

Date: 3rd April, 2018

CBO Revised Regulation Impact – April 2018

- Reduced minimum Capital Adequacy Ratio (CAR) for banks from 12% to 11%.
- Local inter-bank net borrowing to be included in lending ratio calculation; maximum lending rate maintained at 87.5%.
- Removed the regulatory restrictions imposed on the risk weights to claims on sovereign and central banks.
- Increased the limit for liquidity gap (as % of cumulative liabilities) on all currencies from -15% to -20% for the 3-6 months buckets and -25% for 6-12 month buckets.
- Increased the limit of credit exposure to non-residents and placement of banks' funds abroad to banks' local net worth from 50% to 75%.
- Effective from April 1, 2018

Reduction in minimum Capital Adequacy Ratio (CAR) for banks from 12% to 11%

The CBO has reduced the capital adequacy ratio (CAR) from 12% to 11%, which would result in increasing the banks' lending capacity and reflect positively on overall credit growth. This change is expected to result in an increase in the volume of additional credit available to OMR7.8 billion from OMR5.2 billion, as per news sources.

Current Capital Adequacy Ratios of banks as of FY17:

Capital Adequacy Ratio	
Bank Muscat (BKMB)	18.6%
Bank Nizwa (BKNZ)	17.3%
National Bank of Oman (NBOB)	17.3%
HSBC Oman (HBMO)	16.9%
Ahli Bank (ABOB)	16.7%
Alizz Islamic Bank (BKIZ)	16.7%
Bank Sohar (BKSB)	16.2%
Bank Dhofar (BKDB)	15.4%

Source: Company Financials FY17

It must be noted that this minimum requirement is aside from the Countercyclical Buffer and Capital Conservation Buffer requirements.

Capital as % of Risk Weighted Assets	2015	2016	2017	2018*	2019*
Common Equity Tier1 (CET1) excluding CCB and CCyB	7%	7%	7%	7%	7%
Tier 1 Capital	9%	9%	9%	9%	9%
Total Capital excluding Buffers	12%	12%	12%	11%	11%
Capital Conservation Buffers (CCB)	0.625%	0.625%	0.625%	0.625%	0.625%
Countercyclical Capital Buffers (CCyB)	0 - 0.625%	0 - 0.625%	0 - 1.25%	0 - 1.875%	0 - 2.50%
Systemic Capital Surcharge for D-SIBs	-	-	0.4	0.5	0.6

Source: CBO

*new minimum capital requirement

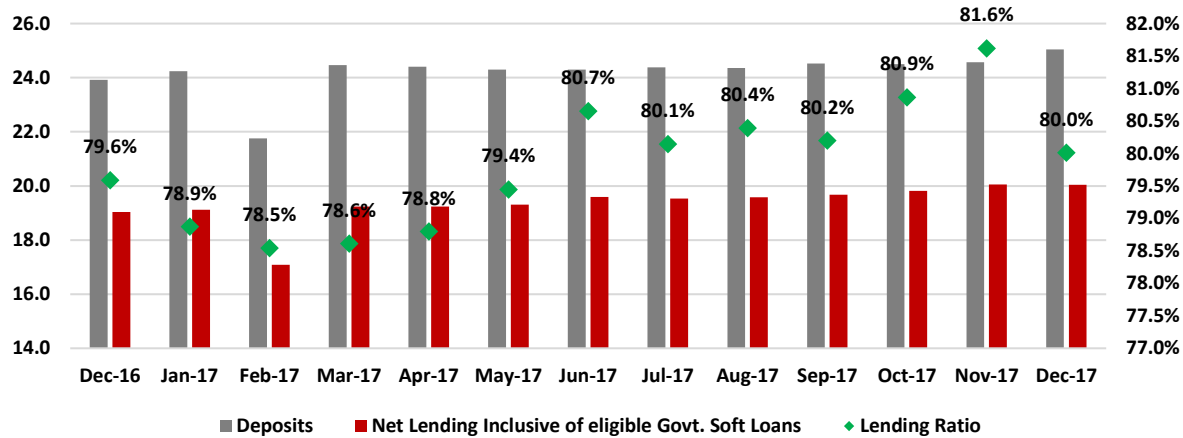
Therefore, including the capital buffer requirements, all banks are above the minimum stipulated including the buffers. **However, it is expected to relieve pressure of raising further capital for banks on the lower end of spectrum.** In 2018, the total CAR requirement is 13.5% and in 2019 it is 14.125%, excluding D-SIB charge.

Local bank deposits to be included in calculation of deposit base for Lending Ratio

The CBO has also allowed banks to include borrowing/placements, if any, from other commercial banks, in their deposit base and reduce, lending/placements, if any, with other commercial banks from the deposits base for lending ratio calculation purposes. All other extant instructions, including prohibition against Islamic Banking entities providing funds to conventional banks and applicability of present reporting requirements remain in force.

The existing allowed maximum lending rate is 87.5%. A larger deposit base in lending ratio calculation extends ability to provide greater liquidity in the market and will enhance overall credit growth. **This will increase the ability of banks to lend, thereby improving liquidity management of banks in addition to stimulating the interbank market.**

Oman Bank Lending Ratio



Source: CBO

1. Deposits include customers' deposits as well as net balances due to banks abroad and capital funds
2. The lending ratio effective from 1st January 2009 is 87.5% of deposit base.

Based on our calculations, the new LTD ratios, excluding capital and including net total inter-bank borrowing of banks will improve as follows:

	Old LTD	New LTD
National Bank of Oman (NBOB)	107.8%	108.4%
Ahli Bank (ABOB)	112.7%	104.2%
Bank Nizwa (BKNZ)	106.5%	103.4%
Bank Dhofar (BKDB)	105.9%	102.9%
Alizz Islamic Bank (BKIZ)	97.0%	100.5%
Bank Muscat (BKMB)	112.0%	95.0%
Bank Sohar (BKSB)	127.8%	93.0%
HSBC Oman (HBMO)	72.2%	72.4%

Source: Company Financials FY17

*LTD = Net loans to Deposit Ratio

Removed the regulatory restrictions imposed on the risk weights to claims on sovereign and central banks

The CBO has removed the regulatory restrictions imposed on the risk weights to claims on sovereign and central banks, as part of its efforts to implement the guidelines of the Basel Committee on Banking Supervision.

Initially, the claims on the Government of the Sultanate of Oman and the Central Bank, which are denominated and funded in Rial Omani, were assigned a risk weight of 0%. Where the host country supervisors mandate 0% or preferential risk weights on the claims on their Sovereigns (or Central Banks) that are denominated and funded in their national currencies, local banks could also assign preferential risk weights on such claims according to CBO guidelines. Banks could also use the consensus country risk classification of OECD for assigning risk weights. The OECD risk scores, which are available in their website (<http://www.oecd.org>) in the Export Credit Arrangement web-page of the Trade Directorate, will correspond to the risk weight categories as detailed below:

OECD Risk Score	0-1	2	3	4- 6	7
Risk weight	0 %	20 %	50 %	100%	150 %

Source: CBO

The removal of such restrictions is expected to result in reduction in risk-weighted assets used to calculate capital adequacy ratio, which in turn will further provide a boost to banks' capital adequacy measures.

Increased the limit for liquidity gap (as % of cumulative liabilities) on all currencies from -15% to -20% for the 3-6 months buckets and -25% for 6-12 month buckets.

In order to enable the banks to manage their liquidity gaps more efficiently, the CBO has decided to increase the prudential limit for all currencies' liquidity gap (as % of cumulative liabilities) from 15% to 20% for the 3-6 months buckets. Also, the CBO has revised for 6 to 9 months' bucket and 9 to 12 months' bucket from an earlier maximum of -15% of the cumulative liabilities to -25% of the cumulative liabilities.

This would give banks more flexibility to utilize credit lines available to them with their foreign and local correspondents at a reasonable cost. **We believe that this will lead to a better mobilization of the inter-bank market funds, resulting in lowering of cost of inter-bank funding rate.**

FY17	Net Liquidity Gap	Cumulative Liabilities	Liquidity Gap as % of Cumulative Liabilities	Time period
Ahli Bank	(349,682)	2,397,960	-14.6%	3-12 Months
Bank Muscat	(872,911)	4,530,303	-19.3%	4-12 Months
Bank Dhofar	(293,645)	1,805,374	-16.3%	6-12 Months
NBO	(433,818)	1,635,508	-26.5%	3-12 Months

Source: Company Financials

*3-6 Month new limit is -20% 6-12 Month new limit is -25%

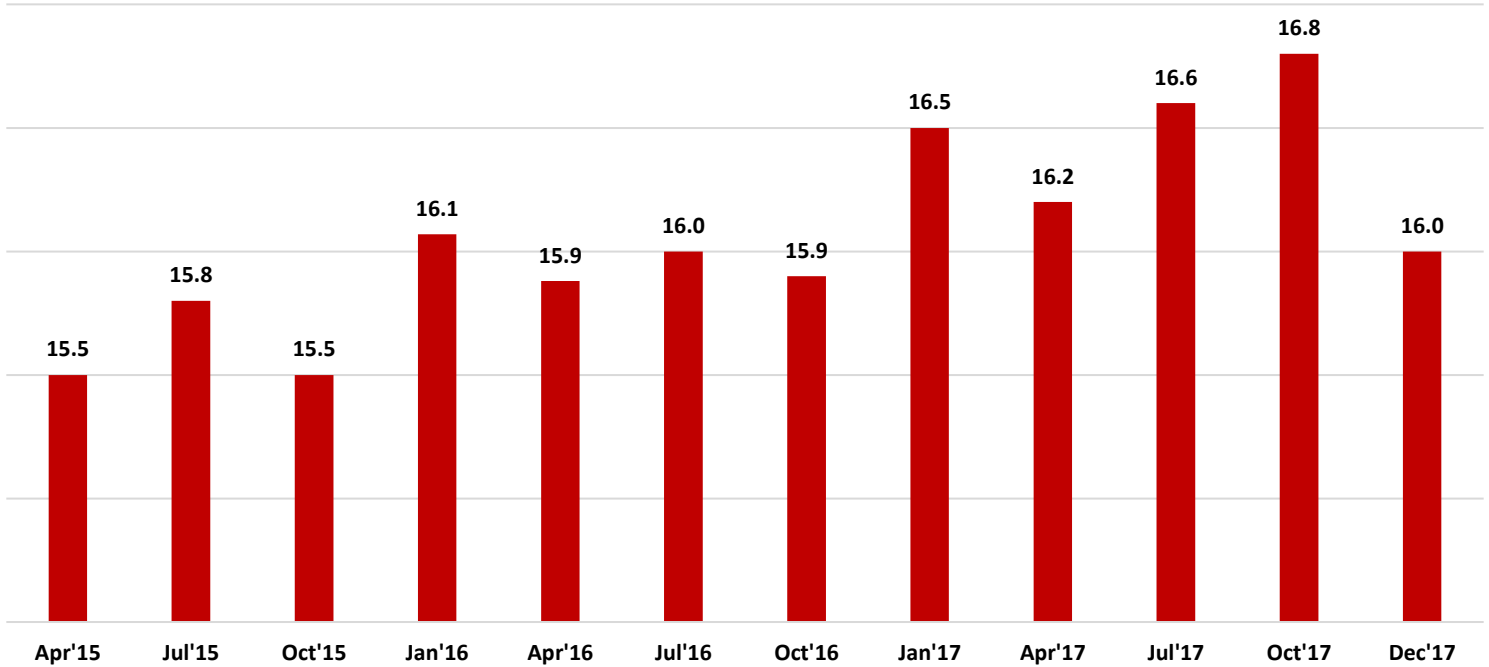
Note: further breakup unavailable

Limit ratio of credit exposure to non-residents and placement of banks' funds abroad to banks' local net worth increased from 50% to 75%

The CBO has increased the limit ratio of credit exposure to non-residents and placement of banks' funds abroad to banks' local net worth from 50% to **75%**. This is also expected to provide impetus to credit growth in addition to improving liquidity management of banks. Due to unavailability of information on all banks regarding this data, we are unable to measure the actual impact for each bank, however, we believe it is positive for banks in general.

Appendix

Oman Banking -Capital Adequacy Ratio



Source: CEIC

Conventional Banks Ratios

	Jan-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Cash & Clearing to OMR Deposits	10.1	8.7	9.4	7.7	9.6	8.6
Cash & Clearing to Total Deposits	8.9	7.6	8.3	6.8	8.6	7.7
Credit to Deposits	106.3	107.3	109.1	110.3	110.3	110.6
Fx Deposits to all Deposits	11.8	12.4	11.6	11.5	11.1	10.8
Fx Credit to Total credit	13.3	13.7	14.3	14.9	15.2	15.1
Fx Assets to Total Assets	9.3	10.5	10.2	9.8	8.7	10.2
Foreign Liabilities to Total Liabilities	11.3	10.9	11.4	11.1	11.8	12
Demand Deposits of Private Sector to Total Private	30.1	30	30	30	30.1	30.3
Capital & Reserves to Total Deposits	22	22.3	22.7	22.7	22.9	24.6
Provisions & Reserve Interest to Total Credit	3.4	3.5	3.5	3.5	3.4	3.5

Source: CBO

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