

February 15, 2005

CIRCULAR BM – 985

To: All Licensed Banks Operating in the Sultanate of Oman

After Compliments,

Sub: Master Circular on Financial Obligations of Senior Members in the Management of Banks to any of the Licensed Financial Institutions in the Sultanate of Oman

1. The banks are highly leveraged institutions and are carrying on their business on public confidence. The international best practices require that only persons of highest integrity and moral standards occupy senior positions in banks. The central banks in various jurisdictions, therefore apply strict standards of *'fit and proper'* criteria for clearing the proposals for appointment of senior level positions in banks and other financial institutions. In the interest of enhancing soundness of the financial system, promoting corporate governance, achieving greater transparency and to reinforce the *'fit and proper'* criteria for senior positions in banks, the following instructions, in supersession of the provisions contained in circulars BM 928 and BM 951, have been issued for strict compliance.

2. The senior members in the management of banks, including branches of foreign banks, should be removed from their respective positions when any of their obligations to any of the licensed financial institutions have been classified as ***sub-standard or doubtful or loss***, as per the extant instructions of the Central Bank, by ***banks/finance and leasing companies or the Central Bank or the external auditors***. The term 'senior members', referred to in the circular is broad and should also include *'affiliated bodies'* and *'related business interests'*, as defined in Articles I (b), (c) and (d) of Regulation BM/REG/48/2/2000 (the extracts are attached). The *'obligations'* include all types of credit facilities, both direct and indirect, such as letters of credit, letters of guarantee, commitments and other contingent obligations.

3. Accordingly, the provisions of the circular apply to all senior positions, directly related to the top management of the licensed banks, such as the Chairmen/Chairpersons, Members of the Boards including Proxy Directors, Chief Executive Officers/Country Heads, and other line Management - General Managers, Deputy General Managers and Assistant General Managers. The banks should ensure that the provisions of this circular are also applied to other

senior level positions, who are reporting directly to the Boards / CEOs or otherwise, although they are not so explicitly designated.

4. A grace period of three months from the date of the classification (from the date of this circular in respect of the branches of foreign banks) has been provided to enable the senior members in regularizing and securing declassification of their obligations. In the event of failure to regularize the obligations and secure declassification of the exposures within the grace period, the senior members should be dismissed from their respective positions. The banks are free to proceed either legally or otherwise against such delinquent borrowers for recovery of their claims, irrespective of the actions taken against the senior members under the provisions of this circular.

5. The onus of enforcing the provisions of the circular, both in letter and spirit, rests with the banks. The banks should review the position, at least at quarterly intervals and put in place proper systems including inquiring the classified on-line database of the BCSB system for ensuring full compliance. Banks should also submit certificates on compliance with the provisions of the circular, so as to reach the Central Bank, within 15 days of the last day of each quarter. The certificate for the December quarter, duly certified by the external auditors, should be submitted, latest by January 31st of the following year. The first such report for the year ended December 31, 2004 should reach the Central Bank, latest by February 28, 2005 (branches of foreign banks May 15, 2005).

6. Any failures in complying with the provisions of the circular and / or wrong certification would entail such actions including sanctions, as deemed appropriate, under the provisions of the Banking Law 2000.

Best regards,

Hamood Sangour Al Zadjali
The Executive President

Relevant Extracts of Regulation BM/REG/48/2/2000

Article 1 (b) *Affiliated Bodies* –refer to an entity wherein a senior member in the management of the bank or spouse or direct relatives within the first degree or proxy, individually or jointly, own or control shares equivalent to 25% or more in the net worth of such entity.

Article 1 (c) *Senior Member in the Management of the Bank* – includes all senior positions directly related to the top management of the bank, such as the Chairman, Members of the Board, Proxy Director, Chief Executive Officer, the General Manager and other line Management. A Holding Company owning 25% or more of the net worth of that bank, if any, shall also be identified for this purpose as a Senior Member, in its corporate name, if it is not represented in the bank’s Board by a Proxy Director.

Article 1 (d) *Related Business Interests* – A business shall be deemed related to a senior member in the management of the bank when it includes one or more of the following:

- 1) Proxy of a senior member in the management of the bank, as referred to in Article 1 (c).
- 2) Spouse or relatives of a senior member in the management of the bank within the first degree by blood relationship (father and mother, husband and wives and sons and daughters, either dependent or not), or relatives by legal adoptions.
- 3) Corporations, associations or affiliated bodies, when it is established that a senior member in the management of the bank or his spouse or his relatives within the first degree by blood relationship, as referred to in Article 1(d) (2) or his related business interests own or control shares which, when aggregated, are equivalent to 25% or more in the net worth of the borrowing entity.