

**30- INSTRUCTIONS CONCERNING ISLAMIC BANKS
BUDGETS AND FUTURE BUSINESS PLANS**

- A) Circular No.(2/IBS/109/2003) concerning Banks Budget and Future Business Plans.
- B) Circular concerning the amendment of submittal date for budget and future business plan.

GOVERNOR

*Ramadhan 15, 1424H
November 10, 2003*

**Circular No. (2/IBS/109/2003)
Concerning Banks Budgets and Future Business Plans**

THE CHAIRMAN,

Within the framework of the analytical studies performed by the Central Bank in connection with following-up banks performance, your bank is required to provide us annually with your future business plan and budget, which should include the following data, as a minimum, using the attached forms. The mentioned business plan and budget must be received by the Central Bank, along the closing financial data, at the end of the year ⁽¹⁾:

- 1) The bank's future business plan, which should include:
 - Business strategy of the year for which the financial data is submitted, as well as the general policy which will be adopted by the bank to achieve the targets of the strategy .
 - Basic assumptions on which the projections of the budget items were based.
- 2) Explanation of the reasons of the increase or decrease in the target figures against the projected figures of the previous year, taking into account the latest actual figures for the bank while preparing the budget.
- 3) Detailed schedules according to the enclosed forms, including the following:
 - Development of the balance sheet components, balances with banks and other financial institutions, balances of finances to customers, financial investments, liabilities to banks and other financial institutions, and banks and customers deposits.
 - Development of income and expenses components.
 - Capital adequacy ratio.

With my best wishes,

SALEM ABDUL AZIZ AL SABAHA

(1) Submittal date for budgets and business plans was amended according to the circular dated 23/3/2006.

Instructions on Completing the Budget Forms

- 1) Attachment No. (1) : The column “Actual for last Five years” will be filled according to each bank’s condition in terms of its establishment date.
- 2) Attachment No. (1/1, 1/2) : Return is meant to be the value of profit margins and profit shares due for the bank from investment placements with financial institutions (Attachment No.1/1), and from finance transactions to customers (Attachment No. 1/2). Average return rate will be calculated by dividing the profit margins and shares (Actual / Projected / Budgeted) by the average balance of the subject transactions according to the classification shown in the mentioned attachments.
- 3) Attachments No. (1/4, 1/5) : The return is meant to be the value of profits distributions due to investors holding investment and savings accounts with the bank (financial institutions – government – private sector). The average return rate will be calculated by dividing the amount of the mentioned distributions (Actual / Projected / Budgeted) by the average balance of the subject transactions according to the classification shown in these two forms.

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)**

Developments of Financial Position Components

Bank Name: (Islamic Banks)

(KD 000's)

Description	Actual for the last 5 years						Projected Year (7)	Variance VS Year 8(7-5)		Targeted year... (9)	Variance Vs. projected 10 (9-7)	
	Year ... (1)	Year ... (2)	Year... (3)	Year... (4)	Year... (5)	5 years Average (6)		Value + (-)	%		Value +(-)	%
First : Assets												
1- Cash and short term funds												
2- Balances with the Banks & Financial Institutions*												
3- Financial Investment												
4- Bank's own purchased shares												
5- Finance transactions with customers												
6- Real Estate Investments												
7- Commodities and goods												
8- Fixed Assets												
9- Other Assets												
Total Assets												
Second : Liabilities and Shareholders Equity												
10- Due to Banks & Financial Institutions *												
11- Customers Deposits**												
12- Sukuk & Certificates of Deposit												
13- Provisions												
14- Other Liabilities												
15- Reserves for Investment Accounts Holders												
16- Shareholders Equity												
Total Liabilities and Shareholders Equity												

* Including Central Bank of Kuwait

** Including other assets (Item E) of the Islamic banks financial position statement, according to the concept set out in the relevant instructions.

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)**

Balances with the Banks and other Financial Institutions

Bank Name: (Islamic Banks)

(KD 000's)

S.N	Description	Actual for the Year --- (1)			Projected for the Year --- (2)			Variance VS. Actual			Targeted for the Year -- (4)			Variance VS. Projected								
		KD		FC	Total	KD		FC	Total	3 (2-1)			KD		FC	Total	5 (4-2)					
		Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	KD	FC	Total	Bal	Av. Return rate	Bal	Av. Return rate	Bal	KD	FC	Total
1	Balances with CBK																					
2	Balances with Local Banks																					
3	Balances with other Local Financial institutions																					
	First : Total (1+2+3)																					
4	Balances with Foreign Banks																					
5	Blances with Foreign financial Institutions																					
	Second : Total (4+5)																					
	Third: Total (First+Second)																					

* Should match the figure reported under Item (2) of the developments of financial position components form.

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)**

Balances of Finance Transactions With Customers

Bank Name: (Islamic Banks)

(KD 000's)

S.N	Description	Actual for the Year ---- (1)					Projected, for the Year --- (2)					Variance VS. Actual			Targeted for the Year --- (4)					Variance VS. Projected		
		KD		FC		Total	KD		FC		Total	3 (2-1)			KD		FC		Total	5 (4-2)		
		Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	KD	FC	Total	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	KD	FC	Total
Finance Transactions for Resident Customers:																						
1	Crude Oil & Gase																					
2	Agriculture & Fishing																					
3	Manufacturing																					
4	Construction																					
5	Trade & Commerce																					
6	Public Services																					
7	Personal *																					
8	Real-Estate																					
9	others																					
10	Total Finance Transactions with Resident customers																					
11	Total Finance Transactions with Non-resident customers																					
12	Total Finance Transactions (10+11) **																					

* Including private residence finance transactions.

** Should match the figure reported under Item (5) of the development of financial position components form .

Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)

Financial Investments *

Bank Name : (Islamic Banks)

(KD .000's)

S.N	Description	Actual for the Year ---- (1)					Projected for the Year --- (2)					Variance VS. Actual			Targeted for the Year --- (4)					Variance VS. Projected			
		KD		FC		Total	KD		FC		Total	3 (2-1)			KD		FC		Total	5 (4-2)			
		Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	KD	FC	Total	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	KD	FC	Total	
	First : Local Financial Investment																						
1	For Trading																						
2	Available for sale																						
3	Held to Maturity																						
	Total (First)																						
	Second : Foreign Investments																						
4	For Trading																						
5	Available for sale																						
6	Held to Maturity																						
	Total (Second)																						
	Grand Total (First + Second)**																						

* Other than bank's treasury shares

** Should match the total of Item (3) of the development of financial position components form.

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)**

Due to Banks & Other Financial Institutions

Bank Name : (Islamic Banks)

(KD .000's)

S.N	Description	Actual for the Year --- (1)			Projected, for the Year --- (2)			Variance VS. Actual			Targeted for the Year --- (4)			Variance VS. Projected							
		KD		FC	KD		FC	Total	3 (2-1)			KD		FC	Total	5 (4-2)					
		Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	K D	FC	Total	Bal	Av. Return Rate	Bal	Av. Return Rate	Bal	KD	FC	Total		
	First : Local Liabilities																				
1	Balance due to CBK																				
2	Balances Due to Local Banks																				
3	Balances due to other local Financial institutions																				
	Total (First)																				
	Second : Foreign Liabilities																				
4	Balances Due to Foreign Banks																				
5	Balances Due to other Foreign Financial Institutions																				
	Total (Second)																				
	Grand Total (First + Second)*																				

* Should match the figures reported under Item No. (10) of the development of financial position components form .

Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)

Attachment No. (2)

**Movement of the Components
of the Income & Expenditure Statement**

Bank Name : (Islamic Banks)

(KD .000's)

Description	Actual for the year ----	Projected for the year ---	Targeted for the year ---	Variance between targeted and projected (3-2)	
	(1)	(2)	(3)	Amount	%
First : <u>Operating Income</u>					
1 Financial Institutions					
A- Returns and profits from finance transactions and investment placements:					
- CBK					
- BANKS					
- Other Financial Institutions					
B- Fees & Commissions					
C- Recovered bad debts					
D- Other Income					
2 <u>Non-Financial Institutions:</u>					
A- Returns and profits fro finance transactions and investment placements:					
- Murabaha and Musawama					
- Musharaka					
- Mudaraba					
- Istisna'a					
- Finance Ijara					
- Others					
B- Fees & Commissions					
C- Recovered bad debts					
3 <u>Financial Investments:</u>					
A- Returns on government sukuk					
B- Equity participation profits					
C- Returns on other finance sukuk and CD's					
D- Net gains on securities trading					
E- Revaluation gains					
F- Other					
4 <u>Returns on Real Estate Investments</u>					
5 <u>Other operations income:</u>					
A- Net gains on FX trading					
B- Commission from management of third parties funds					
C- Other					
Total Operating Income (First)					

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)**

Attachment No. (2)/Cont'd

**Movement of the Components
of the Income & Expenditure Statement**

Bank Name : (Islamic Banks)

(KD .000's)

Description	Actual for the Year ---	Projected for the Year ----	Targeted for the Year ----	Variance between targeted and projected (3-2)	
	(1)	(2)	(3)	Amount	%
Second: Operating Expenses & Costs:					
1 General & Administrative Expenses					
A- Staff Salaries & Remunerations					
B- Other Staff Benefits					
C- Others					
2 Fees & Commissions					
3 Bad Debts					
4 Depreciation					
5 Revaluation Losses					
6 Net Loss on Securities Trading					
7 Net Loss on FX Trading					
8 Returns paid on issued Finance Sukuk					
9 Other Operating Expenses					
Total Operating Expenses & Costs (Second)					
Third : Operating Results:					
1 Total Operating Income (First)					
2 Total Operating Expenses & Costs (Second)					
3 Net Operating Profit before Provisions(1-2)					
4 Provisions (taken during the period)					
5 Net Operating Profit After Provisions(3-4)					
6 Non-Recurring items					
7 Net Profit (loss) for the period before Profit distributions to Depositors (5 +/- 6)					
8 Profit Distributions to Depositors (investment and savings accounts holders):					
A. Financial Institutions					
B. Government Sector					
C. Private Sector :					
- Investment Accounts					
- Savings Accounts					
9 Net Profit (loss)for the Period(7-8)					

**Central Bank of Kuwait
Supervision Sector
Off-Site Supervision Dept.
(Off-Site Surveillance Section)**

Attachment No. (3)

Capital Adequacy Ratio

Bank Name : (Islamic Banks)	(KD .000's)		
Description	Actual for the year ---	Projected for the year ---	Targeted for the year ---
1) <u>Ratio's Numerator:</u> Eligible Capital (Total Capital Basic + Subordinated)			
2) <u>Ratio's Denominator:</u> Credit Risk-Weighed Assets Market Risk-Weighed Assets			
Total (2)			
Capital Adequacy Ratio (1 ÷ 2)	%	%	%

Executive Director

Safar 23, 1427 H
March 23, 2006

THE GENERAL MANAGER,

“CIRCULAR TO ALL ISLAMIC BANKS”

With reference to the Central Bank of Kuwait’s instructions issued on 10/11/2003 regarding the budgets and future business plans for the local banks.

We would like to advise you that your bank is **required to provide us with the data of its budget and future business plan along with the closing financial data at the end of the year**, instead of the currently applied method requiring you to provide us with the mentioned documents not later than the end of October each year. This change in the reporting date is meant to have the data of your budget expressing and based on assumptions closer to reality, and prepared on the basis of the latest actual financial data.

Best Regards,

Ibrahim A. Al-Qadhi
Executive Director of the Supervision Sector