

## **10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- A) Instructions No. (2/IBS/161/2004) concerning the rules & regulations for consumer finance transactions and other personal installment finance accorded by the Islamic banks .
- B) Circular No. (2/IBS/115/2003) prohibiting Islamic banks' sale of any portion of their consumer finance and other personal installment finance portfolio.
- C) Circular No. (2/IBS/135/2003) Concerning (Ci-Net) Company System and exchange of information on consumer and personal installment finance transactions for which legal actions have been taken.
- D) Circular No. (2/IBS/174/2005) Concerning the cancellation of the maximum limit established for total consumer and other personal installment finance transactions.
- E) Circular regarding the discontinuation of the use of Central Bank of Kuwait's database relevant to consumer and other installment loans customers, against whom legal actions have been taken, and the use of the database of those customers operated by Credit Information Network Company (Ci-Net), with effect from 1/1/2006.
- F) Circular No. (2/IBS/185/2006) Concerning the definition of the maximum limit for consumer finance and other personal installment finance transactions to anyone single customer, as well as the determination of the maximum period during which the balloon payment of these loans is to be repaid.
- G) Instructions concerning insurance charges borne by consumer and installment loans customers.
- H) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

- I) Circular No. (2/IBS/203/2007) to all Islamic shari'a – compliant local banks, concerning amendments to the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.
- J) Circular No. (2/BS, IBS/205/2007) concerning consumer and installment loans prepayment fees.
- K) Circular stressing that the certificate required to be submitted must be signed by both external auditing firms, testifying that banks have rectified all the violations that were existing in relation to the consumer and installment loans (finance transactions) rules and regulations.
- L) Circular to banks and investment companies external auditors, concerning the completion of the data on breaches rectification.
- M) Circular on assigning both external accounts auditors to audit the consumer loans (finance transactions) and installment loans granted during the period from 16/1/2007 till 31/12/2007, and to submit to Central Bank of Kuwait a report on this audit not later than end of April 2008.
- N) Circular No. (2/IBS/IIS/215/2008) concerning the amendment of the rules and regulations for granting consumer finance and personal installment finance transactions.
- O) Circular No. (2/BS,IBS,IS,IIS/216/2008), amending the tables of consumer loans (finance transactions) and other installment housing loans.

**Instructions No. (2/IBS/161/2004)**  
**Concerning the Rules & Regulations For Consumer Finance and Other**  
**Personal Installment Finance Transactions Accorded by the Islamic Banks<sup>(1)</sup>**

**First: Definitions**<sup>(2)</sup>

- 1) Consumer finance transactions mean: **medium-term personal** transactions concluded with customer (such as Murabaha and Musawama transactions) for the purpose of financing the purchase of his personal needs of consumer and durable goods, and repaid on monthly installments for a period not exceeding 5 years.
- 2) Personal installment finance transactions mean: **long-term personal** finance transactions utilized by the customer for non-commercial purposes, in particular for maintenance or purchase of a private residence. This finance is repaid in monthly installments during a period not exceeding 15 years.

**Second: Maximum Amount of Consumer Finance and Other Personal Installment Finance Transactions**<sup>(3)</sup>

The maximum limit for consumer finance and other personal installment finance transactions, is to be calculated on the basis of the **total** of consumer finance and other personal installment finance transactions obtained by anyone single customer from more than one lender. For consumer finance, this limit is 15 times the monthly salary (after deductions)<sup>(4)</sup> or the continuous monthly income of the customer, subject to a maximum of KD 15,000. For personal installment finance, the limit may not exceed KD 70,000 including the maximum limit for consumer finance. In the event the bank grants consumer or other installment finance against the continuous monthly income, this should be kept within the narrowest limits.

**Third: General Regulations Governing the Extension of Consumer Finance and Other Personal Installment Finance**

A Bank shall observe the following regulations in respect of granting consumer finance and other personal installment finance :

- (1) Instructions issued by Central Bank of Kuwait Board of Directors at its meeting of 6/6/2004
- (2) Definitions were amended pursuant to circular No. (2/IBS, IIS/215/2008) issued on 24/3/2008
- (3) Item "Second" was amended pursuant to circulars No. (2/IBS/174/2005), (2/IBS/185/2006) & (2/IBS/203/2007).
- (4) Deductions from the salary are meant to be those reported in the official salary certificate issued by the employer of the customer, or reported in the certificate issued by Public Institution for Social Security for the monthly pension of the retired customers.

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- A) Instructions No. (2/IBS/161/2004) concerning the rules & regulations for consumer finance transactions and other personal installment finance accorded by the Islamic banks .

- 1) The customer's application shall include the following data as a minimum:
  - a- Amount of the consumer finance transaction or personal installment finance transaction intended to be concluded with the Islamic bank.
  - b- The specific purpose of the finance transaction.
  - c- Finance's Repayment Source. If the salary is not the source of payment, the customer should specify the other repayment sources.
  - d- Repayment period as requested by the customer.
  - e- Statement of the consumer and other personal installment finances, as well as the similar existing financial obligations, which the customer might have obtained from other banks or institutions subject to the Central Bank's or any other authorities supervision.
- 2) Upon receiving the customer's application for a consumer finance or any other personal installment finance, the bank shall immediately study the propose of the finance and verify the repayment source and fulfillment of all other terms.
- 3) It is prohibited for Islamic banks and investment companies to conclude finance transactions with natural persons under any other names, if the source of repaying the principal debt and / or the interest is the salary or the continuous monthly income of the customer. Finance granted to customers within this context is limited to consumer finance and installment (housing) finance according to the concept established in these instructions.<sup>(1)</sup>
- 4) The Central Bank of Kuwait stresses the requirement for banks and investment companies to ascertain, when granting consumer finance and installment (housing) finance, all the existing obligations of the customer, so as to determine the appropriate size of the finance for the customer and the amount of monthly installments, ensuring that the monthly burdens of the borrower do not exceed the above-mentioned limits<sup>(1)</sup>.

(1) This paragraph was added pursuant to circular No. (2/IBS,IIS/215/2008) issued on 24/3/2008.

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- A) Instructions No. (2/IBS/161/2004) concerning the rules & regulations for consumer finance transactions and other personal installment finance accorded by the Islamic banks .

- 5) The bank shall obtain from the employer of applicant for the consumer finance or any other personal installment finance, a certificate stating his monthly salary, or a document evidencing that the applicant has got a regular monthly income <sup>(1)</sup>.
- 6) Any one customer may obtain consumer finance or other personal installment finance from more than one source, provided that:
  - a) The total of the consumer finance transactions and other personal installment finance transactions obtained by a borrower from all lenders, may not exceed the maximum limits established under item “Second”.
  - b) Total installments of consumer loans, consumer finance transactions and other installment (housing) finance obtained by the customer from all lenders may not exceed 40% of the borrower’s net salary (after deductions) or his continuous monthly income, or 30% for loans and finance accorded to pensioners <sup>(2)</sup>.
  - c) In cases where the customer applies for (a consumer or installment) finance and his submitted salary certificate indicates that he is getting a rental allowance, then the rental allowance must be excluded from the salary when calculating the total installments / net salary ratio which may not exceed 50% <sup>(1)</sup>.
- 7) The bank must inquire through (Ci-Net) on the customer’s data as to the loans consumer and installment finance he has obtained, so as to ascertain the customer’s input on the size of his financial obligations towards other banks and companies, as well as to ascertain that total monthly installments do not exceed 50% of the customer’s monthly salary or income.
- 8) The agreement concluded between the bank and the borrower of the consumer finance or any other personal installment finance, shall include the following:

(1) This paragraph was amended pursuant to circular No. (2/IBS/203/2007) issued on 12/3/2007.

(2) This paragraph was amended pursuant to circular No. (2/IBS/203/2007) issued on 12/3/2007, and circular No. (2/IBS, IIS/215/2008) issued on 24/3/2008.

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- A) Instructions No. (2/IBS/161/2004) concerning the rules & regulations for consumer finance transactions and other personal installment finance accorded by the Islamic banks .

- a- The customer's approval that the bank shall collect the installments directly from the employer or through debit to the customer's account to which his fixed income is transferred.
  - b- The specific purpose of the finance.
  - c- The installments amounts and repayment dates.
- 9) The bank shall obtain the following documents:
- a- A copy of the identify card or passport and the residency permit proof (for non-Kuwaitis who have not obtained Civil ID Card yet), the residence evidence (Electricity / water bill or lease contract).
  - b- The sufficient collaterals to secure the recovery of all of the bank's rights.
- 10) The bank shall provide the Central Bank with the following information on monthly basis, using the attached forms:
- a- Total consumer finance transactions, broken down by categories of the finance.
  - b- Total other personal installment finances, excluding the consumer finances, categorized per purpose.
  - c- Statement of customers of the consumer finance and other installment finance against whom legal actions have been taken (It is to be observed that when stating the date of proceeding with the legal actions, this has to be restricted to the cases where a writ of summons has been filed against the customer).
- 11) As regards the balloon payment determined by some Islamic banks and investment companies when granting consumer finance and other personal installment finance, the use of the balloon payment must be restricted to the narrowest limits and only when necessary, depending on the outcome of the credit study conducted on the customer, as per the Central Bank of Kuwait instructions concerning the organization and rationalization of banks credit policy. In case a balloon payment is determined for this type of

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- A) Instructions No. (2/IBS/161/2004) concerning the rules & regulations for consumer finance transactions and other personal installment finance accorded by the Islamic banks .

finance, the maximum limit for this payment must be calculated in accordance with the following rules:

- a- For Consumer Finance : The balloon payment amount may not exceed the total of the monthly installments for one year, while observing the the Central Bank of Kuwait instructions which stipulate **that the maximum repayment period for the consumer finance is 5 years, and that the rescheduling period may not exceed one year**, as per the rules of item “Fourth” of the relevant instructions.
  
- b- For Personal Installment Finance : The balloon payment may not exceed the total of the monthly installments for 3 years, while observing the Central Bank of Kuwait instructions which stipulate that the maximum period for the repayment of the personal installment finance is 15 years, and that the rescheduling period may not exceed 3 years, as provided for under item “Fifth” of the relevant instructions<sup>(1)</sup>.

#### **Fourth: Regulations Related to the Consumer Finance Transactions:**

- 1) The bank must obtain from the employer of the consumer finance customer, a certificate stating his monthly salary. If the customer is a retired person, a certificate from the *Public Institution for Social Security* stating his monthly pension must be obtained.
- 2) The maximum finance repayment period shall be five years.
- 3) The finance granting bank shall obtain promissory notes duly signed by the borrower for the installments amounts, payable on the installments payment dates.
- 4) The guarantor, if any, must sign the finance agreement concluded with the customer, and the bank must obtain the necessary information on the guarantor to ascertain the efficiency of his guarantee of the customer in securing the bank’s rights. The information may be obtained from the guarantor himself, or from other information sources such as (Ci-Net).

(1) Paragraph No. (11) was added pursuant to circular No. (2/IBS/185/2006).

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#### **10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- A) Instructions No. (2/IBS/161/2004) concerning the rules & regulations for consumer finance transactions and other personal installment finance accorded by the Islamic banks .

- 5) In the event the bank reschedules the consumer finance, if so needed, the following rules must be taken into account:
- a. The rescheduling shall be within the narrowest limits and for the purpose of protecting the bank's rights. There should be convincing reasons for rescheduling, most importantly an evidence of the customer's real inability to repay and the uselessness of legal actions.
  - b. The rescheduling should not involve granting any new finance to the customer in addition to the one already granted and which is meant for reschedulement.
  - c. The repayment period according to the reschedulement shall not exceed one year, apart from the original repayment period determined for the finance and which is a maximum of five years, meaning that the repayment period, including the rescheduling period, may not exceed 6 years.
  - d. The bank shall prepare a statistical record of the reschedulement cases in chronological order.

**Fifth: Regulations for Personal Installment Finance Transactions:**

- 1) The maximum repayment period for the personal installment finance is 15 years.
- 2) It is not allowed to combine the salary (or continuous monthly income) for customers of first degree of kinship, including the husband and the wife, and neither of these two may guarantee the other.
- 3) In the event the bank reschedules the personal installment finance, if so needed, the following rules must be taken into account:
  - The rescheduling shall be within the narrowest limits and for the purpose of protecting the bank's rights. There should be convincing reasons for rescheduling, most importantly an evidence of the customer's real inability to repay and the uselessness of legal actions.



- The rescheduling should not involve granting any new finance to the customer in addition to the one already granted and which is meant for reschedulement.
- The repayment period according to the reschedulement shall not exceed three years, apart from the original repayment period determined for the finance and which is a maximum of fifteen years, meaning that the repayment period, including the rescheduling period, may not exceed 18 years.
- The bank shall prepare a statistical record of the reschedulement cases in chronological order.

**Sixth: These instructions shall come into force effective the date of their notification.**

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

Bank : .....

Date : .....

**Statement Of Total Existing Consumer Finance  
Transactions As On    /    /  
Form A.M(3)**

(KD 000's)

Categories in  KD	Kuwaitis				Non - Kuwaitis				Total ( Kuwaitis & Non-Kuwaitis)			
	Number Of Customers	Balance	Out of which, the transactions against which legal actions have been taken		Number of customers	Balance	Out of which, the transactions against which legal actions have been taken		Number Of customers	Balance	Out of which, the transactions against which legal actions have been taken	
			Number of customers	Balance			Number of customers	Balance			Number Of customers	Balance
Upto 1000												
1001-2000												
2001-3000												
3001-4000												
4001-5000												
5001-7000												
7001-10000												
Above 10000												
Total												

Bank's Signature & Seal : \_\_\_\_\_

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

Bank : .....

Date : .....

*The Consumer Finance Transactions Against which Legal  
Action Have been taken During The Month of .....*  
**Form A.M(7)**

(KD 000's)

Serial No.	Name	Balance of The Transactions	Transaction's Duration	Date of initiating Legal Actions*	Reason of initiating The Legal Actions	Remarks

Signature & Seal of the Bank / Company: .....

\* The date of initiating legal action is the date of entering the statement of claim against the customer. This represents the basis for including the customer in this statement.



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

Bank : .....

Date : .....

***Statement of Total Existing Personal Installment  
Finance Transactions (Excluding The consumer  
Finance Transactions)***

***As On    /    /***

***Form A.M(20)***

(KD 000's)

Purpose	Number of Customers	Balance	Out of which, The Transactions against which Legal Actions Have Been Taken	
			Number of Customers	Balance
- Repair or Completion of construction				
- Purchase or construction of a private house				
- Purchase of a land for the purpose of constructing a private residence				
- Others - (to be specified)				
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- Total Personal installment finance transactions				

Signature and Seal of the Bank:.....

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

Bank : .....

Date : .....

***The Personal Installment Finance Transactions  
(Excluding The Consumer Finance Transactions) against which  
Legal Actions Have Been Taken During The Month of .....***  
**Form A.M(21)**

(Amount in KD)

Serial No.	Name	Balance of The Transaction	Transaction's Duration	Date of Initiating Legal Actions*	Reason of Initiating Legal Actions	Remarks

Signature & Seal of the Bank / Company:.....

\* The date of initiating legal action is the date of entering the statement of claim against the customer. This represents the basis for including the customer in this statement

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

Bank :.....

Date : .....

***The Personal Installment Finance Transactions  
(Excluding The Consumer Finance Transactions)  
Which Legal Actions Have Been Lifted  
Form A.M(22)***

Serial No.	Name	Date of Initiating the Legal Actions	Date of Lifting The Legal Actions	Remarks

Signature & Seal of the Bank .....

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

Bank : .....

Date : .....

**Statement of Total Consumer Finance Transactions & Personal  
Instamnt Finance Transactions \***

As on / /

Form A.M (23)

(KD 000's)

Description	Balance
Total of Consumer Finance Transactions ** (1)	
Total of Personal Installment Finance Transactions, Excluding the Consumer Finance Transactions ***(2)	
Total (3) = (1+2)	

Signature & Seal of the Bank .....

\* other than finance extended to bank staff according to its by laws, as follows:

- Consumer finance transactions:

- Personal Installment Finance Transactions :

KD 000

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\*\* This should match with Total of Form A.M (3)

\*\*\* This should match with Total of Form A.M (20)



**GOVERNOR**

*Ramadhan 15, 1424 H  
November 10, 2003*

**THE CHAIRMAN,**

**Circular No. (2/IBS/115/2003)  
To All Islamic Banks**

This has reference to the instructions issued by the Central Bank of Kuwait in connection with " rules and regulations for consumer finance and other personal installment finance granted by Islamic banks ".

In order for the Central Bank to be able to follow up banks activity in this area within the framework of regulating the market of this type of finance, we would like to stress that it is prohibited for Islamic banks to dispose of its consumer finance and other personal installment finance portfolio, or part thereof, in any manner resulting in transferring ownership of the portfolio, or part thereof, to entities not subject to the supervision of the Central Bank.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

Ramadhan 15, 1424 H  
November 10, 2003

**THE CHAIRMAN,**

**Instructions No. (2/IBS/135/2003) To All Islamic Banks  
Concerning Credit Information Network Company System (Ci-Net),  
and the exchange of information on consumer finance  
and other personal installment finance transactions in respect  
of which legal actions have been taken**

With reference to Law No.(2) of the year 2001 Concerning " the establishment of a system for collection of information and data on consumer loans and credit facilities associated with installment sale transactions ", and to Credit Information Network Company (Ci-Net) establishment pursuant to the mentioned law for this purpose.

We would like to stress the compliance of your bank with the rules of the said law, and with the rules and regulations for the implementation of the mentioned company's system, as well as with the Central Bank's instructions concerning the rationalization and organization of Islamic banks finance policy which stipulate that the study prepared on the customer must include all his basic data, the outcome of the inquiry on the customer and the consistency of the accorded finance with the customer's own resources and capabilities.

Your bank must also provide the Central Bank with the periodic information and data required on consumer finance and other personal installment finance and other personal installment finance transactions in accordance with the relevant Central Bank's instructions, in addition to providing the said company with the information and data needed to operate the company's system.

On the other hand, with regard to reporting the information in the list of customers against whom legal actions have been taken, the mechanism to be adopted is to continue reporting all information on cases of customers default on payment and the initiation of legal actions against the customers in the mentioned list, for three years from the date of lifting the legal actions, following which the name of the customer will be excluded from the list.

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- C) Circular No. (2/IBS/135/2003) Concerning (Ci-Net) Company System and exchange of information on consumer and personal installment finance transactions for which legal actions have been taken.

It is noteworthy in this regard the continued reporting of the name of the customer in the list for three years from the date of lifting the legal actions taken against him that this is meant to be a restriction on Islamic banks in relation to extending new finance to the customer during that period, because the finance extension decision is the absolute responsibility of the banks according to their finance policies.

Islamic banks have to set-up the internal systems that ensure the confidentiality of the data and information reported in the said list, and may not be misused.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

*Thu Al-Qi'da 25, 1425 H  
January 6, 2005*

**THE CHAIRMAN,**

**Circular No. (2/IBS/174/2005)  
To Local Banks Operating in Accordance  
with Islamic Shareea'a Principles**

With reference to the instructions concerning the rules and regulations that must be complied with in relation to consumer financing and other personal installment financing transactions extended by Islamic banks, as notified to you on 8/6/2004.

We would like to advise you that the Central Bank of Kuwait Board of Directors has decided to cancel the maximum limit established for total consumer and other personal installment financing transactions set out in Item (Second /1) of the above mentioned instructions, and representing 12% of the private sector deposits, CDs in issue and other financial institutions deposits, in addition to 30% of financing sukuk in issue.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

*Ramadhan 30, 1426 H  
November 2, 2005*

**THE CHAIRMAN,**

**“Circular to All Local Banks”**

With reference to the data supplied to the Central Bank of Kuwait by your bank as audited by your external auditors and relevant to consumer loans customers against whom legal action have been taken, kindly take the necessary actions for making the required amendments to the data of your bank pertinent to the subject customers and loaded to the database of Credit Information Network Company (Ci-Net) in the light of the audited data referred to above. Due accuracy must be observed in this respect, and these procedures must be completed not later than 31/12/2005, subject to advising us to this effect.

**We would also like to draw your attention that the Central Bank of Kuwait will discontinue, with effect from 31/12/2005, the use of its database relevant to customers of consumer and other installment loans against whom legal actions have been taken. Commencing from 1/1/2006, the use will be limited to the database of those customers operated by Credit Information Network Company (Ci-Net).**

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- E) Circular regarding the discontinuation of the use of Central Bank of Kuwait's database relevant to consumer and other installment loans customers, against whom legal actions have been taken, and the use of the database of those customers operated by Credit Information Network Company (Ci-Net), with effect from 1/1/2006.

**GOVERNOR**

*Moharram 8, 1427 H  
February 7, 2006*

**THE CHAIRMAN,**

**Circular No. (2/BS/185/2006)  
To All Local Banks & Investment Companies<sup>(\*)</sup>**

This has reference to Central Bank of Kuwait instructions regarding the rules and regulations to be complied with in relation to consumer finance and other personal installment finance transactions accorded by Islamic banks and investment companies. We have noticed a variance in the interpretation of the concept of compliance with the maximum limit for consumer finance and other personal installment finance established for anyone single customer. We have also noticed that some Islamic banks and investment companies grant such types of loans including a balloon payment that exceeds the borrower's salary. Therefore, we stress the requirement for complying with the following:

1. The maximum limit for consumer finance and other personal installment finance as established in the subject instructions, is to be calculated on the basis of the **total** of consumer finance and other personal installment transactions obtained by anyone single customer from more than one lender. For consumer finance, this limit is 15 times the monthly salary or the monthly continuous income of the customer, subject to a maximum of KD 15,000. For personal installment finance, the limit may not exceed KD 70,000 including the maximum limit for consumer finance.
2. As regards the balloon payment determined by some Islamic banks and investment companies when granting consumer finance and other personal installment finance, the use of the balloon payment must be restricted to the narrowest limits and only when necessary, depending on the outcome of the credit study conducted on the customer, as per the Central Bank of Kuwait instructions concerning the organization and rationalization of banks credit policy. In case a balloon payment is determined for this type of finance, the maximum limit for this payment must be calculated in accordance with the following rules:

(\*) Operating in compliance with Islamic Shari'a rules.

**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- F) Circular No. (2/BS/185/2006) Concerning the definition of the maximum limit for consumer finance and other personal installment finance transactions to anyone single customer, as well as the determination of the maximum period during which the balloon payment of these loans is to be repaid.

- A) For Consumer Finance : The balloon payment<sup>(1)</sup> amount may not exceed the total of the monthly installments for one year, while observing the Central Bank of Kuwait instructions which stipulate that the maximum repayment period for the consumer finance is 5 years, and that the rescheduling period may not exceed one year, as per the rules of item “Fourth” of the relevant instructions.
- B) For Personal Installment Finance : The balloon payment<sup>(1)</sup> may not exceed the total of the monthly installments for 3 years, while observing the Central Bank of Kuwait instructions which stipulate that the maximum period for the repayment of the personal installment finance is 15 years, and that the rescheduling period may not exceed 3 years, as provided for under item “Fifth” of the relevant instructions.

Kindly observe the above rules with effect from this letter’s date.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

(1) Pursuant to circular No. (2/IBS, IIS/215/2008) issued on 24/3/2008, Central Bank of Kuwait prohibited the balloon payment method when banks and investment companies grant consumer loans and investment loans, so that all installments do not exceed the established maximum limit.

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- F) Circular No. (2/IBS/185/2006) Concerning the definition of the maximum limit for consumer finance and other personal installment finance transactions to anyone single customer, as well as the determination of the maximum period during which the balloon payment of these loans is to be repaid.

**GOVERNOR**

*Moharram 5, 1428 H  
January 24, 2007*

**THE CHAIRMAN,**

**" Instructions to All Local Banks Concerning Insurance Charges  
Borne by Consumer and Installment Loans Customers "**

This has reference to Central Bank of Kuwait's instructions issued to all local banks on 7/4/2002 and 29/5/2002<sup>(1)</sup> concerning the fees and commissions applied to credit facilities extended to customers, and which provided that: "No insurance fees may be collected against any type of credit facilities, except where a contract is signed with a specialized insurance company requiring the payment of insurance premiums to such company, and provided that the insurance fees collected from customers shall be limited to the amount paid to the insurance company".

We would like to advise you that, with effect from this letter's date, your bank has to comply with the following:

- 1- Insurance on consumer and installment loans customers shall be optional, and not obligatory, for the customers.
- 2- In the event the customer opts to take the insurance, the bank must obtain the customer's approval to this effect, while observing the following:
  - Insurance charges shall be equally shared between the bank and the borrower at the rate of 50% for each party, with the amount of insurance charges borne by the customer not to exceed a maximum of 2% of the amount of the loan, while the bank shall bear the remaining percentage which shall not be less than the percentage borne by the customer.
  - The insurance premiums shall be charged over the life of the loan, so as to be payable on a monthly charge basis along with the loan monthly installment. In the event the customer prepays his loan before its maturity, he will be relieved from paying the remaining insurance premiums.

(1) Corresponding to circular No. (2/IBS/134/2003) issued to local banks on 10/11/2003.



- Customers must be advised of the scope of insurance coverage of the consumer and installment loans, through providing the customer with a copy of the terms and conditions governing the insurance policy that covers those types of loans. The customer's signature must be obtained in acknowledgement of having reviewed such terms and conditions.
- 3- Necessary amendment to this effect must be made to the list of fees and commissions applied by your bank, with a copy of the page containing such amendment to be supplied to us.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

*Moharram 25, 1428 H  
February 13, 2007*

**THE CHAIRMAN,**

**Circular No. (2/202/BS,IBS,IS,IIS/2007)  
concerning the procedures local banks and investment companies have to  
comply with for rectifying existing violations of the rules and regulations  
for extending consumer loans (finance transactions) and installment loans<sup>(1)</sup>**

Within the framework of the Central Bank of Kuwait's responsibilities, and in the light of the outcome of the on-site and off-site follow up of the banking and financial units, which revealed that some banks and investment companies have violated the established rules for extending consumer and installment loans as provided for under the relevant instructions.

And in order to ensure consistency of actions taken by the respective banks and investment companies in this regard, enclosed are the procedures that banks and investment companies have to comply with in order for them to rectify the existing violations of the rules and regulations for extending consumer and installment loans<sup>(2)</sup>.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

- (1) Circular No. (2/BS,IBS/208/2007) was issued in respect of credit cards issued by local banks, and this circular was categorized as item (C) in section (21) of this guide.
- (2) The circular dated 24/3/2008 was issued with regard to rectifying some practices relevant to installment loans.

**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- H) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

**The procedures local banks and investment companies have to comply with for rectifying the existing violations of the rules and regulations for extending consumer and installment loans<sup>(\*)</sup>**

**First : General Concepts:**

**1- The Accountable Lender:**

**In the event a customer obtains loans from more than one lender, the responsibility for the violation rests with the lender which extension of the (consumer or installment) loan to the customer resulted in exceeding the established maximum limit, whether in terms of the total value of the loans, or in relation to the repayment period, or in respect of the amount of the monthly installments due from the customer.**

An example of this would be as follows:

If a customer has obtained an installment loan from a lender not exceeding the maximum established limit (less than KD 70 thousand), then the same customer obtains another loan from a second lender leading to the excess of his existing liabilities over the established limit, then the second lender will be held accountable for the violation, and will have to take the actions necessary for rectifying the violation in the manner to be set out hereafter.

**2- Financial Burdens:**

The lender held accountable for the violation (be it a bank or an investment company), shall bear the financial burdens resulting from the remedial actions in the manner to be described hereafter.

**3- The Scope of Application of the Proposed Procedures:**

The proposed procedures shall apply to local banks' and investment companies' currently existing violations of the limits and controls established under the rules and regulations for granting consumer and other installment loans. As for the new cases of granting such types of loans, local banks and investment companies have to strictly comply with the controls and limits established under the Central Bank of Kuwait instructions, while observing the concepts and clarifications included in the following procedures. It has to

<sup>(\*)</sup> The term "loans", wherever mentioned in this memorandum, applies also to finance transactions.

**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

H) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

be noted that the repeated violation of the established controls in respect of the new cases of loans extension, will expose the breaching lender to the financial penalty for each breaching transaction apart, i.e. at the level of each customer, and the breaching lender will have to comply with the following procedures for rectifying the violation:

## **Second: Proposed Procedures For Remedial of Existing Violations**

### **1- Violating the maximum limit established for the amount of the installment loans:**

#### **(KD 70 thousand for installment loan – including the consumer loan)**

In the event of violating the established maximum limit, the interest rate / return rate calculated on the excess amount in the loan granted to the customer over the established limit, will have to be reduced, so as to apply the discount rates announced by the Central Bank with effect from the date of granting such excess amount until repayment in full. Accordingly, the amount of the loans due from the customer shall be reduced by the amount of the reduction in the interest / return rate.

### **2- The violation where the monthly installments exceed 50% of the monthly salary or income of the customer on the date of granting the loan:**

It is commonly known that the interest calculated on the loan has to be taken into account when computing the amount of the monthly installment.

In the event the amount of the monthly installments calculated on this basis exceed 50% of the monthly salary or income of the customer, then the accountable lender shall have to reduce the amount of the loan so that the total monthly installments do not to exceed 50% of the monthly salary or income of the customer, in which case the accountable lender shall bear the financial burdens resulting from the same, and while observing the rule that the loans repayment period shall not exceed the established tenor (5 years for the consumer loans and 15 years for the installment loans).

### **3- The violation of exceeding the established repayment period:**

#### **(5 years for the consumer loans and 15 years for the installment loans).**

It is a must to comply with Central Bank of Kuwait's instructions which provide that the repayment period shall not exceed 5 years for the consumer

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#### **10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- H) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

loan and 15 years for the installment loan. Only in the case of rescheduling the loan, the repayment period may be increased by one year for the consumer loan and 3 years for the installment loan.

If the repayment period determined at the time of granting the loans exceeds the established repayment period, then the accountable lender will have to reduce the repayment period down to the established limits (5 years for the consumer loans and 15 years for the installment loans, commencing from the date of granting the loan), and will have to calculate the monthly installment on this basis, while reducing the applied interest rate / return rate – if so required - so that the total monthly installments due from the customer would not exceed 50% of his monthly income.

It has to be observed that the repayment tenor may not be extended except in case of the need for rescheduling the loan in accordance with the conditions provided for under the Central Bank of Kuwait relevant instructions, and provided that the rescheduling period shall not exceed one year for the consumer loan and 3 year for the installment loan beside the residual period of the original repayment tenor.

#### **4- In the Case of A Final (Balloon) payment:**

The amount of the final (Balloon) payment may not exceed the total monthly installments (calculated on the basis of the principal and the interest computed thereon for one year for a consumer loan, and for 3 years for the installment loan). In the event the final payment exceeds this amount, then the amount of the customer's obligation shall be reduced by the amount of the difference through reducing the applied interest rate / return rate, in which case the lender accountable for this violation shall bear the burdens of such difference.

**Third:** Banks and investment companies have been given a grace period expiring on 15/3/2007 for rectifying their existing violations in relation to consumer and installment loans, in accordance to the aforementioned procedures, **and will have to provide Central Bank of Kuwait, not later than the end of April 2007, with a statement of the total number of cases which have been rectified, showing the total number of customers and the amounts that will be borne by the bank or the investment company.**

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#### **10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- H) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

Banks and investment companies have also to provide the Central Bank of Kuwait, not later than the end of September 2007, with detailed data on such cases <sup>(1)</sup> audited by the external auditors, in addition to a letter from the external auditors testifying that the bank / investment company has rectified all the violations that were existing in relation to the consumer and installment loans, as per the procedures and instructions issued by the Central Bank of Kuwait in this regard.

13/2/2007

(1) Circular issued on 3/5/2007 stress the certificate required to be submitted in this respect must be signed by both external auditing firms of the bank's.

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

H) Circular No. (2/BS,IBS,IS,IIS/202/2007) concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

**GOVERNOR**

*Safar 22, 1428 H  
March 12, 2007*

**THE CHAIRMAN,**

**Circular No. (2/IBS/203/2007)  
to All Shari'a – Compliant Local Banks  
Concerning Amendments to the Rules and Regulations for  
According Consumer Finance Transactions and Other  
Personal Installment Transactions**

I would like to advise you that Central Bank of Kuwait Board of Directors, at its meeting of 11/3/2007, resolved to introduce certain amendments to Central Bank of Kuwait instructions of 6/6/2004 concerning the rules and regulations for according consumer finance transactions and other personal installment finance transactions. The new amendments are as follows:

**1- Amendment of Item (2) from " Second " of the subject instructions has been revised to read as follows:**

“ The amount of the consumer finance transactions shall not exceed 15 times the net monthly salary (after deductions\*), or continuous monthly income of the customer, up to a maximum of KD 15 thousand. In the event of granting consumer finance transactions or other personal installment finance transactions against the continuous monthly income, this should be kept within the narrowest limits”.

**2- Amendment of Item (3) from " Third " of the subject instructions has been revised to read as follows:**

“The bank must obtain from the employer of the applicant for consumer finance transactions or other personal installment finance transactions a certificate detailing his monthly salary and all monthly deductions, or an evidence certifying the availability of the sources of continuous monthly income”.

\* Deductions from the salary are meant to be those reported in the official salary certificate issued by the employer of the customer, or reported in the certificate issued by Public Institution for Social Security for the monthly pension of the retired customers.

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- 1) Circular No. (2/IBS/203/2007) to all Islamic shari'a – compliant local banks, concerning amendments to the rules and regulations for extending consumer finance transactions and other personal installment finance transactions.

**3- Amendment of Item (4) from " Third " of the subject instructions has been revised to read as follows:**

“ A one single customer may obtain consumer finance transactions and other personal installment finance transactions from more than one lender, subject to the following conditions:

- a) The total of the consumer finance transactions and other personal installment finance transactions obtained by a borrower from all lenders, may not exceed the maximum limits established under item “Second”.
- b) Total installments may not exceed 50% of the borrower’s net salary (after deductions) or his continuous monthly income. The bank must obtain a declaration from the customer to this effect.
- c) In cases where the customer applies for a finance transaction (consumer or installment) and his submitted salary certificate indicates that he is getting a rental allowance, then the rental allowance must be excluded from the salary when calculating the total installments / net salary ratio which may not exceed 50%”.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**



**GOVERNOR**

*Rabi Al-Awal 27, 1428 H  
April; 15, 2007*

**THE CHAIRMAN,**

**Circular No. (2/BS, IBS/205/2007) to All Local Banks  
Concerning Consumer and Installment Loans Prepayment Fees**

This has reference to the list of fees and commissions currently applied by the local banks, and which includes the collection of fees in case of consumer and installment loans prepayment.

We would like to advise you that, with effect from above date, local banks have to discontinue the collection of the mentioned fees. Kindly make the necessary amendment to your list of fees & commissions, and provide us with a copy of the amended page of the list.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**Executive Director**

*Rabi Al-Akhir 16, 1428 H  
May; 3, 2007*

**THE GENERAL MANAGER,**

**Circular to All Local Banks and Investment Companies**

Further to the circular issued by the Central Bank of Kuwait on 13/2/2007 concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer and installment loans (finance transactions).

We specifically refer to the contents of Item “Third” of this circular, which provides that “banks and investment companies have also to provide the Central Bank of Kuwait, not later than the end of September 2007, with detailed data on such violation cases audited by the external auditors, and rectified, in addition to a certificate from the external auditors testifying that the bank / investment company has rectified all the violations that were existing in relation to the consumer and installment loans, as per the procedures and instructions issued by the Central Bank of Kuwait in this regard”.

**We would like to stress the contents of the above mentioned circular, ruling that the certificate required to be submitted in this respect must be signed by both external auditing firms of the bank’s and investment company’s accounts, which naturally requires, in the manner set out in the mentioned circular, the audit process to be conducted by the two firms as well.**

Best Regards,

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

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- K) Circular stressing that the certificate required to be submitted must be signed by both external auditing firms, testifying that banks have rectified all the violations that were existing in relation to the consumer and installment loans (finance transactions) rules and regulations.

**Manager**

*Ramadhan 27, 1428 H  
October 9, 2007*

**M/S EXTERNAL AUDITORS,**

**Circular to Banks and Investment Companies' External Auditors**

This has reference to the circular dated 5/3/2007, requesting certain banks and investment companies to provide us with duly audited detailed statement on their existing violations of the consumer loans (finance transactions) and installment loans regulations, and the actions taken towards rectifying these violations. We also requested the auditors to provide us **no later than end of September 2007** with a certificate indicating that all violations then existing were rectified in accordance with the Central Bank of Kuwait's circular dated 13/2/2007.

In addition to the above, you are kindly requested to provide us with:

1. A summary statement showing the number of violations, and cost of rectification borne by the accountable lender (bank or investment company), according to such Lender's statement, and according to auditors' calculations (from attached).
2. The required certificate, indicating compliance with the requirement of rectifying all violations by banks/investment companies with regard to consumer loans (finance transactions) and installment loans, in accordance with the above mentioned circular, must be in Arabic. The certificate should explicitly state that rectification of the violations was made in accordance with the procedures and instructions issued by the Central Bank of Kuwait in this respect.
3. CD containing detailed statements of the violating accounts, which were rectified.

**We should receive your reply No later than Thursday, 18/10/2007.**

Best regards,

**Mohammad Yousef Al-Hashel, PH.D.  
Manager of Off-Site Supervision Department**

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10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS

L) Circular to banks and investment companies external auditors, concerning the completion of the data on breaches rectification.

**Summary of cases violating the rules and regulations of granting  
Consumer Loans (Finance Transactions) and Installment Loans  
In accordance with Central Bank of Kuwait Circular dated 13/2/2007**

Violation	Violations calculated according to bank/investment company's statement		Violations calculated by external auditors	
	No. of Violations	Cost of Rectification borne by bank/investment company (KD)	No. of Violations	Cost of Rectification borne by bank/investment company (KD)
1	Consumer loan exceeds 15 times the customer's monthly salary/income, up to a maximum of KD 15,000.			
2	Granted loan exceeds the prescribed maximum (KD 70,000 for installment loans, including consumer loan).			
3	Monthly installments exceeding 50% of customer's monthly salary/income.			
4	Prescribed repayment period exceeded (5 years for consumer loan, and 15 years for installment loan).			
5	Final payment exceeds total monthly installment for 12 months, as for consumer loans, and total installments for 36 months, as for installment loans.			
<b>Total</b>				

**GOVERNOR**

*Thu Alqi'da 9, 1428 H  
Novembe; 19, 2007*

**THE CHAIRMAN,**

**CIRCULAR TO ALL LOCAL BANKS <sup>(1)</sup>**

In line with the Central Bank of Kuwait's tendency towards intensifying the procedures of On-Site consumer loans (finance transactions) and installment loan inspection, giving more satisfaction as to ensuring banks' compliance with the controls set under the Central Bank of Kuwait's instructions on the rules of granting consumer and installment loans, and

Pursuant to the rulings of Paragraph (C )of Article (84) of Law No. (32) of the year 1968 concerning Currency, the Central Bank of Kuwait, and Organization of Banking Business, and its amendments, banks should assign both their auditors to audit consumer loans (finance transactions) and installment loans granted during **the period from 16/1/2007 to 31/12/2007**.

Banks shall submit their reports on the above to the Central Bank of Kuwait latest by end of April 2008, along with a summary table of violations, if any, showing their number and cost of rectification thereof, pursuant to the rulings of the Central Bank of Kuwait circular of 13/2/2007. This table is to be attached to a certificate from the external auditors, confirming that violations – if any – have been rectified according to the subject instructions. The certificate should not include any qualifications in this regard.

Within the context of the actions taken with regard to the above mentioned audit, we would like to clarify that in the event we do not receive the required report, along with attachments, within the set period, which should not exceed 30/4/2008, delay financial penalties will be imposed at the rate of KD 1,000 for each working day of delay. The date on which we receive the reports, free of any qualifications, will be the one to be considered.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

(1) The circular dated 24/3/2008 was issued with respect to rectifying some practices related to installment loans (finance transactions).

**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

M) Circular on assigning both external accounts auditors to audit the consumer loans (finance transactions) and installment loans granted during the period from 16/1/2007 till 31/12/2007, and to submit to Central Bank of Kuwait a report on this audit not later than end of April 2008.

**GOVERNOR**

*Rabi Al-Awal 16, 1427 H  
March; 24, 2008*

**THE CHAIRMAN,**

**Circular No. (2/IBS,IIS/215/2008)**

**To all Islamic Banks and Investment Companies Operating in Accordance  
with Islamic Shari'a Rules on Amending the Rules and Regulations of  
Granting Consumer Finance and Personal Installment Finance**

This refers to the Central Bank of Kuwait's instructions on the rules of granting consumer finance and other personal installment finance, and within the framework of the Central Bank of Kuwait's review of the performance of banks and investment companies in this area of their financing activities.

The Central Bank of Kuwait's Board of Directors, at its session held 23/3/2008, resolved to amend the rules of granting consumer finance and personal installment finance granted by Islamic banks and Shari'a – compliant investment companies. Thus contributing to enhancing the positive role of these finance transactions in socio-economic development, while avoiding the negative aspects and violations in granting such finance over the past period.

These instructions redefine the consumer and installment finance by determining their maturity, which is to be explicitly stipulated in the rules organizing the granting of consumer and installment finance, taking into consideration the text of Article (115) of the Commercial Law. According to the instructions, the balloon payment method has been prohibited, and the ratio of total installments of the loans and finance granted to the customer from all lending parties, to the net continuous monthly salary or income, has been reduced. In addition, these instructions reduced the maximum amount of the monthly installments of the loans and finance.

**Based on the above, the amended texts, and added text, shall be as follows:**

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**10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

N) Circular No. (2/IBS/IIS/215/2008) concerning the amendment of the rules and regulations for granting consumer finance and personal installment finance transactions.

## **1. Definition of Consumer and Installment Finance Transactions**

- Consumer finance transactions mean **medium-term personal** transactions concluded with customer (such as Murabaha and Musawama transactions) for the purpose of financing the purchase of his personal needs of consumer and durable goods, and repaid on monthly installments for a period not exceeding 5 years.
- Personal installment finance transactions mean **long-term personal** finance transactions utilized by the customer for non-commercial purposes, in particular for maintenance or purchase of a private residence. This finance is repaid in monthly instalments during a period not exceeding 15 years.

## **2. Maximum Limits for Finance Transactions and Their Monthly installments:**

- The installments of consumer loans and finance transactions and installment (housing) finance obtained by the customer from all lenders shall not exceed 40% of the customer's net monthly salary (after deductions), or continuous monthly income, or 30% for loans and finance to retired persons.
- The balloon payment method has been prohibited in case of consumer and installment finance granted by Islamic banks and Sharia-compliant investment companies, so that all installments do not exceed the established maximum limit.
- Banks and investment companies shall consider all customers' existing obligations (cash and non-cash), including installments for settlement of the debit balance arising from credit cards, whether such obligations are towards banks and investment companies subject to the Central Bank of Kuwait's supervision, or towards any other entities, such as monthly payment orders, lease financing installments etc, when deciding on the amounts of consumer finance and installment finance granted to customers, **without causing the customer's monthly obligations to all parties to exceed 40% (30% for loans and finance to retired persons) of the net continuous monthly salary or income.**

In this context, the contents of Paragraph 2 of Item II of the instructions dated 10/4/1997 on credit cards issued by local banks, should be amended, with regard to maximum monthly obligations due from customer to all creditors, to read: 40%, instead of 50%, as stated above.

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### **10- RULES AND REGULATIONS FOR CONSUMER FINANCE TRANSACTIONS AND OTHER PERSONAL INSTALLMENT FINANCE TRANSACTIONS**

- N) Circular No. (2/IBS/IIS/215/2008) concerning the amendment of the rules and regulations for granting consumer finance and personal installment finance transactions.

### **3. General Rules:**

- Islamic Banks and Sharia – compliant investment companies are prohibited from granting finance to natural persons under any other names, if the source of repayment is the customer's continuous monthly salary or income. Finance granted to customers in this context shall be limited to consumer and installment (housing) finance in accordance with the concept specified in the instructions issued in this respect.
- **It should be stressed that banks and investment companies, while granting consumer and installment (housing) finance, should ascertain all the customer's existing obligations, so as to identify the appropriate amount of finance for customer, and the amount of monthly installments, without increasing the monthly burdens on the borrowing customer over the limits mentioned above.**

These instructions shall come into effect as from 30/3/2008, and shall supercede all previous instructions that conflict herewith.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**



**GOVERNOR**

*Rabi Al-Awal 16, 1427 H  
May, 7, 2008*

**THE CHAIRMAN,**

**Circular No. (2/BS, IBS, IS, IIS/216/2008)  
To all local banks and investment companies, amending  
the tables of consumer loans and other installment (housing) loans<sup>(\*)</sup>**

This has reference to Central Bank of Kuwait's instructions on the rules and regulations of granting consumer and other installment (housing) loans, under which banks provide Central Bank of Kuwait with the following monthly statements:

- A. Total consumer loans by loan category (Form A.M 3).
- B. Total non-consumer, installment loans, by purpose of loan (Form A.M 20).
- C. Total consumer and installment loans (Form A.M 23).

During the periodic review by Central Bank of Kuwait, some comments have been noticed on the information given in these statements. Therefore, it has been resolved to replace the previously applicable forms in this regard, only as mentioned above, with new Forms (A.M 3A, A.M 3B, A.M 20A, A.M 20B, and A.M 23), uploaded on the attached CD. Glossary of the terms and clauses contained in these forms were uploaded on the same CD.

Please note that these statements should be sent to us by mail, uploaded on CD, with effect from May 2008, within the dates stated in the currently applicable center of risks statements. You will be notified, at a later stage, of the date to provide us with these statements online.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

(\*) The term "loan" or "interest" wherever occurring, means the finance transactions or return in case of Islamic banks and Shari'a – compliant investment companies.

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

**A.M 3-A**

**Statement of Total Consumer Loans\* (Consumer Finance) by Balance Category,  
Excluding Interest (Principal Loan)  
As at / /**

**Bank/Company:** \_\_\_\_\_ **(KD '000)**

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. Of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Balance		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int ****	No. Of Cust **	No. Of Lns	Balance				No. of Cust **	No. of Lns	Balance		No. of Cust **	No. of Lns			Balance		No. of Cust **	No. of Lns	Balance	
							W/O Int. ***	W/O Int. ****					W/O Int. ***	W Int. ****					W/O Int. ***	W Int. ****			W/O Int. ***	W Int. ****
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
																(1+9)	(2+10)	(3+11)	(4+12)	(5+13)	(6+14)	(7+15)	(8+16)	
Up to 1000																								
1001-3000																								
3001-5000																								
5001-7000																								
7001-9000																								
9001-11000																								
11001-13000																								
13001-15000																								
<b>Total</b>																								
Total No. Without Repetition **																								

\* Wherever the term loan is provided, it shall mean financing operations.  
 \*\* No. of real customers, without repetition of customer in case of obtaining more than one installment loan (finance), either by purpose or at total level, whereby the customer obtaining more than one installment loan for different purposes shall not be repeated.  
 \*\*\* Wherever the term interest is provided, it shall mean return.  
 \*\*\*\* According to the data available as of reporting date, in terms of interest rate or loan (finance) duration.

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

**A.M3.B**

**Statement of Total Consumer Loans\* (Consumer Finance) by Purpose As at / /**

**Bank/Company: \_\_\_\_\_ (KD 000's)**

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Balance		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****			No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****	No. of Cust **	No. of Lns			W/O Int. ***	W/ Int. ****				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Car purchase																								
Furniture purchase																								
Education expenses																								
Treatment																								
Other (specify)																								
Total																								
Total No. Without Repetition**																								

\* Wherever the term loan is provided, it shall mean financing operations.  
 \*\* No. of real customers, without repetition of customer in case of obtaining more than one installment loan (finance), either by purpose or at total level, whereby the customer obtaining more than one installment loan for different purposes shall not be repeated.  
 \*\*\* Wherever the term interest is provided, it shall mean return.  
 \*\*\*\* According to the data available as of reporting date, in terms of interest rate or loan (finance) duration.

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

**A.M 20-A**

**Statement of Total Housing Installment Loans\* (Housing Installment Finance) by Purpose  
As at / /**

**Bank/Company:**

**(KD 000's)**

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int ****	No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****			No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns			W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
																	(1+9)	(2+10)	(3+11)	(4+12)	(5+13)	(6+14)	(7+15)	(8+16)
House repair/building completion																								
House purchase/building																								
Land purchase for building																								
Other (specify)																								
Total																								
Total No. Without Repetition**																								

\* Wherever the term loan is provided, it shall mean financing operations.

\*\* No. of real customers, without repetition of customer in case of obtaining more than one installment loan (finance), either by purpose or at total level, whereby the customer obtaining more than one installment loan for different purposes shall not be repeated.

\*\*\* Wherever the term interest is provided, it shall mean return.

\*\*\*\* According to the data available as of reporting date, in terms of interest rate or loan (finance) duration.

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

**A.M 20-B**

**Statement of Total Housing Installment Loans\* (Housing Installment Finance)  
by Balance Category, Excluding Interest (Principal Loan)  
As at / /**

**Bank/Company:** \_\_\_\_\_ **(KD 000's)**

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust **	No. of Lns.	Balance		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int ****	No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****			No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns			W/O Int. ***	W/ Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
																	(1+9)	(2+10)	(3+11)	(4+12)	(5+13)	(6+14)	(7+15)	(8+16)
Up to 5000																								
5001-15000																								
15001-25000																								
25001-35000																								
35001-45000																								
45001-55000																								
55001-65000																								
65001-70000																								
Total																								
Total No. Without Repetition**																								

- \* Wherever the term loan is provided, it shall mean financing operations.
- \*\* No. of real customers, without repetition of customer in case of obtaining more than one installment loan (finance), either by purpose or at total level, whereby the customer obtaining more than one installment loan for different purposes shall not be repeated.
- \*\*\* Wherever the term interest is provided, it shall mean return.
- \*\*\*\* According to the data available as of reporting date, in terms of interest rate or loan (finance) duration.

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

A.M 23

**Statement of Total Consumer and Installment Loans\* (Consumer and Installment Finance)  
by Balance Category, Excluding Interest (Principal Loan)  
As at / /**

**Bank/Company:** \_\_\_\_\_ **(KD 000's)**

Balance Categories Excluding Interest (Loan Principal)	Kuwaiti (1)								Non-Kuwaiti (2)								Total (3) = (1+2)							
	No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions				No. Of Cust. **	No. of Lns.	Balance		Including Loans Subject to Legal Actions			
			W/O Int. ***	W Int ****	No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****			No. of Cust **	No. of Lns	W/O Int. ***	W Int. ****	No. of Cust **	No. of Lns			W/O Int. ***	W/ Int. ****	No. of Cust **	No. of Lns	W/O Int. ***	W/ Int. ****
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
																	(1+9)	(2+10)	(3+11)	(4+12)	(5+13)	(6+14)	(7+15)	(8+16)
Up to 1000																								
1001-3000																								
3001-5000																								
5001-7000																								
7001-9000																								
9001-11000																								
11001-13000																								
13001-15000@																								
15001-25000																								
25001-35000																								
35001-45000																								
45001-55000																								
55001-65000																								
65001-70000																								
Total																								
Total No. Without Repetition**																		#		#				

\* Wherever the term loan is provided, it shall mean financing operations.  
 \*\* No. of real customers, without repetition of customer in case of obtaining more than one installment loan (finance), either by purpose or at total level, whereby the customer obtaining more than one installment loan for different purposes shall not be repeated.  
 \*\*\* Wherever the term interest is provided, it shall mean return.  
 \*\*\*\* According to the data available as of reporting date, in terms of interest rate or loan (finance) duration.  
 @ Including consumer and installment loans up to tier KD 15000.  
 # Must tally with the corresponding number in Attachment 4 of consumer and installment loans under credit facility rating policy table(financing operations).