

**10 - INSTRUCTIONS ISSUED IN CONNECTION WITH
THE RATIONALIZATION AND ORGANIZATION
OF BANKS CREDIT POLICY**

- A) Instructions concerning post – dated cheques.
- B) Circular confirming the Central Bank of Kuwait instructions of 8/5/1982 concerning post – dated cheques.
- C) Instructions No. (BSB/105/1993) Concerning the Rationalization and Organization of Banks Credit Policy (effective from 2/1/1994).
- D) Increasing the ratio of fixed Term Loans to the total value of KD Cash Credit Facilities Portfolio, to no less than 75%.
- E) Instructions No. (2/BS/13/1997) providing for All Personal Loans to be in the form of Fixed – Term Loans, Except For Margin Loans Extended to Finance the purchase of Securities.
- F) Instructions No. (2/BS/21/1997) obligating banks to define the purpose of extending credit facilities in their borrowing agreements with customers; and to ensure that credits are used for the purposes they were extended for.
- G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.
- H) Circular No. (2/BS/63/1998) instructing banks to stop extending credit facilities for financing the purchase of securities by utilizing customer's funds within the bank's portfolio management.
- I) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard) .
- J) Circular instructing banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for financing trading in shares in the Kuwait Stock Exchange.
- K) Circular obligating banks to verify the purpose of credit facilities extended to customers, particularly those facilities extended in foreign currencies, and to follow-up customers in this respect.

- L) Instructions regarding the fixing of interest rate on credit facilities in the borrowing agreements concluded with customers.
- M) Circular requiring banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for the purposes of financing trading in shares in the Kuwait Stock Exchange, on a monthly instead of weekly basis.
- N) Circular concerning the obligation on banks to very thoroughly study the purpose of credit facilities provided to customers on extending these facilities, particularly the facilities extended in foreign currency, along with following up their use by customers for the purposes they were extended for.
- O) Circular concerning credit facilities extended to finance the execution of works and projects outside the state of Kuwait.
- P) Instructions Stipulating that the ratio of the balances of credit facilities portfolio should not exceed 80% of the deposit balances.
- Q) Circular No.(2/BS,IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposit balances.
- R) Circular No. (2/BS, IBS/224/2008) concerning the increase of the ratio of net credit facilities portfolio to deposits from 80% to 85%.
- S) Circular No. (2/BS, IBS/227/2008) concerning banks' financial transactions with investment companies.
- T) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.
- U) Circular No. (2/BS/230/2008) to all conventional banks concerning the emphasis of the requirement of reducing interest rates on loans in line with the reduction of the discount rate.
- V) Circular concerning the resolution to grant exemptions on some regulatory ratios within the framework of extending the finance required to rectify the conditions of the local investment companies.
- W) Circular No. (2/BS, IBS /233/2008) directing banks to enhance the collaterals submitted by customers against credit facilities / finance transactions.

- X) Circular No. (2/BS, IBS /235/2008) requesting local banks to engage external auditors for carrying out a special audit on the banks' derivatives deals activity, and to submit the external auditors' report along with the audited annual financial statements.
- Y) Circular No. (2/BS /236/2008) stressing the requirement to reduce interest rates on loans, in line with the Central Bank of Kuwait's resolution to reduce the discount rate.

GOVERNOR

*Rajab 15, 1402 H
May 8, 1982*

THE CHAIRMAN,

Instructions Concerning Post-Dated Cheques*

With reference to our letter dated on 21/4/1982, which was circularized to all local commercial banks requesting them to curb the expansion of banking credit facilities, a large portion of which is extended to finance trading in shares and real-estate, as indicated in our above-mentioned letter.

And, since banks extend credit facilities to customers against post-dated cheques, as revealed by the data recently requested by the Central Bank of Kuwait from banks on credit facilities extended against post-dated cheques.

The Central Bank of Kuwait requests banks to refrain from extending credit facilities against post-dated cheques, and not to rely in any way on these cheques in extending credit facilities to customers, in light of many considerations, including :

First : According to Article (532) of Kuwait's commercial law, a cheque is only a means of settlement, and shall be payable at sight and any stipulation to the contrary shall be void. If the cheque is presented for payment prior to the date shown there in as the date of its issue, it shall be payable on the day of its presentment. In light of these provisions, bank's task with regard to cheques in general, shall be limited to payment of cheques drawn on them upon presentment, and to the collection of cheques drawn on other banks.

Second : Banks reliance in any form on post-dated cheques for extending credit facilities to customers, would create the impression in local or foreign financial communities that the Kuwaiti banks are discounting cheques or considering them as collateral for the credit facilities they extend. Such an impression raises suspicions about the soundness of banking business in Kuwait.

* Circulated to all local banks.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

A) Instructions Concerning post-dated cheques.

Third : Banks reliance on post-dated cheques in extending credit facilities to customers, is considered as encouraging the expansion of credit facilities extended for non-productive purposes, due to the huge volume of such types of cheques resulting from forward sales of shares and real-estate property. Such an expansion in credit facilities would have adverse impacts on the economic activity, in general, and on the banking system liquidity, in particular.

In view of the above reasons, the Central Bank of Kuwait stresses the necessity for banks to refrain from extending credit facilities against post-dated cheques and not to rely in any form on such cheques in their decisions for credit extension.

These instructions shall apply to loans extended to your customers, with effect from the date of this letter.

With my best wishes,

HAMZA ABBAS HUSSAIN

GOVERNOR

*Moharram 7, 1410 H
August 8, 1989*

THE CHAIRMAN,

" Circular To All Local Banks "

The Central Bank of Kuwait has noticed that some local banks have lately started, within the process of offering credit facilities, to ask some of their customers to present post-dated cheques as part of the required collateral. Further to our letter of 8/5/1982 requesting banks to refrain from extending banking facilities against post-dated cheques, and not to rely on such cheques in any manner when considering the extension of credit facilities to customers. And Further to the Central Bank of Kuwait instructions concerning the Rationalization and Organization of Banks Credit policy implemented as of 1/1/1980, we would like to draw your attention to the following :

- 1) The primary criterion for extending credit facilities should be based on your credit review justifying such extension, whether in regard to the amount of the facility or the conditions of its extension.
- 2) Banks should refrain from granting facilities against post-dated cheques issued by customers or their guarantors, whether these cheques are requested as collateral or as additional documentary evidence of indebtedness.
- 3) Contracts should be signed between banks and their customers as per sound banking practices. If banks seek additional documentation as evidence of indebtedness, they may ask their debtors to sign "Promissory Notes". while preserving the customers' legal rights as a result of your bank entering into loan contracts with these customers.

Your bank is requested to adhere to these instructions in the interest of banking business in Kuwait.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

B) Circular confirming the Central Bank of Kuwait instructions of 8/5/1982 concerning post-dated cheques.

GOVERNOR

*Rajab 15, 1414 H
December 28, 1993*

THE CHAIRMAN,

**Instructions No. (BSB/105/1993) concerning the
Rationalization and Organization of Banks Credit Policy***

We would like to advise you that the Central Bank of Kuwait Board of Directors, in its meeting on 25/12/1993, ratified the instructions No. (BSB/105/93) for the rationalization and organization of banks credit policy.

Enclosed is a copy of these instructions which are to be implemented effective from 2/1/1994. According to Item (10) of the General Rules of these instructions, your bank is required to provide the Central Bank, within a maximum period of two month from this date, with your updated credit policy.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

* Circulated to all local banks.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

Instructions No. (BSB/105/1993) Concerning The Rationalization and Organization of Banks Credit Policy*

The establishment of the credit policy is the responsibility of each individual bank, which should take into account the relevant laws and instructions, as well as the established credit rules and practices, in a manner that harmonizes the various elements of the credit extension process and the returns anticipated therefrom, in achievement of the bank's objectives and future plans.

In light of Article (15) of Law No. 32 of the year 1968 concerning currency, the Central Bank of Kuwait and the Organization of Banking Business, regarding the Central Bank's objective of directing the credit policy in furtherance of social and economic progress and national income growth, and pursuant to Article (71) of the same law stipulating that the Central Bank of Kuwait may issue to the banks such instructions as it deems necessary to implement its credit or monetary policy, or to ensure the sound progress of banking business; the Central Bank of Kuwait Board of Directors has decided to issue the following instructions concerning the rationalization and organization of banks credit policy :

First : Banks to continue abiding by the instructions issued to them on 29/12/1979 and the amendments there of, concerning the rationalization and organization of banks credit policy, in particular the following provisions :

- 1- Ratio of the term loans and loans extended in the form of discounting KD commercial papers, may not fall below 60%⁽¹⁾ of the total cash KD facilities.
- 2- At least 90% of cash Credit facilities granted in foreign currencies should be in the form of term loans and loans extended through the discount of commercial papers.

(1) The percentage was increased to become 75% effective no later than 30/6/1997 – CBK circular dated 5/12/1996 .

* Circulated to all local banks.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

- 3- Term loans⁽¹⁾ shall mean to be such loans which satisfy the following requirements :
 - A- Contracts or written agreements to be concluded between the lending bank and the borrowing customer in respect of such loans.
 - B- The loan contract or agreement to specify the loan disbursement date or dates, as well as the loan repayment date or dates.
 - C- The loan contract or agreement to specify the purpose of the loan to which both of the bank and the borrower shall adhere.
- 4- Credit facilities granted through the discount of commercial papers shall under these regulations be considered as term-loans, provided that the banks are aware of the economic activities from which the discounted commercial papers originated.

Second : The board of directors of each bank must - in keeping with its duties and responsibilities toward depositors and shareholders - ensure that the credit facilities extended to customers achieve the following basic objectives :

- Safeguard the depositors funds through minimizing the risks involved in the extended credit facilities, through proper determination of size of the facility which is being processed, setting appropriate credit conditions and other conditions.
- Enhance the profitability for shareholders through granting credit facilities at appropriate interest rates.

While observing the aforesaid, the bank's credit policy must be written and approved by the bank board of directors, and must comprise the following rules and bases, as a minimum :

⁽¹⁾ Circular No. (2/BS/13/1997) issued on 10/4/1997 obligated banks that all personal loans should be in the form of fixed-term loans, except for margin loans extended to finance the purchase of securities.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

A- Credit Applications (Grant – Renewal – Increase) :

To be considered the applications for granting or renewing credit facilities, or increasing the approved limits; they must be submitted on proper forms which shall include all the basic data. The bank must specify the documents required from the customer, and must stress the importance of accuracy in filling-up such forms. The form should at least include the following information :

- Size and type of requested credit.
- Purpose of credit, in detail.
- Repayment sources.
- Customer's basic data (Legal Status, Address of the Head Office, type of Business, etc.....).
- Banks and Other financial institutions which the customer deals with, and size of facilities obtained therefrom.
- Customer's property and detailed statement of offered collaterals (in kind and personal guarantees).
- The customer's financial data must be attached to the form, and include the latest financial position and statement of the projected cash-flows for the following business period, thus Detailing the projected cash inflows and outflows for the requested facility's period. For legal entities, the last two audited balance sheets also must be attached, except for those companies which have not yet issued balance sheets due to the recency of their activities.

B- Credit Review :

The process of granting, renewing and increasing credit facilities must be subject to a comprehensive credit review that takes into account the following :

- Extensive review of the customer's financial position and cash-flows for identifying his actual financial position and analyzing the results of his activities, and obtaining detailed data on the income and expenditure items and a report on previous dealing with the customer, for the purpose of assessing the customer's solvency, his capacity to manage his activity and solve any problems which he would encounter in the course of such activity, as well as the ability to meet his obligations during the determined repayment period.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

- Credit review must also include the customer's basic data which are mentioned in the credit application, outcome of the enquiry made on the customer, and the opinion regarding the extent to which the customer's size of business and the credit facilities granted by the bank are proportionate with the customer's own resources and his overall capabilities.
- Detailed statement of the securities to be required from the customer, with a new evaluation of such securities. Services of authorized firms must be utilized for the evaluation of assets whose nature so requires.
- The recommendation to approve or decline the customer's request for credit extension must rely on clear and specific justifications; and the conditions of extending the facilities must include the documents which the customer is supposed to sign or submit.

C- Follow-Up of extended Credit Facilities :

- The bank is required to develop a system for the regularly follow-up of the extended credit facilities. Within that system, there must be a segregation between the organizational unit which has conducted the credit review and those in charge of following-up the extended credit facilities.
- The follow-up system must encompass all the matters relevant to the extent of customer's abidance by the credit approval's conditions, the transactions in the customer's accounts and the assurance that the extended credit facilities were used for the purposes they were extended for.
- Credit facilities extended to the customer must be reviewed regularly, and the developments of the customer's financial position followed-up through updated financial statements; existing collaterals must be revalued and granted credit facilities should not be automatically renewed.
- The credit limits granted to customers must be abided by, in particular for overdraft facilities. The excess should be within the limits of the authority granted for such approval; it should also be kept within the narrowest possible limits, extended temporarily and repaid within a short period of time. In case of the customer's failure to repay the overdraft within such period, without acceptable reason, he will no more be allowed to exceed his credit-limits.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

- The credit facilities agreements must provide that in case the customer does not adhere to any of the credit facilities conditions, the facility shall become immediately repayable and appropriate actions will promptly be taken for debt collection. The bank should strictly execute the terms of such agreements.

D- General Rules :

- 1) Credit officers must be chosen on the basis of experience and capability to discharge the duties inherent in such positions which are of a special nature.
- 2) The bank must observe, to the extent possible, the matching of sources of funds with their utilizations, especially in terms of maturity, to avoid any financing gaps that may adversely impact the bank's financial position.
- 3) The bank must develop a system for credit authorization, which shall include the formation of various credit committees, the clear and precise definition of their mechanism and the credit powers vested in them, as well as the various management levels entrusted with credit approval decisions.

In determining credit authorization, the bank must differentiate between credit extended locally and that extended internationally, the type of extended credit and its distribution among the economic sectors, along with establishing controls for handling exceptions to such authorization and overdrafts in customer accounts beyond the set limits.

- 4) Upon approval, grant or renewal or increase of the extended credit facilities, the bank must :
 - A- Take into account the data prepared by the Banking Supervision Department of the Central Bank of Kuwait concerning of Centre of Risks data.
 - B- Conduct enquiries on the customers and re-conduct such enquiries on a regular basis during the validity period of the extended facilities.
- 5) Study the purpose of the facility, so as to ensure that the type, size and currency of the facility are in line with the purpose of its extension, and that this purpose is in harmony with the bank's general policy.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

- 6) Ensure that the terms of the extended credit facilities must be commensurate with the purpose for which the facility is granted, so that repayment is requested from the customer on maturity. Existing credit facilities shall not be automatically renewed.
- 7) Granting, renewing or increasing the credit facilities to the customer shall not rely on personal guarantees as a the main element. Rather, such decisions should be based on an integrated credit review explaining the feasibility of the extended facility, and taking into account the soundness of the customer's financial position, the availability of repayment sources, provided collaterals and other considerations.
- 8) Personal loans granted to customers must be treated on the same bases and according to the same regulations as other types of credit.
- 9) The credit risks which the bank might be exposed to should minimized through the following :
 - A- Distribution of credit risks to a wide customers base, taking into account the Central Bank instructions concerning the maximum credit concentration limits.
 - B- Diversification of the credit facilities portfolio and distribution thereof into various sectors of the economic activity.
 - C- Setting maximum risks limits for external credit, taking into account the nature of risks inherent in each country individually.
- 10) The bank is required to take the appropriate measures to ensure that various managerial levels are strictly compliant with the established credit policies. The bank should also :
 - A- Periodically review the credit policy and carry out the necessary amendments thereto in light of the bank's general policy and market conditions and developments, while observing any instructions issued by the Central Bank in this respect.
 - B- Provide the Central Bank with an updated copy of the bank's credit policy after carrying out the appropriate amendments in line with these instructions, as well as any future amendments to that policy.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- C) Instructions No.(BSB/105/1993) concerning the rationalization and organization of banks credit policy (effective from 2/1/1994).

GOVERNOR

*Rajab 24, 1417 H
December 5, 1996*

THE CHAIRMAN,

Increasing The Ratio Of Fixed Term Loans*

Further to our letter dated 28/12/1993, concerning the instructions No. (BSB/105/93), issued by the Central Bank regarding the rationalization and organization of banks credit policy.

And within the achievement of the goals targeted by these instructions, namely, to direct the banking credits Kuwaiti Dinars the benefit of economic growth and to encourage the economic sectors to play an effective role in developing the economy, and to liminate the expansion in the unproductive economic sector the Central Bank of Kuwait Board of Directors at its meeting held on 1/12/1996 has decided to increase the minimum ratio of term loans and loans extended in the form of discount of commercial papers denominated in Kuwaiti Dinars, to 75% of the total cash Kuwaiti Dinars facilities, instead of the 60% ratio applied according to the instructions issued on 28/12/1993 for the rationalization and organization of local banks credit policy. Banks are required to achieve the said ratio by 30/6/1997 at the latest.

Based on the above, your bank is required to take appropriate action to increase the ratio of term loans by 30/6/1997 to 75% of the total Kuwaiti Dinars credit facilities extended by your bank to all its customers.

Worth mentioning is that your bank should continue to apply other rules provided for under the instructions dated 28/12/1993, concerning the rationalization and organization of banks credit policy.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

* Circulated to all local banks.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

D) Increasing the ratio of fixed term loans to the total value of Kuwaiti Dinars cash credit facilities portfolio, to no less than 75%.

GOVERNOR

*Thu Al-Hijja 3, 1417 H
April 10, 1997*

THE CHAIRMAN,

**Circular to All Local Banks
No. (2/BS/13/1997)**

With reference to our letter dated 28/12/1993, concerning the Central Bank's instructions No. (BSB/105/93) concerning the rationalization and organization of banks credit policy, as well as to our letter dated 5/12/1996 with regard to raising the minimum ratio of term loans ratio by 30/6/1997 to 75% of the total Kuwaiti Dinars credit facilities extended by your bank to all its customers.

The Central Bank of Kuwait Board of Directors at its meeting of 9/4/1997 decided that all personal loans extended by your bank shall be in the form of term loans, except for those granted under the margin trading account for the purpose of buying securities, which shall be recorded under loans to purchase securities. Accordingly, all loans listed under the items of "residential loans " and " other loans " shall be treated as term loans.

Therefore, your bank is required to immediately comply with these instructions in connection with any new or renewed personal credit facilities, and to apply them, within a period not exceeding one year from the date of this letter, to the existing overdraft portion included within the personal loans balances.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- E) Instructions No. (2/BS/13/1997) providing for all personal loans to be in the form of fixed-term loans, except for margin loans extended to finance the purchase of securities.

GOVERNOR

*Moharram 8, 1417 H
May 15, 1997*

THE CHAIRMAN,

**Circular to All Local Banks
No. (2/BS/21/1997)**

With reference to our letter dated 28/12/1993, concerning the instructions No. (BSB/105/93) issued by the Central Bank in connection with rationalization and organization of the banks credit policy, and to our two letters dated 5/12/1996 and 10/4/1997, regarding term-loans and consumer loans.

We have noted that local banks do not comply with the requirement of specifying the purpose of the credit facilities upon their extension to customers. This renders banks unable to follow-up the utilization of credit facilities by customers for the purposes they were granted for, in line with the instructions issued in respect of the rationalization and organization of banks credit policy.

Therefore, your bank is required to take appropriate action to verify that the purpose of the facilities is duly specified in the relevant agreements concluded with the customers, and to ensure that such credit facilities are utilized for the purpose they have been extended for, pursuant to para (C) of Item- (3) of the instructions No. (BSB/105/93) concerning the rationalization and organization of banks credit policy.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

F) Instructions No. (2/BS/21/1997) obligating banks to define the purpose of extending credit facilities in their borrowing agreements with customers; and to ensure that credits are used for the purposes they were extended for.

GOVERNOR

*Moharram 20, 1418 H
May 27, 1997*

THE CHAIRMAN,

**Circular to All Local Banks
No. (2/BS/27/1997)**

Please note that the Central Bank of Kuwait Board of Directors have approved, at their periodic meeting held on 26/5/1997, the instructions concerning the credit facilities extended by banks for financing trading in securities and for other purposes.

Enclosed please find a copy of these instructions which your bank is required to adhere to effective as of their date of issuance.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.

INSTRUCTIONS NO. (2/BS/27/97) CONCERNING CREDIT FACILITIES EXTENDED BY BANKS FOR FINANCING TRADING IN SECURITIES AND FOR OTHER PURPOSES

First : Regulations relating to the credit facilities extend for the purpose of purchasing securities :

- 1) Banks shall treat credit facilities – of all types – which are extended for the purpose of purchasing securities on the same bases and according to the same rules applicable to the credit facilities extended for other purposes. The banks shall also fully adhere to the Central Bank of Kuwait instructions dated 28/12/1993, regarding the rationalization and organization of local banks credit policy.
- 2) Banks shall stop granting new credit facilities – of any type – to finance trading in shares in the Kuwait Stock Exchange (Overdraft, trading facilities against cash margin, direct loans), and to initiate necessary actions to reduce the balances utilized of these facilities and existing on the date of issuance of these instructions, so that the maximum size of the facilities utilized for financing such type of activity, shall not exceed 10% of the total credit facilities portfolio extended to the resident customers or 25% of the bank's capital in its comprehensive concept whichever is lower (as per the instructions issued on 28/12/1992 regarding capital adequacy). This ratio must be attained latest by end of year 1997.

Banks should submit to the Central Bank of Kuwait specific time tables for the reduction to the targeted ratio of the balances of these credit facilities outstanding with them on the date of issuing these instructions.

The balances Exempted from the above ratio are those facilities extended by banks for the purpose of financing the purchase of shares within the privatization programme, whether through auction or public subscription, In this regard, the provisions of Article No. (5) of these instructions shall be observed.

- 3) Banks shall to rally refrain from extending granting margin trading facilities and shall cancel the unutilized limits as at the date of issuance of these instructions. A time schedule must be drawn for collecting balances of outstanding debts resulting from these facilities, on a gradual basis and in such a manner that they are fully repaid on their maturity dates⁽¹⁾.

⁽¹⁾ Banks were allowed to resume extension of margin lending in accordance with the rules approved by the Central Bank of Kuwait Board of Directors – circular no. (2/BS/69/1999) dated 8/2/1999.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.

- 4) Banks shall diversify the collaterals obtained against the extension of credit facilities for the purchase of shares, and not rely only upon the pledge of shares are purchased with the extended financial facility. Such collaterals should be constantly revaluated in order to ascertain their sufficiency for offsetting the risks of default.
- 5) Upon granting credit facilities for the purpose of financing the transactions relating to the privatization programme, Banks shall adhere to the bases and rules mentioned under the instructions relating to the rationalization and organization of local banks credit policy, in particular those instructions requiring banks to conduct a complete and integral credit review, as well as to specify the purpose of the facilities, determine the size of the required credit precisely, the maturity of the facilities and sources of repayment, in the light of the customer's credit review. Banks should not allow surpassing the authorized limit. In case of shares purchased through auction, the feasibility of the granted credit facilities must be checked, in the light of the study presented by the customer on the economic feasibility of purchasing a large stake in a certain company.

Second : Credit facilities extended for purposes other than financing share purchase

- 1) Banks shall fully adhere to the minimum limits provided for under the instruction to banks dated 28/12/1993 concerning the rationalization and organization of the local banks credit policy.
- 2) Banks are required to adhere to the sound bases for credit approval, particularly with regard to determining the purpose and size of required credit in accordance with the customer's real need for financing the relevant activity. Banks should be guided by the outcome of the comprehensive credit review of the feasibility of the granted facility, taking into account the soundness of the customer's financial position, availability of repayment sources, the collaterals presented against such facilities and other considerations.
- 3) Banks shall take all necessary measures to ensure that the extended facilities are not utilized by customers for purposes other than those they were granted for, and shall continually follow-up customers in this connection. An agreement should be between the bank and customer upon granting these facilities, whereby the facility shall be considered as falling due in the event the customer utilizes it for purposes other than those it was granted for. In such cases, the bank shall take all necessary measures to collect this facility.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.

- 4) Banks shall take necessary measures to ensure utmost accuracy in classifying credit facilities by economic sectors, and by the purpose for which they are granted and utilized, so that the statements submitted to the Central Bank of Kuwait reflect the correct classification of credit facilities granted to customers.

Third : These instructions shall be implemented effective as of the date of their issuance.

Issued on 26/5/1997.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- G) Instructions No. (2/BS/27/1997) concerning credit facilities extended by banks to finance trading in securities, and for other purposes.

DEPUTY GOVERNOR

*Jumada Al-Akhir 17,1419H
October 8, 1998*

THE CHAIRMAN,

**“ Circular to All Local Banks ”
No.(2/BS/63/1998)**

Reference is made to the instructions No. (2/BS/27/1997) dated 27/5/1997, requiring banks to discontinue extending any new credit facilities for the purpose of financing the purchase of securities.

Please note that it has been noticed that some units subject to the Central Bank of Kuwait supervision, grant credit facilities for the purpose of financing the purchase of securities, utilizing their customers' funds within the framework of portfolio management.

In light of the above, we would like to clarify that the above mentioned instructions to discontinue extending credit facilities for financing the purchase of securities also apply to the facilities granted for that purpose by units subject to the central bank supervision, through utilizing customers funds within the portfolio management by such units.

With my best regards,

DR. NABEEL AHMED AL-MANNA'E

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

H) Circular No. (2/BS/63/1998) instructing banks to stop extending credit facilities for financing the purchase of securities by utilizing customer's funds, within the bank's portfolios management.

GOVERNOR

*Shawwal 22, 1419 H
February 8, 1999*

THE CHAIRMAN,

**“ Circular to All Commercial Banks ”
No. (2/BS/69/1999)**

I would like to advise you that the Central Bank of Kuwait Board of Directors has decided, at its meeting held on 7/2/1999, to allow the commercial banks to resume granting margin facilities beside other loans and credit facilities extended to customers to finance trading in shares in the Kuwait Stock Exchange, within the limits fixed for banks in this regard according to the instructions issued on 26/5/1997 (10% of total credit facilities portfolio extended to the resident customers, or 25% of the bank's capital in its comprehensive concept, whichever is lower).

Enclosed please find a copy of the instructions No. (2/BS/69/1999) which were approved by the Central Bank of Kuwait Board of Directors in relation to the credit facilities granted by banks to finance trading in shares in the Kuwait Stock Exchange, which must be complied with from this date.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- I) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard).

**Instructions No. (2/BS/69/1999) Concerning Credit
Facilities Granted By Banks To Finance Share
Trading Transactions At The Kuwait Stock Exchange**

FIRST : Commercial banks are allowed to resume granting margin facilities beside other loans and credit facilities extended to the customers, to finance share-trading transactions at the Kuwait Stock Exchange, within the limits fixed for banks in this regard under the instructions No. (2/BS/27/1997) issued on 26/5/1997 in respect of credit facilities granted by the banks to finance trading in shares at Kuwait Stock Exchange and for other purposes (10% of total credit facilities portfolio extended to the resident customers, or 25% of the bank's capital in its comprehensive concept, whichever is lower).

SECOND: Banks should adhere to the following controls-as a minimum- when granting credits in the form of margin facilities :

- 1- The customer's credit position must be reviewed irrespective of the collaterals he submits. Banks must also comply with the principles mentioned in the Central Bank of Kuwait instructions to banks on 28/12/1993 regarding the rationalization and organization of the credit policy of local banks. Margin facilities should not be granted before the bank has set up an explicit credit policy in this regard, approved by its board of Directors and submitted to the Central Bank of Kuwait.
- 2- The margin offered by the customer must be in the form of cash and/or securities listed on the Kuwait Stock Exchange, and must meet the conditions applied by the bank.
- 3- The facility granted by the bank should not exceed 200% of the margin submitted by the customer (cash funds and/or total market value of the securities offered by the customer at the onset of the financing).
- 4- The facility's maturity should not exceed one year renewable based on a new credit review of the customer.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- I) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard).

- 5- The bank shall commit to preparing a list of the shares listed on the Kuwait Stock Exchange, and which are allowed to be traded within the financial portfolios of customers who obtained margin facilities, whether such shares are the securities offered by them at the beginning of financing or the shares dealt with during management of the portfolio.

When selecting the shares to be included in the said list, banks must consider the liquidity aspects (average share turnover), profitability of the selected shares and soundness of the financial positions of the companies whose shares are chosen.

- 6- The bank shall compose and manage the securities portfolio (from the list of shares prepared by the bank), on behalf of the customer and for his account, and according to the conditions agreed upon between the two parties. The bank shall keep the documents concerning all transactions within the portfolio, and records – independent from the bank’s records – of relevant information, which the customer shall have the right to inspect. The customer shall be provided with periodic statements and reports on the portfolio’s position, performance, evaluation and any other information in this regard.
- 7- The bank shall follow up the portfolio’s market value on a daily basis, so that it will not fall below 125% of value of the credit granted to the customer. In the event this ratio falls below that limit, the customer shall have to submit funds and/or securities acceptable by the bank in order to achieve the mentioned ratio. If the customer does not comply with this condition, the bank shall terminate the agreement concluded with him and take necessary measures to settle the customer’s obligations resulting from the granted facility, either by liquidating the portfolio or by foreclosing it, while observing the necessary legal regulations and rules in this connection.
- 8- The Central Bank of Kuwait instructions regarding the rules regulating the management of the third party’s portfolios must be complied with. The bank should also observe professional and technical ethics in the managing of portfolios, and shall not allow the investment in shares of any one company to exceed 25% of the portfolio’s market value.
- 9- Any bank granting margin facilities must have sufficient professional and technological capabilities which will enable it to manage the securities portfolios.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- I) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard).

THIRD: These instructions shall come into effect from the date of their notification, and shall supersede any contradicting previous instructions passed in this connection.

Issued on 8/2/1999.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- I) Circular No. (2/BS/69/1999) concerning credit facilities extended by banks for financing trading in shares in the Kuwait Stock Exchange (allowing commercial banks to resume the extension of margin trading facilities, and setting the rules to be complied with in this regard).

*Thu Alqi'da 12, 1419 H
February 28, 1999*

THE GENERAL MANAGER,

“ Circular To All Local Banks ”

With reference to the Central Bank of Kuwait instructions No. (2/BS/27/1997) issued on 26/5/1997, and instructions No. (2/BS/69/1999) issued on 8/2/1999, concerning the credit facilities granted by the banks to finance share trading transactions in the Kuwait Stock Exchange.

Please note that your bank is required to provide us, on a weekly basis, with a detailed statement of the credit facilities granted to finance share trading transactions at the Kuwait Stock Exchange, using the attached form, on a weekly basis⁽¹⁾, effective from the week ended on 11/2/1999. This statement should be submitted at the beginning of the first working day of each week following the week for which the statement is prepared, instead of the daily form which used to be submitted to us previously.

Best Regards,

**Ibrahim Ali Al - Qadhi
Manager of Supervision Department**

⁽¹⁾ Effective 31/10/2001 the frequency of reporting has been amended to become on a monthly basis instead of weekly basis – circular dated 23/10/2001.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- J) Circular instructing banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for financing trading in shares in the Kuwait Stock Exchange.

Central Bank of Kuwait
Supervision Department
Off-Site Supervision Section

(Weekly Statement)

**Statement Of Loans Granted For Financing Trading Of
Shares Listed on the Kuwait Stock Exchange**

As at / /

Bank :

(Amounts in thousand KD)

S.N	Description	Amount Granted	Amount Utilized	Collaterals Available		Number of Customers
				Kind	Market value	
1	Fixed term loans					
2	Overdraft facilities					
3	Margin loans					
4	Indirect loans (Non-cash facilities)*					
5	Total (1+2+3+4)					
6	Facilities and loans granted to finance privatization and subscription transactions					
7	Grand total (5+6)					

- i. Capital in its comprehensive concept
25% of the capital in its comprehensive concept:
Thousand KD (according to the last quarterly report to the central bank – date to be specified)
Thousand KD
- 8 Total credit portfolio for resident customers as at:...../...../.....
10% of the total portfolio:
Thousand KD
- 9 Borrowing limits allowed (10% of the facilities granted to residents
and 25% of the capital of the bank in its comprehensive concept whichever is lower): ...Thousand KD

* Type to be stated.

GOVERNOR

*Sha'aban 6, 1420 H
November 14, 1999*

THE CHAIRMAN,

Circular To All Local Banks

We refer to our letter dated 28/12/1993, regarding the instructions No. (BSB/105/93) issued by the Central Bank of Kuwait on the rationalization and organization of the local banks credit policy, and to our two letters dated 24/3/1996 and 15/5/1997, whereby we confirmed the requirement to adhere to the said instructions particularly in relation to the purpose of credit facilities extended to the customers.

We observed that a number of resident customers tend to obtain credit facilities in foreign currencies without any real need for such currencies, except for benefiting from the interest rate differences or utilize this method for speculative purposes.

Therefore, we underscore the necessity for the local banks to precisely adhere to the mentioned instructions, together with the drawing an emphasis on reviewing the purpose of the credit facilities upon granting them to the customers, in particular those granted in foreign currencies. Banks are also required to follow up the customers observance of the purpose for which these facilities were extended, where by that review should encompass assesing the customer's need for the requested foreign currencies to finance his activities, and the real utilization of such currencies within the request for credit. Additionally, banks must verify the availability of sources of repayment in the same currencies.

Within the same framework, we confirm the importance of strict compliance with the classification of the credit facilities granted to the customers, based on the purpose mentioned in the credit facilities agreements concluded with such customers.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

K) Circular obligating bank to verify the purpose of credit facilities extended to customers, particularly those facilities extended in foreign currencies, and to follow-up customers in this respect.

GOVERNOR

*Ramadhan 14, 1420 H
December 22, 1999*

THE CHAIRMAN,

Circular To All Local Banks*

We have observed that the credit facilities contracts concluded between banks and their customers, include a clause reserving the banks right to amend the interest rate by increasing it at any time throughout the validity of such contracts. Considering the importance of maintaining the stability of the legal positions and economic interests of both contractual parties (bank, customer), thus safe guarding the integrity of bank credit, and since the agreed upon interest rate which is considered as an economic cost for obtaining loans and credit facilities, is among the most important factors that achieve balancing between the two contracting parties of the credit facilities contracts at the time of concluding the contract and throughout its validity, the amendment or change of the contractual interest rate, might cause unfairness to the creditor or debtor and instability of transactions.

Therefore, all banks are required to cancel the said clause from the credit facilities contracts concluded with their customers, and replace it by another clause stipulating that a fixed or a variable interest rate shall be applied throughout duration of such agreements, depending on the interest rates prevailing in the market. Customers should be given the option to choose one of the aforesaid methods relating to the application of interest rate, nothing that it is essential to obtain the customer's approval in this regard, without violating the Central Bank of Kuwait's Board of Directors resolution concerning the setting of maximum limits for contractual interest rates. And which shall be valid at the time of signing the credit facilities contract.

* Circulated to all local banks.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

L) Instructions regarding the fixing of interest rate on credit facilities in the borrowing agreements concluded with customers.

Banks are required to execute these instructions effective this date, upon granting, renewing or rescheduling any loans or credit facilities for customers. As for existing loans and credit facilities agreements, their applicable interest rates may not be increased throughout duration of such agreements, unless they include the option of a variable interest rate, in which case the interest rate shall be modified upward or downward in line with the interest rate prevailing in the market.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

L) Instructions regarding the fixing of interest rate on credit facilities in the borrowing agreements concluded with customers.

*Sha'aban 7, 1422 H
October 23,2001*

THE GENERAL MANAGER,

“ Circular to All Local Banks ”

With reference to our letter dated 28/2/1999, which in turn refers to the Central Bank of Kuwait instructions No. (2/BS/27/1997) of 26/5/1997, and instructions No. (2/BS/69/1999) of 8/2/1999, concerning credit facilities extended by banks for financing trading in securities at the Kuwait Stock Exchange.

And whereas the above instructions require banks to provide the Central Bank of Kuwait, on a weekly basis, with detailed data on credit facilities granted for financing trading in Kuwait Stock Exchange listed securities, using the form attached to our above mentioned letter.

Your bank is requested to present the above mentioned data, on a monthly instead of a weekly basis, as of 31/10/2001.

Best Regards,

**Ibrahim Ali Al-Qadhi
Manager of Supervision Department**

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

M) Circular requiring banks to provide the Central Bank of Kuwait with detailed data on credit facilities extended for the purposes of financing trading in shares in the Kuwait Stock Exchange, on a monthly instead of weekly basis.

GOVERNOR

*Ramadhan 28, 1423 H
December 3, 2002*

THE CHAIRMAN,

“ Circular to All Local Banks ”

With reference to the Item (D/5) of the instructions (BSB/105/93) issued by the Central Bank of Kuwait on 28/12/1993 regarding the rationalization of credit policy of local banks, which provides for the necessity to study the purpose for which a credit facility is requested, so as to ensure that the facility fits in terms of its type, volume and currency, the declared purpose for its extension.

In light of the noticed increase in the volume of credit facilities extended to resident customers in foreign currency at most local banks during the elapsed ten months of year 2002, we confirm the obligation on banks to very thoroughly abide by the mentioned instructions, by studying the purpose of credit facilities extended to customers, particularly the facilities extended in foreign currency, along with following up the customers abidance by the purposes for which these facilities were extended. That study shall encompass assessing the need for foreign currencies requested by the customer to finance its activity, and the actual use of that financing, in addition to the necessity for local banks to ensure the availability of sources of repayment in these currencies, as that matter was previously emphasized in our letter dated 14/11/1999.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

N) Circular concerning the obligation on banks to very thoroughly study the purpose of credit facilities provided to customers on extending these facilities, particularly the facilities extended in foreign currency, along with following up their use by customers for the purposes they were extended for.

DEPUTY GOVERNOR

*Rabi Al-Awal 13,1424 H
14 May, 2003*

THE CHAIRMAN,

“ Circular to all local banks concerning credit facilities extended to finance the execution of works and projects outside the state of Kuwait ”

In the light of the current regional developments and the consequent potential opportunities for the Kuwaiti banking and financial system to have a role in executing works and projects outside the State of Kuwait through extending the required finance to resident and non-resident customers, the Central Bank of Kuwait would like to stress the following:

- 1 – Given the fact that the contracts of those projects and works to be executed abroad will be in foreign currencies, it is natural for the finance extended for this purpose to be in the same foreign currencies of such contracts.
- 2 – The credit facilities that local banks may extend in Kuwaiti Dinar to non-residents **must be confined to those extended to finance Kuwaiti Dinar-denominated contracts awarded by government entities in the State of Kuwait**, while observing the terms and controls included in Central Bank’s relevant instructions of 2/5/1995.
- 3 – When extending credit facilities to their resident and non-resident customers for executing works and projects outside Kuwait, local banks will have to comply with the minimum limits established under Central Bank’s instructions No. (BSB/105/1993) concerning the Rationalization and Organization of Banks’ Credit Policy, as well as the circulars issued in this regard. Relevant in this connection are the following:
 - a) It is important to comply with the sound bases for credit extension, particularly in relation to identifying the purpose of the credit, ensuring the consistency of the credit type, size and currency with the actual needs of the customer and with the limits of the financed contract, as well as following-up the actual use of the credit for the purpose it was extended for.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

O - Circular concerning credit facilities extended to finance the execution of works and projects outside the state of Kuwait.

In general, an integrated credit study must be conducted on the feasibility of the requested credit, taking into account the soundness of the customer's financial position, the availability of repayment sources, the collateral submitted, and other considerations.

- b) Banks should minimize the credit risks they may be exposed to through distributing credit risks on a wide customer base, diversifying the credit facilities portfolio and distributing it across various sectors of the economy, and establishing maximum limits for risks associated with foreign credit, taking into account the nature of country risks.

It is an already established requirement that the bank must periodically review its credit policy and introduce appropriate amendments thereto, particularly in regard to applied limits and delegated authorities, all within the strategic direction of the bank and the current developments.

It is also noteworthy in this regard that the credit approval decision is the responsibility of the respective bank, who bears any risks that may rise for according credits. The bank must also observe the other regulatory controls issued by the Central Bank such as, but not limited to: capital adequacy ratio and credit concentration limits.

With my best regards,

DR. NABEEL AHMED AL-MANNA'E

DEPUTY GOVERNOR

*Jumada Al-Aula 3, 1425 H
July 15, 2004*

THE CHAIRMAN,

Reference to our meeting with you regarding the necessary actions to be taken by your bank, ensuring that the ratio of credit facilities portfolio will not exceed 80%⁽¹⁾ of the deposits balances.

We advise you that your bank has to commit itself to not exceed⁽²⁾ the maximum limit for that ratio, while ensuring that you provide us, on a monthly basis with effect from the end of June 2004, with the attached report within three working days from end of each month.

With my best regards,

DR. NABEEL AHMED AL-MANNA'E

(1) The maximum was increased to 85% according to circular No. (2/BS/IBS/224/2008) dated 8/10/2008 and included in this section under Item (R).

(2) The method of calculating this ratio was amended according to circular No. (22/BS/IBS/211/2007) dated 8/10/2007 and included in this section under Item (Q).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

P- Instructions stipulating that the ratio of the balances of credit facilities portfolio should not exceed 80% of the deposit balances

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Department
Off-site Surveillance Section**

**Net Credit Facilities To Deposits ratio *
As Of End Of / /**

Bank : -----

Statement	K.D. 000
Credit Facilities Portfolio: - Customers ** - Financial Institutions **	
1. Total Credit Facilities	
2. Available Provisions	
3. Net Credit Facilities (After Provisions)	
Deposits: - Private Deposits** - Government Deposits** - Financial Institutions Deposits**	
4. Total Deposits	
5. Net credit facilities, including financial institutions, (after provisions) to deposits including financial institutions (3/4)	

* To replace the report provided to us pursuant to the circular dated 17/2/2004

** These items should match the corresponding items in the B.S's data

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

P- Instructions stipulating that the ratio of the balances of credit facilities portfolio should not exceed 80% of the deposit balances

GOVERNOR

*Ramadhan 26, 1428 H
October 8, 2007*

THE CHAIRMAN,

**Circular No. (2/BS, IBS/211/2007)
To All Local Banks**

This refers to the instructions issued to conventional banks dated 15/7/2004 and Islamic Shaira'-compliant banks dated 11/11/2004, stressing that the ratio of the balances of credit facilities/finance portfolio should not exceed 80%⁽¹⁾ of the deposits balances, which statements are forwarded to the Central Bank of Kuwait on a monthly basis, on the form prepared for this purpose.

We would like to advise you that your bank should compute the said ratio effective the end of October 2007 on the basis of daily average balances during the month, and not on the basis of balances at the end of the month for which the ratio is prepared.

Statements of the said ratio should be forwarded to us, as per the attached form, on a **monthly basis**, no later than 3 business days from the end of the month for which the statement is prepared. The relevant **quarterly statements should be audited by your bank's external auditors.**

In case your concerned officers have any queries, they can contact Off-Site Supervision Department on 22972840, and 22972152.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

(1) The maximum was increased to 85% according to circular No. (2/BS/IBS/224/2008) dated 8/10/2008 and included in this section under Item (R).

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Q) Circular No. (2/BS, IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposits balances.

(Form used by conventional banks)

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Department
Off-Site Surveillance Section**

**Ratio of Net Credit Facilities Portfolio to Deposits*
For the month of / /**

Bank: -----

Description	KD '000
Credit facilities portfolio	
- Customers	
- Financial institutions	
1) Total credit facilities portfolio	
2) Available provisions	
3) Net credit facilities portfolio (1-2)	
Deposits:	
- Private deposits	
- Government deposits	
- Financial institutions' deposits	
4) Total deposits	
5) Ratio (3/4)	

* Ratio is calculated on the basis of the average daily balances in terms of both the numerator and the denominator.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Q) Circular No. (2/BS, IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposits balances.

(Form used by Islamic Banks)

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Department
Off-Site Surveillance Section**

**Ratio of Net Credit Facilities Portfolio to Deposits*
For the month of / /**

Bank: -----

Description	KD '000
<i>Finance portfolio</i>	
a) Investment and Finance Transactions for Customers (Item Q of the Financial Statement Position)	
b) Investment Placements with Financial Institutions (other than banks) (Item O/2/B and C)	
1) Total Finance Portfolio (A+B)	
Deduct:	
a) Available Specific and General Provisions (other than those related to banks) (Item H/1/A,B)	
b) Deferred Income (Under Other Liabilities, item I)	
2) Total (a + b)	
3) Net Finance Portfolio (1-2)	
Deposits:	
a) Government Deposits (Item c)	
b) Private Sector Deposits (Item d)	
c) Financial Institutions' Deposits (Item b/1/b,c and 2/b,c)	
d) Other Deposits (Item e)	
4) Total Deposits	
5) Ratio (3/4)	

* Ratio is calculated on the basis of average daily balances, in terms of both the numerator and the denominator.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Q) Circular No. (2/BS, IBS/211/2007) concerning the amendment of the method of calculating the ratio of credit facilities portfolio balances at 80% of the deposits balances.

GOVERNER

*Shawwal 9, 1429 H
October 8, 2008*

**Circular No. (2/BS,IBS/224/2008)
to all local banks**

THE CHAIRMAN,

This has reference to the instructions to conventional banks dated 15/7/2004, and to Islamic Shari'a-compliant banks dated 11/11/2004, as amended on 8/10/2007, ruling that the average daily balances of credit facilities/finance portfolio should not exceed 80%⁽¹⁾ of the average daily balances of deposits during the month for which the ratio is prepared.

I would like to advise you that the Board of Directors of the Central Bank of Kuwait resolved, at its meeting held on 8/10/2008, to increase the maximum limit prescribed for the above ratio to 85%⁽²⁾.

Your bank should, with effect from the October 2008 statements, observe the above while preparing the monthly statements submitted to the Central Bank of Kuwait on the above ratio.

With my best wishes,

SALEM ABDUL AZIZ AI-SABAH

- (1) According to the circular dated 19/10/2008, included under Item "S" of this section regarding banks' financial deals with investment companies, banks should consider the fact that the lending area for banks has been expanded as a result of raising the maximum limit of loans to deposits ratio from 80% to 85%.
- (2) According to the circular dated 17/11/2008, included under Item "V" of this section, the Central Bank of Kuwait Board of Directors resolution provided, within implementing the program for rectifying the conditions of local investment companies, that the finance granted to investment companies will be excluded from the numerator of this ratio, while the deposits of government and semi-government institutions will be excluded from the denominator of this ratio.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

R) Circular No. (2/BS, IBS/224/2008) concerning the increase of the ratio of net credit facilities portfolio to deposits from 80% to 85%.

GOVERNOR

*Shawwal 20, 1429 H
October 19, 2008*

**Circular No. (2/BS,IBS/227/2008)
Circular to all local banks**

THE CHAIRMAN,

This is made in reference to the meeting held at to the Central Bank of Kuwait premises on 15/10/2008 with Chairmen of banks, during which the banks' financial dealings with investment companies were discussed.

We would like to emphasize certain practical aspects of banks' operations, which were discussed during the meeting, and give directives in this regard, as follows:

1. Banks should ensure that the current credit lines granted to investment companies are not cut. These facilities should be renewed for adequate periods, while providing the necessary additional finance to the deserving companies, based on the credit studies conducted by banks.
2. Banks may not sell shares pledged with them against loans and facilities granted to customers, including investment companies. The nature of the current circumstances and measures adopted by the government and to the Central Bank of Kuwait to minimize the implications of the global crisis for the conditions of the local market should be taken into consideration. Deposits by to the Central Bank of Kuwait and other government bodies with the bank that sells any shares pledged therewith shall be suspended. Banks should provide to the Central Bank of Kuwait with a daily statement, showing the outcome of the sale of any shares pledged therewith, starting from 25/9/2008. The statement should show the daily value of the sold shares.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

S) Circular No. (2/BS, IBS/227/2008) concerning banks' financial transactions with investment companies.

3. Banks should observe that the set of resolutions issued by to the Central Bank of Kuwait on 8/10/2008 are reflected on the dealings of these banks with customers. These include that banks should proceed on reducing the interest rate on loans to customers, including investment companies, in light of reducing the discount rate by 1.25%. Furthermore, banks should also consider expanding the area of lending for banks as a result of increasing the maximum loan/deposit ratio from 80% to 85%, as well as increasing the growth rate in bank credit, in addition to allowing banks to include real estate properties among the credit risk mitigation tools.

With my best wishes,

SALEM ABDULAZIZ AI-SABAH

GOVERNER

*Thu Al-qi`da 8, 1429 H
November 6, 2008*

THE CHAIRMAN,

Circular to all Kuwaiti banks

In line with the coordination made with Kuwaiti banks through Kuwait Banking Association (KBA) with regard to the local investment companies' support program, and the conclusion reached in this respect that Kuwaiti banks should provide these companies with finance, attached herewith are the general principles to be observed when local banks grant the finance required to rectify the conditions of the local investment companies.

Your bank should advise the Central Bank of Kuwait of any conclusions reached with regard to rectifying the position of each investment company in this respect, through providing us with the timeframe for granting finance to each investment company. Your bank should also provide us with weekly statements on these transactions, as per the two forms attached hereto.

the Central Bank of Kuwait hereby stresses that it is essential to treat these principles with due confidentiality, and to limit their circulation to your bank's concerned staff.

With my best wishes,

SALEM ABDULAZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

T) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.

**General Principles for Granting by Kuwaiti Banks the Finance
Required for Rectifying of the Conditions
Of Local Investment Companies**

- 1) Kuwaiti banks shall provide the finance necessary to rectify the liquidity problems facing the investment companies with good credit net worth.
- 2) The bank with the largest debt due from the company, or the next bank, shall take over as the Manager Bank of the finance granted to the company. Granting of the finance shall be made with the participation of all creditor Kuwaiti banks, and other Kuwaiti banks willing to participate.
- 3) The finance shall be used for settling the company's existing liabilities to foreign banks and financial institutions. This excludes the existing liabilities of their subsidiaries, followed by the liabilities of the company to local mutual funds. Payment to creditors shall be made directly by the Manager Bank.
- 4) Finance shall be made against sufficient collaterals of good quality, acceptable to the Manager Bank, taking into account the company's cash inflows.
- 5) The investment companies willing to obtain the finance shall provide all data and information as required by the Manager Bank.
- 6) The Company and the Manager Bank shall negotiate with foreign banks and financial institutions to reach a proper settlement.
- 7) Throughout the finance period, investment companies shall not borrow from any other party, nor shall they pledge any of their freehold (non-pledged) assets, unless upon obtaining the Manager Bank's written consent.

6/11/2008

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- T) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.

GOVERNER

*Thu Al-qi`da 11, 1429 H
November 9, 2008*

THE CHAIRMAN,

**Circular No. (2/BS/230/2008)
To all local conventional banks**

This has reference to the meeting held on 15/10/2008 at the Central Bank of Kuwait Headquarters with banks' Chairmen, and to the circular dated 19/10/2008, emphasizing certain aspects on which directives were given during the meeting, including a directive to banks to observe the Central Bank of Kuwait decision on reducing discount rate in banks' dealings with customers, through reduction by banks of interest rate on loans to customers, including investment companies.

We would like to advise you that the Central Bank of Kuwait has noticed that certain banks have lately started to increase the interest rates on loans granted to some of their customers, or failed to reduce interest rates on customer loans, considering that the interest rates applied to those loans and facilities are still within the maximum limits of interest rate, as determined by the resolutions on interest rate structure issued in this concern.

The Central Bank of Kuwait would also like to stress that banks should take into consideration the nature of the current stage, and the actions taken by the Central Bank of Kuwait and other government bodies to confront the implications of the global financial crisis for the country's financial and economic condition. These include the Central Bank of Kuwait resolutions on reducing the discount rates, whereby banks should make parallel reductions in loan interest rates.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

U) Circular No. (2/BS/230/2008) to all conventional banks concerning the emphasis of the requirement of reducing interest rates on loans in line with the reduction of the discount rate.

In light of the above, the Central Bank of Kuwait hopes that banks will take into consideration the Central Bank of Kuwait course of action and objectives aimed at through reducing the discount rates, and will reduce interest rates on loans and facilities, bearing in mind the fact that the interest rate ceiling for loans represents the maximum limits that can be applied in the light of the degree of customers' credit risk.

With my best wishes,

SALEM ABDULAZIZ AI-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

U) Circular No. (2/BS/230/2008) to all conventional banks concerning the emphasis of the requirement of reducing interest rates on loans in line with the reduction of the discount rate.

GOVERNOR

*Thu Al-qi`da 19, 1429 H
November 17, 2008*

THE CHAIRMAN,

Circular to all Kuwaiti banks

This is made in reference to the circular dated 6/11/2008 regarding the Local Investment Companies Remedial Program, through granting finance by Kuwaiti banks to the local investment companies with good net worth, but facing liquidity problems, and whereby such finance has to be granted in accordance with the general principles attached to the above-mentioned circular.

We would like to advise you that the Board of Directors of the Central Bank of Kuwait, at its meeting held on 16/11/2008, approved the report on the following exemptions from the regulatory ratios prescribed for Kuwaiti banks participating in the implementation of the Investment Companies Remedial Program, until the program is finalized:

1. Exclusion of the finance provided, after the date of this letter, to local investment companies, within the framework of rectifying their conditions, from the numerator of the ratio of credit facilities (investment and financing transactions with customers) to deposits, while excluding the deposits of the government and semi-government institutions and authorities, provided within the framework of this program, from the ratio denominator.
2. Exclusion of the new finance provided to investment companies within the framework of the Local Investment Companies Remedial Program from computation of the growth rate determined for the credit (finance) portfolio.
3. Exemption from setting aside the general provision (by 1%) for the new finance provided to the investment companies within the framework of the Local Investment Companies Remedial Program.

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- V) Circular concerning the resolution to grant exemptions on some regulatory ratios within the framework of extending the finance required to rectify the conditions of the local investment companies.

As for the limits prescribed under the credit (financing) concentration instructions [single customer concentration limit, large concentrations limit], banks should follow the procedures prescribed under the instructions which stipulated that it is essential to obtain the prior approval of the Central Bank of Kuwait of the excess cases, as these will be considered on a case-by-case basis.

In this context, banks should observe the general principles with regard to Kuwaiti banks' participation in providing companies with finance.

With my best wishes,

SALEM ABDULAZIZ AL-SABAH

GOVERNER

*Thu Al-Hijja 3, 1429 H
December 1, 2008*

THE CHAIRMAN,

**Circular No. (2/BS/233/2008)
to all local banks**

This has reference to the meeting held at the Central Bank of Kuwait premises on 18/11/2008 with the Chairmen of banks, during which banks were directed to enhance the collaterals submitted by customers against the credit facilities/financing transactions.

The Central Bank of Kuwait would like to reiterate its directives given during the above meeting in that banks should, quietly and rapidly, communicate with those customers, urging them to submit the collaterals or enhance the existing collaterals, irrespective of the soundness of the financial positions of those customers, or the regularity of their credit facilities.

This is based on the fact that these collaterals are necessary for improving the quality of the loans portfolio and financing transactions. It should also be made clear to the customers that requesting these collaterals does not mean a stricter lending policy in banks, but comes within the framework of the sound business flow in the banking system, leading to stronger banking relations between banks and their customers.

With my best wishes,

SALEM ABDULAZIZ AI-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

W) Circular No. (2/BS, IBS /233/2008) directing banks to enhance the collaterals submitted by customers against credit facilities / finance transactions.

GOVERNER

*Thu Al-Hijja 17, 1429 H
December 15, 2008*

THE CHAIRMAN,

**Circular No. (2/BS,IBS/235/2008)
To all Local Banks**

Within the framework of auditing the banks' financial statements, your bank should assign your external auditors to conduct a special audit on the bank's business in the area of financial derivatives for its own account and for customers' account. The audit should cover the assessment of internal controls of this activity, in terms of sufficiency and effectiveness of these controls, limits of risk that the bank may be exposed to, and the results of the existing status of these transactions, as of end of December 2008.

Your bank should provide us with the external auditors' report on the above activity attached to your audited annual financial statements. Any delay in submitting the above report will cause delay of approving your bank's annual financial statements.

With my best wishes,

SALEM ABDULAZIZ AI-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

- X) Circular No. (2/BS, IBS /235/2008) requesting local banks to engage external auditors for carrying out a special audit on the banks' derivatives deals activity, and to submit the external auditors' report along with the audited annual financial statements.

GOVERNOR

*Thu Al-Hijja 17, 1429 H
December 15, 2008*

**Circular No. (2/BS/236/2008)
to all local banks**

THE CHAIRMAN,

This has reference to the meeting held at the Central Bank of Kuwait premises on 15/10/2008 with the Chairmen of banks, and to the circular to all local banks dated 19/10/2008, reiterating the Central Bank of Kuwait directives made during the meeting, that the set of resolutions adopted by the Central Bank of Kuwait on 8/10/2008 should be reflected on bank's dealings with customers, **including reduction by banks of loan interest rate in light of reducing the discount rate by 1.25%.**

This is also made further to the Central Bank of Kuwait circular to conventional banks dated 9/11/2008, reiterating the requirement of reducing interest rate on loans, as the Central Bank of Kuwait noticed that certain banks failed to respond to the discount rate reduction resolution.

Therefore, we would like to advise you that the Central Bank of Kuwait still receives customers' complaints, revealing that certain banks failed to make the required interest rate reduction on loans, in compliance with the Central Bank of Kuwait resolution to reduce the discount rate.

It is obvious that the reduction of interest rate on loans is offset by a reduction in the cost of funds for these banks, through a corresponding reduction in interest rates on customer deposits. Therefore, the Central Bank of Kuwait would like to re-iterate that banks should make the required reduction in loan interest rates, in compliance with the Central Bank of Kuwait resolution on reducing the discount rate with effect from 8/10/2008.

With my best wishes

SALEM ABDULAZIZ AL-SABAH

10- INSTRUCTIONS ISSUED IN CONNECTION WITH THE RATIONALIZATION AND ORGANIZATION OF BANKS CREDIT POLICY.

Y) Circular No. (2/BS/236/2008) stressing the requirement to reduce interest rates on loans, in line with the Central Bank of Kuwait's resolution to reduce the discount rate 8/10/2008.