

Circular BM - 997

February 28, 2006

To: All Licensed Commercial Banks in the Sultanate of Oman

Sub: **Master Circular on Lendings to Non-Residents and Placements of Bank Funds Abroad**

1. Lendings to non-residents and placements of funds abroad involve the banks assuming higher degree of country, transfer, credit, currency, reputational and legal risks and have multiple implications for the country, the Central Bank and the banks. Banks are also exposed to heightened competition in the international financial markets. At the same time, it may not be prudent to preclude banks from tapping gainful cross-border business opportunities in the context of liberalization and globalization. Under these circumstances, it is necessary to mitigate the underlying risk profile of such exposures through prudential regulations and risk limits, for maintaining financial stability and solvency of the licensed banks.

2. In the light of the experiences gained and the portfolio quality and risk profile of the external assets of banks, the Board of Governors of the Central Bank has recently revisited some of the regulatory practices and has proposed certain modifications to the existing norms. Accordingly, the following updated and consolidated instructions, in supersession / modifications of the instructions contained in the Regulations/Circulars, as listed out in the Attachment, have been issued for strict compliance by licensed banks.

A Lending of Rial Omani to Non-Residents

3. Non-residents assuming positions in Rial Omani has implications for domestic liquidity and the stability of the currency. The following measures are stipulated to prevent the taking of positions against the Rial Omani.

3.1 Licensed banks shall not maintain Rial Omani deposits with or make loans or advances denominated in Rial Omani to any non-resident bank or non-resident financial institution, which shall, inter alia, include the Head Office, branches of such licensed bank outside the Sultanate, affiliates or subsidiary companies thereof.

3.2 Licensed banks are not allowed to grant loans or advances denominated in Rial Omani to non-resident companies, individuals or other legal entities.

3.3 The Embassies, Consulates, and persons of diplomatic status within the Sultanate shall not be regarded as non-residents for the purpose of the above norms.

4. These measures shall not, in any way, affect the right of any person, other than licensed banks, to transfer or hold Rial Omani balances, assets or other currencies outside the Sultanate of Oman.

B Lendings to Non-Residents in Foreign Currencies for Operations Abroad

5 An analysis of the risk profile of lendings to non-residents in foreign currencies for operations abroad revealed heightened supervisory concerns and hence, with a view to enhance the safety and soundness of banks, the following specific guidelines are issued:

5.1 Any exposures of US\$ 5 million and over to any non-resident borrowers shall, henceforth, be assumed only through the route of syndication.

5.2 The aggregate of direct and indirect exposures to a non-resident borrower and his related parties (as defined in Regulations 47 and 48 /2/2000, dated March 20, 2000,) by overseas branches of locally incorporated bank should not exceed 5% of the local net worth of the lending bank or single borrower limits imposed by the host country supervisor, whichever is less.

5.3 The aggregate of direct and indirect exposures to a non-resident borrower and his related parties, by locally incorporated bank including that of its overseas branches should not exceed 5% of the local net worth of the lending bank.

5.4 The aggregate lendings to all non-resident borrowers and their related parties by locally incorporated bank including that of its overseas branches should not exceed 30% of the local net worth of the lending bank.

5.5 The aggregate exposure of the locally incorporated bank including the lendings by overseas branches to a resident and/or his related parties in Oman should not exceed 15% of the global net worth of the bank.

5.6 The aggregate of direct and indirect exposures to a non-resident borrower and his related parties, by foreign banks operating in the Sultanate should not exceed 5% of their local net worth. The aggregate lendings to all non-resident borrowers and their related parties, by the foreign banks should not exceed 30% of their local net worth.

5.7 Banks should fix prudential limits on country exposures to mitigate the adverse effects of country risk.

5.8 Banks should monitor very closely the currency risk assumed by their non-resident customers to avoid market risk triggered credit risk.

5.9 Exposures to customers having residency and/or operations in countries, which are rated below investment grade by international rating agencies should be backed by adequate collateral and strong financials.

5.10 Banks should report the details of the credit facilities granted in foreign currency to non-residents, as per Attachment 2 and the details of syndicated loans, both for resident and non-resident borrowers, as per Attachment 3, within 15 days of the end of each quarter.

C. Placement of Bank Funds Abroad

6. The placement of bank funds abroad is governed by the following guidelines:

6.1 Branches of Foreign Banks Operating in the Sultanate:

The aggregate of all foreign currency balances with the offices indicated below shall not exceed 60% of the local net worth and shall be segmented further within the following ceilings:

	Offices with which the Foreign Currency Balance is Maintained	Ceiling
i)	Head Office and Own Branches Abroad (aggregate)	20% of the local net worth
ii)	At each Head Office Affiliate Abroad	20% of the local net worth

6.2 Local Banks:

The aggregate of all foreign currency balances with the offices indicated below shall not exceed 60% of the local net worth and shall be segmented further within the following ceilings:

	Offices with which the Foreign Currency Balance is Maintained	Ceiling
i)	Principal Shareholders & their own Offices/Branches Abroad (aggregate)	20% of the local net worth
ii)	At each affiliate of Principal shareholders Abroad	20% of the local net worth
iii)	Branches of Local Banks Abroad (aggregate)	20% of the local net worth

6.3 The ceiling stipulated herein refers to the sum total of all balances, including the balances in Nostro accounts (before netting with dues to respective offices) booked in the Head Office, branches, affiliates abroad, and in the case of locally incorporated banks, all principal shareholders, affiliates and branches abroad.

6.4 Locally incorporated licensed banks issuing Letters of Credit (LCs) in large amounts, for and on behalf of their customers, and for which they require confirmation from their principal shareholders or affiliates thereof, are exceptionally authorized to deposit with such principal shareholders or affiliates a maximum of 50% of the amounts of such LCs over and above the limits prescribed in Para. 6.2.

6.5 For the purpose of placement of funds abroad, the following definitions shall apply:

- a) Principal Shareholders in the case of locally incorporated banks refer to any non-resident bank that holds equity ownership of 15% or more of capital issued and outstanding of the local bank.
- b) Affiliates means a bank having 30% or more of the voting shares in the equity of the concerned and its affiliates.

- c) A Head Office Affiliate in the case of Foreign Banks and Principal Shareholder's Affiliate in the case of local banks means an institution in which the Head Office or the Principal Shareholder as the case may be owns 30% or more of the voting shares of the affiliate.
- d) Issuing LCs in large amounts refers to the amount that exceeds Rials Omani one million for every one LC.

6.6 Banks should report the details of placement of banks funds abroad, as per Attachment 4, within 10 days after the end of each month.

Best regards,

Hamood Sangour Al Zadjali
The Executive President

Attachment –1 to Circular BM - 997

List of Regulations and Circulars referred in Para 2

Sl No	Subject	No. & Date
1	Lending of Rial Omani to Non-Residents and Placements of Rial Omani by Licensed Banks with Banks or Financial Institutions Abroad	BM/REG/022/9/ 81 dated 01/12/1981 Circular BM 335 dated 13/12/1981
2	Placements of Bank Funds Abroad With HO, Principal Shareholders, Branches / Affiliates	BM/REG/027/8/85 (as amended) dated 15/04/1992 Circular BM 673 dated 23/12/1992(Superceded)
3	Extension of Credit Facilities by Licensed Banks in Foreign Currency to Non-residents for Operations Abroad	Circular BM 790 dated 30/06/1996 (Superceded)
4	Extension of Credit Facilities by Licensed Banks in Foreign Currency to Non-residents for Operations Abroad	Circular BM 799 dated 23/11/1996 (Superceded)
5	Extension of Credit Facilities by Licensed Banks in Foreign Currency to Non-residents for Operations Abroad	Circular BM 877 dated 10/11/1999 (Superceded)
6	Extension of Credit Facilities by Locally Incorporated Licensed Banks in the Sultanate of Oman and / or their Overseas Branches	Circular BM 930 dated 29/01/2002 (Superceded)

Report on Syndicated Loans
For the Quarter ended

Bank Name:

Amount 000's

Sr No	Borrower Details**										Outstanding Balance		
	Name of the Borrower	Credit Rating (if available)	Total Size of the Syndicated Loan (Currency & Amount)	Bank's Share in Original Syndication (%)	Original Foreign Currency & Amount	Equivalent in RO	Date of Acquisition	Mode of Acquisition (Primary / Secondary)	Maturity	Collaterals (if any)	Foreign Currency & Amount	Equivalent in RO	Risk Classification*
Section I - Resident Borrowers													
1													
2													
3													
4													
	Sub-total												
Section II - Non Resident Borrowers													
1													
2													
3													
4													
	Sub-total												
	Grand Total												

* Risk classification - Standard, Special Mention, Sub-standard, Doubtful or Loss

** Details are to be reported Syndication-wise

Report on Placement of Banks' Funds Abroad

For the Month ended

Bank Name:

Amount 000's

Sl. No.	Details	Foreign Currency & Amount	Equivalent in RO	% to Local Net Worth
Section - A - Applicable only for Local Banks				
I	Principal Shareholders / Own Offices / Branches Abroad			
a				
b				
c				
	Sub-total			
II	Affiliate of Principal Shareholders Abroad			
a				
b				
c				
	Sub-total			
III	Branches of Local Banks Abroad			
a				
b				
c				
	Sub-total			
	Grand Total			
Section- B - Applicable only for Foreign Banks				
I	Head Office and Own Branches Abroad			
a	Head Office			
b	Own Branches Abroad			
	Sub-total			
II	Head Office Affiliate Abroad			
a				
b				
c				
	Sub-total			
	Grand Total			

Latest Local Net Worth (LNW) as approved by the Central Bank of Oman = RO.