

## Loans to Nationals and Expatriates

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Type	Practical Guidance
Document type	Practice Note
Date	4 Aug 2023
Jurisdiction	Oman
Copyright	LexisNexis

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Document link: [https://www.lexismiddleeast.com/pn/Oman/Loans\\_to\\_Nationals\\_and\\_Expatriates](https://www.lexismiddleeast.com/pn/Oman/Loans_to_Nationals_and_Expatriates)



## Overview

Loans from Omani banks to Omani nationals and expatriates resident in Oman (Omani Borrowers) are regulated by:

- the Central Bank of Oman (CBO) under Oman Sultani Decree No. 114/2000 Oman Central Bank Law;
- certain other executive regulations and circulars issued from time to time by the CBO; and
- more generally under the Oman Law No. 55/1990 Promulgating the Commercial Law

The CBO takes a risk-based approach and ensures that Omani banks do the same. The applicable laws, guidelines and regulations distinguish between loans to consumers and non-consumers.

## Definitions

- *Banking Law*: Oman Sultani Decree No. 114/2000 Oman Central Bank Law
- *CBO*: Central Bank of Oman.
- *OCL*: Oman Law No. 55/1990 Promulgating the Commercial Law

## Practical Guidance

Lending activity by a lender not based in Oman to an Omani Borrower (i.e., offshore lending) is not likely to be considered to be the conduct of banking business (as defined below) in Oman and therefore such lending activity will not be deemed by the CBO to be a regulated activity under Omani law.

Secured and unsecured lending by a lender to an Omani Borrower in Oman is a regulated activity (defined as banking business) under Oman Sultani Decree No. 114/2000 if lending is the principal undertaking and regular course of conduct of that lender.

Under article 52 of Oman Sultani Decree No. 114/2000, to conduct banking business in Oman a lender must be licensed by the CBO (such a bank being a licensed bank). The undertaking of banking business in Oman without a licence, would be prohibited.

Omani law discerns between activities carried out by:

- consumers;
- merchants (i.e., businesses - defined under Oman Law No. 55/1990 as “any person who engages in commercial activities in his name, who has the requisite capacity and who adopts such transactions as a business”); and
- expatriates resident in Oman. Under article 24 of Oman Law No. 55/1990, non-Omanis may not engage in commerce in Oman unless permitted to do so by law. The expatriates once licensed to conduct business in Oman may only do so in respect of activities (including borrowing) for which they have been permitted to do so. Otherwise, any borrowings to be made by expatriates may only be for their personal use.

## Consumer/personal loans

Under the CBO Circular No. 983, personal loans (that is, loans made to individuals and households for non-business purposes, also known as consumer loans) made by a licensed bank are restricted to a maximum of 42.5% of that licensed bank's total loan book.

The CBO generally requires that licensed banks may only extend consumer loans based on assignment of borrowers' salary or end-of-service benefits with definite monthly repayment schedules and not in the form of overdrafts. Banks, exceptionally, provide overdraft facilities not exceeding three times a borrower's salary, subject to certain repayment rules and interest rate ceilings.

## Interest rate regulations

Credit card facilities to consumers are also subject to regulations concerning credit limits. Generally speaking, if a credit facility is linked to a borrower's salary or end of service benefits the maximum credit limit shall be twice a consumer's monthly salary or OMR 2,000, whichever is greater. As an exception, if a licensed bank decides to issue more than one type of credit card to a consumer-borrower, the aggregate limits of those credit card facilities should not exceed five times that borrower's monthly salary.

The CBO from time to time sets a ceiling on the rate of interest applicable to consumer loans.

With effect from 1994, the CBO deregulated lending interest rates applicable to non-consumer loans and permitted banks to determine their own interest rates to be applied on any credit facilities advanced.

As a general rule, Omani Courts will uphold provisions relating to interest, including default interest, except that they may not award any interest which may be penal in nature (as opposed to being compensatory for any loss or damage suffered on account of default or delay in repayment of debt). Courts tend to award compensatory damages and not punitive damages, similar to the position under English law in this respect. Additionally, the courts may limit the rate of interest recoverable on a judgment to the maximum level specified by the CBO, from time to time, or possibly to a level considered to be reasonable in the absence of the parties having agreed a rate under the finance agreement.

## Lending ratios and credit exposure limits

Article 69(a) of Oman Sultani Decree No. 114/2000 requires licensed banks to maintain reserves within the Sultanate in order to conduct banking business. A licensed bank is not permitted to lend if the aggregate amount of all loans made by that licensed bank exceeds the ratio of loans to deposits set from time to time by CBO.

CBO regulations and circulars specify certain categories of credit exposure to (among others) Omani corporate borrowers, foreign entities, and related parties, for example:

- Exposure to a single obligor may not exceed 15% of the licensed bank's total net worth.
- Exposure to senior management may not exceed 15% of the licensed bank's total net worth.

The CBO follows international best practice and credit exposure limits, which are expressed in terms of a licensed banks' total capital or global net worth subject to limited exceptions and has issued guidelines under CBO Circular BM 955 on international convergence of capital measurement and capital standards, which includes minimum capital requirements such as:

- Regulatory capital.
- Capital charge for credit risk
- Capital charge for market risk.
- Credit risk - securitisation framework.
- Capital charge for operational risk.

## Related Content

### Legislation

- Oman Law No. 55/1990 Promulgating the Commercial Law
- Oman Sultani Decree No. 114/2000 Oman Central Bank Law
- Oman Sultani Decree No. 102/1994 To Promulgate the Foreign Capital Investment Law
- [CBO Circular BM No. 1009](#)<sup>[1 p.6]</sup>
- [CBO Circular BM No. 983](#)<sup>[1 p.6]</sup>
- [CBO Regulation No. 022/9/81](#)<sup>[1 p.6]</sup>
- [CBO Circular BM No. 955](#)<sup>[1 p.6]</sup>

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### ***Areas of expertise***

- Banking and finance
- Projects and privatization
- Litigation and Arbitration

### ***Education***

- University Of Hull, Bachelor of Laws, 1982
- Called to the Bar of England and Wales 1983

### ***Biography***

Mansoor Malik is AMJ's founder, managing partner and head of the firm's top tier corporate commercial and dispute resolution departments. A UK-qualified barrister, Mansoor has more than 30 years' experience of law and practice in Oman and is ranked as a star performer and leading lawyer by all major legal directories.

In the non-contentious field, Mansoor's expertise spans all aspects of corporate, banking and finance law. He has advised on complex projects and innovative public-private partnerships including many of the jurisdiction's most significant transactions over the past 30 years in the energy, infrastructure and telecommunications sectors in particular. Today, Mansoor is regarded as the foremost authority on Oman's privatisation and utilities sector law. Most recently, he advised the government of Oman on the restructurings and privatisations of government entities across several key industry sectors. He is also highly regarded as a pioneer in the emergent field of Islamic finance in Oman.

In the dispute resolution arena, Mansoor is a listed Oman Court of Appeal arbitrator and enjoys rights of audience before Oman's Supreme Court. He advises on a range of project and commercial disputes in Oman, representing parties at every level of the supply chain. In addition to his front-end work, he advises clients on bringing and defending complex and high-value claims in international and domestic arbitration proceedings and has extensive experience of institutional and ad hoc proceedings.

Mansoor's roster of clients includes major national and international corporates, finance institutions, credit agencies, government and state-owned enterprises and as well as many of the world's leading law firms.

Mansoor is an associate member of leading commercial law barristers' chambers, 3 Verulam Buildings, Gray's Inn, London.



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- Advocate High Courts, Pakistan

***Biography***

Zarrar is an associate in the Commercial Team and has broad legal experience with a focus on corporate and commercial work, Islamic Finance, real estate and projects. Within his areas of focus, Zarrar has advised multiple clients on mergers & acquisitions, commercial transactions and various real estate development projects.

## Notes

1. <sup>^</sup> [p.3] [p.3] [p.3] [p.3] <https://cbo.gov.om/sites/assets/Documents/English/Circulars/Booklet/CircularBooklet.pdf>