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SAUDI ARABIA

$600bn bourse opens to foreign investors

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Opening the stock market to foreign investment forms part of a broader, long-term evolution focused on modernising and diversifying the economy away from hydrocarbons

The Saudi Stock Exchange is the largest in the region

Long anticipated since it was established in 1994, the Saudi Stock Exchange has finally opened its doors to international investors. Valued at some $600 billion (£394 billion), the Saudi bourse dominates the region; its value exceeding the exchanges of Qatar, UAE, Jordan and Egypt combined. The Saudi Stock Exchange had remained one of the world's largest to prevent foreign direct investment (FDI) before now.

On top of headline value, the Saudi market also offers great opportunities in diversity. Whilst regional markets tend to be dominated by a handful of sectors such as finance or real estate, the Saudi Stock Exchange – known as the Tadawul – is home to more than 165 companies across 15 economic sectors ranging from retail and telecommunications through to petrochemicals and cement.

Since 2011, the market has grown by some 50 per cent, outstripping most stock exchanges worldwide and well outperforming the region. Last year the index peaked at over 11,000 points, however it subsequently dropped sharply in line with oil prices and uncertainty surrounding the passing of the kingdom's previous leader, King Abdullah bin Abdulaziz. Since oil price stabilisation and widespread confidence in King Salman bin Abdulaziz's leadership as monarch, the Tadawul All Share Index's (TASI) upward trajectory has resumed.

Whilst some investors associate Saudi Arabia solely with oil, energy firms are conspicuous by their absence on the Saudi Stock Exchange – there are no oil companies listed. Despite the oil price having a significant influence on the market's performance, the top five companies come from banking, petrochemicals, telecommunications and power.

Exceptional fundamentals

Traditionally Saudi Arabia's companies have been in the hands of wealthy, entrepreneurial families or sole ownership of the Saudi government. Increasingly however, the trend is for such organisations to go public and open their companies up for outside investment. As well as boasting record-breaking initial public offerings (IPOs) such as the $6 billion listing of National Commercial Bank last year, the kingdom also has the most active IPO market in the Middle East.

Whilst the opportunity for international investors to participate in Saudi IPOs remains distant, the prospect of an increasing number of firms listing provides an exciting chance to gain further exposure to the extraordinary fundamentals found within the Saudi economy.

Well known for its enormous hydrocarbon reserves, Saudi Arabia's macro-economic position is enviable. Emboldened by reserves in excess of $700 billion, the Saudi government has embarked upon a hugely ambitious program of infrastructure development – the multiplier effects of which have reverberated throughout much of the economy. Government spending combined with hydrocarbons exports delivered gross domestic product (GDP) growth of 4.6 per cent for 2014 – impressive given Saudi's starting base of $752 billion.

With GDP per capita at $25,400 and a youthful population – some 50 per cent of which are under the age of 25 – the kingdom benefits from a strong consumer culture. Demand for services often outstrips supply in sectors such as retail, transportation and tourism. Demand for investment, as well as strategic, logistic and operational expertise is often palpable.

Synonymous with oil and gas, few are familiar with Saudi Arabia's wealth of other mineral resources such as potash, gold, iron ore, copper and bauxite. The kingdom is actively engaged in further expanding its portfolio of resources in operation, with numerous tier one assets being developed by the state-owned mining giant – Ma'aden.

On top of this, the country's transport infrastructure and service economy are all benefiting from billions of dollars worth of investment, contributing to the development of robust sectors in themselves, as well as facilitating further growth in a relatively untouched, but high potential international tourism sector. Social media penetration in the kingdom is the highest in the world, yet software developers and international marketers have yet to take a serious look at this highly prospective sub-sector.

Whilst Saudi Arabia's economy stands impressively amongst regional and international counterparts, the key message is that huge potential remains for further investment and growth across a vast range of sectors. It is hoped that opening up the Saudi Stock Exchange will help marry imaginative new ideas and established expertise with the kingdom's strong economic base, thus sustaining long-term growth for the non-oil economy. At the same time, further integrating the Middle East's star economy with the global investment community.

Why now?

The issue of when and why this change would happen has long rattled throughout the international investment community. CEO of the Saudi Stock Exchange Adel Al Ghamdi offers some context on the matter: "Our market has been open to [indirect] foreign investors for a long time," he says. "Non-Saudi's currently own 7.74 per cent of stock market capitalisation, as at the end of the first quarter of 2015. Our mutual funds market has been open to non-resident foreign investors since 2007, and the exchange traded funds (ETF) market since its inception in 2010."

Opening up the stock exchange to FDI on June 15 is part of a broader, long-term evolution in Saudi Arabia focused on modernising and diversifying the economy away from hydrocarbons.

Qualified Foreign Investors (QFI)

Given the legacy of indirect foreign investment in the Saudi Stock Exchange for several years, it is important to offer some insight on exactly what this change entails. The initial approach is one of caution, with access to the market limited to "Qualified Foreign Investors (QFIs)". As defined by the Capital Markets Authority (CMA) – the lead regulator in this change – QFIs are particular institutions that meet specific criteria in terms of investment experience, capacity and skill who need to convince the Saudi authorities that they will be beneficial for the market.

Much speculation surrounded exactly what criteria QFIs would have to meet before the CMA clarified the situation on May 4 when it released its final regulatory framework.

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QFIs by definition can only come from a select group of financial organisations such as banks, insurance companies, brokerages and pension funds and must have a minimum of $5 billion under management, but this can be reduced to $3 billion with the permission of the CMA.

QFIs must have a demonstrated track record as investors, with a minimum of five years experience being the defined marker for new entrants to the Saudi market, while an overall limit has also been set for each individual QFI in terms of ownership of the market (a maximum of 10 per cent).

At the same time, there are clear limits placed upon the levels of ownership permitted for QFIs in each company they invest with. As per the CMA regulatory framework, QFIs are permitted to own no more than 5 per cent of each company they invest in. Equally, a QFI and their clients/affiliates combined are restricted from owning no more than 20 per cent of a single listed company. Foreign ownership of any single listed company, including ETFs and swaps is restricted to 49 per cent.

A series of steps have been taken by both the Saudi Stock Exchange and the CMA to ensure that investors are kept informed about their relative holdings. According to Mr Al Ghamdi, "We have taken several steps to ensure that we can provide our foreign stakeholders with the tools they need to safely invest in our stock market. Indeed, our platform has been programmed to systematically enforce several of the relevant foreign ownership limits to help our stakeholders comply with the applicable rules. We will also be bolstering the awareness of our new stakeholders, and the capital market at large, by reporting foreign ownership headroom on our website on a daily basis."

The key evolutionary step forward for the Saudi market that comes with this change is that investors will now be permitted to invest directly in listed Saudi firms. Although this comes with restrictions, international investors will have the opportunity to influence the way in which listed companies operate. In turn, it is hoped that this will have a marked change on how Saudi firms do business – particularly from a governance, compliance and disclosure perspective.

Chairman of the CMA Mohammed Al Jadaan summarises this package of tacit profits, saying: "There are

"We have taken several steps to ensure that we can provide our foreign stakeholders with the tools they need to safely invest in our stock market"

Adel Al Ghamdi,
CEO of Tadawul

various benefits that listed companies are likely to gain from the opening of the market. Foreign institutional investors will demand an improved level of transparency, financial information disclosure and governance practices that will positively reflect on listed companies' practices and on the efficiency of the market in general."

Mr Al Jadaan's thoughts are echoed by Mr Al Ghamdi: "Further foreign fund inflows are needed, not for the purposes of liquidity, we have plenty of that, but rather for the positive behavioural influences we believe foreign investors will bring to our market in terms of shareholder activism. This helps to promote enhanced

"Saudi Arabia's investment environment is well regulated and aims to apply international best practices to maintain fairness, efficiency and transparency so as to protect investors"

Mohammed Al Jadaan,
Chairman of the CMA

reporting, investor relations and corporate governance practices amongst our issuers."

Moving beyond the improvements for Saudi-listed companies, it is widely acknowledged that the stock exchange's opening will pave the way for broader benefits to the Saudi economy as a whole – in particular the country's dream of moving away from its reliance on hydrocarbons.

Saudi Arabia has long worked hard to diversify the economy away from the petroleum sector with limited success; oil still accounts for 45 per cent of GDP, 90 per cent of export earnings and 80 per cent of budget revenues.

The kingdom's core diversification strategy resides in growth of the private sector, with a particular focus on industries such as retail, telecommunications and petrochemicals. Opening the stock market internationally will reduce market volatility, enhance long-term strategy and planning, raise the level and quality of market research, transfer knowledge between local and international firms and enable local firms to tap into specific skills and technical know-how so as to better equip them to succeed within the overall Saudi paradigm of economic diversification and modernisation.

Mr Al Jadaan goes on to explain how the CMA is ensuring the highest standards for the kingdom's business environment. "Saudi Arabia's investment environment is well regulated and aims to apply international best practices to maintain fairness, efficiency and transparency so as to protect investors, boost confidence, reinforce transparency and protect the capital market at large."

Although Mr Al Ghamdi shares this perspective, the stock exchange is also keen to use the opening as a means to reduce volatility in trading. "Individual investors make up around 90 per cent of monthly trading activity and 34 per cent of stock market ownership," he says. "Whilst this dynamic has brought significant benefits to the exchange in terms of liquidity, it has also served to produce moments of perverse market volatility. Ultimately this is at the heart of why the QFI framework was specifically customised to attract sophisticated longer-term value investors, who are more inclined to see through the fog of short-term volatility and react to opportunities as they arise."

A logical progression

While some would loosely connect the recent decline in oil prices with a sudden demand for external liquidity from the Saudi market, this story goes back way further than that. The 2005 World Trade Organisation accession is just one of many indicators to the country's form vis-a-vis international financial integration.

Nevertheless, the kingdom remains an enigma for most, and with that always comes uncertainty. As the Saudi market opens up, it appears that a sleeping giant is finally awakening. Saudi Arabia dominates regionally and is one of the world's most exciting emerging markets. The fundamentals are clear; the world is again being welcomed to join in the kingdom's success.

Saudi market opening offers attractive opportunities

Following on from last year's declaration of intent, the Saudi Capital Market Authority (CMA) has now formally announced that the $560 billion Saudi Arabian stock market will open its doors to qualified foreign institutions in June. The stock market (Tadawul) is one of the largest Emerging Markets with strong technicals and valuations that are likely to re-rate higher over several stages, particularly when the market is included in the main benchmark indices, writes John Sfakianakis, Managing Director of Ashmore Group, Saudi Arabia

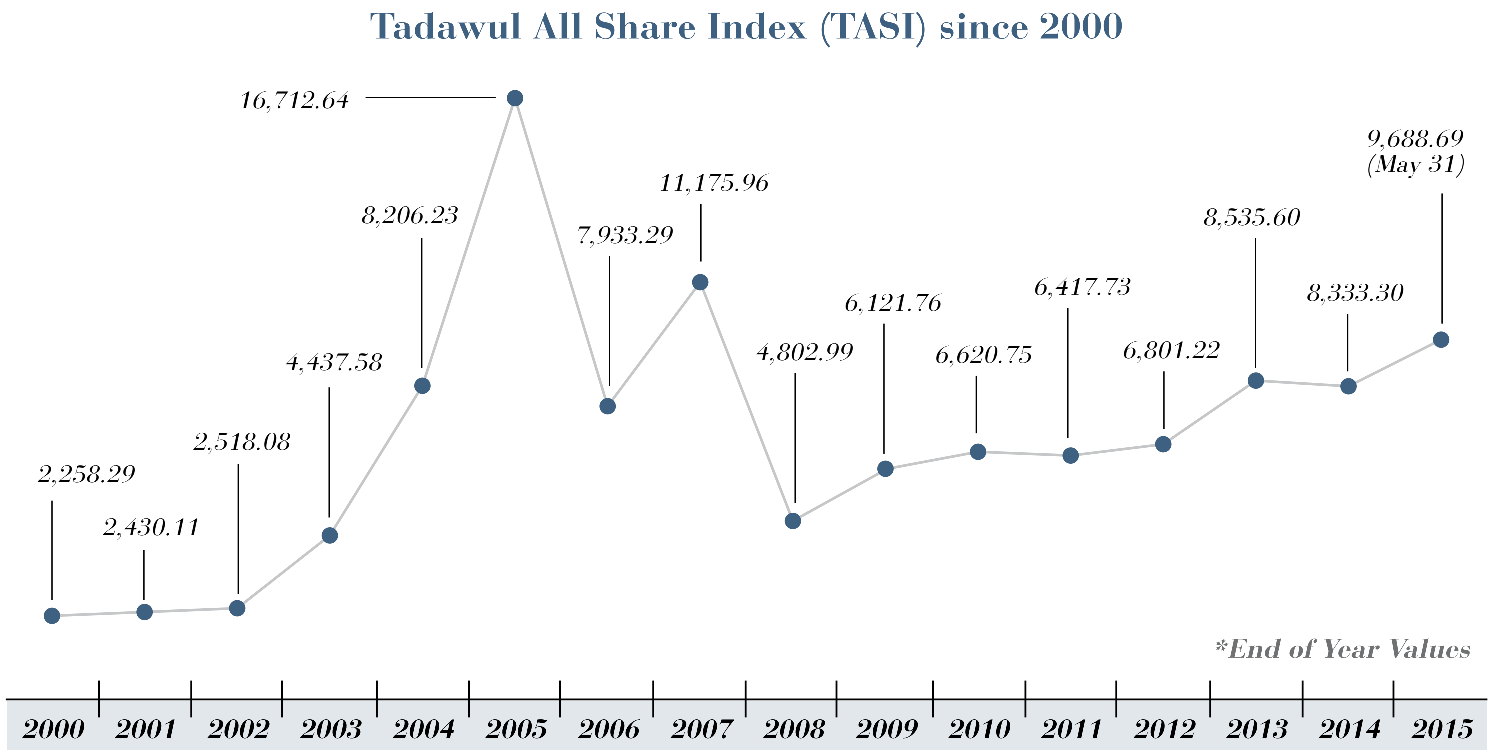
Saudi Arabia is a very large, liquid market. It will potentially be the seventh largest Emerging Markets (EM) equity market by market capitalisation, just behind South Africa ($543 billion), and ahead of Russia, Malaysia, Mexico and Indonesia. The Saudi Tadawul Exchange trades on average $2.4 billion per day across more than 165 listed companies and offers a rich selection of opportunities ranging from banks to consumer-driven businesses.

The opening of the Saudi market will widen the foreign investor base, which is currently around 1.6 per cent of total holdings. Given the size and depth of the market, we expect Saudi Arabia to be included in the main EM equity benchmark indices by 2017, though this requires the authorities to further lift restrictions on access to the market. Should this happen, more than $20 billion could flow into Saudi Arabia over the next few years.

Judging by other precedents in the region, such as Morocco, Egypt, UAE and Qatar, Saudi Arabia's market is likely to re-rate when it becomes included in EM indices. Indeed, we see analogies to the opening of the Indian market for foreign equity investors and the ongoing opening of the onshore Chinese stock markets. Saudi Arabia's decision to open its markets now is highly intelligent – global financial conditions are bound to become tighter in the coming years and the winners among EM countries will be those that are able to maintain or increase their share of a shrinking global 'financial pie'.

From a fundamental perspective, the opportunity in Saudi Arabia is exciting. Contrary to popular perceptions, Saudi Arabia's stock market is not just about oil. In fact, not a single oil company is listed on the Tadawul Exchange. Petrochemical businesses have some correlation with oil, but they are exceptionally profitable given their access to low feedstock costs and offer less volatile earnings streams than other chemical businesses in other markets. Banks are also attractive with the country's peg to the US dollar making them beneficiaries of rising rates. Large parts of the stock market consist of consumer businesses, whose earnings are determined by domestic conditions.

King Salman's affirmation of the country's commitment to domestic spending, development and job creation creates favourable tailwinds for consumer-focused sectors, aided by the announcement recently of two extra months of salaries and bonuses. We see opportunities for consumer stocks similar to those found in some African or Asian markets, but at much more attractive multiples, because of Saudi Arabia's very favourable demographics. Another attractive feature of Saudi Arabia that stands to support consumption in the medium to long term is its population demographic. According to UN data, nearly 50 per cent of Saudis are less than 30 years old, with just over 3 per cent above the age of 65. While Saudi Arabia's population is ageing, the repercussions will not be felt for several decades. The OECD projects the size of a 'middle class' segment to rise from 20 million today to 40 million by 2020. This should provide strong tailwinds for most forms of consumer spending, as well as justifying the enormous infrastructure roll-out that is under way.



One of the key policies announced in Saudi Arabia is the labour reform introduced since the Arab Spring. This policy is designed to encourage employment of local rather than cheaper foreign workers. While in the near term this may mean higher wage costs and resultant slower growth, this policy also creates a catalyst for growth in domestic consumption. The government has also increased minimum wages, opened doors to allow a greater number of women to enter the workforce and introduced unemployment benefits. Together these mean higher discretionary income, which is driving Saudi consumer spending growth to be amongst the highest in EM.

One of the key benefits of including Saudi Arabia in an Emerging or Frontier Markets portfolio is diversification. It is difficult to say how index providers will include this new market in their indices once it opens, nevertheless their inclusion alone will finally enable investors to have an 'on-benchmark' exposure to a market that has been overlooked for too long.

The market is opening at a time of unprecedented change in Saudi Arabia. King Salman, who acceded to the throne this January, has begun the shift of power to a new generation of Al-Sauds with the appointment of Prince Mohammad bin Nayef as Crown Prince and the appointment of his son Mohammad bin Salman as Deputy Crown Prince. The new King has also reshuffled the cabinet and restructured and streamlined official bodies into two committees, which are directly linked to the cabinet. These are the Council of Political and Security Affairs and the Council of Economic and Development Affairs. Efficiency, better citizen services and corporatisation of government institutions are the motivating forces. More changes have been implemented within the past few months than Saudi Arabia has seen for decades. Indecision and inertia have been replaced by steadfastness and dynamism.

Fundamentally, the market offers attractive exposure to petrochemicals and consumer stocks with the latter strongly supported by counter-cyclical policies recently announced by the government

Saudi Arabia's gross domestic product (in current prices) stood at $752 billion in 2014. It is the largest economy in the MENA region and the only MENA economy to be represented in the Group of Twenty (G20). The central driver for the domestically focussed part of the stock market relates to the budget much more than the oil price. Robust real economic growth averaged 6 per cent during 2004-14; non-oil growth averaged 8 per cent during the same period – which compares favourably with other high growth Emerging Markets in Asia. Saudi Arabia has the ability to withstand counter cyclical fiscal policies as the country's substantial fiscal reserves – reserves to GDP are at 90 per cent – support the economy. Moreover, Saudi Arabia's debt to GDP is less than 3 per cent and one of the world's lowest. A combination of debt and reserve assets can help Saudi Arabia sustain high spending in an environment of lower oil revenues. As global EM growth continues its recovery path, we believe that oil prices are likely to continue their upward path, which should be fiscally supportive for Saudi Arabia.

Financial sector on firm footing to weather oil-price storm

The kingdom's economy has faced recent turmoil with volatile shifts in the global oil price but the country's banking sector remains a lucrative and increasingly attractive investment opportunity

Few countries have been as affected by the recent oil price fluctuations as Saudi Arabia yet the country's banking industry remains a vibrant sector that continues to receive international interest.

Demand for Saudi-based investments became clear following the IPO of National Commercial Bank (NCB) in 2014, not just the biggest floatation in the Middle East's history but the second largest in the world last year.

There is little doubt that the country's banking sector has been hit by the volatile oil market, yet government reforms aimed at engineering wider industrial growth and a cautious, sustainable approach from its banks is paying dividends for investors both locally and around the world.

Certainly there are huge opportunities being presented by Saudi's banking sector and firms such as NCB Capital are providing not just an improved array of products to make the most of this but also extending their research facilities to deal with increased demand.

Elsewhere Saudi Arabia British Bank (SABB), established in 1977, is aiming to become the leading international bank for both retail and corporate customers and David Dew, Managing Director at SABB, says international attention has been increasing over recent years. "When I first came here in 2001, investment at that time was a few hundred million dollars, it was very low," he says. "Fast forward 10 years and it peaked to over $30 billion."

He admits that the figure has dropped since its $30 billion peak but the underlying trend has seen Saudi Arabia engaging with the global economy more every year. "Its capital markets are evolving and developing. This country does not do big bangs; it is a steady, cautious approach," he says. " In the hare and the tortoise, the tortoise in the end wins the race. That is the general concept and idea."

As Mr Dew alludes, economic expansion has dropped from double-digit growth to between 7-8 per cent more recently and there is acceptance that such an environment is likely to be the norm going forward. Saudi financial firms are also adjusting their projections, admitting the link between non-performing loans and oil price shocks despite no inherent deterioration in the assets of the country's banks.

"We are still talking about a growth economy," adds Mr Dew. "The general consensus is the growth over the next couple of years is likely to be a little slower than the last couple of years, but it is still growth. It is still positive. It is still good by almost every developed market standard, and it is good by quite a number of emerging market standards as per current performance, including Latin America, which is struggling a bit for growth right now."

At the centre of steady growth have been long-running reform programs, which followed the passing of the Foreign Investment Act in 2000. The country subsequently joined the World Trade Organisation in 2005 and clearly regulated its banking sector.

"The regulatory environment is very well laid out, especially in the financial sector," says Dr Yahya A. Alyahya, Chief Executive Officer of Gulf International Bank. "The reserves and the financial strengths in the country – as well as the government – support growth. Opening up the market in a measured way for foreign investment, and especially institutional qualified investors, is going to create opportunities for both the domestic market as well as for international investors."

One way that Saudi Arabia is doing just that is by opening up the stock exchange to foreign investors, which is set to provide opportunities for both internal growth and global investment. "There will be side benefits, such as deepening the markets, creating more balance in the market and by bringing in more institutional investors because the domestic market here is dominated by retail," adds Dr Alyahya.

Until the opening up of the exchange, international investors had only been able to invest in local companies via exchange traded funds (ETFs) and swaps, meaning they could not take seats on boards nor have any influence on the way companies had developed. However greater financial integration, part of Saudi's 10th national development plan, is allowing not just financial input but foreign expertise as well.

Sarah Jammaz Al Suhaimi, Chief Executive Officer of NCB Capital, says the introduction of direct foreign investment into the country's banking sector is a logical step in Saudi Arabia's continued financial development, and part of a "long-term strategy".

"The capital markets are evolving and developing. This country does not do big bangs; it is a steady, cautious approach. In the hare and the tortoise, the tortoise in the end wins the race"

David Dew, Managing Director of SABB

"In regards to the stock market, regulators have been opening the door for foreign investors since the late 1990s through mutual funds, followed by allowing non-citizen residents to own stocks," she explains. "More recently, the regulator introduced a swap regime to allow international investors to directly access the market. This current step of allowing QFIs (qualified foreign investors) to invest comes as a natural progression to what have started many years ago. Opening the market is something that is necessary to introduce increased competition, which will make people more focused on clients, service and quality as they have to compete with more markets."

The target is not necessarily to create more liquidity in the system but, as Ms Al Suhaimi puts it, become "more competitive as an investment destination."

"This will make the environment much better in terms of transparency, investor relations, governance, the way we are dealing with the market context and the regulator," she adds.

There is also a widespread belief that the introduction of international investors on boards could smooth out some of the volatility of the market, and help develop an environment where longer term investment strategies result in better returns, a so-called "virtuous cycle" as Ms Al Suhaimi explains.

"Longer term investing attitudes are rewarded with higher returns, and higher commitments to transparency by market players are rewarded with higher valuations (due to lower discounting). Every positive step in that direction is important and welcome, but we should expect to see the cumulative impact of these steps over decades, not months.

"We have had hedge funds and active managers investing, and there will be more once it is through direct investment and not through swaps. However, I do not see that they will take seats on boards overnight, as you need to build towards this, so it will coincide with the normal maturity cycle of the market. Nevertheless, being open to the world and other international investors who can compare us with others can only result in improving transparency, governance and the general market environment."

There are huge opportunities being presented to the private sector by Saudi's banking industry

Saudi Arabia's government has also embarked on a plan to diversify its economy away from the traditional mainstays of fossil fuels, and the opening up of the stock exchange is being seen as a key attribute to this plan.

"There are certain sectors that have not really developed well enough to contribute to the diversification effort such as the mining industry and the transportation sector," adds Mr Alyahya. "A lot of opportunities will be created for investors and this is going to help contribute to diversification as well."

Such developments will also inevitably create further opportunities for the Saudi banking system to expand and improve its array of services, and increase potential revenue streams.

"Anything related to infrastructure creates multiple opportunities, both for investors on the operational side and investors on the financial side," continues Mr Alyahya. "In the debt capital market, because of the volume of the infrastructure agenda, there will be a requirement for financing. That also provides opportunities for investors who are seeking or interested in fixed income instruments both in local currency as well as in foreign currencies."

Lending to small and medium-sized enterprises is expected by most analysts to become a growing element of Saudi banks' operations, while the increasing demand for institutions that operate partially or wholly within Islamic banking practices is also providing opportunities for groups such as NCB Capital, which has become a global leader in Islamic Mutual Funds.

Saudi's financial industry has also been investing in its human resources as it seeks to bolster its position as the leading banking player in the Middle East region. Gulf International Bank has created a graduate scheme that takes 40 people on each year while NCB Capital has been part of initiatives designed to increase the number of women employed as part of its workforce.

Such activities, and the wider attempts by the Saudi government to embrace the international arena, are providing global investors with an array of opportunities. There is little doubt that increasing growth in both Saudi's financial sector and its economy as a whole, will depend on the ability of the country's regulators to continue creating an environment that appeals to foreign investors.

"The private sector will continue to play an important role, both because of opportunity and necessity," says Ms Al Suhaimi. "Many of the opportunities of globalisation are best captured by private companies, and most job creation – which is strategically important for our country – will come from the private sector. The banks in general have an important role to play, by directing capital to growth opportunities." Achieving that will be the key to developing the country's financial industries and will, in turn, provide Saudi Arabia's population with the means to enjoy sustainable prosperity.

Islamic banking assets in the kingdom to hit $683 billion by 2019

$285bn value of Sharia-compliant assets in SA in 2013

$1.8trn total value of Sharia-compliant assets of QISMUT* by 2019

17.6% growth of of global Islamic banking assets (2009-2013)

31.7% SA's share of global Islamic finance market

54% percentage of total assets that are Sharia-compliant in SA

As the global Islamic finance industry continues to experience double-digit growth in the coming years, Saudi Arabia will lead the way. The kingdom is home to the world's largest Islamic banking market, which doubled in size between 2009 and 2013

Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, Turkey Source: Ernst & Young

Saudi Arabia's banking sector has enjoyed considerable growth over recent years and the expansion of companies observing Islamic principles looks set to power continued prosperity for its financial sector.

The principles behind the practice set out how banks can operate and revolve around the notion that returns from financing are determined by ownership and shared profit and loss.

It is a considerable difference compared to many of the financial practices of Western institutions, with the overarching principle meaning that interest cannot be applied to loans. Excessive financial speculation is also avoided as is investing in sectors that are forbidden by Islam, and the principles have provided a framework that has proven remarkably successful during the global banking crises over the past eight years.

Although the practice of banking according to Sharia principles is many centuries old, it has risen to prominence over the past decade and Saudi banks have become leaders in the industry. The sector is booming and while only around 1 per cent of global assets are estimated to be represented by companies adhering to such principles, it is the rate of growth in this sector that is catching the attention of both Islamic and secular investors.

Between 2009 and 2013, global investment analysts Ernst & Young said the Islamic banking sector had grown by nearly 18 per cent on an annual basis, with that rising to nearly 20 per cent by 2018. Given such predictions and the fact that around $2 trillion worth of assets were estimated to be Sharia compliant in 2014, it's unsurprising that Saudi-based banks are leaders in the field.

The kingdom is home to the world's largest Islamic banking market, which doubled in size between 2009 and 2013. Ernst & Young predicts that by 2019 total Sharia-compliant assets in Saudi will reach $683 billion, which will account for more than one third of the total Islamic banking assets of the six core markets of Qatar, Indonesia, Saudi, Malaysia, UAE, and Turkey (QISMUT).

Companies practicing within the field include the likes of Al Rajhi Bank, Bank Albilad and Bank Aljazira and its investment arm Aljazira Capital, as well as the country's oldest financial institution the National Commercial Bank (NCB), which recorded the largest listing in the Arab world's history last year.

NCB offers an array of Sharia-compliant financial services and the company's investment arm, NCB Capital, is also one of Saudi Arabia's leading Islamic banking specialists and a global leader in Islamic Mutual Funds.

"Our mutual funds business was built slowly over many years," explains Sarah Jammaz Al Suhaimi, Chief Executive Officer at NCB Capital. "We continued to invest in our people and our systems and processes, through bull markets and bear ones."

Such experience is now proving hugely beneficial not just to NCB but also to Saudi Arabia's wider financial sector. The growth in Islamic banking is expected to drive wider expansion in the industry and the ethical notions that underpin the approach are being seen as an increasingly attractive proposition for both those wishing to bank according to Islamic teachings but also investors seeking more sustainable returns.

A key aspect of Saudi Arabia's Islamic banking sector is the lack of highly leveraged products, which delivers not just reduced risk but also a more stable environment for competing firms in the region. Once profitability has been established, volatility can be lower and it is this that has helped power a widespread surge in demand for products and services from the sector. Such factors have also insulated Saudi Arabia, and the region in general, against the excesses that were apparent in many Western financial institutions over the past decade and enabled it to gain a foothold in the financial world as markets in other regions of the world suffered.

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Calls for further deregulation of Saudi Arabia's banking sector is also likely to enable increased growth as new markets open up. Sharia-compliant financial institutions are well placed to offer opportunities to both personal investors and international firms by providing services that would traditionally have been closed off. The interest amongst Saudi Arabia's public, and the currently idle funds that could be called upon, is expected to add liquidity to the market and provide a wealth of benefits to both customers and the institutions themselves.

Mortgage lending is expected to ratchet up and competition in the market is already increasing, with new entrants and banks such as Al Rajhi making the most of their Islamic banking expertise to position themselves in the high growth market. Companies such as NCB Capital have already made progress in increasing the possibilities for customers but Ms Al Suhaimi says the trend reflects the new demands from the country's public.

"Our global leadership is not a tribute to us but a statement about the appetite of Saudi clients to invest in Sharia-compliant products, and the relatively shallow offering available for them," she explains. "I believe NCB Capital can do even more than we do today, and am committed to continuously improving our product performance and client service levels."

NCB takes stock following $6 billion IPO, the largest ever in the Arab world

The record-breaking IPO in November last year serves as a clear testament to the confidence and interest in Saudi Arabia's banking sector. CEO of NCB Capital Sarah Jammaz Al Suhaimi says she expects NCB to become "a major financier" in future private sector growth

Saudi Arabia claimed one of the biggest floatations of 2014 as National Commercial Bank (NCB) presented its IPO, marking a new high for investment in the region's banking sector and a massive vote in confidence for the company itself.

The $6 billion IPO came at a time when interest in investment banking was still struggling to return following the global financial crisis that began in earnest in 2008. Yet it was those very events that caught the eye of investors, who were keen for a sustainable approach after the volatility swirling around Western banking institutions.

Part of that steady outlook is down to the region's Islamic banking principles; something that Sarah Jammaz Al Suhaimi, Chief Executive Officer of NCB Capital, admits has cemented the reputation of Saudi banks as dependable investments.

"The crisis was in part the result of insufficient regulation and a lack of transparency," she explains. "The global focus on addressing these shortcomings has been helpful to our region, with enhanced regulation on reporting and disclosures by listed companies, new requirements on the composition and quality of boards, and more independence for control functions and their board counterparts.

"There has been a dual impact on the investment banks: we have benefited from these enhancements as corporates, and we also play an important role in educating our clients and implementing regulations on behalf of our regulators. Having said all this, the Saudi investment banking sector did not and will likely never represent the type of systemic risk that we saw in the West. It has never offered the types of products that were at the heart of the financial crisis, there is negligible leverage in the system, and investment banks are subject to high capital requirements relative to their proprietary trading activities."

NCB Capital is one of a number of players within the Saudi banking sector that is watching local developments carefully for opportunities, not least the opening of the Saudi Stock Exchange, which is set to develop financial economic integration.

Ms Al Suhaimi says the development is the "continuation of a long-term strategy" and will provide more opportunities for foreign investors who will benefit as firms ensure they are "more focused on clients, service and quality as they have to compete with more markets." However wholesale changes, such as investors taking places on boards, are not likely on a widespread basis in the near-term but the changes are expected to deliver improved transparency and governance, she adds, and a better general market environment.

NCB Capital is also well placed to offer services to investors eyeing up the region, after the company launched its research division in 2007, giving the firm a head start as more multinationals look to enter the market.

Part of that local knowledge is gained from NCB's initiative that focuses on employing talented young Saudis and training them up within the organisation so they gain from the company's long experience of offering mutual funds and products such as the world's largest Sharia-compliant fund.

"The more we focus on people and providing them with the environment and the tools to excel, the better the quality of products and services for our clients. That is what keeps us going and makes us successful," she says.

Saudi Arabia's increasingly active private sector is also providing opportunities to banks such as NCB, with job creation and investment helping to develop a more diversified economy that is less reliant on oil revenues.

"The banks in general have an important role to play, by directing capital to growth opportunities," Ms Al Suhaimi says, who expects NCB to become "a major financier" of the future private sector growth.

There is also considerable opportunity for the likes of NCB to expand the banking options available to the Saudi population, which Ms Al Suhaimi states is best achieved through increasing education around financial products and services.

"We believe that everyone can benefit from better decision making with their assets," she says. "Saudi families and businesses have a trillion riyals sitting in current accounts earning nothing. While the banks may benefit from this, the opportunity cost for the average Saudi family is high. We want to help them make better decisions, and our internal research suggests that education is the key."

Given NCB's successful float last year, both local investors and international firms already seem aware of the potential that Saudi Arabia's financial services industry offers.

"The level of demand shows the depth and liquidity of the Saudi capital markets," she adds. "Our market has strong regulation, deep investor interest, large and established brokers, and increasing research coverage."

Such a combination of factors should ensure a sustainable future for Saudi's banking sector and increasingly attractive services for global investors and the kingdom's local population.