

## 2- RULES AND REGULATION CONCERNIN LIQUIDITY SYSTEM

- A- Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.
- B- Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.
- C- Circular to all banks and the domestic and external branches thereof with regard to the application of instructions concerning the liquidity system based on the maturity ladder approach.
- D- Circular No (2/BS/162/2004) issued by decision of the Board of Directors of the Central Bank of Kuwait on 6/6/2004 , amending the instructions issued to all local banks on 14/10/1997 concerning the liquidity system according to the maturity ladder approach.
- E- Circular concerning Central Bank of Kuwait intervention in the money market to withdraw surplus liquidity through the monetary instruments deems appropriate.
- F- Circular No.(2/BS/234/2008) concerning Central Bank of Kuwait Board of Directors' resolution of 2/12/2008 on amending the approach and ratio of customers KD deposits to be held by banks in the form of balances with Central Bank of Kuwait (current or deposits), along with Kuwait Treasury Bills and Bonds or other financial instruments issued by Central Bank of Kuwait.

**GOVERNOR**

*Jumada Al-Akhir 13, 1418 H  
October 14, 1997*

**THE CHAIRMAN,**

**Circular to the local banks  
No. (2/BS/49/1997)**

I would like to advise you that the Board of Directors of the Central Bank of Kuwait has endorsed, at its regular meeting held on October 12, 1997, the following instructions:

- 1- "Rules and Regulations concerning the Liquidity System according to the Maturity Ladder Approach"<sup>(1)</sup>
- 2- Local banks are required to maintain 20%<sup>(2)</sup> of their KD customer deposits<sup>(3)</sup> in the form of balances with Central Bank of Kuwait (current account or deposits) in addition to Kuwaiti Treasury bills and bonds, or any other financial instruments issued by the Central Bank.<sup>(4)</sup>

In this regard, I would like to attach herewith a copy of the "Rules and Regulations concerning the Liquidity System according to the Maturity Ladder Approach". Your bank shall adhere to the enclosed instructions as effective from this date, and has to cancel all the previous directives issued in respect of the liquidity system along with any other guidelines contradictory therewith. Furthermore, the relevant formats of tables designed for this purpose are annexed with the instructions. Your bank shall complete such formats and has to furnish the Central Bank of Kuwait therewith pursuant to such instructions.

Besides, your bank shall provide the external auditors with a copy of these instructions and enclosures thereof.

- (1) The amendment was introduced according to the Maturity Ladder Approach by virtue of circular No. (2/BS/162/2004) issued on 8/6/2004.
- (2) The ratio was reduced to 18% pursuant to circular No. (2/BS/234/2008) issued on 4/12/2008.
- (3) KD deposits received by local banks from government and semi-government agencies and institutions within the framework of financing the investment companies to rectify their liquidity positions, were excluded from total customers KD deposits when calculating the subject ratio, pursuant to circular No. (2/BS/234/2008).
- (4) This Paragraph was amended by virtue of the Central Bank of Kuwait Board's approval on 6/6/2004, as mentioned in circular No (2/BS/162/2004) issued on 8/6/2004

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**2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

A- Rules and Regulations No. (2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

Each local bank that exceeds the gap limits set out in these instructions should justify to the Central Bank of Kuwait the reasons behind its in adherence to such gap limits. Correspondingly, the Central Bank shall be provided with the time schedule indicating the measures to be taken by each bank for gradual adjustment of its own positions to accomplish the determined limit ratio.

With my best regards,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

**Instructions No. (2/BS/49/1997)  
The Liquidity System according to  
The Maturity Ladder Approach**

**Introduction**

It is known that responsibility for drawing up a sound liquidity management policy rests with each bank. In this connection, all banks are required to take into account the relevant laws and supervisory regulations issued for liquidity management, in order to maintain adequate liquidity, so as to adjust profile between maturities of assets and liabilities, having regard to distribution of risks through asset diversification. By virtue of Article (71) of Law No. 32 of the year 1968 concerning Currency, The Central Bank of Kuwait & the Organization of Banking Business and amendments thereto, stipulating that **“The Central Bank may issue to the banks such instructions as it deems necessary to realize its credit or monetary policy, or to ensure the sound progress of banking business”**, AND

Pursuant to provisions of Article (72) thereof, stating that **“The Board of Directors of the Central Bank may - whenever necessary - draw up rules and regulations to which all banks shall adhere in order to ensure their liquidity and solvency, particularly with regard to the ratios which must be maintained between the bank’s liquid funds on the one hand and the aggregate of its term and demand liabilities on the other.”**

Hereby, the Central Bank of Kuwait issued the following rules and regulations concerning the liquidity system at banks according to the maturity ladder approach.

**FIRST: DEFINITIONS**

A **bank's liquidity** is defined to be the ability of a bank to accommodate decreases in liabilities and to fund increases in assets. Liquidity profile or position of a bank is deemed to be adequate if its funding capacity is assured, at a suitable market cost, to fund its asset growth requirements in addition to meet expected (or unexpected) decline in liabilities.

In general, liquidity basically depends on the principle of matching between maturities of liabilities on one side and maturities at assets on the other, in such a manner to avoid timely or potential funding pressures. Mismatching, whether wholly or partially, threatens the bank’s own liquidity position and endangers its solvency .

As far as banks and financial institutions are concerned, the volatile nature of their liabilities structure, the sensitive response to impact of monetary and economic developments on their operations, along with their diligent efforts to accomplish profitable earnings are altogether able to make the ideal matching between each bank maturities of liabilities and assets an extremely difficult target to be attained. Responsibility to realize such ideal matching rests with the bank's own management, due to its daily and immediate capacity to identify and monitor the volume of cash flows, volume of funds available from internal and external sources, beside current and potential obligations that should be addressed by the bank .

As far as the Central Bank of Kuwait is concerned, its responsibility in this connection is virtually directed toward monitoring capacity of banks under its supervision, to meet their obligations when they fall due, and inducing them to enhance their capabilities to address any contingencies resulting from adverse conditions.

For the purpose of meeting the immediate obligations, particularly the contingent, banks are hence required to maintain a minimum limit of liquid funds, or those encashable or liquifiable assets, or the funds to be employed as security for borrowing loans. Furthermore, each individual bank should maintain minimum matching level or profile between assets and liabilities maturities, having regard to distribution of risk in assets through asset diversification. Assets with short-term maturities, unlike those of the long-term, are normally characterized with low risk ratio, or low level of risks.

The Maturity Ladder Approach allocates future cash inflows to future cash outflows over a series of specified time bands from a starting point, usually begin with the immediate maturities of liabilities and assets matured but not paid (Overdue period). Cash inflows arise from maturing assets, unmaturing liquifiable or encashable assets, and established credit lines extended to the bank, which can be tapped for its benefit. Cash inflows can be classified according to asset maturity dates, or discreet projection of dates for drawing down the credit lines granted to the bank.

## **SECOND: ASPECTS OF THE LIQUIDITY SYSTEM PURSUANT TO THE MATURITY LADDER APPROACH**

### **A: Determination of the Maturity Ladder (Time Bands)**

According to the maturity ladder system as an approach for the measurement of liquidity, the future cash inflows of the bank's assets are compared with the future cash outflows of its liabilities over a series of specified time periods. Cash outflows of the bank's liabilities shall encompass its payable obligations and contingent liabilities, particularly the committed lines of credit that can be drawn down.

(Cash outflows can be classified according to liabilities maturity dates, or the earliest dates when contingencies can be called). Correspondingly, cash inflows encompass any inflows, which the bank can collect in future. Overdraft limits extended to the concerned bank from other banks are to be included under this conception .

Moreover, the bank's assets and liabilities are included in maturity ladder, and then to calculate the net position between cash inflows and cash outflows for each period, whether the difference be surplus or deficit. Such net difference is defined as "liquidity mismatch", where maturities of assets and liabilities are not matching in accordance with **time bands** to be determined as follows:

- 1- Sight, matured yet not paid (overdues) at the date of reporting.
- 2- Next day.
- 3- 7 days & under (apart from next day) .
- 4- Over 7 days up to one month .
- 5- Over 1 month up to 3 months .
- 6- Over 3 months up to 6 months .
- 7- Over 6 months up to 1 year .
- 8- Over 1 year .

Additionally, the net accumulative position shall be calculated over these time bands. Meanwhile, the maximum limit of mismatch ratios of assets and liabilities cashflow for each time band - called Mismatch Ratios of Maturities - should be determined.

## **B: Determination of the rules used for classifying assets and liabilities according to the Maturity Ladder Approach (The Basis of Measurement):**

### **1- LIABILITIES**

- a- Include deposits of all types (such as: current, savings and term deposits), placed according to residual maturity in an ascending order.
- b- Known Commitments in respect of which the necessary funds are to be made available on a particular date. They are included according to residual maturity at their full value. For example: the funds required to meet obligations in respect of extending loans already granted to the client and which the bank knows in advance that the concerned client will draw down.

- c- Unknown Commitments which are not due to be met, or will not be actually called, on a specific date. For example, meeting obligations regarding “**Overdraft Facilities**” and “**Contractual Standby Facilities**”, and other undrawn facilities, which are unlikely to be utilized in full. For example: the limits granted against guarantee of promissory notes or goods.

As for “**Contractual Standby Facilities**”, they shall be included in the item of Other Commitments under the “Next Day” time band.

In respect of **Overdraft Facilities**, a discount factor at 30% shall be calculated for the unutilized part. The remaining 70% shall be distributed into two equal divisions. The first division shall be included within liabilities maturing in the course of the time band of “ 7 days & under ”. The second division is to be included within liabilities maturing in the course of the “Over 7 days up to 1 month ” time band. Such ratio has been set out in view of the studies undertaken regarding analysis of data forwarded by the local banks according to a specific time series.

On the other hand, the other part expected to be utilized from such Overdraft Facilities (representing 70% of the unutilized part of these facilities) shall be included in Assets side, on the assumption that it will be collected within the time band of “Over 6 months - 1 year ”.

- d- Contingent liabilities which the bank is expected to repay; (for example: letters of guarantee that would be cashed, court adjudication whereby the bank is obliged to pay a certain amount) shall be included within the time band of “Over 7 days - 1 month”.

## **2- ASSETS**

- a- Assets are to be stated at their net value, excluding the outstanding defined provisions already specified from such assets.
- b- Assets are to be placed according to residual maturity. For example: cash and current accounts, accounts that are temporarily overdrafted and to be covered immediately next day are to be included under Next Day column of the attached table. Furthermore, Kuwaiti Treasury Bills and Bonds are to be included in the same time band, regardless of maturities thereof.
- c- As for financial investments of no contractual maturity, which are marketable in the Stock Exchange, such as shares, will be included within the time band of “7 days & under ”. In this regard, local and foreign securities will be subject to a discount factor of 5%.

Determination of such discount factor for securities has taken into consideration possible potential securities price fluctuation, besides unfavourable sale conditions at the time when the bank liquifies securities, when necessary.

- d- Some Marketable Securities may be excluded from being placed according to their maturity time band, and can be included within “ 7 days & under ” time band according to the following terms and conditions:
- having immediate convertibility into cash at lowest cost;
  - having no high investment or credit risks that might significantly affect their values;
  - calculation of a discount factor for each type of these assets according to nature and marketability of each as follows:

<b>Serial</b>	<b>Item / Description</b>	<b>Discount factor</b>
1	Certificates of Deposit with less than 6 months remaining term to maturity issued by prime banks *, AND Securities issued by GCC & OECD governments or guaranteed by them with less than 5 years remaining term to maturity	5%
2	Certificates of Deposit & FRN’s (Floating Rate Notes) with less than 5 years remaining term to maturity issued by prime banks & GCC* governments AND Securities issued by GCC & OECD governments of over 5 years remaining term to maturity	10%
3	FRN’s with more than 5 years remaining term to maturity issued by GCC & OECD governments or by prime banks or other institutions of high quality creditworthiness*	15%

- e- Regarding the interbank Contractual Standby Facilities, which allow the concerned bank to obtain immediate credit facilities upon request through money market, they shall be classified in the “Next Day” time band.
- f- As for the Debt Bonds issued against purchased debts in pursuance of the Law No. (41) of 1993 and amendments thereto, and taking into consideration that a portion of such bonds amortize according to the cash collections or receivables from such debts for the manager banks, when such bonds gradually amortized at the amount of such cash collections. Accordingly, and when considering inclusion of amount expected to be collected from the payment maturing in the same year, the determination of amounts that might be entered from the payment maturing during the year for each individual bank shall be implemented in light of actually accomplished ratios of payments that already matured and repaid in respect of all local banks on consolidated basis. (The remaining balance of payment shall be entered within the Assets related to the “Over 1 year” time band). Banks can be guided by the average of payment ratios that mature at date of preparing the statement. Such average is deemed to be the amount expected to be collected from the payment that matures during the year. Banks shall be notified of such ratios on periodic basis.

\* For the purpose of defining prime banks and financial institutions that issue such Notes, their definition is limited, as minimum, to the banks and institutions rated at “A” or equivalent by International Rating Agencies (For example: Standard & Poor, Moodys, IBCA).

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### **3- OTHER ITEMS**

Under collection or payment items should be taken into consideration. In such a case, net position of these items should be calculated and be placed into the “Next Day” time band, according to their nature (whether assets or liabilities).

#### **C: Maximum Limits of Bank Mismatch**

The maximum mismatch limits for the net difference between the cash flows of assets and liabilities, have been set out on an accumulative basis for the time bands between “Sight” (include overdue, next day) to “Up to 6 months”. These maximum mismatch limits are to be abided by for all currencies as a whole (Kuwaiti dinar and foreign currencies), as well as for foreign currencies <sup>(1)</sup>.

The funding gap shall be measured as a percentage of total liabilities on the basis that it constitutes the denominator since it represents the future payable obligations. These limits will be determined on a unified measure for all the local banks.

Hereunder, the maximum limits for the cumulative gaps during the four time bands from “Sight” to “Up to 6 months” shall be strictly observed by banks, as follows:

<b>Time Band</b>	<b>Maximum Limit of the Cumulative gap</b>
1) 7 days & under	10%
2) 1 month and under	20%
3) 3 months and under	30%
4) 6 months and under	40%

However, the Central Bank of Kuwait may specify gap limits less than those mentioned hereinabove for any of the local banks in view of the concerned bank’s financial position and circumstances. Correspondingly, the attached table illustrates the technique to be adopted for liquidity measurement under the Maturity Ladder Approach. Further, such table provides the method to be observed for calculation of gap between assets and liabilities, whether absolute or cumulative.

#### **D: Banks’ Internal Liquidity Policy**

Banks shall be held responsible for enhancing their own abilities to follow up their liquidity positions. Banks have to ensure that arrangements and internal controls for liquidity management are fully adequate to generate the necessary resources to cover potential outflows, both in normal circumstances and in times of systematic problems. Thereby, the Central Bank of Kuwait envisages that the local banks have to design and prepare their own internal liquidity policies based on the maturity ladder approach.

(1) This Paragraph was amended by virtue of the Central Bank of Kuwait Board’s approval on 6/6/2004, as mentioned in circular (2/BS/162/2004) issued on 8/6/2004.

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#### **2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

A- Rules and Regulations No. (2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

***Such policies should be in agreement with the following minimum limits:***

- 1- Availability of effective computer systems to provide all necessary information. Such systems are of paramount importance in providing each bank management with all accurate updated and revised data in order to feasibly measure and manage cash flows and liquidity requirements.
- 2- Taking into consideration the minimum limits set out by the Central Bank of Kuwait in respect of liquidity system, each individual bank should establish its own internal liquidity policy (possibly as a part of an overall policy for Treasury Department thereof). Such policy statement should be endorsed by the concerned bank Board of Directors.

***Each bank liquidity policy should include the following as minimum limits:***

- a) Definition of liquidity concept;
- b) Principles adopted for the measurement of liquidity;
- c) Time bands assumed by liquidity policy;
- d) Mismatch limits or gaps for different time bands, and the basis used for setting these limits. (Are they based on the relationship between the deposit base or total liabilities?)
- e) Executives or staff authorized and entitled to set out these limits, and frequency of review thereof;
- f) Regarding cash flows, liquidity policy should include the following points:
  - volatility and diversity of deposits and other liabilities;
  - rollover of deposits and other liabilities under normal conditions or circumstances;
  - treatment of deposits at maturity, particularly larger deposits.
- g) In respect of cash and liquid assets, liquidity policy should include:
  - what assets to be deemed liquid in accordance with type of currencies;
  - what minimum balances of such assets that must be maintained.
- h) In as far as contingency planning is concerned, liquidity policy needs to outline procedures to ensure that information flows remain uninterrupted in adverse conditions. Similarly, the senior management should be provided with the accurate feedback it requires for making prudent quick decisions, when necessary. In addition, there must be a clear and specific division of responsibility so that all personnel fully understand their duties and what is expected from each of them during abnormal conditions.

***In this connection, the contingency plan should address the following major points:***

- Personnel having overall responsibility for liquidity management in abnormal conditions.
  - Scenarios to be adopted in abnormal conditions that the bank might encounter.
  - Maturing liabilities between bank and clients; and liabilities with non-contractual maturities that can be expected to run off at the break of crisis or contingency.
  - Sources of funding expected to run off gradually in time of crisis, and what the rate would be, in addition to sources of funding which are likely to remain with the bank under any circumstances, and extent of increase thereof; and the procedures established by bank management for accessing cash in time of emergency.
  - Back up facilities that a bank can draw down therefrom, when necessary.
  - The treatment of sight liabilities, such as balances of demand, current and savings deposits.
  - The treatment of overdrafts, particularly their potential collectability and usual level of draw downs.
  - The treatment of assets, which fail to mature according to plan.
  - The normal level of increase in the new loans and facilities.
  - The normal growth of deposits volume.
  - The presence of concentrations in the deposit base.
  - The impact of off-balance sheet items and derivative obligations (FRA's, Swap Contracts, Letters of Credit, ... etc.)
  - Whether there are any seasonal factors to be taken into account.
  - Whether the cashflow measurement system includes different scenarios to encounter worst and best cases.
- i) As far as the Borrowing Capacity, "Credit Lines", the policy should include:
- The capacity of borrowing from other banks;
  - Maximum limit of credit lines for borrowing;
  - The nature of normal interbank funding (Overnight, One month. etc.).

**THIRD:**

**The liquidity position shall be measured daily. Forms, designed for this purpose (to report the aggregate value of all currencies, as well as the separate values in Kuwaiti dinar and each foreign currency)<sup>(1)</sup> shall be presented to the Central Bank of Kuwait at end of each week. Additionally, each bank is required to submit a quarterly liquidity report, audited by the bank's external auditors.**

**FOURTH:**

**Banks exceeding the limits related to the above mentioned gaps are required to gradually adjust their conditions in such a manner to conform to such limits during a period not later than 6 months from date of implementing these instructions.**

**FIFTH:**

**Previous instructions concerning rules and regulations on the liquidity system and other directives contrary to these instructions shall be repealed.**

**SIXTH:**

**These instructions shall be enforceable from date of notification thereof.**

*Issued on October 12, 1997*

<sup>(1)</sup> This paragraph was amended by virtue of the circular No. (2/BS/162/2004) issued on 8/6/2004.

**Directives concerning completion of the  
tables related to the Liquidity System  
according to the Maturity Ladder Approach  
issued according to Instructions No. (2/BS/49/1997)**

Broadly speaking, local banks are required to take into consideration that the items and terms mentioned in the tables pertaining to the Liquidity System according to the Maturity Ladder Approach shall fully correspond with the meanings and guidelines detailed in the “Explanatory Note” regarding completion of financial position data forms (BS’s), which had been dispatched to banks on February 13, 1978.

*Items included in the table shall be classified according to maturity time bands, taking into account the following points:*

**FIRST: ASSETS**

1- **Cash and Cash items** shall be stated at their book value in the “Next Day” maturity time band.

2- **Deposits with the Central Bank of Kuwait:**

Such deposits are usually structured in the form of current accounts. They shall be included in the “Next Day” maturity time band. However, if such deposits are in the form of Time Deposits, they shall be included according to their maturity.

3- **Kuwaiti Treasury Bills & Bonds:**

They shall be included at full value in the “Next Day” maturity time band, regardless of their maturity dates.

4- **Deposits with resident and foreign banks:**

These Deposits shall be distributed or classified according to their maturity dates at preparing the related statement. Such deposits should be included according to remaining term to maturity; (residual term).

5- **Certificates of Deposit:**

Certificates of Deposit shall be included according to remaining term to maturity at preparing the related statement.

Banks are requested to consider the contents of Paragraph “d” of item 2 “ASSETS”, Section, “B” Clause “SECOND” of the instructions. This paragraph refers to exclusion of some Marketable Securities from being placed according to their maturity time band. However, the same can be included within the “7 days & under” time band according to certain conditions. Banks must observe such conditions mentioned in these instructions taking into account calculation of related discount factor, as illustrated in detail hereafter in the instructions.

**6- Claims on other financial institutions and investment companies:**

They shall be stated at net value, excluding the defined provisions according to maturities.

**7- Lending to residents and non-residents:**

They shall be included at net value, excluding the defined provisions, and to be classified according to related maturity.

**8- Financial Investments:**

They shall be placed at net value, excluding the defined provisions, taking into consideration the following points:

A- Purchased Debt Bonds shall be included into the “ Over 1 year ” maturity time band. As for the payment therefrom that matures during the year, the receivable part expected to be collected shall be placed according to the specified maturity time band at preparing the statement. The amount expected to be received is calculated on basis of average of actual collection ratio of such payments that already matured and collected by the bank. Banks shall be notified of such ratio on the basis of which the banks should calculate the payment, which is expected for collection during the year.

B- As for the other Bonds (whether related to foreign governments, banks or financial institutions), they shall be placed according to their maturity time band at preparing the statement. It is possible to include the bonds having certain specific conditions after calculating relevant discount factor, as illustrated in the Instructions in respect of the “ 7 days & under ” maturity time band.

C- As for shares listed in Kuwait Stock Exchange or international capital markets, they shall be included in the “7 days & under” maturity time band, provided a discount factor of 5% shall be considered.

As for shares unlisted in Kuwait Stock Exchange or international capital markets, they shall be included at full value (without taking any discount factor) within the “Over 1 year” time band.

**9- Contractual Standby Facilities:**

They shall be included in the table under the item of “Other Commitments” in the “Next Day” maturity time band.

**10 - Fixed Assets:**

They shall be included at net value in the “Over 1 year” time band, after taking depreciation.

**11- Other Assets:**

They shall be included at net value, excluding the defined provisions, according to maturity dates.

**SECOND: LIABILITIES & SHAREHOLDERS EQUITY**

1- All types of Deposits and Certificates of Deposit shall be included according to the remaining term to maturity. Banks are required to take into account the placing of current, demand and savings deposits at full value in the “Next Day” time band .

2- “**Other Commitments**” are represented in the following items:

a- Known Commitments. They are the commitments on which the necessary funds are to be made available on particular dates.

Example: Term loans granted to the customer, which the bank knows before hand that the customer will draw down in the specific dates. They shall be included according to maturity bands at full value.

The same value of such type of liabilities shall be reflected or reversed under the item “Other Commitments” according to maturity dates specified in loan contracts.

b- Unknown Commitments

They are commitments which are not due to be met, or will not be actually called, on a specific date, such as: “Overdraft Facilities,” and “Contractual Standby Facilities”.

In the case of Overdraft Facilities, a discount factor shall be established for the unutilized part of 30%. The second remaining part representing 70% shall be distributed into two equal divisions. The first division shall be entered under liabilities maturing in the course of the “7 days & under” time band. The second division shall be entered under liabilities maturing in the course of the “Over 7 days- 1 month” time band.

On the other hand, the other part expected to be utilized from such Overdraft Facilities (representing 70% of the unutilized part of such facilities) shall be included in Assets side under the item of “Other Commitments” in Over 6 months - 1-year” time band. Regarding the “Contractual Standby Facilities”, they shall be placed in the item of “Other Commitments” under the Next Day time band.

### **3- Shareholders Equity**

Shareholders equity shall be entered into the “Over 1 year” time band.

### **4- Other Liabilities**

Such liabilities shall be entered according to their maturity time bands. Banks are requested to observe that Other Liabilities shall include profit for the period, which shall be placed in accordance with expected maturity date, as well. Additionally, they shall include the general provisions to be placed into the “Over 1 year” time band.

## **THIRD: CALCULATION OF GAPS**

Mismatches or gaps shall be calculated on absolute and cumulative basis (for each time band) as a percentage of eligible liabilities. The denominator of such percentage shall be the liabilities (under “Total” column in the liquidity tables), excluding equities. Further, this will be the case with the cumulative gap.

*Issued on October 12, 1997*

Central Bank of Kuwait  
Off-site Supervision Department

**Liquidity Report**

TOTAL  
000's

BANK NAME	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS- 1 MONTH	OVER 1 MONTH- 3 MONTHS	OVER 3 MONTHS- 6 MONTHS	OVER 6 MONTHS- 1 YEAR	OVER 1 YEAR
<b>ASSETS</b>									
<b>Liquid &amp; Semi Liquid Assets</b>									
1-Cash & Cash Item									
2-Deposits with Central Bank of Kuwait									
3-Kuwait T.( Bills + Bonds) & CBK bills									
4-Deposits with resident banks									
5-Deposits with foreign banks									
6-CD'S									
TOTAL(1)									
<b>Maturing Assets</b>									
<b>1-Clamis on other fin. institutions &amp; inv. co's</b>									
2-Lending to Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
3-Lending to Non Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
4-Investments									
A) Bonds& Debentures (Govt.)									
B) Bonds& Debentures (Non Govt.)									
C) Shares									
D) Floating Rates Notes									
E) Other Investments									
5-Other Commitments									
6-Fixed Assets									
7-Other Assets									
TOTAL(2)									
TOTAL (3) ie. (1+2)									
<b>Liabilities</b>									
<b>1-Deposits</b>									
A) Private Deposits									
B) Deposits from Banks									
C) Deposits from Central Bank of Kuwait									
D) Deposits from financial inst.									
E) Government Deposits									
2-CD'S Issued & other short term papers issued									
3-Other Commitments									
4-Capital Base									
5-Other Liabilities									
<b>TOTAL LIABILITIES (4)</b>									
Absolute Mismatch ( T3 – T4 )									
Cumulative Mismatch (T3-T4) + Previous time period									
Absolute Mismatch %((T3-T4)/(T4-Capital Base)									
Cumulative Mismatch %(C.M. / T4-Capital Base)									

**2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

B- Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

Central Bank of Kuwait  
Off-site Supervision Department

**Liquidity Report**

KD  
000's

BANK NAME	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS- 1 MONTH	OVER 1 MONTH- 3 MONTHS	OVER 3 MONTHS- 6 MONTHS	OVER 6 MONTHS- 1 YEAR	OVER 1 YEAR
<b>ASSETS</b>									
<b>Liquid &amp; Semi Liquid Assets</b>									
1-Cash & Cash Item									
2-Deposits with Central Bank of Kuwait									
3-Kuwait T.( Bills + Bonds) & CBK bills									
4-Deposits with resident banks									
5-Deposits with foreign banks									
6-CD'S									
TOTAL(1)									
<b>Maturing Assets</b>									
<b>1-Clamis on other fin. institutions &amp; inv. co's</b>									
2-Lending to Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
3-Lending to Non Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
4-Investments									
A) Bonds& Debentures (Govt.)									
B) Bonds& Debentures (Non Govt.)									
C) Shares									
D) Floating Rates Notes									
E) Other Investments									
5-Other Commitments									
6-Fixed Assets									
7-Other Assets									
TOTAL(2)									
TOTAL (3) ie. (1+2)									
<b>Liabilities</b>									
<b>1-Deposits</b>									
A) Private Deposits									
B) Deposits from Banks									
C) Deposits from Central Bank of Kuwait									
D) Deposits from financial inst.									
E) Government Deposits									
2-CD'S Issued & other short term papers issued									
3-Other Commitments									
4-Capital Base									
5-Other Liabilities									
<b>TOTAL LIABILITIES (4)</b>									
Absolute Mismatch ( T3 – T4 )									
Cumulative Mismatch (T3-T4) + Previous time period									
Absolute Mismatch % (T3-T4)/(T4-Capital Base)									
Cumulative Mismatch % (C.M. / T4-Capital Base)									

**2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

B- Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

Central Bank of Kuwait  
Off-site Supervision Department

**Liquidity Report**

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**BANK NAME**

	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS- 1 MONTH	OVER 1 MONTH- 3 MONTHS	OVER 3 MONTHS- 6 MONTHS	OVER 6 MONTHS- 1 YEAR	OVER 1 YEAR
<b>ASSETS</b>									
<b>Liquid &amp; Semi Liquid Assets</b>									
1-Cash & Cash Item									
2-Deposits with Central Bank of Kuwait									
3-Kuwait T.( Bills + Bonds) & CBK bills									
4-Deposits with resident banks									
5-Deposits with foreign banks									
6-CD'S									
TOTAL(1)									
<b>Maturing Assets</b>									
<b>1-Clamis on other fin. institutions &amp; inv. co's</b>									
2-Lending to Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
3-Lending to Non Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
4-Investments									
A) Bonds& Debentures (Govt.)									
B) Bonds& Debentures (Non Govt.)									
C) Shares									
D) Floating Rates Notes									
E) Other Investments									
5-Other Commitments									
6-Fixed Assets									
7-Other Assets									
TOTAL(2)									
TOTAL (3) ie. (1+2)									
<b>Liabilities</b>									
<b>1-Deposits</b>									
A) Private Deposits									
B) Deposits from Banks									
C) Deposits from Central Bank of Kuwait									
D) Deposits from financial inst.									
E) Government Deposits									
2-CD'S Issued & other short term papers issued									
3-Other Commitments									
4-Capital Base									
5-Other Liabilities									
<b>TOTAL LIABILITIES (4)</b>									
Absolute Mismatch ( T3 – T4 )									
Cumulative Mismatch (T3-T4) + Previous time period									
Absolute Mismatch %((T3-T4)/(T4-Capital Base)									
Cumulative Mismatch %((C.M. / T4-Capital Base)									

**2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

B- Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

*Rajab 10, 1418 H  
November 10, 1997*

**Executive Director**

**THE GENERAL MANAGER,**

**Circular to all local banks**

With reference to letter of His Excellency the Governor of the Central bank of Kuwait dated 14/10/1997, addressed to the Chairman of your bank's Board of Directors, regarding the instructions for the liquidity system based on the maturity ladder approach, we wish to inform you that the mentioned instructions are applicable to banks and their branches in the country and abroad.

Consequently, your bank shall present periodic data on the liquidity with the main office and local branches in the State of Kuwait, along with other data at the bank's level, taken as one organizational unit including its domestic and external branches and excluding its subsidiary companies. These instructions regarding liquidity data shall apply from end of October 1997.

Best regards,

**Dr. Nabeel Al-Mannae**

**The Executive Director for Monetary Policy**

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**2-RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

C- Circular to all banks and the domestic and external branches thereof with regard to the application of instructions concerning the liquidity system based on the maturity ladder approach.

**GOVERNOR**

*Rabi Al-Akhir 20, 1425H  
June 8, 2004*

**THE CHAIRMAN,**

**Circular to Local Banks\*  
No. (2/BS/162/2004)**

I would like to advise you that the Board of Directors of the Central Bank of Kuwait has endorsed, in its regular meeting held on 6/6/2004, the following instructions:

- 1- Amending the instructions issued to all local banks on 14/10/1997 concerning the Liquidity System according to the Maturity Ladder Approach, by obligating banks to abide by the maximum limits of aggregate negative gaps set out by virtue of these instructions for foreign currencies, as well as abiding by these instructions regarding aggregate balances as a whole (Kuwaiti dinar and foreign currencies), while allowing a period of four months from this date for regularizing their positions in this regard. Banks shall abide by these instructions as of the end of the first week of October, 2004.
- 2- Allowing local banks to maintain 20%<sup>(1)</sup> of their KD customer deposits<sup>(2)</sup> as provided for by virtue of the decision of the Board of Directors of the Central Bank of Kuwait in its meeting held on 12/10/1997, deposits in the form of balances with the Central Bank of Kuwait (current account or deposits) in addition to Kuwaiti Treasury Bills and Bonds, or any other financial instruments issued by the Central Bank.

Annexed to these instructions is the Form designed for this purpose. Your bank shall complete this form and submit it to the Central Bank of Kuwait on a weekly basis, according to the liquidity data, as of the week ending on 10/6/2004.

With my best regards,

**SALEM ABDUL AZIZ AL-SABAH**

(1) The ratio was reduced to 18% pursuant to circular No. (2/BS/234/2008) issued on 4/12/2008.

(2) KD deposits received by local banks from government and semi-government agencies and institutions within the framework of financing the investment companies to rectify their liquidity positions, were excluded from total customers KD deposits when calculating the subject ratio, pursuant to circular No (2/BS/234/2008) issued on 4/12/2008.

\* Excluding Islamic banks

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**2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

D- Circular No. (2/BS/162/2004), issued by decision of the Board of Directors of the Central Bank of Kuwait on 6/6/2004, amending the instructions issued to all local banks on 14/10/1997 concerning the Liquidity System according to the Maturity Ladder approach.

**Central Bank of Kuwait  
Supervision Sector  
Offsite Supervision Department  
Banking and Financial Statistics Section**

**Ratio of Balances with the Central Bank of Kuwait (current and deposits),  
Government Treasury Bills and Bonds or any other financial instruments  
issued by Central Bank of Kuwait to customers' KD-deposits**

on \_\_\_\_/\_\_\_\_/\_\_\_\_

<b>Bank's Name</b>	<b>In thousand KD</b>	
	<b>Item</b>	<b>Value</b>
	1 - Balances with the Central Bank of Kuwait - Balance of current account in KD - Balance of time deposits in KD	
	2 - Balance of Kuwaiti Treasury Bills	
	3 - Balance of Kuwaiti Treasury Bonds	
	4 - Any other financial instruments issued by the Central Bank of Kuwait - - -	
	5 - Total (1+2+3+4)	
	6 - Customers' deposits in KD	
	7 - Ratio (5/6)	

**General Manager**

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**2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

D- Circular No. (2/BS/162/2004), issued by decision of the Board of Directors of the Central Bank of Kuwait on 6/6/2004, amending the instructions issued to all local banks on 14/10/1997 concerning the Liquidity System according to the Maturity Ladder approach.

**DEPUTY GOVERNOR**

*Rajab 5, 1416 H  
August 10, 2005*

**THE CHAIRMAN,**

**“Circular to all local banks”**

Banking indicators show liquidity surpluses within the banking system with the result of generating downward pressures on the KD interest rates in the market, and accordingly on the rates of interests paid by banks on private sector KD deposits, with the consequent emergence of a shifting trend in the margin between interest rates on KD deposits and interest rates on FC deposits, particularly the US dollar, to the favor of the latter. This trend is increasing and expanding.

Given the potential negative implications of this trend on the national economy if it persists, Central Bank of Kuwait has decided to interfere in the money market towards withdrawing the liquidity surpluses through the monetary instruments it deems appropriate.

Central Bank of Kuwait will closely and constantly follow-up banks' manner of pricing KD deposits in the light of the intervention rates it is going to implement in this respect. Central Bank of Kuwait will stop intervening and dealing with any bank that does not re-price its KD deposits consistently with the official interest rates, particularly interest rates on money market instruments which Central Bank of Kuwait will be using to absorb liquidity surpluses.

With my Best regards,

**Dr. Nabeel Al-Mannae**

**THE GOVERNOR**

*Thu Al-Hijja 6,1429H  
December 4, 2008*

**THE CHAIRMAN,**

**Circular to all local conventional banks  
No. (2/BS/234/2008)**

This has reference to Central Bank of Kuwait circulars dated 14/10/1997 and 8/6/2004, obliging local banks to maintain 20% of their KD customer deposits in the form of balances with Central Bank of Kuwait (current or deposits), in addition to Kuwaiti treasury bills and bonds, or any other financial instruments issued by Central Bank of Kuwait.

I would like to advise you that on 2/12/2008 the Board of Directors of Central Bank of Kuwait resolved as follows:

- 1) Reducing the above ratio to become 18%.
- 2) Excluding the KD deposits received by banks from government and semi-government institutions, within the framework of the investment companies' financing program to rectify their liquidity positions, from the total KD customer deposits, when calculating the above ratio.

Best Regards,

**SALEM ABDUL AZIZ AL-SABAH**

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**2-RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM.**

- F- Circular No.(2/BS/234/2008) concerning Central Bank of Kuwait Board of Directors' resolution of 2/12/2008 on amending the approach and ratio of customers KD deposits to be held by banks in the form of balances with Central Bank of Kuwait (current or deposits), along with Kuwait Treasury Bills and Bonds or other financial instruments issued by Central Bank of Kuwait.