

15 June 2011

**CIRCULAR BM 1081**

**To: All Licensed Banks  
Operating in the Sultanate of Oman**

After Compliments,

**Re: Islamic Banking**

- 1 As licensed banks are aware, it has been decided to license conduct of Islamic Banking in the Sultanate through exclusive Islamic banks and windows of existing licensed banks.
2. Considering the process of evolution and stage of Islamic banking in many jurisdictions, consistent with the broad approach generally adopted by Central Bank of Oman in regulation and supervision and in order to be compliant and at the same time provide reasonable operational flexibility for the development of this new line of business, the Central Bank conveys the following, as of now:
  - i) The Central Bank deems Islamic banking as one way of doing banking business under the Banking Law, subject, of course, to the overwhelming requirement of Shariah' compliance.

It will follow therefore that the provisions, as stated, respectively, in Articles 50 and 52 of the Banking Law on the use of word of "bank" or "banking" and licensing required from the Central Bank for doing "banking business" as enumerated in Article 5, shall remain applicable except that Islamic banks and Islamic banking windows, so authorized, shall be Shariah' compliant and shall conform to other applicable requirements under the Banking Law and other laws.

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- ii) Accordingly, applicants, proposed entrants and existing licensed banks proposing to do Islamic banking, shall first and foremost familiarize themselves with requirements of Shariah' compliant banking to equip themselves in all respects and demonstrate the same to the Central Bank at the time of application.
- iii) Islamic banking is responsible banking (even as conventional banking should be). It is based on faith; certain lofty social, religious and moral principles are paramount. Nothing, therefore, should be done to undermine the basis and attract risks, financial, operational, reputational, legal, repudiation etc.

The imperatives of Shariah' compliance can, hardly, be overemphasized. Compliance should be all pervading; there should be no compromise on prohibition of riba, gharar or association with the forbidden; sanctity of contracts shall be recognized and observed in details of disclosure and enforcement.

- iv) Diligence, including fairness, reasonableness, sound corporate governance and transparency requirements, will be ensured.
- v) Banks shall establish the following:
  - a) Shariah' Board/Council at Head Office with competent and suitable members for the purpose of needed compliance approvals and confirmations and interactions with guidance to the bank's Board and management.
  - b) Arrangement with external Shariah' Body/Office for independent approval, obtaining needed clarifications etc.

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- c) Independent department at Head Office (with suitable staff) for support and oversight functions.
- d) Arrangement for independent functioning of the window with appropriate segregation of funds, various operational and other areas.
- e) Arrangement for compliance with accounting, reporting, regulatory and performance reckoning/review requirements as may be necessary from time to time.
- vi) Given the required orientation towards sharing of risks and rewards, activity and real assets and different approaches to asset valuation and classification and varied /staggered reckoning of profit and sharing of profit, banks will have to reorient themselves on re-alignment on capital adequacy and other regulatory compliance aspects, accounting, reporting etc., to the extent needed and with reasonable compatibility to existing requirements.
- vii) The roll out of products needs to be gradual with progressive understanding of the market, besides accommodating the prudential expectations of the Banking Law and the scope and sensitivities of market.

The Central Bank shall consider liberally interpreting the Banking Law, as regards activities of banks incidental to Islamic banking, to the extent prudence permits and with additional safeguards.

3. Existing banks, proposing to open branches under the window, shall provide/cover the following:

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- a) Authorization in constitutive contracts/Board approvals to do Islamic banking (confirming absence of negative provisions).
- b) An outline of policies, strategies and procedures (with emphasis on Shariah' compliance).
- c) Application, plan of operations and feasibility study report, encompassing adequately financial forecast for at least three years of operation, business policy and strategies, organization structure, risk management, audit, control and compliance.
- d) Compliance comforts as regards Shariah' compliance to cover internal and external bodies for approvals/authentications and oversight.
- e) Management and senior management incumbents proposed (with curricula vitae) for operations and oversight (including compliance and risk management).
- f) Overall preparedness in terms of trained staff, IT and other requirements.
- g) Products and services proposed to be launched with end-to-end description and coverage in relation to accounting, reporting and regulatory compliance in relation to capital adequacy, prudential and other limitations, valuation, classification, profit reckoning/sharing etc.

Confirmation of Shariah' approvals available for the same and relative contracts, processes and other incidentals.

- h) Confirmation of compliance on all other matters in para 2(v) above and assumption of responsibilities by the Board and senior management of the bank.

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4. The Central Bank shall consider applications on merits along licensing policy and criteria, relevant from time to time. They will include the acceptability of the applicants and submissions in relation to financial strength and various resources, governance and management, record of past performance and business including asset quality and movements therein, control, compliance, risk management, examination and other ratings and similar material parameters.
5. Applicants for new Islamic banks and Islamic banks licensed shall comply with all Banking Law and regulatory requirements in application, establishment and operations, as applicable to licensed banks and along the above approach.
6. The Central Bank looks forward fervently to work together with licensed banks and progress in healthy development of Islamic banking in the Sultanate so as to serve the objectives of the Banking Law including public interests.

Best regards

**Hamood Sangour Al Zadjali**  
**The Executive President**

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