

Keynote Address

IFN Oman Forum 2024

H.E. Tahir Salim Al Amri

The Executive President
Central Bank of Oman

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Excellencies, Distinguished Participants, Ladies and Gentlemen,

and good morning to all of you!

I would like to extend my sincere gratitude to the Redmoney Group for inviting me to deliver the Keynote Address at the IFN Oman Forum 2024.

Key Sector Developments

Ladies and Gentlemen!

The growth of Islamic banking sector has traditionally remained strong. Today, I would like to share some encouraging updates on the continued growth of the Islamic banking sector in Oman.

The total assets of Islamic banks and windows have demonstrated robust expansion, increasing by 11.4 percent year-over-year to reach OMR 7.8 billion. This represents a significant share of the overall banking system's assets, standing at 18.1 percent at the end of June 2024.

Islamic banking entities have also been actively supporting the economy through financing. **Their total financing reached OMR 6.4 billion** by the end of June 2024, showcasing a healthy growth rate of 10.4 percent compared to the previous year.

Furthermore, the confidence in Islamic banking is evident in the increase in deposits. **Total deposits held with Islamic banks and windows rose by a substantial 14.7 percent to OMR 6.0 billion.**

In terms of Islamic banking stability, the sector demonstrated robust capital adequacy, with a **Total Capital Adequacy Ratio (CAR) of 15.8% and a Tier-1 Ratio of 15.1%** as of December 2023. These figures significantly exceed the regulatory minimum.

While the Stage 3 (impaired financing) to gross financing ratio (**NPF ratio**) **increased slightly to 2.8% from 2.1% in the previous year**, it remains below the NPLs ratio of conventional banks.

Similarly, Islamic banking sector **continued to exhibit strong profitability, with annual profits increasing by 8.7% to RO 63.196 million during 2023**. The sector's liquidity position also remained comfortable, with both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) well above the regulatory threshold.

Islamic Banking Entities (IBEs) have expanded their reach across the Sultanate, **operating approximately 100 branches** and offering a variety of convenient banking channels, including onsite banking, mobile banking units, and digital platforms.

These positive developments highlight the sector's resilience and its **growing contribution to the Omani economy**. Similarly, it is a demonstration to the trust and confidence that both individuals and businesses have placed in Islamic banking as a reliable and ethical financial partner.

This sector has also **expanded the sophistication, penetration and range of products available to the consumers and businesses**, leading to more efficiency through better service quality, product innovation and digitization.

Islamic finance sector has also offered an **alternative source of funding to government for raising funds from domestic and international markets** for budgetary support and building infrastructure.

Oversized Contribution to the Growth of Banking Sector

Despite having much smaller total assets in the market, the Islamic sector has fueled disproportionately large growth in new Sharia-compliant financing and deposits in the Sultanate.

The additional financing to the economy in the last decade (2013-2023) amounted to over OMR 14.6 billion, out of which Islamic banking sector made a notable contribution of 36.6% (OMR 5,364 million). This emphasizes the Islamic banking sector's effectiveness in financing economic activities in the country, much larger than its smaller market share in terms of total assets.

Examining additional deposits of OMR 4.1 billion generated by banking system from 2013 to June 2023, Islamic banking sector contributed about 40% of additional deposits, amounting to OMR 1.6 billion. Despite its smaller size, Islamic banking proved to be efficient in mobilizing funds, significantly contributing to overall deposit growth and contributing to increasing national savings.

Overall, Islamic banking sector, though starting with a modest market share, has shown significant growth and made substantial contributions to new financing and deposit growth in the banking market since inception. We hope that this sector will continue to make significant contribution to Oman's banking and financial system and the overall economy.

Planned Regulatory Developments in Islamic Finance Sector

The Board of Governors (BOG) of the Central Bank of Oman has recently endorsed the new **Financial Sector Development Masterplan 2024-2030**, built on eight pillars. Among the initiatives identified in the Masterplan, several regulatory changes have also been planned to boost the growth in Islamic banking and finance sector in the Sultanate.

In its June 2024 meeting, BOG approved in principle for CBO to prepare **licensing framework for offering Shari'ah compliant products and services for Finance and Leasing Companies (FLCs)**. As you are aware, FLCs serve specific demographic segments, especially small and medium enterprises.

Currently, CBO is working on **regulatory framework to guide the voluntary conversion of conventional branches into Islamic branches**. This follows the model in many countries where conventional banks operating Islamic windows choose to convert their conventional branches into Islamic due to relatively higher demand and growth potential of their business through offering Shari'ah compliant products.

In Oman, CBO has already offered one liquidity instrument allowing Islamic banks to place their extra funds with the Central Bank. CBO has hired a consulting firm to build a treasury platform for this purpose **which will facilitate launching of additional Shari'ah compliant liquidity tools for Islamic banking entities** such as lender-of-last-resort, emergency liquidity support facility, intraday and overnight investment. Similarly, additional liquidity tools such as Islamic certificates of deposit (CDs) and Islamic Treasury Bills (t-bills) are also being considered. We are targeting that by end 2024, we will gradually begin offering some of these facilities and tools for the Islamic banking entities in Oman.

Upcoming Instructions on Sustainable and Green Finance

Ladies and gentlemen,

The Central Bank of Oman (CBO) firmly recognizes the pivotal role of sustainability in securing both economic development and societal well-being. In alignment with the country's visions and plans, **we are taking decisive steps to integrate sustainability and green finance principles into the banking sector.**

We are currently in the final stages of developing a circular outlining **regulatory requirement for climate risk management.** This circular will encompass governance, strategy, risk management, and disclosures, ensuring that banks are equipped to address climate-related risks effectively. Furthermore, we have conducted a comprehensive consultation process with the banking industry to gather valuable insights and ensure that the circular aligns with their needs and expectations.

While the circular will establish a solid framework for climate risk management, **we are also encouraging banks to voluntarily adopt a broader sustainability approach.** This includes addressing other environmental, social, and governance (ESG) dimensions beyond climate risk.

Moreover, **banks have the flexibility to progress towards adopting additional sustainability disclosures** in line with the international standards, aligning their disclosures with their broader sustainability strategies.

By embracing sustainability, banks and financial sector can not only contribute to a more resilient and sustainable economy but also enhance their reputation and long-term competitiveness. **The CBO is committed to supporting financial institutions in their sustainability journey** and ensuring a sustainable and prosperous future for Oman.

Ladies and gentlemen

As I conclude my note today, I would like to express my sincere hope for a fruitful day ahead.

Let us collectively strive to elevate the field of Islamic banking and finance in Oman.

By doing so, we can contribute significantly to the realization of our country's ambitions of private sector development, employment generation, economic diversification, human capital development, as well as social welfare and inclusion.

Thank you and **والسلام عليكم ورحمة الله وبركاته**