

## Circular BM - 988

May 31, 2005

To: All Licensed Commercial Banks

After Compliments,

### **Sub: Master Circular on Net Worth**

1. The Central Bank of Oman has mandated various prudential limits on risk exposures with reference to the net worth of banks. Article 5 of the Banking Law 2000 has defined the net worth of a licensed bank as the aggregate amount, as determined in accordance with regulations of the Central Bank, of the assets less liabilities, other than capital and surplus, of a licensed bank and shall include the aggregate of assets and liabilities both within and outside the Sultanate, except as otherwise specifically provided by the Law. Regulation BM/REG/013/7/78 defined various components and the manner of deriving the net worth of local and foreign banks.
2. Significant changes have taken place in the banking, accounting and regulatory practices over the years, particularly the adoption of International Financial Reporting Standards and the Basel Capital Accord, with a new definition on Regulatory Capital. Recognizing these developments, the Central Bank has re- defined the net worth in various Circulars for serving specific purposes, over a period of time, with minor variations between the definitions, leading to multiple computations and constraints on monitoring of risk-exposures. International best practices recommend adoption of a uniform base for fixing prudential limits, promoting greater transparency and in ensuring effective monitoring of the aggregate risk exposures of banks.

3. In this context, it has been decided to put in place a common definition of net worth for various regulatory purposes. The prudential limits fixed by the Central Bank with reference to the net worth would henceforth refer only to any one of the **defined terms** in this Circular, as the regulatory base. The revised definition of various components of the net worth are given below:

SI No.	Defined Term	Definition
1	Tier I Capital*	As defined by the Basel Committee on Banking Supervision and mandated by the Central Bank.
2	Total Regulatory Capital*	As defined by the Basel Committee on Banking Supervision and mandated by the Central Bank.
3	Global Net Worth of Locally Incorporated Banks	Equivalent to Total Regulatory Capital, reduced by exceptional investments made under Article 65(e) of the Banking Law 2000.
4	Local Net Worth of Locally Incorporated Banks	Global net worth, reduced by the assigned capital for overseas branches and investments in overseas subsidiaries / associates / affiliates, mandated for deductions from capital as per specific Central Bank's directions.
5	Local Net Worth of Foreign Banks*	Equivalent to Total Regulatory Capital in Oman books.
6	Global Net Worth of Foreign Banks	Total Regulatory Capital, as per the norms of the home country supervisors as at the financial year-end.

\* In respect of foreign banks, only components of capital retained in Oman books would be considered.

4. In view of the revision in the definition of net worth, certain modifications have also been made in the bases used for the prudential limits set by the Central Bank, as detailed in the Attachment.
5. Henceforth, banks are required to submit the details of the net worth, indicating the applicable ***defined terms***, with clear break-ups, for the Central Bank's approval, while submitting the draft audited financial statements.
6. Generally, the net worth approved by the Central Bank would be valid till the approval of draft audited financial statements for the next year. However, any significant changes in the net worth either on account of raising of long-term capital or on account of losses incurred, significant investments made under Article 65 (e) of the Banking Law 2000 during the year, specific direction of the Central Bank, etc., in the interim should immediately be reckoned and the net worth adjusted accordingly.
7. The provisions of this Circular comes into effect from June 1, 2005.

Best regards,

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

## Attachment

Sl No	Scope of Prudential Limitation	Reference	Net Worth Base
1	<p>Prudential limit on the foreign exchange open position</p> <p>This would be monitored with reference to the global foreign exchange open position</p>	<p>Reg BM/19/3/80 dated 1/4/1980</p> <p>Circular No. BM 341 dated 10/3/1982</p>	<p>Tier I Capital for local banks and local Tier I Capital for foreign banks, instead of capital and reserves as indicated in BM Circular 341.</p>
2	<p>Limitations with respect to lending of Rial Omani to Non-residents and placement of Rial Omani funds abroad</p>	<p>Reg/022/9/81 dated 1/12/1981</p> <p>Reg/27/08/85 (As Amended) dated 15/4/1992</p> <p>Circular BM 673 dated 23/12/1992</p> <p>Circular BM 877 dated 10/11/1999</p>	<p>Local net worth for both locally incorporated banks and foreign banks.</p>
3	<p>Legal lending limits on single obligors and senior members in the management of banks and their related parties</p>	<p>Reg/47/2/2000 dated 20/3/2000</p> <p>Reg/48/2/2000 dated 20/3/2000</p> <p>Circular BM 888 dated 19/4/2000</p> <p>Circular BM 889 dated 19/4/2000 &amp; Circular BM 930 dated 29/1/2002</p>	<p>Global net worth for both the locally incorporated banks and foreign banks.</p>

## Attachment

contd.....

Sl No	Scope of Prudential Limitation	Reference	Net Worth Base
5	Investment by licensed banks	Circular BM 938 dated 13/5/2002	Global net worth for local banks and local net worth of foreign banks.
6	Borrowings from Banks abroad by locally incorporated banks	Circular BM 916 dated 10/7/2001	Local net worth.
7	All other prudential limits prescribed under the Banking Law	(All limitations prescribed under Articles 65, 68 (e) and 69 of the Banking Law 2000)  Circular BM 768 dated 30/08/1995 Circular BM 847 dated 04/07/1998 Circular BM 876 dated 23/10/1999 Circular BM 938 dated 13/05/2002 Circular BM 958 dated 05/08/2003	Global net worth for local banks and local net worth for foreign banks.