

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

- A) Instructions concerning rationalization and organization of Islamic banks finance policy.
- B) Instructions concerning finance transactions accorded by Islamic banks for financing shares trading on Kuwait Stock Exchange .
- C) Rules and regulations to be observed by Islamic banks in respect of finance accorded to their board members
- D) Instructions concerning the extension of finance in KD to non-residents.
- E) Circular regarding finance transactions accorded for the execution of works and projects outside Kuwait.
- F) Instructions concerning the application of a maximum limit of 80% for the finance portfolio/deposits ratio.
- G) Instructions No. (2/BS,IBS/211/2007) concerning the amendment of the method of calculating finance portfolio/deposits ratio.
- H) Circular No. (2/BS, IBS/224/2008) concerning the increase of the ratio of net credit facilities portfolio to deposits from 80% to 85%.
- I) Circular No. (2/BS, IBS/227/2008) concerning banks' financial transactions with investment companies.
- J) Circular on the general rules to be followed when banks extend the finance required for rectifying the conditions of local investment companies, under the local investment companies support program.
- K) Circular No. (2/IBS/231/2008) to all Islamic banks concerning the emphasis of the requirement of reducing the rates of return on finance, in line with the reduction of the discount rate.

- L) Circular concerning the resolution to grant exemptions on some regulatory ratios within the framework of extending the finance required to rectify the conditions of the local investment companies.
- M) Circular No. (2/BS, IBS/233/2008) directing banks to enhance the collaterals submitted by customers against credit facilities / finance transactions.
- N) Circular No. (2/BS, IBS/235/2008) requesting local banks to engage external auditors for carrying out a special audit on the banks' derivatives deals activity, and to submit the external auditors' report along with the audited annual financial statements.
- O) Circular No. (2/IBS/236/2008) stressing the requirement to reduce the rates of return on finance, in line with the Central Bank of Kuwait's resolution to reduce the discount rate with effect from 8/10/2008.

**Instructions No. (2/IBS/146/2003) Concerning The
Rationalization and Organization of Islamic Banks Finance Policy**

Setting-up the credit policy is the responsibility of each individual bank, which should take into account the relevant laws and instructions, the resolutions of the Shareea'a Supervisory Board, as well as the established banking rules and conventions, in a manner creating consistency between the various elements of the finance transactions and the return anticipated therefrom, so as to achieve the bank's objectives and future plans.

Based on the rules Articles (71) and (97) of Law No. (32) of the year 1968 Concerning currency, The Central Bank of Kuwait, and the Organization of Banking Business and the Laws issued in amendment thereof, the Central Bank Board has decided to issue the following instructions concerning the rationalization and organization of Islamic banks finance policy, which all Islamic banks registered with Central Bank of Kuwait are required to comply with:

First: The finance policy addresses the bank's activity in the field of investment with and finance to customers by using the investment formulas that comply with the rules of the Islamic Shareea'a, whether in the form of cash transactions in which the banks extends funds directly to the customer for the execution of these transactions (such as Musharaka and Mudaraba, which are some of the forms of investment with customers), or in the form of assets (such as Murabaha and lease financing), or in the form of non-cash transactions that create contingent liabilities on the part of the banks, such as letters of guarantee, warranties, letters of credit and acceptances.

Second: Islamic banks must operate in accordance with the rules of the Islamic Shareea'a, and must comply with the Fatawa (Shareea'a opinions) and the resolutions issued by the shareea'a supervisory board in the bank with respect to all investment and finance transactions with customers.

Third: Islamic banks have to comply with the following rules in relation to investment and finance transactions with customers:

- 1) Written contracts or agreements must be concluded between the bank and the customer applying for investment or finance.

- 2) While observing the nature of Islamic investment and finance formulas, the contracts must specify the beginning and the end of the transaction. Islamic banks may not enter a party to investment and finance transactions of indefinite term, so that the bank can manage its assets and liabilities and its liquidity conditions in the required manner.
- 3) The contracts must specify the purpose for which the investment or finance is extended, so that both parties comply therewith. This stipulation applies to all types of these transactions, whether those where finance is directly extended to the customer (such as Musharaka and Mudaraba), or those where bank acquires the assets first (such as Murabaha for the order of the applicant for purchase and lease financing).
- 4) It must be expressly stated in the contracts concluded with the customers that, in the event the customer breaches any of the finance approval conditions during the execution period of the transaction, including the use of the funds extended for the investment or the finance for the purpose it was granted for, the investment or the finance will be deemed as promptly due and payable, in which case the bank will have the right to take the necessary actions for immediately collecting it. In cases where the assets constituting the subject of the transaction remain the property of the bank (such as lease financing), the contract must expressly provide for the bank's right to recover those assets and for binding the customer to compensate the bank for any consequent losses the bank incurred.
- 5) For finance transactions which require the bank to acquire assets for execution of the transaction at the customer's request, such as in the cases of Murabaha to the order of the applicant for purchase, or the lease financing, or those transactions which create liabilities or costs for the bank before executing the transaction, the rule of "binding promise" will be applied, where the customer will be bound to compensate the bank for any costs or losses the bank incurs as a result of the customer's failure to complete the transaction after the bank duly fulfilled its commitment according to the initial agreements. This must be provided for in these agreements as well as in the final contracts for the transactions which execution takes sometime period (such as lease financing and Istisna'a).

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

A) Instructions concerning rationalization and organization of Islamic banks finance policy.

- 6) The investment and finance transactions contracts must include a clause in which the customer undertakes to disclose the names of the parties economically or legally interrelated with him (as per the definition included in the instructions concerning the maximum limit for anyone single customer's liability to an Islamic bank), but without referring to the creditor or debtor position of these parties. The bank will be responsible for ascertaining the correctness of the data and information disclosed by the customer in this regard, as well as for investigating whether the parties disclosed by the customer are to be included or not in the calculation of the finance concentration ratio according to the above mentioned instructions.

Fourth: The bank's finance policy must be written and approved by board of directors of the bank, and must comprise the following rules and regulations, as a minimum.

A) Investment or Finance Applications (New - Renewal - Increase)

In order for considering the applications for granting, renewing or increasing investment or finance limits, and while observing the nature of requested investment and finance formulas, they must be submitted on proper forms which shall include all the basic data . The policy of the bank must specify the documents required to be submitted by the customer, and must stress the importance of observing accuracy upon filling-up the data of such forms. The form should at least include the following information:

- Size and formula of the requested investment or finance.
- Purpose of the investment or finance.
- Repayment sources and / or method.
- The customer's basic data (Legal Status, Address of the Head Office, Nature of the Business,... etc)>
- Other banks and financial institutions with which the customer deals, and size of the facilities and/or investment or finance transactions obtained therefrom.
- Detailed statement of the collaterals that can be accepted (in kind and personal).

- The customer's financials must be attached to the form, and shall include the latest financial position and statement of the projected cash-flows for the following business period, detailing the projected cash inflows and outflows for the requested finance period. For legal persons, the last two audited balance sheets also must be attached, excluding those companies which have not yet issued their balance-sheets because they have been newly established.

B) The study prepared on the investment or finance requested from an Islamic bank :

The process of granting, renewing and increasing the investment and finance must be subject to an integral credit review of the feasibility of the investment or finance, and must take into account the nature of offered investment and finance formulas, while observing the following rules :

- Thorough review of the customer's financial position and cash-flows for identifying his actual financial position and analyzing his operating results. The bank must obtain detailed data on the income and expenditure items and a report on the history of the relation with the customer, for the purpose of assessing the customer's solvency and the extent of ability to meet his obligations on their maturity dates.
- Study of the purpose for which the investment or finance is requested, so as to ascertain that the type, size and currency of the investment or finance are consistent with the purpose intended to be financed or invested in, and that such a purpose is in line with the general policy of the bank. In the cases where the investment or finance directly extended to the customer is in foreign currencies, the bank has to study the extent of need for the foreign currencies requested by the customer for financing the subject activity. The bank must also ascertain the availability of repayment sources in those currencies.
- The bank must give due attention to the customer's reputation and his ability to manage his business and to absorb any problems he may encounter in practicing this business, while taking into account the need to balance between the customer's size of business and his ability to manage it, so as to avoid any situations of exaggerated trading and its negative consequences on the customer, and accordingly on the bank.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

A) Instructions concerning rationalization and organization of Islamic banks finance policy.

- The study must also include the customer's basic data which are mentioned in the investment or finance application, the outcome of the enquiry made on the customer, and the opinion regarding the extent to which the investment or finance granted by the banking and financial system is proportionate with the customer's own resources and his overall capabilities.
- Detailed statement of the collaterals to be required from the customer, whether against the liabilities and dues resulting from the transactions and/or to guarantee non-default or non-negligence from the part of the customer, depending on the nature of the investment or finance transactions, with a new evaluation of such securities. Services of specialized firms may be utilized for evaluation of the assets which nature so requires.
- The recommendation to approve or decline the customer's request must rely upon clear and specific justifications. And the conditions of the investment or finance must include the documents which the customer is required to sign or submit.

C) Follow-Up of The Financed Transactions

Taking into account the nature of investment and finance transactions, the Islamic bank must comply with the following rules:

- The Bank is required to develop a system for regular follow-up of the granted investment and finance transactions, based on the nature of those transactions. In such a system, there must be a segregation between the organizational unit which has conducted the study and those who are following-up the transactions .
- The follow-up system must encompass all the matters relevant to extent of the customer's satisfaction of approval's conditions, the transactions in the customer's accounts whether in the form of using the investment or finance, or as repayment of the payments and the amounts due, and the assurance that the granted investment or finance, especially in FC, has been used for the purposes they have been accorded for.
- All investments or finance transactions granted to the customer must be reviewed regularly. It should be observed that the developments of the customer's financial position must be

followed-up through updated financial statements. Existing collaterals must be revaluated. The investment or finance granted to the customer, may not be renewed and / or new transactions may not be concluded automatically.

- The limits granted to the customers must be abided by. The excess should be within the excess approval delegated authorities, and must be kept to the narrowest limits as temporary, and should be repaid within a short period of time. In case of customer's non-compliance to repay the excess within this period without an acceptable reason, excess will not be allowed for the same customer again .

D) General Rules :

- 1- Officers in charge of investment and finance transactions with customers must be chosen on the basis of experience and capability to discharge duties of such positions of special nature.
- 2- The Islamic bank must observe, to the extent possible, the match between the funds sources and their utilizations, specially in terms of tenor, in a manner which guarantees avoidance of any financing gaps which may adversely impact the bank's liquidity conditions.
- 3- The bank must develop a system for finance approval powers, which shall include formation of various committees and clear and precise definition of their mechanism and the authorities delegated to them, as well to various management levels encharged with investment or finance approval decisions. Controls must be established to govern exceptions to such authorities and the excesses in the customers transactions accounts.
- 4- Upon approval, renewal or increase of the extended investment or finance, the bank must :
 - A) Take into account the data prepared by the Banking Supervision Sector of Central Bank of Kuwait concerning the statements of Centre of Risks data.

- B) Conduct enquiries on the customers and re-conduct such enquiries on regular basis during the validity period of the accorded investment or finance transactions, so as to follow-up the development of the elements influencing the accord of investment or finance, particularly in relation to customer's reputation and ability to manage his business.
- 5- Personal guarantees should not be the prime element in granting, renewing or increasing the investment or finance transactions with the customer, as that must be resolved in the light of an integrated study explaining feasibility of the accorded investment or finance, and which takes into account the soundness of the customer's financial position, the availability of repayment sources for the payments and amounts that fall due to the bank, collaterals submitted and other considerations.
- 6- The finance risks (credit risks, financial risks), which the bank might encounter, shall be kept to minimum possible level through the following steps :
- A) Distribution of the risks to a wide customer-base, taking into account the Central Bank instructions concerning the maximum limit of anyone single customer's liabilities towards an Islamic bank.
 - B) Diversification of the investment and finance portfolio and distribution thereof into various sectors of the economy. Maximum limits must be established for various types of investment and finance transactions in the light of the general policy of the bank and its objectives, and while observing Central Bank of Kuwait instructions in this regard.
 - C) Setting maximum risks limits for the external investment and finance transactions, taking into account, the nature of the risks connected with each country apart.
- 7- The bank is required to take the appropriate measures to ensure that various managerial levels are strictly compliant with the implementation of the finance policy. The bank should also:

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

A) Instructions concerning rationalization and organization of Islamic banks finance policy.

- A) Periodically review the finance policy and effect the necessary amendments thereto in light of the bank's general policy and market conditions and developments, while observing any instructions passed by the Central Bank in this respect.
- B) Provide the Central Bank with an updated copy of the bank's finance policy, as well as with any future amendments to such a policy.

8- Necessary actions must be taken to ensure absolute accuracy when banks classify investment and finance transactions by economic sectors and by the purpose for which they are accorded, so that the data submitted to the Central Bank reflect the correct classification of the investment and finance transactions with their customers.

Fifth: Central Bank's prior approval must be obtained before launching any Islamic investment and finance formulas other than those included in the Islamic banks statement of financial position defined by the Central bank (Musharaka – Mudaraba – Murabaha – Musawama – Istisna'a – Ijara or Lease financing), and while observing that the proposed formula has been approved by the bank's Sharee'a Supervisory Board before approaching the Central Bank.

Sixth: These instructions shall be in effect from the date of their notification.

**INSTRUCTIONS NO. (2/IBS/98/2003)
CONCERNING THE FINANCE TRANSACTIONS EXTENDED BY
THE ISLAMIC BANKS FOR FINANCING SHARES TRADING
TRANSACTIONS ON KUWAIT STOCK EXCHANGE (*)**

First: Regulations for finance transactions extended by Islamic banks for purchase of shares:

- 1) The banks are required to treat the all types of finance transactions extended for the purpose of buying shares, according to the same bases and rules applicable to the finance transactions extended for other purposes. The banks are also required to fully adhere to Central Bank of Kuwait instructions, regarding the rationalization and organization of the Islamic banks finance policy.
- 2) Banks are required to diversify the collaterals obtained against the finance facilities extended for the purchase of the shares, as the banks should not rely only upon the pledge of the shares which purchase is being financed. Such collaterals should be regularly revaluated in order to ascertain their sufficiency for offsetting the risks of default.
- 3) The maximum size of the finance transactions utilized for financing buying of shares on Kuwait Stock Exchange shall not exceed the lower of 10% of the total finance portfolio extended to the resident customers or 25% of the bank's capital in its comprehensive concept (as per the rules of the instructions passed on the capital adequacy ratio for Islamic banks) whatever is less.

Exempted from the above ratios are the finance transactions extended by the Islamic banks for the purpose of financing shares purchasing transactions within the privatization programme, whether through auction or public subscription, while observing the rules of item No. (4) of these instructions.

- 4) Upon granting finance within the framework of the privatization programme, banks are required to adhere to the bases and rules mentioned under the instructions relating to the rationalization and organization of Islamic banks finance policy, in particular those instructions requiring banks to conduct a complete and integral study, as well as to specify the purpose of the transactions,

(*) This paragraph was amended by virtue of the Central Bank of Kuwait Boards approval on 15/6/2003.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

B) Instructions concerning finance transactions accorded by Islamic banks for financing shares trading on Kuwait Stock Exchange .

determine the size of the required finance precisely, the tenor of the transactions and sources of repayment, in the light of the study of the customer's conditions. Banks should not allow the excess of the authorized limit. In case of shares purchase through auction, the feasibility of the granted finance must be checked, in the light of the study presented by the customer on the economic feasibility of purchasing a large stake in a certain company.

5) Banks are prohibited from utilizing customers funds, within their management of third parties funds, in extending finance to shares trading transactions on Kuwait Stock Exchange.

Second : Islamic banks must provide the Central Bank with monthly data on finance transactions directed to trading shares listed on Kuwait Stock Exchange. The data must be submitted within five business days from the date taken as a basis for preparing the statement.

Third: These instructions shall be in effect from the date of their notification.

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

(Monthly Statement)

**Statement of Finance Transactions for Financing Trading of
Shares Listed on the Kuwait Stock Exchange**

As at / /

Bank Name (Islamic Banks):

(Amounts in 000' KD)

S.	Description	Balance Granted	Balance Utilized	Collaterals Available		Number of customers
				Kind	Market value	
1	Murabaha					
2	Mudaraba					
3	Musharaka					
4	Other financing formulas*					
5	Total (1+2+3+4)					
6	Finance granted to finance privatization transactions					
7	Grand total (5+6)					

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

* Determines its kind

**Instructions No. (2/IBS/99/2003)
Concerning the rules & regulations Islamic banks have to
adhere to in respect of finance transactions extended
to the bank's Board Members^(*)**

Introduction

Taking into account the rules of Article (69) of the Law No. 32 of the year 1968, Concerning the Currency, Central Bank of Kuwait and Organization of the Banking Business, and with reference to the Central Bank's instructions related to rationalization and organization of the Islamic banks finance policy and the instructions establishing the maximum limit for anyone single customer's liabilities towards an Islamic banks.

The present rules and regulations, which have been passed in line with the international regulatory trends concerning the organization of the banks finance to the members of their board directors, aim at ensuring that the finance extended to members of the board directors do not involve any exceptional risks which would adversely affect the bank's financial position, and that no preferential privileges are granted to such directors by virtue of their positions.

First : Implementation Scope Of These Instructions :

These instructions are applicable to all forms of finance granted to the bank's board member or to any parties economically or legally interrelated with him, whether such a relation is through common ownership or common directors, in the manner mentioned in Central Bank of Kuwait Instructions concerning the maximum limit for anyone single customer's liabilities towards an Islamic bank.

Second : Definition Of The Finance Transactions:

For the purpose of implementing these instructions, finance transactions shall mean those finance transactions granted by the bank's head office, its domestic and overseas branches and affiliates, including the following:

1. Cash Finance Transactions

These are the transactions for which execution the bank extends cash money directly to the customer (such as Musharaka and Mudaraba transactions) or in the form of assets (such as Murabaha and lease financing) .

(*) This paragraph was amended by virtue of the Central Bank of Kuwait Boards approval on 15/6/2003.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

C) Rules and regulations to be observed by Islamic banks in respect of finance accorded to their board members

2. Non-Cash Finance Transactions

These are the transactions which create contingent liabilities on the part of the bank, including :

- a) Documentary Letters of Credit (L/C's).
- b) Letters of Guarantee (L/G's).
- c) Bank Acceptances.
- d) Other commitments of similar nature.

Third: The Conditions to Be Fulfilled In The Finance Granted to the Board Members :

- 1- There should be a prior approval from the bank's annual general meeting to its Board of directors, to extend finance to the board members as per the rules of Article (69) of the Law No. (32 of the year 1968) Concerning the Currency, Central Bank of Kuwait and Organization of the Banking Business.
- 2- The finance extension, renewal or increase to a board director must be under a Board approval by majority of at least 3 quarters of its members. The board of directors may not delegate its powers in this regard to any of its sub-committees or any other authority.
- 3- Compliance with Central Bank of Kuwait instructions concerning the maximum limit for anyone single customer's liabilities towards an Islamic bank.
- 4- Taking into account the nature of Islamic finance formulas and the customer's liabilities limits thereunder, sufficient collaterals must be obtained against the granted finance, while observing the following :

A) Cash Finance Transactions :

The granted cash finance transactions must be fully covered by cash or in-kind collaterals, in addition to sufficient margins for those collaterals to offset any potential risks as a result of the decline in their value, in accordance with commonly accepted banking practices.

B) Non-Cash Finance Transactions :

The bank must determine the margins (cash deposits) to be obtained as a percentage of the value of non-cash finance transactions, in accordance with the commonly accepted banking practices and as applied to other customers of the bank, while observing the following:

- These margins should not be less than 100% of the value of the letters of guarantee issued to secure any finance obtained by the board director from other banks or financial institutions.
- For the documentary letters of credit , letters of guarantee and other contingent liabilities, the bank should obtain sufficient margins, so that there would not be any preferential treatment for any of the board members.

5- The return on the finance granted to the board directors , must be determined at the same rates applied to all other customers .

6- The Central Bank's instructions issued in respect of rationalization and organization of the Islamic banks finance policy , must be strictly adhered to, particularly the rule requiring the preparation of an integrated study explaining the actual conditions of the customer and the reasons for granting such finance and any other relevant information . As stipulated by said instructions, an updated evaluation of the collaterals is also required, noting that the services of specialized appraisers must be hired, to carry out evaluation for assets which nature so requires.

Fourth : The Board of Directors should advise the general meeting through the annual report accompanying the closing accounts, of balances of the finance transactions extended to the board directors as at end of the fiscal year, detailing the number of customers, volume of cash and non-cash finance and the relevant collaterals.

Fifth : The bank must provide the Central Bank with a quarterly statement (see attached form) showing the balances of all finance transactions granted to the board directors and the collaterals thereof, detailing the actions taken by the bank to top-up the collaterals in line with these instructions. This statement is to be approved by the bank's external auditors.

Sixth: These instructions shall be in force effective their notification date.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

C) Rules and regulations to be observed by Islamic banks in respect of finance accorded to their board members

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Department
(Office Supervision Section)**

**Statement of Finance Transactions Accorded to the
Bank Board Members As at**

Bank Name: (Islamic Banks)

(Amount in 000's KD)

Secret No. of Director & Related Parties	Date of granting the Finance	Cash Finance		Non-Cash Finance		Maturity Date	Existing Collaterals		Remarks
		Granted	Utilized	Granted	Utilized		Value	Type	
First : Director's Secret No.:									
Second : Related Parties: 1) 2) 3)									
Total (second)									
Grand Total (First + Second)									

**Instructions No. (2/IBS/106/2003)
Concerning the Islamic Banks Extension of
Finance in KD to Non-Residents**

Islamic local banks are allowed to extend finance in KD to non-residents, according to Islamic formula without the need of obtaining the Central Bank's prior consent, to finance contracts awarded to non-residents and which value do not exceed KD 40 million, provided such finance does not exceed 70% of the total value of each contract. Other contracts or finances exceeding those limits shall require the prior consent of the Central Bank of Kuwait.

The following conditions must be satisfied for all finance transactions when extended by the local banks in KD to their non-resident customers:

- 1) The finance extended in KD to non-residents is confined to financing contracts denominated in KD and awarded by the Government bodies in Kuwait.

The bank extending the finance must verify that contracts to be financed are in fact real contracts, and must retain copies thereof.

- 2) Finance extended for these cases must be for each contract apart and not through general finance lines extended to the customers.
- 3) A letter of assignment is to be signed in favour of the lending bank, over the financed contracts payments. Such payments shall be utilized for repayment of the accorded finance in accordance with the facilities conditions.
- 4) The bank may convert the finance accorded in KD to foreign currencies. The conversion shall be limited to the foreign component of the contract.

The Central Bank shall allow the coverage of the conversion of KD finance into foreign currencies, up to a maximum of 50% of the contract value, while the bank shall be responsible for financing the remaining portion of the contract value from its own sources.

- 5) The banks are required to advise the Central Bank's Foreign Operations Department immediately, of any finance granted to a non-resident customer and not requiring the Central Bank's prior consent. The advice must include the following information:

- Name of the project owner.
- Name of the party to whom the finance is accorded.
- Size of the financed contract and schedule of payments.
- The finance formula and the limits granted.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

D) Instructions concerning the extension of finance in KD to non-residents.

The said department should also be advised of the repayment progress of the finance extended for all such cases. As regards the contracts which value exceeds KD 40 million or the established maximum limit, the application for obtaining the Central Bank's prior consent for each case separately, must include all the information and data related to the case for which the approval is sought. All such applications will be sent to the Supervision Sector.

- 6) The bank may issue bid bonds in KD to its non-resident customers, which may be required by such customers to submit bids for tenders launched by local bodies .
- 7) It is understood that the finance extension decision is the responsibility of the respective bank, which will bear any risks that may result therefrom, including those cases for which the Central Bank's prior consent is obtained.

The bank in such cases is required to comply with the regulatory rules issued by the Central Bank, including, but not limited to, those concerning the maximum limit for anyone single customer's liabilities to an Islamic bank, and the rationalization and organization of Islamic banks finance policy.

10/11/2003

GOVERNOR

*Ramadhan 15, 1424 H
November 10, 2003*

**Instructions No. (2/IBS/136/2003)
To All Islamic Banks**

THE CHAIRMAN,

**Finance Transactions Extended to Finance the Execution
of Works and Projects Outside the State of Kuwait**

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

- 1- Given the fact that the contracts of those projects and works to be executed abroad will be in foreign currencies, it is natural for the finance accorded for this purpose to be in the same foreign currencies of such contracts.
- 2- The finance transactions that Islamic banks may accord in KD to non-residents **must be confined to those accorded to finance KD denominated contracts awarded by government entities in the State of Kuwait**, while observing the terms and controls included in Central Bank's instructions regarding finance in KD to non-residents .
- 3- When according finance transactions to their resident and non-resident customers for executing works and projects outside Kuwait, Islamic banks will have to comply with the minimum limits established under Central Bank's instructions concerning the rationalization and organization of banks finance polity. Relevant in this connection are the following rules :
 - a) It is important to comply with the sound bases for finance extension, particularly in relation to identifying the purpose of the finance, ensuring the consistency of the finance type, size and currency with the actual needs of the customer and with the limits of the financed contract, as well as following-up the actual use of the finance for the purpose it was accorded for.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

E) Circular regarding finance transactions accorded for the execution of works and projects outside Kuwait.

It is also generally a must to conduct an integrated credit study on the feasibility of the requested finance, taking into account the soundness of the customer's financial position, the availability of repayment sources, the collateral submitted and other considerations.

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

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

It is also noteworthy in this regard that the finance approval decision is the responsibility of the respective bank, who bears any risks that may arise from according the finance. The bank must also observe the other regulatory controls issued by the Central Bank such as, but not limited to, capital adequacy ratio and maximum limit for anyone single customer's liabilities towards an Islamic bank.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

GOVERNOR

*Ramadhan 28, 1425 H
November 11, 2004*

THE CHAIRMAN,

We would like to advise you that, within the framework of organizing the credit and finance accorded by local banks, it has been determined to apply a maximum limit of 80%⁽¹⁾ for finance portfolio/deposits ratio, to be calculated⁽²⁾ in the manner explained in the attached form.

Your bank has to commit itself to not exceed the mentioned maximum limit for that ratio, while ensuring that you provide us, on a monthly basis with effect from the end of November 2004, with the attached report within three working days from end of each month.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

(1) The maximum limit was raised to 85% pursuant to circular No.(2/BS, IBS/224/2008) dated 8/10/2008 and included under Item "H" of this section.

(2) The manner of computing this ratio was amended pursuant to circular No. (2/BS,IBS/211/2007) dated 8/10/2007 and included under Item "G" of this section.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

F) Instructions concerning the application of a maximum limit of 80% for the finance portfolio/deposits ratio.

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

**Ratio of Net Finance Portfolio to Deposits
For the month of.....**

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

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

F) Instructions concerning the application of a maximum limit of 80% for the finance portfolio/deposits ratio.

GOVERNOR

*Ramadhan 26, 1428 H
October 8, 2007*

THE CHAIRMAN,

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

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

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

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

(1) The maximum limit was raised to 85% pursuant to circular No. (2/BS, IBS/224/2008) dated 8/10/2008 and included under Item "H" of this section.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

G) Instructions No. (2/BS,IBS/211/2007) concerning the amendment of the method of calculating finance portfolio/deposits ratio.

(Form used by conventional Banks)

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

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

Bank:

Description	KD 000's
<u>Credit Facilities Portfolio:</u>	
- Customers	
- Financial Institutions	
1- Total Credit Facilities Portfolio	
2- Available Provisions	
3- Net Credit Facilities Portfolio (1-2)	
<u>Deposits:</u>	
a) Private Deposits	
b) Government Deposits	
c) Financial Institutions' Deposits	
4- Total Deposits	
5- Ratio (3÷4)	

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

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

G) Instructions No. (2/BS,IBS/211/2007) concerning the amendment of the method of calculating finance portfolio/deposits ratio.

(Form used by Islamic Banks)

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

**Ratio of Net Finance Portfolio to Deposits *
For the month of :**

Bank:

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

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

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

G) Instructions No. (2/BS,IBS/211/2007) concerning the amendment of the method of calculating finance portfolio/deposits ratio.

GOVERNOR

*Shawwal 9, 1429 H
October 8, 2008*

THE CHAIRMAN,

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

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

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

(1) Pursuant to the circular dated 19/10/2008, included under Item "I" of this section regarding banks' financial deals with investment companies, banks should consider the fact that the lending area for banks has been expanded as a result of raising the maximum limit of loans to deposits ratio from 80% to 85%.

(2) Pursuant to the circular dated 17/11/2008, included under Item "L" of this section, the Central Bank of Kuwait Board of Directors resolution provided, within implementing the program for rectifying the conditions of local investment companies, that the finance granted to investment companies will be excluded from the numerator of this ratio, while the deposits of government and semi-government institutions will be excluded from the denominator of this ratio.

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

GOVERNOR

*Shawwal 20, 1429 H
October 19, 2008*

THE CHAIRMAN,

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

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

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

1. Banks should ensure that the current credit lines granted to investment companies are not cut. These facilities should be renewed for adequate periods, while providing the necessary additional finance to the deserving companies, based on the credit studies conducted by banks.
2. Banks may not sell shares pledged with them against loans and facilities granted to customers, including investment companies. The nature of the current circumstances and measures adopted by the government and Central Bank of Kuwait to minimize the implications of the global crisis for the conditions of the local market should be taken into consideration. Deposits by Central Bank of Kuwait and other government bodies with the bank that sells any shares pledged therewith shall be suspended. Banks should provide Central Bank of Kuwait with a daily statement, showing the outcome of the sale of any shares pledged therewith, starting from 25/9/2008. The statement should show the daily value of the sold shares.
3. Banks should observe that the set of resolutions issued by Central Bank of Kuwait on 8/10/2008 are reflected on the dealings of these banks with customers. These include that banks should proceed on reducing the interest rate on loans to customers, including investment companies, in light of reducing the discount rate by 1.25%. Furthermore, banks should also consider

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

expanding the area of lending for banks as a result of increasing the maximum loan/deposit ratio from 80% to 85%, as well as increasing the growth rate in bank credit, in addition to allowing banks to include real estate properties among the credit risk mitigation tools.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

GOVERNOR

*Thu Al-Qi'da 8, 1429 H
November 6, 2008*

THE CHAIRMAN,

Circular to all Kuwaiti banks

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

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

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

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

6/11/2008

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

GOVERNOR

*Thu Al-Qi'da 13, 1429 H
November 11, 2008*

THE CHAIRMAN,

**Circular No. (2/IBS/231/2008)
To all local Islamic Banks**

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

We would like to advise you that Central Bank of Kuwait has noticed that Islamic banks have lately started to finance their customers against rates of return higher than their levels before Central Bank of Kuwait's reduction of the discount rate.

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

In light of the above, Central Bank of Kuwait hopes that banks will take into consideration Central Bank of Kuwait's course of action and objectives aimed at through reducing the discount rates, and will reduce the rates of return on finance to customers, in line with Central Bank of Kuwait's reduction of the discount rate.

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

- K) Circular No. (2/IBS/231/2008) to all Islamic banks concerning the emphasis of the requirement of reducing the rates of return on finance, in line with the reduction of the discount rate.

GOVERNOR

*Thu Al-Qi'da 19, 1429 H
November 17, 2008*

THE CHAIRMAN,

Circular to all Kuwaiti banks

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

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

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

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

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

GOVERNOR

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

THE CHAIRMAN,

**CIRCULAR NO. (2/BS, IBS/233/2008)
TO ALL LOCAL BANKS**

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

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

GOVERNOR

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

THE CHAIRMAN,

**Circular No. (2/BS, IBS/235/2008)
to all local banks**

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

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

GOVERNOR

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

THE CHAIRMAN,

**Circular No. (2/IBS/236/2008)
to all Islamic banks**

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

This is also made further to Central Bank of Kuwait's circular to Islamic banks dated 11/11/2008, reiterating the requirement of reducing rates of return on finance transactions, as Central Bank of Kuwait noticed that certain banks failed to respond to the discount rate reduction resolution.

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

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

With my best wishes,

SALEM ABDUL AZIZ AL-SABAH

9- INSTRUCTIONS CONCERNING FINANCE ACTIVITY

- O) Circular No. (2/IBS/236/2008) stressing the requirement to reduce the rates of return on finance, in line with the Central Bank of Kuwait's resolution to reduce the discount rate with effect from 8/10/2008.