

**9- RULES AND REGULATIONS CONCERNING LOCAL
BANKS' EXTENSION OF KD CREDIT FACILITIES
TO NON-RESIDENT CUSTOMERS**

GOVERNOR

*Thul Hijjah 2, 1415 H.
May 2, 1995*

THE CHAIRMAN,

**Correspondence regarding the rules with which the Local Banks
have to comply at extending KD loans to non-residents ***

I would like to refer to our letter of 23.10.1994 regarding the rules, which the local banks have to comply with at extending KD loans to non-resident customers.

In this connection, I would like to advise you that, in the light of the Central Bank's follow-up of the outcome of practical implementation of these instructions, and in order to provide further flexibility for banks in respect of granting credit facilities to non-resident customers so as to attain the aspired purposes, it has been decided to amend those instructions.

We would like to attach herewith a copy of the amended instructions concerning the local banks' extension of KD credit facilities to non-residents for implementation with effect from the date hereinabove mentioned.

With my best regards,

SALEM ABDUL-AZIZ AL-SABAH

* Circulated to all local banks.

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Instructions regarding local banks' extension of credit facilities in KD to non-resident customers *

Local banks are hereby allowed to extend credit facilities in KD to non-residents, without the need of seeking the Central Bank's prior consent, for financing contracts whose value shall not exceed KD 40 Million, provided such facilities do not exceed 70% of the total value of each contract. As for other contracts or credit facilities exceeding such limits, they shall require the prior consent of the Central Bank of Kuwait.

The following conditions shall be satisfied in respect of all KD credit facilities extended by the local banks to their non-resident customers:

1) The credit facilities extended in KD to non-residents shall be limited to financing the contracts denominated in KD, and awarded by Government bodies in the State of Kuwait.

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

2) Finance extended for such cases shall be limited for each separate contract, and shall not be concluded through general credit lines extended to the borrowing customers.

3) A Letter of Assignment over all the financed contract payments shall be signed in favour of the lending bank. Such payments shall be utilized for repayment of the granted credit facilities in compliance with such facilities conditions.

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4) The bank may perform forward transactions on behalf of its non-resident customers, provided that such transactions concur with the maturity dates of the contract expected payments. The amounts of these transactions shall not exceed the amount expected to be collected at each stage, and the maturity date of the transaction shall match the maturity date of this amount or shall fall due on a date close thereto. The conversion of the extended KD credit facilities to foreign currency shall be limited only to the foreign component of the contract.

The Central Bank of Kuwait shall allow the coverage of forward foreign exchange contracts, as well as the conversion of KD cash facilities into foreign currencies, up to a maximum of 50% of the contract value, where the bank shall be responsible for financing the remaining portion of the contract value from its own resources.

5) Banks are required to immediately advise the Foreign Operations Department at the Central Bank of Kuwait of any loan or facility granted to a non-resident customer, and not requiring the Central Bank's prior consent. Such an advice shall include the following information:

- Name of the project owner.
- Name of the borrowing party.
- Size of the financed contract, and schedule of payments.
- The granted credit limits.

The said department shall also be advised of the repayment progress of the facilities granted for all such cases. As regards the facilities whose value exceed KD 40 Million, or exceed the established maximum limits, the application for obtaining the Central Bank's prior consent - for each case separately - shall include all the information and data related to the case for which the approval is sought. All such applications shall be sent to the Supervision Department (Sector).

6) The concerned bank shall continue to extend the credit facilities in KD requested by their non-resident customers for the issuance of bid bonds required by such customers to submit bids for tenders launched by local bodies.

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7) It is understood that the credit extension decision is the responsibility of the lending bank, which will bear any risks that may result therefrom, including those cases, for which the Central Bank's prior consent is obtained.

In such cases, the concerned bank is required to comply with the supervisory rules issued by the Central Bank of Kuwait, including but not limited to: Capital Adequacy, Credit Concentration and Credit Policy, etc.

It is worth mentioning that the Central Bank of Kuwait shall set an internal limit for total KD credit facilities that can be extended by each bank separately to its non-resident customers, and this would entail requiring any bank to stop extending any new credit facilities until the limit established therefor so allows.

May 1995