

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY

- A) Instructions issued on 15/11/1994 concerning the organization of local banks investment policy.
- B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait instructions organizing the investment policy of local banks.
- C) Circular No. (2/BS/90/2001) concerning the amendment of the Central Bank of Kuwait instructions organizing the investment policy of local banks.
- D) Circular No. (2/BS/187/2006) concerning the set of guidelines the Central Bank of Kuwait takes into account when considering bank's applications for exemption from the maximum limits established for financial investments.
- E) Circular No. (2/BS/218/2008) regarding the guidelines to be taken into consideration while studying bank's requests for exemption from the prescribed maximum limits of financial investments.

GOVERNOR

*Jumada Al-Akhir 13, 1415 H
November 16, 1994*

THE CHAIRMAN,

Circular to All Local Banks*

I would like to advise you that the Central Bank of Kuwait Board of Directors, in its meeting held on 15/11/1994 has approved the instructions concerning the organization of the investment policy of the local banks.

Enclosed, please find a copy of these instructions which your bank is required to adhere to kindly provide the Central Bank of Kuwait with your bank's investment policy, after effecting the necessary amendments thereto in line with these instructions, within a maximum period of two months from this date.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

* Circulated to all local banks.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

A) Instructions Issued on 15/11/1994 concerning the Organization of Local Banks Investment Policy.

Instructions Concerning the Organization of the Local Banks Investment Policy⁽¹⁾

Introduction

The management of bank investments activities is the subject of increasing attention under the currently prevailing conditions, and within two contexts. First, management of bank's own securities portfolio; Second, management of customers investment portfolios, and the service of safe-keeping of customers securities. When addressing the issue of management of bank's own investment securities, it is necessary to note that such activities must be effected within the guidelines of the investment policies set by the bank's top management, which include a proper strategy to be adopted in this connection, and the assumptions on which this strategy is based within the context of the bank's general financial position in terms of the extent of risk, the management capabilities, efficiency of the information systems and the economic and financial conditions at the local, regional and international levels.

Since investments have a direct effect on the banks operating results, they must be granted serious consideration from banks management, in terms of laying down the bases and criteria which regulate such operations, so as to constitute an element of protection to shareholders and fund depositors at the same time.

The investments within the bank's own securities portfolio mean those investments which are not considered as a part of the liquidity reserve requirements, including securities issued or guaranteed by the Kuwaiti Government.

Whereas the Central Bank of Kuwait has not set any guidelines for local banks in connection with the investment policies they adopt, it is necessary to establish the minimum regulations organizing the banks financial investments, while taking into account the following points:

(1) This Circular was amended under the Circular No.(2/BS/79/2000) issued on 21/11/2000.

First: General Objectives of the Investment Policy:

The Board of Directors of each bank should adopt its own investment policy, which must be commensurate with the average size of the investment activities of each bank, and which aims at achieving the following objectives as minimum:

- 1) Realize a proper return on such investments, exceeding the cost of invested funds.
- 2) Provide appropriate liquidity level to meet contingent needs, without the bank being compelled to liquidate its assets on the short-term, as this may expose it to losses, in particular if market conditions are unfavourable.
- 3) Minimize investment risks arising from uncertainties in the financial investments markets. Hence, bank's management should minimize such uncertainties by all possible means, and should subject the underlying factors, to the extent possible, to accurate calculations by applying various statistical techniques, so as to counter the investment risks. Accordingly, the investment policy should observe all the credit risks, interest rates risks, exchange rates risks and market risks, so as to safeguard and increase the capital value of the investment portfolio.

Second: Minimum Criteria the Bank Should Abide by in its Investment Policy:

Banks must endeavour to develop appropriate investment policies which shall constitute a regulating element in the decision-making process related to management of the bank's securities portfolio. Accordingly, the following criteria must be taken into account:

- 1) Dealing in high-quality securities^(*) (while specifying the percentage of investment in each type of financial investments the bank is going to hold within its securities portfolio).

^(*) High quality securities used as investments are defined as being, as a minimum, investment grade securities, rated "A"⁽¹⁾ by international rating agencies (such as Standard and Poors and Moody's) or issued by governments of OECD countries, while making allowance for investment risks in each individual country or by governments of GCC countries. If classification of these securities is not possible, then the procedures provided for under the Central Bank instructions No. BS/105 concerning rationalization and organization of the credit policy, shall apply.

⁽¹⁾ This rate was amended to be (BBB) under the circular No. (2/BS/90/2001) issued on 22/10/2001 .

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- A) Instructions Issued on 15/11/1994 concerning the Organization of Local Banks Investment Policy.

- 2) Protecting the bank's investments from interest rate fluctuations through observing maturity dates of the financial investments, or utilizing the necessary financial instruments to minimize risks as much as possible in this regard, while satisfying any conditions set by the Central Bank of Kuwait for dealing in such instruments.
- 3) Identifying the general trends of the bank deposits, the extent of their fluctuation and the ensuring risks, when laying down the investments policies.
- 4) Keeping the bank's investment policy in tune with its credit policy, while ensuring that the bank's essential activity, as an intermediary distributing financial resources to the local economic units, is not affected.
- 5) Adopting a balanced investment policy which would minimize risk and maximize income.

In addition to observing the aforesaid criteria, the investment policy should at least include the following basic conditions in relation to the bank's investment portfolio:

- 1) The bank's accounts concerning trading in securities, which generally aim at realizing profits from short-term prices fluctuations, must be separated from those related to investing in securities, which generally aim at earning regular income commensurate with the market return for these instruments.
- 2) Investment securities should be negotiable; in the event they are not, the bank should adopt the procedures mentioned under the Central Bank instructions No. BS/105 concerning the rationalization and organization of the credit policy.
- 3) The total ratio of the securities portfolio should not exceed 50% of the bank's capital in its comprehensive concept, as defined under the Central Bank's instructions to the local banks in respect of the capital adequacy ratio and the Central Bank's instructions No. BS/104 in respect of the credit concentration limits.
- 4) The ratio of investment in securities of any one issuer should not exceed 10% of the bank's capital in its comprehensive concept, on the condition that, when computing the said ratio, the bank should consider the total credit liabilities of that issuer, as well as those of its related parties.

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A) Instructions Issued on 15/11/1994 concerning the Organization of Local Banks Investment Policy.

For the purpose of computing the 10% ratio, the face-value of the securities is to be used. If the bank desires to exceed the ratios stipulated under items No. 3 and 4 above, it is required to obtain the Central Bank's prior approval by submitting for the Central Bank's review and consideration a request supported by justifications and reasons for requesting the excess.

- 5) Investment in securities should not exceed 10% of the issuer's capital.
- 6) Government bills and bonds of OECD countries are exempted from the aforesaid ratios, while observing the investment risks in each country separately, as well as the bills and bonds of the governments of GCC Countries.
- 7) Subsidiaries and the bank's own purchased shares are exempted from the aforesaid ratios, in accordance with the resolutions passed in this connection.
- 8) The purchase of convertible bonds is prohibited in the event they comprise a clause empowering the issuer to convert such bonds to shares, as this may entail sudden losses and unforeseen risks.
- 9) A thorough and comprehensive study should be available on the issuer of the securities, together with updated financial statements for the last two consecutive years.
- 10) There should be a system of authority delegation for investment activities, duly approved by the Board of the Bank, indicating the level of authority delegated to the competent committees and staff in charge of managing the securities portfolio, as well as the types of investments they are allowed to deal in, and the maximum investment limit for each instrument.
- 11) The executive management of the bank should prepare and submit to the bank's board of directors an annual report on the securities portfolio, including an evaluation of this portfolio and the future strategies of the bank's investments.
- 12) Staff in charge of the management of the bank's securities portfolio must have professional skills and expertise.

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A) Instructions Issued on 15/11/1994 concerning the Organization of Local Banks Investment Policy.

GOVERNOR

*Sha'aban 25, 1421 H
November 21, 2000*

THE CHAIRMAN,

**Circular No. (2/BS/79/2000) to All Local Banks
Concerning the Amendment of the Central Bank of Kuwait
Instructions Regulating The Investment Policy for Local Banks***

We would like to advise you that the Central Bank of Kuwait Board of Directors, at its meeting held on 19/11/2000, resolved to introduce some amendments to the instructions issued on 15/11/1994 in connection with regulating Local Banks Investment Policy.

Enclosed is a copy of circular No. (2/BS/79/2000) which was approved by the Central Bank of Kuwait Board, and which has to be implemented with effect from the above date.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

* Circulated to all local banks.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

**Circular No. (2/BS/79/2000) to All Local Banks
Concerning the Amendment of the Central Bank of Kuwait
Instructions Regulating the Investment Policy for Local Banks**

The financial investments of the banking and financial institutions, whether carried out for the account of the institutions or for the account of a third party, attract increasing attention for the aim of exploiting the opportunities available for the investment of funds and for enhancing the chances of profit making.

On 15/11/1994 the Central Bank of Kuwait issued its instructions to all local banks, concerning the regulation of the investment policy. New instructions were also issued on 8/3/1997 to all local banks in respect of the regulations governing the management of third party's portfolios.

The financial markets have witnessed rapid developments that led to a broader scope of dealing in diverse financial instruments, whether the traditional ones or those innovated, at a time when the investment activity is viewed as one of the important elements of the banking and financial institutions business, and whose results may have significant effects on the financial position of the institution as well as on evaluating its performance and the size of its cashflows. Therefore, the previous instructions addressing the regulation of local banks investment policy had to be reviewed. The review of those instructions showed the need for introducing certain amendments to the said instructions, so as to ensure that this activity is properly regulated.

Based on the above, the Central Bank decided to make the following amendments to the relevant instruction issued on 15/11/1994:

First: Amendments to items No. (3,4,5,6 and 7) of the basic conditions that the Local Banks Investment Policy must include, thus becoming as follows:

- 3) The total value of the securities portfolio registered in the bank's books shall not exceed 50% of the bank's capital in its comprehensive concept.

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B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

The capital in its comprehensive concept is calculated as described in detail under item Fourth of the instructions concerning Capital Adequacy Ratio⁽¹⁾.

- 4) Investment in securities (of all types) issued by one issuer and its related parties, shall not exceed 10% of the bank's capital in its comprehensive concept. The following rules have to be observed in this regard:
 - a) The above mentioned ratio shall be computed by applying the securities value recorded in the bank's books.
 - b) The definition of anyone entity and its related parties shall be applied here as per the instructions No. (IBS/101/1995) concerning the Maximum Credit Concentration Limits for Any One customer.
 - c) The total book value of credit obligations to anyone customer (inclusive of financial investments in bonds and other securities issued by the customer). Shall not exceed the Maximum Credit Concentration Limits for Any One Customer, as provided for in the instructions concerning the maximum credit concentration limits.
- 5) The face value of the investments in the securities of anyone issuer shall not exceed 10% of the capital of the issuer.

In the event the need arises for exceeding any of the ratios specified in the above mentioned three items (3, 4 and 5), the bank must obtain prior consent in writing from the Central Bank of Kuwait, by submitting an application explaining the justifications and reasons for which the excess is requested, noting that such cases must be limited to the minimum⁽²⁾.

It is understood that the bank shall bear any risks arising from its activity in the area of financial investments including those for which Central Bank of Kuwait's prior approval has been obtained, to exempt them from the established maximum limits.

(1) this item was amended by the circular No. (2/BS/90/2001) issued on 22/10/2001.

(2) Circular No. (2/BS/187/2006) issued on 22/3/2006 included the set of the guidelines of the Central Bank of Kuwait will be taking into account when considering banks application for exemption from the maximum limits established for financial investments.

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B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

- 6) The following investments shall be exempted from the ratios provided for in the above mentioned three items:
 - a) Investments in government bills and bonds of OECD countries are exempted from the aforesaid ratios, while granting consideration to the investment risks in each country separately, as well as the bills and bonds of the governments of GCC Countries.
 - b) Investment in subsidiaries of the bank subject to the Central Bank of Kuwait prior approval for each case individually, where the bank has to submit an application showing the outcome of the relevant study the bank carried out on the feasibility of such investment.
 - c) Bank's own shares (Treasury shares) purchased in accordance with the instructions issued in this regard⁽¹⁾.
- 7) Exchange of investments in securities with connected parties can be exercised only through contractual conditions that are in line with sound professional practices. The definition of the "connected parties" concept, shall be as provided for under instructions No. (IBS/101/1995) concerning the Maximum Credit Concentration Limits, shall be applied in this regard.

Second: As regard the accounting policies and procedures of the financial investments, the following rules shall be incorporated into the instructions previously issued in connection with regulating local banks investments policy:

Policies and Accounting Treatment of Financial Investments:

It is understood that it is a must to comply with the International Accounting Standards when preparing and presenting banks financial statements and data. Whereas the International Accounting Standards have provided a certain degree of flexibility in determining the accounting policies and procedures to be applied to financial investments,

(1) This item was amended under circular No. (2/BS/90/2001) issued on 22/10/2001.

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B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

and whereas the accounting methods and techniques differ depending on the nature of those investments and their classification by purpose of acquisition, it is a must in this respect to **classify** securities into traded securities (short term), or investments securities (long term), or investments in affiliates or subsidiaries. The following rules have to be complied with in this regard:

- a. Each security must be classified upon acquisition.
- b. Securities may not be **reclassified** and transferred from one portfolio to another, except in light of a **comprehensive study** that explains the justifications and technical bases which substantiate the reclassification. Such a study shall be submitted to the Central Bank of Kuwait **on request**.
- c. The accounts of each category of securities must be **segregated** from those of other categories into which securities are classified.
- d. Consistency must be maintained in applying a specific accounting policy for each category of securities. Such a policy may not be changed except in case of need, and provided that the change is based on a study that explains the justifications and reasons as well as the results arising from such a change.

Third: Banks are required to provide the Central bank with periodic quarterly data (at end of March, June, September, December) on the financial investments of the bank, using the attached forms. Such data must be submitted along with the other periodic data submitted to the Central Bank of Kuwait for the said periods.

Fourth: These instructions shall be implemented with effective as of their date of issuance.

Issued on 19/11/2000

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B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

**Central Bank of Kuwait
Supervision Department**

Table No. (1)

Bank:

Statement of Total of Securities Portfolio^{*(1)}

As on / /

S.N.	Description	Amount in KD 000	
1	Total book value of securities portfolio** (A+B)		.....
	A) Bonds:		
	- Bonds issued by banks.	.....
	- Bonds issued by Financial Institutions.	.....
	- Bonds issued by other entities.	.....
	Total	.....
	B) Shares:		
	- Shares in Subsidiaries	.....
	- Shares in affiliates	.....
	- Shares issued by other parties	.....
	Total	.....
	(Less):		
	- Bills and Bonds issued by Governments of OECD Countries.	(.....)	
	- Bills and Bonds issued by Governments of GCC Countries.	(.....)	
	- Subsidiaries (a detailed statements is to be attached)	(.....)	
2	Total investments exempted from the 50% ratio		(.....)
3	Net securities portfolio (1-2)		.....
4	Capital in its comprehensive concept		.....
5	Ratio of net securities portfolio / capital in its comprehensive concept (3÷4)	%

Signature:

* This statement is to be prepared quarterly.

** The Total book value of those investments as recorded in the bank's books. That value is to be matched against the periodic data reported to the Central Bank of Kuwait.

(1) This statement was amended by the circular No. (2/BS/90/2001) issued on 22/10/2001.

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B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

**Central Bank of Kuwait
Supervision Department**

**Detailed Statement of All Types of Financial Investments
Comprising 5% or More of the Bank's Capital in its Comprehensive Concept(*).**

As on -----/-----/-----

Table No. (2)

Bank::

Bank's Capital in its Comprehensive Concept..... KD 000
Ratio of Investment to Bank's Capital in its Comprehensive Concept.... %
Ratio of Credit Obligations to Bank's Capital in its Comprehensive Concept....%
(In KD 000)

S.N.	Company Investment Connected Parties	(1) Book Value of Financial Investments				Other Cash Credit Obligations(**) (2)	Total Cash Credit Obligations(***) (1+2) (3)	Customer's Total Liabilities(****) (4)
		Bonds (A)	Shares (B)	Other Securities (C)	Total (A+B+C) (1)			
	First: company Invested in (a)							
	Second: Connected Parties (b)							
1								
2								
3								
4								
5								
	Total (b)							
	Total (a+b)							

Signature:-----

(*) This statement is to be prepared quarterly.

(**) For identifying other cash obligations (other than bonds and financial investments), the bank has to observe the concepts mentioned under "Item Third" of instructions No.(IBS/101/1995) concerning the Maximum Credit Concentration Limits.

(***) Should match with column No. (1) of Form No. A.M. (18) concerning the statement of existing credit obligations amounting to 5% or more of the capital base, in accordance with instructions No. (IBS /101/1995).

(****) Should match with column No. (6) of the above mentioned Form No. A.M (18).

**Central Bank of Kuwait
Supervision Department**

Table No. (3)

Bank :

**Detailed Statement of Securities Where the ratio of
Investment to Issuer’s Capital is 10% or More^{*(1)}**

In KD 000

S.N.	Name of the entity invested in	Nominal Value of Shares owned by the Bank (1)			Total face value of shares issued by the entity invested in (2)			Ratio of Investment in the issuer’s Capital (1+2)
		No. of Shares	Nominal value per Share	Total	No. of Shares	Nominal value per Share	Total	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								

Signature:.....

* This statement is to be prepared quarterly.

⁽¹⁾ this statement was amended by circular No. (2/BS/90/2001) issued on 22/10/2001.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

B) Circular No. (2/BS/79/2000) concerning the amendment of the Central Bank of Kuwait Instructions organizing the investment Policy of Local Bank.

GOVERNOR

*Sha'aban 6, 1422 H
October 22, 2001*

THE CHAIRMEN,

**Circular No. (2/BS/90/ 2001) To all Local Banks
Concerning the Amendment of the Central Bank of Kuwait Instructions
Organizing Local Banks Investment policy**

We would like to advise you that the Central Bank of Kuwait Board of Directors, at its meeting of 21/10/2001, resolved to make the following amendments to the circular issued on 19/11/2000 concerning the amendment of the Central Bank of Kuwait instructions organizing the local banks Investment Policy:

First: Amendment of paragraph (one) of Item (First/3) of the above mentioned circular to read as follows: **“The total book value of the securities portfolio may not exceed 50% of the capital of the bank in its comprehensive concept”**.

Second: Amendment of Item (First/6) of the above mentioned circular to be consistent with the amendment of Item (First/3) and to read as follows:

“The following investments shall be exempted from the ratios provided for in the above mentioned three items:

A) Investment in subsidiaries of the bank, subject to obtaining the Central Bank of Kuwait prior approval for each subsidiary apart, where the bank has to submit an application showing the outcome of the relevant study the bank carried out on the feasibility of such investment.

B) Bank's own shares purchased in accordance with the instructions issued in this regard.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

C) Circular No. (2/BS/90/2001) concerning the amendment of the Central Bank of Kuwait Instructions Organization the Investment policy of the Local Banks.

Bills and Bonds of OECD Governments shall be exempted from the 10% ratio provided for under items (4 and 5), while observing the investment risks in each country separately, as well as the bills and bonds of the Governments of GCC Countries".

Third: Emphasizing the provisions of item (Second/1) of the instructions issued on 15/11/1994, with regard to organizing the investment policy , which provides for dealing only in high quality securities, along with noting the amendment of the definition of high quality in investment securities rated by international rating agencies, to apply to securities rated **(BBB)** instead of **(A)** rated securities.

These amendments shall be implemented with effect from the above date, and the enclosed two tables shall replace tables No. (1) and (3) attached to the above mentioned circular issued on 19/11/2000.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

C) Circular No. (2/BS/90/2001) concerning the amendment of the Central Bank of Kuwait Instructions Organization the Investment policy of the Local Banks.

**Central Bank of Kuwait
Supervision Department**

Table No. (1)
Bank:

Statement Of Total Securities Portfolio *
As On / /

Serial	Description	Amount in KD 000	
		Sub-total	Total
1	Securities portfolio:		.....
	A) Bonds/Bills	.....
	- issued by Banks.	.....
	- issued by Financial Institutions.	.....
	- issued by Other Entities.		
	B) Shares		.....
	- Shares in Subsidiaries	.....
	- Shares in affiliates	.....
	- Shares issued by other parties	.....	.....
	C) Other		.....
	Total book value of securities portfolio ** (A+B+C)		.....
2	(Less)		(.....)
	- Bills and Bonds.	(.....)	
	- Subsidiaries shares (a detailed statement is to be attached)	(.....)	
3	Net securities portfolio (1-2)		.....
4	Capital in its comprehensive concept.		.....
5	Ratio of net securities portfolio / capital in its comprehensive concept (3/4)	%

Signature:

* This Statement is to be prepared quarterly.

** The total book value of those investments as recorded in the bank's books. Such a total book value is to be matched with the periodic data reported to the Central Bank of Kuwait.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

C) Circular No. (2/BS/90/2001) concerning the amendment of the Central Bank of Kuwait Instructions Organization the Investment policy of the Local Banks.

GOVERNOR

Safar 22, 1427 H
March 22, 2006

THE CHAIRMEN,

**Circular To All Conventional Banks *
(2/BS/187/2006)**

This has reference to the Central Bank of Kuwait's instructions concerning the organization of the local banks investment policy, which provides that if the need arises for any bank to exceed any of the maximum limits established under those instructions, then such a bank will have to obtain the Central Bank's prior approval in writing. To this effect, the applicant bank shall address the Central Bank of Kuwait, explaining the justifications and reasons for which it is requesting the approval for excess. However, it has to be noted that such cases should be kept to the minimum possible.

While considering banks applications for exemption from the maximum limits established for financial investments, the Central Bank of Kuwait will take into account the following set of guidelines:

General Principles:

- 1- According to the Central Bank's established policy, the conventional banks may not establish subsidiary investment companies operating in compliance with the Islamic Shari'a principles. The conventional banks may only participate in affiliates operating in this field after obtaining the Central bank's prior approval.
- 2- It is not permitted to establish subsidiaries operating in non-banking or non-financial fields.

* Except Islamic banks which they have an independent issue.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

D) Circular No. (2/BS/187/2006) concerning the set of guidelines the Central Bank of Kuwait takes into account when considering bank's applications for exemption from the maximum limits established for financial investments.

- 3- As a matter of principle, a bank may have only one subsidiary in Kuwait and more than one subsidiary operating abroad in the same field of business, with the understanding that a bank will have only one subsidiary over which it has control, and which operates in the same field of business in the country it is located in, for serving the bank's purposes. Exemption from this rule will be allowed only on the grounds of strong justifications convincing for the Central Bank, such as the cases of business expansion according to a prudent business strategy, or the need for maintaining the same level of presence for the bank in foreign markets.
- 4- Relevant to the previous item is that exemption may not be repeated for the same type of cases, (such as the type of business) or geographically (in terms of the country in which the investment is located, whether internally or externally).
- 5- In the cases where the bank has subsidiaries or sister companies operating in the same field of business and in the same countries where the investment is located, it would seem that there is no justification for obtaining a new exemption.
- 6- Among the acceptable justifications for exemption is the participation of local banks in one of the companies established for serving the collective purposes of the banks. An example of this is the local banks participation in (K-net).
- 7- Banks may increase their participation in their subsidiaries for which prior approval has been obtained from the Central Bank, without the need for a new approval. However, notification the Central Bank of Kuwait to this effect is a must.
- 8- As regards participations in companies (other than subsidiaries) which exceed the maximum established limit (10% of the capital of the investee company), and for which a prior approval has been obtained from the Central Bank, if the capital of the investee company is increased, the bank may participate in the capital increase within the limits that maintain the same percentage of participation previously approved by the Central Bank, without the need for a new approval. Should a bank desire to increase its participation in such a company, this case will require the approval of the Central Bank and shall be subject to the rules included in this circular.

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

D) Circular No. (2/BS/187/2006) concerning the set of guidelines the Central Bank of Kuwait takes into account when considering bank's applications for exemption from the maximum limits established for financial investments.

It has to be noted that such cases leading to the excess of the value of participation beyond the maximum limit established as the total ratio to the securities portfolio (50% of the capital in its broad concept), or the single investment limit (10% of the capital in its broad concept), shall require the prior approval of the Central Bank and shall be subject to the regulations of this circular.

- 9- In case of applying for exemption from the maximum limit for a single investment of 10% of the capital in its broad concept, this should not result in exceeding the maximum limit established for credit concentration per one single customer (15% of the capital in its broad concept). In such cases, the Central Bank will not approve the exemption that results in exceeding the two mentioned limits together, except for strong justifications presented by the applicant bank to this effect.

Other factors taken into account when considering applications for exemption from the maximum limits established for financial investments:

- 1- The extent of the applicant bank's compliance with the Laws and regulatory instructions issued by the Central Bank, and the absence of any breaches that have a tangible negative impact or are of a recurrent nature, specially in the area of financial investment.
- 2- Relevant to the previous item is that the Central Bank of Kuwait will impose financial penalties on the bank for breaching the regulations and the limits established under its instructions, as well as the frequency of applying such penalties.
- 3- The evaluation of the overall position of the bank comprising all of its elements, as assessed through evaluating its performance according to CAMEL Approach.
- 4- The extent to which the requested investment serves the purposes of the bank.
- 5- The investment should be of a national or strategic nature, economically or socially. Another relevant point is that the bank has not previously entered into this type of investment which meets one of its purposes, whether in terms of business expansion, profitability or other purposes.

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D) Circular No. (2/BS/187/2006) concerning the set of guidelines the Central Bank of Kuwait takes into account when considering bank's applications for exemption from the maximum limits established for financial investments.

- 6- Any other relevant considerations deemed appropriate by the Central Bank, other than the above considerations.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

D) Circular No. (2/BS/187/2006) concerning the set of guidelines the Central Bank of Kuwait takes into account when considering bank's applications for exemption from the maximum limits established for financial investments.

Central Bank of Kuwait

GOVERNOR

Jumada Al-Aula 8, 1429 H
May 13, 2008

THE CHAIRMAN,

Circular to all local conventional banks (2/BS/218/2008)

This has reference to the contents of the Central Bank of Kuwait circular dated 22/3/2006 on the guidelines to be taken into consideration while studying banks' requests for exemption from the prescribed maximum limits of financial investments.

We would like to advise you that it has been resolved to amend Clause 7 of the above circular to read as follows:

“As for participations in subsidiaries, for which approvals were previously obtained from the Central Bank of Kuwait, the bank shall, if willing to increase its stake in these companies, submit a new application to the Central Bank of Kuwait to obtain its approval of such increase prior to entering into the new stakes. The application shall be accompanied by reasons justifying the request for such increase.”

With my best wishes,

SALEM ABDULAZIZ AI-SABAH

14- INSTRUCTIONS ISSUED IN CONNECTION WITH THE ORGANIZATION OF LOCAL BANKS INVESTMENT POLICY.

E) Circular No. (2/BS/218/2008) regarding the guidelines to be taken into consideration while studying bank's requests for exemption from the prescribed maximum limits of financial investments.