

**17- EXECUTIVE PROCEDURES OF THE RULE OF ITEM(2)
OF ARTICLE (57) CONCERNING THE INCREASE
OF OWNERSHIP PER PERSON FOR 5%
OF THE BANK CAPITAL**

- A) Circular No. (2/BS/154/2004) regarding The Executive measures of the provisions of amended item (2) of article (57) of the law No. (32) of year 1968.

- B) Circular No. (2/BS/171/2004) concerning the mechanism for implementing of the provisions of amended item (2) of article (57) of the law No. (32) of year 1968, in connection with all the parties concerned with the provisions of mentioned item.

GOVERNOR

*Safar 16, 1425 H
April 6, 2004*

THE CHAIRMAN,

Circular No. (2/BS/154/2004)

To all local banks regarding the executive measures of the provisions of amended item (2) of article (57) of the law No. (32) of year 1968⁽¹⁾

I wish to inform you that according to the provisions of Item (2) of Article (57) of the Law No. (32) of Year 1968, concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business, by virtue of the Law No. (28) of Year 2004, the Board of Directors of the Central Bank of Kuwait issued a decision on 4/4/2004, regarding the executive measures regulating the fulfillment of that Article' provisions. Copy of that decision is attached thereto.

With regard to the mechanism for following up the abidance by the provisions of the mentioned Article, the Board of Directors of the Central Bank of Kuwait has endorsed the following regulations:

- 1) Local banks shall present data on their shareholders (natural or juristic persons) whose ownership – whether direct or indirect – exceeds 5% of the bank's capital, according to the attached form, on a quarterly basis (March, June, September and December). Statement of cases existing before the application of the Law No. (28) of Year 2004 (issued on 15/3/2004) shall be presented within a week of this date.

The following shall be observed in this regard:

A -Statements shall be prepared according to the records on bank's shareholders and the clearing company's data, and include all information on investors in portfolios managed by third parties owning shares in the bank. The statement shall also be prepared according to the bases and rules issued by the Central Bank of Kuwait with regard to the definition of the concept of indirect ownership. The bank shall also ascertain cases of indirect ownership through all means available in this regard, including obtaining declarations from shareholders with more than 1% ownership, to the effect of disclosing all connected parties (according to the above mentioned bases and rules). Banks shall be responsible for verifying all data and information disclosed by shareholders in this regard.

(1) Circle to all local banks of 14/12/2004 concerning the mechanism from Central Bank Board of Directors for implementing the rules of item (2) of article (57) of the law No. (32) of year 1968.in connection with all the parties concerned with the provisions.

17 EXECUTIVE PROCEDURES OF THE RULE OF ITEM(2) OF ARTICLE (57) CONCERNING THE INCREASE OF OWNERSHIP PER PERSON FOR 5% OF THE BANK CAPITAL

A) Circular No. (2/BS/154/2004) regarding The Executive measures of the provisions of amended item (2) of article (57) of the law No. (32) of year 1968.

B -The Central Bank of Kuwait shall be informed of cases of ownership by governmental bodies, and bodies with attached and independent budgets, exceeding 5% of the bank's capital, and which necessitate prior approval of the Central Bank of Kuwait, on completion of the ownership transfer procedure.

- 2) In cases where individual ownership exceeds 5%, for any reason (debt recovery, inheritance), the concerned bank and individual shall present all relevant data and information on completion of the ownership transfer procedures, according to the above mentioned form. Excess ownership above the set limit shall be disposed of during the period defined by the attached decision of the Board of Directors of the Central Bank of Kuwait.
- 3) Banks shall abide by the provisions of Item (2) of the amended Article (57) of the Law No. (32) of Year 1968, according to which a shareholder shall not avail of the excess equity for which no approval was issued by the Central Bank of Kuwait, in regard to voting rights in the bank's General Assembly and directing the bank.
- 4) Banks shall ensure that the Central Bank of Kuwait's approval of ownership exceeding 5% by those nominated to membership of the Board has been obtained, when presenting the application for approval of these nominees, according to the provisions of Article (68) of the Law No. (32) of year 1968, and the decision of the Board of Directors of the Central Bank of Kuwait in this regard. An item shall be included in the application form for nomination to the Board's membership at the bank's, wherein the nominee shall state his percentage of the bank's ownership (direct or indirect).

Your bank shall, therefore, abide by the decision of the Board of Directors of the Central Bank of Kuwait, and the regulations concerning the mechanism of following up the abidance by the provision of Item (2) of the above mentioned amended Article (57) of the Law No. (32) of Year 1968.

With my best wishes,

SALEM ABDUL-AZIZ AL-SABAH

17 EXECUTIVE PROCEDURES OF THE RULE OF ITEM(2) OF ARTICLE (57) CONCERNING THE INCREASE OF OWNERSHIP PER PERSON FOR 5% OF THE BANK CAPITAL

A) Circular No. (2/BS/154/2004) regarding The Executive measures of the provisions of amended item (2) of article (57) of the law No. (32) of year 1968.

**Decision of the Board of Directors of the Central Bank of Kuwait
on the executive procedures applicable to the Provisions of
Item (2) under Article (57) of law No. (32) of year 1968,
amended by law No. (28) of year 2004**

Item (2) under article (57) of law No. (32) of year 1968, concerning Currency, the Central Bank of Kuwait and the Organization of Banking Business, amended by law No. (28) of year 2004, stipulates the following:

“ Unless by prior authorization of the Central Bank, the direct or indirect ownership by any single natural person or legal entity in a Kuwaiti bank shall not exceed five percent of the bank’s capital. Governmental bodies and bodies with independent or attached budgets are exempted from these provisions. Where single ownership exceeds the above percentage for any reason whatsoever, the concerned natural person or legal entity shall dispose of the excess within the period defined by the Central Bank. Violation of this provision results in the shareholder not availing of the excess equity in regard to voting rights in the bank’s General Assembly and directing the bank. The Board of Directors of the Central Bank shall lay down the bases and rules defining the concept of indirect ownership. The provisions of this Article do not apply to cases existing before the application of this Law ”.

Accordingly, the Board of Directors of the Central Bank of Kuwait (CBK), in its meeting on 4/4/2004, decided the following:

First: Principles and rules defining the concept of indirect ownership, according to the provisions of item (2) under Article (57) of Law No. (32) of Year 1968, and amendments thereof:

Within the application of the provisions of Article (57) of Law No. (32) of Year 1968, and amendments thereof, the concept of indirect ownership is defined as “ownership by parties economically or legally connected to the investor, be the latter a natural or juristic person, and whether such connection derives from joint ownership, joint management or related interests”.

Joint ownership and joint management signify any economic or legal connection through joint ownership and joint management. The following are considered cases of joint ownership and joint management:

- 1- Shares held by the investor in one bank, in his personal capacity or in the capacity of natural guardian of his underage children.

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- 2- Shares held by individual proprietorships which are owned by the investor, or shares held by companies in which the investor is a joint partner.
- 3- Financial companies in which the investor holds more than 50% of the capital and over which it has control, according to International Accountancy Standards.
- 4- Any party with economic or legal connections to the investor that allow the latter the exercise of control, according to International Accountancy Standards.

Related interests signifies interests that allow one party to exercise control or significant influence over another in making financial or operating decisions, or an alliance of a group of parties. The following are considered related interests:

- 1- Relationship between board members of the company seeking equity acquisition in the bank, and the company's principal owners and shareholders (that is, those holding more than 5% of the investing company's capital).
- 2- Holders of managerial positions in the company seeking equity acquisition in the bank (that is, the company's chief executive officer and deputies and assistants thereof, the company's executive directors and those in equivalent positions).
- 3- Subsidiary companies: companies in which the company seeking equity acquisition in the bank holds more than 50% of the capital, or over which it has control.
- 4- Sister companies: companies in which the company seeking equity acquisition in the bank holds 20% of the capital, or over which it exercises significant influence.
- 5- Existence of a declared or undeclared alliance between two parties or a group of parties.

Second: Requirements to be met by the party seeking equity acquisition, for obtaining Central Bank of Kuwait authorization to hold more than 5% of a Kuwaiti bank's capital, according to the amended text of Article (57) of law No. (32) of Year 1968:

Any single person, natural or juristic, Kuwaiti or non-Kuwaiti (other than governmental bodies and bodies with independent or attached budgets) seeking to hold an equity share of more than 5% in any Kuwaiti bank, shall submit to Central Bank of Kuwait, 60 days ahead

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of the date of the share acquisition process (calculated from the date of fulfilling all required data and information), **an application presenting all data of relevance to the equity acquisition process, and the equity share sought to be held in the bank**, along with the following attachments:

- 1- Statement of personal history and data concerning the party seeking equity acquisition in the bank (name, address, nationality, activity, legal form, educational qualifications and practical experience of the natural person, ...etc.) and information on other personal aspects, according to a form established for that purpose.
- 2- Statement of names of all other parties that are shareholders of the bank in which equity acquisition is sought, and that are connected to the party seeking acquisition, whether such connection is through ownership, joint management or related interests (according to the principles and rules approved by Central Bank of Kuwait Board of Directors regarding the definition of the ownership concept). The statement shall also highlight all details concerning the equity held by the above mentioned parties in the bank, such as the number of shares, the ratio of their value to the bank's capital, and dates and means of their acquisition (establishment stage, public subscription, purchase from secondary market, debt recovery, inheritance, will, etc.), along with full details on connected parties (name, address, nationality, activity, etc.).

The statement shall also disclose all alliances between the party seeking equity acquisition and any other party, be that alliance declared or undeclared. Where such alliance does not exist, the party seeking equity acquisition in the bank shall submit a statement to that effect, including a commitment to inform Central Bank of Kuwait of any alliances it may form with any other party in the future.

- 3- Judicial persons shall submit audited financial statements regarding their financial position, based on the last three years financial statements endorsed by the regulatory authority (if available).
- 4- Detailed study clarifying the purpose of equity acquisition, and providing information on planned structural changes (financial and administrative) in the bank where equity acquisition is sought, and the justifications for such changes.
- 5- Any other information requested by Central Bank of Kuwait upon reviewing each case individually.

¹⁷ EXECUTIVE PROCEDURES OF THE RULE OF ITEM(2) OF ARTICLE (57) CONCERNING THE INCREASE OF OWNERSHIP PER PERSON FOR 5% OF THE BANK CAPITAL

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Third: Period during which the excess single ownership of a Kuwaiti bank's capital above the defined maximum limit (5%) shall be disposed of:

- 1- In cases where exceeding the single ownership limit was unintentional, due to unobtainable Central Bank of Kuwait's prior permission, such as in cases where such excess ownership resulted from debt recovery, or was through a will or by inheritance, any excess single ownership (whether direct or indirect) of a Kuwaiti bank's capital in breach of item (2) under Article (57) of Law No. (32) of year 1968 and amendments thereof, shall be disposed of **within two years as of the date of acquisition**. The owner may, during that period, apply for Central Bank of Kuwait's permission –according to the established rules- to exceed the 5% ownership limit of the bank capital. It is noted that disposal of excess ownership during the set time limit shall be abided by, in case Central Bank of Kuwait's permission is not granted.
- 2- For other cases of excess single ownership, such as those resulting from purchase or merger operations, etc, the excess single ownership (whether direct or indirect) of a Kuwaiti bank's capital must be disposed of **within a year of the date of acquisition**.

In all cases of excess ownership (intentional or unintentional), the concerned shareholder shall not avail of the excess equity in regard to voting rights in the bank's General Assembly and directing the bank, during the allowed time limit for disposal of excess ownership.

4/4/2004

17 EXECUTIVE PROCEDURES OF THE RULE OF ITEM(2) OF ARTICLE (57) CONCERNING THE INCREASE OF OWNERSHIP PER PERSON FOR 5% OF THE BANK CAPITAL

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**Statement of Shareholders with more than 5% Participation
In the Bank's Capital**

Bank:

Investor Name:

Number of issued shares:

Investors And Connected Parties ⁽¹⁾	Legal form	Date of ownership ⁽²⁾	Method of Ownership ⁽³⁾	Number of owned Shares	Percentage of ownership	Date of CBK's approval ⁽⁴⁾	Remarks ⁽⁵⁾
First: Direct Ownership Data:							
Second: Indirect Ownership Data⁽⁶⁾: A-Names of parties connected through joint ownership and management: 1- 2- 3-							
Total (A)							
B- Names of parties with interconnected interests: 1- 2- 3-							
Total (B)							
Total (A+B)							
Total direct and Indirect Ownership (First + Second)							

- (1) Statements shall be prepared according to the records on bank's shareholders and the clearing company's data, and include all information on investors in portfolios managed by third parties owning shares in the bank.
- (2) Date of ownership exceeding 5% of the bank's issued capital
- (3) Method of ownership (establishment period, public subscription, purchase from secondary market, debt recovery, inheritance, will, others).
- (4) Date of approval of ownership exceeding 5% of the bank's issued capital.
- (5) Clarification is required under the 'Remarks' column for the following cases:
 - Cases of ownership existing before application of the amendment to the Law (15/3/2004), and cases of ownership exempted from the Central Bank of Kuwait's prior approval (governmental bodies, and bodies with attached and independent budgets), along with providing the date of informing the Central Bank of Kuwait of data and information concerning these cases.
 - Cases where individual direct or indirect ownership exceeds 5%, where excess ownership be disposed of during the period defined by the Central Bank of Kuwait, along with defining the portion remaining of that period.
- (6) According to the bases and rules issued by the Central Bank of Kuwait with regard to the definition of the concept of indirect ownership. The bank shall also ascertain cases of indirect ownership through all means available in this regard, including obtaining declarations from shareholders with more than 1% ownership, to the effect of disclosing all connected parties (according to the above mentioned bases and rules). Banks shall be responsible for verifying all data and information disclosed by shareholders in this regard.

GOVERNOR

*Thu Alqi'da 2, 1425 H
December 14, 2004*

THE CHAIRMAN,

Circular No. (2/BS/171/2004) to All Local Banks

This has reference to the Central Bank of Kuwait circular of 6/4/2004 and the attached copy of Central Bank of Kuwait Board of Directors resolution passed at its meeting of 4/4/2004 regarding the executive procedures regulating the rules of item (2) of Article (57) of Law No. (32) for year 1968 amended by law No. (28) for year 2004, which provides that “the ownership of anyone single person in any Kuwaiti bank may not exceed 5% of the capital of the bank without the prior approval of the Central Bank of Kuwait”.

The above mentioned circular included the regulations for the mechanism approved by the Central Bank of Kuwait Board of Directors for following up compliance with the rules of the subject item (2), including banks obligation to provide the Central Bank of Kuwait with the data on their shareholders whose ownership percentage exceeds 5% of the capital of the bank, the manner and periodicity of preparing these data and supplying them to Central Bank of Kuwait, and banks commitment to prevent a shareholder from availing of the amount of excess in relation to voting rights and management of the bank, if the Central Bank's prior approval is not obtained.

Further to the above, the Central Bank of Kuwait Board approved at its meeting of 12/12/2004 a mechanism for implementing the rules of item (2) of Article (57) referred to above, with all parties for implementing of the item, This mechanism divides the investors in Kuwaiti banks capitals into 3 segments :

- First Segment : Owners of more than 5% upto less than 10%:

The investor who owned a percentage within the above range before the effective date of Law No. (28), or after its effective date with the approval of the Central Bank, is permitted to re-instate the percentage of his ownership to its previous level in case it drops within 1% of the capital, without the need for the Central Bank of Kuwait approval. In case ownership drops by more than 1% of the capital, the Central Bank of Kuwait approval must be obtained for reinstating ownership to its previous level.

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- Second Segment : Owners of 10% upto less than 25%:

The mechanism for this segment is similar to that of the first segment, except for the permission for the investor to re-instate his ownership to its previous level, without the need for the Central Bank of Kuwait approval, if the drop does not exceed 2% of the capital.

- Third Segment : Owners of 25% and above :

The mechanism for this segment is also similar to that of the first segment, except for the permission for the investor to re-instate his ownership to its previous level, without the need for the Central Bank of Kuwait approval, if the drop does not exceed 3% of the capital.

Kindly take the necessary actions in observance of the above, and please advise your shareholders of the mentioned mechanism.

With my best wishes,

SALEM ABDUL-AZIZ AL-SABAH

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