non-member countries in accordance with the principles and provisions of Islamic Shariah.

The meeting parties agreed to achieve this lofty goal with the bank paying special attention to financing productive and infrastructure projects of financial and economic feasibility through various means, including the capital participation, development of new forms for financing investment activities, creation of new programs to mobilize resources, and establishment of control and standards institutions for the purpose of integrating Islamic finance into global economy and financial system.

This is in addition to providing technical assistance for building capabilities and enabling these banks to reform their systems and policies, modernize information technology devices, train their employees, and create work relationships.

The most important work undertaken by the bank in supporting Islamic financial services industry was its active contributions to the establishment of the infrastructure institutions of the Islamic financial services industry to help banks and institutions operating in this sector to raise the level of transparency and standards of good performance.

2- General Council of Islamic Banks and Financial Institutions (2001):

The General Council of Islamic Banks and Financial Institutions (CIBAFI) has been established in the Kingdom of Bahrain in 2001 to replace the International Association of Islamic Banks (IAIB), which was established in 1977, based on the agreement concluded by the chairmen of the boards of directors of the banks. Its aim was to support cooperation among the Islamic financial institutions in various fields. Among the most prominent achievements of the association is the issuance of "*The Scientific and Practical Encyclopedia of Islamic Banks*". The encyclopedia is an important reference with regard to establishing the basis for Islamic finance. The General Council supports the institutions of Islamic finance industry through providing information and reports related to the work of Islamic financial institutions.

3- Accounting and Auditing Organization for Islamic Financial Institutions (1990):

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI: formerly the Financial Accounting Organization for Islamic Banks and Financial Institutions) was established in accordance with the agreement of association signed by some Islamic financial institutions, namely the Islamic Development Bank, Dar Al-Maal Al-Islami Trust, Dallah Albaraka Group, Al Rajhi Banking Investment Corporation, and Kuwait Finance House in 1990 in Algeria. AAOIFI was registered in 1991 in the Kingdom of Bahrain, as a global, non-profit organization with an independent personality.

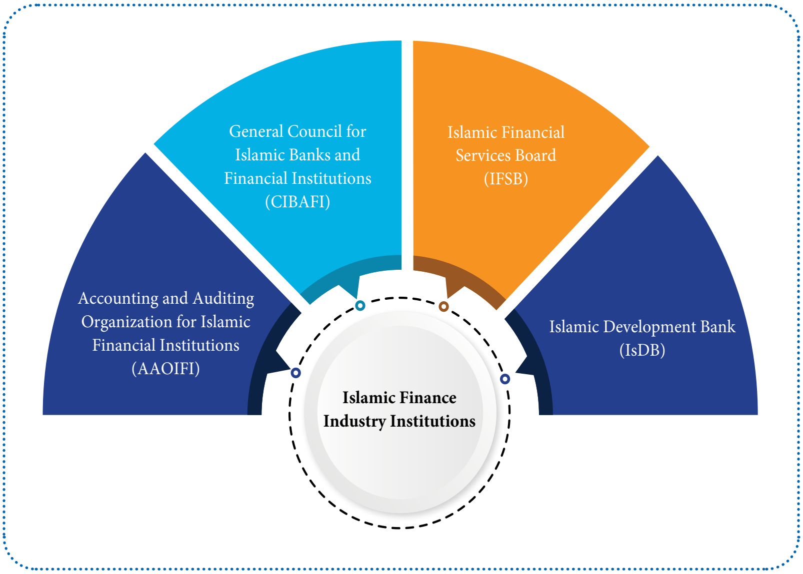
The establishment of AAOIFI involved significant preparatory efforts. The beginning was the working paper presented by the Islamic Development Bank at the annual meeting of governors in March 1987. Then, several committees were formed to decide the best ways to prepare accounting standards for Islamic financial institutions.

4- Islamic Financial Services Board (2002):

The Islamic Financial Services Board (IFSB) was established in Kuala Lumpur, Malaysia in 2002, upon an invitation by Bank Negara in the Malaysian capital. One of the board's objectives is to coordinate with central banks and Islamic financial institutions to issue financial technical standards in accordance with the provisions of Islamic Shariah, especially the standards of the Basel Committee on Banking Supervision (BCBS).

These institutions and many others support Islamic financial institutions. Thanks to this support, Islamic financial institutions have spread all over the world. Many countries in Asia and Europe studied this experience so as to apply and benefit from it.

Fig. 1: Islamic finance industry institutions(1)



(1) *Prepared by: Study Team.*

1/1/3
Islamic Financial Products

The theorists of Islamic financial institutions almost agree that Musharakah (partnership) contracts are the cornerstone of banking finance. However, with the difficulties of implementation and the regulations of central banks, Islamic financial institutions faced many problems. Therefore, these institutions tended to decrease Musharakah contracts and increase debt contracts. This is why most finances today are based on sale and lease contracts. We will briefly discuss the most applicable forms thereof.

Despite the modularity of these forms, they were the subject of different Fiqh-based opinions. This is not, however, the subject of study, noting that this study depends on various opinions in this regard issued by collective Ijtihad (legal reasoning and discretion). These products include:

1- Murabahah contract:

Murabahah sale is one of the most common forms of finance used by Islamic financial institutions. Through a Murabahah contract, the customer applies to the bank to purchase a commodity of specific descriptions, with a promise made by the customer to the bank to purchase the said commodity on the basis of Murabahah. Accordingly, the bank purchases the commodity in cash, and then, after owning and receiving it, sells it to its customer at a deferred price higher than the cash price for which has been purchased by the bank.

The purpose of this type of sales is to provide finance for institutions and individuals unable to provide cash to finance their projects, and thus resort to banks for help. The basic principle in sale transactions is that the commodity is to be in the ownership of the seller, be it a financial institution or a commercial company. However, this matter is different here. That is, owning a commodity by a financial institution inflicts major costs and expenses upon it. This is in addition to the exposure of the financial institution to risk if it responds to the initial wishes of the customers, and then some of them withdraw their desire to purchase the commodity.

The commodity of Murabahah contract shall be in the possession of the trader; meanwhile, in Murabahah to the purchase orderer, the commodity is not owned by the financial institution. Rather, the financial institution purchases it based on the customer's wish in exchange for a promise from him to purchase it. Hence, we can say that it is composed of a promise to purchase and a Murabahah-based sale.

2- Ijarah (Lease) contract:

Ijarah contract is one of the well-known contracts in Islamic Fiqh. It is a contract for a known permissible usufruct, for a definite period, on a known or described commodity, or a work in exchange for a definite consideration.

Ijarah is an important instrument of Islamic finance, as it provides banks with multiple benefits. Also, it is less risky than other forms of finance. That is, the bank owns the leased asset, and enjoys a stable income. Moreover, it is less complicated in terms of procedures and legal requirements.

In Ijarah contracts, the bank, as a lessor, retains its ownership of the leased assets while transferring the usufruct thereof to a customer in its capacity as a lessee for a specified period and a specified return. Hence, the bank bears the obligations and risks incurred by the leased assets resulting from their use or due to natural conditions. However, it does not bear the risks caused by negligence or misuse.

These advantages are the same in both Ijarah contracts known in Islamic Fiqh and finance lease contracts (the contracts of Ijarah Muntahiah Bittamleek). The difference represents here in the existence of a separate ownership contract that only comes into effect after the lease contract expires.

3- Istisna' contract:

It means demand for workmanship. For example, someone asks another to make something specific for him, such as a wooden cupboard, or to build a housing unit. In this case, materials are supplied by the manufacturer for a specified consideration. It is a permissible contract, and a resolution stating its permissibility was issued by the International Islamic Fiqh Academy.

Istisna' contracts are exercised by Islamic financial institutions through entering into two successive contracts. That is, the customer requests the construction of a housing unit, for example, and the institution contracts with him on this basis. Then, the institution enters into another contract with a real estate development company to build the housing unit. The difference between the value of the two contracts is the profit realized for the institution.

4- Mudarabah contract:

Mudarabah is a profit-making partnership contract between two parties. Its form is that the finance institution (owner of money) provides finance for the customer. Meanwhile, the customer, the owner of experience (speculator) manages the project. After that, the Mudarabah outcome is to be distributed between the two parties on the basis of two shares, one share in exchange for finance, which is taken by finance institution, and the other share is taken by the customer in exchange for its effort. Therefore, Mudarabah-based finance takes place between two parties: the finance institution and the customer.

Mudarabah contract is an acceptable form of finance. It is one of the first forms used by the Islamic financial institutions. However, it has not been widely applied due to the risks it contains in practice. It depends in the first place on the customer's honesty and reputation. Institutional arrangements such as tax treatment, accounting and auditing systems, and supervisory instructions discourage their use in banking finance. In addition, the elements of honesty and moral commitment cannot be relied upon, as traders' morals and behavior are not on the same level. Therefore, it is difficult for the institution to directly trust these customers. This urges Islamic financial institutions to focus on other forms of financing.

5- Musharakah (Partnership) contract:

Musharakah is a contract whereby two or more parties make a commitment to contribute to a financial project through providing a share of money or effort for the investment of such a project, and then sharing the profit or loss arising from it.

Musharakah contracts, in Islamic financial institutions, are agreements concluded between the institution and the customer to provide the capital to enter into a specific project with the aim of obtaining profit. The project is managed by both parties or by one party in return for a percentage of the profit.

Diminishing Musharakah or Musharakah Muntahiah Bittamleek (i.e., Musharakah ending with ownership) is a form of Musharakah in which the institution gives the partner customer the right to obtain the ownership of the entire project according to the agreed-upon terms.

Musharakah finance bears unique advantage for the Islamic financial institutions over the conventional ones. Despite this advantage, Islamic financial institutions deal with it to a minimum due to the above-mentioned confidence-related risks.

1/1/4
Islamic Financial Services

Islamic financial institutions provide their services as being part of the financial business requirements. These services vary according to the needs of their customers. In terms of meaning and content, financial services do not conflict with the provisions of Islamic Shariah. This is because the services provided by the Islamic financial institutions to their customers represent a part of their mission and a way to achieve revenues.

The services provided by Islamic financial institutions are similar to those of conventional institutions. However, there is a difference between them that is represented in the commitment of the Islamic financial institutions to the Shariah regulations when providing the service. This in addition to abandoning Riba (usurious transactions) and Gharar (uncertainty) contracts to be in line with the mission of Islamic financial institutions, and for the purpose of keeping away from any suspicion that may affect them. Moreover, there are technical differences between Islamic and conventional finance with regard to the level and quality of service, as well as the fees imposed on it.

Among the financial services provided by Islamic banks are the banking services that include credit when using forms of finance and banking services that do not include credit. There are many types of financial services that do not involve credit, such as letters of credit, letters of guarantee, credit cards, foreign exchange dealings, bank transfers, check collection, bill payments, stock brokerage services, financial arrangement, financial advisory, custody services, etc.

Customer satisfaction:

There has been a major shift in the concept of financial services due to modern technologies. Distinguished institution provides its services with high level of professionalism to gain customer satisfaction, at which all financial institutions aim and for which they compete. This is because excellence and quality of service are vital elements in increasing and maximizing the market shares and profits of institutions.

In recognition of the importance of customer satisfaction, many financial institutions have allocated a budget for marketing research so as to close the gap between the actual service and the expected service, and to guarantee that the level of service will never fall below the expected standard. This confirms that the level of services of Islamic financial institutions in many countries has changed after the great demand for their services. This is a fact reflected in international reports issued by international financial institutions. Therefore, it was important for the Islamic financial institution to provide better services, to be a strong competitor in this field, and to utilize the best technologies while preserving their values.

Hence, the Islamic financial institutions shall realize the satisfaction of their customers. They shall also obtain the best technologies, conduct researches and field studies that enable them to satisfy the needs of their customers, and provide the services they aspire to. This is due to the customer's increasing interest in the services provided by the competing financial institutions.

Competition for electronic services:

The economic transformations the world witnessed during the past two decades brought about a great revolution in the field of information and communication technology that has never been witnessed before. As a result of such a development, the world has become a global village. Anyone living anywhere can watch the event at the moment it occurs, follow its minute details, and conduct transactions while being in his place.

Of course, the impact of this technology will be great on the financial sector in general, and on the Islamic financial institutions in particular. This is because technical programs are designed to fit the conventional institutions model. This puts the Islamic banking into fierce competition as the financial services provided by the Islamic financial institutions will be compared to the services provided by the conventional financial institutions. This will represent a great challenge as financial services are homogeneous in common.

A successful institution is the one that provides its services according to a well-thought-out scientific approach and focuses on achieving the needs of its customers and gaining their satisfaction. It makes use of contemporary technologies such as phone banking, smart phone apps, or mobile banking which helps achieving the goals of both the customer and the institution. That is, the institution communicates with its customers through applications or text messages to market its new products and services. The same applies to phone banking that offers multiple services to customers.

Modern technology has also led to changes in the field of payment systems. Money is transformed into a new form, payment and money transfer methods have evolved and are no longer limited to conventional methods. As a result, new payment methods based on the Internet, mobile devices or private networks appeared as replacements. Also, financial technology (*Fintech*) has witnessed amazing and successive developments in our present era.

The largest money transferring companies around the world aimed at easing these complications to make the transfer process very easy. Islamic financial institutions are undoubtedly interested in electronic transfer of funds just like other financial institutions. So, they shall take advantage of successive modern technologies, such as *Blockchain* technology that helps exchange money, as it provides a safe environment for exchanging shares and cash.

As a result of these developments, Islamic financial institutions should study these options in accordance with the applicable regulations to provide their services so as to maintain the opportunity to compete in the financial market.

Table 3: Comparison between traditional and electronic financial services[1]

Service Type	Pros	Cons
Electronic Financial Services	◆ Saving customer's time and effort when completing his transactions. ◆ Settlement of transactions and completion of deals electronically. ◆ Paying local bills electronically. ◆ Managing accounts and completing transactions via the Internet at any time and place. ◆ The possibility of charging or linking it to a credit card account or a traditional bank account. ◆ Transferring money electronically through phones and computers without the need to visit the bank. ◆ Online account login.	◆ No check book available. ◆ No traditional documents processing. ◆ No cash withdrawals from ATMs. ◆ Not widely accepted. ◆ It is difficult to register account on some websites if a credit card is not available. ◆ Potential data theft. ◆ Inability to send or receive money if the Internet is not available.
Traditional Financial Services	◆ Check book available. ◆ Electronic discount cards for cash withdrawal from ATMs. ◆ Traditional document processing is widely accepted. ◆ Cash deposit and withdrawal.	◆ Execution of financial transactions linked to the account during the bank's working hours only. ◆ Visiting the bank to carry out transfers and other procedures is a must.

(1) *Prepared by: Study Team.*

1/1/5
Statistical Analysis of the Development of Global Islamic Finance

The Islamic financial services industry is considered new if compared with the conventional financial industry. However, it has widely spread both locally and globally. The 2008 global financial crisis helped spreading and drawing attention to this experience. Therefore, many countries rushed to take advantage of it in the hope that the Islamic financial products would contribute to providing better financial solutions to harmonize between return and risk, which would help in attracting larger segments of customers.

There are an estimated 1.5 billion Muslims, which represent 23% of the world's population. Most of them live in the Middle East, North Africa and Southeast Asia. This indicates that Islamic finance is based on a broad base of customers, and thus it has spread to 75 countries around the world. As a result, some foreign financial institutions tended to offer investment opportunities, or open Islamic windows, to attract savings. This growth is confirmed by successive reports issued by various international financial institutions, such as: the International Monetary Fund (IMF), the World Bank (WB), and the Organization for Economic Co-operation and Development (OECD).

The Islamic Financial Services Board (IFSB) has been following this industry for many years. Every year, it issues a comprehensive and detailed report on these services. The IFSB issued the eighth edition of its annual flagship publication in August 2020: *"Islamic Financial Services Industry Stability Report 2020"*, which covers the various components of Islamic finance, such as Islamic Banking, Takaful (Islamic Insurance), Islamic Sukuk, and Stocks.

The report pointed out the impacts of the industry of Islamic financial services due to economic changes and developments in the international regulatory and supervisory frameworks, such as increasing rates of inflation and depreciation of global currencies accompanied by slowdown in the global economy during these years. The industry achieved an annual growth of 9.6%, estimated at USD 2.19 trillion, compared to the second quarter of 2018. Therefore, this industry has witnessed increases in the assets of all its major components.

The Gulf Cooperation Council (GCC) countries are among the world's largest contributors to this industry, ahead of many countries in other regions.

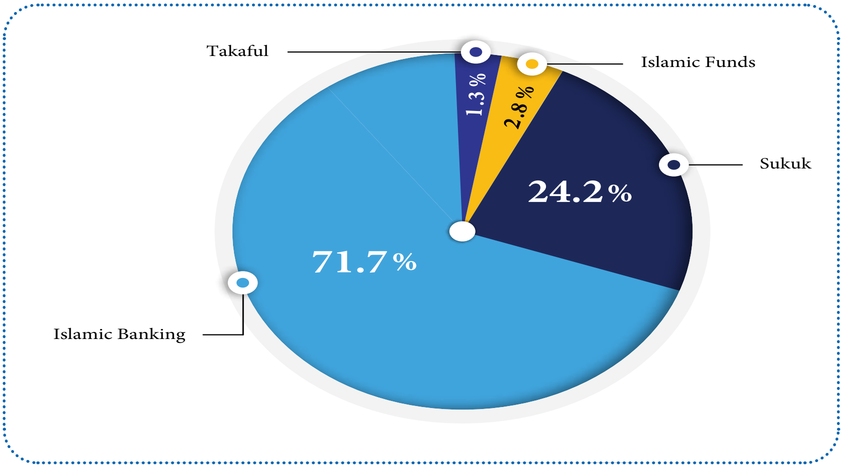
Table 4: Assets of Islamic finance in 2018, by region (USD billion)(1)

Region	Banking Assets	Sukuk	Islamic Funds	Takaful Contributions	Total	Share (%)
Asia (ex-GCC)	266.1	323.2	24.2	4.1	617.6	28.2%
GCC	704.8	187.9	22.7	11.7	927.1	42.3%
MENA (ex-GCC)	540.2	0.3	0.1	10.3	550.9	25.1%
Africa (ex-North)	13.2	2.5	1.5	0.01	17.2	0.8%
Others	4.1	16.5	13.1	--	76.7	3.5%
Total	**1,571.3**	**530.4**	**61.5**	**26.11**	**2,190**	**100%**

(1) *Islamic Financial Services Industry Stability Report 2019.*

The sector of Islamic banking, representing about 72% of the Islamic finance industry, grew in many countries of the world by 0.9% in the second quarter of 2018, compared to 4.3% in 2017. The number of Islamic banks and windows in 2017 reached 505 banks, including 219 windows in 75 countries around the world. According to *the Islamic Financial Services Industry Stability Report*, this can be attributed to the decline in local currencies against the US dollar, particularly in some emerging economies with large contributions to Islamic banks.

Fig. 2: Sectoral composition of the global IFSI (2018)(1)



This growth in the business of Islamic financial institutions is the result of the increasing demand for their products and services. A rating issued by the global credit rating agency "Investor Service" has indicated the success of Islamic financial institutions. The report indicates that the Islamic financial institutions are now in a position to meet the challenges in the financial sector, and that their spread in the Islamic world requires a solid strategy for working in local and global environments.

This rating was supported by the Islamic Development Bank report issued in 2014, stating that, during the past period, the Islamic financial institutions were able to realize many achievements at both the financial and social levels.

(1) *Islamic Financial Services Industry Stability Report 2019.*

Their experience has become appreciated and praised by major international financial institutions, such as the International Monetary Fund, the Bank of England, the Federal Reserve Board, and other institutions, according to their issued reports.

There are several indicators pointing at the development of the Islamic financial services industry. Islamic capital markets represent around 27% of the global Islamic financial services industry's assets, amounting to USD 591.9 billion in 2019, despite the fact that the growth rate in 2018 was lower than 2017. The sector is still largely dominated by multi-type sovereign issuances with financial weight in the main Islamic financial markets supporting the budgets of countries.

The continued growth in the issuance of Sukuk was also observed during the period 2017-2018, with sovereign issuances from 13 countries representing the majority of issuances in 2018. It is noted that there is moderation in sovereign issuances, particularly in the GCC countries due to the increase in oil prices during that era.

Given the success of this industry, some Western governments sought to take advantage of the Islamic finance industry. Britain opened its doors to the Islamic finance industry at an early stage in anticipation of its success. Islamic financial institutions appeared in Britain before appearing in many Arab and Islamic countries in the late 1970s (1978-1979). The British government allowed some Islamic investment companies to operate in London in 1978. The first was the Islamic Investment Holding Company, then it was followed by the Finance House. In 1987, Al Baraka International Group entered Britain with two branches in London and Birmingham, and continued to operate until 1993. In 1997, the Ahli United Bank of Kuwait opened a branch in London, and it became known as Al-Manzil project as it provided financing to Muslim minorities through Murabahah and Ijarah contracts.

The British government has also presented a number of initiatives to support Islamic finance industry, such as the initiative of the British Chancellor of the Exchequer in 2006, entitled: *"London As Gateway to Islamic Trade and Finance"*. This is in addition to the initiative of the British Prime Minister in 2013 at the 8th Islamic Economic Forum, which aimed at making London the capital of the Islamic economy and issuing Islamic Sukuk worth 200 million pounds sterling in 2014. The London Stock Exchange also launched an international Islamic index for Islamic markets. Britain is the gateway to Islamic finance industry in Europe, as it has the largest number of Islamic banks in Europe, with 22 Islamic banks, 6 of which are entirely Shariah-compliant banks, and 16 as conventional banks with Islamic finance windows.

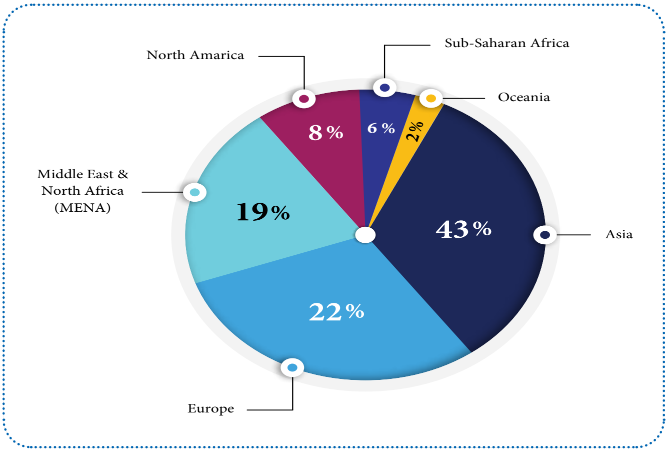
Studying Islamic economics:

To ensure the continuation of the progress of Islamic financial institutions in a distinguished manner, it was necessary to provide them with qualified and experienced human resources who are well-versed in the field of Islamic economics and its applied aspects. Hence, attention has been devoted to the design of study programs at various stages, starting from bachelor's to doctorate degrees. Teaching Islamic economics began in a number of universities in Arab and Islamic countries. Many prestigious international universities opened their doors to Islamic finance, especially in Britain, such as University of Reading, Durham University, which offers master's degree in the Islamic finance, and University of Birmingham. In addition, some French universities such as Reims Management School, Paris Dauphine University (Université Paris-Dauphine), Grenoble University (Université Grenoble Alpes), French Institute of Islamic Finance (Institut Français de Finance Islamique), and University of Strasbourg (Université de Strasbourg) began to teach Islamic finance.

Also, La Trobe University in Australia launched a master's program in Islamic finance. IE University in Spain established the Saudi-Spanish Center for Islamic Economics and Finance (SCIEF) in cooperation with King Abdulaziz University in Jeddah. Aston University in Birmingham, Britain, established a center for Islamic finance and management in 2010 with a donation of 1.5 million pounds sterling by an Egyptian businessman.

The interest in this field of knowledge was not limited to European universities only. Reputable international universities in the United States of America were interested in Islamic finance, such as Harvard University, which established a program in Islamic finance; and Rice University, which devoted a scientific chair for Islamic finance.

Fig. 3: Distribution of Islamic finance educational & training programs in 2013, by world region[1]



The spread of Islamic finance has been bolstered by the establishment of institutions that support the Islamic finance industry, as referred to above. The work of these institutions was promoted by higher Shariah committees, whether at the level of central banks or at the level of international organizations, such as the Shariah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This is in addition to the efforts of the Fiqh academies in establishing the Shariah bases for the products of the Islamic financial institutions, such as the International Islamic Fiqh Academy of the Organization of Islamic Cooperation, and the Islamic Fiqh Council of the Muslim World League.

These institutions and Fiqh academies managed to provide great assistance to Islamic finance industry. Thanks to this assistance and support, the industry of Islamic financial services occupied a prominent position and gained international recognition from many international financial institutions which started dealing with institutions supporting finance industry, such as: the World Bank (WB), the Basel Committee on Banking Supervision (BCBS), the Bank for International Settlements (BIS), and the Financial Stability Board (FSB).

(1) *Global Islamic Finance Education 2013: Special Report* (GIFE 2013, P. 10).

The International Monetary Fund (IMF) showed a special interest in Islamic finance over the past years, although its activities focus on conventional financial services. Its activities have increased and its relations with the countries where Islamic financial institutions operate have strengthened. The IMF kept on following its activities with much interest and held meetings to discuss the proposals it could present for the development of financial institutions. IMF's officials believe that Islamic finance represents an opportunity to promote financial integration, improve financial markets, and gain new sources of financing, according to reports issued in this regard.

The IMF's first formal discussion on Islamic finance took place on February 3, 2017, and was about the IMF's role in financial stability. The IMF issued a report on this discussion entitled: *"Ensuring Financial Stability in Countries with Islamic Banking."* Also, the IMF established a working group to develop an institutional vision for the industry of Islamic financial services. The IMF's Executive Committee adopted a proposal to include the basic principles of the Islamic Financial Services Board (IFSB) in Malaysia in the assessments of the Fund for the regulation and supervision of the activities of the Islamic financial institutions.

The success achieved by Islamic finance and the relationships established by the institutions concerned with developing banking activities with international competitive institutions encouraged them to take a share of the Islamic financial market in the world. As a result, the Central Bank of Malaysia has created a $146 million endowment to support INCEIF University in Malaysia. The aim was to make Malaysia a global pioneer in the Islamic finance industry with regard to the field of education and training.

Further, the Central Bank of Bahrain has developed a plan for teaching Islamic finance at a cost of $4.6 million in cooperation with 8 Islamic financial institutions in Bahrain. Furthermore, the Sharjah Islamic Bank signed an agreement to establish a center for Islamic banking studies at the College of Business and Administration at the American University of Sharjah, at a cost of AED 30 million.

Together, these indicators reinforced the desire to use Islamic finance as a new model that can contribute, along with other models, to the building of a stable global financial system. This system can provide society with new financial products and services that can help achieve economic well-being, improve living standards and create better societies.

Expressing optimism about the status quo of Islamic finance, "*The Banker*" magazine, known in the international financial community, noted in its report published in English in 2019 that the Islamic financial services industry is in a good position after recovering from the problems it suffered a few years ago. It indicated that assets growth was strong in all regions except Australia, Europe and the Americas, although the Americas had many reasons for success.

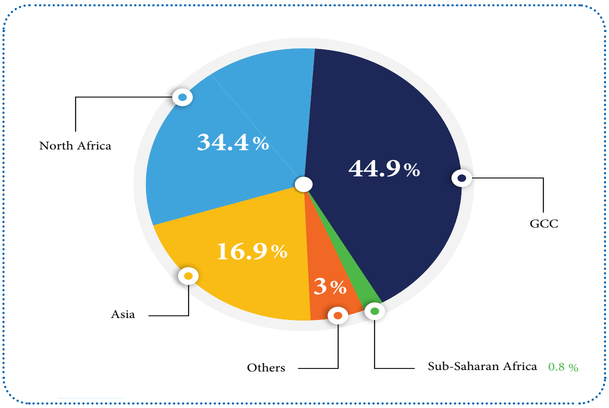
Even with lower profits in some of the regions indicated, the Islamic finance industry is still thriving in regions such as Asia and North Africa. It is expected that the demand for Islamic financial services in North and South Africa will fuel the growth of this sector for the foreseeable future as a great number of populations wait for these financial institutions to commence their activities.

Participation of the Gulf Cooperation Council Countries in Islamic Finance Assets

The Gulf Cooperation Council (GCC) countries are among the largest contributors to Islamic financial assets around the world. The total Islamic financial assets in these countries amounted to USD 927.1 billion, representing 44.9% of the world's total Islamic financial assets amounting to $2.2 trillion in 2019. The assets of Islamic banks represented 25% of the total Islamic financial assets in the GCC countries in 2019, and 14% in the Middle East and North Africa region.

At the international level, the abovementioned report of "*The Banker*" magazine states that 45 out of the world's 100 largest Islamic financial institutions with regard to the size of Shariah-compliant assets are located in Arab countries, with 40 of them located in the Gulf Cooperation Council countries. In addition, 11 out of the world's 20 largest Islamic banks are located in Gulf States (8 banks of which are fully Islamic and 3 as commercial banks operating Islamic windows).

Fig. 4: Distribution of Islamic financial assets in 2018, by world region(1)



(1) *Global Islamic Finance Education 2018: Special Report* (GIFE 2018, P. 10).

Global Challenges Facing Islamic Finance

The experience still needs further review and evaluation, although it has achieved great success. This would make it stronger and more mature.

Successful experiences become more successful in light of the multiple economic variables the world witnesses. This is besides the transformations aimed at liberalizing trade, encouraging competition in the Islamic finance industry, establishing economic blocs as well as many regional and international organizations that aim to liberalize financial services, such as the World Trade Organization and other international organizations. Also, the resulting international agreements, such as the Agreement on the Liberalization of Trade in Financial Services, allow banks to open branches in the signatory countries.

1- Challenge of the small size of Islamic financial market:

One of the challenges facing Islamic financial institutions is the small size of the Islamic financial market compared to conventional markets around the world. Islamic financial institutions should increase their capital through merger.

Examples of mergers include: the merger of Dubai Islamic Bank with Noor Bank in the United Arab Emirates, the merger of Alawwal Bank (previously known as Saudi Hollandi Bank) with the Saudi British Bank (SABB) in Saudi Arabia in 2019, the merger of the National Commercial Bank with Samba Financial Group, which was approved in 2020 at the level of conventional banks that have Islamic windows, and the merger of the National Bank of Abu Dhabi and the First Gulf Bank in Abu Dhabi, which aimed at increasing capital and reinforcing the financial position and strength of the new bank in foreign markets.

2- Challenge of the competition in technology:

The second challenge that Islamic financial institutions should take into consideration is the competition in financial technology (*Fintech)*, which has become a broad area of competition between financial institutions seeking to provide their products and services.

Therefore, the majority of financial institutions tended to deal with their customers through these technologies as a preferred method for customers.

3- Challenge of developing the Islamic financial products:

The third challenge, which is considered to be one of the biggest challenges, is the development of Islamic financial products.

There are several technical and legal problems facing Islamic financial institutions with regard to this challenge, including: emulation of traditional products, ambiguity of the future vision for products, parties' dispute with regard to product design from a technical and legal point of view, lack of procedural evidence for the product design process, lack of full compliance with the procedural evidence if any, slack coordination between technical departments and Shariah committees, as well as lack, and sometimes poor level, of Shariah studies in some Islamic financial institutions.

From a legal point of view, however, there are several problems represented in the delay in the participation of Shariah professionals in the various stages of product design process and the different ways of their participation. Further, there is a shortage of Shariah talents qualified to support the product development process.

Furthermore, there is no Shariah specialist within the development team who is technically and administratively under the department of development in some cases, in addition to focusing on the procedural aspects rather than the Shariah-based purposes and the economic aspects.

The development process cannot take place in isolation from the development of the financial sector itself. It is very difficult to make significant progress in this aspect unless many aspects that govern and regulate Islamic finance and its environment are changed, such as legal, supervisory and legislative aspects, and cadres of highly qualified technicians, etc. Accordingly, the development methods and approaches would change.

Of course, these are not all challenges as there are many other challenges facing the Islamic finance industry, including: lack of benchmarks for pricing Islamic financial products, which depend on the benchmarks used for conventional financial products.

Chapter

2

Islamic Finance in the Kingdom of Saudi Arabia

Emergence, Development and Future

1/2/1
History of Islamic Finance in the Kingdom

The Kingdom of Saudi Arabia has remarkable early efforts in supporting Islamic finance, since it has established, financed and hosted the Islamic Development Bank. In 1969, the Kingdom's effective historical connection to Islamic finance emerged after the first Islamic conference was held in that year. The conference recommended the establishment of the Islamic Development Bank, which was achieved in 1975. The Kingdom contributed to the bank's capital by 24.86%, hosted its permanent headquarters in Jeddah, and financed the costs of its establishment with SAR 50 million.

After the establishment of the Islamic Development Bank, the Faculty of Economics and Administration at King Abdulaziz University in Jeddah organized the 1st International Conference on Islamic Economics at Makkah Al-Mukarramah in 1976. One of the most important recommendations of that conference was that King Abdulaziz University establishes a scholarly center for the study of Islamic economics, to be supervised by a supreme committee that has an international capacity, and includes senior scholars and professors specialized in Shariah, and that a curriculum of Islamic economics be taught in Arab and Islamic universities.

In implementation of the conference's recommendation, the Islamic Economics Research Center (currently the Institute of Islamic Economics) was established in mid-1977 after it had been a research center for 37 years. It attracted a group of the early pioneers in Islamic economics who have actively contributed to the creation of a new type of Islamic economics literatures.

Imam Mohammad Ibn Saud Islamic University (IMSIU) in Riyadh taught the curriculum of Islamic economics in 1977. It established the Department of Islamic Economics at the Faculty of Shariah in 1979. After approving the establishment of Umm Al-Qura University in Mecca in 1981, an Islamic economics department was inaugurated there. In 1981, the Islamic Research and Training Institute (a member of the Islamic Development Bank Group), was established. The institute commenced its activities in 1983.

After three decades of work in the Islamic Economics Research Center and the Islamic Research and Training Institute, along with the support of a number of research centers specialized in Islamic economics, Islamic economics has spread as an independent discipline. Global and regional capitals, such as: London, Dubai, Kuala Lumpur, Manama, and others, began to compete in the field of Islamic finance industry so as to take the lead in such an industry.

1/2/2
Kingdom's Contribution to Islamic Financial Assets

The Kingdom of Saudi Arabia is one of the largest contributors to Islamic financial assets around the world. According to the report of the Islamic Financial Services Board (IFSB) issued in July 2020, the Kingdom's contribution during the third quarter of 2019 accounts for 24.9% of the total Islamic financial assets globally. This large percentage is due to the Kingdom's great interest in the financial sector in various fields. It benefits from the infrastructure of the Saudi economy, which enjoys government support, and has the potential for achieving development and finding the means of prosperity and well-being for its citizens and residents. According to the report of the Islamic Financial Services Board (IFSB) issued in 2019, 10 countries have acquired 93.7% of the world's Islamic financial assets, with Saudi Arabia ranked second.

The Kingdom's contribution to Islamic finance was supported by the contributions of a number of Islamic financial institutions owned by Saudi businessmen, including: Prince Mohammad Faisal Bin Abdulaziz Al Saud, who founded Dar Al-Maal Al-Islami Trust (DMI) in Switzerland in 1981, and Sheikh Saleh Abdullah Kamel, who founded Al Baraka Investment and Development Company in 1982. Later, Al Baraka Investment and Development Company transformed into Al Baraka Banking Group, which owns more than 40 Islamic banks and financial institutions, and whose assets exceeded USD 25 billion at the end of 2018. The group has branches in many countries throughout the world.

The Saudi Central Bank directed financial institutions in Saudi Arabia to operate according to a model that responds to the demand for Islamic financial services, and allows Islamic financial institutions to work alongside conventional financial institutions. The model also creates an opportunity for conventional financial institutions to practice Islamic finance through

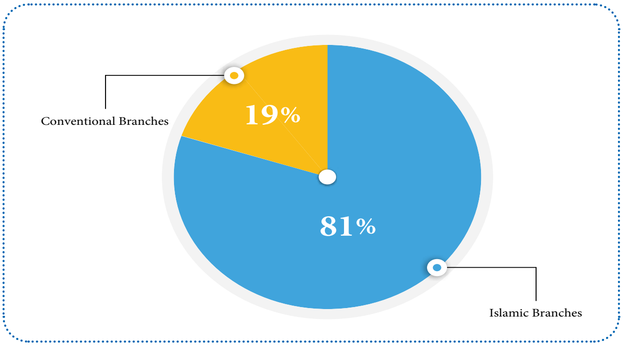
Islamic windows, provided that the same regulations and laws shall be applied to all financial institutions.

Currently, there are four fully Shariah-compliant banks operating inside the Kingdom of Saudi Arabia, namely Al Rajhi Bank, AlJazira Bank, AlBilad Bank, and Alinma Bank. These four banks together represent 36% of the total number of the national banks operating in the Saudi market amounting to 11 banks.

The total number of the branches of the four Islamic banks reached 930 at the end of 2019, representing about 45% of the total branches of all banks in the Kingdom, amounted to 2071 branches in the first quarter of 2020. The assets of these banks together represent 27.8% of the total value of banking assets in the Kingdom.

In addition to these banks, there are many Islamic windows in conventional banks, which formed, beside the aforementioned four banks, the Islamic banking system in the Kingdom of Saudi Arabia. They had 1,672 branches at the end of 2019, including 930 Islamic bank branches, and 742 Islamic windows in conventional banks. According to these figures, the Islamic branches represented 81.4% of the total number amounting to 2,053 bank branches operating in the Kingdom as of the end of December 2019.

Fig. 5: Islamic branches in Saudi banking sector[(1)]



The Islamic financial sector in the Kingdom of Saudi Arabia is distinguished by solvency. The capital adequacy of the risk-weighted assets in this sector

(1) *Prepared by: Study Team.*

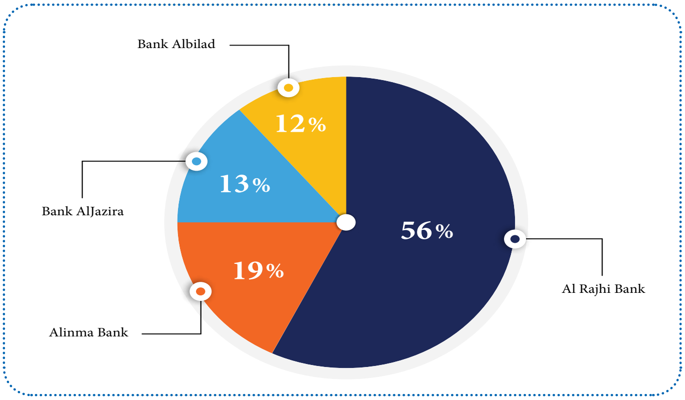
reached about 20.3%, exceeding the recommended ratio of the International Basel Committee Standards.

Moreover, the Islamic financial sector in the Kingdom of Saudi Arabia is distinguished by its financial performance. Despite the small number of Islamic banks in the Saudi market, they, according to financial reports, accounted for more than 53% of the total assets of Saudi banks. The rate of return on their assets reached 4.3% compared to 3.4% for conventional banks. Al-Rajhi Bank achieved the highest rate of return among Saudi banks, ranging between 6-7% during the years 2013-2014, respectively.

Islamic financing transactions grew by 16.3% during the period between 2007-2012. At the same time, growth of lending transactions in conventional banks was limited to 9.8%. The largest market share in financing services was held by Al-Rajhi Bank and amounted to 17.1%. Also, Al-Rajhi Bank ranked second in the market share of deposits, with a rate of 16.7%, after the National Commercial Bank, which ranked first achieving 20.7%.

According to financial reports issued in 2019, Al Rajhi Bank acquired the largest share of the banking market by assets, reaching 32.9% in 2019 compared to 27.9% in 2018. Besides, the bank's share among the four Islamic banks is about 56%.

Fig. 6: Distribution of market shares of Saudi Islamic banks in the fourth quarter of 2019, by assets[1]



(1) *Saudi Central Bank.*

1/2/3
Islamic Finance Legislation in the Kingdom

General framework of legislation:

The Islamic financial institutions originated in a number of countries and accordingly the laws, regulations and legislation governing their work differed from one country to another. This difference created a challenge for Islamic finance, as it led to the different rules applied by the monetary authorities in each country to these institutions. For example, the methods of control and supervision, the monetary policies, and the financial instruments in use differ from one country to another, as each country has its own laws derived from its legislative environment.

Also, this difference led to discrepancies in the legislation governing the relationship of Islamic financial institutions with supervisory authorities and other conventional financial institutions. This resulted in the Islamic financial products being incompatible with these systems, with regard to the nature of products and the procedures for resolving banking disputes before courts. For example, the laws of some countries do not recognize Mudarabah deposits, and thus the laws in these countries provide for the guarantee of the deposit by both Islamic and conventional financial institutions. For this reason and others, the Islamic financial institutions resorted to Murabahah deposits in a number of its activities.

In addition, the law does not stipulate that the regulations of Islamic financial institutions, or the provisions of Shariah, shall take priority when conflicting with one of the law provisions. Even if some laws provide for this priority, they do not indicate the limits of its application.

One of the negative effects of such a difference in laws is the confusion it causes for those dealing with these financial institutions, particularly when lacking transparency and disclosure.

The monetary authorities in Saudi Arabia chose to respond to the market forces represented in the desire of a wide segment of bank customers to deal in Islamic financial services through a financial model that allows the activities of Islamic financial institutions. According to this concept, Islamic financial institutions in the Kingdom of Saudi Arabia have become part of the financial system supervised by the Saudi Central Bank and the Capital Market Authority, and are liable for the laws regulating financial work in general.

The system adopts directives related to the foundations of Islamic finance and its application in general. These directives are represented in specific contexts forbidding Riba (usurious transactions) and Gharar (uncertainty) as being prohibited transactions that shall be avoided by Islamic financial institutions subject to the provisions of Islamic Shariah. This was also followed by the great support provided for Islamic finance represented in the *"Shariah Governance Framework for Local Banks Operating in Saudi Arabia"* issued in 2020 within the financial sector development program, one of the Kingdom's vision 2030 programs.

Legislative directives issued by the Saudi Central Bank:

The Saudi Central Bank exerted great efforts in this field represented in issuing many legislative directives based on its controlling and supervisory role over commercial banks in accordance with its Charter issued in 2020, the Currency Law issued in 1959, and the Banking Control Law issued in 1966. These laws provided the Saudi Central Bank with wide flexibility to take appropriate decisions to maintain the integrity of commercial banks and ensure their financial solvency.

Saudi Central Bank's full membership in the Islamic Financial Services Board (IFSB) since 2002 embodies its interest in Islamic finance. This is why, in 2005, the bank formed a committee to submit proposals on the performance of Islamic finance. Saudi Central Bank also established a department for Islamic financial training at "The Financial Academy" in that period to provide specialized training for its employees and the employees of Islamic and conventional financial institutions. Moreover, Saudi Central Bank provided the opportunity for Islamic financial institutions to work with conventional financial institutions, and allowed the Islamic branches and windows to be operated in conventional financial institutions.

One of the forms of Saudi Central Bank's interest in Islamic finance is organizing workshops that address various topics related to Islamic finance industry, along with paying special attention to the international prudential control standards, such as: the standards of Basel Committee on Banking Supervision, the standards of the Islamic Financial Services Board, and the supervisory regulations of the General Council of Islamic Banks and Financial Institutions, which aim at supporting and developing the Islamic financial services industry. This coincides with adherence to those standards related to the application of the best practices used globally in various areas.

Further, obtaining the membership of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) by the Saudi Central Bank in October 2017 is a qualitative addition that raises the Saudi Central Bank's level of interest in Islamic finance. This confirms the bank's desire to regulate this vital sector, which contributes to supporting the Saudi economy through providing financial resources, supporting small and medium enterprises, and participating in the development of the financial market, paying special attention to financing infrastructure projects through the use of Islamic Sukuk.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is one of the international organizations supporting Islamic financial institutions. AAOIFI was established in 1991 and is headquartered in Bahrain. It has the support of central banks and supervisory authorities.

Islamic Finance Division:

In light of the aforementioned efforts, the Saudi Central Bank established the "Islamic Finance Division" in 2017. It deals with the Islamic financial sector, studies opportunities, addresses challenges, provides suggestions and supervisory policies. Also, it participates in qualifying human cadres and spreading awareness of Islamic finance through workshops, training courses and researches related to individuals' lives and financial needs. This helps achieve growth and increases per capita income in accordance with the Saudi Vision 2030.

Shariah Governance Framework:

Saudi Central Bank's interest in Islamic banks was clearly demonstrated by the issuance of the *"Shariah Governance Framework for Local Banks Operating in Saudi Arabia"*, in February 2020. It is a set of rules intended for improving the operational efficiency of Islamic banks, increasing investments and raising confidence of stakeholders.

The Shariah Governance Framework aims at enhancing the environment of compliance with the Shariah provisions and principles inside the Islamic banks in general. It also defines the duties and responsibilities of the Board of Directors, Executive Management, Shariah Committee, and Internal Control Departments, in addition to a number of other aspects related to compliance with the provisions and principles of Shariah.

It is noticeable that this framework contains articles that contribute to creating an efficient legal environment and Islamic banking practices. For example, Article 17 - addressing Islamic window operations - states that each bank shall ensure that adequate internal control systems and tools are in place to properly separate Shariah-compliant assets and finance sources from those assets and finance sources that are not compliant with the Shariah principles and provisions. Further, the article stipulates that the bank shall keep a separate accounting record for Islamic banking operations. It requires each bank to prepare separate financial statements for its Islamic banking operations along with its periodical financial statements at least on a monthly basis, and to conduct an internal audit at least once a year. Article 18 tackles the development process of Shariah-compliant products, stating that the development process should be comprehensive, sufficient, and Shariah-compliant.

1/2/4
Islamic Finance in the Financial Sector Development Program as a Saudi Vision Programs

Saudi Vision 2030:

The supervisory authorities in Saudi Arabia have implemented a set of regulatory reforms to restructure the economy as part of their efforts to align the Kingdom's economy with global economic reforms, within the framework of Kingdom's Vision 2030. The vision pillars include enhancing the effectiveness of the financial sector contribution by providing financing to small and medium enterprises through the Financial Sector Development Program (FSDP).

This vision gains importance from being issued at a time when the global economy was suffering from a recession due to low performance of emerging economies, as indicated by the International Monetary Fund in its report: "*World Economic Outlook Update*", issued in January 2019.

The Kingdom's economy is among the world's top 16 economies in terms of GDP. The Kingdom possesses huge investment capabilities and large financial resources. Its distinguished geographical location is considered a hub connecting three continents, and surrounded by the world's most important water crossings. Also, the Kingdom has a special religious significance for millions of Muslims around the world.

These inputs give importance to the Kingdom's vision making it a realizable dream and an attainable goal through the government support so that the Kingdom's economy can continue to be among the world's top 16 economies in terms of GDP. The Kingdom ranks fourth among the G20 countries with regard to foreign reserves which amount to USD 489.3 billion, after China, Japan and Russia. The Kingdom of Saudi Arabia has held the presidency of the G20 in 2020 and hosted the summit on November 21 and 22, 2020, via video conference due to the coronavirus (COVID-19) pandemic.

The Kingdom's Vision objectives include: Bringing about a radical change in the restructuring of the economy, reducing the Kingdom's dependence on the oil sector, and promoting the development of the private sector to stimulate the local economy in light of the promising estimates of the Ministry of Economy expecting the GDP to reach three times of its current value by 2030. This depends on the satisfaction of significant funding requirements for the projects and investments of the Vision program. Accordingly, a detailed evaluation of these requirements has begun to determine the size of the gap to be closed by pivotal initiatives.

Concept of the financial sector development program:

The Financial Sector Development Program (FSDP) is one of the executive programs launched by the Council of Economic and Development Affairs (CEDA) on 21/7/1438 AH (corresponding to 12/24/2017). It aims to achieve the targets of the Kingdom's Vision 2030, and develop the financial sector through diversifying its resources, enhancing its role in supporting the national economy, increasing its efficiency to meet challenges, and stimulating savings and investments.

The program is designed to comply with the international standards for financial stability, including the requirements of the Bank for International Settlements (BIS), the International Organization of Securities Commissions (IOSCO), and the international credit rating agencies. The program gains its importance from its expected role as an active participant in supporting and achieving a number of strategic objectives of the Kingdom's Vision 2030.

The structure of financial sector development program is based on three main pillars:

1- Enabling financial institutions to support the private sector to promote the diversity of financing by building an advanced financial infrastructure based on developing the capabilities of workers in this sector.
2- Developing an advanced financial market by facilitating the provision of financing to both the private and public sectors, and using digital platforms

to highlight the investment advantages available in the Saudi market and the facilities provided by the Kingdom to motivate investors in a safe environment that supports financial stability and transparency.

3- Promoting financial planning for individuals and families to raise the level of their saving awareness through a new system of values, concepts and cognition to contribute to reducing irrational consumption, by introducing innovative ways that contribute to increasing savings and raising the level of financial awareness.

Challenges of the financial sector development program:

The financial sector development program, like other new programs, faced some challenges, including the limitation of financing to the banking sector and the exclusion of other financing sectors, which provided weak financing contributions. Therefore, the program made it a priority to address this challenge and diversify financing in other sectors, as adopted by many countries of the world.

Among these challenges is the low rate of savings among individuals in Saudi society. This percentage does not exceed 2.4% compared to the global average reaching about 10%. The percentage of savers in Saudi Arabia does not exceed 30% of the total population, one of the lowest rates of savings in the GCC countries. Moreover, there is a relative weakness in the level of comprehensive coverage of financial services in Saudi Arabia. The percentage of those dealing with banks reached about 74% in 2016 of the total population, compared to 90% in developed countries.

It is expected to increase the percentage of financial inclusion through banks by increasing the financing provided to small and medium enterprises and increasing the volume of mortgages through banks in light of the results achieved in 2016. The percentage of financing small and medium enterprises reached more than 5% of the total assets of banks while the percentage of financing for mortgages reached 7%.

Another challenge facing this program is the widespread use of cash payment methods by individuals in Saudi Arabia. Therefore, it is hoped that one of the results and outputs of the program will be to replace these methods with modern payment methods, such as digital payment systems of various kinds so that the percentage of non-cash payment methods may reach 28% of the total payments by the end of 2020. It is hoped that the program will overcome these challenges and achieve its desired goals.

Aspirations of the financial sector development program:

The financial sector development program charter and delivery plan indicate that an array of commitments shall be met in order for the program's aspirations to be achieved in 2020. The pillars of this array will help realize the Vision 2030 through a set of commitments as follows:

1- Increasing the total volume of financial assets to GDP to 20.1% in 2020 compared to 19.2% in 2016 to ensure the required growth in the financial services sector.

2- Increasing the share of capital market assets (total market value of local shares and outstanding debt issues registered in the market) in the financial sector from 41% in 2016 to 45% in 2020. In addition, the financial services sector will open its doors to emerging players, such as the financial technology (*Fintech)* companies, to stimulate innovation and growth, and diversify the structure of the financial services sector.

3- Increasing the share of financing small and medium enterprises in banks from 2% to 5% in 2020. The share of mortgages in banking finance will also be raised to 16% by 2020, compared to 7% in 2016.

4- Increasing the share of non-cash transactions from 18% in 2016 to 28% in 2020, with the aim of achieving ambitions related to modern technologies, particularly the cashless society.

5- The program adheres to international standards related to financial stability, including the requirements of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO) in order to ensure comprehensive financial stability of the financial services sector.

6- The program aims at establishing an independent national entity in order to promote savings accounts, to be responsible for distributing government-backed retail savings products. Also, the program includes implementing a Kingdom-wide financial literacy program to encourage various generations to saving.

Outputs of the financial sector development program:

The program was developed more than three years ago; however, many achievements have been realized during this short period. Over time, it is hoped that the program will achieve other goals. One of the first outputs of the program is the increase in financing provided by banks and financial institutions to small and medium enterprises from 2% in 2016 to nearly 5% in 2019. In addition, some initiatives have emerged that can increase the volume of financing provided by banks and financial institutions in the banking and insurance sectors in the Saudi market. This includes, for example, the initiative to merge the Saudi British Bank (SABB) with Alawwal Bank (previously known as Saudi Hollandi Bank), and the initiative to merge the National Commercial Bank with Samba Financial Group. These mergers aim primarily to form strong financial entities that can face increasing competition, and meet the financing needs of the economic sectors. This may be a positive indication of the implementation of the program's objectives in terms of increasing the financial assets of these institutions.

Moreover, one achievement of this program, as announced by the Saudi Central Bank, is the increase in the rate of electronic payments for the retail sector (individuals) by the end of July 2019 to reach more than 36% of the total payment processes in the Kingdom, including cash payments. This exceeds the target percentage within the financial sector development program stated in the charter to reach 28% in 2020.

A variety of electronic payment methods was used, such as card payments which reached 31.3%, SADAD payment system, and money transfers. The bank credit ratio for both public and private sectors increased, compared to previous years, by 7.6% annually as of the end of December 2019.

The program's outputs include the approval of the Capital Market Authority (CMA) Board to the amendments to the rules on the offer of securities and continuing obligations (offering rules) that came into force as of the 1st of January 2020. The amendments to these rules include, but not limited to, allowing foreign companies to list their shares in the local market, and allowing all categories of foreign investors to invest directly in the shares of the foreign issuer whose shares are listed in the main market. This is in addition to the fact that the investment restrictions imposed by the Capital Market Law and its implementing regulations do not apply to the investments of foreign investors in foreign companies listed on the local market.

Islamic finance in the financial sector development program:

Due to the growth and spread of the Islamic finance industry around the world, the Saudi Central Bank paid much attention to the impact of Islamic financial institutions in feeding the Saudi economy with additional financial resources through providing finance to small and medium enterprises and individuals, especially after the conversion of some Saudi banks to Islamic banking. Therefore, the Saudi Central Bank authorized all conventional banks in the Saudi market to open Islamic branches and windows. Accordingly, Saudi financial institutions have offered Shariah-compliant financing products, based on the supportive business environment provided by the Saudi Central Bank.

The financial sector development program charter (delivery plan 2020) exemplifies this concern. That is, under the topic *"Islamic Finance Focus"*, within the strategic considerations, it is stated: "The program considered two options to define the right focus to further enhance the Islamic finance offerings in the Kingdom." The decision taken states: "Enhancing the Islamic finance offerings in the Kingdom is among the key objectives of the program. The program considered two options to achieve this goal: an explicit initiative focusing solely on Islamic finance vs. relevant initiatives focusing on enhancing right Shariah-compliant products within their domain. The program decided to go with the second option. Initiatives focusing on enhancing the current product offering (e.g., debt capital markets, savings products) will define right mechanisms to provide the necessary Shariah-compliant offerings. This will enable the correct specialization within each domain and avoid overlap/cannibalization with conventional products that will be offered."

Due to the interest and support provided by the Saudi Central Bank, Islamic financial institutions, like other financial institutions, are required to participate in achieving the Kingdom's Vision 2030 within the pillars of the financial sector development program. The program aims to empower this industry and enhance its governance, support researches, and organize symposiums and conferences that establish the basis for this experience, based on the opinions and knowledge of participating experts and interested parties around the world, in order to achieve the development and sustainability of the Islamic finance industry in the Kingdom.

The Financial Sector Conference, which was organized by the Ministry of Finance, the Saudi Central Bank, and the Capital Market Authority in April 2019 in Riyadh, as one of the initiatives of the financial sector development program, illustrates the support directed to this sector through the issues raised and the working sessions aimed at strengthening the Kingdom's financial position globally, as one of the largest financial markets in the Middle East, according to international reports. This helps as a stimulating factor for foreign investment.

The importance of this conference lies in that it is the first of its kind, and thus it is hoped that other conferences will be held. The conference took place 11 months after the launch of the financial sector development program. It dealt specifically with Islamic finance in its discussions and sessions. That is, out of its 6 main topics, the conference allocated an entire topic to Islamic finance, discussing the role that Islamic finance can play in creating a stable and sustainable financial sector in the Saudi environment.

In order to achieve the objectives of the financial sector development program represented in the formation of strong financial entities that adhere to the international standards and meet the requirements of individuals as well as small and medium enterprises, the Saudi Central Bank, in cooperation with the Islamic Financial Services Board (IFSB), organized a training workshop entitled: *"Facilitating the Implementation of IFSB Standards (FIS)"*.

The workshop is designed to familiarize the participants with the IFSB standards related to banking sector, such as: capital adequacy requirements, risk management, and core principles for Islamic banking supervision related to the investment accounts (Mudarabah and Murabahah deposits) in Islamic banks.

Among the objectives of the workshop is to familiarize the participants with the guidelines issued by the Islamic Financial Services Board (IFSB) on investment accounts in Islamic banks and the protection of account rights. This is to promote the participants' understanding of the standards and controls of Islamic finance, and share experiences between the Gulf and Arab central banks applying the IFSB standards.

In support of digital transformation in the financial sector, in line with the objectives and benefits of the financial sector development program, the Saudi Central Bank announced its authorization for other 9 companies in the field of financial technology (*Fintech*) to work under the umbrella of the Regulatory Sandbox, bringing the total number of authorized companies to 30.

This step comes within the framework of building a system concerned with enhancing the culture of financial planning and increasing the savings rate in the Kingdom. This reflects the positive impact on the quality of life of individuals and families in particular, and on the strength of the economy in general, in addition to supporting entrepreneurial business and sponsoring small and medium enterprises.

Section

II

Bank AlJazira

Pioneer of Transformation into Islamic Finance

Preface

Islamic finance came to existence in one of the following two main ways:

First: Establishing Shariah-compliant financial institutions. This appeared through a number of Islamic banks, with the aim of finding Shariah-compliant alternatives.

Second: Transforming the operating conventional financial institutions into Islamic finance, either through a complete transformation of all the institution's activities or through a partial transformation by providing Islamic financial services through windows.

The idea of transformation from conventional finance to Islamic finance is the best way to avoid Riba (usurious transactions). This is due to the lack of technical problems facing the transformation process. In this regard, Dr. Mohammad Al Qari, one of the most prominent experts of Islamic finance, confirms: "The establishment of more Islamic banks was not able to remove Riba from Islamic societies as long as the conventional banks, which are the oldest and strongest in the banking sector, exist and their activities grow. Since the desired goal is to remove Riba from the Islamic society, it is necessary to find a more feasible and closer solution to achieve that purpose.

Bank AlJazira is distinguished as being the only bank in the Kingdom of Saudi Arabia, and indeed in the world, that has transformed all its activities from conventional finance to Islamic finance. This is why it deserves to be called: "Pioneer of Transformation into Islamic Finance".

This section of the study documents Bank AlJazira's experience and studies its various aspects. This constitutes a rich material that can be benefited from in the experiences of transformation into Islamic finance.

Therefore, discussing, studying and applying the transformation experience are important in order to benefit from this experience, analyze it, measure its success and avoid its problems. This is in addition to reaching a mature stage and a proposal that is free of defects and irregularities.

Chapter

1

Bank AlJazira's Transformation into Islamic Finance

Foundations and Principles

2/1/1
Transformation into Islamic Finance (Conceptual Introduction)

Before presenting Bank AlJazira's experience in transformation into Islamic finance, it is important to clarify the semantic concept of the term (Transformation), which can be defined as: "Abandoning Shariah non-compliant activities and transforming into Shariah-compliant transactions".

Partial transformation to Islamic financial products is not sufficient to state that an institution has transformed into Islamic finance. The transformation shall be complete by developing Shariah-compliant transactions to replace all Shariah non-compliant transactions in accordance with Item (2/2) of the Shariah Standard No. (6) regarding Conversion of a Conventional Bank to an Islamic Bank, issued by the Shariah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Comprehensive or complete transformation must include all branches and financial products. This requires changing and modifying all conventional transactions into Shariah-compliant transactions. Hence, the financial institution has to eliminate Shariah non-compliant financial resources, including interest-bearing cash deposits.

These deposits include time deposits, savings deposits, as well as loans received by the conventional bank from other conventional local or correspondent banks or from the central bank based on a percentage of interest. Complete transformation also includes the abolition of financial transactions involving Riba (usurious transactions) or Gharar (uncertainty), and the prohibition of financing or investing in Shariah non-compliant activities.

Bank AlJazira's decision to transform into Islamic finance was clear since its first day. It was to adopt comprehensive and complete transformation into Islamic finance. The bank's vision was: "To make Bank AlJazira a basis for

Islamic banking". After the transformation, the vision was modified: "To be recognized as the best Shariah-compliant bank in Saudi Arabia, providing Shariah-compliant products for our chosen business segments".

2/1/2
Transformation into Islamic Finance (Reasons and Motives)

Bank AlJazira's decision was based on a number of reasons and motives, which can be summarized as follows:

1- Conviction for Islamic finance:

One of the most prominent reasons and motives for the transformation decision of Bank AlJazira is the firm conviction of the owners and shareholders of the bank that it is the right choice for the bank to act in compliance with the provisions of Shariah, which requires to abandon and eliminate the prohibited financial transactions, particularly Riba.

In this regard, Allah, Exalted be He, says:

{"..whereas Allah has permitted trading and forbidden Riba (usurious transactions).."}(1)

And His saying:

{"O you who believe! Fear Allah, and forgo what remains of Riba (usurious transactions), if you are believers. And if you do not, then be informed of a war (against you) from Allah and His Messenger. But if you repent, you may have your principal - (thus) you do no wrong, nor are you wronged."}(2)

The owners and shareholders of Bank AlJazira had this conviction when transformation decision was issued. Among the most prominent shareholders who participated in the issuance of a decision by the Board of Directors regarding the importance of Islamic finance was Al Baraka Banking Group. At that time, it was owning a significant share in Bank AlJazira and wanted

(1) Surah Al-Baqarah (The Cow): 275.
(2) Surah Al-Baqarah (The Cow): 278-279.

to obtain a license to operate in Saudi Arabia. Its share in the bank became a means to achieve its goal of transforming Bank AlJazira into Islamic finance. This was suggested by Sheikh Saleh Abdullah Kamel and accepted by the rest of owners, shareholders and members of the Board of Directors, especially Abdul Monem Al Rashed Group, which was represented at that time by the CEO.

2- Demand for Islamic financial products:

The increasing demand from all segments of society, be they individuals or institutions, for Islamic financial services and products was one of the deciding factors when the transformation decision was taken. This is because the violation by conventional banks of the values and principles of the society is one of the challenges faced by Islamic societies. Therefore, social dimensions were among the most prominent factors that prompted many conventional financial institutions to transform into Islamic finance.

Although the Kingdom of Saudi Arabia has both conventional banks and Shariah-compliant banks, the latter have witnessed significant growth. The increasing demand for Shariah-compliant products has become a decisive factor in driving this transformation. This created an economic opportunity for Bank AlJazira, which was in the process of comprehensive financial restructuring to get out of the major financial problems it faced for various reasons at the time before the decision to transform.

2/1/3
Bank AlJazira's Approach to Transformation into Islamic Finance

When Bank AlJazira began planning for the transformation process, there was no previous experience of comprehensive transformation from which the bank could benefit or upon which it could rely. Thus, it relied on the work of other Islamic financial institutions as a ready-made model for study. After studying the experiences of these institutions, the bank developed an appropriate strategic plan without affecting the performance of the bank's operations and customers.

The experiences studied by the bank were those related to banks that were fully established as Shariah-compliant banks, or banks that had a plan for gradual transformation of the bank as well as its management, branches and products but the plan had not then completed, or branches and products that had been partially transformed into Islamic finance.

Therefore, the idea of Bank AlJazira's transformation into Islamic finance focused on determining the appropriate method followed by the bank to realize comprehensive transformation while avoiding expected problems and difficulties.

After the bank's decision to transform, and the formation of the executive committee, responsible for developing the transformation plan, it was necessary to choose the transformation approach and the appropriate transformational process to achieve this desired goal without affecting the bank and its previous achievements.

The committee had to choose one of two approaches as being the appropriate basis for the transformation plan.

(a) Parallel line approach:

It means to establish an emerging new Islamic institution within the existing conventional institution desiring to transform. The emerging institution shall have independent capital (in the form of an interest-free loan provided by the existing institution), independent management, new customer base, and special products. This approach is called partial transformation, and is applied in accordance with the parallel line principle. This includes the expansion of the Islamic financial services at the expense of conventional services so that the emerging institution operating within the existing institution grows over time and increases the volume of its activities at the expense of the activities of the existing institution, until the transformation process is completed.

This approach was applied by some financial institutions that separated the Islamic financial services into a separate financial entity having its own financial statements, management and independent branches.

This approach is attractive to customers because it shows the Islamic finance department as a separate department in a conventional institution. However, it is not suitable for being a transformation approach adopted by financial institutions wishing to fully transform into Islamic finance because it involves many negatives and risks, the most important of which are:

1- The negative competition between the conventional department and the Islamic department for the institution's customers. Each department tries to expand at the expense of the other and maintain its customer base. This leads to the continuation of conventional finance in the institution and may confuse the work of the two departments, let aside the potential failure of the transformation process.
2- The negative impact on the relationship among the employees of the same institution, as the employees of the conventional department may think that they will lose their jobs to the employees of the Islamic department.
3- Weakening the transparency and independence of the institution's board of directors and reducing its commitment towards its customers through transformation. This may result in abandoning the transformation process altogether.

(b) Replacement approach:

It means that the conventional institution wishing to transform into Islamic finance sets a time and technical plan to replace the conventional products with Islamic products. This is called a phased or gradual transformation. If this approach is applied, the financial institution will, at the end of the transformation process, be an Islamic financial institution, according to gradual steps.

This approach depends on examining and classifying products to find out the percentage of Islamic and conventional services therein. Then, necessary amendments are to be made, giving priority to products according to the possibility of finding Islamic alternatives that may gradually replace them.

This approach is the one chosen by Bank AlJazira due to its advantages. Since the process of transformation, according to this approach, takes a long period of time, Bank AlJazira did not announce from the very beginning of adopting this approach that it is an Islamic bank. Rather, the bank announced that it has a plan for gradual transformation.

Advantages of the replacement approach:

The advantages of this approach can be summarized as follows:

1- Replacing products by current bank employees working in the conventional products after being trained on Shariah-compliant products under the supervision of the Shariah Group of the financial institution and the Department of Islamic Banking Services in the bank. This prevents confusion among the employees of the institution as all of them will continue in their jobs.

2- Spreading concepts of Islamic finance among all employees of the bank, as all of them will seek the same goal, namely transforming the bank's conventional transactions into Shariah-compliant transactions. All activities of the bank then shall be subject to the provisions of Islamic Shariah.

3- Creating positive competition within the bank, as each department will strive to transform its transactions into Shariah-compliant transactions before other departments.

4- Finding and developing Shariah-compliant instruments to replace the conventional ones.

5- Maintaining the bank's current customer base.

Steps of replacement approach:

This approach is based on several steps, the most important of which are:

1- Reviewing and classifying all existing products and services of the institution according to their compliance with the provisions of Islamic Shariah.

2- Approving the current Shariah-compliant products after making some amendments thereto, if required, by the Shariah Group of the financial institution.

3- Arranging Shariah non-compliant products based on the availability of their Shariah-compliant alternatives.

4- Setting a specific plan to develop a group of Shariah-compliant alternatives to replace the conventional products, and act accordingly. Examples of the alternatives that have been used in Bank AlJazira include: "Naqa" product (reverse Murabahah) as an alternative to time deposits, "Dinar" product for Tawarruq-based finance, and "Tamam" product for trading in shares through Murabahah-based finance.

5- Changing the institution's articles of association in accordance with the provisions of Islamic Shariah.

6- Forming a Shariah committee to direct and monitor the transformation process of the financial institution, and forming a supporting Shariah group to help it achieve its goals.

7- Terminating as many Riba-based contracts as possible, determining the end of the contracts that cannot be terminated immediately, and refraining from entering into new contracts implying Riba (usurious transactions) or other prohibited transactions.

8- Holding training courses for the employees responsible for contracts in accordance with their specializations.

9- Developing Shariah-compliant products that cover the needs of financial market.

Evaluation of the replacement approach:

Some questions regarding the approach adopted by Bank AlJazira to transformation into Islamic finance may arise, as follows:

- Is this approach compatible with the purposes of Shariah?
- Is it permissible to form a bank's capital from illegal sources, as some of the bank's sources are still in the process of transformation from Riba-based sources?
- How can delay in repentance and abandonment of forbidden transactions at once be justified?

These questions can be answered as follows:

1- The gradual approach to transition of individuals, institutions, or societies from one status to another is an authentic Shariah-based approach, particularly with the embarrassment and hardship that call for facilitation due to being related to customers' rights, money, contracts, and to the nature of the transformation process itself.

Some examples of using gradual approach in the provisions of Shariah include: the graduation obligation of Prayer and Fasting, and the gradual prohibition of wine and Riba (usury). This is also based on a Shariah maxim regarding situations presenting a combination of benefits and harm where harm prevails and conflicts with benefits, stating:

"Benefits are to be realized and maximized, while harm is to be prevented and minimized. In cases of unavoidable conflict between two benefits, then the greatest benefit is to be realized by abandoning the lesser one. By the same token, if two kinds of harm combine and cannot be eliminated together, the most serious one is to be eliminated even if the lesser may not."

Item (2/1) of the Shariah Standard No. (6) regarding Conversion of a Conventional Bank to an Islamic Bank, states the following:

"It is necessary that all Shariah requirements be executed in the process of converting a conventional bank to a potential Islamic bank. It is also necessary that the Shariah rules and principles be observed in respect of all new transactions after conversion. In principle, the transactions that are concluded before the decision to convert must be ceased or disposed of immediately. It is not permissible to delay clearing out non-permissible transactions unless such delay becomes a necessity or a pressing need. Thus, the circumstances surrounding the conversion must be taken into consideration in order to avoid the risk of failure or a breakdown of the bank's operations, taking into account that the provisions of this standard will be applied to accommodate the situation."

The Fatwa of Al Baraka 16th Symposium, article (16/7), states the following:

"There is no objection to the gradual implementation of the Shariah requirements to convert into the Shariah obligations if circumstances surrounding the conversion of the institution necessitate so. This is to avoid the risk of failure or a breakdown of the bank's operations. Gradual conversion shall preserve the Shariah-based attribute with regard to prohibition, abomination, invalidity, or corruption of the practices whose abolition has been delayed in accordance with the graduation plan.

The basis for this ruling is that graduation is a specific means to realize this Shariah-based purpose. This is because the success of transformation process requires a lot of procedures that need many preparations, finding alternatives to prohibited applications, and qualifying human cadres for the correct implementation."

2- The regulations, laws and legislation do not allow for the sudden transformation or cancellation of contracts and obligations just because the bank's board of directors decides to transform. The original rule is that contracts are to be fulfilled.

3- The system of Islamic financial products is not complete or ready to be used to replace conventional products in one go.

4- If the owners of the conventional institutions, who built large institutions and accumulated wealth thereof, were told that they had to eliminate all of that and return from the beginning, this would have been an impossible challenge for them to overcome and a great obstacle to achieve this noble goal.

5- The results of the central banks' experiences unscientifically aimed at applying complete and comprehensive Islamic finance to all conventional financial institutions, and regressed later due to the difficulties of implementation. The most prominent example of this is Pakistan. This regression does not indicate the inadequacy of the option to transform into Islamic finance, but rather indicates the importance of gradual transformation and proves that it is the realistic option that should have been adopted from the beginning.

Chapter

2

Bank AlJazira's Transformation

Phases, Enablers and Challenges

Preface

The experience of Bank AlJazira's transformation was greatly distinct and successful. What makes this experience more meaningful is the visualization of the stages and phases through which the bank went through starting from its establishment, transformation process, and ending to its being a pioneering Islamic financial institution in the field. This chapter presents the phases and enablers of transformation, as well as challenges faced and overcome by the bank.

2/2/1
Phases of
Bank AlJazira's Transformation

Bank AlJazira has gone through a number of phases since its establishment until the time of preparing this study. They can be divided into three phases, as follows:

First phase: Bank AlJazira before transformation: Incorporation and establishment (1975-1997)

This phase extends from the bank's establishment in 1975 until 1997; the year that the bank made the decision to transform into Islamic finance. This phase can be summarized as follows:

The bank was established in the same form as some other local banks at that time. The bank owned the assets of foreign bank branches, such as: the National Bank of Pakistan branch, Citibank branch, Banque Misr branch. These branches, in proportion to their share in the capital, become shareholders in the new entities. The founders of Bank AlJazira chose to acquire assets in the National Bank of Pakistan, which became a 35% shareholder at that time. Saudi shareholders, including the founders, owned 65% of the new entity. The main objective of the participation of the Saudi investors in the banking industry then was to benefit from the previous experiences and practices in the new national banking entities.

The major founders include:

Sheikh Abdul Aziz Abdullah Al Sulaiman, the first founding chairman; Sheikh Mohammad Bin Saleh Bin Sultan, the second chairman of the board; Sheikh Abdul Raouf Mohammad Saleh Abou Zinada, Sheikh Abdul Kader Mohammad Al Fadl, Sheikh Mohammad Al Subaie, and Sheikh Abdullah Al Subaie, in addition to other elite businessmen.

The orientation of the Saudi businessmen towards the banking sector came as a result of the Saudi Central Bank's directives to convert foreign banks in the Saudi market to national banks and to adjust their ownership ratios. Accordingly, the shares of the Saudi party became 60% of the bank's capital, and the shares of the non-Saudi party became 40%. The capital had been divided into shares and the majority of the Saudi shares were offered for public subscription, and this ratio had to be observed in all banks. On this basis, the Saudi party keeps 60% even when the capital is increased in the future. Also, the directive of the Saudi Central Bank, in this regard, required that a single Saudi founder should own no more than 10% of the bank's capital shares and that the non-Saudi party should undertake the task of technical management of the bank for a period of eight years under a resolution issued by the Board of Directors, subject to renewal at the time.

Bank AlJazira was established on this basis on 12/6/1395 AH (corresponding to 21/6/1975 AD). The bank was initially incorporated as a joint stock company under the management of the National Bank of Pakistan, which was managing a number of branches in the Kingdom. The financial business at that time was mostly based on conventional finance. The competition was limited to the quality and effectiveness of services. Bank AlJazira managed to gain a good customer base at that time, which is an excellence in light of the financial circumstances of that period.

During this phase, the bank exposed to major financial crises that almost led to its failure. Part of the bank's assets turned into bad debts, which led to the implementation of several rescue operations, the last of which coincided with the second Gulf War (1990-1991). This war led to the decline of the Saudi stock market. Thus, the shareholders decided to increase the bank's capital. The underwriter was one of the owners, Sheikh Abdel Monem Al Rashed. The terms of the underwriters were not then what they are now. As a result, Sheikh Abdul Monem Al Rashed Group's ownership percentage in the bank increased to approximately 50%. Then, part of this share was sold to Dallah Albaraka Group and some companies in which Dallah holds the majority of shares. The total percentage of direct and indirect ownership of Al Baraka Group was 20%.

The bank was restructured in 1992, with two successive capital increases in 1992 and 1994 from the Saudi shareholders only. This led to a significant reduction in the ownership of the National Bank of Pakistan.

The bank was substantially restructured in 1993. As a result of this restructuring, a Saudi management took over the management of the bank. The CEO was able to remove the exclusive management of the Pakistani owner. Sheikh Abdul Moneim Al Rashed assumed the position of the chairman of the Board of Directors of Bank AlJazira, and Mr. Mishari Al Mishari became the CEO. At that time, the owners decided to transform the bank into Islamic finance. However, the opportunity was not favorable for the transformation due to the priority to handle the financial problems affecting the bank at that time, which caused the financial crises.

Therefore, the bank's management focused, during the period 1993-1997, on dealing with these the financial problems that caused the accumulation of losses. This corrective process was important and led to reducing losses, rationalizing spending and increasing expenditure efficiency. Accordingly, the number of bank branches was reduced and its employees who were working on the basis of seniority rather than competence were restructured. The bank began to attract qualified national cadres, and reorganize its policies and procedures to address many of the issues existed at that time.

At the end of this corrective phase, the bank succeeded to apply the latest technologies, introduce new financial products and services, and enhance the capabilities of its employees, which led to converting the bank from loss to profit in 1997.

Second phase: Bank AlJazira's transformation into Islamic finance (1997-2007)

The owners' orientation towards transforming the bank into Islamic finance appeared upon the bank's restructuring in 1993. But the transformation was delayed due to the bank's financial problems, which were addressed in 1997. In 1995, the board of directors employed a consulting firm to prepare a study on the transformation of the bank into Islamic finance. The study was prepared and included the plans and strategies for the bank transformation towards Islamic financial transactions.

After the study was completed and approved by the Board of Directors of Bank AlJazira, it was submitted to the Saudi Arabian Monetary Authority (Saudi Central Bank) for approval. The resolution of the Board of Directors was issued at the end of 1997 to start transforming the entire bank to Islamic finance. The year 1998 witnessed the beginning of the basic phase that paved the way for the bank's transformation from a conventional bank to a bank whose entire activities are Shariah-compliant.

In 1998, the Board of Directors decided to establish the Islamic Banking Services Department in the bank. The bank assigned the management to supervise the process of transforming Bank AlJazira into Islamic finance. This new department, in cooperation with the various departments of the bank, aimed to gradually transform the bank's conventional operations into Shariah-compliant operations, under the close supervision and control of an advisory committee that was formed in the same year.

The idea of transforming Bank AlJazira started to turn into reality in 2002. By the end of 2003, all the 17 branches of the bank became Shariah-compliant. Thanks to this great effort, strategic transformation and distinguished services, the bank achieved steady growth that enhanced its presence and image in the financial market. All of the bank's losses were amortized in 2002. The bank began to achieve profits and its capital stabilized that year without the need for any increases.

In the second half of 2002, the bank introduced a number of financing programs as alternatives to conventional transactions, including the "Dinar" program for cash financing for companies as an alternative to conventional cash loans. This program is based on Tawarruq transactions, and its total assets in October 2002 amounted to about SAR 129 million. "Dinar" program acted, in many cases, as an alternative to conventional overdraft transactions. Bank AlJazira was one of the first banks to introduce this product.

Other programs are "Tamam" for trading in shares, and "Naqa" as an alternative to time deposits. The bank also introduced the "Takaful Taawuni" program as an alternative to life insurance programs introduced in the conventional insurance industry. This was before instructions were issued to separate the insurance activity from banks.

At this phase of transformation, Bank AlJazira was the first bank in the Middle East to offer most of these Islamic products to corporate and personal customer. These and other products will be covered in detail later.

The bank achieved high profits from the program "Tamam" for trading in shares through Murabahah-based finance in 2003, although it was almost a year since its launch. This reflected positively on the reputation of Bank AlJazira, whether in terms of its compliance with the Shariah provisions or in terms of the financial business and services.

1n 2003, the transformation of all Bank AlJazira branches into Islamic finance was completed. The branches were limited to offering the Islamic financial products only, refraining from other conventional products. A certificate by the bank's internal audit department had been issued to confirm the transformation of all branches to offer Shariah-compliant services.

The most important part remained for the completion of transformation process was represented in transforming the bank's treasury operations and the rest of departments in the head office to be in compliance with Shariah.

In 2004, the bank managed to make great progress with regard to this process, as it increased Islamic financial products at the expense of conventional financial products. That is, the total portfolio of the Islamic financial products, at the end of 2004, amounted to 75% of the bank's total portfolio of financial products compared to 25% in previous years.

At the end of 2006, the bank reached the final steps of its transformation plan launched at the beginning of 1998. The bank has successfully completed the transformation process using the replacement approach, as mentioned above, based on gradual transformation. However, the bank faced problems hindering the transformation process due to the impacts of the remaining conventional formulas and contracts. The bank developed a plan to solve these problems within a limited period of time.

The plan included finding alternatives to conventional financing, selling all Shariah non-compliant shares and bonds, gradually banning trading in conventional shares, and annulling conventional long-term financing contracts. The bank managed to transform all of its operations except for the share portfolio owned by the bank in which about 0.0025% of the Shariah non-compliant shares were still held. Later, at the end of 2006, the bank returned all government development bonds to the government within the initiative of the Ministry of Finance to extinguish the public debt during that period as a result of the rise in oil markets.

The Shariah Committee and the Shariah Group of Bank AlJazira played an important role in the transformation process. This will be discussed later in detail in the *"Shariah Governance for Transformation into Islamic Finance"*.

Third phase: Bank AlJazira after transformation into a fully Islamic financial institution (2007-present)

In 2007, all the bank's operations and activities were fully transformed to be Shariah-compliant after completing the 9-year transformation plan. In the same year, the paid-up capital of the bank increased to SAR 3 billion due to the realized profits. With the completion of the process of transforming Bank AlJazira into Islamic finance in 2007, the bank became the pioneer of transformation into Islamic finance in the Kingdom of Saudi Arabia, and perhaps in other Arab and Islamic countries.

The bank's fully paid-up capital amounted to SAR 82 billion as of the end of 2019, divided into 820 million shares, with a nominal value of SAR 10 per share.

Table 5: The main developments of the bank during 1993-2019[1]

Year	Description
1993	Increasing the bank's capital from SAR 100 million to SAR 400 million through IPO.
1994	Increasing the bank's capital from SAR 400 million to SAR 600 million through a rights issue of shares at a price of SAR 225 per share, of which SAR 100 was a nominal value.
2004	The general assembly agrees to increase the capital from SAR 600 million to SAR 750 million, through a rights issue of shares.
2006	International Leasing & Investment, and Bank AlJazira establish a leasing and investment company in Saudi Arabia with a capital of $100 million.
2006	The general assembly agrees to increase the capital from SAR 750 million to SAR 1,125 million through issuing bonus shares at the rate of 50%.
2007	The general assembly agrees to increase the capital from SAR 1,125 million to SAR 2,250 million through issuing bonus shares at the rate of 100% of the capital.
2008	The general assembly agrees to increase the capital from SAR 2,250 million to SAR 3 billion through distributing bonus shares at the rate of one share for every three shares.
2014	In April 20, 2014, the general assembly agrees to increase the capital from SAR 3 billion to SAR 4 billion through distributing bonus shares at the rate of one share for every three shares.
2017	In April 10, 2017, the extraordinary general assembly agrees to increase the capital from SAR 4 billion to SAR 5.2 billion through issuing bonus shares to the bank's shareholders (three shares for every ten shares).
2018	In March 19, 2018, the extraordinary general assembly agrees to increase the bank's capital from SAR 5.2 billion to SAR 8.2 billion.

(1) *Bank's Annual Reports*.

Vision, Mission and Objectives of Bank AlJazira

The vision, mission and objectives of the bank reflect the goal desired after transformation. So Bank AlJazira's management has set clear vision, mission and objectives.

The bank's vision is to be recognized as the best Shariah-compliant bank in Saudi Arabia, providing Shariah-compliant products for our chosen business segments.

The bank's mission is to be the core bankers to our chosen target customers, helping them grow their business and their wealth through:

- Offering exceptional customer service.
- Offering tailored products and services.
- Be a trusted advisor.

To achieve these goals, the bank's management developed a plan to divide the bank's activities among 6 main sectors, according to the bank's annual report issued at the end of 2019. These sectors are:

1- **Personal banking:** It provides services to the public in the fields of deposits and credit products. This sector seeks to provide the best services through 78 branches, 19 departments for women all over the Kingdom, 607 ATMs, and 10,192 points of sale. The sector focuses on providing electronic services through various apps.

2- **Corporate banking:** It provides financing and credit products to small and medium-sized companies and institutions. The sector also serves its customers through three regional units, namely the central region, the western region, and the eastern region. These units provide services and operations to major customers. In recognition of the bank's role in this aspect, Bank AlJazira was conferred the "Top Partner Award" during the Strategic Partnership Conference held by the International Islamic Trade Finance Corporation (ITFC), the trading arm of Islamic Development Bank (IsDB).

3- **Treasury:** It is responsible for financial markets, foreign exchange and trading services. The bank's investments amounted to SAR 27.6 billion in 2019 compared to SAR 24.1 billion in 2018, an increase of about 15%.

4- **Brokerage and asset management:** It provides shares brokerage services through Aljazira Capital; a company fully owned by Bank AlJazira.

5- **Takaful Taawuni:** It provides protection and saving products and services. As required by the Insurance Law of the Kingdom of Saudi Arabia, this sector has spun off its insurance business in a separate entity named Aljazira Takaful Taawuni Company (also known as: ATT, Aljazira Takaful), starting from 1/1/2020 and entered into a binding merger agreement with Solidarity Saudi Takaful Company.

6- **Other sectors:** They include investment in associate, inter segment income, expense eliminations and gain on sale of other real estate.

Management Structure of Bank AlJazira

According to the bank's annual report 2019, the management structure of the bank consists of the board of directors, the highest authority in the bank, the board's sub-committees, and the senior management team. The responsibilities of the board of directors are to approve and supervise the main objectives and strategic plans of the bank, and to monitor the bank's performance.

The Board of Directors includes five committees: Executive Committee, Audit Committee, Nominations and Remunerations Committee, Risk Committee, and Social Responsibility Committee for the program: "Khair Aljazira le Ahl Aljazira". These committees assist the Board of Directors in managing and monitoring the bank's activities.

Subsidiaries and associates of Bank AlJazira:

Bank AlJazira owns several companies wholly or partially, such as Aljazira Capital; a company fully owned by Bank AlJazira, Aman Development and Real Estate Investment Company, Aman Insurance Agency Company, and AlJazira Securities Limited. All of these companies were established in the Kingdom of Saudi Arabia, except for the last one, which was established in the Cayman Islands.

Among those companies, the leading one is Aljazira Capital; a Saudi closed joint stock company established on 20/2/1429 AH, corresponding to 27/2/2008, in the Kingdom of Saudi Arabia as the investment arm of Bank AlJazira. The company operates under the regulatory supervision of the Capital Market Authority (CMA), and is specialized in securities business and providing the services of dealing, underwriting, managing, arranging, advisory, and custody. One of the unique advantages of the company is its interest in researching and preparing reports in the financial field for companies and institutions in the Kingdom.

Financial Performance of Bank AlJazira

Bank AlJazira has achieved good financial results over the past five years. The most prominent of these results were in 2019, as depicted in the following table:

Table 6: Bank's financial performance during 2015-2019 (SAR million)[1]

Financial Highlights	2019	2018	2017	2016	2015
Loans and advances, net	49,660	40,897	39,790	42,099	42,174
Total assets	86,544	73,003	68,287	66,319	63,264
Customer deposits	62,697	51,804	50,278	51,602	49,765
Total liabilities	74,955	61,759	59,459	5,216	55,851
Shareholders' equity	11,590	11,244	8,829	8,104	7,413
Net income before Zakat and income tax	1,122	1,000	858	872	1,287
Net income after Zakat and income tax	991	378	830	729	1,287
Total operating income	**2,977**	**2,665**	**2,580**	**2,519**	**2,922**

The table highlights the following:

1- The bank's total assets increased by SAR 13.5 billion, representing 18.5%, at the end of 2019, to SAR 86.5 billion, as compared to SAR 73 billion at the end of 2018.

(1) *Bank's Annual Reports 2015-2019.*

2- Total liabilities increased by SAR 13.2 billion, representing 21.4% annual growth, to SAR 75 billion in 2019, as compared to SAR 61.8 billion in 2018.

3- The bank achieved a net profit before Zakat and income tax of SAR 1,122 million in 2019, an increase of SAR 121.7 million, representing 12.2% growth, as compared to SAR 1,000,3 million at the end of 2018.

4- The net income after Zakat and income tax, for the year ended December 31, 2019, amounted to SAR 991 million, an increase of SAR 613 million, representing 162%, as compared to SAR 378.3 million at the end of 2018.

2/2/2
Enablers of
Bank AlJazira's Transformation

The experience of Bank AlJazira was characterized by a number of enablers that contributed to its success, including:

1- Clarity of vision among Bank AlJazira owners:

A clear project vision is one of the most important success factors. It is an essential foundation for the integrity of objectives, policies, and actions taken to achieve success. Bank AlJazira owners' was clear from the beginning that the bank should be completely transformed into an Islamic financial institution. This is evident in the bank's rejection of parallel line approach that includes the presence of Islamic windows within conventional banks, which leads to delay or even failure of the transformation process.

The clarity of vision helped implement it at all administrative levels in Bank AlJazira, starting from the General Assembly, the Shariah Committee, the Board of Directors, the Executive Management, and ending to the groups managers, including the Shariah Group and the rest of Bank AlJazira's staff.

In the minutes of Shariah Committee meeting No. (20) held on 7/10/2002, based on Bank AlJazira CEO's invitation to convene to present the developments of the transformation process to the Shariah Committee, the CEO said: "The bank management is determined to move forward in the transformation process towards Islamic finance, and this resolution is final and irreversible."

2- Consistency and compatibility among related parties:

One of the essential factors for successful implementation and completion of the transformation plan in an appropriate period of time is the complete consistency and compatibility among all administrative levels working in Bank AlJazira, be it at the level of ownership or management. Everyone contributed sincerely to achieving this goal through the cooperation and integration to overcome challenges, remove obstacles, address problems, coordinate roles and tasks necessary for all phases of the transformation process.

The Shariah Committee's full understanding and the Shariah Group's performance in taking the situations of Bank AlJazira's departments into account, along with the gradual handling of the Shariah non-compliant transactions and returns, had an important role in implementing the process of transformation quickly without affecting the bank's performance.

The minutes of Shariah Committee meeting No. (22), held on 25/12/2002, states: "After reviewing the transformation ratio for each item of the budget for the year 2002 compared to the approved plans for the transformation process, the Shariah Committee considers that transformation is proceeding within the acceptable rate according to the financial report."

The minutes of Shariah Committee meeting No. (26) held on 24/12/2002 states: "Based on the certificate issued by the Internal Audit Department regarding the transformation of Bank AlJazira branches, the Shariah Committee appreciates this effort and directs Bank AlJazira's management to complete the transformation of the Treasury Group and other departments as well."

The minutes of Shariah Committee meeting No. (42) held on 10/6/2006 indicated that all proceeds, regardless of their amount, resulting from Riba-based conventional transactions that the bank's departments were unable to finalize after this date, had been transferred to the charity account.

3- Appropriate size of Bank AlJazira:

The size of conventional financial institution, its transactions and its broad customer base are among the challenges that the institution faces during the process of transformation into Islamic finance. That is, the institution's large size, as well as its wide and diversified customer base affect the speed of transformation significantly. The size of Bank AlJazira, at the time of taking the transformation decision, was appropriate to effectively initiate the transformation process.

The chairman of the Shariah Committee of Bank AlJazira referred to this in the minutes of Shariah Committee meeting No. (20), held on 1/6/2002, saying: “Bank AlJazira is one of the most capable banks to transform because of the sincere intention of those responsible for the bank to transform it into an Islamic bank. Moreover, the bank’s small size plays an important role in accelerating the transformation process.”

In a paper on this topic, Dr. Mohammad Al Qari confirmed the same meaning, saying: “The small size and activities of the bank, as one of the smallest Saudi banks at the time, helped accelerating the transformation process”.

2/2/3
Challenges of Bank AlJazira's Transformation

The process of transforming Bank AlJazira from conventional finance to Islamic finance was not straightforward. It was a complex and long process, during which the bank faced a number of challenges, such as those related to the bank's internal affairs as well as other external matters related to customers, other banks, laws and regulations. Some of these challenges are reviewed in this section, as follows:

First: Challenge of plan and decision making

The formulation of a transformation strategy and plan that takes into account the size of the bank and its employees, the legal environment in which the bank operates, and the amendment of policies and procedures to suit the new nature of the bank's work were the first challenges facing Bank AlJazira's transformation into Islamic finance. The biggest challenge was the decision taken by the bank's board of directors in 1997 to transform the bank into Islamic finance, believing in the importance of operating in accordance with clear commercial standards.

Moreover, the status of the Islamic finance industry at that time was very discouraging for the transformation due to the lack of alternatives and capabilities of providing integrated financial solutions. However, the bank initiated the process of transformation until it reached 2002, when the bank announced its readiness to provide Islamic financial services.

The bank implemented a strategy that contributed to the development of Shariah-compliant instruments to replace the conventional ones. Finally, the goal was realized and Bank AlJazira has transformed from a conventional bank to a bank conducting its business in accordance with the provisions and principles of Islamic Shariah.

Second: Challenge of innovating and developing Shariah-compliant products

The absence of any alternative Shariah-compliant products ready for marketing to achieve returns for the bank was one of the most important challenges faced by Bank AlJazira at the beginning of its transformation. These products were crucial to the success of the transformation process. The problem was not to develop new Shariah-compliant financial products, but to market and persuade customers to accept these products to ensure their growing demand for them.

Therefore, it was necessary for the bank, as part of the transformation process, to establish a department for developing and marketing products to satisfy the needs of customers. This is because the majority of customers are either hesitant to deal with financial institutions or unaware of the significant differences between conventional and Islamic products. Therefore, this department had to pay attention to developing attractive products to customers, answering all customer inquiries, and maintaining the ethical objectives of the Islamic Shariah.

In fact, Bank AlJazira, within the replacement approach it approved for the transformation process, has not only transformed the conventional products into formally Shariah-compliant products, but it also developed new Shariah-compliant products. Moreover, a number of the essential products offered today by many Islamic financial institutions were initially developed by Bank AlJazira, as a pioneering bank in this field, including financing, investment, Islamic treasury, and Takaful products.

Bank AlJazira exerted great efforts to develop the investment platform for trading. The bank retained a 24% market share despite being one of the smallest banks operating in the Kingdom of Saudi Arabia at that time. It is understood that there is no intellectual property rights protection for the financial product. Thus, such products can be reproduced by other banks despite the cost, effort, and time spent for their development. After the product is launched, the bank finds that other financial institutions have copied the same experience and generated product returns without exerting any efforts as the original developer of the product.

Product innovation and development is a costly process that requires a great deal of time and effort. If the developer finds that it cannot protect the property rights of its products, the development process will be negatively affected, and consequently the development of the Islamic finance industry will be negatively affected too. Therefore, during a meeting with the Saudi Central Bank, the Shariah Group of Bank AlJazira, represented by its former chairman, Dr. Mohammad Bin Damas Al Ghamdi, submitted a proposal for establishing an independent center for product development. The center is to be funded by all banks so that they can benefit from the innovations of the center. This will contribute to overcoming one of the biggest challenges facing the Islamic finance industry, namely product innovation and development.

Third: Challenge of human resources

This challenge includes several aspects, such as raising the human resources awareness about Shariah-compliant products, attracting qualified cadres, training and qualifying existing employees during the transformation process.

At the beginning, the vision was not fully clear for the employees of conventional bank. This is due to conducting their work according to the rules and laws of conventional finance. That is, the conventional bank's employees know only about the creditor-debtor relationship and the conventional loan contracts. During the transformation process, Bank AlJazira managed to overcome this challenge through paying special attention to the bank's employees, persuading them to adopt and seek to realize Islamic finance as being their own responsibility.

The replacement approach adopted by Bank AlJazira in the transformation process is more effective than the parallel line approach, according to which a group of the bank's employees deal with Islamic financial services while another group deal with conventional services. This approach creates negative competition among the bank's employees over marketing their products and attracting customers.

Raising the awareness of employees about Islamic finance at Bank AlJazira took a period of time during which many workshops and training courses were held, such as *"The Basics of Islamic Banking"*. These training courses were mandatory for all the employees of Bank AlJazira, including the executives.

Moreover, a training program has been developed for the employees in product development. More specialized training courses were organized for each department in accordance with its field of work. This included personal banking finance and corporate banking finance, in addition to the "Bankers of Tomorrow" program, which includes internal and external courses for the bank's employees, as well as the "Broker Training" program, and the "Technical Training" program developed in cooperation with SMB.

Fourth: Challenge of technical and accounting systems

Lacking appropriate technical and accounting systems for Islamic financial transactions was one of the biggest challenges faced by Bank AlJazira during the process of transformation with regard to applying and operating Islamic financial products. At that time, Bank AlJazira was relying on the technical program and computer systems, including software and procedures, that all were built on the conventional operating structure based on the principle of lending and borrowing, the thing which disallowed them to provide statistical reports and information that help Shariah Group and Shariah Committee to develop and monitor products.

This is why it was difficult to benefit of these software systems in applying Shariah-compliant products. Changing these software systems was a major challenge. However, the bank has not only adopted an effective strategy to overcome this challenge, but it has also allocated budget thereto throughout the course of the transformation process.

For example, the personal loan product has been replaced by "Dinar" product which relies, as mentioned earlier, on Murabahah financing transactions. Accounting entries have been developed, modified, and added to the developed computer systems, and the necessary policies and procedures have been established to ensure the proper application of the product in accordance with the decisions of the Shariah Committee.

Fifth: Challenge of aligning assets and liabilities

One of the challenges encountered by Bank AlJazira during the transformation process was the rapid growth in the Islamic liabilities side of the bank's balance sheet. Islamic liabilities can be defined as investment deposits received by the bank under Shariah-compliant contracts. It is known that the basics of banking management are based on the consistency between assets and liabilities. However, the bank was disallowed to use Islamic liabilities in conventional financing. If the bank is not able to generate enough assets to accommodate the rapid growth in liabilities, then increased liquidity will occur. Islamic banks suffered from this problem during that phase of transformation. This is because the process of developing products and preparing procedures, particularly in relation to asset generation risk management, was unable to keep pace with the growth rate of liabilities. Therefore, Bank AlJazira was exposed at that time to the so-called excess liquidity, which can be used in conventional transactions only. Bank AlJazira, however, was disallowed to use this excess liquidity in interest-based conventional financing and securities transactions based on the directives of its Shariah committee.

Sixth: Challenge of differing Ijtihad-based opinions

Among the challenges faced by Bank AlJazira was the difference of Shariah-based Ijtihad (legal reasoning and discretion) with regard to Islamic financial products, especially between the Shariah Committee of Bank AlJazira and the Shariah committees of other banks that are fully compliant with the provisions of Islamic Shariah operating in the Kingdom of Saudi Arabia.

For example: The Shariah committees of three of these banks approved a specific formula for collective financing of the corporate sector, which was not approved by the Shariah Committee of Bank AlJazira. This is despite the fact that some members of the Shariah Committee of Bank AlJazira are members of some committees of these banks. The opinion of the Shariah Committee of Bank AlJazira was that the decision was passed by the majority. In any case, such a difference resulted in practical challenges for the bank.

Seventh: Challenge of dealing with returns of conventional contracts before completing the transformation process

The way of dealing with the forbidden returns was among the challenges of the transformation process. These returns resulted either from conventional contracts, which Bank AlJazira was unable to correct, or from errors occurred at the beginnings of applying the Shariah-compliant products due to poor qualification, as mentioned previously, and as a result of the Shariah auditing by the Shariah Group represented in the Shariah Compliance Department.

Under the guidance of the Shariah Committee, Bank AlJazira managed to overcome this challenge before completing the transformation process, based on giving preponderance by the Shariah Committee to the Fiqh-based Ijtihad regarding acquiring unlawful wealth based on the Quranic Verse stating:

"{...So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah..."}[(1)]

over the other Fiqh-based Ijtihad relying on the Quranic Verse stating:

{"... But if you repent, you may have your principal - (thus) you do no wrong, nor are you wronged."}[(2)]

After the transformation process has completed, a separate account was allocated for the unlawful proceeds which were set aside based on the direction of the Shariah Committee. This account is used for public benefit based on the decisions of the Shariah Committee. The bank does never benefit of this account, in accordance with the relevant collective Fiqh-based Ijtihad adopted in this regard by all Islamic financial institutions.

(1) Surah Al-Baqarah (The Cow): 275.
(2) Surah Al-Baqarah (The Cow): 279.

Chapter

3

Shariah Governance for Transformation into Islamic Finance

Preface

The transformation process, in general, requires a great deal of planning, innovation and development. This requires that it shall be carried out by a team that combines Shariah-based Fiqh of financial transactions, knowledge and experience of banking and its products. In order for the transformation process to be serious and effective, it should be regulated by the Shariah governance standards.

Therefore, the work on Bank AlJazira's transformation required establishing Islamic Banking Services Department in the bank (as mentioned earlier) to undertake the task of formulating plans, development and innovation for the bank's transformation. For this mission, the bank recruited Dr. Mohammad Bin Dammas Al Ghamdi, a former professor in the Islamic Economics Department at Imam Mohammad Ibn Saud Islamic University (IMSIU), who combined his academic specialization with his practical experience in Al Rajhi Banking and Investment Corporation (currently Al Rajhi Bank).

Dr. Mohammad Al Ghamdi took the charge of managing the transformation process legitimately and providing coordination in this regard. The products development process was one of the most complex tasks that the transformation management has faced, because it requires research, development and considerable expertise, in addition to the fact that the developer will bear the market development costs, which will incur additional costs for the development process.

2/3/1
Shariah Committee[1]

Establishment of the Shariah Committee:

Among the most important reasons for the success of Bank AlJazira's transformation was carrying out the process of transformation according to the foundations of Shariah governance, the most important of which was the establishment of the Shariah Committee that supervised the transformation steps, as well as the bank's products and operations. The Committee's task was not limited to supervision only, but also it included following-up, reviewing and monitoring to ensure the bank's commitment to the practical and phasic steps for the transformation into Islamic finance.

A preparatory advisory committee was formed in 1998, composing of Dr. Abdul Sattar Bin Abdul Karim Abu Ghuddah and Dr. Mohammad Bin Ali Al Qari, in addition to Dr. Mohammad Bin Dammas Al Ghamdi as rapporteur. The choice of both Dr. Abdul Sattar Abu Ghuddah and Dr. Muhammad Al Gari took account of the scientific expertise they have, as Dr. Abdul Sattar Abu Ghuddah worked in Al Baraka Banking Group, and Dr. Mohammad Al-Qari worked in the National Commercial Bank. This committee developed the transformation plan and supervised its implementation until the formation of the bank's Shariah Committee, and this advisory committee assumed the tasks of the bank's Shariah Committee until its formation.

Then Shariah Committee of Bank AlJazira was formed in 2000, and its composition was as follows:

1- H.E. Sheikh Abdullah Bin Sulaiman Al Manea (2000-present).
2- H.E. Sheikh Prof Dr. Abdullah Bin Mohammad Al Mutlaq (2000-present).
3- H.E. Dr. Mohammad Bin Ali Al Qari (2000-present).

---

(1) In this study, the term ***"Shariah Committee"*** was used in accordance with the provisions of the *"Shariah Governance Framework for Local Banks Operating in Saudi Arabia"* issued by the Saudi Central Bank in February of the year 2020, and it was formerly called the "Shariah Board".

4- H.E. Dr. Abdul Sattar Bin Abdul Karim Abu Ghuddah (2000-2018).

5- H.E. Dr. Hamzah Bin Hussein Al Fe'ar (2000-2014).

H.E Dr. Mohammad Bin Dammas Al Ghamdi was the Committee's rapporteur (2000-2014), and then succeeded by H.E. Dr. Fahad Bin Ali Al Olayan (2014-present).

Introduction to the Shariah Committee:

(a) H.E. Sheikh Abdullah Bin Sulaiman Al Manea

Member of the Senior Council of Ulema, consultant at Saudi Arabia Royal Court, member of the OIC International Islamic Fiqh Academy, member of the Shariah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), member of the Shariah Committee of the Islamic Financial Services Board and the Islamic Development Bank, as well as chairman or member of various Islamic financial institutions' Shariah boards inside Saudi Arabia and worldwide.

Duration of his membership in Shariah Committee of Bank AlJazira (from 2000 to date).

Major literature:

A master's thesis from the Supreme Jurisdiction Institute entitled: *"Al-Waraq Al-Naqdi: Tarikhuhu, Hukmuhu, Haqiqatahu"*; *"Buhuth wa Fatawa fi Al-Iqtisad Al-Islami"*, in four parts; *"Buhuth wa Fatawa fi Ba`d Masa'il Al-Zakah"*; *"Buhuth wa Fatawa fi Al-Hajj wa Al-`Umrah"*; *"Buhuth wa Fatawa fi Ba`d Masa'il Al-Taharah wa Al-Salah"*; *"Buhuth wa Fatawa fi Ba`d Masa'il Al-Sawm"*.

(b) H.E. Sheikh Prof Dr. Abdullah Bin Mohammad Al Mutlaq

Member of the Senior Council of Ulema, consultant at Saudi Arabia Royal Court, expert at the OIC International Islamic Fiqh Academy, member of the Shariah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as well as chairman or member of various Islamic financial institutions' Shariah boards inside Saudi Arabia and worldwide. He holds a master's degree and a doctorate in Comparative Fiqh from the Supreme Jurisdiction Institute.

Duration of his membership in Shariah Committee of Bank AlJazira (from 2000 to date).

Major literature:

An academic thesis on verifying the book entitled: *"Al-Minah Al-Shafiyat fi Mufradat Al-Imam Ahmad"*; *"Fiqh Al-Sunnah Al-Muyassar"*, in four parts; and *"Abhath Fiqhiyyah Muqaranah"*, a volume including a number of researches such as: *"Bay` Al-Mazad"* and *"`Aqd Al-Tawrid"*.

(c) H.E. Dr. Mohammad Bin Ali Al Qari

Professor of Islamic Economics at King Abdulaziz University in Jeddah, expert at the OIC International Islamic Fiqh Academy, member of the Shariah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), chairman or member of various Islamic financial institutions' Shariah boards inside Saudi Arabia and worldwide, as well as member in the editorial staff of a number of scientific journals and academic committees in the field of Islamic economics and finance. He holds a doctorate from the University of California - USA, and he has specialized since his graduation in Islamic economics.

Duration of his membership in Shariah Committee of Bank AlJazira (from 2000 to date).

Major literature:

A book entitled: *"Sukuk Al-Tamwil Al-Islami"*, in addition to another book entitled: *"Abhath fi Al-Tamwil Al-Islami"*, in four parts including 115 researches in a number of fields related to Islamic finance, such as: Islamic economics, Shariah boards, contracts, wealth and ownership, banking services, credit cards, finance contracts, debt disposal, treasury transactions, hedging contracts, corporate contracts, Sukuk, investment funds, insurance, endowments, Zakat.

(d) H.E. Dr. Abdul Sattar Bin Abdul Karim Abu Ghuddah

Member of the OIC International Islamic Fiqh Academy, researcher and expert in the Encyclopedia of Islamic Fiqh at the Ministry of Awqaf and Islamic Affairs in Kuwait, member of the Shariah Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as well as chairman or member of various Islamic financial institutions' Shariah boards inside Saudi Arabia and worldwide.

Duration of his membership in Shariah Committee of Bank AlJazira (from 2000 to 2018).

Major literature:

A PhD dissertation entitled: *"Al-Khiyar wa Atharuh fi Al-`Uqud"*; a book entitled: *"Buhuth fi Al-Mu`amalat wa Al-Asalib Al-Masrafiyyah Al-Islamiyyah"*, in fourteen parts; and a book entitled: *"Al-Ajwibah Al-Shar`iyyah fi Al-Tatbiqat Al-Masrafiyyah"*.

(e) H.E. Dr. Hamzah Bin Hussein Al Fe'ar

Professor of postgraduate studies in the Fundamentals of Fiqh at the College of Shariah at Umm Al-Qura University, member of the Shura Council, expert at the OIC International Islamic Fiqh Academy, as well as chairman or member of various Islamic financial institutions' Shariah boards inside Saudi Arabia and worldwide.

Duration of his membership in Shari'h Committee of Bank AlJazira (from 2000 to 2014).

Major literature:

A number of researches in Islamic finance, namely: *"Al-Ahkam Al-Shar`iyyah li Tijarat Al-Hamish"*; *"Al-Azmah Al-`Alamiyyah wa Al-Mudarabah Al-Shar`iyyah Badilan `an Al-Wada'i` Al-Bankiyyah"*; *"Al-Bursat Al-Kharijiyyah wa Al-Hukm Al-Shar`i fi Al-Ta`amul Ma`ha"*; *"Al-Thagharat Al-Qanuniyyah fi Al-Azmah Al-Maliyyah Al-`Alamiyyah"*; *"Hukm Ishtirat Al-Tahakum fi Al-Mu`amalat Al-Maliyyah ila Qanun Wad`i"*; *"Hukm Al-Tijarah fi Al-Sila` Al-Dawliyyah"*; *"Hukm Al-Ta`amul fi As-hum Al-Sharikat Al-Mukhtalatah"*; *"Hukm Taghyir Qimat Al-`Umlah"*; *"Hukm Waqf Al-As-hum wa Al-Sukuk wa Al-Huquq Al-Ma`nawiyyah"*; *"Ru'yah Manhajiyyah li Tatwir wa Ta'sil Al-`Amal Al-Masrafi Al-Islami"*; *"Sharikat Al-Ta'min Al-Ta`awuni"*; *"Damanat Al-Sukuk Al-Islamiyyah"*; and *"Al-Wadi`ah Al-Masrafiyyah wa Ru'yah Fiqhiyyah"*.

Shariah Committee meetings:

Shariah Committee convenes periodically. Usually, it holds 4 to 8 meetings a year. Since the beginning of the transformation process to the date of preparing this study, its meeting amounted to approximately 180 meetings. The Committee also has an executive committee, which is composed (at the time of preparing this study) of H.E. Sheikh Abdullah Bin Sulaiman Al Manea and H.E. Dr. Mohammad Bin Ali Al Qari, to consider the urgent issues.

Main tasks of the Shariah Committee:

1- Studying the contract formulas, documents, and existing applications in the bank to consider the extent of their compliance with Islamic Shariah.

2- Reviewing all products that the bank implements to demonstrate its compliance with the provisions of Islamic Shariah and its fundamentals, and to establish the basic principles for drafting its contracts and documents.

3- Periodic auditing, by Shariah Compliance Division of the Shariah Group, for all activities and business of the bank to verify the correctness of the application and ensure that it is compliant with the provisions of Islamic Shariah, and in accordance with the fatwas and decisions issued by the Committee.

4- Submitting a comprehensive annual report to the general assembly showing the extent of the bank's compliance with the provisions of Islamic Shariah, and in accordance with the decisions, judgments and directives issued, and through the transactions were reviewed.

5- Ensuring that the earnings realized from sources or ways that contradict with the provisions of Islamic Shariah are purified and disbursed in the public good, according to the reports prepared by Shariah Compliance Division of the Shariah Group.

6- Meeting with the bank customers twice a year to answer their inquiries about the transformation into Islamic finance.

2/3/2
Shariah Group

Establishment of the Shariah Group:

It was previously mentioned in the transformation phases that one of the first decisions taken by the board of directors was to establish the Shariah Group, as it believed that the foundations of Shariah governance are important for implementing the transformation process and its success. So, the Board issued its decision in 1998 AD to start with forming nucleus of Shariah governance, namely establishing the Shariah Group, which is an administrative body that was first established under the name of "Islamic Banking Unit", then its name changed to "Shariah Group" to become one of the bank's groups directly linked with the CEO. Its main task was to follow up all bank's transactions to ensure that they are compliant with the provisions of Islamic Shariah in accordance with the fatwas issued and decisions approved by the Shariah Committee.

Shariah Group was also a link between Shariah Committee and bank's Executive Management, and it has the same rights as the Shariah Committee in terms of obtaining data, information, clarifications, and inspection of all regulations, systems, and instructions it deems necessary to perform its work.

Shariah Group has a pivotal impact on the transformation phases, as its work was not limited to the main tasks entrusted to it, but rather it contributed to assisting, developing and qualifying other bank's groups in performing their works, such as: drafting contracts and documents, structuring and developing Islamic products in the sectors of personal, corporate, treasury, insurance and securities (such as Sukuk, equities, funds, etc.)

Shariah Group also took the charge of organizing training courses and qualifying the bank employees for work in the Islamic finance.

Main tasks of the Shariah Group:

1- Reviewing all bank's transactions, contracts, agreements, forms, documents, and issuing the necessary actions.

2- Monitoring the implementation of Shariah Committee's decisions in all internal and external bank activities.

3- Carrying out studies and researches related to the requirements of financial market to support the urgent need for products and structures compliant with the provisions of Islamic Shariah.

4- Ensuring that the earnings realized from sources or ways that contradict with the provisions of Islamic Shariah are purified, and disbursed according to the standards approved by the Shariah Committee to dispose of the amounts excluded as a result of Shariah violation.

5- Auditing the bank's financial statements before being approved by the Board of Directors.

6- Submitting quarterly and annual reports to the Shariah Committee include the extent of complying the transactions that conclude throughout the year with the provisions of Islamic Shariah.

7- Cooperating with various internal supervisory authorities to achieve the bank's interests and goals.

8- Maintaining the general impression of the bank as an Islamic bank committed to Islamic Shariah provisions in all its transactions and activities.

Shariah Group Divisions:

(a) Shariah Committee Secretariat

Shariah Committee Secretariat is the main contact point between the bank and the Shariah Committee, and it assumes the following tasks:

1- Preparing and arranging the meetings for Shariah Committee, as well as the meetings' agendas, reports, materials and documents required for presentation at the Committee's meeting.

2- Studying the contracts related to the bank's business and activities to present them to the Shariah Committee.

3- Attending the Shariah Committee's meetings.

4- Documenting decisions, recommendations and fatwas concluded by the Committee and preparing the minutes for these meetings.

5- Informing the related departments about fatwas, recommendations and decisions after being approved by the Committee.

(b) Research and Development Division

Research and Development Division is concerned with carrying out works that contributed to the bank's transformation, as well as developing a lot of its products, and it assumes the following tasks:

1- Preparing the necessary researches and studies for the Shariah Committee.
2- Preparing researches and studies related to Islamic finance field to spread awareness of Islamic banking.
3- Carrying out studies and researches related to the requirements of Islamic financial market, following up the development of Islamic finance industry, and issuing periodic reports.

(c) Shariah Compliance Division

In some practices, this division is called "Shariah Audit" or "Shariah Compliance". It has a pivotal impact on Shariah governance, as it links between the Shariah Committee's decisions and the implementation of the bank's executive departments, and it assumes the following tasks:

1- Ensuring that the concerned departments and divisions are compliant with fatwas, decisions and instructions issued by the Shariah Committee.
2- Submitting quarterly compliance reports to the Shariah Committee include the results of its examination on the bank's operations, and its instructions regarding their compliance with the Committee's decisions, as well as the necessary improvements and corrective actions when appropriate.
3- Reviewing the policies and procedures related to different bank's groups.
4- Reviewing the advertising materials related to the bank's activities.

Shariah Group publications:

The Shariah Group developed a plan to disseminate knowledge by printing books and scientific researches concerned with financial aspects, especially Islamic finance, and present them to experts, researchers, as well as financial, jurisprudential and academic institutions. The Group has issued several publications that dealt with studying many financial transactions, namely:

1- *"Al-`Umlah Al-Iftradiyyah: Haqiqatuha wa Ahkamuha Al-Fiqhiyyah"*, by Yasser Bin Abdul Rahman Al Abdul Salam (2018).

2- *"Al-Takyif Al-Shar`i li Al-Hisab Al-Jari wa Al-Athar Al-Mutarattibah `Alayh"*, (within the proceedings of the 4th Forum of the Shariah Boards of Islamic Banks, held in 2011), prepared by Shariah Group of Bank AlJazira (2019).

3- *"Sukuk Al-Tamwil Al-Islamiyyah"*, by Dr. Mohammad Bin Ali Al Qari (2019).

4- *"Al-Ahkam Al-Fiqhiyyah li Al-Tamwil bi Ra's Al-Mal Al-Jari""*, by Dr. Yazid Bin Abdul Rahman Al Fayyad (2020).

5- *"Al-Munsha'ah Dhat Al-Gharad Al-Khas"*, by Dr. Othman Bin Zahir Mughal (2020).

2/3/3
Role of Shariah Governance in Transformation Process

Role of Shariah Committee and Shariah Group in transformation process:

Bank AlJazira's decision of making its strategic choice to move towards Islamic finance in 1997 was a staging ground for the acceleration of growth and development in the bank's journey, financially, legitimately, etc. The step of taking the decision of bank's full transformation is one of the most important and prominent advantages of the transformation process into Islamic finance and the adaptation of all the bank's transactions, products and operations of its branches to comply with Islamic Shariah. So, the transformation team concentrated efforts on the following steps:

1- Ending Shariah non-compliant operations.

2- Replacing traditional operations with Shariah-compliant operations.

3- Introducing new Shariah-compliant operations.

These three steps included a lot of details, they however represented basic foundations for the success of the transformation process. The bank's strategic plan for the transformation faced many difficulties, but the preparation for dealing with these difficulties led to much successes and advantages, which later culminated in the completion of the bank's full transformation process.

At the beginning of 1998, the first phase of the transformation process to Islamic finance began, and it was represented by the Islamic Financial Services Unit, which bore the burden of developing the strategy and plans necessary for the transformation, and assisting the bank's different departments in their implementation. The first task of this phase was the formation of transformation team and the establishment of an Islamic banking department that would supervise, manage the work and lead the bank to this regard.

This department classified the activities of the bank to find out what is compliant and non-compliant with Islamic Shariah. It is well known that the banking services provide by banks are not all prohibited, nor all their activities are usurious, because many services are based on taking a fee in exchange for the service a matter which does not contradict in principle with the provisions of Islamic Shariah, unless the service is prohibited, or there is a need for making some modifications to the documents and restrictions through which these services are implemented, or reviewing and eliminating their violations. However, such violation often relates to the formality and does not affect the origin of the product.

During the process of classifying activities, it was noted that approximately 40% of the bank's activities in that year were Shariah-compliant, while 60% could be classified as non-compliant activities. This means that the transformation phase would focus on a specific aspect of the bank's products, which were the greater portion but not all the bank's transactions, a matter which facilitated the transformation process.

Then the team responsible for managing the transformation process approved the accepted activities, and began reviewing their contracts and documents to ensure their compliance with the Shariah provisions, and presented them to the Shariah Committee for approval. As a result of this review, 40% of the bank's activities were Shariah-compliant.

In 1998, the bank began developing and reviewing special documents for some Islamic financial services, in conjunction with continuity of developing policies and work procedure for each of these instruments. The following are the most important instruments that were reviewed, modified or reformulated to serve Islamic finance business:

1- Current Account for Personal and Corporate Agreement.
2- Current Account for Corporate Agreement.
3- Aljazira Saudi Equities Fund Agreement.
4- Monthly Commodities Fund Agreement.
5- Open-Ended Commodities Fund Agreement.
6- Alkhair Fund for International Equities Agreement.

7- Murabahah in Commodities Contracts with Banks and Financial Institutions.
8- Murabahah Contracts for Financing International Trade.
9- Musharakah-Based Financing International Trade.
10- Letters of Guarantee.
11- Credit Facilities Agreement.
12- Ijarah Muntahiah Bittamleek-Based Financing Contracts.
13- Murabahah-Based Financing Trade in Saudi Equities.
14- Islamic Visa Gold Card.
15- Musharakah-Based Financing Services Contracts.
16- Joint Investment Accounts.

Depending on the instruments were developed, the bank was able to form an Islamic portfolio which amounted to SAR 1.1 billion at the end of the fiscal year 1998, averaging about 20% of the bank's total activities in the field of finance, investment and financial services. Eight Islamic financial instruments were used in the formation of this portfolio.

In 1999, the overall objectives of the transformation plan were as follows:

1- Expanding corporate finance in accordance with the financing instruments familiar to Islamic financial institutions.
2- Increasing the bank's customer base through responding to the increasing demand for Islamic financial services and expanding the marketing activity.
3- Enhancing the bank's competitive position through improving its mental image and providing innovative financial services and products that are in compliance with Islamic Shariah.
4- Focusing on defining the bank's identity that combines peculiarity and distinguished service through adopting the peculiar identity of the "Islamic banking services".

In 2000, the bank came up with a development of alternative Islamic instruments to the traditional instruments in the field of finance and investment in a well-thought-out manner suiting the transformation process that the bank was going through, such as the use of Murabahah, Musharakah, Ijarah with a promise to sell, and other Islamic instruments. This is in addition to the development of some new Islamic financial instruments, such as operations of Murabahah-based financing trade in Saudi equities.

Among the achievements of the Shariah Committee at the beginning of the transformation process in 2002 was urging the creation of a comprehensive transformation strategy for the overall vision and objectives, the functional structure, the Islamic products used and developed, as well as other achievements in several areas.

While the Shariah Committee was seeking in several steps to address the remaining effects of traditional finance, it addressed the condition of Shariah-compliant solutions and alternatives applied in the corporate sector, which represented as follows:

1- Commercial Murabahahs to finance local commodities.
2- Murabahah-based credits to finance imports.
3- Musharakah-based credits to finance special credit structures.
4- Financing and operating Ijarah.
5- Istisna` to finance fixed capital assets.
6- Musharakahs and Mudarabahs to finance the bank's investments with customers.
7- "Dinar" product using Tawarruq to finance cash financing needs.

The Committee also contributed to the development of Shariah-compliant alternatives in the personal sector, including:

1- "Tamam" product for financing trade operations in Saudi equities.
2- "Dinar" product for Tawarruq-based financing, which has made a qualitative leap in the financial statements and attraction of new customers.
3- "Naqa" product, which is the Shariah-compliant alternative to a time deposit for personal.
4- Islamic Visa Card to finance local and international purchases of customers.
5- Establishing and transforming a number of bank's branches to provide Islamic services only.

It also contributed to the development of Shariah-compliant alternatives in the treasury sector, including:

1- "Naqa" product, which is the Shariah-compliant alternative to a time deposit for corporate and institutions.
2- "Wakalah-based investment for customers in the international commodity market" product.

The Committee also contributed to the development of Shariah-compliant alternatives in other products, including:

1- Seven diversified investment products, five of which are open-ended funds.
2- Four main products in cooperative Takaful, including twenty programs with multiple solutions for corporate and personal.
3- Three programs to finance the employees' cash and housing needs.

Shariah Committee focused on the importance of existing Islamic branches for the bank, and viewed that priority should be given to the two holy cities of Mecca and Medina, so that all their transactions would become in compliance with Islamic Shariah.

In 2002, the bank was already able to transform its branches in Mecca, Medina and Buraydah to fully Islamic branches, in addition to establishing a branch in Qatif that depended on Islamic finance. According to the financial report submitted to the Shariah Committee for the same year, the Committee considered that the bank is running within the acceptable rate, and in compliance with the Shariah standards it has approved.

Based on the certificate issued by the Internal Audit Group Department at the end of 2003 stating that Bank AlJazira's branches were transformed into branches providing only Shariah-compliant products according to the letter of the Assistant General Manager, head of the Islamic Banking Services Group, directed to all branches to begin the full transformation into Islamic finance, the Shariah Committee stressed the importance of completing the transformation in the bank's treasury and all other departments.

Shariah Committee adjusted the accounting terms and adopted such terms compliant with the Islamic finance industry, such as: Qard, Salaf and Wadi`ah, and referring to Murabahah in the financial statements and its clarifications, as well as stressing the necessity of the bank's commitment to adoption of Shariah terms consistent with the formulas actually used.

Shariah Committee also emphasized that the chartered accountant should prepare the bank's Zakat base in accordance with Shariah standards, calculate the amount of Zakat due on the share and present it to the Shariah Committee before being approved.

In 2006, the transformation team committed itself to completing the transformation process this year, especially since the bank has achieved most of the objectives of the transformation process, while transformation of some matters remained incomplete for reasons beyond the bank's control. Therefore, the Shariah Group was keen to provide proposed solutions to complete the full transformation process to Islamic finance in the sixth month of the same year. The remaining instruments for the team to transform were as follows:

- Government development bonds worth SAR 658 million; they generate a monthly return for the bank of about SAR 2.8 million.
- Shares of the Investment Bank; the number of shares remaining to date amounts to 1,134,823 shares.
- Balances in other banks and financial institutions.

Therefore, the plan was drawn up to develop temporary solutions to accomplish the full transformation process on the scheduled date, the most important of which were:

- The bank transfers the returns generated by government development bonds, estimated at SAR 2.8 million per month, to the charities account until the process of getting rid of these returns is completed.
- The bank calculates the market value of the shares of the Saudi Investment Bank, at the time when Bank AlJazira owns these shares, as a legitimate wealth, and any capital increase in the value of the shares over the value at the time of ownership is considered an illegitimate return and is transferred to the charities account. The same applies to any dividend or distributed profits generated from these shares.
- Any other returns whose legitimate integrity is uncertain and arising from balances in other banks and financial institutions are to be transferred to charitable channels.

Shariah Committee approved these proposals emphasizing that any new usurious deposits should not be accepted under any pretext, or mixed with other bank returns, and working diligently to find Shariah-compliant alternatives.

At this stage, the cost of risks related to Islamic operations was higher than that of traditional operations. However, Bank AlJazira maintained the price rate at which it could compete in the market and retain the customer, so it did not impose any additional cost on him.

As the year 2006 drew to a close, the full transformation was accomplished. During this year, the bank was able to achieve the following positive results:

1- Reviewing the performance of the treasury department, and ensuring that any instruments non-compliant with the provisions of Islamic Shariah are avoided, including reciprocal contracts, options contracts, future contracts, and forward sale of currencies.
2- The bank was able to amortize all government development bonds in the investment portfolio within the initiative of the Ministry of Finance to amortize the government debt (known as public debt) during that period as a result of the rise in the oil markets.
3- Selling the entire joint financing portfolio to conventional banks at competitive prices for the favor of these banks.
4- Disallowing the bank customers to carry out any buying or selling operations, through the bank's trading units, for shares that do not comply with the provisions of Islamic Shariah in accordance with the directive issued by the Shariah Committee.
5- Transforming all the bank customers to deal according to a financing formula compliant with the provisions of Islamic Shariah, except for a customer who takes a decision to transfer all the usurious returns generated from his financing operation to the illegitimate returns account.
6- Completely stopping all traditional short-term deposit operations and replacing them with Murabahah account deposits provided by the Saudi Central Bank.

On January 20, 2007, the Shariah Committee declared in an announced statement that Bank AlJazira's transformation process into Islamic finance has been completed, and that the bank has all the characteristics of Islamic financial institutions. This statement is attached to the study, given that it has become a historical document.

Role of the Shariah Group after transformation in maintaining the Shariah quality:

The Shariah Review Department of Bank AlJazira deals with all the bank's business periodically with regard to each program and receives monthly statistical reports for all the bank's operations through the automated system designed for this purpose, and randomly selects 10% of the transactions for auditing.

In 2008, the Shariah Review Department issued 70 reports covering all bank's business; where 2473 out of 26,033 transactions were reviewed, representing about 9.5% of the bank's total operations (transactions).

Also, the documentary credits were financed by way of Tawarruq in 974 transactions, while they were financed by way of Murabahah in about 97 transactions at that time. Likewise, the ownership of fixed and movable assets was financed by way of Tawarruq in 75 transactions, while the financing-based Ijarah was only used in 50 transactions.

On the legislative and regulatory level, Shariah Group submitted proposals to the Saudi Central Bank in 2011 with the aim of improving the legislative environment for Islamic financial institutions in order to facilitate the process of implementing the Shariah compliance strategies in these institutions. In accordance with the rules of the bank's compliance structure, substantial improvements have been made to the framework of the bank's Shariah Committee and sent to the Senior Management for approval.

In 2011, Shariah Group's compliance strategy was developed to focus on the product as well as work procedures and mechanisms instead of focusing on operations only. The Group focused on eliminating loopholes in work procedures through recommending and applying a package of preventive and corrective controls. There was an agreement on thirteen types of standards on the basis of which the performance and accounting structure was approved, and the application of these standards in the Group was done through the balanced scorecard system.

Shariah Group provided support to all work sectors and relevant departments inside and outside the bank. During 2011, the Group received a total of (97) inquiries, compared to (70) inquiries in 2010, with an increase of 38%. It also provided (163) answers and instructions to all stakeholders inside and outside the bank, compared to (94) answers in 2010, with an increase of 73%.

During 2011, Shariah Committee held five meetings in which fifteen issues were studied, and fourteen decisions were taken to this regard. Also, reports of Shariah review were submitted periodically, and a report was sent to the board of directors including the full recommendations of the Shariah Committee for the Shariah review reports, along with the bank's final financial results for the year 2011.

At the end of 2013, after reviewing the final annual report prepared by the bank's Shariah Group (which included an examination of auditing and procedures adopted by the bank on the basis of taking samples from each type of its operations), and after inspecting the financial statements for the period ending at the end of the year, as well as the principles used and the contracts related to the transactions, applications and products offered by Bank AlJazira during the same period to give the Shariah opinion and issue the necessary fatwas, instructions and decisions, the Shariah Committee -in keeping with its primary responsibility- gave its opinion stating that the contracts and transactions concluded by the bank during the period covered by the report are generally compliant with the provisions of Islamic Shariah, and the notices or reservations received on some of these contracts and transactions do not substantially affect the correctness of operations from the Shariah perspective, with a request to the bank's management to address and correct these notices and reservations in due course.

In 2014, Shariah Group, through Shariah Compliance Division, continued to intensify examinations and reviews of the bank's operations and restructure "Naqa" product (as an alternative for time deposits), "Dinar" product (for personal finance), and "Islamic Visa Card" product, in cooperation with the Personal Services Department. The Group also worked -as much as possible- to stay away from financial products and transactions that seem suspicious from the Shariah perspective.

Also, Research and Development Division at the Shariah Group submitted a special report on the bank's investments and the extent of their compliance with the provisions of Islamic Shariah. In this regard, research was carried out to determine the extent of the customers' satisfaction with the bank's products and its commitment to Shariah provisions in all of its transactions. The Division presented a conception of new products in addition to a review of some existing products.

With a view to raising work efficiency and promptness, the Group worked to check out the procedures for Shariah approvals through an advanced automated system.

Shariah quality approaches:

The Shariah Group continued to focus on the Shariah quality of the bank's services and products in response to the hopes and aspirations of its customers and shareholders as a pioneering Islamic bank. To achieve this, it adopted the following three approaches:

(1) Creativity and innovation in the bank's products and services in cooperation with the various departments of the bank, provided that these products and services combine the Shariah discipline with achievement of the customers' aspirations. In this regard, several products and services have been offered, including real estate financing products and credit cards products.

(2) Intensifying examinations and reviews of the bank's operations to ensure that all the operations of the bank and its subsidiaries are compliant with the provisions of Islamic Shariah, and submitting quarterly reports to the bank's Shariah Board.

(3) Taking care of research and information gathering; as Shariah Group realizes that maintaining the bank's position as a distinguished entity in the field of Islamic financial services requires giving considerable importance to this aspect. Hence, Research and Development Division continued its efforts in collecting information, as well as preparing reports and questionnaires about Islamic finance and its products, and the extent of customers' satisfaction with these products.

These procedures had a profound impact on the vision of community and the bank customers, as they raised the level of confidence in it as a full Shariah-compliant bank, and contributed to receiving many awards in the field of Islamic financial services.

The Shariah Group of Bank AlJazira participated (with its counterparts of other banks whose transactions are fully compliant with the provisions of Islamic Shariah in the Kingdom, namely: Al Rajhi Bank, Bank AlJazira, Bank Albilad, and Alinma Bank) in organizing and sponsoring the Shariah forums of Islamic banks in Saudi Arabia. The role of Shariah Group was organizing the fourth forum and sponsoring it under the title: *"Altakyif Alshar`i li Alhisab Aljari wa Alathar Almutarattibah `Alayh"* (Shariah Adaptation of the Current Account and Its Consequences). The forum was held in Riyadh, on Wednesday 25/4/1432 AH (corresponding to 30/3/2011 AD), in participation with the members of Shariah Committee of Bank AlJazira, the members of other Shariah committees, and a number of scholars, experts and researchers in Islamic finance. The proceedings of the forum were documented, edited and published within the publications of Shariah Group of Bank AlJazira as previously mentioned.

2/3/4
Islamic Finance Products in Bank AlJazira

Bank AlJazira adopted its distinguished strategy in offering and developing new financial services and products compliant with the provisions of Islamic Shariah. The bank's success in these services and products -which were offered in the Saudi financial market for the first time- encouraged it to continue developing more Islamic financial products and services to create more investment and financing opportunities achieving the aspirations of various segments of its customers, along with devoting its efforts to making these products familiar to the community by explaining how they operate.

The bank provided its customer with financial products compliant with the provisions of Islamic Shariah based on the principle of avoiding interest through using the International Financial Reporting Standards (IFRS), which conform to the accounting policies set out in these financial statements, after being approved by the Shariah Committee of Bank AlJazira.

Bank AlJazira worked on devising a number of financial products compliant with the Islamic Shariah provisions, whether in the field of mobilizing the financial resources or utilizing and developing these resources. The following are a short description of some of these products:

"Naqa" product:

A product that aims to invest the personal and corporate liquidity through the international commodity market. This product represents the Shariah-compliant alternative to the issuance of conventional time deposit, whether for individuals or institutions. Through this product, Bank AlJazira provides customers with an investment product compliant with the provisions of Islamic Shariah, on the basis of providing a specific amount of money to the customer for the purpose of investment, and the bank will act on behalf of the customer to purchase a commodity for the amount invested at a spot price from the international commodity market, then the customer sells the commodity to Bank AlJazira at a deferred price for a fixed term and specified profit margin agreed upon between the two parties, which represents the investment profit for the customer.

"Dinar" product:

A product that aims to provide cash liquidity for personal and corporate by way of Tawarruq-based financing through the international and local commodities. This product represents the Shariah-compliant alternative to cash financing (conventional loan) whether for individuals or institutions. Through this product, Bank AlJazira provides customers with a financing product compliant with the provisions of Islamic Shariah, based on the customer's request for a specific amount of money, so the bank buys a commodity for itself from the international commodity market at a spot price, then sells it to the customer at a deferred price for a fixed term and specified profit margin agreed upon between the two parties, which represents the financing profit for Bank AlJazira.

"Tamam" product:

A product through which the bank purchases shares and then sells the same to customers through a Murabahah-based transaction. This product represents the Shariah-compliant alternative to margin trading (buying on margin) in which the conventional bank provides a loan to the customer including a portion of the value of the customer's portfolio with a condition to mortgage the portfolio and invest it by the bank.

"Tamam" product is based on selling shares pre-owned by Bank AlJazira to the customer at his request, and their value are equivalent to the value of the customer's portfolio. The shares are sold at a deferred price to be paid after only one year, with a condition to mortgage the portfolio. If the value of these shares decreased by a certain percentage of the financing amount (not of the total value of the portfolio), then the customer would be alerted to that. If such decrease continued, Bank AlJazira -with a prior authorization from the customer -would sell shares from the portfolio as much as needed to pay off the financing debt. This was the most important product offered by Bank AlJazira in the phase of completing the transformation process, and it helped support this experience.

"Wakalah-based Investment for Customers in the International Commodity Market" product:

Through this product, the customer provides a specific amount of money for the purpose of investment, then he authorizes Bank AlJazira to purchase a commodity on his behalf from a third party in the international commodity market for the amount invested at a spot price. Then the customer authorizes Bank AlJazira to sell the commodity to a fourth party at a deferred price for a fixed term and specified profit margin agreed upon between the two parties, which represents the investment profit for the customer.

Insurance program "Takaful":

A product used to provide Islamic Shariah-compliant savings and protection. It is a Shariah-compliant alternative to the concept of traditional life insurance (known as whole life insurance). This product is based on Wakalah (agency) form, approved by Bank AlJazira since 2001. Since then, Bank AlJazira has certainly led the way in the Middle East in providing a Takaful insurance program based on Wakalah form, which is based on collecting policyholders' subscriptions to the Takaful Fund and distributing them to the subscribers' saving accounts and donation accounts. Bank AlJazira manages this Fund in return for specified fees and administrative expenses, and invests the Fund's resources in contracts and instruments compliant with the provisions of Islamic Shariah, and the investment profits are shared as agreed upon. The amounts of the subscribers' saving accounts are paid upon death or at the end of the insurance program, while the amounts of the subscribers' donation accounts are paid when compensation, cooperative reinsurance, reserves, or administrative expenses are realized.

Islamic Investment Funds:

They include: Al-Qawafel Commodities Trading Fund, Al-Taiyebat Saudi Equities Fund, Al-Khair International Equities Fund, Al-Mashareq Japanese Equities Fund, and Al-Thoraiya European Equities Fund.

"AlJazira Islamic Visa Card" product:

This product is the Shariah-compliant alternative to traditional revolving credit account (credit card), so as to arrange the subsequent Tawarruq-based financing form when the customer desires to postpone the card payment maturity.

"Investment Real Estate" product:

This product targets personal banking sector. It is based on the customer's ownership of the real estate for investment purposes, where Bank AlJazira buys a leased real estate and sells it to the customer at a deferred price, with authorization of Bank AlJazira to manage the real estate and collect its proceeds. The customer provides an appropriate advance payment of the real estate price amounting to a third of its value, then Bank AlJazira completes the payment of the real estate price from the real estate proceeds. This form is distinguished from the real estate finance product in terms that the source of payment is the real estate proceeds and not the customer's salary, and that the purpose of real estate finance is housing, unlike the investment real estate product.

Bank AlJazira was distinguished in offering this product to the extent that it, at some point, reached a market share and customer base of up to 30% of the growth rate in the real estate sector in Saudi Arabia. This enhanced the bank's presence in the community in terms of Shariah-based aspect and the financial stability.

"Islamic Treasury" products:

Treasury of Bank AlJazira offers a set of Islamic products and solutions compliant with the provisions of Islamic Shariah to satisfy the needs of the customer, such as products related to the international and local markets for equities, metals, oil, currencies. It also provides innovative solutions compliant with the provisions of Islamic Shariah to hedge against price fluctuations and currency market, which responds to the needs of customers for modern Islamic finance.

"Islamic Financing Sukuk" product:

Sukuk are a Shariah-compliant alternative to conventional bonds based on interest-bearing loans, and they represent portions in a specific project or activity. Sukuk product has faced a number of technical, legal and legitimate problems since it issuance and spread in 2001 until Bank AlJazira succeeded in 2011 in devising a leading form adopted by the Ministry of Finance in issuing Sukuk of the Government of Saudi Arabia.

Bank AlJazira has issued the following types of Sukuk:

(1) Mudarabah and Murabahah Sukuk

This product managed to overcome many problems related to the risks of Sukuk and their credit rating. Its form is simply based on dividing the proceeds of Sukuk, which represent the nominal value, into two portions:

The first portion represents 51% of the nominal value, through which the Sukuk holders' agent enters into a Mudarabah contract with the issuer (originator). Thus, it represents the majority of the Sukuk's assets, which legitimately allows trading in this security.

The second portion represents the remaining, which is 49% of the nominal value, through which the Sukuk holders' agent enters into a Murabahah contract with the issuer (originator) by selling international commodities to him at a specific deferred price in his liability, and the profit rate is determined to be equal to the entire nominal value of the issuance at the end of the period, which allows the credit rating of these Sukuk.

(2) Basel III Standards Sukuk:

In May 2016, Bank AlJazira maintained its leadership in the Sukuk market by finding a formula for ranking creditors as imposed by Basel III Standards on those banks who are wishing to issue first tranche Sukuk to be rated within the additional capital in equities which allows these banks to expand credit. Bank AlJazira managed to make reconciliation between the Shariah provisions and the banking laws which gave deposit holders absolute precedence over all bank creditors, even if the contractual relationship between depositors and Sukuk holders is the same, as in the case of Mudarabah contract that requires equality and participation, by rendering the accruals of Sukuk holders as a documentation of Bank AlJazira's debts owed to others with a prior approval of the Sukuk holders, and this falls into the partner's guarantee of the debts of his partner in his own wealth.

Paragraph (9) of the Shariah Committee's decision regarding Bank Al-Jazira's Sukuk stated:

> "Sukuk holders agreed and authorized Bank AlJazira to render the Sukuk assets as a mortgage (Rahn) to document the existing debts of Bank AlJazira owed to other parties (bank's liabilities), in the event that the assets of the bank are insufficient to pay off these liabilities before the expiry of Sukuk term, and this does not include the rights of shareholders."

Chapter

4

Positive Aspects of Bank AlJazira's Transformation Experience

Preface

Bank AlJazira's transformation from traditional finance to Islamic finance is a pioneering and unprecedented experience in the Kingdom of Saudi Arabia. This transformation was a result of internal self-help efforts and sincere will, which led to building up substantial expertise of the bank employees during the transformation phases. This unique experience has many positive aspects, which can be summarized as follows:

2/4/1
Impact of Bank AlJazira's Transformation on Financial Performance

We have previously mentioned that the bank, before initiating the transformation phases, was on the verge of failure when the share's value reached SAR 109 (before dividend), compared to a return of SAR 30 million beforehand. However, by the end of the transformation phases at the end of 2006, the return reached SAR 2.5 billion, and the bank became a competitive financial strength after it was classified as the smallest bank in Saudi Arabia. With the onset of the global financial crisis in 2008, some positive aspects of the transformation appeared, as the choice of Bank AlJazira to move towards Islamic finance helped protect the bank from the effects of this crisis.

The year 2009 can be described as the year of laying the foundations of future growth and diversifying the bank's products and services. Throughout this year, the capabilities of the bank and its employees were enhanced through obtaining the necessary skills and potentials enabling the maximum utilization of the foreseeable future opportunities. Among the important achievements of this year was to double the number of branches to reach 48 branches. In the same year, Bank AlJazira sought to obtain the ISO certification for its operations to ensure the quality of practices and services provided through these operations. Since then, many operatiosn departments have obtained the ISO certification making Bank AlJazira the first Saudi bank to get such a certification.

Bank AlJazira managed to maintain stable and positive performance rates, and to build up a solid base to pursue the achievements it aspires to until completing the transformation. Throughout 2009, the bank began to reduce the operating expenses by 8.3%, while the total assets increased to 8.9%, valuated at SAR 30 billion. Also, the bank's customers base recorded a remarkable increase of 40%, and the deposits increased to SAR 22.1 billion, compared to their level in 2008 which valuated at SAR 20.9 billion.

The net of financing contracts increased to SAR 15.1 billion in 2008, while they amounted to SAR 15.5 billion in 2009. In addition, the bank promoted the human and technical capabilities providing necessary resources that allow it to improve its readiness and efficiency to achieve qualitative achievements during the next phase.

Moreover, Bank AlJazira implemented more than thirty projects during this year to expand the personal banking services network, the number one priority of the strategic program. The bank also provided innovative products, such as investment real estate characterized by promptness and efficiency, and through which the bank managed to acquire a distinct market share in the sector of real estate financing as previously mentioned.

The bank sought to achieve the AFAQ 2012 strategic plan based on diversifying activities and increasing Islamic financial products that are in line with the aspirations of its customers, in order to ensure that the bank becomes an integrated multidisciplinary financial group.

In 2010, with the consequences of the financial crisis whose impacts were reflected on the performance of the financial sector in general, Bank AlJazira realized net profits growing by 7% compared to the previous year, valuated at SAR 29 million, while achieving a growth in the assets size by 10%, valuated at more than SAR 33 billion.

The bank succeeded to reduce the losses in the last quarter of the same year to about 90%, and to increase the operations income by 40% to reach SAR 262 million. It managed also to raise the volume of investments for 2010 to SAR 4,546 million, compared to SAR 4,284 million in 2009, with a growth of 6%. On the other hand, the financing portfolio increased by 21%, from SAR 15,504 million to SAR 18,704 million.

At the extraordinary general assembly meeting held on 10 April 2017, the bank shareholders agreed to increase the bank's capital from SAR 4 billion to SAR 5.2 billion through a rights issue of shares valuated at SAR 1.2 billion.

In April 2018, the Capital Market Authority (CMA) announced the approval of Bank AlJazira's request to increase its capital through a rights issue of shares from SAR 5.2 billion to SAR 8.2 billion.

Development of Bank AlJazira's financial performance from 2004 to 2019:

The following is a careful monitoring of the development of Bank Al-Jazira's financial performance during and after the transformation process, and until the time of preparing this study, given that all amounts are in SAR thousands.

First: Bank profits development

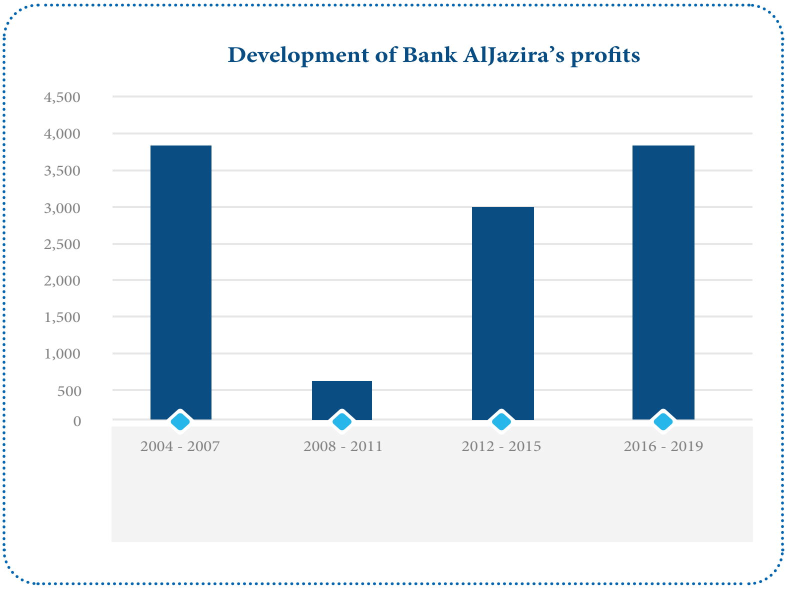
The bank recorded a net profit before Zakat and income tax of SAR 1,122 million for the year ended December 31, 2019. This represents an increase of SAR 121.7 million, 12.2% of the profits achieved by the bank for the year ended 2018, valuated at SAR 1,000,3 million.

The net income after Zakat and income tax for the year ended December 31, 2019 amounted to SAR 991 million. This represents an increase of SAR 613 million, 162% of the profits achieved by the bank for the year ended 2018, valuated at SAR 378.3 million.

Table 7: Comparing Bank AlJazira's profits during 2004-2019

Period	Profits				Total
	1	2	3	4	
2004-2007	187	874	1,974	805	3,840
2008-2011	222	28	29	303	582
2012-2015	500	651	572	1,287	3,010
2016-2019	872	858	1,000	1,122	3,852

Fig. 7: Bank profits development chart



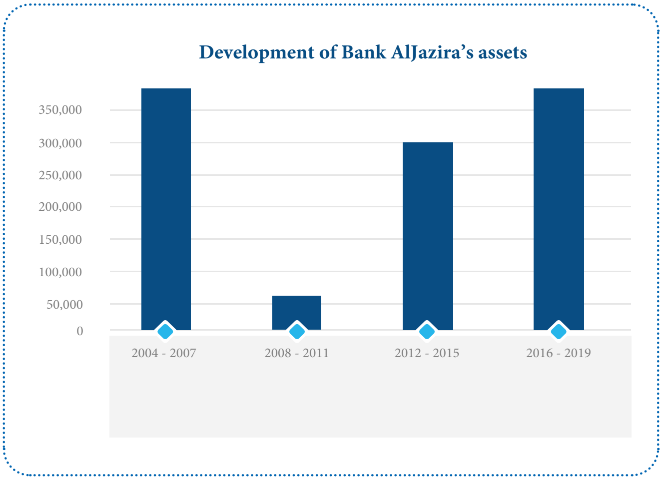
Second: Bank assets development

The bank's total assets amounted to SAR 86.5 billion at the end of 2019, compared to SAR 73 billion in 2018, representing an increase of 18.5% over the previous year.

Table 8: Comparing Bank AlJazira's assets during 2004-2019

Period	Assets				Total
	1	2	3	4	
2004-2007	10,721	14,168	15,712	21,563	62,164
2008-2011	27,520	29,977	33,018	38,898	129,413
2012-2015	50,781	59,976	66,554	63,264	240,575
2016-2019	66,319	68,287	73,003	86,544	294,153

Fig. 8: Bank assets development chart



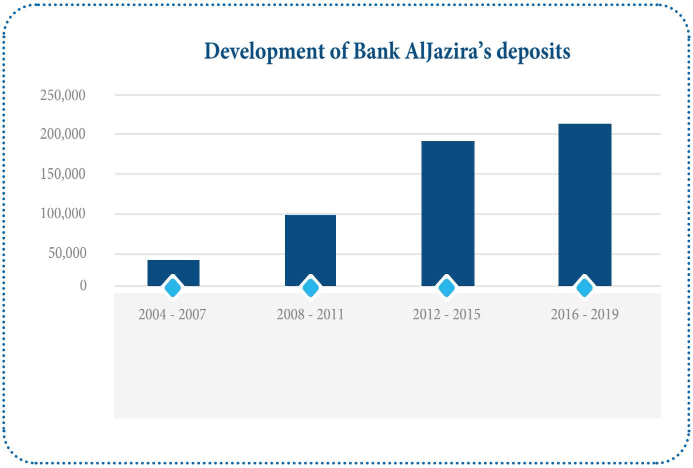
Third: Bank deposits development

Customers' deposits into Bank AlJazira increased to SAR 62.7 billion at the end of 2019, compared to SAR 51.8 billion at the end of 2018, representing an increase of 21%. This increase in customers' deposits is mainly related to the increase of investment deposits by 26.6%, from SAR 23.9 billion to SAR 30.3 billion, and the increase of current deposits by 15.9%, from SAR 26.6 billion to SAR 30.8 billion.

Table 9: Comparing Bank AlJazira's deposits during 2004-2019

Period	Deposits				Total
	1	2	3	4	
2004-2007	8,141	10,816	10,917	15,647	45,521
2008-2011	20,900	22,143	27,345	31,159	101,547
2012-2015	40,675	48,083	54,569	49,674	193,001
2016-2019	51,602	50,278	51,804	62,696	216,380

Fig. 9: Bank deposits development chart



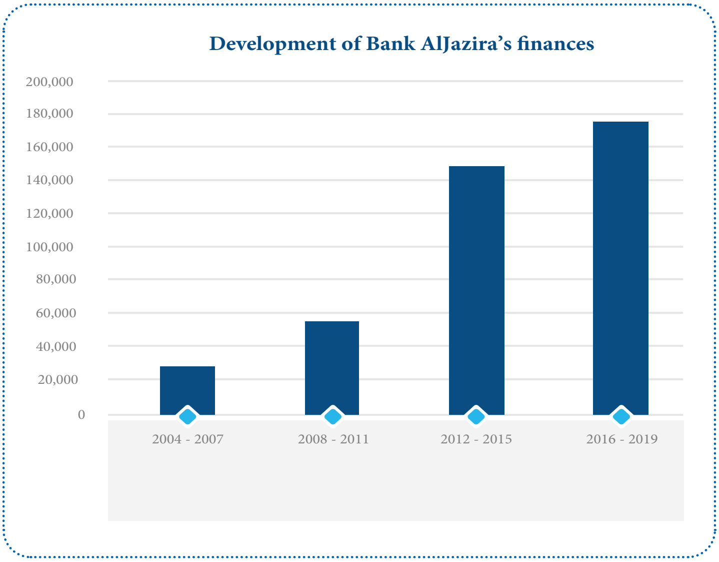
Fourth: Bank finances development

The bank's net finances amounted to SAR 49 billion at the end of 2019, with an increase of 21.4%, compared to SAR 40.9 billion in 2018. Bank AlJazira continued to diversify its financing portfolio in various sectors and worked on expanding its customers base.

Table 10: Comparing Bank AlJazira's finances during 2004-2019

Period	Finances				Total
	1	2	3	4	
2004-2007	5,186	6,910	6,271	9,879	28,246
2008-2011	15,131	15,504	18,704	23,307	72,646
2012-2015	29,897	34,995	41,245	41,863	148,000
2016-2019	42,099	39,790	40,897	49,660	172,446

Fig. 10: Bank finances development chart



Fifth: Growth indicators

Indicator	Profits	Assets	Deposits	Finances
Growth rate for the first period	-84%	108%	123%	157%
Growth rate for the second period	417%	85%	90%	103%
Growth rate for the third period	28%	22%	12%	16%

By the end of the first quarter of 2020, coincided with the spread of coronavirus (COVID-19) pandemic that ravaged the world, Bank AlJazira, like other banks and financial systems, suffered a decrease in profits valuated at SAR 347.4 million at the end of the first half of 2020, representing 29% compared to profits of SAR 486.8 million achieved during the same period of 2019, as shown in the following table:

Table 11: Comparing profits of the first half of 2020 to the previous similar period of 2019

Item	6 Months (2019)	6 Months (2020)	Change %
Net special commission income	991,37	1,141,80	15.2%
Operations income	1,410,23	1,558,32	10.5%
Net income	486,83	347,38	-28.6%
Average number of shares	820	820	-
Earnings per share (SAR)	0,59	0,42	-28.6%

The bank stated that the decrease in profits was attributed to the increase in operations expenses by 32%, which was mainly caused by the increase in the net impairment charge for credit losses, Salaries and employee-related expenses, other general and administrative expenses, depreciation and amortization expenses. The effect of this increase was partially offset by decrease in other expenses such as rent and premises-related expenses, as well as the decrease in the net banking fees, commission income and the net profits from selling financial assets measured at amortized cost.

2/4/2
Leadership and Innovation in Islamic Finance Products

Bank AlJazira has never abandoned the idea of transformation into Islamic finance; rather, it had a pioneering impact on the development of the Islamic finance sector by working on innovating Islamic finance products competing with traditional products. This approach had an impact on other Islamic financial institutions in terms of benefiting from these initiatives, and it was reflected positively on the financial sector in general.

The following is a review of some Islamic financial products innovated and provided by Bank AlJazira, unprecedented by any other local or international Islamic financial institutions:

(a) Stock trading through margin financing product (Tamam)

Bank AlJazira worked on innovating a Shariah-compliant financing product, which aims at purchasing shares and selling them to customers by means of Murabahah. The product is intended to be a Shariah-compliant alternative to the traditional product for purchasing shares on margin in which the conventional bank provides a loan to the customer including a portion of the value of the customer's portfolio with a condition to mortgage and invest it through the bank.

"Tamam" is one of the most important products offered by Bank AlJazira in the phase of completing the transformation process, and it helped support this experience.

Product description:

This product is based on selling shares pre-owned by Bank AlJazira to the customer at his request, and their value are equivalent to the value of the customer's portfolio. The shares are to be sold at a deferred price to be paid after only one year, with a condition to mortgage the portfolio. If the value of these shares decreased by a certain percentage of the financing amount (not of the total value of the portfolio), then the customer would be alerted to that. If such decrease continued, Bank AlJazira, based on a prior authorization from the customer, would sell shares from the portfolio as much as needed to pay off the financing debt.

Product advantages:

This product represents a Shariah-compliant alternative to margin trading (buying on margin).

Issuance date:

This product was issued under the resolution of the Shariah Committee of Bank AlJazira No. (17), dated: 21/11/1420 AH, corresponding to 27/2/2000 AD.

(b) Insurance program (Takaful)

A product that aims to provide Shariah-compliant savings and protection. It is a Shariah-compliant alternative to the concept of traditional life insurance (known as whole life insurance). This product is based on Wakalah (agency) form, approved by Bank AlJazira (Aljazira Takaful Company) since 2001. Since then, Bank AlJazira has certainly led the way in the Middle East towards providing a Takaful insurance program based on Wakalah form.

Product description:

This product is based on collecting policyholders' subscriptions to the Takaful Fund and distributing them to the subscribers' saving accounts and donation accounts. Bank AlJazira takes the charge of managing this Fund in return for specified fees and administrative expenses. It also invests the Fund's resources in contracts and instruments compliant with the provisions of Islamic Shariah, with the investment profits shared as agreed upon. The amounts of the subscribers' saving accounts are paid upon death or at the end of the insurance program, while the amounts of the subscribers' donation accounts are paid in cases when compensation, cooperative reinsurance, reserves, or administrative expenses are realized.

Product advantages:

- A Shariah-compliant alternative to the traditional life insurance (known as whole life insurance).
- A saving program to develop policyholders' subscriptions by means of investing them in Shariah-compliant saving programs.

Issuance date:

This product was issued under the resolution of the Shariah Committee of Bank AlJazira No. (1), dated: 6/5/1421 AH, corresponding to 6/8/2000 AD.

(c) Islamic Financing Sukuk product

Sukuk are a Shariah-compliant alternative to conventional bonds based on interest-bearing loans. They represent portions in a specific project or activity. This investment instrument entered the Islamic financial market, and spread in the applications of Islamic financial institutions in the Gulf and global market since 2001. However, Sukuk product faced a number of technical, legal and Shariah problems since their issuance.

Then the Islamic financial institutions sought to address these problems according to their capabilities. Among these institutions was Bank AlJazira, which developed pioneering initiatives in addressing the problems of Sukuk product through issuing the following types of Sukuk:

1- Mudarabah and Murabahah Sukuk:

In 2011, Bank AlJazira managed to develop a pioneering form that could overcome these technical, legal and Shariah problems appeared with the first issuance of Sukuk product. This form has become the basic standard and the approved structure for Sukuk issuances worldwide. About 90% of Sukuk issuances around the world have adopted this form, and among these issuances are the Saudi Arabian Government Sukuk.

Product description:

This product is simply based on dividing the proceeds of Sukuk, which represent the nominal value, into two portions:

The first portion represents 51% of the nominal value, through which the Sukuk holders' agent enters into a Mudarabah contract with the issuer (originator). The contract entails using this portion as a Mudarabah (speculation) capital in the issuer's activity.

The second portion represents the remainder, which is 49% of the nominal value, through which the Sukuk holders' agent enters into a Murabahah contract with the issuer (originator). The contract entails selling international commodities to the issuer at a specific deferred price in his liability. The profit margin, hence, is determined by making the entire Murabahah price (principal and profit) equal to the nominal value of the entire issuance.

Product advantages:

- The first portion of this form qualifies these Sukuk to be negotiable, taking into account the predominance criterion indicated by collective Ijtihad (i.e., legal reasoning and discretion). This is because the subject matter of these negotiable Sukuk are portions in real investments, not debts.
- The second portion (of the Sukuk assets invested in Murabahah contract) represents a protection for the Sukuk capital (the nominal value).
- The second portion of this form qualifies these Sukuk to be rated by credit rating agencies, as they make the nominal value's equivalent as a debt established in the issuer's liability.

Issuance date:

This product was issued under the resolution of the Shariah Committee of Bank AlJazira No. (135), dated: 10/3/1432 AH, corresponding to 13/2/2011 AD.

2- Ranking creditors in Sukuk issued under Basel III Standards:

In May 2016, Bank AlJazira maintained its leadership in the Sukuk market by finding a formula for ranking creditors as imposed by Basel III Standards on those banks wishing to issue first or second tranche Sukuk to be rated within the additional capital in equities which allows these banks to expand credit.

Thus, Bank AlJazira managed to make a reconciliation between the provisions of Shariah and the banking laws which gave deposit holders absolute precedence over all bank creditors. The bank rendered the accruals of Sukuk holders as a documentation of Bank AlJazira's debts owed to others with a prior approval of the Sukuk holders.

Product description:

The bank issues Mudarabah-based Sukuk between it and the Sukuk holders (as in the first tranche), or issues Mudarabah-based and Murabahah-based Sukuk between it and the Sukuk holders (as in the second tranche).

These issues involve a set of provisions and conditions repeated in other Sukuk issues, including those imposed by the Basel Committee on Banking Supervision (BCBS) on Sukuk issued by banks aiming at expanding credit to achieve capital adequacy standards for the issuing bank.

Among these conditions:

1- The amounts owed to the Sukuk holders shall be in a lower accrual rank (subordinated or junior creditors) than the accruals of priority depositors and creditors of the issuing bank (senior creditors). Accordingly, in case the issuing bank goes into liquidation or bankruptcy, the amounts due to the Sukuk holders will not be paid until after the payment of the accruals of the priority creditors.

2- If the central bank classifies the issuing bank as non-viable, then the central bank may determine the value of Sukuk assets and the Sukuk holders' deductible accruals from these assets. By doing so, the issuing bank can maintain its activities, and the remaining portion, if any, will be accrued to the Sukuk holders.

The forms of these Sukuk were subject of debate as to their compliance with the Shariah contracts upon which these forms were based.

Bank AlJazira, represented by the Shariah Committee, has devised a Shariah-compliant formula to address such a type of conditions. The assets of these Sukuk, with the approval of the Sukuk holders in documents and prospectus, are to be contingent on documenting the existing debts of the issuing bank, if the issuer's assets are insufficient to pay off those liabilities.

Product advantages:

- Increasing the credit capacity of Sukuk issuers.
- Raising the returns for Sukuk holders of Class B due to the expansion of the financing market.
- The ability to trade in these Sukuk as they represent portions of investments, not debts.

Issuance date:

This Product was issued under the resolution of the Shariah Committee of Bank AlJazira No. (172), dated: 6/1/1437 AH, corresponding to 19/10/2015 AD, and took effect in 2016 AD.

2/4/3
Social Responsibility in Bank AlJazira

Since the completion of its transformation into Islamic finance, Bank Al-Jazira has performed a prominent work in serving the Saudi citizens through social responsibility programs. This is to highlight the management's belief in its responsibility towards the community, and the need to carry out the humanitarian work entrusted to financial institutions to raise the level of the individual and community institutions.

The bank has implemented this orientation through establishing the Social Responsibility Group. This group has been entrusted with implementing many projects and activities directed to both individuals and institutions of the Saudi community with regard to the developmental, humanitarian, cultural, social and national fields throughout Saudi Arabia.

Bank AlJazira's social responsibility goals:

Bank AlJazira seeks to achieve a set of goals through social responsibility, which can be summarized as follows:

1- Implementing the bank's main activities in a responsible way by putting community individuals on top of the bank's priorities.

2- Achieving maximum sustainability and common value with the competent parties within the system in which the bank conducts its business.

3- Taking into consideration the social effects of the services and products provided by the bank.

4- Preventing and minimizing potential negative effects resulting from the bank's activities.

5- Contributing to the training and qualification programs for male and female aiming at closing the skill gap in the labor market and to meet the heavy demand on human capital and promising talents.

6- Participating in the training and qualification programs for people with special needs.

7- Financing professional and productive families' projects in a bid to support the needy persons of the community.

8- Participating in the social entrepreneurship projects and business incubators, as well as building the capacities of the non-profit sector.

9- Participating in the activities and programs for environment protection against pollution and other environmental damages.

10- Promoting and encouraging positive moral behaviors, and adopting charitable and voluntary initiatives.

11- Supporting and participating in the national and Islamic events relating to social responsibility and Islamic finance.

12- Promoting the principles of solidarity and assistance offered to the bank staff under a charitable framework (Ikhaa).

"Khair Aljazira le Ahl Aljazira" program:

At the end of 2006, Bank AlJazira initiated the program of "Khair Aljazira le Ahl Aljazira" for which the board of directors allocated SAR 100 million to be implemented in phases. The program aims to support and sponsor initiatives and main programs directed to the development of community in accordance with Shariah principles. The program is implemented in cooperation with governmental and non-governmental institutions that have contributions to charitable and social work.

The program takes into account the three pillars defined by the World Business Council for Sustainable Development (WBCSD), which are: economic growth, ecological balance and social progress.

To supervise and implement the program, the board of directors formed a high committee, that directly reports to the board, and issued an implementing regulation for this committee. The committee's regulation has set overall goals for "Khair Aljazira le Ahl Aljazira" program, including:

1- Activating and highlighting the bank's role in serving the community through "Khair Aljazira le Ahl Aljazira" program.

2- Participating actively in the social responsibility programs throughout the Kingdom.

3- Building bridges of cooperation and communication between the bank, and the institutions and agencies concerned with social responsibility programs.

4- Establishing qualitative partnerships with the governmental, private and non-profit sectors throughout the Kingdom in a way that contributes to highlighting the bank's role in advancing the sustainable development process.

5- Supporting distinguished programs to accommodate male and female youth, in a manner that serves future generations and develops their capabilities, while focusing on the neediest segments such as orphans, poor and people with special needs.

6- Providing financial support to productive families, as female youth receive training in fashion design, tailoring, cosmetics, embroidery, etc. in a bid to improve their living standards.

Bank AlJazira's general assembly approved this program. The bank's board of directors supervises its activities through a sub-committee called the High Committee of the "Khair Aljazira le Ahl Aljazira" Program.

Bank AlJazira implemented such programs in cooperation with stakeholders involved in business development. The bank is committed to implement "Khair Aljazira le Ahl Aljazira" program according to the regulations and instructions issued by Saudi Central Bank with regard to social responsibility. The following is a brief overview of the social responsibility programs in Bank AlJazira:

First: "Training and Qualification" program (Tamkeen)

In order to prepare male and female youth for the labor market, focusing on the vocational and cognitive qualification of a large number of them, the program has provided many training courses that contribute to empowering young people with the tools and skills that help them in making their future and honing their talents in cooperation with voluntary associations and a number of specialized institutes in different regions and governorates of the Kingdom.

Table 12: Statistics for beneficiaries of "Training and Qualification" program

Year	Number of Beneficiaries
2008	859
2009	836
2010	2,665
2013	161
2014	1,474
2015	1,635
2016	4,353
2017	870
2018	1,615
2019	1,669

Fig. 11: Development of "Training and Qualification" program

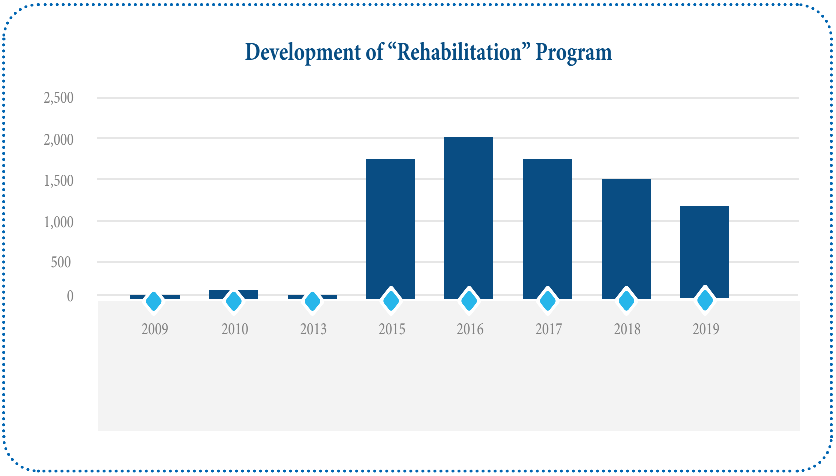
Second: "Rehabilitation" program (Special Needs)

The suffering of people with disabilities is linked to family, health and economic matters. The program worked to solve this suffering and address its various aspects in partnership with specialized institutions (governmental and private) in the areas of disability and in cooperation with health charities and specialized centers.

Table 13: Statistics for beneficiaries of "Rehabilitation" program

Year	Number of Beneficiaries
2009	74
2010	130
2013	71
2015	1,724
2016	2,040
2017	1,341
2018	1,548
2019	1,255

Fig. 12: Development of "Rehabilitation" program



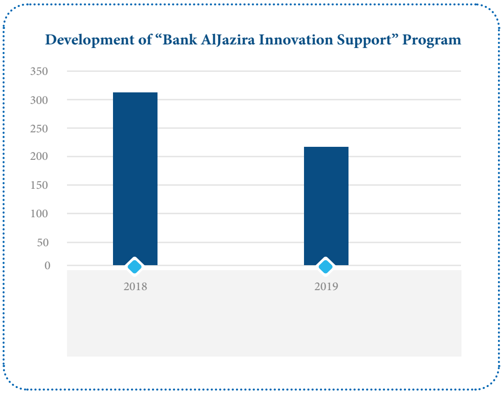
Third: "Bank AlJazira Innovation Support" program (Mobtakeroun)

Innovation as well as entrepreneurial skills are an important foundation for achieving the objectives of Vision 2030. The bank has sought to train and qualify young people to acquire these skills through a qualitative program that represents a business incubator for entrepreneurs and innovators in various economic, industrial and technical fields as "Mobtakeroun".

Table 14: Statistics for beneficiaries of "Bank AlJazira Innovation Support" program

Year	Number of Beneficiaries
2018	345
2019	254

Fig. 13: Development of “Bank AlJazira Innovation Support” program



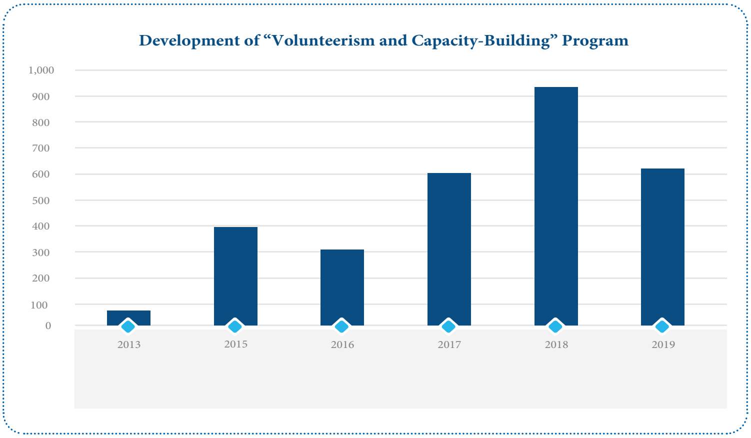
Fourth: “Volunteerism and Capacity-Building” program

The bank is responsible for the development of social work in the Kingdom as it represents the executive arm of the field. Therefore, it was keen to develop leaderships in charitable and social nonprofit organizations and voluntary teams in terms of developing leadership and management skills, as well as introducing the latest methods in managing charitable work and how to activate them.

Table 15: Statistics for beneficiaries of “Volunteerism and Capacity-Building” program

Year	Number of Beneficiaries
2013	78
2015	420
2016	255
2017	658
2018	990
2019	670

Fig. 14: Development of "Volunteerism and Capacity-Building" program



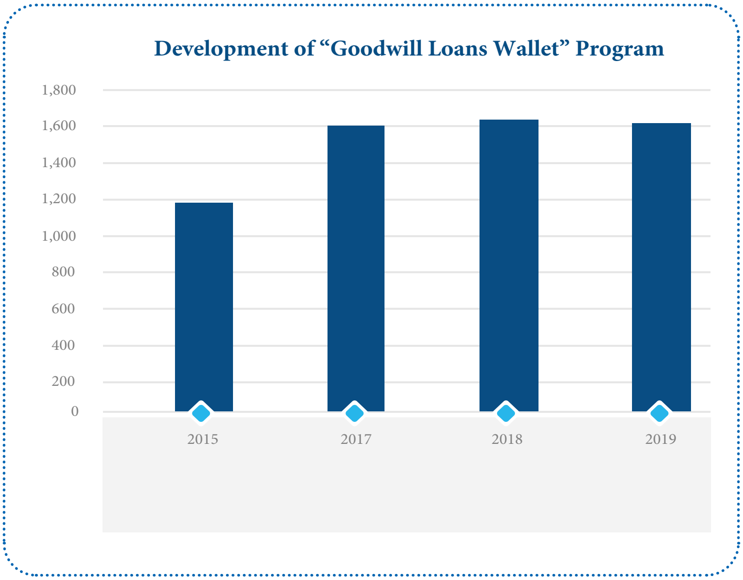
Fifth: "Goodwill Loans Wallet" program

Goodwill (interest-free) loans are considered successful treatments to reduce the problem of poverty by moving from pastoral solutions to development solutions to the origin of the problem. Therefore, the bank has established a loan portfolio for this purpose through which it signs loan agreement with charities and social development committees located in the regions and governorates of the Kingdom. The aim is to avail male and female youth of loans to finance their small-cap capital, and repay them in convenient installments without any profits or interests.

Table 16: Statistics for beneficiaries of "Goodwill Loans Wallet" program

Year	Number of Beneficiaries
2015	1,260
2017	1,710
2018	1,769
2019	1,710

Fig. 15: Development of “Goodwill Loans Wallet” program



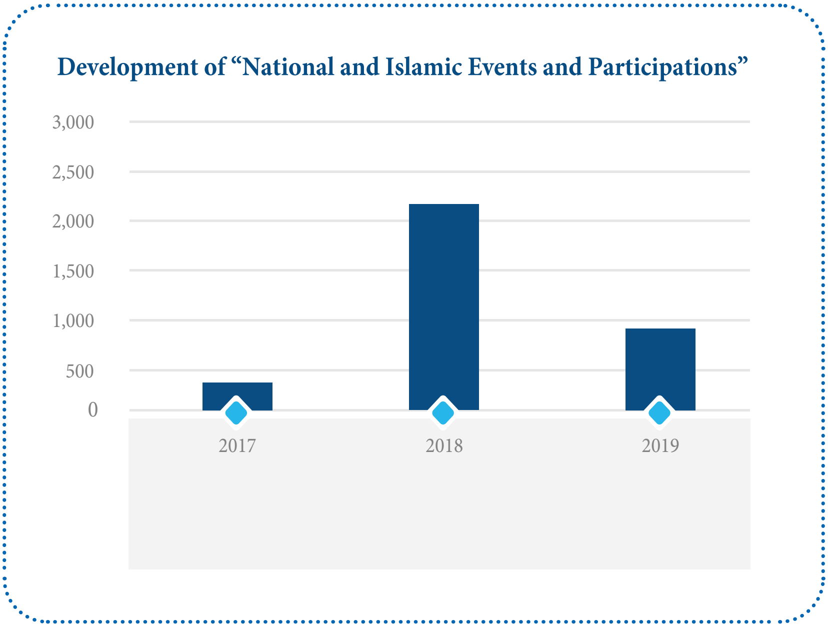
Sixth: “National and Islamic Events and Participations”

The Bank participates, within its social and humanitarian responsibility, in national events and humanitarian campaigns. This comes in response to the call of the wise leadership in the Kingdom of Saudi Arabia either for relief or to cope with natural disasters etc., in addition to supporting specialized studies and research.

Table 17: Statistics for beneficiaries of “National and Islamic Events and Participations”

Year	Number of Beneficiaries
2017	420
2018	2,550
2019	1,060

Fig. 16: Development of "National and Islamic Events and Participations"



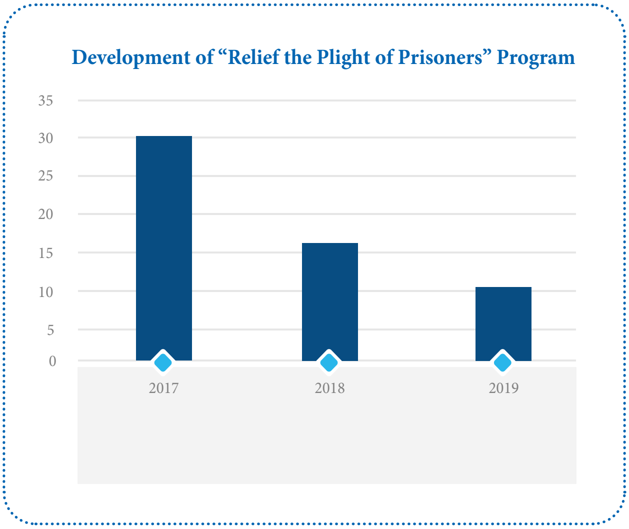
Seventh: "Relief the Plight of Prisoners" program (Tafreej)

As a part of its social and humanitarian responsibilities, the bank participates in providing relief to poor prisoners with financial rights.

Table 18: Statistics for beneficiaries of "Relief the Plight of Prisoners" program

Year	Number of Beneficiaries
2017	32
2018	19
2019	13

Fig. 17: Development of "Relief the Plight of Prisoners" program



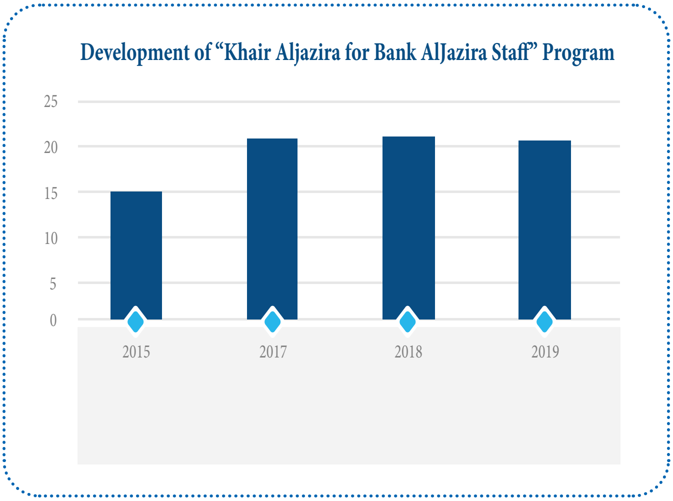
Eighth: "Khair Aljazira for Bank AlJazira Staff" program (Ikhaa)

In order to provide service to the bank's employees and contribute to bear some of the burdens facing them, the "Khair AlJazira for Bank AlJazira Staff" program contributes to supporting their needs (physical, health, educational, etc.).

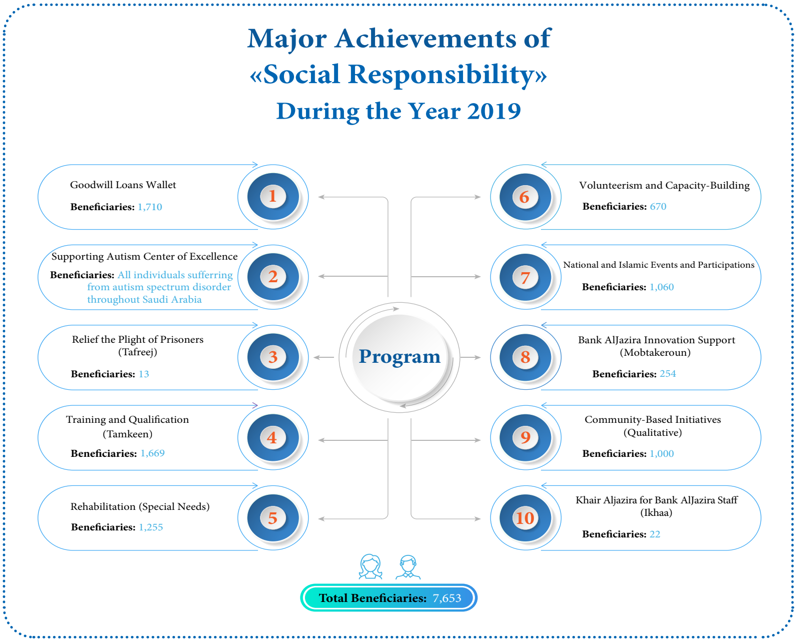
Table 19: Statistics for beneficiaries of "Khair Aljazira for Bank AlJazira Staff" program

Year	Number of Beneficiaries
2015	16
2017	22
2018	22
2019	22

Fig. 18: Development of "Khair Aljazira for Bank AlJazira Staff" program



The following figure shows an example of the areas of benefitting from this program within the "Social Responsibility" project for the year 2019:



2/4/4
Bank AlJazira Awards

Bank AlJazira was granted a number of awards and recognitions locally, regionally, and internationally which reflects a positive case of Bank AlJazira's transformation into Islamic finance. Some of these remarkable awards are as follows:

The Financial Academy Award (2019):

Bank AlJazira received "The Financial Academy Award" for the year 2019, in recognition of the bank's outstanding efforts in developing and educating its staff in the field of financial sector.

Change Leaders Award (2019):

Bank AlJazira received the "Change Leaders Award for the Private Sector" for the year 2019, during the 10th Business Management Forum.

Most Innovative Islamic Bank Award (2019):

Bank AlJazira received the "Most Innovative Islamic Bank Award", Saudi Arabia 2019, awarded by International Finance Magazine.

Most Innovative E-Banking Platform Award (2019):

Bank AlJazira received the "Most Innovative E-Banking Platform Award", Saudi Arabia 2019, awarded by Global Business Outlook Magazine.

Excellence in Social Work Award (2018):

Bank AlJazira received the "Princess Seetah Bin Abdulaziz for Excellence in Social Work National Achievement Award" at its 5th Session in 2018.

Best Islamic Digital Banking Award (2018):

Bank AlJazira received the "Critics Choice Best Islamic Digital Banking

Award" (2018), awarded by Cambridge IF Analytica (known as Cambridge International Financial Advisory).

Best Islamic Retail Banking Innovation Award (2018):

Bank AlJazira received the "Critics Choice Best Islamic Retail Banking Innovation Award" (2018), awarded by Cambridge IF Analytica (known as Cambridge International Financial Advisory).

Best Social Responsibility Program (2017):

Bank AlJazira has been awarded the "Best Social Responsibility Program 2017 – KSA", granted by CPI Financial.

Best Islamic Retail Bank in Saudi Arabia (2017):

Bank AlJazira received the "Critics Choice Best Islamic Retail Banking Innovation Award" (2017), awarded by Cambridge IF Analytica (known as Cambridge International Financial Advisory).

Best Islamic Retail Bank in Saudi Arabia (2015):

Bank AlJazira received the "Critics Choice Best Islamic Retail Banking Innovation Award" (2015), awarded by Cambridge IF Analytica (known as Cambridge International Financial Advisory). It is a financial services intelligence house that specializes in developing and utilizing powerful cutting-edge analytical tools to evaluate business data, assess macroeconomic indicators and understand market trends, leadership positioning and brand development relevant to the development of the financial services industry globally.

Ideal Institution Award for Supporting Social and Developmental Actions (2013):

Bank AlJazira received the "Ideal Institution Award for Supporting Social and Developmental Actions - Bahrain" (2013), in recognition of the bank's continuous efforts and distinguished programs in the field of social responsibility and development work.

Best Islamic Bank (2013):

Bank AlJazira received the "Best Shariah Compliant Bank - KSA" (2013), awarded by World Finance (an international magazine specialized in banking and financial markets, which issues an annual comprehensive analysis of the best banks and financial institutions worldwide).

Project Finance Award (2007, 2010 and 2011):

Bank AlJazira received three awards in three different years (2007, 2010 and 2011) from Euromoney Magazine. The first award was for its participation as a main organizer in arranging Shariah-compliant finances for SATORP; a joint venture between refineries and petrochemicals sponsored by Saudi Aramco and Total S.A. The second award was for the bank's participation in financing the first vertically integrated aluminum complex in GCC countries. The third award was for its participation in the financing package for the bauxite and alumina project.

Chapter

5

Lessons from Bank AlJazira's Transformation Experience and Future Outlook of Islamic Finance Industry

2/5/1
Lessons from Bank AlJazira's Transformation Experience

Global economic changes imposed new patterns of people's lives, which changed their view of many aspects of life in various fields and forms. The financial and economic institutions were not away from these changes. The financial sector also had a large share, locally and regionally, in terms of structure and work methodology. Some banks moved towards merger, while others moved towards changing the work methodology and shifting towards new work systems.

The purpose of this change is to replace the prevailing financial patterns with modern patterns that keep pace with people's desires, and achieve the interest of the founders and shareholders of these new entities at the same time.

Bank AlJazira is strongly present in this scene, as its management managed to overcome the risks that could occur as a result of its transformation from a traditional financial institution to an Islamic financial institution. This success came after the bank had determined the way to be followed, and gone through initial experiences that paved the way towards the transformation. This was achieved gradually by introducing new Islamic financial products, and establishing Islamic branches on a phased basis, guided by regional experiences in neighboring countries in the Gulf Cooperation Council. For example, the National Bank of Sharjah transformed from a conventional bank to an Islamic bank in 2002 AD, and its board of directors formed a committee called the Higher Committee of Transformation, entrusted with the task of considering the requirements of the new phase. Then, the Fatwa and Shariah Supervisory Board was formed. Accordingly, the name of the bank was changed, and it is now known as Sharjah Islamic Bank.

Among the banks that went through this experience is the Middle East Bank in the United Arab Emirates. The bank has fully transformed in 2004

AD, and it is now known as Emirates Islamic. The phenomenon also extended to the State of Kuwait, where the Real Estate Bank transformed at the end of 2005 into Islamic finance, and its new name became Kuwait International Bank.

Finally, in April 2019, Dubai Islamic Bank announced the official completion of its legal merger with Noor Bank. The bank's board of directors decided to submit a recommendation to the general assembly to consider acquiring all (100%) of the shares of Noor Bank, after obtaining the necessary approvals from the competent regulatory authorities, and taking the necessary legal measures regarding the evaluation work in accordance with the provisions of Commercial Companies Law.

Perhaps, the common denominator among all these experiences is the transformation from conventional financial system to Islamic financial system, in accordance with a new concept based on gaining customers' satisfaction, in addition to obtaining a share in the financial market.

Moreover, the experiences of comprehensive transformations into Islamic finance that took place in some countries may have contributed to creating the strong belief of Bank AlJazira's founders in the success of the experience. Also, these experiences have indirectly sent positive messages that helped strengthening and increasing the push towards transformation. There are many and fundamental differences among these experiences in terms of distinction, comprehensiveness and decision-making mechanisms. However, the common general feature among them was represented in the careful, gradual, and balanced transformation that took place in accordance with deliberate steps and specific timetables, as occurred in some financial systems. That is, many studies confirmed that the transformation processes were smooth and easy, money has never been sent outside the State, the volume of deposits has never been decreased, and the financial activity has never suffered any decline; rather, people's dealings with banks increased significantly.

Undoubtedly, the phenomenon of Bank AlJazira's transformation into Islamic finance deserves careful study and analysis, as it created a positive image of the Islamic banking, its approach of work, its ability and steadfastness in the face of competition from local and regional banks, and its ability to access financial markets. So, this experience should be benefitted from, documented and shared with the world.

Perhaps, one of the most important lessons learned from Bank AlJazira's experience is the feasibility and effectiveness of the gradual approach of transformation into Islamic finance. It is well-known that gradual approach is one of the features of the Islamic Shariah that should be adopted when solving many of our problems related to economy, society and other fields.

Any new experience must go through sharp turns and great challenges. Bank AlJazira's experience has gone through many challenges that were previously mentioned in its place of this study, but the bank managed to overcome them with the strong will and sincere desire of the bank's management.

According to those engaged in this experience, it has been carried out in a satisfactory manner and in a convenient way. Further, it has established a motive for many banks in the Kingdom of Saudi Arabia to transform into Islamic finance industry. Furthermore, the financial results achieved after transformation have been a major factor in reassuring decision-makers, officials, supervisory authorities and many managements of local conventional banks to adopt this promising experience.

Bank AlJazira's profits went up, its deposits doubled, the shareholders' equity increased, and the bank established new Islamic branches and windows in various cities of the Kingdom. This came in response to the needs of a large segment of customers in the Saudi community.

The transformation process also represented a quantum leap. All of the bank's 17 branches had fully transformed to Islamic finance in 1998 AD. Since its adoption of the transformation strategy, the bank has been able to provide modern Shariah-compliant financial products and services, as of mid-2002.

Positive results have been achieved based on Bank AlJazira's experience, which coincided with the efforts of other banks to enrich the Islamic economy, introducing new terms and concepts. This led to the introduction of new financial products to the Saudi community. The public perceived the impact of the Shariah committees in promoting confidence in Islamic financial activities through symposiums and scientific meetings organized by the Shariah

Committee of Bank AlJazira. These symposiums and scientific meetings aimed at raising the public awareness of the new Islamic financial products and spreading the culture of acquainting with the Fiqh of financial transactions among customers. The experience has also allowed a group of Saudi youth to be trained on Islamic financial activities, and provided with Shariah sciences related to financial transactions.

An important milestone in Bank Al-Jazira's transformation is its contribution to the consolidation of new values and cultures with regard to social responsibility and Saudi community service. This includes providing support and assistance to the needy through "Khair Aljazira le Ahl Aljazira" program, from which a large sector of Saudi community has benefited, given that all banks in the Kingdom offer this service under different names.

As a culmination of its efforts in this field, Bank AlJazira received the "Best Social Responsibility Program 2017 - KSA", awarded by CPI Financial.

One of the positive additions to Bank AlJazira's transformation experience is that it drew attention to the emergence of banking alternative in the market. This emerging alternative has become a new nucleus to be added to the efforts of Al Rajhi Bank, the first bank in this field. Accordingly, it can be said that Bank AlJazira's transformation expanded the base of Islamic financial activities in the Saudi market.

As an extension of these achievements, significant financial results have been achieved, particularly in the last five years. The bank's financial performance has improved, which can be reflected by the figures derived from the following annual reports:

- The bank's total assets increased by SAR 13.5 billion (representing 18.5%, at the end of 2019) to SAR 86.5 billion, as compared to SAR 73 billion at the end of 2018.
- Total liabilities increased by SAR 13.2 billion (representing 21.4% annual growth) to SAR 75 billion in 2019, as compared to SAR 61.8 billion in 2018.
- The bank achieved a net profit before Zakat and income tax of SAR 1,122 million in 2019, an increase of SAR 121.7 million (representing 12.2% growth) as compared to SAR 1,000,3 million at the end of 2018.

- The net income after Zakat and income tax, for the year ended December 31, 2019, amounted to SAR 991 million, an increase of SAR 613 million (representing 162%) as compared to SAR 378.3 million at the end of 2018.

According to the abovementioned data, the figures reflected in the bank's financial reports during the previous years, and the literatures tackling Bank AlJazira's transformation experience describing it as positive, it can be said that the experience has added and contributed, with other experiences, to improving the mental image of customers about the nature of the Islamic bank and its products. It also directs positive messages to decision-makers, and supervisory authorities, as well as every conventional bank desiring to transform into Islamic banking, and make use of this detailed experience in light of the knowledge available to Bank AlJazira on the subject of transformation.

2/5/2
Future Outlook of Islamic Finance Industry

The theoretical framework for Islamic finance had been developed during the 1960s, while the 1970s witnessed the real launch of this experience. However, the real test for its success or failure took place during the 1980s and 1990s. By the end of the last century in the year 2000 AD, the success of Islamic finance industry has become an undeniable truth. It has proven its ability to withstand competitiveness with conventional finance industry, and managed to make its way confidently. The Islamic financial products have spread, and customers base has expanded, which contributed to the growth of its assets.

Those who follow the path of Islamic financial institutions can clearly notice their expansion across the world, and how they have been recognized and accepted within the vehicles of community finance (aiming at achieving growth and improving people's well-being) by the concerned international financial institutions, such as: the World Bank, the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund and other institutions. Rather, they continued to encourage Islamic financial institutions to offer new financial products and alternatives to conventional products. Moreover, some of these financial institutions established units for research and studies concerned with Islamic finance aiming at providing financial products that can compete in global financial markets. This is confirmed by the desire of many long-standing conventional banks, such as HSBC Bank, and a number of international banks to conclude Islamic financial contracts, and open windows and Islamic financial units.

The report of Islamic Financial Services Board (IFSB) issued in 2019 indicates the continuous improvement in the Islamic financial services industry for the third year running, starting in 2017. The aggregate value of the broad sectors comprising Islamic finance in 2019 is estimated at $2.44 trillion for the second quarter of the year 2019, compared to $2.19 trillion in 2018. The annual growth rate reached 11.4%, compared to 9.6% for the period between 2017 and 2018.

Among the things that indicate the growth and promotion of Islamic financial institutions is the tendency of many governments and countries to provide opportunities for Islamic financial institutions to open windows and Islamic units in the European continent. The United Kingdom, for example, opened its doors to Islamic financial institutions, where 22 banks are found there, six of which are Islamic banks operating entirely in accordance with Islamic Shariah, and 16 conventional banks that have Islamic windows. This expansion comes in light of the British government's initiatives that have been previously mentioned in their place in the study.

Many countries have followed Britain in this regard, including Germany, which allowed KT Bank AG, in which the Kuveyt Türk and the Kuwait Finance House have shares, to work in the field of Islamic banking after obtaining a full license in 2015.

Another field indicating the growth and spread of Islamic financial institutions in the future is the educational initiatives adopted by many universities around the world to create educational and training programs aimed at serving this industry. It is a fairly recent phenomenon, just like the Islamic financial services industry itself, but it has spread to many countries of the world.

Some of these educational programs have been assigned to award scientific degrees at the master's and doctoral levels. This greatly contributes to supplying this industry with scientific cadres that raise the value of Islamic finance industry through scientific research, and participation in symposiums and conferences that discuss contemporary issues of this industry. In light of these data, it has become necessary for Islamic financial institutions to establish research units, and build bridges of communication with researchers in scientific research centers and institutes at universities and higher institutes concerned with Islamic finance to benefit from them.

Among the opportunities available to the Islamic financial institutions to promote their spread is to make use of modern technologies to introduce their products to many beneficiaries within the frame of "financial inclusion". This aims at providing basic financial services, creating a supportive regulatory environment, and enhancing public awareness of financial issues. Islamic financial institutions can deal with funding seekers through these digital technologies.

With this success achieved, and the wide geographical spread realized, and in light of the economic changes and political transformations witnessed, Islamic financial institutions will face great challenges and competition with conventional financial institutions having long experience and great potential, in addition to their counterparts of Islamic platforms in light of these modern technologies.

Therefore, it has become very important to deal with digital transformations, and apply them as an evolving new reality. Through digital transformations, financial institutions can introduce their products and services with great efficiency and high quality, and consequently promote their presence and increase their competitiveness in the financial markets.

There is no doubt that this technological transformation imposes a new reality that requires financial institutions to reconsider their methods of working, and to deal with these modern changes. That is, financial technology (*Fintech*) has become a vast field of competition among financial institutions to provide their products and services. This is why the majority of financial institutions tended to deal with their customers through these technologies, as a preferred method for customers. As a result, due attention shall be paid to this aspect.

Among recent challenges occurred to financial activities at the world level in general and to the financial sectors in particular is the recession of the global economy due to the coronavirus (COVID-19) pandemic. Islamic financial institutions were affected by this recession, since they are part of a global financial system affected by surrounding events.

The "S&P Global Ratings" agency expected that the Islamic financial sector will slowly return to growth in the period between 2020 and 2021. The agency attributed its expectations to the noticeable slowdown in the economies of the main countries of Islamic finance in 2020 as a result of the measures taken by many governments to contain the coronavirus (COVID-19) pandemic, and the moderate recovery expected in 2021.

Among the challenges accompanying this experience since its inception are the criticisms levelled at it by many scholars and researchers in Islamic finance, and even by some of the founders. Some of these criticisms, for example, relate to the fact that the practices applied in realty contradict the theoretical model drawn by the pioneers, some of the transactions adopted are fictitious and involve usury, and the products introduced mimic the conventional products, and so on. This calls for seeking trustworthy Fiqh-based references, maximizing the role of Fiqh academies and councils, encouraging collective Ijtihad and acting upon the standards prepared by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), as well as other recognized standards.

This successful experience contributes to forming the convictions of the financial institutions' owners and founders, and carries positive messages to the supervisory authorities that help increase the push towards transformation. This successful transformation has broken the barrier of hesitation among those who wish to implement this experience. It has also brought about a clear change in the concept of Islamic banks and their approach of conducting business, as well as the extent of their abilities to withstand competitiveness. Whatever the case may be, any experience is not void of challenges that can be overcome with strong will and sincere desire.

The success of Islamic finance industry has become an undeniable truth. It has proven its ability to withstand competitiveness with conventional finance industry, and managed to make its way confidently. The Islamic financial products have spread, and the customers base has expanded, which contributed to the growth of its assets.

Those who follow the path of Islamic financial institutions can clearly notice their expansion across the world, and how they have been recognized and accepted, to the degree that they were praised and encouraged by relevant international financial institutions.

The financial reports confirm the continuous improvement in the Islamic financial services industry. This was reflected in the tendency of many governments and countries to provide opportunities for Islamic financial institutions to conduct their business inside their borders, and the emergence of educational initiatives adopted by many universities around the world to create educational programs aimed at serving this industry. With this success achieved, and the wide spread realized, and in light of the economic changes witnessed, the Islamic financial institutions will face great challenges and competition with conventional financial institutions having long experience and great potential, in addition to their counterparts of Islamic platforms in light of these modern technologies.

CONCLUSION

Study Conclusion

First: Major findings of the study

- Islamic finance derives its objectives from the purposes of Islamic Shariah with regard to financial transactions, based on the five purposes of wealth, namely preservation, clarity, circulation, stability, and justice.
- Islamic finance is based on firm foundations, which are: prohibiting Riba (usurious transactions) and Gharar (uncertainty), sharing risks, and highlighting work as a source of lawful earning.
- Islamic finance has gone through three basic phases:
  - Phase of establishing the Shariah basis for Islamic finance (1850-1950).
  - Phase of emerging the Islamic finance (1963-1970).
  - Phase of spreading the Islamic finance (1977-2020).
- Among the most important Islamic finance industry institutions are: Islamic Development Bank (IsDB), General Council for Islamic Banks and Financial Institutions (CIBAFI), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Islamic Financial Services Board (IFSB).
- Among the most important Islamic financial products are: Murabahah, Ijarah, Istisna', Mudarabah, and Musharakah contracts.
- Signs of the Kingdom's historical connection to Islamic finance appeared strongly after holding the first Islamic conference in 1969 AD.
- The Kingdom of Saudi Arabia is one of the largest participants in Islamic financial assets around the world.
- Islamic banking branches in the Kingdom represent 81.4% of the total number of the operating bank branches amounting to 2053 branches, as of the end of December 2019.

- Transformation can be defined as: "Abandoning Shariah non-compliant activities and transforming into Shariah-compliant transactions".
- There are a number of reasons and motives that helped transform Bank AlJazira, including: firm conviction of the owners and shareholders of Bank AlJazira, and the demand for Islamic financial products.
- During the transformation process, Bank AlJazira chose to adopt the replacement approach, which means that the conventional institution wishing to transform into Islamic finance sets a time and technical plan to replace the conventional products with Islamic products.
- Bank AlJazira has gone through three basic phases:
  - **First phase:** Bank AlJazira before transformation: Incorporation and establishment (1975-1997).
  - **Second phase:** Bank AlJazira's transformation into Islamic finance (1997-2007).
  - **Third phase:** Bank AlJazira after transformation into a fully Islamic financial institution (2007-present).
- Among the enablers of Bank AlJazira's transformation success are: clarity of vision among Bank AlJazira owners, consistency and compatibility among related parties, and appropriate size of Bank AlJazira.
- There are some challenges and obstacles that almost prevented the bank from achieving its ultimate goal, but the bank managed to overcome them.
- The bank has a pioneering impact on innovating Shariah-compliant Islamic finance products, namely: Stock trading through margin financing product (Tamam), Insurance program (Takaful), Islamic financing Sukuk product, and a Shariah-compliant formula for the issue of ranking creditors in Sukuk issued under Basel III standards.
- Among the financial impacts of Bank AlJazira's transformation is the increase in bank profits, assets, deposits, and finances.

Second: Major recommendations of the study

1- Bank AlJazira shall continue to observe the fundamentals and purposes of Islamic Shariah in financial transactions.

2- Increasing the number of Shariah and economic-based scientific studies, which promotes the transformation of institutions into Islamic finance.

3- Highlighting the experiences of other financial institutions that have transformed into Islamic finance, in a bid to benefit from their transformation experiences.

At the end of the study, we shall point out that Bank AlJazira, while presenting its experience since it began until the issuance of this documentary book for the full transformation process, is putting the experience before any other bank wishing to adopt the transformation plan in full. This is to help spread Islamic banking, transfer accumulated and old experiences, minimize mistakes, and avoid risks.

Moreover, Bank AlJazira does not consider this phase to be the end, as the field of banking is broad, renewable and constantly evolving. Yet, it is important for the bank to move with its counterparts in Islamic banking from following-up and mimicking phases of conventional banking to the phase of competition, taking the lead and providing initiatives, solutions, models and products that serve the banking business in particular, as well as the economic and societal aspects in general.

The field remains wide open and the opportunity is available for any specialized reader or educated person to communicate with us for any suggestions and observations, so that we can tackle or correct them in the next editions. This is because this publication does not exclusively belong to Bank AlJazira, or it is limited to Islamic banking only. Rather, it is a scientific, historical, and cultural product that involves an announced practical experience, and aims at availing both researchers and common readers.

APPENDICES

Statement of the Shariah Committee of Bank AlJazira about the Bank's Full Transformation into Islamic Finance, January 2007

بنك الجزيرة
BANK ALJAZIRA

بسم الله الرحمن الرحيم

بيان الهيئة الشرعية في بنك الجزيرة عن

التحول الكامل

للبنك إلى المصرفية الإسلامية

الحمد لله الذي بنعمته تتم الصالحات والصلاة والسلام على خاتم الأنبياء والمرسلين محمد بن عبد الله وعلى آله وصحبه أجمعين، وبعد:

فإنه في يوم السبت غرة المحرم من عام ١٤٢٨هـ، الموافق ٢٠يناير ٢٠٠٧م اجتمعت الهيئة الشرعية لبنك الجزيرة للنظر فيما انتهت إليه الترتيبات المتعلقة باستكمال عملية التحول إلى المصرفية الإسلامية في البنك.

وبالاطلاع على التقارير المعدة من الجهة المختصة في البنك عن ذلك، وبعد دراسة مستفيضة لما قدم، وبناء على ما سبق للهيئة من متابعة لجميع أعمال البنك وأنشطته فقد تأكدت الهيئة من تنفيذ البنك لبرنامج التحول المعتمد من قبل الهيئة الشرعية، وأنه قد وصل إلى مرحلة التحول الكامل لجميع عملياته وأنشطته بما يتفق مع أحكام الشريعة الإسلامية.

والهيئة الشرعية لبنك الجزيرة تعلن اليوم اكتمال عملية التحول في بنك الجزيرة للمصرفية الإسلامية، وترى أنه أصبح بنكاً إسلامياً يتمتع بجميع خصائص البنوك الإسلامية،وترجو أن يكون بنك الجزيرة قد قدم بهذا أنموذجاً للبنوك الأخرى للسير على منواله في سبيل التحول الكامل للمصرفية الإسلامية.

والهيئة الشرعية لبنك الجزيرة إذ تعلن ذلك تشيد بالجهود المشكورة المبذولة من قبل إدارة البنك والعاملين فيه، كما لا يفوتها أن تنوه بالدعم المستمر والمتواصل من حكومة خادم الحرمين الشريفين ممثلة في مؤسسة النقد العربي السعودي والجهات المختصة الأخرى داعية الله للجميع بدوام التوفيق والسداد،والله الهادي إلى سواء السبيل.

أعضاء الهيئة الشرعية

الشيخ : عبد الله بن سليمان المنيع - رئيساً

الدكتور : محمد بن سعود العصيمي - مقرراً

الدكتور : عبد الله محمد المطلق - عضواً

الدكتور : حمزة بن حسين الفعر - عضواً

الدكتور : محمد العلي القري - عضواً

الدكتور : عبد الستار أبو غدة - عضواً

HEAD OFFICE : JEDDAH - SAUDI ARABIA

A SAUDI JOINT STOCK COMPANY CAPITAL SAR 1,125,000,000 FULLY PAID
KHALID BIN AL WALEED ST. P.O. BOX 6277, JEDDAH 21442
TEL : 6518070 FAX : 6532478, C. R. NO. 4030010523, SWIFT: BJAZSAJE
e-mail: info@baj.com.sa - website: www.baj.com.sa

REFERENCES

Bibliography and References

First: Arabic references

1- Abu Zaid, Mohammad Abdul Moneim, *"Al-Daman fi Al-Fiqh Al-Islami wa Tatbiqatih fi Al-Masarif Al-Islamiyyah"* (1st Ed.). Cairo: International Institute of Islamic Thought, (1417 AH-1997 AD).

2- Abu Sulaiman, Abdul Wahhab, *"`Aqd Al-Ijarah Masdar min Masadir Al-Tamwil Al-Islamiyyah: A Comparative Fiqh-Based Study"*. Jeddah: Islamic Research and Training Institute.

3- Abu Ghuddah, Abdul Sattar, *"Tahawwul Al-Masraf ila Masraf Islami"* (1st Ed.). A research paper published within *"Buhuth fi Al-Mu`amalat wa Al-Asalib Al-Masrafiyyah Al-Islamiyyah"*. Jeddah: Dallah Albaraka, Part 3, (2002 AD).

4- Al Ashqar, Mohammad Sulaiman, *"Al-Salam wa Al-Istisna` wa Mada Istifadat Al-Bunuk Al-Islamiyyah Minha"*. A research paper presented to the Contemporary Jurisprudence Issues Conference. Jordan: The University of Jordan, Islamic Cultural Center.

5- Al Saud, Abdulaziz Bin Sattam Bin Abdulaziz, *"Siyasat Al-Jawdah Al-Shar`iyyah fi Al-Masrafiyyah Al-Islamiyyah"*. Shariah Policy Department, Supreme Jurisdiction Institute of Imam Mohammad Ibn Saud Islamic University (IMSIU).

6- Al Mahmoud, Ahmad, and Al Marzouqi, Ahmad, *"Tahawwul Al-Bank Al-Taqlidi ila Islami: Al-Nazariyyah wa Khutuwat Al-Tatbiq"*.

7- Ameen, Ahmad, *"Zuhr Al-Islam"*. Cairo: Hindawi Foundation for Education and Culture, Part 1, (2012 AD).

8- Al Bashir, Fadl Abdul Karim Mohammad, *"Tatbiqat Dawliyyah Mu`asirah fi Al-Tahawwul Nahwa Al-Iqtisad wa Al-Tamwil Al-Islami: Tanafusiyyat `Awasim Al-Iqtisad Al-Islami Bayna Al-Mi`yariyyah wa Al-Mithaliyyah"*. KSA, Jeddah: Islamic Economics Institute, King Abdulaziz University.

9- Badache, Abdul Karim, *"Al-Mutatallabat Al-Iqtisadiyyah wa Al-Ijtima`iyyah li Al-Tahawwul Nahwa Al-Iqtisad Al-Islami"*. Algeria: Faculty of Economics, Business and Management Sciences, University of Boumerdes - University of M'hamed Bougara.

10- Al Baali, Abdul Hamid, *"Tahawwul Al-Mu'assasat Al-Taqlidiyyah ila Al-Iltizam bi Al-Shari'ah: Mutatallabatuh wa Atharuh"*. KSA, Dammam: Dar Al-Rawi, (1421 AH).

11- Belwafi, Ahmad Mahdi, *"Baramij Al-Tamwil Al-Islami fi Mu'assasat Al-Ta`lim Al-`Ali fi Duwal Majlis Al-Ta`awun Al-Khaliji: A Comparative Analytical Study"*. A research paper presented to the 9th International Conference for Islamic Economics and Finance (ICIEF) *"Growth, Equity and Stability: An Islamic Perspective"*. Istanbul: (September 9-10, 2013 AD).

12- Islamic Development Bank, *"Annual Report of the Bank"*. KSA, Jeddah: (1439 AH).

13- Islamic Development Bank, *"Tatawwur `Ilm Al-Iqtisad Al-Islami wa Dawr Markaz Abhath Al-Iqtisad Al-Islami Fih"*. A research paper submitted by the Center for Islamic Economics Research at King Abdulaziz University on the occasion of its winning the Islamic Bank Prize in Islamic Economics for the year 1423 AH.

14- Islamic Development Bank, *"Lamhah Mujazah `an Majmu`at Al-Bank Al-Islami li Al-Tanmiyah"*, (1426 AH).

15- Saudi Central Bank, *"Itar Al-Hawkamah Al-Shar`iyyah li Al-Masarif wa Al-Bunuk Al-Mahalliyyah Al-`Amilah fi Al-Mamlakah Al-`Arabiyyah Al-Sa`udiyyah" [Shariah Governance Framework for Local Banks Operating in Saudi Arabia]*, (February 2020 AD).

16- Saudi Central Bank, *"Al-Itar Al-Tanzimi li Al-Bi'ah Al-Tajribiyyah Al-Tashri`iyyah" [Regulatory Sandbox Framework]*, (February 2019 AD).

17- Saudi Central Bank, *"The 56th Annual Report-2020"*, Kingdom of Saudi Arabia.

18- Bahjat, Mohammad Fidaa Al Din, *"Nahwa Ma`ayir li Al-Riqabah Al-Shar`iyyah fi Al-Bunuk Al-Islamiyyah"*. Journal of Islamic Economics Research, International Association for Islamic Economics, Vol. 2, Issue 3, (1415 AH-1994 AD).

19- Group of Authors, *"Tatwir Al-Muntajat Al-Maliyyah Al-Islamiyyah"*. Edited by Ahmad Balwafi, and Fadl Abdul Karim. Scientific Publishing Center, King Abdulaziz University, (2019 AD).

20- Bank AlJazira, Board of Directors, *"Annual Reports (2004-2019)"*.

21- *"Reports of the Council of Saudi Chambers"*, (2019 AD).

22- *"Statistical Report of the General Authority for Statistics"*, Kingdom of Saudi Arabia, (2019 AD).

23- Shariah Group, *"Shariah Compliance Report of Bank Al-Jazira"*, (2006 AD).

24- *"World Islamic Banking Services Competitiveness Report"*, (2019 AD).

25- *"International Monetary Fund Report"*, (April 2020 AD).

26- *"Islamic Financial Services Board Report"*, (2020 AD).

27- Al Tamimi, Hussein Abdullah, *"Asasiyyat Idarat Al-Khatar"* (1st Ed.). UAE: Dar Al-Qalam for Publishing and Distribution, (1418 AH-1998 AD).

28- Al Jabr, Mohammad Hassan, *"Al-`Uqud At-Tijariyyah wa `Amaliyyat Al-Bunuk fi Al-Mamlakah Al-`Arabiyyah Al-Sa`udiyyah"* (2nd Ed.). King Saud University Press, (1418 AH).

29- Jabr, Hisham, *"Sanadiq Al-Istithmar Al-Islamiyyah"*. A research paper presented to the 1st Scientific Conference on Investment and Finance in Palestine. An-Najah National University, (9/5/2005 AD).

30- Al Jaraidan, Nayef Bin Jadaan, *"Tahawwul Al-Masarif Al-Taqlidiyyah li Al-`Amal Wifqa Al-Shari'ah Al-Islamiyyah: An Applied Theoretical Study"*. Journal of Shariah, Law and Islamic Studies, Issue 23, (2014 AD).

31- Juliette Fairley, *"Istithmar Amwalak fi Sanadiq Al-Istithmar" [Investing in Mutual Funds]* (1st Ed.). Translation of Khaled Al Amoudi. Egypt, Cairo: Dar Al-Farouk for Publishing and Distribution, (2001 AD).

32- Hassan, Hussein Hamid, *"Al-Dawabit Al-Shar`iyyah wa Al-Maham Al-Tahdiriyyah li `Amaliyyat Tahawwul Al-Bunuk Al-Taqlidiyyah ila Masarif Islamiyyah"*. The 5th Conference of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

33- Hassan, Hussein Hamid, *"Khuttat Tahawwul Al-Bank Al-Taqlidi ila Bank Islami: National Bank of Sharjah Experience"*. A research paper presented to the Conference on the Role of Islamic Banking Institutions in Investment and Development, College of Shariah, University of Sharjah, (2002 AD).

34- Al Hassan, Mohammad Siddiq, *"Idarat Al-Makhatir fi Al-Masarif Al-Islamiyyah"*. A research paper presented to the Course on Risk Management and Finance in Islamic Banking.

35- Al Hakim, Mounir, & Al Attiyat, Yazan, *"Athar Al-Tahawwul li Al-Masrafiyyah Al-Islamiyyah fi Tatwir Aliyyat wa Adawat Istiqtab Al-Mawarid Al-Maliyyah wa Tawzifiha"*. A research paper presented to the 2nd Islamic Financial Services Conference.

36- Hammoud, Sami Hassan, *"Tatwir Al-A`mal Al-Masrafiyyah Bima Yattafiq wa Al-Shari'ah Al-Islamiyyah"* (3rd Ed.). Egypt: Dar Al-Turath, (1991 AD).

37- Hanini, Mohammad Wajih, *"Tahwil Bursat Al-Awraq Al-Maliyyah li Al-`Amal Wifqa Ahkam Al-Shari'ah Al-Islamiyyah: An Applied Study"*. Jordan: Dar Al-Nafais, (2010 AD).

38- Shariah Group, Bank AlJazira, *"Banking Services Action Plan"*, 1999 AD.

39- Khoja, Izz Al Din Mohammad, *"Sanadiq Al-Istithmar Al-Maliyyah"*. KSA, Jeddah: Dallah Albaraka, (1414 AH-1993 AD).

40- Dar Al Mal Al Islami, *"DMI Trust Annual Report"*, (2011 AD).

41- Daoud, Hassan Youssef, *"Al-Riqabah Al-Shar`iyyah fi Al-Masarif Al-Islamiyyah"*. Cairo: The International Institute of Islamic Thought, (1417 AH-1996 AD).

42- Donia, Shawqi Ahmad, *"Al-Bunuk Al-Islamiyyah Thagharat wa Tahdith"*. A research paper submitted to the International Symposium: *"Towards Rationalizing the Journey of Islamic Banks"*. UAE, Dubai, (3-5 September 2005 AD).

43- Al Rawi, Khaled Waheeb, *"Idrat Al-Makhatir Al-Maliyyah"* (1st Ed.). Amman: Dar Al-Masira for Publishing, Distribution and Printing, (1419 AH-1999 AD).

44- Al Rabiah, Saud Mohammad, *"Tahawwul Al-Masraf Al-Rabawi ila Masraf Islami wa Muqtadayatuh"* (1st Ed.). A master's thesis in Islamic Economics from the College of Shariah and Islamic Studies, Umm Al-Qura University, 1989 AD. Printed in two volumes by the Manuscripts, Heritage and Documents Center of Revival of Islamic Heritage Society. Kuwait, (1992 AD).

45- Rustom, Maryam Saad, *"Taqyim Madakhil Tahawwul Al-Masarif Al-Taqlidiyyah ila Masarif Islamiyyah: Namuzaj Muqtarah li Tatbiqih `ala Al-Masarif Al-Suriyyah"*. A master's thesis, University of Aleppo, Faculty of Economics, Department of Finance Sciences and Banking.

46- Al Zuhaili, Wahba, *"Al-Fiqh Al-Islami wa Adillatuh"* (1st Ed.). Syria, Damascus, Part 4, (1404 AH-1984 AD).

47- Zarqa, Mustafa Ahmad, *"`Aqd Al-Istisna` wa Mada Ahammiyyatuh fi Al-Istithmarat Al-Maliyyah Al-Mu`asira"*. Jeddah: Islamic Research and Training Institute, (1406 AH-1995 AD).

48- Zagheba, Izz Al Din, *"Maqasid Al-Shari'ah Al-Khassah bi Al-Tasarrufat Al-Maliyyah"* (1st Ed.). Dar Al-Nafais, (2010 AD).

49- Zakaria, Mohammad, *"Nafidhat Al-Mu`amalat Al-Islamiyyah fi Al-Bunuk Al-Tijariyyah: Bank Bumiputra Malaysia Case Study"*. A master's thesis in Islamic Economics, College of Shariah and Islamic Studies, Yarmouk University. Jordan, Amman, (1999 AD).

50- Al Suwailem, Sami, *"Fiqh Al-Tadarruj fi Tatbiq Al-Iqtisad Al-Islami"*.

51- Shabra, Mohammad Omar & Habib, Ahmad, *"Al-Idarah Al-Mu'assasiyyah fi Al-Mu'assasat Al-Maliyyah Al-Islamiyyah"*. Islamic Research and Training Institute, (1427 AH).

52- Shabra, Mohammad Omar & Khan, Tariqullah, *"Al-Riqabah wa Al-Ishraf `ala Al-Masarif Al-Islamiyyah"*. Jeddah: Islamic Research and Training Institute, (1421 AH-2000 AD).

53- Shakir, Ali Ismail, *"Al-Tatawwur Al-Tarikhi li Kifayat Ra's Al-Mal min Al-Bidayat ila Bazil (II)"*. Beirut, Lebanon: Journal of Arab Banks, Issue 270, (May 2003 AD).

54- Al Sharif, Fahd, *"Al-Furu` Al-Islamiyyah Al-Tabi`ah li Al-Masarif Al-Rabawiyyah"*. A research paper submitted to the 3rd World Conference on Islamic Economics. Umm Al-Qura University, (2005 AD).

55- Al Sheikh, Samir Ramadan, *"Al-Masrafiyyah Al-Islamiyyah: Al-Nash'ah wa Al-Tatawwur"*, (2011 AD).

56- Siddiqi, Mohammad Najatullah, *"Mushkilat Al-Bunuk Al-Islamiyyah fi Al-Waqt Al-Hadir"* (2nd Ed.). Published within the book: *"Qadaya Mu`asirah fi Al-Nuqud wa Al-Bunuk wa Al-Musahamah fi Al-Sharikat"*. Islamic Research and Training Institute, (1424 AH-2003 AD).

57- Al Sammadi, Muntaha, *"Al-Furu` wa Al-Nawafidh Al-Islamiyyah fi Al-Bunuk Al-Taqlidiyyah, Shar`iyyatuha wa Dawabituha: An Applied Study on Jordanian Conventional Banks"*. PhD dissertation at the Arab Academy for Banking and Financial Sciences. Jordan, Amman, (2010 AD).

58- International Monetary Fund, *"Mustajaddat Afaq Al-Iqtisad Al-`Alami" [World Economic Outlook]*. (January 2019 AD).

59- Al Darir, Mohammad Al Amin Al Siddiq, *"Al-Gharar fi Al-`Uqud wa Atharuh fi Al-Tatbiqat Al-Mu`asirah"* (1st Ed.). Islamic Development Bank, Islamic Research and Training Institute, (1414 AH-1993 AD).

60- Al Taher Bin Ashour, *"Maqasid Al-Shari'ah"* (1st Ed.). Dar Al-Salam, (2005 AD).

61- Al Tabtabaei, Mohammad, *"Al-Tahawwul min Bank Taqlidi ila Bank Islami"*.

62- Al Tayeb, Izz Al Din Malik, *"Al-Manahij wa Siyaghat Al-Nazariyyah Al-Iqtisadiyyah Al-Kulliyyah Al-Islamiyyah"*. Khartoum: J Town Press, (1428 AH-2008 AD).

63- Abdul Azim, Hamdi, *"Al-Siyasat Al-Maliyyah wa Al-Naqdiyyah fi Al-Mizan: Muqaranah Islamiyyah"* (1st Ed.). Cairo: Maktabat Al-Nahdah Al-Misriyyah, (1986 AD).

64- Abdullah Bin Abdul Rahman, *"Tahawwul Al-Mu'assasat Al-Maliyyah Nahwa Al-Iqtisad Al-Islami Wifqa Al-Mutatallabat Al-Fiqhiyyah Al-Shar`iyyah"*. PhD dissertation in Comparative Fiqh, Supreme Jurisdiction Institute of Imam Mohammad Ibn Saud Islamic University (IMSIU).

65- Abdullah, Salamah, *"Al-Khatar wa Al-Ta'min: Al-Usul Al-`Ilmiyyah wa Al-`Amaliyyah"* (1st Ed.). Maktabat Al-Nahdah Al-`Arabiyyah, (1980 AD).

66- Abdullah, Ammar Ahmad, *"Athar Al-Tahawwul Al-Masrafi fi Al-`Uqud Al-Rabawiyyah"* (1st Ed.). A master's thesis in Comparative Jurisprudence, Faculty of Literature and Humanities at Jinan University in Tripoli. Lebanon. Riyadh: Dar Kunouz Ishbilia, (1430 AH-2009 AD).

67- Abdo, Mohammad Morsi, *"Al-Tahkim Al-Masrafi Al-Islami ka Aliyyah li Al-Hadd min Makhatir Al-Tahawwul ila Al-Iqtisad Al-Islami: International Islamic Centre for Reconciliation and Arbitration at Dubai as an Example"*. UAE: College of Law, University of Sharjah.

68- Al Attiyat, Yazan, *"Tahawwul Al-Masarif Al-Taqlidiyyah li Al-`Amal Wifqa Ahkam Al-Shari'ah Al-Islamiyyah: A Study Showing the Extent of Applicability in Jordan"* (1st Ed.). PhD dissertation at the College of Banking and Financial Sciences, Islamic Banks Department in 2007 AD. Jordan: Dar Al-Nafais, (1429 AH-2009 AD).

69- Al Awmi, Ahmad Abdullah, *"Tahawwul wa Tahwil Al-Masarif Al-Taqlidiyyah ila Masarif Islamiyyah: Kuwait International Bank Experience"*. A master thesis.

70- Ainu, Chaib, *"Tatbiq Ma`ayir Kifayat Ra's Al-Mal fi Aqtar Al-Maghrib Al-`Arabi"*. Published within the book: *"Al-Ijra'at allati Qamat biha Al-Sulutat Al-Naqdiyyah Al-`Arabiyyah li Tanfidh Muqararat Bazil"*.

71- Al Ghamdi, Mohammad Damas, *"Al-Tahawwul min Al-Masrafiyyah Al-Taqlidiyyah ila Al-Masrafiyyah Al-Islamiyyah: Bank AlJazira as an Example"*. A research paper presented within the book: *"Hiwar Al-Arba`a - 2011"*. KSA, Jeddah: Institute of Islamic Economics, King Abdulaziz University on (27/12/1432 AH-23/11/2011 AD).

72- Freja, Hussein, *"Takyif Riqabat Al-Bank Al-Markazi ka Aliyyah li Al-Tahawwul Nahwa Al-Iqtisad Al-Islami"*.

73- Al Fangari, Mohammad Shawqi, *"Al-Wajiz fi Al-Iqtisad Al-Islami"*. Cairo: Dar Al-Shorouk, (1994 AD).

74- Qahf, Mundhir Mohammad, *"Asasiyyat Al-Tamwil Al-Islami"* (2nd Ed.). USA, California, (1436 AH-2015 AD).

75- Qahf, Mundhir Mohammad, *"Sanadat Al-Qarad wa Daman Al-Fariq Al-Thalith wa Tatbiqatuha fi Tamwil Al-Tanmiyah fi Al-Buldan Al-Islamiyyah"*. Scientific Publishing Center, King Abdulaziz University, Journal of King Abdulaziz University, Islamic Economics, Part 1, (1409 AH-1989 AD).

76- Qahf, Mundhir Mohammad, *"Sanadat Al-Ijarah wa Al-A`yan Al-Mu'ajjarah"* (2nd Ed.). Jeddah: Islamic Research and Training Institute, (1420 AH).

77- *"Resolutions and Minutes of the Meetings of Shariah Committee of Bank AlJazira"*.

78- Al Qarari, Abdul Latif Hamza, *"Al-Masarif Al-Islamiyyah: Al-Nazariyyah wa Al-Tatbiq"* (1st Ed.). National Library of Libya, (2011 AD).

79- Al Qari, Mohammad Ali, *"Sukuk Al-Tamwil Al-Islamiyyah"* (1st Ed.). Publications Series of the Shariah Group of Bank AlJazira. Dar Al-Maiman, (1440 AH-2019 AD).

80- Al Qari, Mohammad Ali, *"Mushkilat Al-Bunuk Al-Islamiyyah fi Al-Waqt Al-Hadir"* (2nd Ed.). Published within the book: *"Qadaya Mu`asirah fi Al-Nuqud wa Al-Bunuk wa Al-Musahamah fi Al-Sharikat"*. Islamic Research and Training Institute, (1424 AH-2003 AD).

81- Al Qari, Mohammad Ali, *"Buhuth fi Al-Tamwil Al-Islami"* (1st Edition). Research: *"Tajrubat Tahawwul Bank Al-Jazira: Al-Mashakil wa Al-Hulul wa Khutuwat Al-Tanfidh"*. Shariah Department Publications Series, National Commercial Bank and Dar Al-Maiman, Vol. 1, (2020 AD).

82- Al Qari, Mohammad Ali, *"Muqaddimah fi Usul Al-Iqtisad Al-Islami ma`a Tatbiqat `ala Al-Mamlakah Al-`Arabiyyah Al-Sa`udiyyah wa `Inayah bi Al-Mafahim Al-Islamiyyah"* (1st Ed.). Dar Jeddah Library, (1417 AH-1996 AD).

83- Al Qassar, Abdulaziz Khalifa, *"Tahawwul Al-Mu'assasat Al-Maliyyah Al-Taqlidiyyah ila Al-`Amal Wifqa Ahkam Al-Shari'ah Al-Islamiyyah"*.

84- Kunduz, Abdul Karim Ahmad, *"Tahlil li Mu`awwiqat Al-Sukuk bi Al-Mamlakah Al-`Arabiyyah Al-Sa`udiyyah wa Asalib Taf`iluha: A Comparative Study of Sukuk Market in the Kingdom and the Sukuk Market in GCC, and the Malaysian Sukuk Market"*. A research paper presented to the 1st Conference of Colleges of Business Administration in the Universities of the Cooperation Council for the Arab States of the Gulf, King Saud University, during the period (16-17/4/1435 AH - 16-17/2/2014 AD).

85- Bank AlJazira, *"Financial Statements"*, (2004-2019 AD).

86- Al Kasani, Aladdin Masoud, *"Bada'i` Al-Sana'i` fi Tartib Al-Shara'i`"*. Lebanon, Beirut: Dar Al-Kitab Al-Arabi, Part 5.

87- SABIC Chair for Islamic Financial Market Studies, *"Al-Nizam Al-Mali Al-Islami: Al-Mabadi' wa Al-Mumarasat"*.

88- Abdul Al Lawi, `Uqba, *"Mutatallabat Al-Tahawwul Nahwa Al-Iqtisad Al-Islami Bayna Al-Murtaja wa Al-Mutah: An Analytical Study of the Problematic Gaps of Theorization and Application in Islamic Economics"*.

89- Al Luzi, Sulaiman, Hassan, Mahdi & Ibrahim, Medhat, *"Idarat Al-Bunuk"* (1st Ed.). Jordan, Amman: Dar Al-Fikr for Printing, Publishing and Distribution, (1418 AH).

90- Lieber Research, Thomson Reuters, *"Taqrir `an Sanadiq Al-Istithmar Al-Islamiyyah" [Report on Islamic Investment Funds]*, (2012 AD).

91- Union of Arab Banks Journal, *"Ma`ayir Lajnat Bazil Al-Thaniyah"*. Lebanon, Beirut: Issue 58, (April 2003 AD), P. 7.

92- Journal of Banking and Financial Studies, *"Takhsis Ra's Al-Mal wa Idarat Al-Makhatir"*, Vol. 2, Issue 3, (1414 AH-1994 AD).

93- Islamic Financial Services Board, *"Al-Mabadi' Al-Irshadiyyah li Idarat Al-Makhatir li Al-Mu'assasat (`Ada Al-Mu'assasat Al-Ta'miniyyah)" [Guiding Principles of Risk Management for Institutions (Other than Insurance Institutions)]*, (December 2005 AD).

94- Dallah Albaraka, *"Albaraka Symposium on Islamic Economics"*. Tunisia, (1982 AD).

95- Mohammad, Ibrahim Abdullah Abdul Raouf, *"Al-Masarif Al-Islamiyyah ka Ahad Al-Namadhij Al-Tatbiqiyyah Al-Mu`asirah li Al-Tahawwul Nahwa Al-Iqtisad Al-Islami wa Tahadiyyat Itifaqiyyat Al-Jats: Abu Dhabi Islamic Bank as an Example"*.

96- Al Martan, Saeed Bin Saad, *"Taqwim Al-Mu'assasat Al-Tatbiqiyyah li Al-Iqtisad Al-Islami: Al-Nawafiz Al-Islamiyyah li Al-Masarif Al-Taqlidiyyah"*. A research paper presented to the 3rd International Conference on Islamic Economics, Umm Al-Qura University, (2005 AD).

97- Al Martan, Saeed Bin Saad, *"Dawabit Taqdim Al-Khadamat Al-Masrafiyyah Al-Islamiyyah fi Al-Bunuk Al-Taqlidiyyah: Tajrubat Al-Bank Al-Ahly Al-Tijari Al-Sa`udi"*. A research paper presented to the Higher Consultative Committee Symposium of Working on Completing the Application of Islamic Shariah Rulings. Kuwait: Economic Committee, (May 1999 AD).

98- International Center for Islamic Economics Research, King Abdulaziz University, *"Buhuth Mukhtarah min Al-Mu'tamar Al-`Alami Al-Awwal li Al-Iqtisad Al-Islami"* (1st Ed.), (1400 AH-1980 AD).

99- Al Masri, Rafiq Younes, *"Al-Tamwil Al-Islami"* (1st Ed.). Damascus: Dar Al Qalam, (1433 AH-2012 AD).

100- Mustafa, Ibrahim Mohammad Mustafa, *"Taqyim Zahirat Tahawwul Al-Bunuk Al-Taqlidiyyah li Al-Masrafiyyah Al-Islamiyyah: An Applied Study on the Experience of Some Saudi Banks"*. A master's thesis submitted to the Department of Islamic Economics, American Open University, (2006 AD).

101- *"Islamic Financial Services Board Standards"*.

102- Islamic Research and Training Institute, *"Islamic Development Bank"*. An introduction to the Institute within the publications of the Islamic Research and Training Institute.

103- Islamic Research and Training Institute, *"Dawrat Idarat Makhatir Al-Tamwil fi Al-Masarif Al-Islamiyyah bi Al-Ta`awun ma`a Bank Al-Sudan"*. Khartoum, (17-22/8/2002 AD).

104- International Institute of Islamic Thought, *"Mawsu`at Taqwim Al-Dawr Al-Muhasabi li Al-Masarif Al-Islamiyyah"*. Cairo, Part 6, (1417 AH-1996 AD).

105- *"Personal Interviews with Bank AlJazira Staff"*, prepared by the study team.

106- Al Manea, Abdullah Bin Sulaiman, *"Sama bi Hajah ila Hay'ah Shar`iyyah li Mu`alajat Khilafat Al-Masarif"*. Al-Iqtisadiah (newspaper), Issue 7559, (Sunday 24 Sha`ban 1435 AH - June 22, 2014 AD).

107- Al Manea, Abdullah Bin Sulaiman, *"Lecture in a Symposium on Islamic Banks"*. Riyad Bank in Hafr Al-Batin Governorate. KSA: Al-Riyadh (newspaper), Issue of Tuesday, (May 6, 2008 AD).

108- *"Transformation into Islamic Finance Services Conference"*. Higher Advisory Committee on Completion of the Application of Islamic Shariah in Kuwait, (2005 AD).

109- The 23rd Conference, *"Al-Iqtisad Al-Islami: Al-Hajah ila Al-Tatbiq wa Darurat Al-Tahawwul"*. College of Law, United Arab Emirates University, (October 2015 AD).

110- International Conference on Entrepreneurial Finance, *"Al-Tahawwul li Al-Maliyyah Al-Islamiyyah: Al-Muqarabat wa Al-Tahaddiyyat - October 2015"*. National School of Commerce and Management, Agadir - Ibn Zohr University, Morocco. Laboratory of Research in Entrepreneurship, Finance and Audit (LAREFA) in partnership with Islamic International Foundation for Economics and Finance.

111- Encyclopedia of the Kingdom of Saudi Arabia, *"Al-Iqtisad wa Al-Tharawat Al-Tabi`iyyah: Al-Bunuk wa Al-Masarif: Al-Bunuk Al-Sa`udiyyah"*. King Abdulaziz Public Library.

112- Nasser, Al Gharib, *"Idarat Makhatir Al-Tamwil"*. Published in the book: *"Idarat Al-Usul wa Makhatir Al-Tamwil fi Al-`Amal Al-Masrafi Al-Taqlidi wa Al-Islami"*. Lebanon, Beirut, (2002 AD).

113- Al Nasser, Adel, *"SABB Symposium: The Future and Growth of Islamic Banking"*. Published in Al-Riyadh (newspaper), Issue 15466, (Thursday, 20 Dhul-Qa'dah 1431 AH-October 28, 2010 AD).

114- Aboul Fotouh, Najah, *"Athar Istib`ad Al-Fa'idah `ala Kafa'at Takhsis Al-Mawarid fi Al-Tahawwul ila Iqtisad Islami"*. PhD dissertation at Zagazig University, (1994 AD).

115- Al Nakhala, Munir Fakhri Musa, *"Muwajahat Aham Al-Mushkilat Al-Muhasabiyyah allati Tulazim Al-Tahawwul li Al-Manhaj Al-Islami fi Qita` Al-Tamwil Al-Masrafi"*. A master's thesis at King Abdulaziz University, (1989 AD).

116- *"Symposium on the Transformation of Conventional Banks into Islamic Banks"*, Jurisprudential Association in Al-Qassim.

117- Nima, Nagham Hussein & Mohammad Najm, Raghad, *"Al-Masarif wa Al-Mu'assasat Al-Maliyyah Al-Islamiyyah fi Duwal Majlis Al-Ta`awun Al-Khaliji: Al-Waqi` wa Al-Tahaddiyyat"*. Al-Qadisiyah Journal for Administrative and Economic Sciences, Vol. 12, Issue 2, (2010 AD).

118- Al Nuwairan, Thamer Ali, *"Zahirat Tahawwul Al-Masarif Al-Taqlidiyyah li Al-`Amal Al-Masrafi Al-Islami: Al-Athar wa Al-Mushkilat"*. PhD dissertation in Islamic Economics and Banking, Yarmouk University, Jordan.

119- Hindi, Mounir Ibrahim, *"Adawat Al-Istithmar fi Aswaq Ra's Al-Mal: Al-Awraq Al-Maliyyah wa Sanadiq Al-Istithmar"*. Alexandria: Al-Maktab Al-Arabi Al-Hadith, (1999 AD).

120- Hindi, Mounir Ibrahim, *"Al-Fikr Al-Hadith fi Majal Al-Istithmar"*. Alexandria: Munsha'at Al-Ma`arif, (1999 AD).

121- Al Hawamla, Mohammad Ali Youssef Younes, *"Ma`alim fi Tariq Tahwil Al-Masarif mina Al-Nizam Al-Taqlidi ila Al-Nizam Al-Islami: Al-Kifayat wa Al-Mubarrirat wa Al-Tahadiyyat"*. A research paper presented to the Journal of Islamic Scientific Research. Lebanon, Tripoli, Issue 26.

122- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), *"Al-Ma`ayir Al-Shar`iyyah" [Shariah Standards]*. Riyadh: Dar Al-Maiman, (1437 AH-2015 AD).

123- Youssef, Refaat Fathi Metwally, *"Muqaranat Ada' Al-Masarif Al-Islamiyyah wa Al-Taqlidiyyah fi Al-Mamlakah Al-`Arabiyyah Al-Sa`udiyyah (During the Period 2008-2017)"*. Zarqa University Journal, (2019 AD).

Second: English references

1- Ahmed, F. & Hussainey, K. *"Conversion into Islamic Banks: Jurisprudence, Economic and AAOIFI Requirements"*. European Journal of Islamic Finance, (2015).

2- Siswantoro, D. *"Analysis of Islamic Bank's Performance and Strategy After Spin-off as Islamic Full-fledged Scheme in Indonesia"*. Procedia-Social and Behavioral Sciences, (2014), P. 164.

3- Abdalla, A. D., Aziz, M. R. & Johari, F. *"Analyzing the Impact of Banking Laws and Legislations on the Converting of Conventional Banks into Islamic in Libya"*. International Journal of Management and Applied Research, Vol. 2, No. 4, (2015).

4- *"Bank Indonesia Regulation Number 11/15/PBI/2009 Concerning Conversion of Business Activities from Commercial Bank to Sharia Bank"*.

5- Bintawim, Samar Saud S. *"Performance Analysis of Islamic Banking Some Evidence from Saudi Arabia Banking Sector"*, (2011).

6- *"Global Islamic Finance Education 2013"* (GIFE 2013).

7- *"Global Takaful Insights 2018"*, P. 1.

8- *"Global Trends in Islamic Finance and the Uk Market"*, Islamic Finance Report - Saudi Arabia.

9- *"Introducing Islamic Banks into Conventional Banking System"*. International Monetary Fund Working Paper, (2007), pp. 1-26.

10- *"Thomson Reuters Islamic Finance Development Report 2013"*.

11- *"Islamic Finance in OIC Member Countries"*. OIC Outlook Series, (May 2012), P. 2.

12- *"Islamic Financial Services Industry Stability Report 2019"*.

13- Jeremy F. Taylor, *"The Forgotten Roots of Asset-Liability Management"*, The Bankers.

14- Knight, Frank H. *"Risk, Uncertainty and Profit"*, New York Hamper and Raw.

15- *"Act Number 21 of 2008 Concerning Sharia (Islamic) Banking"*, issued by Bank Indonesia.

16- *"Magazine May/June 1994"*.

17- Rafay, A. & Sadiq, R. *"Problems and Issues in Transformation from Conventional Banking to Islamic Banking: Literature Review for the Need of a Comprehensive Framework for a Smooth Change"*. City University Research Journal, Vol. 5, No. 2, (2015), pp. 315-326.

18- Sheikh Nizam Yaquby. *"Shariah Requirements for Conventional Banks"*, Bahrain.

19- State Bank of Pakistan. *"Guidelines for Conversion of a Conventional Bank into an Islamic Bank"*, (2010).

20- Yazi, E., Morni, F. & Imm, S. S. *"The Effects of Shariah Compliance Announcement towards Stock Price Changes in Malaysia"*. Journal of Economics, Business and Management, Vol. 3, No. 11, (2015).

21- Mehboob UL-Hassan *"The Islamization of the Economy and the Development of Islamic Banking in Pakistan"*. Kyoto Bulletin of Islamic Area Studies, (2007).

22- Saaid, A. & Shafii, Z. *"The Obstacles Facing Conversion Process from Conventional Banks to Islamic Banking: A review of Literature"*. The 5th Islamic Economic Conference, Malaysia, (2013).

23- *"The Oxford Illustrated Dictionary"*. London: Oxford University Press.

24- *"Thomson Reuters Islamic Finance Development Report 2018"*.

25- *"Thomson Reuters Zawya Sukuk Perceptions and Forecast"*.

26- Farooq Salman Alani & Hisham Yaacob. *"Traditional Banks Conversion Motivation into Islamic Banks: Evidence from the Middle East"*. International Business Research, Vol. 5, No. 12, (2012).

27- G. & C. Merriam Co. *"Webster's Third New International Dictionary"*. USA, (1969).

28- *"World Islamic Banking Competitiveness Report 2019"*.

Third: Websites

1- http://units.imamu.edu.sa/colleges/Economics/profile/Pages/default.aspx

2- http://www.alarkan.com/Default.asp

3- http://www.argaam.com/article/articledetail/4611614

4- http://www.cma.org.sa/Ar/Pages/Investment_Funds.aspx

5- http://www.elgari.com/?p=1459

6- http://www.mep.gov.sa/themes/

7- http://www.mohe.gov.sa/ar/studyinside/GovernmentUniversities/Pages/default.aspx

8- http://www.sabic.com/corporate

9- http://www.sagia.gov.sa/ar/ D1E7DF3.beta?event=SwitchLanguage

10- http://www.sama.gov.sa/ar-sa/News/Pages/News01042015.aspx

11- http://www.sama.gov.sa/ar-sa/News/Pages/news07122016b.aspx

12- http://www.tadawul.com.sa/wps/portal/!ut/p/c0/04 95

13- https://www.baj.com.sa/ar-sa/

14- https://www.mof.gov.sa/Arabic/Pages/Home.aspx

15- https://www.my.gov.sa/wps/portal/snp/pages/agencies/agencyDetails/AC160

As a contribution to disseminating science and knowledge, and supporting the Islamic banking industry, Bank AlJazira presents this publication as a documentation of its practical experience in the transformation into Islamic finance.

Mr. Naif A. Al Abdul Kareem

CEO and MD