

## 2- RULES AND REGULATIONS CONCERNING LIQUIDITY SYSTEM

- A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.
- B) Circular concerning the Central Bank of Kuwait Board of Directors' resolution of 1/5/2005, requiring Islamic banks to maintain 20% of their customers' KD deposits (government – private sector) in the form of liquid assets.
- C) Circular regarding the intervention of Central Bank of Kuwait in the money market, with a view to withdrawing surplus liquidity through monetary instruments the Central Bank of Kuwait deems appropriate.
- D) Circular No. (2/IBS/234/2008) concerning the Central Bank of Kuwait Board of Directors' resolution of 2/12/2008 on amending the instructions issued with regard to the ratio of customers KD deposits to be held by banks in the form of liquid assets.

**Instructions No. (2/IBS/149/2003)**  
**Liquidity System for Islamic Banks**  
**According to Maturity Ladder Approach**

**Introduction :**

It is known that the responsibility for developing the liquidity policy rests with each individual bank, while taking into account the relevant laws and instructions issued in this regard, as well as the established banking regulations and common practices, in such a manner that ensures the match between assets and liabilities maturities, while observing the distribution of risks over the assets.

Based on the rules of Article (97) of Law No. (32) of The Year 1968 Concerning Currency, The Central Bank of Kuwait and the Organization of the Banking business, which empowered the Central Bank to set up the regulations and rules to be followed in supervising Islamic banks in terms of their liquidity, solvency and proper conduct of work, particularly the liquidity system and the determination of its constituents, the following instructions have been issued by the Central Bank of Kuwait Board of Directors at its meeting of 3/11/2003 in respect of Islamic banks liquidity system according to Maturity Ladder Approach.

**First : Definitions:**

Liquidity at a bank is defined as being the bank's ability to meet the decline on the liabilities side and to finance the increase on the assets side. The level of liquidity at the bank is considered appropriate if the bank has got the financing ability, at a proper market cost, to finance its assets and their growth as well as to cope with the expected (or unexpected) decline on the (liabilities) side.

On the overall, liquidity relies basically on the base of the match between the liabilities maturities and assets maturities in a manner which ensures non-occurrence of immediate or future financing pressures, because the total absence or the marginal availability of this match jeopardizes the liquidity position.

The nature of the structure of banks liabilities, which is characterized by constant development, as well as the sensitivity of the business of these institutions to monetary and economic developments and fluctuations, coupled with their steady endeavor to realize rewarding profits, are factors which render the determination of the optimal match of assets and liabilities maturities for each individual bank a matter requiring highly professional efforts and attention. The achievement of this objective is the responsibility of the management of each individual bank, which should be able, daily and promptly, to identify the size of funds available for it from internal and external sources and the current and future commitments the bank has to meet. Liquidity issue has more relative importance for Islamic banks compared to other banks, given the maturity structure of its assets and resources, as the resources of Islamic banks are usually of short term nature, while the uses of these resources are medium term and long term in some formulas (such as Ijara or lease financing and Istisna'a). Hence, Islamic banks have to put forth more effort and to exercise more care and diligence in managing their assets and liabilities and their liquidity conditions.

As for the Central Bank, its responsibility in this respect can be basically summed up as being the monitoring of the ability of the banks subject to its supervision to meet their commitments upon maturity, and to urge banks to enhance their ability to face any contingent circumstances arising from exceptional conditions. Therefore, banks subject to the Central Bank's supervision are required to maintain a minimum level of liquid funds or assets that can be liquidated or borrowed against, so as to meet immediate commitments, particularly the contingent ones, and to ensure keeping a minimum match between the assets and liabilities maturities, while observing the distribution of risks among the assets, as it is normally the case that assets of short term maturities are characterized by a low level of risks, contrary to the assets of long term maturities .

The adoption of the method of the ladder of maturity according to the tenors of assets and liability allows the bank to allocate future cash inflows to offset future cash outflows during specific periods of time which usually commence with the immediate payables on both sides of assets and liabilities (the overdue time-period). The cash inflows generate from the matured assets, the liquidatable immatured assets and usable credit lines granted to the bank. The cash inflows can be categorized according to the dates of assets maturity, or on the basis conservative dates projected for withdrawals under the credit lines granted to the bank.

---

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.

**Second: The aspects of the liquidity system according to Maturity Ladder Approach:**

**(A) Defining the maturity ladder (periods):**

According to maturity ladder system as a means of measuring liquidity, the future cash flows of the bank's assets are compared to the future cash flows of the bank's liabilities during specific maturity periods. The bank's liabilities cash flows shall include the due commitments and the contingent commitments, specially in relation to the withdrawable investment and finance transactions agreed with the customers (the liabilities cash out-flows are categorized according to the maturity dates of the commitments or by the first date on which those commitments may be claimed). On the other hand, the cash in-flows include any cash flows the bank can collect in the future.

The bank's assets and liabilities are listed within a maturity ladder through which the net position between the assets cash flows and the liabilities cash flows is calculated, whether the net difference is a surplus or a deficit. The net difference is called the (mismatch) of assets and liabilities maturities. The listing of the assets and liabilities on the basis of said ladder shall be according to time-band to be determined in the following manner :

- 1) Overdue and unpaid on the date of the statement preparation.
- 2) Next working day.
- 3) Beyond next working day upto seven days.
- 4) Over 7 days upto one month.
- 5) Over one month upto three months.
- 6) Over three months upto six months.
- 7) Over six months upto one year.
- 8) Over one year.

The net cumulative position over those periods shall be calculated, and the maximum ratios for mismatch of assets and liabilities cash flows shall be identified for each time-period, which is usually called the mismatch of assets and liabilities maturities .

**(B) Determination of the bases of categorizing assets and liabilities according to Maturity Ladder Approach:**

**1) LIABILITIES**

- a) Includes all types of deposits (such as demand deposits, savings accounts, investment accounts and CDs), according to the concepts explained in the explanatory notes memorandum and the definitions pertinent to Islamic banks financial position statement, arranged according to their residual maturity continuous (Mustamerra) unlimited investment accounts of unlimited period must be reported in the time band “over one year”, unless the bank can see practical evidences that they may be withdrawn within shorter periods if the bank’s policy so allows.
- b) (Known commitments) based on which required funds are made available on specific dates, are reported at their (full value) according to their maturity periods. An example for this case is the finance required to meet the commitments of financing transactions such Musharakah and Mudaraba deals already concluded with customers and which the bank knows in advance that the customer will execute.
- c) (Unknown commitments) which do not fall due on specific dates. An example of this case would be the finance required to meet the commitments of transactions initially agreed on the customers, but their relevant contracts have not been concluded yet.
- d) Contingent commitments which the bank is expected to pay (such as letters of guarantee claimed for liquidation, a court judgment requiring the bank to pay a certain amount of money), shall be listed under “Seven Days Upto One Month time-band”.

**2) ASSETS**

- a) Assets shall be reported at their net value after excluding the existing specific provisions therefrom.
- b) Assets shall be reported on the basis of their residual maturities. For instance, cash and current accounts as well as accounts overdrawn on a temporary basis and covered the immediate next day, shall be listed under (the next day time-band). Islamic Sukuk issued by Kuwaiti Government and the Central Bank of Kuwait shall be listed under the same period, irrespective of their maturity date.

- c) Financial investments not bearing a maturity period and traded on stock exchanges, shall be listed under the “Seven days and less time-band”, and a deduction coefficient of 5% shall be applied for local and foreign securities.

The determination of the deduction coefficient for securities has taken into account the possible fluctuation of the securities prices and the existence of unfavorable selling circumstances when the bank liquidates the securities as and when so needed.

- d) Certain (marketable securities) of specific maturity periods may be exempted from being listed on the basis of the time periods corresponding to their maturities, to be listed, instead, under the time-band of “Seven days and less”, subject to meeting the following conditions:

- The security should be quickly convertible into cash at minimal cost .
- The security does not involve high investment or credit risks that may significantly impact its value .
- A deduction coefficient will be applied to each type of those assets, depending on their nature and marketability, as follows, provided that investments held for non-trading purposes, and the deduction coefficient will be calculated on the basis of their market value :

<b>S.N.</b>	<b>Item/Description</b>	<b>Deduction Factor</b>
1	Islamic Certificates of Deposit with a maturity of less than 6 months issued by First Class Banks <sup>(*)</sup> ; Shareea’a-compliant securities issued or guaranteed by OECD, and GCC Governments, with a maturity of less than 5 years	5%
2	Certificates of Deposits issued by First Class GCC Banks and Governments with a maturity of over 5 years.	10%
3	Securities with a maturity exceeding 5 years, issued by GCC and OECD Governments, First Class Banks or institutions of excellent financial and credit position. <sup>(*)</sup>	15%

(\*) For the purposes of defining first class banks and financial institutions issuing such securities, the minimum definition will be limited to being banks or institutions rated at (A or Equivalent) by international rating agencies (such as IBCA, Moody’s and Standard & Poors).

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.

- e) Interbank contractual standby facilities which enable a bank to obtain immediate finance upon request through the money market, shall be reported under (the next day time-band). An example of this is the interbank deposits exchange agreements (free of interest).

### 3) OTHER ITEMS

Items under collection or payment shall be taken into account, in which case net position for these items shall be calculated and reported under “the next day time-band” depending on their mature (i.e. assets or liabilities).

#### **(C) Assets and liabilities maximum (*mismatch*) limits**

Maximum limits have been established for the net variances between assets cash flows and liabilities cash flows for all currencies aggregately and cumulatively for the time bands ranging between Sight up to six month.(**and which must be complied with for overall currencies (KD + FC) as well as for foreign currencies alone**)<sup>(1)</sup>.

The financing gap as a ratio to total liabilities (inclusive of all types) shall be measured on the basis of its being the numerator, as it represents payable future commitments. Such limits will be uniformly applied to all Islamic banks.

Banks will have to comply with the following maximum limits of cumulative (*mismatches*) during the four time periods ranging between Sight (less than 7 days) up to six months:

<u>Time-Band</u>	<u>Maximum Limit for Cumulative Mismatch</u>
1 “7 days and less time-band	10%
2 “One month and less time-band	20%
3 “Three months and less time-band	30%
4 “Six months and less time-band	40%

The attached form illustrates the method which will be adopted for measuring liquidity according to maturity ladder and the manner of computing the absolute or cumulative mismatch between assets and liabilities.

(1) This article was amended according to the Central Bank of Kuwait Board of Directors resolution at its meeting of 6/6/2004

---

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.

**(D) Banks liquidity internal policies :**

Banks will be responsible for enhancing their abilities to follow-up their liquidity positions, so that their internal arrangements and controls for managing liquidity will be sufficient to create necessary sources for covering any cash outflows under ordinary or contingent circumstances, the fact which leads us to conclude that banks should prepare their liquidity internal policies according to maturity ladder in line with the following minimum arrangements :

1- Efficient computer systems should be available to provide various required information deemed vitally important for supplying the bank management with accurate and updated data, so that they can measure and manage cash flows and liquidity requirements .

2- While taking into account the minimum requirements established by the Central Bank for the liquidity system, banks have to develop internal policy for liquidity (which should be a part of an overall policy for assets and liabilities management). Such an internal policy must be approved by the respective bank Board of Directors and shall include the following as a minimum :

A- An explanation of liquidity concept .

B- Bases on which the policy relied in measuring liquidity.

C- Time periods adopted by the liquidity policy.

D- Mismatch limits which the policy includes for various time periods, and the bases on which those limits were established (i.e. are they based on the relationship between deposits base and total commitments? ).

E- The organizational unit authorized to establish the limits, and the frequency of such limits review.

F- The policy should include the following in relation to cash flows:

- The extent of fluctuation and variance of deposits and other commitments .
- The size of deposits and other commitments renewal requests, in normal cases or exceptional circumstances .
- The Methods of handling deposits upon maturity, particularly large size deposits .

---

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.



G- The policy shall include the following, in relation to cash and liquid assets:

- Assets considered liquid, by type of currency.
- Minimum limits for those assets balances that must be retained.

H- In terms of planning to face emergency cases, the liquidity policy should require the development of a framework for actions needed to ensure steady flow of information in exceptional circumstances, so that top management would obtain accurate data and reactions needed for prompt decision making in case of need. Moreover, responsibilities must be clearly defined, so that each staff member will be fully aware of his duties and the works he is required to perform under exceptional circumstances. The emergency plan should include the following information :

- The officer in charge of liquidity management under exceptional circumstances.
- Scenarios which may be adopted in exceptional circumstances the bank may experience .
- Commitments between the bank and its customers, governed by maturity periods and commitments of non-binding maturities which are expected to be collected upon the rise of any crisis.
- The sources of cash flows which collection is expected to face very high demand in emergency cases, and the level of demand, as well as those cash flows which are likely to remain in the hand of the bank under any circumstances and the extent of such cash flows increase, in addition to actions set by management to obtain funds in cases of emergency .
- Standby facilities which may be used for withdrawal in case of need.
- Methods of handling assets that have maturity problems according to the plan.
- Usual level of increase in various finance transactions.
- Usual level of increase in the size of different kinds of deposits and investment accounts.

---

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.

- Existence of concentration in the deposits and investment accounts base.
  - The effect of off-balance-sheet liabilities towards third parties.
  - Ascertain whether there are seasonal factors that must be taken into account.
  - Whether the cash flows measurement systems include different scenarios to address worst and best cases.
- I- Regarding the ability to obtain finance when needed, the policy must include a statement of the existing agreements and the maximum available limits.

**Third: Liquidity conditions must be measured daily and forms designed for this purpose must be submitted to Central Bank of Kuwait by the end of every week and every month (for all currencies, KD and each foreign currency alone). Banks will also be committed to submit another statement of liquidity on a quarterly basis, duly audited by the bank's external auditors. Attached are the forms to be completed and a memorandum on the guidelines for completing these forms.**

**Fourth: Banks must provide their external auditors with a copy of these instructions and their enclosures.**

**Fifth: These instructions shall be implemented from the date of their notification to banks.**

### **Guidelines for completing the tables pertaining to liquidity system according to maturity ladder at Islamic Banks**

It is to be generally taken into account that the items mentioned in the tables pertaining to liquidity system according to maturity ladder, should have the same concept and nature described in detail the Islamic banks financial position statement, as well as in the explanatory notes memorandum and the definitions contained in the statement of financial position.

Items mentioned in the tables shall be distributed by maturity period, while observing the following :

#### **First : Assets:**

- 1) **Cash and Cash items**, to be reported at their book value under the “next day time-band”.
- 2) **Deposits with Central Bank**, These are generally in the form of current accounts and shall be reported in the “next day time-band” . In the event such deposits are in other forms (such as term deposits), then they shall be reported by their maturity period according to their residual maturity at the time of preparing the statement.
- 3) **Sukuk issued by Kuwaiti Government and Central Bank**, To be reported at their full value under the “next day time-band”, regardless of their maturity dates .
- 4) **Investment deposits with local and foreign banks and other financial institutions**, To be distributed according to their maturity dates at the time of preparing the statement, because such deposits must be reported according to their residual maturity after excluding the provisions made for them.
- 5) **Certificates of Deposits**, To be reported according to their residual maturity at the time of preparing the statement.

Bank will have to observe the contents of paragraph (D) of Item No. Second/B/2 concerning the exemption of some of the assets having a maturity period and a marketable nature (*Marketable securities*), from being reported on the basis of time periods corresponding to their maturity, to be reported, instead, under the time-band of “seven days and less”, provided that they meet the conditions mentioned in the instructions and subject to applying a deduction coefficient to them, in the manner explained in detail in the instructions .

- 6) **Other claims on investment companies and financial institutions**, To be reported at their net value according to their maturity period and after excluding specific provisions .
- 7) **Investment and financing transactions with customers**, to be reported at net value and distributed according to there maturity period, after excluding the specific provisions.
- 8) **Financial Investments**, To be reported at their net value after excluding the specific provisions, taking the following rules into account :
  - a- Sukuk, other than those issued by the Kuwaiti government and Central Bank, (whether belonging to foreign governments, or banks and financial institutions) shall be reported according to their maturity dates at the time of preparing the statement, with the possibility that the Sukuk meeting certain conditions, after applying the deduction coefficient in the manner detailed in the instructions, may be reported under the “seven days and less maturity period”.
  - b- Shares listed on Kuwait Stock Exchange, or world capital markets, shall be reported under the “seven days and less time-band” and shall be subject to a deduction coefficient of 5% .

Shares unlisted on Kuwait Stock Exchange, or world capital markets, shall be reported at their full value (i.e. without applying a deduction coefficient) under the “over one year time-band” .
- 9) **Contractual standby facilities**, from other banks shall be reported within “Other Commitments Item” under the “Next Day Time-band”.
- 10) **Real Estate Investments**, To be reported at their net value after deducting accumulated depreciation and any provisions made against them in accordance with the applied accounting policy. These investments shall be reported under the time band “over one year”, excluding those held for trading purposes, which should be reported in the time band during which they are expected to be sold, provided that it is not less than “above 3 months-6 months”.
- 11) **Commodities and Goods**, Commodities and goods held as offer for trading, are to be reported in the time band “above 3 months to 6 months”. Commodities and goods related to finance transactions initially agreed upon with customers, are to be reported in the time band during which transactions are expected to be executed (signing the final contract and delivery of commodities and goods to the customer).

---

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.

- 12) **Fixed Assets**, To be reported at their net value, after accumulated depreciation, under the “over one year time-band” .
- 13) **Other Assets**, to be reported at their net value, after excluding the specific provision, according to their maturity dates .

### **Second : Liabilities and Shareholders Equity:**

- 1) **All forms of deposits and certificates of deposits:** to be reported according to their residual maturity. Current, Sight and savings deposits shall be reported at their full value under the “Next Day time-band”. Continuous (Mustamerra) unlimited investment accounts of unlimited term are also to be reported in the time band “above one year” unless the banks has practical evidences of the possibility of withdrawing them in shorter periods, if the bank’s policy so allows.
- 2) **Other Commitments**, These include the following :
  - a- **Known Commitments** based on which necessary funds are to be made available on specific dates, such as finance deals concluded with customers, and which the bank knows in advance that the customer will execute on specific dates. These commitments shall be reported at their full value according to their maturity periods.

The same value of this type of commitments shall be reflected on the assets side under “Other Commitments Item” according to the maturity dates specified in the deals agreements.
  - b- **Unknown Commitments** which do not fall due on a specific day, such as financing agreements to provide finance to other banks, shall be reported under “other commitments” in the “Next day time-band”.
- 3) **Reserves belonging to investment accounts holders**, are to be reported in the “over one year time band”.
- 4) **Shareholders Equity**, To be reported under the “Over One Year time-band”.
- 5) **Other Liabilities**, to be reported according to their maturity period . These other liabilities shall include other charges to the profits for the period which shall also be reported according to their expected payment date, and shall include as well the General Provisions which shall be reported under the “Over One Year Time-Band”.

---

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

A) Instructions No. (2/IBS/149/2003) concerning the liquidity system according to maturity ladder Approach.

**Third : Mismatches calculation:**

Mismatches shall be calculated on an absolute basis, (per each period) and cumulatively as a ratio to total eligible liabilities. In other words, the denominator of the ratio shall be the Liabilities (mentioned under the column of the “Total” in the liquidity tables), excluding shareholders equity, and so is the case for the cumulative mismatch.

**The Central Bank of Kuwait  
Supervision Sector  
Off-Site Supervision Dept.**

**Liquidity Report  
(Total Currencies)**

Bank : (Islamic Banks)

(000's)

DESCRIPTION	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS – 1 MONTHS	OVER 1 MONTH – 3 MONTHS	OVER 3 MONTHS – 6 MONTHS	OVER 6 MONTHS – 1 YEAR	OVER 1 YEAR
<b>Assets</b>									
<b>(1) Liquid &amp; Semi Liquid Assets</b>									
Cash & Cash Item									
Deposits with Central Bank of Kuwait									
Deposits with local banks									
Deposits with foreign banks									
Government Sukuk (Kuwait)									
CD's									
<b>(2) Other Assets</b>									
Deposits with other financial institutions									
Investment & Finance deals with Residents									
Investment & Finance deals with non-Residents									
Financial Investments:									
- Other Finance Sukuk									
- Shares									
- Other									
Real Estate Investments									
Commodities & Goods									
Fixed Assets									
Other Assets									
Other Items									
<b>(3) Total Assets (1+2)</b>									
<b>Liabilities:</b>									
Deposits from Banks									
Deposits from other financial Institutions									
Government Deposits									
Private Sector Deposits									
Other Deposits									
CD's									
Finance Sukuk									
Reserves pertaining to investment Accounts Holders									
Other Liabilities									
Other Commitments									
<b>(4) Total Liabilities</b>									
<b>(5) Total Shareholders Equity</b>									
<b>(6) Total Liabilities &amp; Shareholders Equity (4+5)</b>									
Absolute Mismatch for each period (T3 - T6)									
Cumulative Mismatch [(T3 - T6) + Previous time periods]									
Absolute Mismatch % [(T3 - T6) / T4]									
Cumulative Mismatch % (C.M./4)									

**The Central Bank of Kuwait  
Supervision Sector  
Off-Site Supervision Dept.**

**Liquidity Report  
(KD)**

Bank : (Islamic Banks)

(000's)

DESCRIPTION	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS – 1 MONTHS	OVER 1 MONTH – 3 MONTHS	OVER 3 MONTHS – 6 MONTHS	OVER 6 MONTHS – 1 YEAR	OVER 1 YEAR
<b>Assets</b>									
<b>(1) Liquid &amp; Semi Liquid Assets</b>									
Cash & Cash Item									
Deposits with Central Bank of Kuwait									
Deposits with local banks									
Deposits with foreign banks									
Government Sukuk (Kuwait)									
CD's									
<b>(2) Other Assets</b>									
Deposits with other financial institutions									
Investment & Finance deals with Residents									
Investment & Finance deals with non-Residents									
Financial Investments:									
- Other Finance Sukuk									
- Shares									
- Other									
Real Estate Investments									
Commodities & Goods									
Fixed Assets									
Other Assets									
Other Items									
<b>(3) Total Assets (1+2)</b>									
<b>Liabilities:</b>									
Deposits from Banks									
Deposits from other financial Institutions									
Government Deposits									
Private Sector Deposits									
Other Deposits									
CD's									
Finance Sukuk									
Reserves pertaining to investment Accounts Holders									
Other Liabilities									
Other Commitments									
<b>(4) Total Liabilities</b>									
<b>(5) Total Shareholders Equity</b>									
<b>(6) Total Liabilities &amp; Shareholders Equity (4+5)</b>									
Absolute Mismatch for each period (T3 - T6)									
Cumulative Mismatch [(T3 – T6) + Previous time periods]									
Absolute Mismatch % [(T3 – T6) / T4]									
Cumulative Mismatch % (C.M./4)									



**The Central Bank of Kuwait  
Supervision Sector  
Off-Site Supervision Dept.**

**Liquidity Report  
(FC)**

Bank : (Islamic Banks)

(000's)

DESCRIPTION	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS – 1 MONTHS	OVER 1 MONTH – 3 MONTHS	OVER 3 MONTHS – 6 MONTHS	OVER 6 MONTHS – 1 YEAR	OVER 1 YEAR
<b>Assets</b>									
<b>(1) Liquid &amp; Semi Liquid Assets</b>									
Cash & Cash Item									
Deposits with Central Bank of Kuwait									
Deposits with local banks									
Deposits with foreign banks									
Government Sukuk (Kuwait)									
CD's									
<b>(2) Other Assets</b>									
Deposits with other financial institutions									
Investment & Finance deals with Residents									
Investment & Finance deals with non-Residents									
Financial Investments:									
- Other Finance Sukuk									
- Shares									
- Other									
Real Estate Investments									
Commodities & Goods									
Fixed Assets									
Other Assets									
Other Items									
<b>(3) Total Assets (1+2)</b>									
<b>Liabilities:</b>									
Deposits from Banks									
Deposits from other financial Institutions									
Government Deposits									
Private Sector Deposits									
Other Deposits									
CD's									
Finance Sukuk									
Reserves pertaining to investment Accounts Holders									
Other Liabilities									
Other Commitments									
<b>(4) Total Liabilities</b>									
<b>(5) Total Shareholders Equity</b>									
<b>(6) Total Liabilities &amp; Shareholders Equity (4+5)</b>									
Absolute Mismatch for each period (T3 - T6)									
Cumulative Mismatch [(T3 - T6) + Previous time periods]									
Absolute Mismatch % [(T3 - T6) / T4]									
Cumulative Mismatch % (C.M./4)									

**GOVERNOR**

*Rabi Al-Awal 23, 1426 H  
May 2, 2005*

**THE CHAIRMAN,**

We would like to advise you that the Central Bank of Kuwait Board of Directors, at its meeting of 1/5/2005, has resolved to require Islamic Banks to hold 20%<sup>(1)</sup> of their customers KD deposits (government – private sector)<sup>(2)</sup> in the form of the following liquid assets:

1. Balances with Central Bank of Kuwait (through the current account and securitization transactions with the Central Bank).
2. Short-term international Murabaha transactions, in accordance with the following rules for such transactions:
  - Must not be classified within irregular transactions (due but not repaid).
  - The maturity of the contracts of such transactions should not exceed six months.
  - The credit rating of banks and financial institutions with which those transactions are concluded, shall not be less than Grade (BBB), according to rating of the international credit rating agencies (Moody's, Standard & Poor's, Fitch).
3. Finance Sukuk issued by Islamic Development Bank or governments of the GCC countries, provided that those Sukuk are traded, and their rating by international rating agencies is not less than Grade (BBB).

Your bank is also required to provide the Central Bank of Kuwait with a statement of this ratio on a weekly basis, using the attached form.

With my best wishes,

**SALEM ABDUL AZIZ AL SABAH**

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

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

---

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

- B) Circular concerning the Central Bank of Kuwait Board of Directors' resolution of 1/5/2005, requiring Islamic banks to maintain 20% of their customers' KD deposits (government – private sector) in the form of liquid assets.

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

***20%<sup>(1)</sup> of Customers KD Deposits  
Held in the Form of Certain Liquid Assets  
As at -----\****

<b>Description</b>	<b>KD 000</b>
<b>First: Liquid Assets:</b>	
1- Balances with the Central Bank of Kuwait (current account and securitization transactions). (Item N/1, 2 of the financial position statement)	
2- Short-term international Murabaha transactions (within Item S/2 of the financial position statement)	
3- Finance Sukuk issued by : - Islamic Development Bank - Governments of GCC Countries [within Item (P/2/C), (P/3/C) of the financial position statements]	
<b>Total for First</b>	
<b>Second: Deposits in KD (government- Private sector).</b> (Item C + Item D (Columns 2 and 4) of the financial position statement)	
Ratio of liquid assets to KD customers deposits (First / Second)	<b>%</b>

\* Weekly statement

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

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

B) Circular concerning the Central Bank of Kuwait Board of Directors' resolution of 1/5/2005, requiring Islamic banks to maintain 20% of their customers' KD deposits (government – private sector) in the form of liquid assets.

**DEPUTY GOVERNOR**

*Rajab 5, 1429 H  
August 10, 2005*

**THE CHAIRMAN,**

**" Circular to All Local Banks "**

In the light of the banking indicators which show liquidity surpluses within the banking system, with the ensuing downward pressures on the KD interest rates in the market, and accordingly on the interest rates paid by banks on private sector KD deposits, and with the consequent emergence of a shifting trend in the margin between interest rates on KD deposits and interest rates on FC deposits, particularly the US dollar, to the favor of the latter, and whereas this trend is gaining momentum and growing.

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

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

With my best wishes,

**Dr. Nabil Ahmed Al Manna'e**

---

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

- C) Circular regarding the intervention of Central Bank of Kuwait in the money market, with a view to withdrawing surplus liquidity through monetary instruments the Central Bank of Kuwait deems appropriate.

**GOVERNOR**

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

**THE CHAIRMAN,**

**Circular No. (2/IBS/234/2008)  
to Local Islamic Banks**

This has reference to the Central Bank of Kuwait circular dated 2/5/2005, obliging Islamic banks to maintain 20% of their KD customers deposits (government – private sector) in the form of balances with the Central Bank of Kuwait (current account or securitization transactions), in addition to short-term international Murabaha transactions, and finance Sukuk issued by Islamic Development Bank or by the governments of GCC countries.

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

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

With my best wishes,

**SALEM ABDUL AZIZ AL SABAH**

---

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

- D) Circular No. (2/IBS/234/2008) concerning the Central Bank of Kuwait Board of Directors' resolution of 2/12/2008 on amending the instructions issued with regard to the ratio of customers KD deposits to be held by banks in the form of liquid assets.