

## **5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION**

- A) Rules and regulations concerning classification of credit facilities, calculation of their provisions, and method for treating the revenues resulting therefrom.
- B) Instructions concerning replacement of forms No. (5) and (6) pertaining to the rules and regulations of credit facilities classification.
- C) Two ministerial resolutions:
  - 1. The resolution No. (18) of the year 1990 issued by the minister of commerce and industry, concerning obligation of companies and institutions to adopt the international accounting standards in the preparation of their financial statements.
  - 2. The resolution NO. (110) of the year 1991 issued by the minister of commerce and industry, concerning the preparation of companies and institutions for their financial statements for the year ending 31/12/1991.
- D) Instructions concerning bank's formation of provisions for foreign exchange at bank's own discretion.
- E) Instructions concerning presentation to the Central Bank of Kuwait of the principles and criteria on which every bank's Internal Committee relies in respect of assessing the credit facilities to be granted for each customer.
- F) Circular No. (2/BS/62/1998) concerning the method to be adopted in accounting the goodwill resulting from acquiring shares of other institutions and companies with the purpose of gaining control thereof.
- G) Circular No. (2/BS/71/1999) concerning amendment of calculating the general provisions on the credit facilities for which no specific provisions have not been made.
- H) Circular No. (2/105/BS/77/1999) concerning the observance by the banks of the requirement that their closing financial statements should secure further transparency with regard to disclosure of dealings with related parties and the Credit facilities Portfolio.

- I) [Circular concerning application of the accounting standard No. \(39\) “Financial Instruments: Recognition And Measurement”.](#)
- J) [Circular No. \(2/BS/86/2001\) concerning the method of calculating the specific provisions required for the Credit Facilities Portfolio in the context of applying the International Accounting standard no. \(39\).](#)
- K) [Circular concerning entering the amounts of proposed cash distribution of profits under “Other Liabilities” and not under “Retained Profits”.](#)
- L) [Circular No. \(2/BS/91/2001\) regarding amending the treatment of interests calculated on irregular credit facilities.](#)
- M) [Instructions concerning the treatment of provisions no longer required.](#)
- N) [Circular No. \(2/BS/175/2005\) concerning the compliance with the rules of International Financial Reporting Standards \(Standard No.-3\) when treating goodwill resulting from holding the shares of other institutions and companies.](#)
- O) [Circular No. \(2/BS/198/2007\) Concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instructions issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.](#)
- P) [Circular No. \(2/BS/204/2007\) Concerning the amendment of the ratio of general provision for credit facilities for which no specific provisions have been made.](#)
- Q) [Circular No. \(2/BS, IBS, IS, IIS/221/2008\) Concerning the preparation of consolidated financial statements.](#)
- R) [Circular concerning the manner of classifying customers’ irregular credit facilities in table No.\(5\), complementing Central Bank of Kuwait’s rules and regulations for credit facilities classification, computation of their provisions, and accounting treatment of income generated therefore.](#)
- S) [Circular No. \(2/BS, IBS/237/2009\) concerning the annual evaluation of lands and buildings owned by banks and reported within fixed assets.](#)
- T) [Circular No. \(2/BS, IBS/243/2009\) concerning the cancellation of the effect of circular No. \(2/BS, IBS/237/2009\) dated 22/1/2009, concerning the evaluation of lands and buildings owned by banks and reported within fixed assets.](#)

- U) Circular requesting submission of detailed data and information on the balances of non-purchased debts for which provisions are left, according to the rules of Law Decree No. (32) of the year 1993.
- V) Circular No. (2/BS, IBS/271/2011) concerning evaluation of real estate assets extended as collaterals against finance granted to customers.
- W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.
- X) Circular No. (2/BS/313/2013) amending the method of calculation of the general provisions against the credit facilities for which no specific provisions were made.
- Y) Amendment to the foot note of Attachment No. (1) to the statements of credit facility classification (regular & irregular) by adding items for credit facilities extended to banks rated under “A” Class and above, as per the email dated 10/12/2013.

**GOVERNER**

*Sha'aban 8,1417 H*  
*December 18,1996*

**THE CHAIRMAN,**

**Rules and Regulations Concerning Classification of Credit Facilities  
and Calculation of Their Provisions and Method for Treating  
the Revenues Resulting Therfrom\***

I would like to advise you that the Central Bank of Kuwait Board of Director has endorsed, at its meeting held on December 15,1996, the Rules and Regulations concerning credit facilities' classification, calculation of their provisions, and method for treating the revenues resulting therefrom<sup>(1)</sup>.

In this regard, I would like to attach here with a copy of the above mentioned instructions, with which your bank shall comply as effective date of issue. Correspondingly, all previous directives issued for the local banks on December 28,1985 in this concern, and all other directives previously issued contrary to the contents of these instructions, shall be repealed.

In addition, your bank shall provide the external auditors with copies of such instructions and coordinate with them in respect of implementation thereof.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

(1) Pursuant to the circular dated 17/11/2008, included under Item "V" of Section 10 of this Manual, the Central Bank of Kuwait Board of Directors resolved to exempt banks from setting aside a general provision of 1% for the new finance granted to investment companies within the framework of implementing the program for rectifying the conditions of local investment companies.

\* Cicaluted to all local banks.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICAITON.**

A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**RULES AND REGULATIONS CONCERNING CREDIT FACILITIES' CLASSIFICATION, CALCULATION OF THEIR PROVISIONS, AND METHOD FOR TREATING THE REVENUES RESULTING THEREFROM**

**SECTION ONE:**

**RULES & REGULATIONS CONCERNING CLASSIFICATION OF THE CREDIT FACILITIES**

For the purpose of implementing these instructions, the local banks and investment companies shall observe the following principles:

- 1- The term "**Credit Facilities**" shall mean the cash credit facilities granted by the banks or the investment companies to their clients in the form of term loans, overdraft on current account, or discounted bills;

They shall also include the non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, or all other types of credit facilities.

- 2- For the purpose of classifying the credit facilities portfolio, **differentiation between types of facilities** should be taken into account as follows:

First : Credit facilities extended to the client (residents and non-resident)\*.

Second : Consumer Loans and other Installment Loans.

Third : Sovereign Loans.

\* Credit facilities extended to the clients (residents and non-resident) include such facilities extended to the financial institutions, and the international commercial loans, as well.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

***Accordingly, specific rules and principles regarding classification of each of the above mentioned types of facilities shall be applied as follows:***

**FIRST : CREDIT FACILITIES GRANTED TO CLIENTS (RESIDENTS AND NON-RESIDENTS):\***

Credit facilities granted to the clients are classified into two categories:

"Regular" and "Irregular."

1- **Regular facilities:**

Balances of utilized credit facilities shall be deemed to be "**Regular**" if it is not proved under any case or event that they can be considered "**Irregular**", or where no event rendering them Irregular has been materialized, as detailed hereinafter.

2- **Irregular facilities:**

Balances of utilized credit facilities shall be deemed to be "**Irregular**" in case they become subject to Irregular conditions, and/or for other considerations pertaining to the client's position, as detailed herein below:-

2.1 **Conditions of "Irregular" facilities:**

Credit facilities are considered Irregular:

- a- In case the debit balance per the current account exceeds - on continuous basis - the drawing limits determined for the client, where the percentage of excess is higher than 10% of the drawing limit.
- b- In case of debit balance without any permissible or authorized drawing limit, regardless of such balance amount.
- c- In case the credit facilities fall due, and have not been renewed in the light of studying the client's position.
- d- In case the loan is payable in periodic installments, and payment of any overdue installment is not effected.
- e- In case the interest accrued on the loan are not paid on maturity date.

\* Credit facilities extended to the clients (residents and non-resident) include such facilities extended to the financial institutions, and the international commercial loans, as well.

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- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**2.2 Other considerations pertaining to the client's position:**

The board of directors of each bank or investment company shall institute an in-house Committee to be selected from their own specialized and experienced staff. This internal committee shall be entrusted with the responsibility of studying and evaluating the outstanding credit facilities of each individual client separately. Such a Committee shall find out the extraordinary issues pertaining to the client's position. In this connection, it shall identify the difficulties which may confront the customer and could lead to considering the credit facilities extended to him as **Irragular**, even if the conditions of Irragular are not applicable to some of them. Accordingly, the Committee shall determine the level and volume of provisioning required for these debts. Thus, the board of directors shall ratify the principles and criteria on which the Committee shall rely for effecting classification, as well as findings of the Committee's activities.

***For carrying out its assignments, the committee shall take the following issues into consideration:-***

- a- Deterioration of the client's financial position.
- b- The client's account becomes dormant.
- c- The client is placed under liquidation.
- d- The client being declared bankrupt.
- e- Processing legal measures and actions against the client by any other creditor concerned with such instructions, claiming repayment of debts.
- f- Availability of clear evidence that the client is incapable of repaying his debts on maturity date.

**Banks and investment companies shall comply with the instructions issued by the Central Bank of Kuwait in 1993 regarding Rationalization and Organization of the credit policy applied by them, when granting, renewing or increasing the credit facilities to any client.**

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICAITON.

A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**The Committee shall practice its activities periodically and on continuous basis, and shall evaluate all the clients' positions at least once before the end of every fiscal year. In this regard, the closing financial statements of the bank or investment company should include and reflect the relevant effects of implementing the Committee's decisions. Moreover, the cases of Irragular account balances, exceeding 25% of the total debts of the client as one unit, shall be presented to the Committee.**

In the meantime, Banks and investment companies shall have to provide the Central Bank of Kuwait - upon request - with the principles and criteria on which the concerned Committees relies when effecting classification, as well as results of application thereof.

The credit facilities - which become subject to any of Irragular conditions, **and/or** any of the other considerations pertaining to the client's positions - are classified into **four categories**, namely as follows:-

**a) Special Mention:**

The debt shall be considered "**Special Mention**" if it becomes subject to any of the Irragular conditions for a period not exceeding 90 days, or to any of the other considerations associated with the client's position. Defined provisioning against the debts falling under this category shall be determined at the discretion of management.

**b) Substandard:**

The debt shall be considered 'Irregular' and be classified "**substandard**" if it becomes subject to any of the Irragular conditions for a period of more than 90 days but not exceeding 180 days, or to any of the considerations pertaining to the client's position, and according to discretion of management in this concern.

**c) Doubtful:**

The debt shall be considered "**Doubtful**" if it becomes subject to any of the Irragular conditions for a period of more than 180 days but not exceeding 365 days, or to any of the considerations pertaining to the client's position, and according to discretion of management in this concern.



d) **Bad:**

The debt shall be considered "**Bad**" if it becomes subject to any of the Irragular conditions for a period of more than 365 days, or to any of the considerations pertaining to the client's position, and according to discretion of management in this concern.

**SECOND : CONSUMER LOANS AND OTHER INSTALLMENT LOANS:**

*Such loans are classified as follows:*

a) **Special Mention:**

In case the debtor is in default of paying any of the overdue installments for a period of **not exceeding 3 months** .

b) **Substandard:**

In case the debtor is in default of paying any of the overdue installments for a period of **3 months and less than 6 months**.

c) **Doubtful:**

In case the debtor is in default of paying any of the overdue installments for a period of **6 months and less than 12 months**.

d) **Bad:**

In case the debtor is in default of paying any of the overdue installments for a period of **12 months and more**. Clients, against whom **legal measures and actions** have been taken, shall also be classified under this category.

**THIRD : SOVEREIGN LOANS:**

Banks and investment companies are required to specify the volume of risks associated with the international Sovereign Loans; (i.e. those loans extended to governments, public institutions, and central banks, or secured by them) as follows:

- 1- Banks and investment companies shall apply the approaches contained in the "bank of England Matrix" as indicated in the attached Annex. In this regard, such banks and investment companies may be guided by the relevant tables issued by the Bank of England in respect of sovereign loans risks.

- 2- Banks and investment companies shall be guided by the relevant data and statements issued by the International agencies and institutions specialized in this concern, in addition to international rating agencies.

Coordination between banks in this regard, through Kuwaiti Banking Committee, beside consultation with the external auditors, shall be taken into account.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**SECTION TWO:**

**METHOD FOR CALCULATING PROVISIONS**

**FIRST: SPECIFIC PROVISIONS: <sup>(1)</sup>**

Specific provisions are those required for the credit facilities that are classified as "**Irragular**". They shall be determined - at the minimum according to the following points:

**A- SPECIFIC PROVISIONS REQUIRED FOR THE CREDIT FACILITIES GRANTED TO CLIENTS, AS WELL AS THE CONSUMER AND INSTALLMENT LOANS:**

Specific provisions required for these facilities are calculated in accordance with the following percentages:

<b>CATEGORIES OF FACILITIES CLASSIFIED</b>	<b>REQUIRED PROVISION</b>
Special mention	at discretion of management
Substandard	20%
Doubtful	50%
Bad	100%

*The required provision has to be calculated on total debt balance, **excluding** the following:*

- Collateral value** calculated on the basis of its **current market value**, provided that such collateral be **mortgaged** in favour of the bank or investment company, and there should be no obstacle whatsoever hindering execution thereon.

Market value of such collateral shall be reduced with the **percentages required to cover risks related to market and exchange rates as well as any other risks**, in accordance with the type of each collateral separately, and in coordination with the external auditors.

(1) Circular No. (2/BS/86/2001) was issued on 21/5/2001 concerning the method of calculating the specific provisions required for the credit facilities portfolio in the context of applying the International Accounting standard no. (39).

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICAION.**

- Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

2. The **interest in suspense** related to the debt, and which are not treated or recognized as revenues, in the manner hereinafter detailed in SECTION THREE.

As for the credit facilities granted to clients, provision has to be taken for the "Irregular" accounts of the client's debt in conformity with the determined percentage under these instructions - **as minimum**. If the balances of the Irregular accounts exceed **25%** of total client's debt, such debt should be presented to the relevant **Committee** formed by the Board, so as to evaluate the client's general position, and to determine whether it is necessary to increase the existing provision, or not. In the case balances of the "Irregular" accounts exceed **50%** of total client's debt, provision should be calculated on total of his debt in accordance with the **maximum percentage** determined for any of the client's Irregular accounts.

In the event provision calculated for the **international commercial loans** exceeds the difference between **market value** of the loan in international money markets and **its book value**, such case should be presented to the **Committee** above mentioned so as to evaluate and assume the required provision. **It is a condition that such provision shall not be less than the difference between loan market value and its book value.** In this connection, it shall also be taken into consideration that the loan market value must be calculated in accordance with rates prevailing in international money markets, and value of which shall be computed at least twice in each fiscal year (June 30 and December 31).

**As for institutions and companies wholly owned by Government of Kuwait**, no specific provisions shall be formed for the "Irregular" loans extended to these parties. But this is the case **only** if a **guarantee** is available from the Government of Kuwait to secure these loans, or if the Articles of Association of that borrowing party includes an express stipulation that Government of Kuwait guarantees the losses which the concerned party may confront.

**B- PROVISIONS REQUIRED FOR SOVEREIGN LOANS:**

1. Banks and investment companies are required to specify **volume of risks associated with each country**, in accordance with rules and ratios mentioned in Bank of England Matrix. Further, they may be guided by the relevant data and statements issued by international agencies and institutions specialized in this concern, besides publications of international rating agencies in coordination with the external auditors (as hereinabove indicted in SECTION ONE, Item THIRD: "**SOVEREIGN LOANS**").
2. **Conditions adopted in client's Irregular facilities** shall also apply to sovereign Loans, i.e. such facilities shall be classified into: "Regular" and "Irregular" as hereinabove indicated in SECTION ONE, Item FIRST: "**CREDIT FACILITIES GRANTED TO CLIENTS (RESIDENTS & NON-RESIDENTS)**".
3. Regarding the "**Irregular**" Sovereign Loans, the necessary specific provision shall be formed in accordance with provision ratios required for the volume of risks related to each country, as detailed in the attached Annex. Or, provision shall be formed in accordance with those provision ratios required for each category of Irregular facilities granted to clients, as hereinabove detailed in : SECTION TWO, Item **FIRST**, Paragraph **A**, **whichever is higher**.

As for the "**Regular**" Sovereign Facilities, they shall be presented to the relevant Committee selected by the Board, so as to evaluate and determine whether provisions should be formed against them in the light of the risks related to each country separately, in view of clause No. (1) hereinabove mentioned under **B**, in coordination with the external auditors.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**C- RESCHEDULED CREDIT FACILITIES:**

- The previously formed provision shall be **maintained** to meet the rescheduled credit facilities. As for the loans, which have **market value in the international money markets**, the provision maintained, should not exceed **the difference between the loan market value and its book value**.
- The provision shall be **gradually reduced** to the percentage of the funds collected within the framework of rescheduling. When **25%** of the rescheduled debt balance has been repaid, the relevant Committee shall study the position of such debt and **determine** the provision percentage required to be maintained, provided that it shall not be less than **20%** of the debt balance as minimum.
- The interest on such debts, which have been collected in cash, shall be perpetually **suspended**, and shall **not be included** in the revenues.

**SECOND: GENERAL PROVISIONS :<sup>(1)</sup>**

The general provision has to be specified at the percentage of **2%**<sup>(2)</sup> for credit facilities\* (cash and non-cash), where no specific provision has been formed for them, in accordance with these instructions.

However, banks and investment companies, where balance of general provision available does not reach the required percentage, **are required** to consummate and accomplish that percentage yearly within a period not later than the end of year 2000.

- (1) The method of calculating the general provisions for the credit facilities - for which no specific provisions have not been made – was amended according to circular no. (2/BS/71/1999 ) issued on 1/6/1999. The ratio of the general provision has been reduced for the credit facilities (cash and non-cash) was amended according to circular No. (2/BS/204/2007) issued on 12/3/2007.
- (2) the ratio of general provisions has been reduced to become a minimum of 1% for cash facilities and a minimum of 0.5% for non-cash facilities was emended according to circular No. (2/BS/204/2007) issued on 12/3/2007.

\* These are credit facilities (cash and non-cash) classified as Regular, and those classified within 'special mention' category, where specific provisions are not required at discretion of management, in addition to Irregular facilities extended to institutions and companies owned by Government of Kuwait where specific provisions are not required in accordance with these instructions.

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- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

Regarding Banks and investment companies where a **surplus**<sup>(1)</sup> in the total of general and specific provision for their credit facilities portfolios has been realized at start of applying this policy, such a surplus has to be included as extraordinary revenues within the result of their activities in respect of the fiscal year where these instructions apply, on condition that it shall be added for accumulation to the other reserves (general reserves or voluntary reserves).

(1) Banks may not dispose of the surplus general provisions existing in their records as on 31/12/2006 and resulting from reducing the general provisions ration except with the prior approval of the Central Bank of Kuwait according to circular No. (2/BS/204/2007) issued on 12/3/2007.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

### **SECTION THREE:**

#### **TREATING THE REVENUES RESULTING FROM THE CREDIT FACILITIES**

##### **FIRST: CREDIT FACILITIES GRANTED TO CLIENTS:**

1. Interest, calculated on the "Regular" and "Irregular" credit facilities, shall be deemed to be as actual **profits** if they are settled **in cash or by debit to the client's credit current account**, or in case the credit limit determined for the client permits such settlement, and the account is not classified as "**Irregular**". Further, such interest calculated on the facilities classified as "**special mention**" category shall be deemed to be as actual profits, where specific provision has not been formed against them according to discretion of management.
2. Interest, calculated on the fully secured Regular and "**Irregular**" credit facilities, shall be deemed to be as actual **profits** if such interests are settled in the manner stated **in the above preceding item**. Or, in case entry of the due accrued creditor interest to be debited to the client's current account or added to the principal of loan in the form of capitalization, does not entail **decline in value of collateral** below the **required coverage** of the principal debt amount plus the interest accrued thereon.
3. In case the interest, calculated on the credit facilities are not settled pursuant to the rules stipulated **in the previously mentioned two items hereinabove**, such interests should be **held in a suspense account**, and should not be treated as revenues, in respect of the credit facilities against which specific provisions have been formed. <sup>(1)</sup>.
4. Interests, which are not treated as revenues, shall be quarterly reviewed to determine whether any part thereof has become actual profits.

(1) This paragraph – with regard to the credit facilities classified under “Bad”, and as of the date of their classification under that category, the interests calculated on these facilities and the outstanding balance of the suspended, the interests concerning these facilities, shall be entered under separate contra accounts, off balance sheet – was added according to circular no. (2/BS/91/2001) issued on 5/12/2001.

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##### **5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.



**SECOND: SOVEREIGN LOANS:**

1. Interest, calculated on international sovereign credit facilities, shall be deemed to be as actual **profits** if they are settled **in cash, or debited to other accounts, which are considered Regular according to these instructions**, where no provisions are required for them.
2. In case the interest calculated on the international sovereign credit facilities are **not settled pursuant to the rules of Item<sup>(1)</sup> hereinabove, such interest should be held in a suspense account, and should not be treated as revenues, in respect of the credit facilities against which specific provisions have been formed.** <sup>(1)</sup>
3. Quarterly review shall be carried out for the interests, which have not been treated as revenues, to determine whether any part thereof has become as actual profits.

(1) This paragraph – with regard to the credit facilities classified under “Bad”, and as of the date of their classification under that category, the interests calculated on these facilities and the outstanding balance of the suspended, the interests concerning these facilities, shall be entered under separate contra accounts, off balance sheet – was added according to circular no. ( 2/BS/91/2001 ) issued on 5/12/2001.

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- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**SECTION FOUR:**

**PERIODIC STATEMENTS AND DATA<sup>(1)</sup>**

Banks and investment companies should regularly provide the Central Bank of Kuwait with quarterly reports, not later than the **tenth** day of the month following the end of the period in question against which the statement is prepared, (at end of **March, June, September, December**) in respect of classification of the credit facilities, the required provisions and the interest in suspense, according to the attached forms (Enclosures 1,2,3,4,5 and 6).

For the purpose of implementing these instructions, the following points shall be strictly observed:

1. To comply with these instructions effective date of issuance;
2. Cancellation of instructions previously issued to the local banks in this respect on December 28, 1985, and any other issued directives contradictory to these instructions.

*Issued on : December 15, 1996*

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(1) Form no (5) and (6) were replaced according to circular no. (2/BS/9/97 ) issued on 6/4/1997.

5- **BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

## "ANNEX"

### **ASSESSMENT OF THE RISK VOLUME IN RESPECT OF SOVEREIGN DEBT ACCORDING TO BANK OF ENGLAND MATRIX**

#### **A- ASSESSMENT OR DETERMINATION OF RISKS**

Risks of international sovereign loans (which are meant to be: those loans extended to governments, public institutions and central banks or those guaranteed by them) shall be assessed or determined through specific points or scores to be given to a number of factors distributed among three major groups. These points or scores represent the risks related to the country's non-repayment of loan principal and interest thereof. Consequently, the level of percentage or ratio for required provisioning shall increase whenever the number of points or scores increases.

Such groups are as follows:

#### **FIRST GROUP:**

This group aims at identifying the countries with potential repayment inability to meet their debts. This group consists of three factors, as follows:

- Moratorium in effect; an action where the concerned country defers payments to a creditor;
- Rescheduling of the loan by the country (after suspension of payment) at any time during the previous 5 years, or in process of rescheduling the loan, or the country has suspended the payment process without arrangements with the creditors to this effect;
- Rescheduling for the second time or more (for loans already rescheduled) during the last 5 years.

#### **SECOND GROUP:**

This group aims at identifying the nature of the outstanding difficulties and extent of problems in the concerned debtor country. Such group consists of four factors, as follows:

- A country is in arrears, where it suspends payment on principal or interest to international financial institutions; (IMF, World Bank, Regional Development Banks);

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- A country is in arrears, where it suspends payment on principal loan or rescheduled loans to creditors (other, than the international financial institutions);
- A country is in arrears, where payment is suspended on interest accrued on the principal or rescheduled loans;
- Rescheduling of the outstanding loans into new loans, or capitalization of interest, or rescheduling in accordance with regulations of Paris Club.

### **THIRD GROUP:**

This group aims at assessing or determining the ratio of risks which may result in the country's non-repayment of debts in full. This group consists of 9 factors as follows:

- Interest service ratio; ratio of interest payable divided by the value of total exports (based on latest available data of the 12 months period preceding date of calculating provision);
- The rate of the country's reserves coverage for average monthly import;
- External Debt/GDP ratio; total external debt divided by Gross Domestic product expressed as a percentage;
- External Debt/exports ratio; total external debt divided by the value of exports of goods and services expressed as a percentage;
- Not meeting IMF targets; the country is unwilling to go to IMF; not committed to satisfy obligations in respect of agreements signed therewith;
- Unfilled financing gap; where the country is unable to bridge the financing gap represented in the difference between its prospective payments outflows and its prospective inflows over a period exceeding 12 months;
- Market price; ratio of foreign debt market value to the debt's face value;
- High dependence on a single source of income; i.e. dependance on single commodity based export or; service earning;
- Any other factors, whether economic or political, to be assessed and accepted by banks or investment institutions, to be approved by the Central Bank of Kuwait, which affect the country's ability to repay foreign indebtedness, as present or in the future.

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*THE ATTACHED TABLE COMPRISES THE DETAILED FACTORS IN EACH GROUP AND THE NUMBER OF SCORES REQUIRED FOR EACH FACTOR.*

**B- REQUIRED PROVISIONS:**

**Methods of scoring and setting the level of provisions:**

Required provisions shall be calculated against sovereign debt in accordance with the aggregate sum for each country of the individual scores for the factors in such three groups above mentioned, on condition that provision required for each group of scores shall be as follows:

<i>AGGREGATE SCORES</i>	<i>PROVISION REQUIRED %</i>
less than 10 points	-
10 - 24	5 - 13
25 - 39	14 - 23
40 - 54	24 - 37
55 - 69	38 - 58
70 - 84	59 - 75
85 - 99	76 - 89
100 - 119	90 - 96
120 - 145	97 - 100

*For effective application of such system, banks are requested to maintain detailed statements and data about conditions of the borrowing countries to be available for use; all such data shall be kept updated in due course.*

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

**Procedure for Evaluating the Sovereign Credit Facilities  
In accordance with Bank of England Matrix**

**COUNTRY DEBT PROVISIONING MATRIX**

Particulars	GROUP ONE			GROUP TWO								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)					
<b>Name of Factor</b>	Moratorium in effect; Postpoement of payment	Rescheduling at any time in the last 5 years, or in process or stop payment.	Second Rescheduling or more during the last 5 years.	Suspension of paying the interest or the principal; Arrears to : *International Monetary Fund. * World Bank. *Regional Development Banks.	Suspension of paying the principal; Arrears of principal to other creditors. ( except International financial Institutions ).	Suspension of paying the principal; Arrears of interest on original.	New debts are rescheduled to clear arrears. Or Capitalized interest arrears. or Reschuling is conducted pursuant to decision of Paris Club.					
<b>Points / scores</b>	<u>Form</u> <u>To</u> <u>Point</u> -              3 months    2 more than 3    12 months    4 more than 12    36 months    8 more than 36                      12	<u>Form</u> <u>To</u> <u>Point</u> 3              5 years        6 2 Less than 3    years        8 Less than    2 years        12	<u>Form</u> <u>To</u> <u>Point</u> 2              5 years        6 1 Less than    year        8 Less than    12 months    12	<u>Form</u> <u>Point</u> Less than 2 years    10 More than 2 years    15	<u>Form</u> <u>To</u> <u>Point</u> -              3 months    4 more than 3    months    8 more than 12    months    10	<u>Form</u> <u>To</u> <u>Point</u> -              3 months    4 more than 3    months    8 more than 12    months    10	<u>Form</u> <u>To</u> <u>Point</u> 3              5 years        4 2 Less than 3    years        8 Less than    2 years        10					
<b>Minimum &amp; Maximum limit of weights</b>	2 - 12	6 - 12	6 - 12	10 - 15	4 - 10	4 - 10	4 - 10					

**Procedure for Evaluating the Sovereign Credit Facilities  
In accordance with Bank of England Matrix**

**COUNTRY DEBT PROVISIONING MATRIX**

Particulars	GROUP ONE				GROUP TWO				
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
<b>Name of Factor</b>	Interest service ratio; Ratio of payable interest as compared to total exports	Visible import cover; Rate of coverage the country's average monthly imports by utilizing the available reserves	Ratio of extenal debts as compared to Gross Domestic product	Extenal debt/ Exports goods & services; Ratio of debts as compared to total exports, commodities and services	Not meeting IMF targets / Unwilling to go to IMP; country failure to fulfill or response to IMS's requirements.	Unfilled financing gap over next 12 months; Country cover the financing gap for a period exceeding 12 months.	Market price; The prevailing market value of the debt.	Highly dependent on a single source of income; Relying mainly on one source of income.	Other Factors as deemed appropriate by the banks or financial institutions, approved by CBK.
<b>Points scores</b>	Percentage points More than 15% 3 " " 25% 5 " " 35% 7 " " 45% 10	Percentage points Less than 4 months 3 Less " 2 " 5 Less " 1 " 7 Less " 0.5 " 10	Percentage points More than 50% 3 " " 75% 5 " " 100% 7 " " 150% 10	Percentage points More than 200% 3 " " 300% 5 " " 400% 7 " " 600% 10	Points 3	Points 2	Percentage points Less than 70% 2 Less " 50% 4 Less " 30% 8 Less " 10% 12	Points 2	Points From 0 - 5
<b>Minimum &amp; Maximum limit of weights</b>	3 - 10	3 - 10	3 - 10	3 - 10	3	2	2 - 12	2	0 - 5

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**

A) Rules and Regulations concerning classification of credit facilities, calculation, of provision, and method for treating the revenues resulting therefrom.

Bank Name : .....

Attachment No. (1)  
(Industrial Form)

**Overall Statement of Credit Facilities Classification (Regular & Irregular)<sup>(3)</sup>  
& the Required Specific & General Provisions As on / / ,  
as per Relevant Rules & Regulations**

Particulars	Value in K.D (000's)		
	Cash (1)	Non - Cash (2)	Total (1 + 2)
<b>First: Total Credit Facilities</b>			
<b>A) Regular*</b>			
- Extended to clients			
- Sovereign loans			
- Customer & installment loans			
<b>Total (A)</b>			
<b>B) Irregular</b>			
- Extended to clients			
- Sovereign loans			
- Customer & Installment loans			
<b>Total (B)</b>			
<b>Total credit facilities (A + B) * *</b>			
<b>Second: Required Specific Provisions</b>			
- Extended to clients			
- Sovereign loans			
- Customer & installment loans			
<b>Total specific provision required (second)</b>			
<b>Third: Required General Provisions for credit facilities for which no specific provision were made<sup>*(1)</sup></b>			
- 1% of cash credit facilities.			
- 0.5% for non-cash credit facilities.			
<b>Fourth : Total General &amp; Specific Provision Required (Second + Third)**</b>			
<b>Fifth: Value of Suspended Interest In the Bank records and reported within the above credit facilities. <sup>(2)</sup></b>			
<b>Sixth: Provisions Available at Bank records***</b>			

\* Including the Irregular credit facilities classified under category of "special mention", where no specific provisions are formed at discretion of management; and non - Regular credit facilities extended to institutions & companies owned by Government of Kuwait where a guarantee from the Government is available to secure debt or lose, that are encountered by these parties.

\*\* Totals should be identical to BS1 statements as follows:

**A : Cash facilities:**

- Credit facilities (items N. 3, 4). .....
- P
- interest computed on bad debts and repoted off the balance sheet <sup>(2)</sup>
- In addition to cash credit facilities for foreign branches. ....

**Total cash facilities.**

**B : Non - Cash facilities (Item R):**

- In addition to Non - cash facilities for foreign branches .....
- Total non - cash facilities.** .....

\*\*\* Total should be identical to attached schedules (2, 3 and 4)

(1) the ratio of the general provision was amended pursuant No.(2/BS/204/2007) issued on 12/3/2007.

(2) amended according to circular No.(2/BS/198/2007) issued on 29/1/2007.

(3) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.



Bank Name : .....

Attachment No. (1)  
(Real Estate Form)

**Overall Statement of Credit Facilities Classification (Regular & Irregular) & the Required Specific & General Provisions As on / / , as per Relevant Rules & Regulations**

(Value in KD 1000)

Particulars	Cash (1)	Non - Cash (2)	Total (1 + 2)
<b>First: Total Credit Facilities</b>			
A) : <b>Regular*</b>			
- Extended to clients			
- Sovereign loans			
- Customer & installment loans			
<b>Total (A)</b>			
B) : <b>Non - Regular</b>			
- Extended to clients			
- Sovereign loans			
- Customer & Installment loans			
<b>Total (B)</b>			
<b>Total credit facilities (A + B) * *</b>			
<b>Second: Required Specific Provisions</b>			
- Extended to clients			
- Sovereign loans			
- Customer & installment loans			
<b>Total specific provision required (second)</b>			
<b>Third: Required General Provisions for credit facilities for which no specific provision were made <sup>*(1)</sup></b>			
- 1% of cash credit facilities.			
- 0.5% for non-cash credit facilities.			
<b>Fourth : Total General &amp; Specific Provision Required (Second + Third)***</b>			
<b>Fifth: Value of Suspended Interest at Bank records and reported within the above credit Facilities <sup>(2)</sup></b>			
<b>Sixth: Provisions Available at Bank records ***</b>			

\* Including the non-Regular credit facilities classified under category of "special mention", where no specific provisions are formed at discretion of management; and non - Regular credit facilities extended to institutions & companies owned by Government of Kuwait where a guarantee from the Government is available to secure those or against to be encountered by these parties.

\*\* Totals should be identical to BS1 statements as follows:

A : **Cash facilities:**

- Credit facilities (items L3). .....
- N. ....
- P. ....
- Loans o Banks (Irregular) <sup>(2)</sup> .....
- Internet computed on bad debts & repotted off the balance sheet <sup>(2)</sup> .....
- In addition to cash credit facilities for foreign branches. ....
- **Total credit facilities.** .....

B : **Non - Cash facilities (Item T):**

- In addition to Non - cash facilities for foreign branches .....
- **Total non - credit facilities.** .....

\*\*\* Total should be identical to attached schedules (2, 3 and 4).

(1) the ratio of the general provision was amended pursuant No.(2/BS/204/2007) issued on 12/3/2007.

(2) amended according to circular No.(2/BS/198/2007) issued on 29/1/2007.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

Bank Name : .....

Enclosure No. (1)  
(Commercial Bank Form)

**Overall Statement of Credit Facilities Classification (Regular & Irregular) <sup>(3)</sup>  
& the Required Specific & General Provisions As on / / ,  
as per Relevant Rules & Regulations**

(Value in KD. 1000)

Particulars	Cash (1)	Non - Cash (2)	Total (1 + 2)
<b>First: Total Credit Facilities</b>			
<b>A : Regular*</b>			
- Extended to clients			
- Sovereign loans			
- Customer & installment loans			
<b>Total (A)</b>			
<b>B : Irregular</b>			
- Extended to clients			
- Sovereign loans			
- Customer & Installment loans			
<b>Total (B)</b>			
<b>Total credit facilities (A + B) **</b>			
<b>Second: Required Specific Provisions</b>			
- Extended to clients			
- Sovereign loans			
- Customer & installment loans			
<b>Total specific provision required (second)</b>			
<b>Third: Required General Provisions for credit facilities for which no specific provision were made <sup>(1)</sup></b>			
- 1% of cash credit facilities.			
- 0.5% for non-cash credit facilities.			
<b>Fourth : Total General &amp; Specific Provision Required (Second + Third)***</b>			
<b>Fifth: Value of Suspended Interest in the Bank records and reported within the above credit facilities <sup>(2)</sup></b>			
<b>Sixth: Provisions Available at Bank records ***</b>			

\* Including the non-Regular credit facilities classified under category of "special mention", where no specific provisions are formed at discretion of management; and non - Regular credit facilities extended to institutions & companies owned by Government of Kuwait where a guarantee from the Government is available to secure those or against to be encountered by these parties.

\*\* Totals should be identical to BSI statements as follows:

**A : Cash facilities:**

- Credit facilities (items. N). .....
- Loans to financial institutions (Item L3). .....
- Loans to banks (Irregular) <sup>(2)</sup> .....
- Interest computed on bank debts & reported off the balance sheet <sup>(2)</sup> .....
- In addition to cash credit facilities for foreign branches. ....

**- Total cash facilities.** .....

**B : Non - Cash facilities: (item R)** .....

- In addition to Non - cash facilities for foreign branches .....
- Total non - credit facilities.** .....

\*\*\* Total should be identical to attached schedules (2, 3 & 4)

(1) the ratio of the general provision was amended pursuant No.(2/BS/204/2007) issued on 12/3/2007.

(2) amended according to circular No.(2/BS/198/2007) issued on 29/1/2007.

(3) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

A) Rules and Regulations concerning classification of credit facilities, calculation of provisions, and method for treating the revenues regulating therefrom.

## Attachment No. (2)

Bank Name :

**Distribution of General & Specific Provisions required  
According to Categories of Credit facilities Classification  
Extended to clients\* as at / / (1)(2)**

(Value in KD. 1000)

Serial	Type of Classification	Number of Clients	Utilized Balance of Facilities			Suspended Interest value**	Excluded Collateral value***	Required Provision value****	Provision Available at Bank's / Company's records
			Cash (A)	Non-Cash (B)	Total (A+B)				
1	Performing								
2	Special Mention; does not require specific provisions								
A	Total (1+2)								
3	Special Mention; requires specific provisions								
4	Substandard								
5	Doubtful								
6	Bad								
B	Total (3 + 4 + 5 + 6)								
	Total (A + B) *****								

- \* Includes international commercial loans.  
 \*\* Include the interest computed on debts classified as “Bad” and reported off the balance sheet according to the circular issued in this respect.  
 \*\*\* Collateral value is calculated on basis of market value after reducing it with the percentage required to cover risks of market and exchange rates as well as other risks.  
 \*\*\*\* Includes the general provision required for facilities where it is not required to form specific provision for them (items 1, 2) and specific provision required for non performing facilities (item 3, 4, 5, 6).  
 \*\*\*\*\* Include loans granted to bank staff according to internal policy .... KD thousands

(1) This statement was amended according to circular no (2/BS/198/2007) issued on 29/1/2007 .

(2) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.

## 5-BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS &amp; POLICY OF CREDIT FACILITIES CLASSIFICATION.

A) Rules and Regulations concerning classification of credit facilities, calculation, of provision, and method for treating the revenues resulting therefrom.

Attachment No. (3)

Bank Name :

**Distribution of General & Specific Provisions required  
According to Categories of Classification  
Sovereign Credit Facilities as at / /<sup>(1)</sup>**

(Value in KD 1000)

Serial	Type of Classification	Number of Clients	Utilized Balance of Facilities			Suspended Interest value	Required Provision Value*	Provision available at Bank's / records
			Cash (A)	Non-Cash (B)	Total (A+B)			
A	Performing facilities where it is not required to form specific provision for them at according to the management							
B	Facilities where it is required to form specific provision for them:  1- Performing  2- Non - performing  - Special mention. - Substandard. - Doubtful. - Bad.							
	Total (B)							
	Total (A + B)							

\* Including the general required provision for facilities where it is not required to form specific provisions for them (Item A) & required specific provision for other facilities (Item B) are calculated as instructions in Item B / First of Section Two of instruction.

## Attachment No. (4)

**Distribution of General & Specific Provisions required  
According to Categories of Classification of  
Consumer Loans & Other Installment Loans \* as at / / (1)(2)**

(Value in KD 1000)

Serial	Type of Classification	Number of Clients	Value of Facilities	Suspended Internal Value**	Required Provision Value***	Value of Provision available at Bank's / records
1	Performing					
2	Special Mention; does not require specific provisions					
<b>A</b>	<b>Total (1+2)</b>					
3	Special Mention; requires a specific provisions.					
4	Substandard					
5	Doubtful					
6	Bad					
<b>B</b>	<b>Total (3 + 4 + 5 + 6)</b>					
	<b>Total (A + B)</b>					

\* Where instructions issued by Central Bank dated 20/4/1996 shall be applied.

\*\* Include the internal computed on debts clarified as "Bad" & reported off the Balance Sheet according to the circular issued in this respect.

\*\*\* Include the general provisions for facilities where it is not required to form specific provisions for them (items 1, 2) & specific provisions required for non-performing facilities (item 3, 4, 5, 6).

ank Name :

(1) This statement was amended according to circular no (2/BS/198/2007) issued on 29/1/2007 .

(2) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**

A) Rules and Regulations concerning classification of credit facilities, calculation, of provision, and method for treating the revenues resulting therefrom.

Attachment No. (5)

Bank Name :

### Detailed Statement of the Irregular Credit Facilities Classification \*

as at / / (1)(2)(3)

(Value in KD 1000)

Serial	Customer's Secret number	Utilized Facilities balance on which Provision is calculated			Facilities Classification		Excluded collateral value	Suspended interest value	Required Provision		Remarks
		Cash (A)	Non -Cash (B)	Total (A + B)	Classification Category	Percentage %			Percentage %	Value	
	<b>First:</b> Facilities extended to customers .....										
	<b>Total of First</b>										
	<b>Second:</b> Int'l Commercial Facilities .....										
	<b>Total of Second</b>										
	<b>Third:</b> Sovereign Facilities .....										
	<b>Total of Third</b>										
	<b>Fourth:</b> Rescheduled credit facilities .....										
	<b>Total of Fourth</b>										
	<b>Total (A + B)</b>										

Attached directives shall be strictly observed at preparing this statement.

- (1) This statement was amended according to circular no (2/BS/9/97) which was issued on 6/4/1997 .  
 (2) See Item "R" of this section on the manner of classifying customers' irregular credit facilities.  
 (3) This statement has been replaced with two new statements Nos. (5/A) and (5/B) by virtue of the circular No. No. (2/BS,  
 IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.
- 5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**  
 A) Rules and Regulations concerning classification of credit facilities, calculation, of provision, and method for treating the revenues resulting therefrom.

Attachment No. (6)

Bank Name :

**Detailed Statement**  
**regarding classification of credit facilities unpurchased<sup>\*(1)</sup>**  
**as at    /    /**

(Value in KD 1000)

Serial	Customer's Secret number	Utilized Facilities balance on which Provision is calculated			Provision, left with bank	Facilities classification		Excluded collateral value	Suspended Interest value	Required provision		Remarks*
		Cash (A)	Non -Cash (B)	Total (A + B)		Classification Category	Percentage %			%	Value	
	<b>First:</b> Facilities extended to customers .... ....											
-	<b>Total of First</b>											
	<b>Second:</b> Int'l Commercial Facilities .... ....											
	<b>Total of Second</b>											
	<b>Third:</b> Sovereign Facilities .... ....											
	<b>Total of Third</b>											
	<b>Fourth:</b> Rescheduled credit facilities .... ....											
	<b>Total of Fourth</b>											
	<b>Total (first +... + forth)</b>											

Includes all classification data of the unpurchased credit facilities portfolio, including detailed data on classification of the Consumer Loans & other Installment loans as well as customers credit facilities of less than KD 10.000/- These mean the balances utilized from cash & Non-Cash Credit facilities, as on 31. 12.1991.

In addition to above, instructions for completing table No. 5 shall be strictly observed.

(1) This statement was amended according to circular no (2/BS/9/97) issued on 6/4/1997.  
**5-BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**  
 A) Rules and Regulations concerning classification of credit facilities, calculation, of provision, and method for treating the revenues resulting therefrom.

**The Manager**

*Thu Alqida 28,1417 H.  
April 6,1997*

**THE GENERAL MANAGER,**

**Circular to all local banks  
No. (2/ BS/9/97)**

With reference to the Central Bank of Kuwait letter dated December 18,1996. enclosing a copy of instructions issued by the Central Bank of Kuwait in respect of Rules and Regulations concerning credit facilities' classification and calculation of their provisions, and method for treating revenues resulting therefrom.

In accordance with **SECTION FOUR** of the above mentioned instructions where banks are required to regularly provide the Central Bank of Kuwait with quarterly reports, (at end of **March, June, September, December**) in respect of classification of the credit facilities, the required provisions and the interest in suspense, according to the attached forms therewith.

Thus, we would like to advise you that data of Enclosures No. (5 and 6) have been rearranged to match with the computer program under design for this purpose.

Therefore, your bank shall replace the previously provided Enclosures formats No. (5 and 6) with the newly prepared tables herewith attached under No. (5 and 6). However, you shall continue furnishing the Central Bank with the required data and forms, (Enclosures: 1,2,3,4,5,6) at the same defined date, that is tenth day of the month following the end of the period against which the statement is prepared.

Best regards,

**Hamad Abdul Mohsen Al-Marzouq  
Manager of Supervision Department**



**GUIDELINES FOR COMPLETING  
THE DETAILED STATEMENT OF THE NON-PERFORMING  
CREDIT FACILITIES CLASSIFICATION (TABLE NO. 5)**

The following considerations shall be strictly observed at preparing the statement No. 5 :

- The statement shall not include any data related to classification of clients in respect of consumer loans and other installment loans;
- Data related to credit facilities less than K.D. 10.000 (Kuwaiti Dinars Ten Thousand), including such facilities which may not have secret numbers, shall be reported on aggregate consolidated basis for each of such various categories of classification. It shall be taken into consideration that sufficient detailed notes about the number of customers in each category shall be reported in the Remarks' column.
- All client's accounts shall be registered under his own serial number, whether those accounts are included in the portfolio of the unpurchased debt or arising there from as effective 1/1/1992;
- The principle of consolidating accounts of each individual client, i.e. " *client's unity or integration* " considering each individual client as one single unit shall be observed in the manner stipulated in classification rules and regulations. All client's account balances (performing and non-performing) shall be registered in case the non-performing balances exceed 50% of client's total debt, or in case the relevant Committee at the bank or investment company decides building up defined provisions for the client's total debt. Remarks' column shall include adequate notes and explanations for such cases. (Code No. 001 shall be entered in the Remarks' column in the case the " non-performing account balances exceed 50% of total debt " . Code No. 002 shall be entered in the Remark's column in the case where the Committee decides building up specific provisions for aggregate debt.
- Collateral market value shall be reduced by appropriate ratios to cover market and exchange rate risks, in addition to any other risks, according to the type of each collateral.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

B) Instructions concerning replacement of forms no. (5) and (6) pertaining to the rules and regulations of credit facilities classification.

- Remarks' column shall include adequate notes and clarifications in respect of the following cases:
  - In case provision determined for sovereign loans and international commercial loans have been calculated in accordance with the difference between market value and book value, in which case Code No. (003) should be entered in the Remarks' code column;
  - In case the non-performing debt has been borrowed by institutions or companies wholly owned by the government of Kuwait, and a guarantee from the government is available whether for the loans or losses which such parties may incur, in which case Code No. (004) should be entered in the Remarks' code column;
  - In case provision determined for the performing sovereign loans has been calculated in conformity with decisions of the relevant Committee been formed at the bank or investment company, to meet the country's related risks in which case Code No. (005) should be entered in the Remarks' code column;
  - In case there is a recent market value of the rescheduled debt prevailing in the international money markets, in which case Code No. (006) should be entered in the Remarks' code column.

In the event other remarks evolve in the future, the Central Bank of Kuwait shall be notified thereof so as to introduce new codes for inclusion in the table of Remarks' code column.

It is understood that banks and investment companies are committed to furnish the Central Bank of Kuwait – upon request – with statements elaborating their principles and criteria adopted thereby for classification process and results of application, in compliance with the “ Rules and Regulations Concerning Classification of Credit Facilities” .

**Enclosure No. (5)**

**Bank / Company :**

**Detailed Statement of Irregular Credit Facilities Classification <sup>(1) (2)\*\*</sup>**

**as on            /            /**

(Type of Facilities) \*

KD. 000's

Secret No. (1)	A/C No. (2)	Facilities Utilized Balance			Value of Excluded Collateral (4)	Amount of Suspended Interest (5)	Facilities Balance as basis for provision calculation [3C - (4+5)] (6)	Facilities Classification		Required Provision		Remarks **	
		Cash (3A)	Non-Cash (3B)	Total (3A + 3B) (3C)				Category (7A)	% (7B)	% (8A)	Amount (6x8A) (8B)	Code (9A)	Explanation (9B)

First : Facilities granted to customers ....Second : International Commercial Facilities .....Third : International Sovereign Facilities...Fourth : Rescheduled Credit Facilities....Fifth : Total ( First + Second + Third + Fourth).

\* Attached directives must be observed while preparing this statement.

(1) See Item " R " of this Section on the manner of classifying customers' irregular credit facilities.  
 (2) This statement has been replaced with two new statements Nos. (5/A) and (5/B) by virtue of the circular No. No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.  
**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**  
 B) Instructions concerning replacement of forms no. (5) and (6) pertaining to the rules and regulations of credit facilities classification.

**Enclosure No. (6)**

**Bank / Company :**

**Detailed Statement of the Unpurchased Credit Facilities Classification \*\***  
**as on            /            /**

(Type of Facilities) \*

KD. 000's

Secret No. (1)	A/C No. (2)	Facilities Utilized Balance			Value of Excluded Collateral (4)	Amount of Suspended Interest (5)	Facilities Balance as basis for provision calculation [3C - (4+5)] (6)	Facilities Classification		Required Provision		Residual Provision, left with bank (9)	Remarks **	
		Cash (3A)	Non-Cash (3B)	Total (3A + 3B) (3C)				Category (7A)	% (7B)	% (8A)	Amount (6x8A) (8B)		Code (10A)	Explanation (10B)

\* First : Facilities granted to customers ....Second : International Commercial Facilities .....Third : International Sovereign Facilities...  
 Fourth : Rescheduled Credit Facilities....Fifth : Total ( First + Second + Third + Fourth).

\*\* Includes all classification data of the unpurchased credit facilities portfolio, including detailed data on classification of the Consumer Loans and Other Installment Loans, as well as customers credit facilities of less than KD 10,000/-. These mean the balances utilized from Cash and Non – Cash Credit facilities, as on 31/12/1991.

- Apart from the aforesaid, the guidelines related to completing the Schedule (5) should be observed.

## **Ministry of Commerce and Industry**

### **Ministerial Resolution No. (18) of the year 1990 requiring companies and institutions to adopt The International Accounting Standards in the preparation of their financial statements**

#### **The Minister of Commerce and Industry**

- Having perused law No. (15) of the year 1960 promulgating the commercial companies' law and the laws issued in amendment thereof, and
- Decree law No. (5) of the year 1980 promulgating the commerce law, and
- Decree law No. (5) of the year 1981 concerning the practice of auditing business, and
- Ministerial resolution No. (10) of the year 1986 concerning the preparation and submission of the closing accounts statements for the year 1985, and
- Ministerial resolution No. (14) of the year 1986 constituting the permanent technical committee for setting the accounting principles, and
- Ministerial resolution No. (4) of the year 1987 concerning the accounting principles which must be adopted in the preparation of the financial statements for the companies and institutions, and
- Ministerial resolution No. (11) of the year 1989 concerning the renewal and the reformation of the permanent technical committee for setting the accounting principles, and
- Pursuant to the representation of the undersecretary of commerce and industry.

***Has resolved,***

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

C ) Two Ministerial Resolutions: 1- The resolution No. (18) of the year 1990 issued by the minister of commerce and industry.

**Article (1)**

Companies and institutions of all legal types are required to prepare their financial statements in accordance with the international accounting standards issued by the international committee of accounting standards.

Implementation of such standards shall be within limits that do not exceed nor contradict the local laws and regulations, except otherwise where cancelled by a legal text.

**Article (2)**

The Ministry, upon a recommendation from the permanent technical committee for setting of accounting principles, may determine the international accounting standards which the ministry deems unnecessary to be adopted, and may as well determine accounting standards to be observed where they do not have relevant corresponding counterparts available in the International Accounting Standards.

**Article (3)**

This resolution supersedes the provisions contained in the ministerial resolution No. (4) of the year 1987 concerning the accounting principles to be observed in preparing the financial statements of companies and institutions.

**Article (4)**

This Resolution shall be applied to the financial statements for the period commencing from January 1, 1991 or thereafter.

**Minister of Commerce and Industry**

*Kuwait: Ramadan 22, 1410 H  
April 17, 1990*

## **Ministry of Commerce and Industry**

### **Ministerial Resolution No. (110) concerning the preparation of Companies and institutions for their Financial Statements for the year ending 31/21/1991**

#### **The Minister of Commerce and industry**

- Having perused law No. (15) of the year 1960 promulgating the Commercial companies' Law and the laws issued in amendment thereof, and
- Decree law No. (5) of the year 1980 promulgating commerce law, and
- Decree law No. (5) of the year 1981 concerning the practice of auditing business, and
- Decree law No. 4A/90 concerning the extension of the fiscal year 1990 for banks, shareholding companies with limited liabilities, and
- Ministerial resolution No. (10) of the year 1986 concerning the preparation and submission of the closing accounts statements for the year 1985, and
- Ministerial resolution No. (14) of the year 1986 constituting the permanent technical committee for setting of accounting principles, and
- Ministerial resolution No. (4) of the year 1987 concerning the accounting principles to be adopted in the preparation of the financial statements for companies and institutions, and
- Ministerial resolution No. (18) of the year 1990 requiring companies and institutions to adopt the international accounting standards in preparing their financial statements, and
- Pursuant to the representation of the chairman of permanent technical committee for setting of accounting principles :

#### ***Has resolved,***

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

C ) Two Ministerial Resolutions: 2- The resolution No. (110) of the year 1991 issued by The Minister of Commerce and Industry.

### **Article (1)**

For the purpose of preparing the financial closing statements for the fiscal year 1991, companies and institutions of all legal types shall comply with the ministerial resolution No. (18) of 1990, which obligates the companies to adopt the international accounting standards in the preparation of their financial statements.

### **Article (2)**

Companies and institutions, when preparing their financial statements, shall observe the following rules;

#### **1) Extraordinary Losses:**

Actual losses incurred by the company shall be charged to the year's balance sheet, and shall be treated as extraordinary losses. Such losses shall be reported in detail in the "Notes to Financial Statements". In the event the claimed compensations are received, these will be recorded as extraordinary income for the year of receipt.

#### **2) Debit Entries:**

Debit entries shall be registered in the profit and loss account by the amounts actually reported in the company's accounting books and records before the invasion.

#### **3) Short-term Investments (current, negotiable):**

The latest closing rates (as at august 1, 1990) or the cost price, whichever is less, shall be applied on the basis of total funds invested, or on the basis of each category of investment apart. A provision for decline in securities prices must be taken into consideration.

However, the unquoted investments shall be entered at fair book value based on latest available financial statements, or at cost, whichever is less, on an aggregate basis of invested funds. A provision for decline in securities prices must be taken into consideration. The manner and basis of short-term investments evaluation shall be disclosed in the Notes to Financial Statements.

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

C ) Two Ministerial Resolutions: 2- The resolution No. (110) of the year 1991 issued by The Minister of Commerce and Industry.



**4) Long-term Investments (unnegotiable):**

- a) Quoted long-term investments shall be carried at cost, where a provision for price decline must be taken into consideration.
- b) Unquoted investments shall be carried at fair book value based on the latest available financial statements, where a provision for price decline must be taken into consideration.

The manner and basis of long-term investments evaluation shall be disclosed in the notes to financial statements.

**5) Real Estate Properties:**

- a) These assets shall be reported as properties if they are available in the possession of the company for its use or leased to others. They shall be considered as fixed assets, and shall be duly depreciated.
- b) If otherwise, real-estate properties shall be reported as investments at the market value or at the cost whichever is less, on an aggregate basis of real estate investments, or on the basis of each separate property. A provision for price decline shall be taken into consideration, and the manner and basis of evaluation shall be disclosed in the Notes to financial statements.

**6) Balances of Accounts Payable and Accounts receivable:**

The method adopted in verifying the accuracy of the credit and debit balances, and the basis on which the company relied in making provisions for doubtful or bad accounts, must be disclosed in the notes to financial statements.

**7) Depreciation:**

Depreciation ratios assumed for the past years shall be similarly applied, unless amendment thereof is required. Consequently, the impact thereof must be identified and disclosed, where related reasons thereof shall be elaborated for explanation. As this accounting period covers two fiscal years (1990/1991), depreciation should be made for 24 months.

**8) Real Estate Income (Rents):**

Losses arising for non- collection or privation of this income shall be treated in the off-balance sheet as contra account entries, and shall be reported as a separate note to the financial statements.

**9) Budgeted Profits:**

Losses of budgeted profits shall be treated as contra account entries, and shall be reported as a separate note to the financial statements.

**10) Contra Entries:**

All claims for compensation arising from the Iraqi invasion shall be registered as contra entries in the off-balance sheet, and shall be stated as a separated Note to the financial statements.

**Article (3)**

The undersecretary shall implement this resolution which shall be in force from the date it is published in the official gazette.

**Minister of Commerce and Industry**

*Issued on Jumadah I, 1412 H  
December 1, 1991*

**The Manager**

*Ramadhan 22,1413 H.*

*March 15,1993*

**THE GENERAL MANAGER,**

**Instructions concerning bank's formation of provisions for foreign  
Exchange at bank's own discretion\***

With reference to the instructions previously issued to your bank in connection with the calculation of provisions for foreign exchange risks at 5% of net position in foreign currencies, which had been put in effect from end of December 1985.

I would like to advise you that the Central Bank of Kuwait has decided not to obligate banks to form such provision, with effect from your bank's financial statements as at end of 1992.

Accordingly, your bank may build up provisions to offset foreign exchange risks at the rate you deem appropriate.

Best regards,

**Hameed Ahmed Al-Rasheed  
Manager of Supervision Department**

\* Circulated to all local banks.

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

D) Instructions concerning bank's formation of provisions for foreign exchange at bank's own discretion.

**The Manager**

*Sha'aban 22,1418 H.  
December 22,1997*

**THE GENERAL MANAGER,**

**Circular to all local banks  
No. (2/BS/54/1997)**

With reference to the letter of the Central Bank of Kuwait dated December 18,1996 enclosing a copy of the instructions on the Rules and Regulations concerning classification of credit facilities, calculation of their provision, and method for treating the revenues resulting therefrom. In accordance with provisions contained in "SECTION ONE" of the instructions above mentioned (Item No.: FIRST, Paragraph No. "2.2 Other considerations pertaining to the client's positions"), stipulating that " The board of directors of each bank or investment company shall institute an in-house Committee to be selected from their own specialized and experienced staff, which will be entrusted with the responsibility of studying and evaluating the outstanding credit facilities of each separate individual client, and banks are required to furnish the Central Bank of Kuwait –upon request- with statements elaborating the principles and criteria adopted thereby for classification process and results of application.....etc."

Accordingly, the Central Bank of Kuwait shall be furnished with the principles and criteria adopted on which the Committee relies in respect of the credit facilities classification process effected at your bank in virtue of the financial position as 31/12/1997, to be attached with your bank closing financial statements for the year 1997.

Best regards,

**Hamad Abdul Mohsen Al-Marzouq  
Manager of Supervision Department**

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

E ) Instructions concerning presentation to the Central Bank of Kuwait of the principles and criteria on which every bank's Internal Committee relies in respect of assessing the credit facilities to be granted for each customer.

**GOVERNOR**

*Jumada Al-Akhira 7, 1419 H  
September 27, 1998*

**THE CHAIRMAN,**

**Circular to all local banks  
No. (2/BS/62/1998)<sup>(1)</sup>**

I would like to advise you that the Board of Directors of the Central Bank of Kuwait, at its meeting held on 20/9/1998, has endorsed the method to be adopted in calculating the Goodwill resulting from acquiring shares of other institutions and companies with the purpose of gaining control thereof. Thereby, banks shall, in general, amortize the goodwill proceeding from such acquisition on the results of the activity for the year in which such transaction took place.

In case of adequate justifications, it may be possible to consider the requests, which banks submit for extending the period over which they should amortize the said Goodwill, provided it should not exceed twenty years.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

(1) This instruction was amended according to circular No. (2/BS/175/2005) issued on 10/1/2005 .

5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

F ) Circular no. (2/BS/62/1998) concerning the method to be adopted in accounting the Goodwill resulting from acquiring shares of other institutions and companies with the purpose of gaining control thereof.

**GOVERNOR**

*Safar 17, 1420 H  
June 1, 1999*

**THE CHAIRMAN,**

**Circular no. (2/BS/71/1999)  
to all local banks concerning  
amendment of method of calculating  
the general provisions on the credit facilities  
in respect of which no specific provisions have been made**

With reference to the instructions issued by the Central Bank of Kuwait dated 18/12/1996 concerning the rules and regulations for classifying the credit facilities and calculating the provisions with regard thereto, as well as the method of treating the revenues resulting therefrom, I would like to advise you that the Board of Directors of the Central Bank of Kuwait, at its meeting held on 30/5/1999, has decided to amend the method of calculating the general provisions with regard to the credit facilities in respect of which no specific provisions have been calculated, in the following manner:

“Banks and investment companies that are authorized to lend shall be allowed to exclude the following credit facilities from the total credit facilities in respect of which a general provision is required to be made:

- 1) That part of the credit facilities which is covered by securities that represent fixed deposits, or cash deposits, treasury bills or bonds of the GCC countries. These securities shall satisfy the conditions set forth in Article 1 of the instructions No. (BSB/101/1995) concerning the Maximum Credit Concentration Limits.
- 2) That part of the credit facilities which is guaranteed under letters of guarantee issued by reputed banks at the international level, classified as grade "A" by international classification agencies, such as Standard and Poor or Moody's.<sup>(1)</sup>
- 3) Promissory notes that are endorsed and accepted by the banks mentioned in Item No. (2) hereabove.

(1) This statement was amended by virtue of the circular No. (2/BS/313/2013) dated 8/9/2013, as included in Item (X) hereof.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

G) Circular no. (2/BS/71/1999) concerning amendment of calculating the general provisions on the credit facilities for which no specific provisions have not been made.

- 4) Credit facilities extended to the governments of the GCC countries or those guaranteed by them, and the facilities granted to establishments or companies where ownership ratio exceeds 50%, provided that there shall be an explicit guarantee issued by governments of those countries in respect of securing such facilities, or that the Articles of Association of the borrowing establishment or company stipulate an explicit provision stating that the losses to be encountered by such institutions shall be guaranteed by any of governments of those countries.

The banks and investment companies whose available general provision balance does not reach the required percentage should fully attain that level by the end of the year 1999. Requests by banks or investment companies concerning completing the said general provision required over the years 1999 and 2000 shall be considered at the time of approving the closing financial statements for the year 1999.

With regard to the banks and investment companies that realize surplus in the total general provisions with respect to credit facilities as a result of the aforesaid exclusions, should incorporate such surplus, after having covered any deficit in the specific provisions required to be created therewith, within the other reserves, (General Reserve or Voluntary Reserve), in accordance with the current classification policy with regard to the surplus that has been realized upon start of implementation thereof at the end of the year 1996”

Correspondingly, the banks and investment companies that have the right to lend, shall comply with the foregoing regulations with effect from the date hereof, and shall in the meantime provide the external auditors with a copies of this circular.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

G ) Circular no. (2/BS/71/1999) concerning amendment of calculating the general provisions on the credit facilities for which no specific provisions have not been made.

**The Manager**

Ramadhan 5, 1420 H  
December 13, 1999

**THE GENERAL MANAGER,**

**Circular to all local banks  
No. (2/105/BS/77/1999)**

The Central Bank of Kuwait (CBK), being keen upon ensuring that the information provided by the financial statements of the local banks shall be distinguished with further transparency with regard to the disclosure of transactions with related parties, and the loans and advances portfolio, requests your bank to observe the following directives in preparing the closing financial statements of the year 1999 :

- 1) In addition to the disclosure made by your bank transactions with related parties within the published financial statements, you should also disclose the transactions of your bank with those parties in accordance with the following form:

Description	Number of Board Directors or Executive staff	Number of related parties	Amount
<b>Board Directors</b>	x	x	X
Loans	x	x	X
Contingent liabilities and claims	x	x	X
Credit Cards	x	x	X
Deposits	x	x	X
<b>Executive Staff</b>	x	x	X
Loans	x	x	X
Contingent liabilities and claims	x	x	X
Credit Cards	x	x	X
Deposits	x	x	X

Furthermore, the meaning of the related parties' concept of the Directors and Executive Staff should be clarified in accordance with the international accounting standards with regard to the disclosure of transactions with the related parties.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

H ) Circular no. (2/105/ BS/77/1999) concerning the observance by the banks of the requirement that their closing financial statements should secure further transparency with regard to disclosure of dealing with related parties and the Credit Facilities Portfolio.



In this regard, we would like to emphasize that your bank should observe the Instructions of the Central Bank of Kuwait issued on 29/11/1995 concerning the facilities granted to the members of the Board of Directors to the effect that the Board of Directors should advise the General Assembly of the bank, through the Annual Report which accompanies the closing financial statements, of the balances of the credit facilities granted to the members of the Board of Directors as at the end of the fiscal year mentioning number of customers, the volume of the cash and non-cash facilities and the existing securities with regard thereto.

- 2) As for the disclosure of loans and advances in connection with non-performing credit facilities, there should be a total separation between the credit facilities that have not been purchased and that had been existing before Iraqi invasion (1/8/1990) and those credit facilities that were granted after that date, with the statement of the total provisions outstanding in respect of the credit facilities that have not been purchased. In addition, it should be clarified that the provisions no longer required shall be passed on to the Central Bank of Kuwait.

Best regards,

**Ibrahim Ali Al-Qadhi**  
**Manager of Supervision Department**

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

H ) Circular no. (2/105/ BS/77/1999) concerning the observance by the banks of the requirement that their closing financial statements should secure further transparency with regard to disclosure of dealing with related parties and the Credit Facilities Portfolio.

**GOVERNOR**

*Rabi Al- Awal 23, 1421 H  
June 25, 2000*

**THE CHAIRMAN,**

**Circular to all local banks \***

With reference to the resolution No. (18) of the year 1990 issued by the Ministry of Commerce and Industry requiring companies and institutions to adopt the International Accounting Standards (IAS) in the presentation of their financial statements, and pursuant to the endeavours of the Central Bank of Kuwait to adopt such standards in such a manner to reflect soundness and prudence of the financial positions of the units under supervision.

I would like to state that the International Accounting Standards Committee (IASC) has previously issued the International Accounting Standard No. (39) "Financial Instruments: Recognition and Measurement", scheduled for application as effective from January 1, 2001.

Since the said standard focuses on increased observance of the fair value principle at calculating the value of the financial instruments inside and outside the financial position elements, and impacts resulting from mechanism of applicability, taking into consideration absence of clear applications and actions in this regard with respect to the emergent financial markets, it would be convenient for your bank to study the actual application impacts of the said standard on the financial position elements, and work out assumptions, and solutions necessary for suitable application mechanism in this matter.

Correspondingly, the Central Bank of Kuwait is fully prepared to receive any specific comments, or conceptions from your side in this connection.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

\* Circulated to all local banks.

5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

1) Circular concerning application of the accounting standard no. (39) "financial instruments: recognition and measurement".

**GOVERNOR**

*Safar 28, 1422 H  
May 21, 2001*

**THE CHAIRMAN,**

**Circular No. (2/BS/86/2001) to all local banks  
concerning the method of calculating the specific provisions required for  
the credit facilities portfolio in the context of applying the international  
accounting standard No. (39)**

I would like to advise you that, in view of the comments revealed by the local banks' auditors regarding their enquiries about the method of calculating the specific provisions required for the Credit Facilities Portfolio in accordance with the instructions issued by the Central Bank of Kuwait (CBK) on December 18, 1996 in the context of applying the International Accounting Standard (IAS) No. (39), several meetings have been held with the banks' auditors and executives to elucidate the Central Bank of Kuwait's viewpoint in this regard, the last of which was held on April 9, 2001.

In this connection, the Central Bank of Kuwait realizes the importance of enhancing the conclusions reached at the meeting held on April 9, 2001, as follows:

- 1- The controls and conditions which regulate the estimation of banks' administrations concerning the calculation of the provisions required for the credit facilities portfolio in accordance with the IAS No. (39) shall not go beyond the contents of the instructions issued in respect of classification of credit facilities and calculation of the provisions required therefore, in a manner to secure the integrity of such estimation, together with stability and continuity of the principles underlying them.

In the light of the above, the Central Bank of Kuwait considers that calculation the specific provisions, according to its instructions concerning classification policy, represent the minimum limit for the requirements of the IAS No. (39) in this regard. Hence, no amendments on the Central Bank of Kuwait's instructions concerning classification policy shall be included. Banks shall strictly comply therewith in this respect.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- J) Circular no. (2/BS/86/2001) concerning the method of calculating the specific provisions required for the credit facilities portfolio in the context of applying the international accounting standard no. (39).

- 2- Should any bank believe that the volume of the provisions calculated for the credit facilities portfolio according to the rules and criteria contained in the Central Bank of Kuwait instructions will exceed the volume of the risks associated with such portfolio, the concerned bank shall seek the Central Bank of Kuwait prior approval thereof before disclosing any increase in the provisions constituting the credit facilities portfolio in the financial statements. For the convenience of the Central Bank of Kuwait approval thereof, the concerned bank shall estimate the volume of the provisions required for all the credit facilities portfolio constituents relying on a study of the positions of each debt separately regardless of manifestation of classifying and estimating the volume of the provisions required thereof according to the Central Bank of Kuwait's instructions, It shall be taken into account that the study should illustrate the objective proofs invoked to consider the debt as doubtful or not; the principles and rules of estimating the future cash flows expected from the debt and time schedules thereof; the basis of collateral evaluation; illustration of the auditor's opinion in respect of the bank's intact estimations in this regard; together with preparation of detailed statements for comparing the estimated provisions and those required in accordance with the Central Bank of Kuwait instructions. In this connection, the comparison between the amounts of the estimated provisions with the required provisions shall be complying with the instructions beside the outstanding interests to be added thereto. In the event the Central Bank of Kuwait does not accept the justifications to be submitted in this regard, there shall be no chance to incorporate any reservations in the closing financial statements in this context.
- 3- Calculation of the outstanding interests shall continue to proceed and shall not be recognized as revenues, unless they are settled in cash or debited against the customer's current account.
- 4- As for general provisions, banks shall comply with the Central Bank of Kuwait's instructions concerning classification of credit facilities and calculation of the provisions required therefor, including the general provision, which shall be constituted at a ratio of 2%<sup>(1)</sup> of the facilities for which no specific provisions have been constituted.

(1) The percentage of the general provisions for credit facilities was reduced to a minimum of 1% for cash facilities and a minimum of 0.5% for non-cash facilities, according to circular No. (2/BS/204/2007) issued on 12/3/2007.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

J) Circular no. (2/BS/86/2001) concerning the method of calculating the specific provisions required for the credit facilities portfolio in the context of applying the international accounting standard no. (39).

Taking into consideration that the specific provisions required in compliance with the Central Bank of Kuwait's instructions are merely minimum limits, it shall be observed that in case of an increase in the specific provisions estimated according to the IAS No. (39), such increase shall be charged to the bank's operation results without relaying on the general provision availability.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

*Rabi Al-Awal 8, 1422 H  
May 31, 2001*

**THE GENERAL MANAGER,**

**Circular to all local banks \***

It was noticed that local banks enter the proposed amounts of cash distribution of profits under the 'Retained Profits' item, which appear as an item of shareholders' equity in the periodic data submitted to the Central Bank of Kuwait, until the endorsement of financial data by the Shareholders' Meeting and the distribution of profits. In order for the periodic data to show the actual changes in 'Shareholders Equity', the amounts of proposed cash distribution of profits shall be entered under the 'Other Liabilities' item and not under the 'Retained Profits' item.

Your bank shall abide by these instructions for the financial data presented to the Central Bank of Kuwait in the future, noting that the necessary amendments will be made to your bank's data submitted to date to the Central Bank of Kuwait.

Best regards,

**Ibrahim Ali Al-Qadhi**  
**Manager of Supervision Department**

\* Circulated to all local banks.

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

K ) Circular concerning entering the amounts of proposed cash distribution of profits under 'other liabilities' and not under 'retained profits'.

**GOVERNOR**

*Ramadhan 20, 1422 H  
December 5, 2001*

**THE CHAIRMAN,**

**Circular No. (2/BS/91/2001) to all local banks  
regarding amending the treatment of interests calculated  
on the irregular credit facilities \***

With reference to the instructions issued by the Central Bank of Kuwait on 18/12/1996 regarding the bases and principles of classification of credit facilities, the calculations of provisions for these facilities and the method of treatment of revenues resulting therefrom, I wish to inform that the Central Bank of Kuwait board of directors decided in its meeting on 1/12/2001 to amend the method of treatment of revenues resulting from both the credit facilities extended to customers and the international sovereign loans referred to in the third section of mentioned instructions, by adding the needed expression to Item (3)/First and Item (2)/Second to read as follows:

“ With regard to the credit facilities classified under “Bad”, and as of the date of their classification under that category, the interests calculated on these facilities and the outstanding balance of the suspended interests concerning these facilities, shall be entered under separate contra accounts, outside of the balance sheet”.

This amendment shall apply as of this date.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

\* Circulated to all local banks.

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5 - BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

L ->Circular no. (2/BS/91/2001) regarding amending the treatment of interests calculated on irregular credit facilities.

**Executive Director**

*Moharram 6, 1414 H  
June 15, 1994*

**THE CHAIRMAN OF THE KUWAITI BANKS COMMITTEE**

**Instructions concerning the treatment  
of provisions no longer required.**

With reference to the Central Bank 's letter of 12/5/1994 to the Chairman of the Kuwaiti Banks Committee regarding the treatment of local banks' provisions no longer required, it was noticed during the meeting held with local banks' representatives on 9/6/1994 for discussing the contents of that letter, that the banks' understanding of item (1) thereof does not tally with what the Central Bank meant it to signify.

In order to ensure a clear understanding by local banks and to avoid any ambiguity in this regard, a distinction should be made when calculating the provisions no longer required, between the surplus or deficit in provisions for items under the same category, and the surplus or deficit in provisions for items under other categories, whereby the following shall be observed:

- 1- The deficit in provisions for items recorded under the same category, shall be covered by the surplus occurring in the provisions of other items belonging to the same category, so that each category shows either a surplus or deficit position. For instance, in the case of the credit facilities category, an offsetting may be carried out between the surplus occurring in some facilities and the deficit occurring in other facilities under that category, so that the credit facilities' category shows one figure representing the surplus or deficit in credit facilities' provisions.



- 2- No offsetting may be carried out between a surplus occurring in any category and a deficit occurring in any other category, so that the provisions no longer required represent the total surplus or deficit in each of the various provisions' categories, noting that banks shall be responsible for remedying the deficit that occurs in other categories. For instance, offsetting may not be carried out between a surplus that appears in the credit facilities provision and a deficit that appears in the provisions for financial investments.

Best regards,

**Hamid Ahmed Al-Rusheid**

**Executive Director**

**GOVERNOR**

*Thu Al-qi'da 29, 1425 H  
January 10, 2005*

**THE CHAIRMAN,**

**Circular No. (2/BS/175/2005)  
To All Local Banks**

We would like to advise you that the Central Bank of Kuwait Board of Directors agreed at its meeting of 9/1/2005 to amend instructions No. (2/BS/62/1998) issued on 27/9/1998 concerning the manner of the accounting treatment of goodwill resulting from acquiring the shares of other institutions and companies for the purpose of controlling them. According to this amendment, banks have to comply with the rules of International Financial Reporting Standards (Standard No. 3) in respect of the accounting treatment of the goodwill, while observing the following regulations and procedures in this regard:

**First:** Upon acquisition of such shares, the respective bank must notify the Central Bank of Kuwait of all information relevant to the cases resulting in (positive or negative) goodwill.

**Second:** Positive goodwill must be valued regularly (with periodicity not exceeding one year) throughout the period during which the goodwill exists.

**Third:** the respective bank must provide the Central Bank of Kuwait with all the information relevant to the valuation of the goodwill, approved by the external auditors and supported by a certificate from the external auditors testifying to the correctness and integrity of the procedures applied in valuating the goodwill, and confirming that those procedures comply with the relevant International Financial Reporting Standards.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

N) Concerning Circular No. (2/BS/175/2005) concerning the compliance with the rules of International Financial Reporting Standards (Standard No.3) when treating goodwill resulting from holding the shares of other institutions and companies.

**Fourth:** The financial statements and the notes to those statement must include a disclosure of all information related to the goodwill and its valuation.

These instructions shall be implemented from 1/1/2005.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

Executive Director

Moharram 10, 1428 H  
January 29, 2007

**THE GENERAL MANAGER,**

**Circular No. (2/BS/198/2007)  
to All Local Banks \***

It has been noticed that there are differences in local banks' interpretation of the concepts of preparing the tables for credit facilities classification policy as per the Central Bank of Kuwait's instructions dated 18/12/1996 concerning the rules and regulations for classifying credit facilities and computing their provisions. Therefore, some explanatory amendments have been introduced to some of those tables (No. 1, 2, 4) as attached. The amendments addressed the following points :

- 1- Loans granted to banks and classified as "irregular", as well as the interest in suspense for bad debts and which are reported off the balance sheet as per the circular issued in this regard on 5/12/2001, must be reported in the margin of attachment No. (1) to the tables of the data of credit facilities classification policy.
- 2- In line with the rules of the circular issued to all local banks on 9/7/1998, requiring local banks to exclude local banks' staff loans granted in accordance to their internal policies, from the periodic data of the consumer loans, and to not report such loans within the data of the center of risks system, as such loans should be, instead, reported as an explanatory note in the margin of the data for consumer and other installment loans **as a statistical statement, Please note that such loans must also be reported as a margin note to table No.(2) of the credit facilities classifications tables, so as to indicate the size of loans granted to your bank employees according to its internal policy.**

\* Except Islamic Banks.

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**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.

3- A special column has been added for interest in suspense within attachment No. (4) pertinent to consumer and other installment loans, as attached to the tables for credit facilities classification policy.

Your bank has to observe these amendments with effect from the data for the period ending on 31/3/2007.

Best regards,

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

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**5 - BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.

Bank Name : .....

(Attachment No.1)  
(Industrial Form)

**Overall Statement of Credit Facilities Classification(Regular & Irregular ) &  
the Required Specific & General Provisions As on / / ,  
as per Relevant Rules & Regulations <sup>(2)</sup>**

Values in KD (000's)

Description	Cash (1)	Non-Cash (2)	Total (1+2)
<b><u>I: Total Credit Facilities</u></b>			
<b>A) Regular* :</b>			
- Granted to Customers			
- Sovereign Risks			
- Consumer & Other instalment Loans			
<b>Total (A)</b>			
<b>B) Irregular :</b>			
- Granted to Customers			
- Sovereign Risks			
- Consumer & Other instalment Loans			
<b>Total (B)</b>			
<b>Total Credit Facilities (A+B) **</b>			
<b><u>II - Required Specific Provisions</u></b>			
- Facilities Granted to Customers			
- Sovereign Risks Facilities			
- Consumer & Other Instalment Loans			
<b>Total required specific Provisions (II)</b>			
<b><u>III- General Provisions required for credit facilities for which no specific provisions were made * (1)</u></b>			
- 1% of cash Credit Facilities			
- 0.5% of non-cash credit facilities			
<b>IV- Total required General &amp; Specific provisions (II+III) ***</b>			
<b>V- Value of suspense interest in the Bank's records and reported within the above credit facilities</b>			
<b>VI- Provisions available in the Bank's records***</b>			

\* Include the irregular credit facilities & those listed under the "monitor" category for which no specific provisions are required according to the management's discretion, as well as those irregular Credit Facilities extended to the institutions & companies fully owned by the Kuwaiti Government & there is a guarantee from the Government for such debts or for the losses that may be encountered by such entities.

\*\* To be matched with the financial position data (BS1) as follows:

**A- Cash Facilities**

- Credit Facilities items : N3,4 .....  
P .....  
- Loans granted to banks (irregular) .....  
- Interest computed on bad debts and reported off the balance sheet .....  
- In addition to cash credit facilities to foreign branches . .....

**Total Cash facilities** .....

**B- Non-Cash Facilities (Item - T)**

In addition to non-cash credit facilities to foreign branches .....  
**Total Non-Cash facilities** .....

\*\*\* To be matched with the attached forms (2,3,4)

(1) The percentage of the general provision was amended pursuant to circular No. (2/BS/204/2007) issued on 12/3/2007.

(2) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.

**Bank Name :** .....

(Attachment No.1)  
(Real Estate Form)

**Overall Statement of Credit Facilities Classification (Regular & Irregular) & the Required Specific & General Provisions As on / / , as per Relevant Rules & Regulations**

Values in KD (000's)

Description	Cash (1)	Non-Cash (2)	Total (1+2)
<b>First: Total Credit Facilities</b>			
<b>A) Regular* :</b>			
- Granted to Customers			
- Sovereign Risks			
- Consumer & Other instalment Loans			
<b>Total (A)</b>			
<b>B) Irregular:</b>			
- Granted to Customers			
- Sovereign Risks			
- Consumer & Other instalment Loans			
<b>Total (B)</b>			
<b>Total Credit Facilities (A+B) **</b>			
<b>Second: Required Specific Provisions</b>			
- Facilities Granted to Customers			
- Sovereign Risks Facilities			
- Consumer & Other Installment Loans			
<b>Total required specific Provisions (II)</b>			
<b>Third: General Provisions required for credit facilities for which no specific provisions were made * (1)</b>			
- 1% of cash Credit Facilities			
- 0.5% of non-cash credit facilities			
<b>Forth: Total required General &amp; Specific provisions (II+III) ***</b>			
<b>Fifth: Value of suspense interest in the Bank's records and reported within the above credit facilities</b>			
<b>Sixth:- Provisions available in the Bank's records***</b>			

\* Include the irregular credit facilities & those listed under the "monitor" category for which no specific provisions are required according to the management's discretion, as well as those irregular Credit Facilities extended to the institutions & companies fully owned by the Kuwaiti Government & there is a guarantee from the Government for such debts or for the losses that may be encountered by such entities.

\*\* To be matched with the financial position data (B.S.1) as follows:

**A- Cash Facilities**

- Credit Facilities items : L3 .....  
N .....  
P .....

- Loans granted to banks (irregular)  
- Interest computed on bad debts and reported off the balance sheet  
- In addition to cash credit facilities to foreign branches .

**Total Cash facilities** .....

**B- Non-Cash Facilities (Item - T)**

In addition to non-cash credit facilities to foreign branches .....

**Total Non-Cash facilities** .....

\*\*\* To be matched with the attached forms (2,3,4)

(1) The percentage of the general provision was amended pursuant to circular No. (2/BS/204/2007) issued on 12/3/2007.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.

**Bank Name :** .....

(Attachment No.1)  
(Commercial Bank Form)

**Overall Statement of Credit Facilities Classification (Regular & Irregular) & the Required Specific & General Provisions As on / / <sup>(2)</sup>, as per Relevant Rules & Regulations**

Values in KD (000's)

Description	Cash (1)	Non-Cash (2)	Total (1+2)
<b><u>I: Total Credit Facilities</u></b>			
<b>A) Regular*:</b>			
- Granted to Customers			
- Sovereign Risks			
- Consumer & Other installment Loans			
<b>Total (A)</b>			
<b>B) Irregular:</b>			
- Granted to Customers			
- Sovereign Risks			
- Consumer & Other installment Loans			
<b>Total (B)</b>			
<b>Total Credit Facilities (A+B) **</b>			
<b><u>II - Required Specific Provisions</u></b>			
- Facilities Granted to Customers			
- Sovereign Risks Facilities			
- Consumer & Other Installment Loans			
<b>Total required specific Provisions (II)</b>			
<b><u>III- General Provisions required for credit facilities for which no specific provisions were made * (1)</u></b>			
- 1% of cash Credit Facilities			
- 0.5% of non-cash credit facilities			
<b>IV- Total required General &amp; Specific provisions (II+III) ***</b>			
<b>V- Value of suspense interest in the Bank's records and reported within the above credit facilities</b>			
<b>VI- Provisions available in the Bank's records***</b>			

\* Include the irregular credit facilities & those listed under the "monitor" category for which no specific provisions are required according to the management's discretion, as well as those irregular Credit Facilities extended to the institutions & companies fully owned by the Kuwaiti Government & there is a guarantee from the Government for such debts or for the losses that may be encountered by such entities.

\*\* To be matched with the financial position data (BS1) as follows\*:

**A- Cash Facilities**

- Credit Facilities (items N) .....
- Loans to financial institutions Item L3) .....
- Loans granted to banks (irregular) .....
- Interest computed on bad debts and reported off the balance sheet .....
- In addition to cash credit facilities to foreign branches . .....

**Total Cash facilities** .....

**B- Non-Cash Facilities (Item - R)**

- In addition to non-cash credit facilities to foreign branches .....

**Total Non-Cash facilities** .....

\*\*\* To be matched with the attached forms (2,3,4)

(1) The percentage of the general provision was amended pursuant to circular No. 2/BS/204/2007) issued on 12/3/2007.

(2) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) dated 9/4/2012.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

- O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.



Bank Name: .....

***Distribution of Required General & Specific Provisions According Classification Categories  
of the Credit Facilities to customers \* as on / / <sup>(1)</sup>***

“KD 000’s”

S.N	Type of Classification	Number of Customers	The Utilized balance of Facilities			Amount of Suspense Interest**	Value of Excluded Collateral***	Amount of the Required Provisions ****	The Provision Available in the Bank's Records
			Cash (A)	Non-Cash (B)	Total (A+B)				
1	Regular								
2	Special Mention; does not require specific provisions								
<b>A</b>	<b>Total (1+2)</b>								
3	Special Mention; requires specific provisions								
4	Sub-Standard								
5	Doubtfull								
6	Bad								
<b>B</b>	<b>Total (3+4+5+6)</b>								
<b>Total (A+B)*****</b>									

- \* Include international commercial loans.
- \*\* Include the interest computed on debts classified as “bad” and reported off the balance sheet according to the circular issued in this respect.
- \*\*\* Value of collaterals is computed on the basis of market value, after decreasing it by the ratios necessary for coverage of market & exchange rates risks & any other risks.
- \*\*\*\* Include the required general provision for the facilities which do not require specific provisions (Item 1&2), and the specific provisions required for the irregular credit facilities (Items 3,4,5 and6).
- \*\*\*\*\* Include loans granted to bank staff according to internal policy ----- : KD Thousand

(1) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, JS, IIS, FS, IFS/282/2012), dated 9/4/2012.  
**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**  
 O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.

Attachment No.(4)

Bank Name: .....

***Distribution of The Required General & Specific Provisions, According to Classification Categories  
of The Consumer & Other Installment Loans\* <sup>(1)</sup> as on / /***

“KD 000’s”

S.N	Type of Classification	Number of Customers	Amount of Facilities	Amount of interest in suspense **	Amount of the required provision ***	Amount of the provision available in the Bank's records
1	Regular					
2	Special Mention; does not require specific provisions					
<b>A</b>	<b>Total (1+2)</b>					
3	Special Mention; requires specific provisions					
4	Sub-Standard					
5	Doubtful					
6	Bad					
<b>B</b>	<b>Total (3+4+5+6)</b>					
<b>Total (A+B)</b>						

\* To which Central Bank's instructions dated 20/4/1996 apply.

\*\* Including the interest computed on debts classified as “bad” and reported off the balance sheet according to the circular issued in this respect.

\*\*\* Includes the general provision for the facilities which do not require specific provisions (Items 1,2) & the specific provisions required for irregular facilities (Items 3,4,5,6) .

(1) An amendment to this statement was introduced by virtue of the circular No. (2/BS, IBS, JS, IIS, FS, IFS/282/2012) dated 9/4/212.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**

O) Circular No.(2/BS/198/2007) concerning the unification of concepts for preparing the credit facilities classification tables in accordance to the instruction issued on 18/12/1996 with regard to the rules and regulations for classifying credit facilities and computing their provisions.

**GOVERNOR**

*Safar 22, 1428 H  
March 12, 2007*

**THE CHAIRMAN,**

**Circular No. (2/BS/204/2007)  
To all local banks\* concerning the amendment  
of the ratio of general provision on credit facilities  
for which no specific provisions have been made**

We would like to advise you that the Central Bank Board of Directors, at its meeting of 11/3/2007, resolved to introduce the following amendment to Central Bank of Kuwait instructions of 15/12/1996 concerning the rules and regulations for classifying credit facilities, computing their provisions and treating the income generated therefrom. The amendment relates to the general provisions ratio, as follows:

“The ratio of the general provision<sup>(1)</sup> for the credit facilities for which no specific provisions have been made, has been reduced to become a minimum of 1% for cash facilities and a minimum of 0.5% for non-cash facilities. Banks may not dispose of the surplus general provisions existing in their records as on 31/12/2006, and resulting from reducing the general provisions ratio in the mentioned manner, except with the prior approval of the Central Bank of Kuwait”.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

(1) Pursuant to the circular dated 17/11/2008, included under Item "V" of Section 10 of this Manual, the Central Bank of Kuwait Board of Directors resolved to exempt banks from setting aside a general provision of 1% for the new finance granted to investment companies within the framework of implementing the program for rectifying the conditions of local investment companies.

\* Except Islamic banks which work according Islamic sharia'a independent instructions.

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

P) Circular No. (2/BS/204/2007) concerning the amendment of the ratio of general provision for credit facilities for which no specific provisions have been made.

**GOVERNOR**

*Jumada Al-Aula 28, 1429 H  
June 2, 2008*

**THE CHAIRMAN,**

**Circular No. (2/BS,IBS,IS, IIS/221/2008)  
To all local banks and investment companies  
on preparation of consolidated financial statements**

We would like to advise you that it was noticed that some banks and investment companies failed to follow standard policies and treatments for all units of the group while preparing the consolidated financial statements. This is specifically the case with regard to failing to classify credit facilities/finance granted by subsidiaries, and making the provisions necessary therefore, as applicable with regard to credit facilities/finance granted by the mother bank/company.

In light of the above, your bank/company should comply with the following, while preparing the consolidated financial statements:

1. Standardized accounting policies and treatments should be followed at the level of all group units, including the formation of provisions necessary for balances of credit facilities/finance granted by the mother bank/company – as a minimum – in accordance with Central Bank of Kuwait's instructions on the rules and regulations for classifying credit facilities/investment and finance transactions, as well as calculating their provisions, manner treatment of the income from these transactions, and the amendments thereto.
2. Classification should be started for credit facilities/finance existing as of 30/6/2008 with the consolidated subsidiaries of your bank/company, and provisions required for them should be determined in accordance with the classification policy issued by Central Bank of Kuwait. You should provide us, no later than end of August 2008, with statement of classification of the balances of these facilities/finance transactions on the forms used for this purpose. In the future, it should be observed that this data, which is submitted to Central Bank of Kuwait quarterly, should be at the level of both mother bank/company, and consolidated level.

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

Q) Circular No. (2/BS, IBS, IS, IIS/221/2008) Concerning the preparation of consolidated financial statements.

It has been resolved to grant the concerned banks and investment companies a grace period to make the required provisions, which have not yet been made, for credit facilities/finance transactions with subsidiaries in accordance with the classification policy issued by Central Bank of Kuwait, gradually, starting from 30/9/2008, and up to end of 2009.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**The Manager**

*Rajab 14, 1429 H  
July 17, 2008*

**The General Manager,**

**Circular to all conventional banks and investment companies**

This is made further to the circular dated 18/12/1996 to all conventional banks and investment companies, regarding the rules and regulations for classification of credit facilities granted to customers, calculation of the provisions thereof, and method of treatment of the resulting income.

We would like to advise you that the irregular customers, classified in Table (4) Consumer and other Installment Loans, should be listed in Table (5) Classification of Irregular Facilities, by customers secret numbers. Irregular consumer and installment loans customers having secret numbers in the table should be listed. Irregular facilities of customers without secret numbers should be gathered under a new item entitled “Irregular Facilities of Customers without Secret Numbers”, in the same Table( 5).

Please consider conducting the necessary checking between the contents of Table (5), and the corresponding contents of Tables (2, 3 and 4) of the Credit Facilities Classification tables.

Your bank/company should comply with the above with effect from September 2008 statements.

With my best wishes,

**Dr. Mohammad Yousuf Al-Hashel**  
**Manager, Off-Site Supervision Department**

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

R) Circular concerning the manner of classifying customers' irregular credit facilities in table No.(5), that is complementing Central Bank of Kuwait's rules and regulations for credit facilities classification, computation of their provisions, and accounting treatment of income generated therefore.

**GOVERNOR**

*Muharram 25, 1430 H*  
*January 22, 2009*

**THE CHAIRMAN,**

**Circular No. (2/BS, IBS/237/2009) to All Local Banks  
(which do not periodically evaluate their fixed assets)**

Kindly carry out the needful to reevaluate the lands and buildings owned by your bank and listed in the Balance Sheet under Fixed Assets, as at 31/3/2009.

To this effect, banks have to consider the following:

- First:** International Accounting Standards and the Central Bank of Kuwait instructions on the implementation of the Basel II Revised Capital Adequacy Standard, upon evaluation and result screening.
- Second:** The valuation shall be carried out on an annual basis as of 31/12/2009.
- Third:** The evaluation process shall be assigned to at least two specialized firms, whereby the lesser valuation is adopted.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

*Jumada Al-Oula 3, 1430 H  
April 28, 2009*

**THE CHAIRMAN,**

**Circular No. (2/BS,IBS/243/2009) to All Local Banks  
(which do not periodically evaluate their fixed assets)**

With reference to the Central Bank of Kuwait Circular No. (2/BS/IBS/237/2009) dated 22/1/2009 regarding the evaluation of bank-owned lands and buildings listed in the Balance Sheet under Fixed Assets, and in light of current developments related to the evaluation in the aftermath of the global financial crisis and consequent implementation of the Financial Stability Program under Decree-law No. 2/2009, the referred-to circular is hereby annulled.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**



**GOVERNOR**

*Rajab 21, 1430 H  
July 14, 2009*

**THE CHAIRMAN,**

**CIRCULAR TO ALL LOCAL BANKS\*  
ON NON-PURCHASED DEBTS, FOR WHICH PROVISIONS  
WERE LEFT PURSUANT TO THE PROVISIONS OF  
LAW DECREE NO. 32 OF 1993**

This has reference to the non-purchased debts, for which provisions were set aside for your bank to meet their risk pursuant to the provisions of Article 4 of Law Decree No. (32) of 1993 on Rectifying the Conditions of the Banking and Financial Sector.

In order for the Central Bank of Kuwait to be updated on the status of such debts, and the actions taken towards their collection, your bank is required to submit detailed data and information about the balances of such debts and provisions set aside against them, as at 30/6/2009. You are also required to clarify all actions taken by your bank towards collecting each debt, and the outcome of such actions.

The required data and information should be submitted no later than 31/7/2009.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

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\* To the local banks existing at the time of issuing the said circular.

**5 - BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

U) Circular requesting submission of detailed data and information on the balances of non-purchased debts for which provisions are left, according to the rules of Law Decree No. (32) of the year 1993.

**GOVERNOR**

*Jumada Al-Aula 7, 1432 H  
April 10, 2011*

**THE CHAIRMAN,**

**Circular No. (2/BS, IBS/271/2011)**

**To all local banks concerning evaluation of real estate assets extended as  
collaterals against finance granted to customers**

We would like to advise you that in light of banks' evaluation of the real estate assets provided to them as collaterals against the finance granted to customers by their respective real estate departments;

Due to the conflict of interest that mandates the necessity of assigning such evaluation to other neutral parties, CBK emphasizes the necessity of performing real estate evaluation, at least annually, provided to your bank as collaterals by two neutral assessors provided that one of the assessors shall be Kuwait Finance House or Kuwait International Bank. The evaluation shall not be conducted by the respective Department in your bank. The value of the real estate shall be accounted for by the average of the two evaluations.

Your bank shall work accordingly from the date hereof.

With my best wishes,

**SALEM ABDUL AZIZ AL-SABAH**

**GOVERNOR**

*Jumada Al-Aula 18, 1433 H  
April 9, 2012*

**THE CHAIRMAN,**

**Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012)  
to all local banks, investment companies and finance companies  
concerning rescheduled loans**

Kindly be advised that CBK board of directors decided in its meeting on 8/4/2012 to make incorporate certain to the schedules provided on a quarterly basis by banks, investment companies and finance companies as per CBK instructions concerning the rules and bases of classifying credit facilities/ investment operations and finance, calculating provisions thereof and accounting for the revenues resulting therefrom by seperating the rescheduled debts from the non-performing debts in a separate schedule as a third set in addition to two sets: regular and irregular debts in the statements of credit facility/investment and finance operation classification policy as per the attached schedules. Please be informed that the provisions made against such debts shall continue to be held as per the instructions referred to in this respect.

With my best wishes,

**THE GOVERNOR**

**DR. MOHAMMAD Y. AL-HASHEL**

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5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.

W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

Attachment No. (1)  
(Traditional Banks Form)

**Gross statement of credit facilities classifications (regular and irregular) & required specific and general provisions as on / / as per the rules and bases issued in this respect**

Bank: .....

Description	KD'000		
	Cash (1)	Non Cash (2)	Total (1+2)
<b>First: Total credit facilities</b>			
A. <u>Regular:</u> *			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (A)</b>			
B. <u>Rescheduled:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (B)</b>			
C. <u>Irregular:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (C)</b>			
<b>Total Credit facilities (A+B+C) **</b>			
<b>Second: required specific provisions</b>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total Required specific provisions</b>			
<b>Third: required general provisions against credit facilities for which no specific provisions are made*</b>			
- 1% of cash credit facilities			
- 0.5% of non-cash credit facilities			
<b>Fourth: Total required general and specific provisions (second+ third) ***</b>			
<b>Fifth : Value of interests recorded in the bank books and reported within credit balances above</b>			
<b>Sixth : Provisions made in the bank books***</b>			

Includes irregular credit facilities reported under "Special Mention" category and does not require taking specific provisions at the management's discretion as well as irregular credit facilities extended to institutions and companies owned by the Government of the State of Kuwait for which a guarantee from the government is available whether for the debts or the losses that may be incurred by such bodies.

\*

\*\* Matching with balance sheet information (B.S.1) should be made as follows:

**A. Cash facilities:**

- Credit facilities (Item N) .....
- Loans to financial institutions (Item L3) .....
- Loans to banks (Irregular) .....
- Interest on bad debts reported off balance .....
- Plus cash credit facilities to foreign branches .....

- **Total cash facilities**

**B. Non cash facilities (Item R):**

- Plus cash credit facilities to foreign branches .....

- **Total non-cash facilities**

\*\*\* matching with attached schedules (2,3 and 4) should be made.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

## Attachment No. (2)

**Allocation of general and specific provisions as per classification categories  
of credit facilities extended to customers\* as on / /**

Bank: .....

KD'000

s.	Classification type	No. of customers	Utilized balance of the facilities			Outstanding interests**	Excluded collaterals ***	Required provision ****	Provision available in bank records
			Cash (1)	Non Cash (2)	Total (1+2)				
1	Regular								
2	Special Mention; does not require specific provisions								
<b>A</b>	<b>Total (1+2)</b>								
<b>B</b>	<b>Rescheduled</b>								
3	Special Mention; requires specific provisions								
4	Substandard								
5	Doubtful								
6	Bad								
<b>C</b>	<b>Total (3+4+5+6)</b>								
	<b>Total (A+B+C) ****</b>								

\* Includes international trade loans.

\*\* Includes interest computed for debts classified as “bad” and reported off balance sheet as per the circular issued in this respect.

\*\*\* Value of collaterals are computed based on market value after being reduced at appropriate rates to cover market risks, exchange rate risks and any other risks .

\*\*\*\* Includes The Required General Provision For Facilities That Do Not Require Specific Provisions (Item 1 And 2) And Specific Provisions Required For Rescheduled Facilities (Item B) And Irregular Facilities (Items 3, 4,5 And 6).

\*\*\*\*\* Including loans extended to the bank staff as per the internal policy KD ..... Thousand.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**

W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

## Attachment No. (3)

**Allocation of general and specific provisions as per classification categories  
of credit facilities extended to international sovereigns\* as on / /**

Bank: .....

KD'000

s.	Classification type	No. of customers	Utilized balance of the facilities			Outstanding interests	Required provision *	Provision available in bank records
			Cash (1)	Non Cash (2)	Total (1+2)			
A	Regular facilities that do not require specific provisions at the management's discretion							
B	Facilities that require specific provisions: 1. Regular 2. Rescheduled 3. Irregular - Special Mention - Substandard - Doubtful - Bad							
<b>Total (B)</b>								
<b>Total (A+B)</b>								

\* Includes the required general provision for facilities that do not require specific provisions (Item A) and specific provisions required for other facilities (Item B) computed as per Items B and C/ First of the second Section of the Instructions.

5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.

W) Circular No. (2/B.S, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

**Attachment No. (4)**

**Allocation of general and specific provisions as per classification categories  
of consumer and other installment loans as on / /**

Bank: .....

KD'000

s.	Classification type	No. of customers	Facilities value	Outstanding interest	Required provision **	Provision available in bank records
1	Regular					
2	Special Mention; does not require specific provisions					
<b>A</b>	<b>Total (A + B)</b>					
<b>B</b>	<b>Rescheduled</b>					
3	Special Mention; requires specific provisions					
4	Substandard					
5	Doubtful					
6	Bad					
<b>C</b>	<b>Total (3+4+5+6)</b>					
<b>Total (A+B+C)</b>						

\* Includes interest computed for debts classified as “bad” and reported off balance sheet as per the circular issued in this respect.

\*\* Includes the required general provision for facilities that do not require specific provisions (Item 1 and 2) and specific provisions required for rescheduled facilities (Item B) and irregular facilities (items 3, 4, 5 and 6).

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**

W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

Attachment No. (5/A)

**Detailed statement of rescheduled credit facilities for  
each customer as on / /**

KD'000

Bank: .....

Description	Secret Number (1)	Account Number (2)	Utilized facilities balance of the			excluded collaterals (4)	outstanding interests (5)	Facilities balance based on which provision is computed (3C- (4+5)) (6)	Facilities classification		Required provision		Remarks*	
			Cash (3A)	Non Cash (3B)	Total (3A+3B) (3C)				Category (7A)	Ratio (7B)	Ratio (8A)	Value (6 x 8A) (8B)	Code (9A)	Explanation (9B)
<b>First:</b> Facilities to customers ..... .....														
<b>Total "First"</b>														
<b>Second:</b> International trade facilities ..... .....														
<b>Total "Second"</b>														
<b>Third:</b> International sovereign facilities ..... .....														
<b>Total "Third"</b>														
<b>Fourth:</b> Consumer & installment loans ..... .....														
<b>Total "Fourth"</b>														
<b>Total (First + .....+ Fourth)</b>														

\* Compliance with the attached guidelines should be considered while preparing this statement.



KD'00

**Detailed statement of irregular credit facilities\* for each customer as on / /**

Attachment No. (5/B)

Bank: .....

Description	Secret Number (1)	Account Number (2)	Utilized facilities balance of the			excluded collaterals (4)	outstanding interests (5)	Facilities balance based on which provision is computed (3C- (4+5)) (6)	Facilities classification		Required provision		Remarks*	
			Cash (3A)	Non Cash (3B)	Total (3A+3B) (3C)				Category (7A)	Ratio (7B)	Ratio (8A)	Value (6 x 8A) (8B)	Code (9A)	Explanation (9B)
<b>First:</b> Facilities to customers ..... .....														
<b>Total "First"</b>														
<b>Second:</b> International trade facilities ..... .....														
<b>Total "Second"</b>														
<b>Third:</b> International sovereign facilities ..... .....														
<b>Total "Third"</b>														
<b>Fourth:</b> Consumer & installment loans ..... .....														
<b>Total "Fourth"</b>														
<b>Total (first + .....+ Fourth)</b>														

Compliance with the attached guidelines should be considered while preparing this statement.

Attachment No. (1)

(Industrial Form)

**Gross statement of credit facilities classifications (regular and irregular) & required specific and general provisions as on / / as per the rules and bases issued in this respect**

Bank: .....

Description	KD'000		
	Cash (1)	Non Cash (2)	Total (1+2)
<b>First: Total credit facilities</b>			
A. <u>Regular:</u> *			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (A)</b>			
B. <u>Rescheduled:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (B)</b>			
C. <u>Irregular:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (C)</b>			
<b>Total credit facilities (A+B+C) **</b>			
<b>Second: required specific provisions</b>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total required specific provisions</b>			
<b>Third: Required general provisions against credit facilities for which no specific provisions are made*</b>			
- 1% of cash credit facilities			
- 0.5% of non-cash credit facilities			
<b>Fourth: Total required general and specific provisions (second+ third) ***</b>			
<b>Fifth : Value of interests recorded in the bank books and reported within credit balances above</b>			
<b>Sixth : Provisions made in the bank books***</b>			

Includes irregular credit facilities reported under "Special Mention" category and does not require taking specific provisions at the management's discretion as well as irregular credit facilities extended to institutions and companies owned by the Government of the State of Kuwait for which a guarantee from the government is available whether for the debts or the losses that may be incurred by such bodies.

\*\* Matching with balance sheet information (B.S.1) should be made as follows:

**A. Cash facilities:**

- Credit facilities (Items N3 and 4) .....
- P .....
- Loans to banks (irregular) .....
- Interest on bad debts reported off balance sheet .....
- Plus cash credit facilities to foreign branches .....
- **Total cash facilities** .....

**B. Non cash facilities (Item T):**

- Plus cash credit facilities to foreign branches .....
- Total non-cash facilities** .....

\*\*\* matching with attached schedules (2,3 and 4) should be made .

**5 - BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

**Attachment No. (2)**

**Allocation of general and specific provisions as per classification categories  
of credit facilities extended to customers\* as on     /     /**

Bank: .....

KD'000

S.	Classification type	No. of customers	Utilized balance of the facilities			Outstanding interests**	Excluded collaterals ***	Required provision ****	Provision available in bank records
			Cash (1)	Non Cash (2)	Total (1+2)				
1	Regular								
2	Special Mention; does not require specific provisions								
<b>A</b>	<b>Total (1+2)</b>								
<b>B</b>	<b>Rescheduled</b>								
3	Special Mention; requires specific provisions								
4	Substandard								
5	Doubtful								
6	Bad								
<b>C</b>	<b>Total (3+4+5+6)</b>								
<b>Total (A+B+C)****</b>									

- \* Includes international trade loans.
- \*\* Includes interest computed for debts classified as “bad” and reported off balance sheet as per the circular issued in this respect.
- \*\*\* Value of collaterals are computed based on market value after being reduced at appropriate rates to cover market risks, exchange rate risks and any other risks.
- \*\*\*\* Includes the required general provision for facilities that do not require specific provisions (Items 1 and 2) and specific provisions required for rescheduled facilities (item B) and irregular facilities (items 3, 4,5 and 6).
- \*\*\*\*\* Including loans extended to the bank staff as per the internal policy KD ..... Thousand.

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.**

W) Circular No. (2)/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

Attachment No. (3)

Allocation of general and specific provisions as per classification categories of credit facilities extended to international sovereigns as on / /

Bank: .....

KD'000

S.	Classification type	No. of customers	Utilized balance of the facilities			Outstanding interests	Required provision *	Provision available in bank records
			Cash (1)	Non Cash (2)	Total (1+2)			
A	Regular facilities that do not require specific provisions at the management's discretion							
B	Facilities that require specific provisions: 1. Regular 2. Rescheduled 3. Irregular - Special Mention - Substandard - Doubtful - Bad							
<b>Total (B)</b>								
<b>Total (A+B)</b>								

\* Includes the required general provision for facilities that do not require specific provisions (Item A) and specific provisions required for other facilities (item B) computed as instructions in Item B/First of Section Two of Instruction.

**Attachment No. (4)**

**Allocation of general and specific provisions as per classification categories  
of consumer and the other installments loans as on / /**

Bank: .....						KD'000
s.	Classification type	No. of customers	Amount of facilities	Outstanding interests*	Required provision**	Provision available in bank records
1	Regular					
2	Special Mention; does not require specific provisions					
<b>A</b>	<b>Total (1+2)</b>					
<b>B</b>	<b>Rescheduled</b>					
3	Special Mention; requires specific provisions					
4	Substandard					
5	Doubtful					
6	Bad					
<b>C</b>	<b>Total (3+4+5+6)</b>					
<b>Total (A+B+C)</b>						

\* Includes interest computed for debts classified as “bad” and reported off balance sheet as per the circular issued in this respect.

\*\* Includes the required general provision for facilities that do not require specific provisions (Items 1 and 2) and specific provisions required for rescheduled facilities (item B) and irregular facilities (items 3, 4,5 and 6).

5. BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.  
W/ Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

**Attachment No. (5/A)**

**Detailed statement of rescheduled credit facilities for  
each customer as on / /**

KD'000

Bank: .....

Description	Secret Number (1)	Account Number (2)	Utilized facilities balance of the			excluded collaterals (4)	Outstanding interests (5)	Facilities balance based on which provision is computed (3C- (4+5)) (6)	Facilities classification		Required provision		Remarks*	
			Cash (3A)	Non Cash (3B)	Total (3A+3B) (3C)				Category (7A)	Ratio (7B)	Ratio (8A)	Value (6 x 8A) (8B)	Code (9A)	Explanation (9B)
<b>First:</b> Facilities to customers ..... .....														
<b>Total "First"</b>														
<b>Second:</b> International trade facilities ..... .....														
<b>Total "Second"</b>														
<b>Third:</b> International sovereign facilities ..... .....														
<b>Total "Third"</b>														
<b>Fourth:</b> Consumer & installment loans ..... .....														
<b>Total "Fourth"</b>														
<b>Total (First + .....+ Fourth)</b>														

\* Compliance with the attached guidelines should be considered while preparing this statement.

5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.  
W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

Attachment No. (5/B)

**Detailed statement of irregular credit facilities\* for each customer as on / /**

Bank: .....

KD'000

Description	Secret Number (1)	Account Number (2)	Utilized facilities balance of the			excluded collaterals (4)	Outstanding interests (5)	Facilities balance based on which provision is computed (3C- (4+5)) (6)	Facilities classification		Required provision		Remarks*	
			Cash (3A)	Non Cash (3B)	Total (3A+3B) (3C)				Category (7A)	Ratio (7B)	Ratio (8A)	Value (6 x 8A) (8B)	Code (9A)	Explanation (9B)
<b>First:</b> Facilities to customers ..... .....														
<b>Total "First"</b>														
<b>Second:</b> International trade facilities ..... .....														
<b>Total "Second"</b>														
<b>Third:</b> International sovereign facilities ..... .....														
<b>Total "Third"</b>														
<b>Fourth:</b> Consumer & installment loans ..... .....														
<b>Total "Fourth"</b>														
<b>Total (First + .....+ Fourth)</b>														

\* Compliance with the attached guidelines should be considered while preparing this statement.

5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS & POLICY OF CREDIT FACILITIES CLASSIFICATION.

W) Circular No. (2/BS, IBS, IS, IIS, FS, IFS/282/2012) regarding separation of the rescheduled debts from the non-performing debts in the statement of credit facility/investment and finance operation classification, calculating provisions thereof and accounting for the revenues resulting therefrom.

**GOVERNOR**

*Thul Qi'da 2, 1434 H*  
*September 8, 2013*

**THE CHAIRMAN,**

**Circular No. (2/BS/313/2013) to all traditional banks for amending the method of calculating the general provisions against credit facilities for which no specific provisions were made**

I would like to advise you that CBK Board of directors resolved in its meeting dated 3/9/2013 to amend Item (2) of the Circular No. (2/BS/71/1999) with respect to amendment of the method of calculating the general provisions against credit facilities for which no specific provisions were made, to be as follows:

“Cash and non-cash credit facilities extended to the internationally reputable banks are those classified under “A” Class and above by the International Rating Agencies such as Standard & Poor’s , MOODY’S and FITCH, in addition to the portion of the credit facilities guaranteed by letters of credits issued by any of these internationally reputable banks.

With my best wishes,

**THE GOVERNOR**

**DR. MOHAMMAD Y. AL-HASHEL**



Attachment No. (1)

(Traditional Bank Form)

**Gross statement of credit facilities classifications (regular and irregular) & required specific and general provisions as on / / as per the rules and bases issued in this respect**

Bank: .....

KD'000

Description	Cash (1)	Non Cash (2)	Total (1+2)
<b>First: Total credit facilities</b>			
A. <u>Regular:</u> *			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (A)</b>			
B. <u>Rescheduled:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (B)</b>			
C. <u>Irregular:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (C)</b>			
<b>Total credit facilities (A+B+C) **</b>			
<b>Second: Required specific provisions</b>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total Required specific provisions</b>			
<b>Third: required general provisions against credit facilities for which no specific provisions are made*</b>			
- 1% of cash credit facilities			
- 0.5% of non-cash credit facilities			
<b>Fourth: Total required general and specific provisions (second+ third)***</b>			
<b>Fifth : Value of interests recorded in the bank books and reported within credit balances above</b>			
<b>Sixth : Provisions made in the bank books***</b>			

Includes irregular credit facilities reported under "Special Mention" category and does not require taking specific provisions at the management's discretion as well as irregular credit facilities extended to institutions and companies owned by the Government of the State of Kuwait for which a guarantee from the government is available whether for the debts or the losses that may be incurred by such bodies.

\*

\*\* Matching with balance sheet information (BS1-B) should be made as follows:

**A. Cash facilities**

- Credit facilities (Item N) .....
- Loans to financial institutions (Item L3) .....
- Loans to banks (irregular) .....
- Loans to banks (regular) .....
- Including: credit facilities with banks rated under "A" Class and above .....
- Interest on bad debts reported off balance sheet .....
- Plus cash credit facilities to foreign branches .....

**Total cash facilities**

- Including the portion of credit facilities guaranteed by LCs issued by banks rated under "A" Class and above .....

**B. Non cash facilities (Item R)**

- Plus facilities extended to foreign branches .....

**Total non-cash facilities**

- Including: credit facilities with banks rated under "A" Class and above .....
- Including the portion of credit facilities guaranteed by LCs issued by banks rated under "A" Class and above .....

\*\*\* matching with attached schedules (2,3 and 4) should be made .

**5 - BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

Y) Amendment to the foot note of Attachment No. (1) to the statements of credit facility classification (regular & irregular) by adding items for credit facilities extended to banks rated under "A" Class and above, as per the email dated 10/12/2013.

Attachment No. (1)

(Industrial Form)

**Gross statement of credit facilities classifications (regular and irregular) & required specific and general provisions as on / / as per the rules and bases issued in this respect**

Bank: .....

KD'000

Description	Cash (1)	Non Cash (2)	Total (1+2)
<b>First: Total credit facilities</b>			
A. <u>Regular:</u> *			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (A)</b>			
B. <u>Rescheduled:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (B)</b>			
C. <u>Irregular:</u>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total (C)</b>			
<b>Total credit facilities (A+B+C) **</b>			
<b>Second: required specific provisions</b>			
- To customers			
- International sovereigns			
- Consumer and other installment loans			
<b>Total Required specific provisions</b>			
<b>Third: Required general provisions against credit facilities for which no specific provisions are made*</b>			
- 1% of cash credit facilities			
- 0.5% of non-cash credit facilities			
<b>Fourth: Total required general and specific provisions (second+ third)***</b>			
<b>Fifth : Value of interests recorded in the bank books and reported within credit balances above</b>			
<b>Sixth : Provisions made in the bank books***</b>			

Includes irregular credit facilities reported under “Special Mention” category and does not require taking specific provisions at the management’s discretion as well as irregular credit facilities extended to institutions and companies owned by the Government of the State of Kuwait for which a guarantee from the government is available whether for the debts or the losses that may be incurred by such bodies.

\*\* Matching with balance sheet information (BS1-B) should be made as follows:

**A. Cash facilities**

- Credit facilities: N3 and 4 ..... P .....
- Loans to banks (irregular) .....
- Loans to banks (regular) .....
- Including: credit facilities with banks rated under “A” Class and above .....
- Interest on bad debts reported off balance sheet .....
- Plus cash credit facilities to foreign branches .....

**Total cash facilities**

- Including the portion of credit facilities guaranteed by LCs issued by banks rated under “A” Class and above .....

**B. Non cash facilities (Item T)**

- Plus facilities extended to foreign branches .....

**Total non-cash facilities**

- Including: credit facilities with banks rated under “A” Class and above .....
- Including the portion of credit facilities guaranteed by LCs issued by banks rated under “A” Class and above .....

\*\*\* matching with attached schedules (2,3 and 4) should be made .

**5- BASIS OF PREPARING THE CLOSING FINANCIAL STATEMENTS AND POLICY OF CREDIT FACILITIES CLASSIFICATION.**

Y) Amendment to the foot note of Attachment No. (1) to the statements of credit facility classification (regular & irregular) by adding items for credit facilities extended to banks rated under “A” Class and above, as per the email dated 10/12/2013.